Getting Base-of-the-Pyramid projects back to business fundamentals

By Erik Simanis

In the early years of this century, leading business scholars offered global corporations a tantalizing vision of the enormous profits they could generate by doing business with the "base of the pyramid" (BoP), the four billion people in developing economies who live on less than $2.50 per day. By producing products for the poor, companies could reduce poverty, forge an inclusive global economy, and get in on "the biggest potential market opportunity in the history of commerce," as one influential paper put it.[i]

The argument was elegant in its simplicity. Viewed through a business lens, the enormous unmet human needs at the BoP represented huge, untapped markets. The estimated value of new products to improve nutrition and sanitation, reduce chronic diseases, and purify water was in the trillions of dollars. It was a classic argument of enlightened self-interest, and one that I, too, embraced.

The business model prescribed for the BoP was straightforward: forgo "the traditional pursuit of high margins," aiming instead for high sales volume at low prices.[ii] Making good on the poverty-alleviation objective, however, became the focus of extensive debate. Simply selling products to the poor was criticized as exploitative, even imperialistic; corporations were challenged to work in close partnership with poor communities, much like nonprofits. Business thinkers, development activists, and social-investment advocates developed frameworks for "inclusive business practices" built around "mutual value," "co-creation," "empowerment," "impact-assessment," and "public-private partnerships." Pioneering corporations applied these new tools to ambitious projects to solve social ills — and it was assumed that profits would follow.

A bit more than a decade later, most of the BoP pilot projects in the developing world shared a similar fate. Nike's World Shoe in China; Hewlett-Packard's World e-Inclusion in India; Procter & Gamble's PUR water-purification powder in Guatemala, Morocco, Pakistan, and the Philippines; DuPont subsidiary Solae's soy-protein isolate in India; and SC Johnson's Community Cleaning Services in Kenya, for example, offered compelling stories of positive community impact. But the profits? Those were replaced with fuzzy claims of long-term value, mostly in the form of positive public relations and brand recognition. [Disclosure: I was actively involved in supporting the DuPont and SC Johnson ventures.] The projects looked more like philanthropic endeavors than rigorous business ventures. In the absence of return on investment, companies (understandably) shuttered BoP projects, or shifted them from core business units to public affairs and corporate social responsibility (CSR) arms, relegating these ventures to limited scale and, essentially, business irrelevance.

What went wrong? I believe BoP scholars and managers (myself included) became so preoccupied with the social mission that we lost sight of business fundamentals and the realities of working within corporations. In our focus on poverty alleviation and alternative bottom lines, we

In 2012, Johnson's Center for Sustainable Global Enterprise and consumer products company SC Johnson — whose brands include Raid insecticides, OFF mosquito repellent, Glade air fresheners, and Mr. Muscle surface cleaners — launched a pilot business in Ghana for bringing the company's products to small-holder farming communities in Africa. The initiative is part of a three-year project funded by SC Johnson and the Bill & Melinda Gates Foundation, which aims to reduce the transmission of malaria, a mosquito-born disease. The resulting business, which was launched under the brand "WOW," is a membership-based club that helps families "care for their homes better and faster" and "to be part of something bigger." Here, members of WOW's sales team in Bobikuma, Ghana, perform a skit during the business launch to help communicate the value of being a member of the WOW club.

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gave short shrift to the vexing business challenges of these markets: higher operating costs, nonexistent distribution channels, consumers who require extensive product education, slow demand growth, costly capital, and, of course, extremely cash-strapped purchasers. It all adds up to a complex business problem, one that will only be solved through a tight focus on business economics — not on poverty alleviation.

Without a singular focus on profitability, not only will BoP projects fail economically, but they will be starved of capital and remain insignificant in scale. Ultimately, the path to sustained corporate investment in BoP lies in generating returns competitive with alternative uses of capital. The incentive structures and, consequently, the organizational routines of today's multinational corporations are centered on return on investment, not broad triple bottom lines of social, environmental, and economic value. Continuing to ignore this reality ultimately fails the middle managers who have to put BoP strategies into action, since their annual performance and long-term career success are determined by delivered profit. Development impacts have to become a byproduct of profitable business — not vice versa.[iv]

The good news is that there is reason for optimism. The microfinance industry, for example, which uses innovative approaches to lend to very poor consumers who lack collateral, has attracted billions of dollars in capital, and microfinance companies in Mexico and India have floated successful IPOs.[v] The industry may well have empowered women and alleviated poverty, but it attracts capital primarily because its returns are competitive. It's worth noting that these competitive returns are made possible by gross margins that reach 60 to 70 percent — extraordinarily high for the banking sector, but necessary for offsetting high operating costs in rural villages.[vi]

At Johnson, we are seeing a new wave of corporate interest in a "business fundamentals" approach to the BoP. The Center for Sustainable Global Enterprise and I recently completed a three-and-a-half-year partnership with SC Johnson in Ghana to test a new channel targeting the rural poor for mosquito-control products that could help prevent malaria. We've also begun work with consumer products giant Unilever — manufacturer of global brands that include Vaseline, Pepsodent toothpaste, and Lifebuoy soap — to profitably reach low-income consumers in Africa and South Asia.

In Latin America, we are coaching managers of Arcor — one of the largest food companies in the region — under a recently launched market-creation program aimed at the BoP. The global cement company Lafarge has signed on to be part of the first cohort of managers in our Market Creation Accelerator — a field-based program that facilitates "deep dives" into BoP business models.

In all these projects, our focus is on developing and testing theoretically rigorous, yet practical, tools and techniques for addressing the business challenge of BoP markets. Take, for example, the partnership with SC Johnson in Ghana. As anticipated, initial research revealed that consumers not only knew little about how malaria was transmitted, but were actually indifferent to it — it was a routine part of their lives. In addition, there were no sales outlets through which the products could effectively be sold, and the rutted dirt roads connecting the villages would limit the reach of any distribution hub.

To thoroughly understand the economics of a new rural sales channel that could provide the "high-touch," face-to-face interaction needed to raise consumers' interest and be profitable within our investment timeline, we developed a detailed financial model. The model showed profitability only at a very high gross margin and a relatively high price point — an approach counter to conventional wisdom.

Higher margins were attained through a combination of strategies to raise revenue and drive down costs. To raise the price point for each transaction, mosquito products were bundled with other SCJ home-care products, including a solid-surface cleaner and an air freshener. Packaging costs were eliminated by giving customers branded, refillable

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containers; and sales costs were cut by structuring the business as a club, with memberships sold to groups of customers rather than individuals.[vii]

We also used a suite of market-creation strategies to help drive up consumer adoption. A monthly membership pricing structure ensured that customers would use products multiple times, building comfort and familiarity with the use of mosquito repellents and sprays. We also added a loyalty rewards program, with prizes consumers already valued, such as farming implements and metal washbasins. This helped offset the novelty of the SCJ products and increased their perceived value. The results of the pilot were very promising, and we made significant strides toward profitability. The rigorous financial modeling provided us crucial information on areas for improvement. A second pilot, based on a revised business model, is now underway.

In the end, a focus on business fundamentals is the best way to ensure positive, sustainable social impact from corporate BoP projects. Aside from ensuring access to high-quality products that improve people's lives, a profitable business will contribute to local economic development. It's not the immediate, revolutionary change about which pundits wax eloquently — but it's real and it's doable. And over time, the incremental impact of thousands of profitable corporate ventures will bring about radical change in the lives of the poor.

READ THE LATEST ON ERIK SIMANIS' "BUSINESS FUNDAMENTALS" approach to profitably reaching consumers at the Bottom of the Pyramid in the July/August 2014 issue of the *Harvard Business Review.*

[i] C. K. Prahalad and Stuart Hart, "The Fortune at the Bottom of the Pyramid," *Strategy+Business*, Issue 26, First Quarter 2002.

[ii] Ibid.

[iii] Erik Simanis, "At the Base of the Pyramid," *Wall Street Journal*, October 26, 2009; Erik Simanis, "Needs, Needs Everywhere, but Not a BoP Market to Tap" in Ted London and Stuart L. Hart, eds., *Next Generation Business Strategies for the Base of the Pyramid: New Approaches for Building Mutual Value* (Upper Saddle River, New Jersey: FT Press, 2011); Erik Simanis, "Bringing the Bottom of the Pyramid Into Business Focus," in Rémi Genevey et al., eds., *A Planet for Life 2013—Reducing Inequalities: A Sustainable Development Challenge* (Delhi: TERI, 2013).

[iv] Erik Simanis and Mark Milstein, "Back to Business Fundamentals: Making 'Bottom of the Pyramid' Relevant to Core Business," *Field Action Science Reports*, Issue 4, 2012.

[v] MicroRate, *The State of Microfinance Investment 2013: Survey and Analysis of MIVs – 8th Edition* (Arlington, Virginia, 2013).

[vi] JPMorgan, Latin America Equity Research, "Banco Compartamos: Market Leadership Sustained by Superior Efficiency," research report, New York, April 29, 2008.

[vii] Erik Simanis, "Reality Check at the Bottom of the Pyramid," *Harvard Business Review*, June 2012.