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# GLOBAL POVERTY

Business Solutions & Approaches

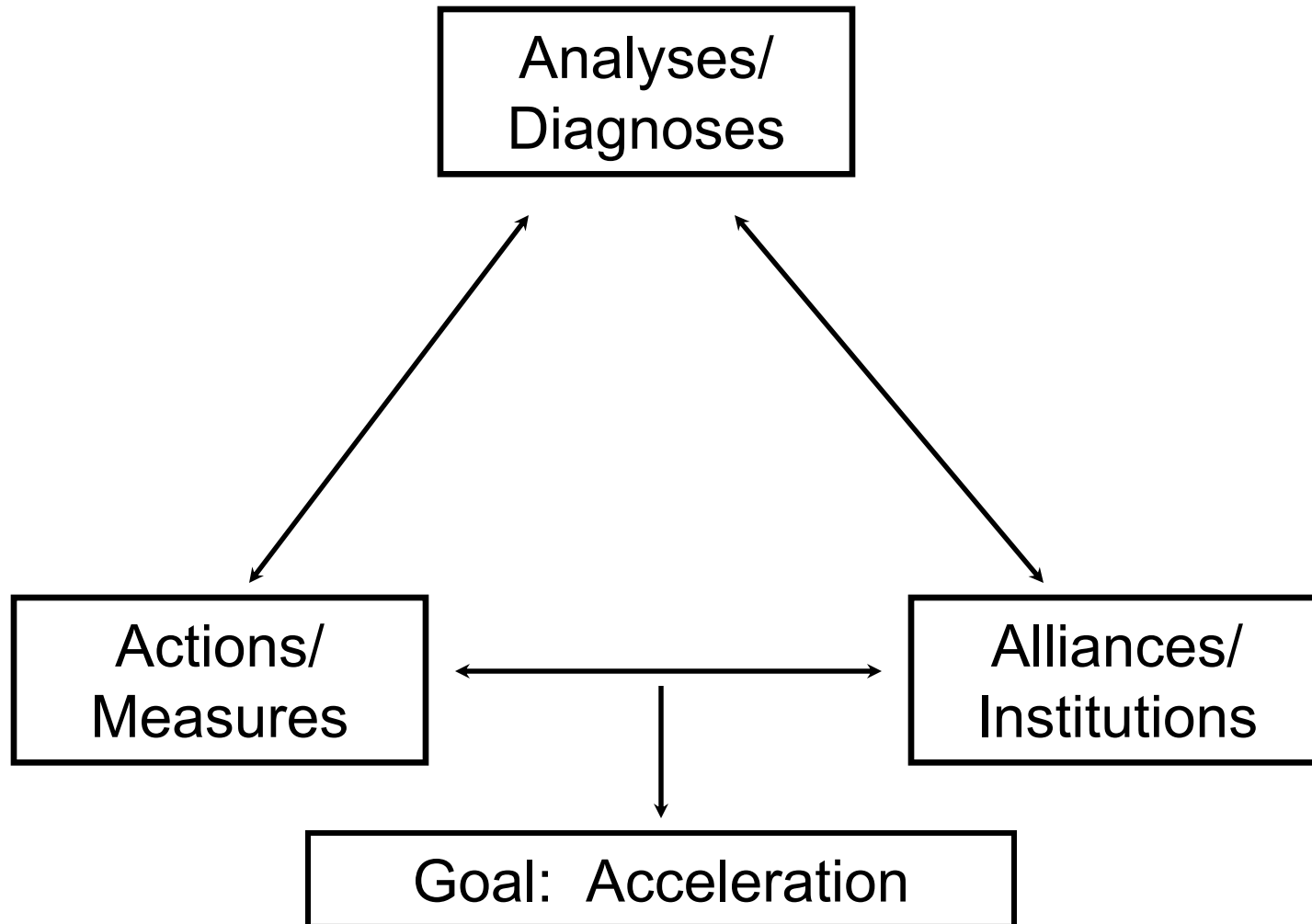
## Closing Plenary Session

December 1-3, 2005

## December 3, 2005

# Where We've Been

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# **Business Challenges at the Base of the Pyramid**

# **Business Challenges at the BOP**

## **General Contextual Constraints**

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### **Whose Job Is It?**

- **Common view: job of NGOs and government, not business**

### **Myths About the BOP Market**

- **Lack of ability of poor to pay**
- **Presumption of price sensitivity**
- **Hard to change consumer behavior**
- **That no one is operating in this space**

### **Lack of Mutual Understanding**

- **Lack of business understanding of the cultures/patterns of the poor**
- **Community distrust of business**

### **Profiting from the Poor**

- **Ethical? Appropriate? Effective?**

# **Business Challenges at the BOP**

## **Key Constraints and Context: the Poor**

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### **Complex Poverty Drivers**

- Alleviation demands multiple sectors
- Engagement of poor to define and determine social value

### **Underdeveloped Infrastructure**

- Weak physical, legal, economic & institutional infrastructure

### **BOP Heterogeneity**

- Extreme diversity requires nonstandardized solutions

### **Social Networks**

- Commerce embedded in complex cultural norms and social relationships

### **Limited Information**

- Poor data & communication across BOP actors

# **Business Challenges at the BOP**

## **Key Constraints and Context: Business**

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### **Limited Understanding of BOP Customers**

- Consumer demographics, behaviors, needs, preferences, segmentation
- Failure to know or trust “people who know”

### **Distinct Business Models**

- Mainstream practices neither effective nor appropriate
- Requires complex re-engineering of standard business model

### **Effective Delivery**

- Do MNCs have flexibility for both sectors? Can entrepreneurs achieve scale? How partner with players from other sectors?

### **Need for Profitability**

- Sustainability, scalability, time frame

### **Communication of BOP Value Proposition**

- Marketing initiatives to consumers/suppliers, investors, public at-large, NGOs, governments, and internally

# **Business Challenges at the BOP**

## **Ethical Considerations**

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### **Clarity of Business Motives and Value Proposition**

- Economic & social value
- Need for profit to achieve growth, scale

### **Reputation Risk Factors**

- Criticism of exploitation: Obligation to prove and communicate social value

### **Negative Externalities**

- Unintended consequences of disrupting local social or economic status quo

### **Product Portfolio**

- Determination of 'valuable' products for consumer/supplier

### **Competitive Setting**

- Foster competitive environment to maximize efficiency and consumer choice

# **Business Challenges at the BOP**

## **Key Research Issues**

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### **Effective Market Research Techniques for the BOP**

- New approaches to develop understanding of market—at both the community and individual level
- Need for better “ability to pay” data

### **Measurement and Validation of BOP Social Impact**

### **Understanding of Social Externalities Generated by BOP Businesses**

### **Models of Internal Leadership to Sell BOP Approach to Business**

### **Management of Reputation Risk**

# **Business Approaches for Reaching the Base of the Pyramid**

# **Business Approaches for Reaching the BOP**

## **Motivating Factors**

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### **Mixture of Reasons**

- Threat of competition
- Desire for growth; profit opportunities
- Political pressures
- Threat of government intervention
- Threat posed by externalities to market growth
- Desire to improve society

### **Primary Motive Related to Profit-Making Objective**

### **Alleviating Poverty is not usually key driver for Market Entry**

- Impact on poverty alleviation may be discovered along the way

# **Business Approaches for Reaching the BOP**

## **Strategy**

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### **Integrated with Core Strategy**

- Despite need for tailored business model, if BOP business not tied to core, sustainability is more questionable

### **Long Term Value Creation: Economic and Social Intersect**

- Role of leaders to recognize and communicate
- Short-term loss likely
- Frame as an investment vs. a cost

### **Market Sustainability**

- Social motivation may be inadequate
- Interconnected series of self-serving activities

### **Philanthropy as Part of Business Strategy**

- Investment vs. expense

# **Business Approaches for Reaching the BOP**

## **Enablers**

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### **Resources**

- Requires mix of large multi-nationals, local, and small companies
- Sources of capital often blend of international and domestic—both private and government

### **Organizational**

- Disruption to norms
- Decentralize to get close to customer
- Need “deviants” to achieve “deviance”
- High-level champions and protectors—it’s about leadership

### **Technology**

- Allows divisibility (small transaction sizes)
- Lowers cost of entry and transaction costs

### **Infrastructure**

- Business need may drive investment in infrastructure

# **Business Approaches for Reaching the BOP**

## **Customer-Centric Approach**

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### **Product Design**

- **Involve community**
- **“Listening up”**
- **Understand lifestyles and habits**
- **Technology “leap-frogging”**

### **Pricing and Payment**

- **Capacity to pay and reverse engineer**
- **Bundle financing into product sale**

### **Distribution and Procurement**

- **Meet buying patterns and needs**
- **Eliminate intermediaries**
- **Utilize local entrepreneurs**
- **Involve BOP producers in value chains**
- **Share infrastructure costs**

# **Business Approaches for Reaching the BOP**

## **Partnering**

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### **Partnership Models:**

- **Across sectors**
- **Among businesses—both local and international**

### **Role of Partners**

- **Civil Society**
  - **Bridgebuilders**
  - **Gatekeepers to BOP social networks**
  - **Generate goodwill and trust**
  - **Access latent market information**
  - **Legitimacy**
- **Government**
  - **Provide context that enables business development**
  - **Legitimacy**
- **Businesses**
  - **Leverage existing entrepreneurial models**
  - **Enable scale**

# **Business Approaches for Reaching the BOP**

## **Key Research Issues**

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### **Methods of Defining Social Value Creation**

- Managerially relevant—hard data**
- Appropriate as development metrics**

### **Key Data Requirements for Making Business Decision to Enter BOP Markets and Methods of Accessing That Data**

### **Frameworks for Developing Partnering Models and Defining Roles of Various Actors**

# **Sectoral Roles in Fighting Global Poverty: Who Needs to Do What?**

# **Business, Governmental, Civil Society & Academia**

## **What Should *ALL* Sectors Do?**

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### **Listen**

- **People in BOP Communities**
- **Each Other**

### **Collaborate**

- **Learn to partner with other actors and stakeholders**
  - **Businesses**
  - **Governmental**
  - **Civil Society**
  - **Media**

### **Engage BOP Communities**

- **Co-designers**
- **Resources**

# **Business, Governmental, Civil Society & Academia**

## **What Should *Businesses* Do?**

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- **Engage even in the absence of NGOs**
- **Engage the core business (not CSR, philanthropy)**
- **Be creative—work with what is already there that is working**
- **Partner with civil society and BOP to understand customers**
- **Stop exploiting bad conditions (e.g. existing regulations)**
- **Improve collective conditions**
  - Collaborate with other businesses**
  - Take advantage of good profit to find BOP interventions**
- **Create real value-adding products**
  - True economic value added return > cost of capital**
- **Minimize adverse social impacts**
- **High-level leaders engage personally and experientially**
- **Partner with Government and Civil Society**

# **Business, Governmental, Civil Society & Academia**

## **What Should *Governmentals* Do?**

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- **Create stable environment that allows institutional development**
- **Authorizing/Enabling/Facilitating**
  - **Infrastructure**
  - **Stability; property rights; human rights**
  - ...
- **Rights to assembly and organization; voice**
- **Regional Market Creation**
- **Subsidize ultrapoor**
- **Use force/threat/power/influence as means to move businesses to action**

# **Business, Governmental, Civil Society & Academia**

## **What Should *Civil Society* Do?**

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**Organize, represent, give voice to BoP communities**

### **NGOS**

- **Be Accountable**
- **Embrace success: don't hold onto problems as your livelihood**

### **Membership Organizations/Coops**

- **Naturally representative**

# **Business, Governmental, Civil Society & Academia**

## **What Should *Academia* Do?**

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- **Set priorities for research**
- **How can civil society & business & government organizations work together better?**
  - **More systematic evaluation of collaborations and social and economic impacts**
- **What is working / not working?**
- **Help create standards for social returns/impacts**
- **Translate research into curriculum for current students**
- **Develop publishing venues for multidisciplinary, outcome-oriented research**
- **Training**
  - **Regulatory bodies**
  - **Government**
  - **Business**
  - **Civil Society**

# **Business, Governmental, Civil Society & Academia**

## **Emergence**

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### **Firm-Level View vs. System View**

- **Firm: given these conditions, what makes sense for us to do? (HBS)**
- **System: what conditions that we can create will favor or enable a good outcome? (KSG)**

### **Theory of Emergence →**

- **You can't force a result**
- **You can only create circumstances in which the desired result is possible (or, maybe, likely)**
- **Then: let the individual players act**

# **Business, Governmental, Civil Society & Academia**

## **The Way Forward**

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### **One Way of Interpreting the Ongoing Work of the Group**

#### **Convened Here:**

- **Three sectors need to work together to define, negotiate, create, and arrange more “productive” conditions**
- **Business then needs to do what it does best:**
  - **Listen to (billions of new) customers**
  - **Imagine, create, invent and deliver—jobs as well as products!**

# **Business, Governmental, Civil Society & Academia**

## **Demographics Are Destiny**

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**Most of the People Who Have Ever Been Alive are Alive Today**

**There is Still Time**

**—But There is Not Much Time**



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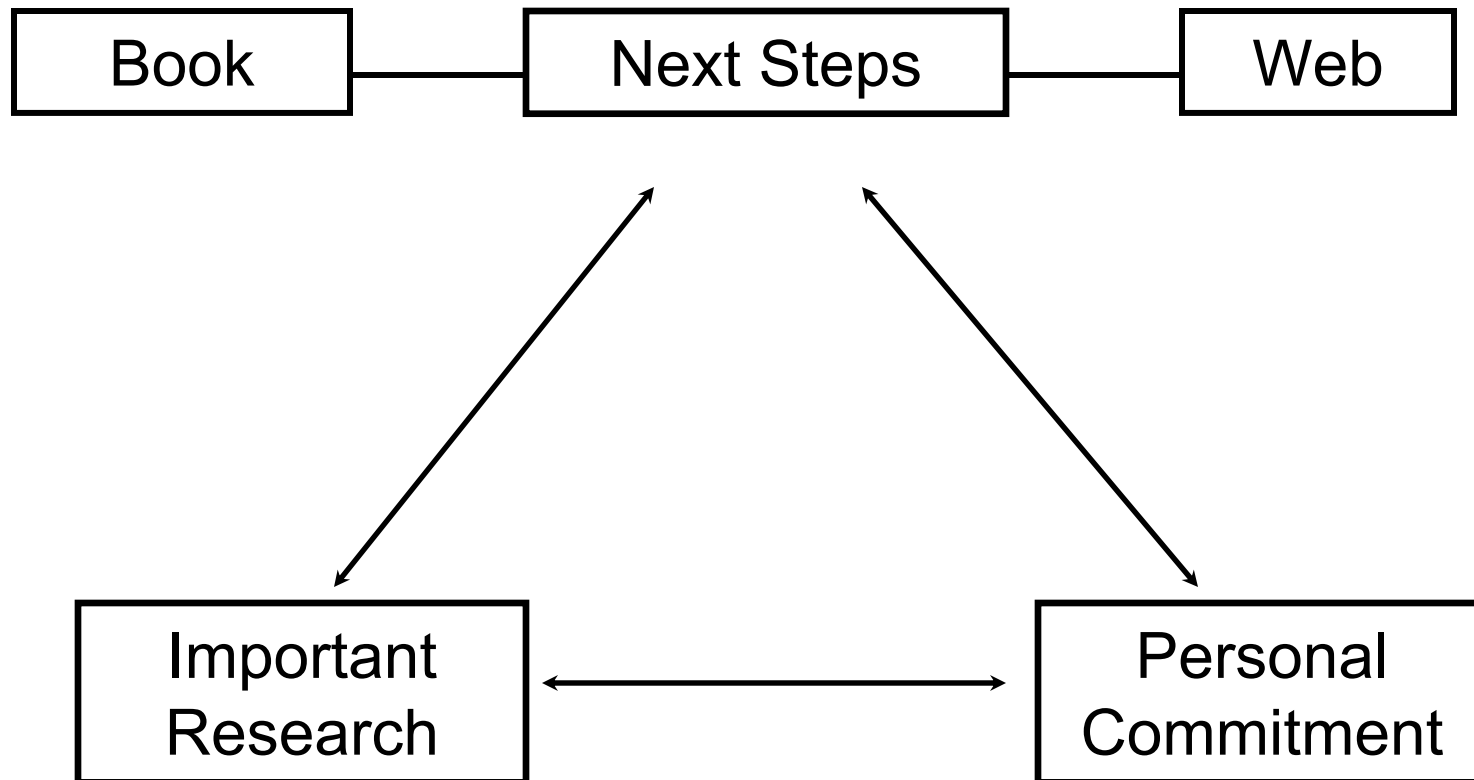
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# Looking Ahead

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# A Few Ideas

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- Segmenting BOP
- Building Scale
- Measuring Externalities
- Appreciating Dignity

# Thank You

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- Guests
- Colleagues
- Social Enterprise
- Brooke
- Kash!



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