

The Fortune at the Base of the Pyramid

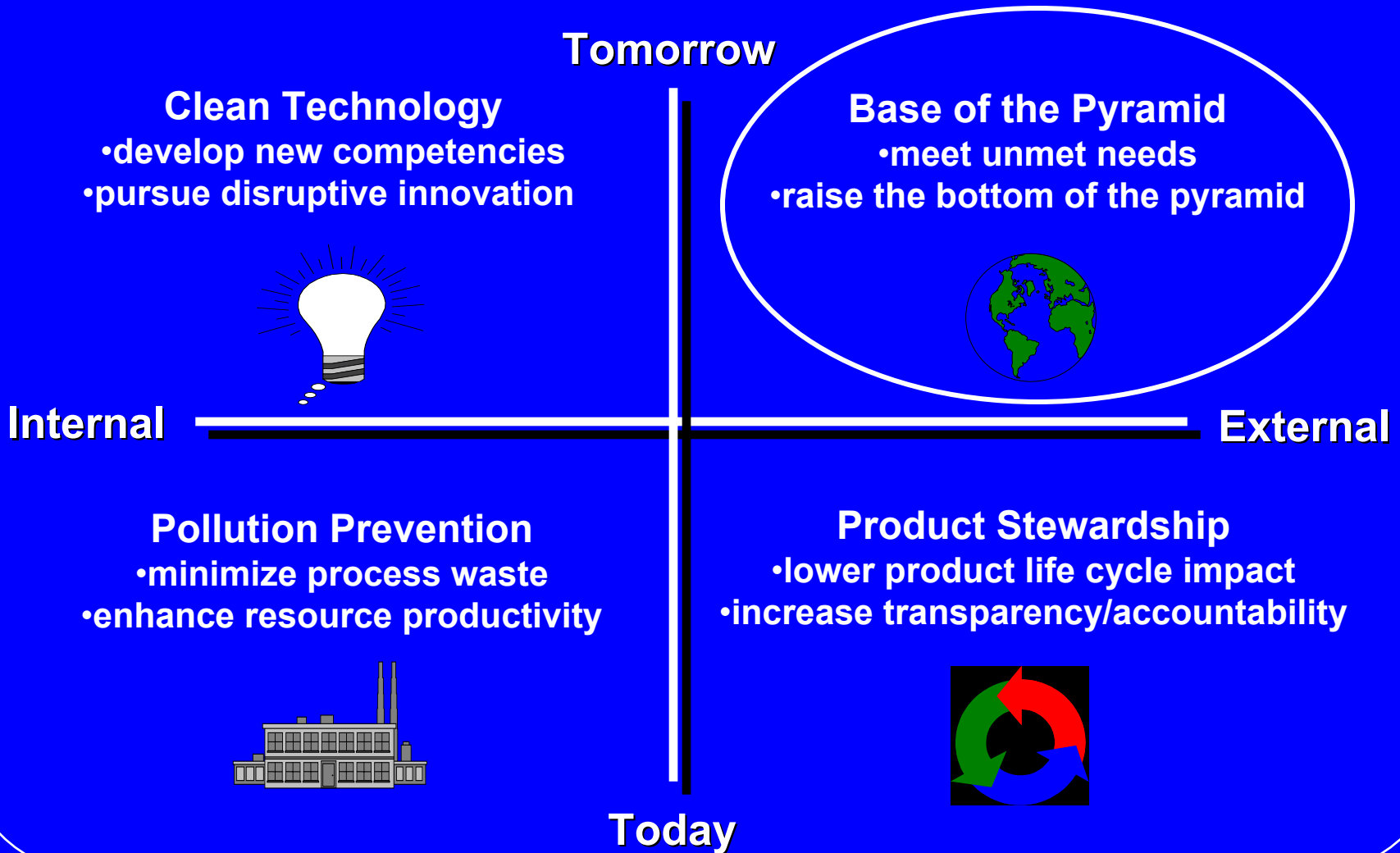


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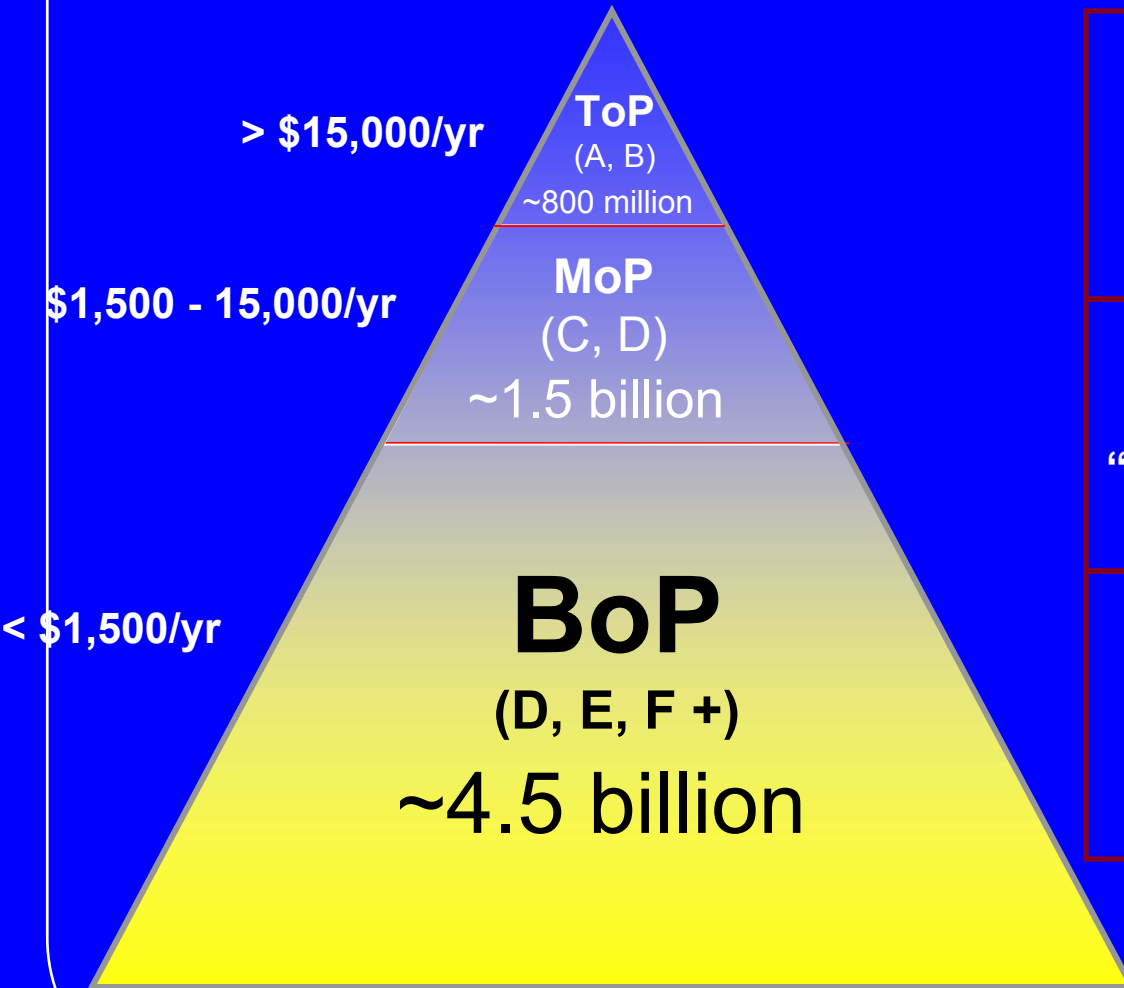
Stuart Hart

**S.C. Johnson Chair of Sustainable Global Enterprise
Professor of Management**

The Sustainable Value Model



BoP Strategic Logic



Global Population
Per Capita Income (PPP)

- I. New Market:
Massive & growing under-served market
(Prahalad & Hart, 2002; Prahalad 2004; Hart 2005)
- II. Radical Innovation:
Incubation site for “disruptive Tier 1 technologies”
(Hart & Christensen, 2002)
- III. Competitive Pre-emption:
Breeding ground for next-gen, global-scale competitors
(Christensen, Craig, & Hart, 2001)

Base of the Pyramid Sector: More than Meets the Eye



**Purchasing Power
Parity (PPP)**



Informal Economy
(Small enterprises,
bartering, sustainable
livelihood activities,
subsistence agriculture)

Hidden Assets

**\$9.3 trillion in assets
worldwide without legal title**

Size as % of GNP

Nigeria: 70%

Mexico: 40%

Brazil: 30%

Germany: 20%

Japan: 10%

USA: 10%

The Poor Live in High Cost Economies

Mumbai, India

	Dharavi (Shantytown)	Warden Rd. (Suburb)	Multiplier
Cost of Credit (Annual Interest)	600-1000%	12-18%	60-75X
Municipal Grade Water (cu.m)	\$1.12	\$0.03	37X
Phone Call (per minute)	\$.04-.05	\$.025	2X
Diarrhea Medication	\$20	\$2	10X
Rice (per kg)	\$0.28	\$0.24	1.2X

“You don’t have to be that good to create tremendous consumer surplus!!”

Source: C.K. Prahalad and A. Hammond, “Serving the poor, profitably” 2002

Many Companies are Beginning to Experiment with the BOP



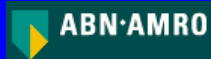
➔ Nutristar, Nutridelight (nutritional drink), Pur (water purifier)



➔ Hindustan Lever (detergent for the poor in India and Brazil), Annapurna (iodized-Salt for the poor)



➔ Making solar power affordable (India)



➔ Banco Real, microcredit in Brazil



➔ Vodacom community services in South Africa, joint venture between Vodafone and Telkom SA



➔ Solar powered digital camera in India and community information systems



➔ Program in South Africa to help entrepreneurs enter the supply chain and profit from new business ventures.

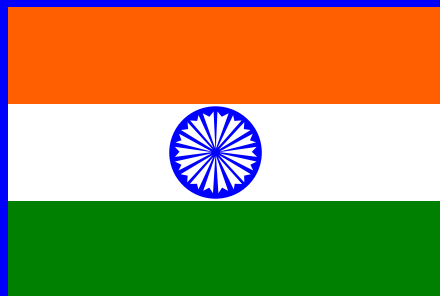


➔ Water for all program to periurban areas in Brazil

Case: Hindustan Lever

- **Traditional focus: the top of the pyramid**
- **A local firm (Nirma) challenged HLL in its detergent business, with a new formulation, process, packaging, distribution and pricing focused on the poor**
- **As Nirma grew rapidly, HLL realized its vulnerability**
- **HLL responded in 1995 with its own offering targeted at the bottom of the pyramid**

Video



Results: Detergent Business (2000)

	<u>Nirma</u>	<u>HLL</u> (Wheel)	<u>HLL</u> (High End)
Sales (\$ Million)	150	100	180
Gross Margin (%)	18	18	25
ROCE (%)	121	93	22

- The bottom can be very profitable in FMCG
- Game is about volume and capital efficiency
- Economic profit vs. Gross margins

Source: John Ripley,
Senior Vice President,
Unilever plc

The Upshot

- **Nirma has become one of the largest branded detergent makers in the world**
- **Experience at the base of the pyramid has allowed HLL to radically change its business model... and grow**
- **Between 1995-2000, HLL grew:**
 - revenues by 20% per year
 - profits by 25% per year
 - market capitalization by 40% per year
- **Unilever plc has adopted the base of the pyramid as a strategic priority at the corporate level**
 - nearly 20% of revenues globally are from the BOP
 - almost \$20 billion in incremental revenue

Running Out of Gas

- **By 2000, HLL's rapid growth began to stagnate**
- **HLL's BOP business model reached its limits**
 - Still failed to serve more than 500,000 villages
 - HLL's share price fell to a new low-- less than \$3 on the Bombay Stock Exchange
- **In 2004, the company launched a new growth strategy dubbed the Millenium Plan**
- **The centerpiece was Project Shakti, which aimed to reach the 600 million plus rural people currently unserved**
- **Based upon Grameen Phone's micro-entrepreneurship model**

“The aspiring poor present a prodigious opportunity for the world’s wealthiest companies. But it requires a radical new approach to business strategy”

C.K. Prahalad and Stuart Hart
“The fortune at the bottom of the pyramid”
Strategy+Business, January 2002

Growing BOP Backlash

“I am shocked, to say the least, that people are looking at the BOP in a very unidirectional way... Sell, sell, sell to the BOP, large markets, high potential growth... As a friend of mine said, many people live in poverty while a few live off poverty.”

**Dr. Harish Hande
Managing Director, SELCO**

First Generation BOP Strategy: “The Child With a Hammer”

- **BOP 1.0**

- Different price point
- Redesign packaging
- Low cost production
- Extended distribution
- Arm’s length relations through NGOs

“Selling to the Poor”

- **BOP 2.0**

- Deep dialogue
- Putting the last first
- Build capacity
- Embedded process
- Direct, personal relationship

“Creating Mutual Value”

Case: Grameen Phone

- **Situation: Globally, half of humanity (3 billion) still has not made a phone call**
- **Focus: Rural poor in Bangladesh who live in isolation (average per capita income= \$286 per year)**
- **Business Model: “Wireless Women of Grameen”**
 - \$175 loans to establish village operators
 - 40,000 village phones would put everyone within a ten minute walk of a telephone
 - Started with 950 village phones as a pilot test
 - Set up as a non-profit experiment

Video



Results

- **Economic**
 - **Consumer surplus (each call saves 2.5-10% of household monthly income-- \$2.70-\$10.00 savings/call)**
 - **Income generating for villagers**
- **Environmental**
 - **Significant reduction in travel**
 - **Avoidance of material intensive and destructive infrastructure (“leapfrog”)**
- **Social**
 - **Empowerment of women**
 - **Village phone operators increase income significantly (\$300/year)**

Business Co-Creation

- “Turn the existing way of thinking on its head”
 - rethink product concept (Access=Ownership)
 - rethink sales and marketing (Wireless women of Grameen)
 - rethink technology development (needs and conditions of the very poor– now reach 100 million)
- The base of the pyramid can be very profitable
 - Each village phone now averages \$3,000 revenue each year (\$750 profit per phone lady)
 - By the end of calendar 2006, there were 250,000 phone ladies
 - Approaching a \$1B business in Bangladesh alone



Base of the Pyramid Learning Lab™



**Center for Sustainable Global Enterprise
Johnson School of Management**

Partners

- DuPont
- SC Johnson
- Tetrapak
- Dow
- Ford
- Corning
- Hewlett-Packard
- Procter & Gamble
- Coca-Cola
- Nike
- Johnson & Johnson
- Danone

- World Resources Institute
- Ashoka
- Development Marketplace
- Grameen Foundation
- CARE
- Self-Help Ventures
- ApproTEC
- US AID
- UNDP
- Inter-American Development Bank
- International Finance Corporation

BOP Research Design

- **Exploratory Research → Inductive Theory Building (*Data collected 2001-2005*).**
- **Archival Material: Articles, cases, stories**
- **National Science Foundation Grant: “Corporate Initiatives to Serve Poor Markets as a Driver of Innovation and Change.”
Tracking 18 BOP initiatives in six MNCs**
- **MNCs Interviews: DuPont, HP, Ford, P&G, Motorola, J&J, Coke, Dow, Unilever, Nike**
- **Original Case Studies: 26 student teams (western vs. indigenous, for-profit vs. non-profit, geographic and cultural diversity)**

London, T. and Hart, S. 2004. “Reinventing strategies for emerging markets”

BOP Cases Examined

- Ahold
- Alpina
- AmaZoncoop
- Treetap
- Cemex (Patrimonio Hoy)
- CMPC
- DFCU Leasing
- Freeplay Energy Group
- Hand Made in America
- Hindustan Lever
- Honey Care
- Hydraform
- Indigenous Designs
- Kenya Ceramic Jiko
- Nike World Shoe
- N-Logue
- PEOPLELink
- Pot-in-Pot Refrigeration
- Protela
- Seawater Farms
- SELCO
- TARAHaat
- Tiviski Dairy
- Utz Kapeh Foundation
- WorldSpace
- WorldWater Corporation

What We Know So Far...

- Business Models. Incremental adaptation of existing products and business models is not effective in the BoP
 - » A new low cost system built from the ground up is necessary
- Partnerships. Success in the BoP requires new and different partnerships
 - » Trust-building with locally embedded partners is key to overcoming lack of formal institutions
- White Space. Need for protection or “firewall” along with new metrics
 - » Existing corporate “antibodies” will stifle BoP initiatives if not dealt with
- Innovation. The BoP offers the ideal conditions for incubating new, leapfrog technologies
 - » The logic of disruptive innovation applies in the BoP, including the potential for up-market migration
- Born BoP. Most successful BoP ventures thus far have come from the developing world
 - » Large incumbent firms from the developed world are encumbered with decades of institutional practices, mental models, and infrastructure honed for the top of the pyramid

Discussion Questions: Nike World Shoe

- **What should Tom Hartge recommend to senior management regarding the World Shoe?**
- **What are the appropriate sales and profit goals for this line?**
- **What business model would be most appropriate and effective?**
- **Can the “triple bottom line” be used to Nike’s advantage?**