

## The Next Billions: Unleashing Business Potential in Untapped Markets



Prepared in collaboration with The Boston Consulting Group





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# Preface

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The World Economic Forum is pleased to present this report on innovative approaches through which companies across a broad range of industries can tap the economic potential of the “base of the pyramid” (BOP), generating sustainable economic growth while improving the livelihoods of the poor.

As part of its mission to facilitate “entrepreneurship in the global public interest,” the Forum serves as a platform for leaders to define and catalyse business-led and multi-stakeholder solutions to foster sustainable economic development. Over the past four years, the Consumer Industries community of the Forum has championed a series of activities, focused on improving food production and incomes in poor communities. The group has focused on commercially viable business models that offer vital products, services and business linkages relevant to the food value chain – not only in the agriculture, food and beverage sectors but in retail and consumer, finance, telecom, energy and logistics as well.

This report was undertaken with support from the Bill & Melinda Gates Foundation, with the goal of defining commercially viable business strategies that can help reduce poverty and hunger. It is based on a broad research survey plus three cross-industry, multi-stakeholder roundtables conducted in Latin America, Africa and Asia during 2008. The research survey included review of 60 reports and collection of 200 case studies from primary and secondary sources. The roundtables provided ground-level insights from practitioners – ranging from multinational and regional companies to social entrepreneurs – who are pioneering these business models on the ground. The project team also drew on the prior work of numerous thought leaders in this arena.

The business strategies outlined in this report form part of a rapidly-evolving frontier of BOP business initiatives worldwide. Undertaken by global and local companies – often in partnership with other organizations – they represent the highly dynamic business innovation being applied in fast-growing BOP markets.



Richard Samans  
Managing Director  
World Economic Forum

This report presents a set of new insights and design principles which can help companies tap the economic potential of BOP markets in ways that serve both commercial and societal goals. It offers an array of examples illustrating successful approaches; and recommends actions both companies and other stakeholders can take to successfully develop and broaden such initiatives. The report is being published jointly with a companion volume, “*The Next Billions: Business Strategies to Enhance Food Value Chains and Empower the Poor*,” applying these concepts to the food value chain, which comprises the largest share of BOP income and spending.

This project was undertaken by the World Economic Forum in partnership with The Boston Consulting Group. Lisa Dreier led the initiative at the Forum together with Jennifer Baarn and Pial Islam, with input from Helena Leurent, Sarita Nayyar and Rick Samans. We thank The Boston Consulting Group for its work, led by Arvind Subramanian, Anand Raghuraman and Nimisha Jain with Neetu Vasanta, S. Rajagopal and Marije van Mens.

The report reflects the input, discussion and review of a number of Forum partners and experts, to whom we are greatly indebted. Reviewers of this report include: Andrew Aulisi of the World Resources Institute (WRI), Susan Morgan of BT, Richard Rogers of the Bill & Melinda Gates Foundation, Willa Shalit of Fair Winds Trading Inc. in collaboration with Macy’s, Chris Shea of General Mills, and David Spielman of the International Food Policy Research Institute (IFPRI). Jane Nelson of Harvard University, Francisco Noguera of the World Resources Institute and Mirjam Schoening of the Schwab Foundation for Social Entrepreneurship also served as independent reviewers of the case study selections.

The economic and food crises of 2008 have underscored the need for sustainable models for economic growth which strengthen the livelihoods of the poorest. The strategies outlined in this report offer a pathway for business to develop such models, in partnership with other stakeholders.



Sarita Nayyar  
Senior Director, Consumer Industries  
World Economic Forum

# Executive Summary

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Companies around the world are increasing their engagement in emerging markets, yet many remain focused on the high-income populations in those countries. In fact, the world's low-income population (the so-called "base of the pyramid", or BOP) represents considerable productive and entrepreneurial potential, as well as untapped demand for products and services. Yet, challenges in the business operating environment often limit the success of standard business models in the BOP market. Companies that manage to overcome these challenges can generate both commercial benefit and sustainable livelihoods for the poor.

Success requires creative, new approaches to sourcing and distribution, product design and partnerships. This report presents an overview of the opportunity at the BOP, outlines strategies that a number of companies have adopted to generate both commercial and social benefit in this market, and suggests design principles that companies and partners can use when devising their own approaches.

## The Opportunity

Globally, 3.7 billion people are largely excluded from formal markets. This group, earning US\$ 8<sup>a</sup> per day or less, comprises the "base of the pyramid" (BOP) in terms of income levels. With an annual income of US\$ 2.3 trillion a year that has grown at 8% in recent years, this market represents a substantial growth opportunity.

While it is highly diversified, much of the BOP represents a fast-growing consumer market, an underutilized productive sector, and a source of untapped entrepreneurial energy. Engaging the "next billions" at the BOP as producers, consumers and entrepreneurs is therefore key to both reducing poverty and driving broader economic growth.

Historically, challenges in the operating environment have deterred companies from engaging in this market. As a result, people at the BOP remain beneath the radar of most conventional business models, often forced to rely on informal markets and substandard products. Companies that find new

ways to overcome constraints and tap opportunities can gain insights, market share and customer or supplier loyalty, and will secure a strong position in this growing market.

Successful business models can substantially improve BOP incomes and livelihoods, improving access to essential goods and services while catalyzing economic multipliers and reducing inequality. Therefore, the BOP market offers a meeting ground where corporate economic benefit and social impact can be achieved together.

## Understanding the BOP

Within the BOP group, income levels vary. About 1.1 billion earn US\$ 2-8 per day and – while still considered poor – are beginning to generate significant discretionary income. In the mid-range, 1.6 billion earn between US\$ 1-2 per day, spending largely on essentials. One billion people live in extreme poverty, earning under US\$ 1 per day, and often struggle to meet basic needs (all figures in PPP\$). People at these income levels are found worldwide, largely in Asia, Africa and Latin America, with 60% of the BOP concentrated in India and China.

The first step for companies seeking to engage the next billions as producers and consumers is to overcome traditional stereotypes and mindsets about who they are and what they can accomplish. Although their needs are diverse and vary by culture, people at the BOP share several characteristics that companies need to understand to do business with them effectively:

- *Financial constraints:* Low and fluctuating incomes, and limited access to credit or insurance, drive the BOP to be smart shoppers and risk-averse investors.
- *Life challenges:* Domestic constraints, difficult living conditions, and high prices for often substandard products or services are among the daily challenges at the BOP.
- *New Customers:* BOP consumers lack information on many commercial products, and therefore rely more heavily on trusted sources or demonstrations to make buying decisions.
- *Quality Standards:* BOP consumers and workers conduct their lives with dignity and demand both respect and quality from service providers and employers.

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<sup>a</sup> The US\$ 8/day income threshold is in Purchasing Power Parity (PPP) dollars, and was defined by the World Resources Institute report, *The Next 4 Billions*.

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## Adopting New Perspectives

Once a company understands the BOP market on its own terms, it must look beyond its traditional business approaches and – in collaboration with governments and local organizations – develop innovative new models suited to BOP needs and capabilities. Companies can reframe the problems encountered in BOP markets, finding ways to leverage them into business opportunities. Such new perspectives include the following:

**Affording access rather than ownership:**

Companies should consider how they can shift from a “selling” mode to one that deploys products for use without requiring ownership. The focus should be on the community rather than individuals.

**Monetizing hidden assets:** BOP communities contain “hidden assets” such as undocumented capital, community and personal resources, and underutilized assets. Companies can seek out such assets within communities and work to leverage their value.

**Bridging the gap in public goods through private enterprise:** To overcome both hard and soft infrastructure constraints, businesses can partner with other organizations to implement innovative solutions that benefit everyone.

**Scaling out versus scaling up:** Standard production models are often ineffective at the BOP. Centralized, large-scale production can increase costs and fail to meet localized needs in BOP markets. Instead, businesses should combine scaling out with scaling up. Scaling out involves leveraging local assets – manufacturing, entrepreneurs, producers – to adapt and replicate business models according to local conditions.

**Governing through influence rather than authority:** Flexibility and decentralization are crucial for adapting to local changes and controlling costs. Companies can reduce the need for costly monitoring by aligning the interests of the employees with those of the company.

## Design Principles for Successful Business Models

Companies can translate new perspectives on the BOP into new business models. In seeking to develop effective business models, companies can draw upon five design principles outlined below.

**Create life-enhancing offerings:** Develop offerings that improve the livelihoods of the BOP by pricing for their budgets, tailoring products to address local constraints, and developing environmentally sustainable approaches.

**Reconfigure the product supply chain:** Create a cost-efficient distribution system by sourcing from local producers, leveraging existing local distribution channels, and finding creative ways to overcome infrastructure constraints.

**Educate through marketing communication:** Design marketing programs that contain educational as well as persuasive messages about product benefits. Leverage trusted people, institutions and brands to build consumer loyalty.

**Collaborate in non-traditional partnerships:** To lower costs and broaden distribution, partner with local producers and consumers, as well as other companies. Invest in local talent and create incentives that encourage self-governance.

**Unshackle the organization:** Design corporate organizational structures – including metrics, incentives and accountability systems – to support, measure and reward long-term success in business initiatives targeting the BOP

## New Alliances: Priorities for Stakeholders

The innovative approaches described in this report can form the foundation of new growth opportunities for companies that are bold enough to experiment. However, success in BOP markets often requires collaboration with other companies or stakeholders. Such partners bring key capacities to enable or support BOP business models through complementary action.

- Governments can strengthen policy and tax incentives for BOP business engagement. Examples in the telecom and agriculture sectors have shown how policy reform can catalyze increased local investment and service provision.
- Companies can collaborate across industries and among stakeholders to leverage shared resources and capabilities. Partnering with NGOs, donors and governments can combine organizational capacities in ways that benefit all.
- All stakeholders can work to identify viable business models, monitor and evaluate their impacts, and share learnings to accelerate momentum. Raising the visibility of successful BOP business initiatives can catalyze learning and broader adoption by companies.

Over the next decade, even in the face of global economic challenges, the base of the pyramid is likely to be a source of continued economic growth. Companies can establish a footprint in this growing market, while also investing in the communities that will lead and drive its expansion. The net result will substantially improve livelihoods, while generating economic growth for companies and communities alike.

# Chapter 1 – New Potential: Improving Lives and Opening Markets

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- Nearly 3.7 billion people across emerging economies occupy the base of the pyramid (BOP); they earn less than US\$ 8 a day (2002 PPP\$) and remain largely excluded from formal markets
- Within this group is a sizable segment of potential consumers, producers and entrepreneurs who could be engaged by companies profitably with new business models – they are the “Next Billions”
- The first step for companies seeking to engage the poor as producers and consumers will be to overcome traditional stereotypes and mindsets about who they are and what they can accomplish
- Companies that are first to overcome the inherent challenges of this segment with sustainable business models will gain a competitive advantage, while improving the lives and livelihoods of this large population

Nearly 3.7 billion people – more than half the world’s population – live on less than US\$ 8<sup>b</sup> a day<sup>1-4</sup> and have been largely excluded from formal markets. They are often referred to as the “Base of the Pyramid” (BOP). The lowest third of this group, in terms of income, still lives below subsistence level and requires support to escape poverty. Those at the top of this segment – about a billion people – are beginning to generate significant discretionary income. Although they exhibit considerable productive and entrepreneurial potential, as well as demand for products and services, most companies view them as risky, costly and unprofitable to serve. As a result, the BOP market remains beneath the radar of most conventional business models, and many at the BOP are forced to rely on informal markets and substandard products.

There are compelling reasons to focus on the next wave of consumers, producers and entrepreneurs that are found within the BOP. Bringing them into formal markets will expand and stabilize their incomes and improve access to basic needs like education, healthcare and financial services, among others. It can also trigger economic multipliers, easing social tensions and reducing inequality.

What’s more, the approximately US\$ 2.3 trillion<sup>c</sup> a year that the BOP spends (an amount that has been rapidly increasing) presents a substantial opportunity for growth and competitive advantage to companies that are able to access it<sup>1-4</sup>. Although the needs of the BOP are diverse and vary by country and culture, once businesses have discovered successful ways to work with the BOP in one market, they can transfer the process of innovation to other markets.

## The “BOP” and the “Next Billions”

“Base of the pyramid” (BOP) is a collective reference to 3.7 billion people populating the lowest income strata in the world. The income threshold for this group is US\$ 3,000 per person per year (in 2002 PPP\$), or roughly US\$ 8 per person per day.

Within this group are the “next billions” – a large group of consumers, producers and entrepreneurs who can be profitably engaged or served by business, albeit with new and innovative approaches. Within this report, the term “next billions” refers to the members of the BOP whom business has the opportunity to engage in the near term.

Early movers into the market of the next billions will gain many advantages: by being first to develop new offerings and establish innovative delivery channels, they will be in a position to gather valuable insights, gain greater market share, reach deeper into the BOP and attract the loyalty of consumers and producers as incomes grow and needs expand. Therefore, the next billions offer a meeting ground where corporate economic benefit and social impact can come together.

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<sup>b</sup> In 2002 PPP\$.

<sup>c</sup> In 2008 US dollars. All figures with regards to incomes and spends are in 2008 US dollars, unless stated otherwise.





Accessing the next billions does present challenges – but companies can overcome these by looking beyond traditional business models. In this report, the term “business model” encompasses both the product or service offering, as well as the operational and financial arrangements that go into generating returns from a particular activity. Business model innovation involves significant changes in two or more components of the business model that together redefine a company’s position in the market and create superior value.

To achieve business model innovation, organizations must first cultivate a more nuanced understanding of the BOP – how they live and what they need to improve their livelihoods. Second, they need to look at economic levers that limit operations in this market, including the regulatory and policy environment, and define strategies for overcoming those obstacles.

A number of companies are starting to adopt successful models that extend their reach into these markets. They are developing technologies, products, and services that meet local needs. They are discovering local capacity for supply and distribution networks. They are expanding access to finance for consumers, producers and entrepreneurs. And they are partnering with each other, as well as with governments and civil society organizations (including both public and local

community organizations), to implement new business models. These “inclusive” interventions are catalysing significant improvement in the livelihoods of the BOP, creating a virtuous cycle of growing incomes and purchasing power within their communities.

Although this opportunity is attractive for many industries, some have made more headway than others. Packaged goods companies, for instance, have realized substantial progress in deepening distribution, and telecommunication players have been able to reduce hardware, service and collection costs. By describing current challenges, highlighting pioneering efforts and distilling principles for success, this report offers a cross-industry perspective demonstrating that it is possible to develop inclusive, profitable and scalable business models to engage with the BOP.

Chapter 2 takes a deep dive into the lives of the BOP – to understand who they are, how they cope with their constraints, and what they will need in the years ahead. Chapter 3 expands on new perspectives that could help companies break out of existing mindsets and develop new approaches. Chapter 4 provides practical design principles for creating successful new business models. Chapter 5 recommends a way forward to broaden the scope of business engagement at the BOP.

# Chapter 2 – New Markets: Opportunities and Challenges

- BOP households earned slightly more than US\$ 2.3 trillion in 2008. If growth were to continue at the rate seen in recent years, their income would grow to US\$ 4 trillion by 2015
- The BOP are not a homogenous group – they live in both rural and urban areas of developed and developing countries, and their income and spending levels differ
- The BOP cope with difficult circumstances: low and fluctuating incomes, domestic constraints, and a lack of information. Yet, they are committed to improving their lives and will extend themselves to take on opportunities for growth and advancement
- Businesses that invest in understanding the needs and lives of the BOP and engage them as business partners and consumers will unlock substantial value and have far-reaching impact

Although individual incomes of the BOP are low, the aggregate market is large: in 2008, their income pool totalled slightly more than US\$ 2.3 trillion<sup>(1-4)</sup>. Since some of them have already begun to accumulate disposable incomes to spend on goods beyond basic necessities, they present an attractive opportunity for market-based interventions.

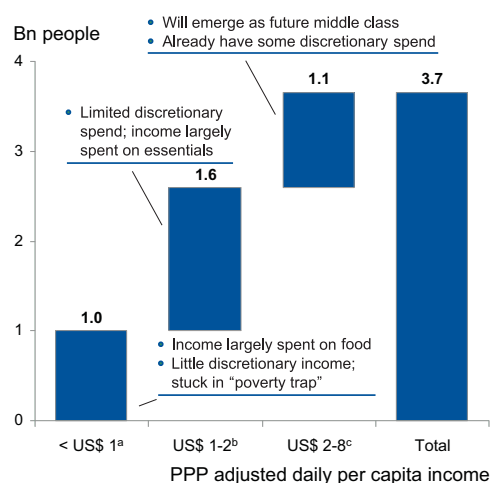
Incomes for the BOP have been growing rapidly at around 8% per annum. Even in the context of a global economic downturn, this market is likely to

see some continued growth. If growth was to continue at the rate of 8% per year seen in recent years, by 2015 the aggregate income pool of today's BOP could increase to approximately US\$ 4 trillion<sup>(1-4)</sup>. (For an explanation of BOP population and income calculations in this chapter, see Appendix 1).

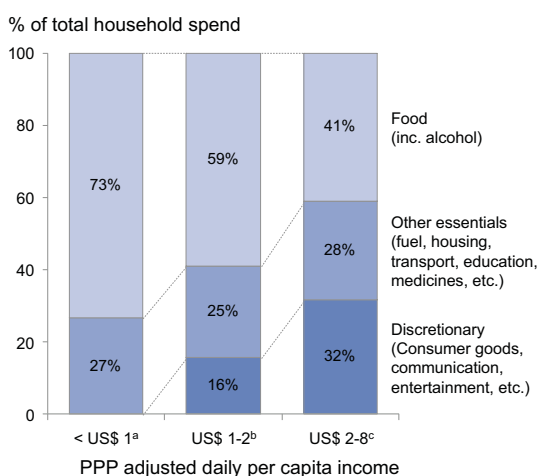
The BOP can be divided into three income segments – lowest, middle and top (Exhibit 1). The lowest level consists of about 1 billion people<sup>(1-4)</sup> who live below the poverty line<sup>d</sup> and struggle to make

## The Base of the Pyramid can be divided into three segments on the basis of income

### Segmentation of the Base of the Pyramid based on income



### Rising incomes lead to increased expenditure on non-food items



a. World Bank US\$ 1.08 a day (at 1993 PPP) adjusted to 2002 PPP.  
 b. World Bank US\$ 2.15 a day (at 1993 PPP) adjusted to 2002 PPP.  
 c. World Resources Institute cut-off of US\$ 8 a day in 2002 PPP.

Source : The Boston Consulting Group and the World Economic Forum analysis based on information from the World Resources Institute, The Economist Intelligence Unit Population Statistics Database and the IBRD. For further details see Appendix 1

ends meet. The middle segment constitutes the largest group, with approximately 1.6 billion people<sup>[1-4]</sup>. Although they have little discretionary spending power, they are generally able to support their basic needs and will require intervention only to improve the level and consistency of their existing incomes.

The top segment – which comprises around 1.1 billion people<sup>[1-4]</sup> – has sufficient disposable income to purchase nonessential products, yet they receive little attention from most businesses, because their incomes are still relatively low and tend to fluctuate. This group may be easiest to engage with, since they have surplus incomes and already spend on discretionary items. However, engaging the lower-income ranges of the BOP is also feasible and important. If businesses and organizations help to increase capacity and income among all ranks of the BOP, they will foster broad-based growth throughout the market.

In many countries, women undertake most of the farm labour, as well as food collection or purchasing and preparation. Yet, women often have less access to information, credit and services than men do, which constrains their capacity as producers and consumers. Companies could pay special attention to women as an underserved segment and address their needs, preferences and constraints in the design of products and services. For example, micro-farm equipment can be designed to be affordable and require less intense manual labour, and food products can be targeted to household nutritional needs. Since women reinvest most of their income into the family, they are a powerful avenue for value creation at the household and community level. Companies that recognize and invest in this opportunity could help strengthen community-level productivity and enhance long-term market growth.

## Where do the BOP live?

People living at the BOP can be found all over the world, yet they are particularly concentrated in a few areas. India and China alone account for 60%. Asia, Africa and Latin America together account for 94% of the total BOP population<sup>[1-4]</sup>. Africa has the highest share of the poorest segment – only 65% of Africa's BOP population is above the World Bank's US\$ 1 a day poverty line, compared with more than 86% in Latin America (Exhibit 2). The majority of the BOP live in rural areas (68% globally)<sup>[2]</sup>, which adds to the complexity and costs of reaching them.

### Some salient characteristics

Although it is difficult to generalize about a group as varied as the BOP, it is important to understand the characteristics that distinguish them from other groups.

**They manage low and fluctuating incomes.** The burden of low incomes is compounded by the fact that income streams for BOP households are unpredictable. As customers, therefore, they resist large up-front outlays and recurring expenses in the form of instalments. In addition, most lack access to affordable credit which would enable essential purchases or business investments. Therefore, companies might look for ways to align their prices and financing for consumers with incomes that ebb and flow. They might also design financial incentives that provide a stable income and encourage entrepreneurship when engaging with the BOP as producers.

**They cope with domestic constraints and difficult living conditions.** The living spaces of BOP households are typically quite small. Furthermore, conveniences that more affluent households take for granted – such as uninterrupted electricity and clean running water – have yet to reach many BOP households. These conditions impose constraints on both the type of products that the BOP can produce and consume and their level of productivity. Companies engaging with the poor could strive to deliver business and product solutions that address these constraints.

**They are smart shoppers and investors.** Since every cent counts for low-income households, they are unlikely to spend money on products they don't

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<sup>d</sup> World Bank US\$ 1.08 a day poverty line in 1993 PPP, which translates into US\$1.34 in 2002 PPP.

understand or trust. However, they don't necessarily prefer cheaper or stripped-down versions of more expensive offerings. They want high-quality products, even if they have to ration their use. Therefore, they prefer products that are known to be reliable or are demonstrably superior. For example, despite cash constraints, farmers will often pay a premium for high productivity seeds that other farmers have used and profited from.

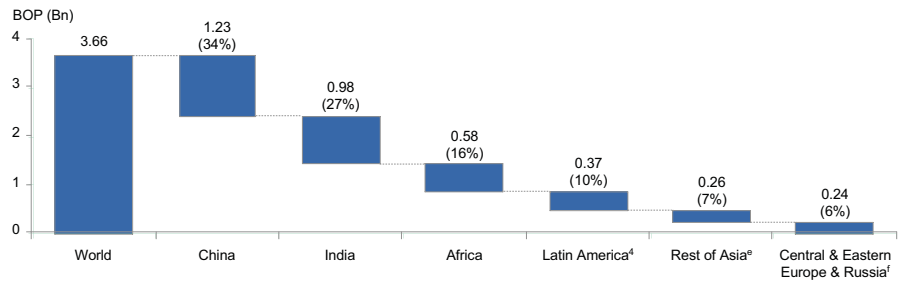
**They are unfamiliar with many products, technologies and procedures.** At the BOP, communication channels are scarce, literacy rates are low, and many consumers are often first-time users. These factors increase the need for consumer education, product trials and demonstrations to explain product benefits and usage. Producers and entrepreneurs also lack crucial information. Therefore, companies sourcing from the BOP must be willing to invest in educating their suppliers as well.

**They look for trusted advice.** Because the BOP are new to many products and have limited access to information sources, they are more likely to rely on the opinions of people they know and trust. Advertisements can help raise awareness, but they seldom address all the barriers to purchasing a product. The experiences of friends and relatives – good and bad – as well as direct experience through product testing and demonstrations, strongly influence the BOP's choice of products and brands. For that reason, encouraging local groups to advocate products and services to friends and creating networks for educating first-time users is a valuable tool in many business models.

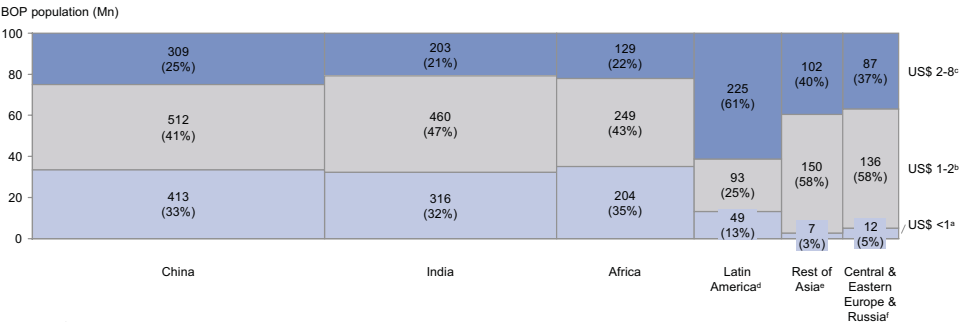
**They demand respect.** Surveys of low-income households elicited statements such as: "We need to be well dressed and look good. Otherwise, people will not take us seriously. And at school, the teachers will write my children off as poor and not deserving of a good education." Being treated equitably and with dignity also influences where the BOP shop. They often prefer neighbourhood shops

**People at the Base of the Pyramid are concentrated in certain regions and have distinct income levels**

**Distribution of the BOP across the world**



**Income stratification within each category**



a. World Bank US\$ 1.08 a day (at 1993 PPP) adjusted to 2002 PPP.  
 b. World Bank US\$ 2.15 a day (at 1993 PPP) adjusted to 2002 PPP.  
 c. World Resources Institute cut-off of US\$ 8 a day in 2002 PPP.  
 d. Includes Caribbean countries.  
 e. Includes Middle-East, Indo-China, Central Asia, Nepal, Pakistan and Sri-Lanka.  
 f. CEE includes 18 countries: Baltic countries (Latvia, Estonia, Lithuania), Romania, Bulgaria, Russia, Ukraine, Belarus, Moldova, Slovakia, Slovenia, Hungary, Czech Republic, Poland, Croatia, Bosnia & Herzegovina, Serbia & Montenegro, Macedonia.  
 Source : The Boston Consulting Group and the World Economic Forum analysis based on information from the World Resources Institute, The Economist Intelligence Unit Population Statistics Database and the IBRD. For further details see Appendix 1.

– which are familiar and offer personalized service – over supermarkets, which may require more travel time and seem intimidating. Companies should consider such sensitivities and treat the BOP – whether as consumers or employees – with respect.

**They face disadvantages in the market.** Because BOP consumers' spending power is limited, and the costs to reach them are high, they tend to be served by inefficient supply chains. That often results in their paying higher prices for inferior goods, compared to wealthier members of their societies – an inequity often referred to as the “BOP penalty”. This cost dynamic presents a tremendous opportunity for organizations and businesses to offer better quality and more affordable options to the poor. But realizing that opportunity will require uprooting entrenched stereotypes and being open to new ways of engaging with this segment.



**Niranjan Singh, Shopkeeper – India**

Niranjan Singh lives with his extended family in Giridih, Jharkhand. He is a trader who sells small plastic items in six different weekly markets around his hometown. In recent years, his income fluctuated unpredictably between US\$ 4 and US\$ 14 per week, making long-term commitments difficult; his average annual income was about US\$ 500.

Niranjan travels five days a week for his work, paying travel costs and rental fees for retail space in each daily market. He transports his goods on an auto-rickshaw (a small three-wheeled motorized vehicle, which he purchased with a loan and also rents to others). At the start of each week, he purchases new merchandise from wholesalers and suppliers. However, he often found himself lacking the products that his customers wanted, and holding an inventory of products that no one wanted to buy.

Buying a mobile phone transformed Niranjan's business. He can now procure goods from trusted suppliers by phone, thus reducing travel expenses. Vendors call him to offer updated stocks, enabling him to broaden his product portfolio. Customers also call him to place and follow up on orders.

As a result, he has been able to reduce costs, increase sales and minimize wasted inventory. Selling the right products at the right time has increased both the level and the consistency of his overall income. His weekly earnings now range from US\$ 18 to US\$ 20, averaging nearly US\$ 1,000 annually. He is now able to plan and make financial commitments, such as sending his children to a private school.

Source: The Boston Consulting Group 2008<sup>[6]</sup>

# Chapter 3 – New Perspectives: Challenging Deep-seated Beliefs

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- Much of the conventional wisdom about business operations in emerging economies stands in the way of further growth and opportunity among the BOP
- By adopting new perspectives, companies will be able to view the next billions through a prism of opportunity
- Organizations will need to think about “who can use the product” rather than “who can buy it”; to unleash “hidden potential” in the form of undocumented capital and underutilized potential; to collaborate with the government to bridge gaps in public goods; to balance scaling up (through centralization) with scaling out (through localization); and to actively align incentives to manage various alliances
- These new approaches can help organizations transform perceived problems into profitable opportunities for years to come

The BOP have not been completely ignored. Some companies have made profitable forays into this market by adapting their offers, creating smaller packages, or finding innovative ways to cut costs and prices. Yet, such efforts have only scratched the surface of untapped opportunities in the BOP economy. The most successful companies have gone farther by rethinking stereotypes and fundamentally altering their business models on the basis of deep insight into the lives of the BOP.

Much of the conventional wisdom about business operations in emerging economies stands in the way of further growth and opportunity among the BOP. This chapter presents five ways of reframing the problems that have challenged conventional solutions:

- Affording access rather than ownership
- Monetizing hidden assets
- Bridging the gap in public goods through private enterprise
- Scaling out versus scaling up
- Governing through influence rather than authority

These new perspectives can help organizations transform perceived problems into profitable opportunities for years to come. Not all of them will be applicable in all cases. Organizations must consider where to apply them and how to achieve the best balance between conventional thinking and new perspectives.

## 3.1 Affording Access Rather than Ownership

A person doesn't have to own a product in order to benefit from it – he or she just has to use it. Yet, companies tend to measure a product's market potential in terms of the number of people who can afford to buy it. Given the relatively low and volatile incomes of the BOP, this mindset severely restricts the perceived potential of these markets. If organizations think about “who can use the product” rather than “who can buy it,” they will find a much larger and potentially profitable opportunity.

Reframing this problem requires new kinds of metrics to measure market potential and affordability. What if companies were to measure “access” to their products rather than ownership? Such access could be provided through a shared-usage model or through an entrepreneur who “leases” the product to customers. This way of thinking has opened up valuable markets for a number of companies.

In Bangladesh, for example, Grameen Telecom equipped village women with mobile handsets and, for a small fee, the women make the handsets available to others for both incoming and outgoing calls. Over time, many of these customers have bought their own mobile handsets – often choosing a Grameen phone; since it is the brand they have become familiar with and have grown to trust. As a

result, the mobile phone sector in Bangladesh has been growing rapidly: from only 200,000 subscribers in 2001 to more than 42 million at the end of May, 2008. Nearly half of those 42 million subscribers use Grameen Phone. At the same time, numerous women have become entrepreneurs and improved their incomes, thereby reducing poverty and expanding opportunities. Other organizations around the world have adopted and extended the Grameen shared-access model for mobile phone usage, including offering additional services<sup>71</sup>. The Celtel case cited in Box 1 is one such example.

Kenya Agricultural Commodity Exchange (KACE) and Safaricom Ltd combined the shared-access model with a new application that offers a valuable information service to farmers and traders. The service provides information on the prices of specific commodities via SMS messages – by typing in “beans”, or “maize”, for example, to find the going price in the capital. As a result, farmers can access vital pricing information to target their sales to the best buyers, and improve their negotiating position with traders and middlemen. It costs only 15 shillings (20 cents) per use, and the costs can be shared among the farmers<sup>81</sup>.

To challenge conventional wisdom about product ownership, consider the following questions:

- “How can a company change from a “selling” mode to one that “deploys” products for use without requiring ownership?”
- How would this new approach affect its revenues?
- Does such an approach change how the company thinks about realizing further value from existing assets and customers?
- What new business models might this new approach require?”



#### Emerging Rules for Success

- Focus on the features that will have a high impact on the livelihoods of the target market.
- Design an offer that makes it possible for them to access those features, even if it means going beyond the boundaries of current business models
- Assess the economic viability at group or community levels, rather than at an individual customer or producer level
- Construct an offer that benefits large groups of consumers or producers and permits pooling of revenue streams so that the company is protected from an individual consumer’s volatile income

### Box 1 – Celtel and Celplay, Democratic Republic of Congo: Giving Farmers and Entrepreneurs Vital Information

Celtel International is a leading pan-African mobile communications group, with operations in 15 African countries. Celtel entered the Democratic Republic of Congo (DRC) market in 2000, revised its business models and adopted numerous changes to achieve commercial success. The key innovation was enabling shared usage. Celtel encouraged the use of family-shared handsets and handsets managed by “Mamans GSM” (women who rent handsets for the price of airtime plus 100 or 500 Congolese Francs (US\$ 0.23-1.17), depending on the region. The business provides an excellent livelihood for Mamans GSM, contributing as much as half of the household income, and it also brings benefits to the entire village through access to communication and information.

Celtel's services have helped farmers and small-scale entrepreneurs to reduce the cost of travel, get information about the price of goods to buy and to

sell, and assess security and road conditions. It also created jobs, trained local technicians and a sales force and built a pool of professionals with international standards. As a result, families get information on basic health and education services. Celtel has attracted more than 2 million customers in DRC's 25 provinces. Celtel earns more per customer in the Congo than it does in more developed markets, in part because of the low penetration of landlines (10,000 for a population of 54.8 million in 2002) and mobile phones (10,000 subscribers). Celtel offers a vivid example of how constraints in infrastructure and security can be a driver of innovation rather than a barrier to doing business.

Source: United Nations Development Programme, 2008<sup>[9]</sup>

## 3.2 Monetizing Hidden Assets

There is a wealth of potential capital residing within BOP communities, but these assets are often hidden from formal markets<sup>[10]</sup>. The term “assets” refers to a broad array of resources that can generate economic value. This includes undocumented capital, which is capital that individuals have used historically or traditionally, but for which they do not have formal ownership rights. Undocumented capital could include property for which a family has tenancy rights but no legal title; or unincorporated businesses that aren't funded by a bank or other traditional investors. The second type of capital is personal and community resources that can be leveraged to enable business transactions, produce or sell goods. It includes the collective power of a community, which is often informally used for contract enforcement. Even a good personal reputation – a prized asset that allows access to local credit – could be considered a source of capital. The third kind of capital is

underutilized assets, such as civil society organizations and small and medium enterprises (SMEs). Many of these entities already have strong networks within the community and a deep knowledge of where their untapped sources of value are. It also includes people with entrepreneurial or other skills that have yet to be developed.

Leveraging the economic value of these hidden assets can potentially unlock significant market growth. Indeed, the aggregate value of such capital is potentially enormous. Consider the money that Mexican immigrants earn in the United States and send back to families in Mexico through informal remittance channels, or the extraordinarily high interest rates charged by village money lenders in India for low-income people with no access to formal credit. Companies should look beyond the official models to learn how local communities bring capital into the system “unofficially”, and seek to leverage that capital to catalyse further value creation.



In fact, mobilizing the community is a good entry point for identifying hidden assets, since the BOP maintain strong community ties. For that reason, companies have integrated local community entrepreneurs into their value chains, in addition to serving them as customers. Not only does this broaden the customer base for these companies, it can also generate higher profits, since the local entrepreneurs are willing to pay more for resources they had no access to previously. Lastly, it removes market inefficiencies and thus creates an economic multiplier. For example, Mibanco (Banco de la Microempresa S.A.) in Peru has loaned more than US\$ 1.6 billion in amounts ranging from US\$ 100 to US\$ 1,500 to low-income households and their micro and small enterprises. Mibanco's innovation was to design special banking products to be used for the purposes of housing, agriculture, working capital, and other necessities. To ensure that the loans would be paid back, they instituted personal incentives, such as awards and public recognition. As a result, they were able to offer credit to people who never had access to the formal banking system in Peru<sup>(11)</sup>.

Human resources, which include the large pools of people who might become producers or entrepreneurs with adequate training, are another form of hidden assets. Yet, conventional methods of developing their skills and collecting the goods they produce in distant villages are expensive. Another deterrent is the reluctance of many businesses to invest in training when the benefits might be shared by competitors. For example, companies often need raw materials from farmers in a particular region, but they avoid sourcing from them because the products are often poor in quality. Although the company and the farmers would both benefit if the company would help to improve the quality of produce, the company is reluctant to make such investments because it has no way of ensuring that the farmers won't begin selling to other companies as well.



#### Emerging Rules for Success

- Tap local knowledge residing in informal networks for sources of hidden assets in the community
- Identify local partners with the best access to community information
- Identify gaps in current roles, construct an offer that bridges those gaps, and provide economically attractive incentives for partners
- Provide local producers with the expertise and tools they need to meet company standards

Uncovering hidden community resources will require companies to collaborate with other organizations and possibly even competitors to share community skills, knowledge and training. But the benefits of gaining a more skilled, productive and accessible workforce often justify the effort and cost.

The potential for companies to unlock hidden assets by collaborating with local communities and integrating new models with their current ways of doing business is substantial. To challenge conventional wisdom about capital assets, consider the following questions:

- What hidden assets does the target community have, and how does the community leverage their value?
- How could the hidden capital that exists in informal arrangements be brought into formal systems?

## Box 2 – Barclays Micro Banking, Ghana: Diversifying by Partnering with Susu Collectors

The majority of Ghanaians, especially the poor, do not have access to banks, credit unions or similar financial institutions. However, the need for both savings and access to credit is most urgent among this section of the population. Indeed, the situation has led many people, including small enterprises and traders, to turn to informal mechanisms such as Susu collectors and moneylenders to meet their financial needs. Susu, or daily deposit collection, is a traditional and informal financial institution in West Africa, and there are about 4,000 Susu collectors in Ghana. As part of Barclays Microbanking, Barclays Bank Ghana is embarking on an unconventional initiative to connect modern finance with informal financial systems, such as Susu collection in Ghana. The business dimension for Barclays is centred on

creating value for money by helping the small traders focus and sharpen their financial management skills. In the long run, the bank benefits by encouraging more traders to appreciate the habit of saving and, therefore, channel their savings to the bank through the Susu collectors. The provision of credit to the Susu collectors for passing on as loans to the market women allows the small traders access to funds to invest in their businesses. That helps to diversify and increase their sources of income. Barclays was thus able to bring Ghana's informal financial systems into formal channels.

Source: Harvard Corporate Social Responsibility Initiative, 2007<sup>[12]</sup>

### 3.3 Bridging the Gap in Public Goods through Private Enterprise

Developing nations face major infrastructure gaps. Organizations that set out to engage low-income groups as customers or producers are often constrained by the lack of basic infrastructure they take for granted when serving current mass markets. This greatly increases the costs of engaging with the poor, designing products for them, and collaborating with them for the purposes of production and sourcing. The missing infrastructure can include “hard” infrastructure, such as roads, warehousing, logistics facilities and public utilities for water and electricity.

It can also include “soft” infrastructure, such as producer organizations, educational and training programmes, and basic information on consumers, including individual identification and credit histories that allow companies to target them for specific products and services.

Hard and soft infrastructures enable market activity and value creation, and they are largely considered the responsibility of the public sector (such as governments or development agencies). Organizations that seek to do business with the BOP overcome

infrastructure constraints in two ways: they can form active partnerships with the public sector to improve the circumstance of the BOP, or they can find innovative ways – often in collaboration with others – to bridge the gap in public goods.

Consider the example of Pésinet Health Care, which funded an innovative initiative to reduce infant mortality in Mali. Instead of setting up clinics in rural locations, the company trained qualified local representatives to perform basic check-ups and communicate the information electronically to doctors in the cities. Patients visited doctors only when they needed hands-on attention. That made the service more affordable for patients and helped to reduce the country's infant mortality rate. For the programme to become self-financing, the company needed to achieve economies of scale that required treating 1,200 to 1,500 children. The costs of the project were recovered by revenues generated by subscription charges, which were US\$ 1.05 a month per child and included visits to the doctor and basic medicines. In a similar project rolled out in Saint-Louis, Senegal, the infant mortality rate fell from 120 per thousand to only 8 per thousand. The new model has made basic healthcare more accessible to low-income people and, because it generates sufficient revenues in subscriptions, its operations are sustainable<sup>[13], [14]</sup>.

Another obstacle companies face is a lack of information about the choices and constraints in the daily lives of the BOP. Indeed, some companies even find it difficult to identify which groups of consumers belong to this segment. Government data is often inaccurate or nonexistent, and many workers lack official salary records. This can be a particular challenge for banks. By insisting on official records, banks lose not only potential customers, but also the opportunity to catalyze growth and reduce poverty by providing essential financial services.

Organizations could work towards improving financial information systems through tools such as credit bureaus and smart cards. Better, more accurate ways of identifying low-income consumers and determining their qualifications and needs could be achieved through a consortium of companies that stand to benefit from this effort, rather than a stand-alone organization. For example, A Little World, a technology company based in Mumbai, India, launched a project in which a consortium of six banks provide biometrics-based identification cards and RFID smart cards and near-field-communication mobile phones to people without bank accounts. Not only has the consortium made it possible to offer banking services without the expense of building branches, it has also built some invaluable soft infrastructure in the form of credit information that can be used by many other industries over time to accurately identify and track their customers. That allows companies to expand their boundaries and partner with companies in other industries to share investments and returns<sup>15</sup>.

Private intervention can support the creation of public goods – not just for philanthropic reasons, but also to ensure long-term profitability in low-income markets. Interventions in the public domain by many companies around the world have demonstrated that they can add value for customers as well as producers. To challenge conventional wisdom about investing in public goods, consider the following questions:

- Will investing in a public good that also benefits competitors actually improve near-term profits?
- Who will decide how much each partner will gain from opportunities and how much each could invest?
- How can the organization create an open partnership model to facilitate entry and exit of partners over time?



#### Emerging Rules for Success

- Invest in both hard and soft infrastructure as needed to execute the new business model.
- Consider partnering with competitors and players in other industries and government
- Consider the cost of bridging infrastructure gaps as part of an overall capital expense and value the investment according to its life-time worth, rather than its immediate returns
- Be open and willing to explore a variety of “unconventional” revenue streams, but bring in partners rather than doing it alone

### 3.4 Scaling Out versus Scaling Up

To serve customers efficiently, companies often work to reduce the unit costs of products and achieve economies of scale through centralized production in large factories. But this model has two problems when it comes to the low-income market. First, it increases the costs of serving and sourcing (warehousing and distribution) since producers and customers live far from central factories. Second, centralized factories often produce standardized products for global or regional markets, which is often not what low-income consumers need or want. The BOP's requirements for locally-targeted products often cannot be met with standard low-cost production models. Companies therefore need to rethink strategies or scaling in this market.

What's more, companies often attach hierarchical structure to large-scale operations. As they seek to “scale up” an innovation, they standardize structures in the forms of decision rules, measurement

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systems, and organizational models. While these can boost efficiency in large-scale standardized markets, they can also limit innovation – a key quality for success in diversified BOP markets. Companies should instead seek to replicate innovation, constantly adapting it along the way, in order to expand their market and offer a new pathway to growth.

One of the problems with large-scale sourcing and production schemes is that they are designed for high-density areas. The traditional concept of economies of scale often fails when it comes to serving the low-income markets. Although demand and supply in this market is potentially very large in the aggregate, these consumers buy and sell locally because they live primarily in small, scattered groups. The alternative to scaling up is to scale out: create experiments that can be adapted and rolled out to increasing numbers of markets. That involves the low-income people as producers and distributors, as well as consumers, and it minimizes overhead.

Yet, scaling up and scaling out are not mutually exclusive. Instead, organizations need to balance scaling up (through centralization) with scaling out (through localization) to achieve the right combination of low costs and customized solutions. To accomplish this, organizations could deconstruct their value chains and for each step consider the trade-off between centralization and localization. The

resulting model could reduce costs and enhance customer appeal, reach, and credibility.

Aravind Eye Care in India exemplifies such a model in using metrics in initial examinations to triage patient needs. Its staff of local entrepreneurs examines patients at low-cost community centres, which are located in remote towns and villages. Basic examination, screening and preliminary diagnostic procedures can be carried out by these entrepreneurs with minimum training. Cases requiring consultation with an expert are dealt with by e-mailing patient-exam reports to doctors in cities. These doctors are highly trained and form a costly resource in the treatment chain. Only patients that need hands-on treatment are referred on to select hospitals. Each small community centre is self-sustaining, because it uses local resources and inexpensive basic instruments. The organization has grown by leaps and bounds and that has given many more people access to good eye-care services. It has also made Aravind a huge success. A recent study conducted by a hospital showed that after treatment, 85% of the men and 58% of the women who had lost their jobs due to sight impairment were reintegrated into the workforce<sup>[16]</sup>. Rethinking business models can create considerable benefits not only for companies, but also for individuals. By starting with a few trials, then replicating the innovation and adapting it along the way, companies can eventually reach markets sufficiently large to ensure profits.

### Box 3 – Fabindia, India: Bringing Customers to Indian Artists and Indian Arts and Crafts to the World

The lack of organized supply chains in India results in extremely low price realizations for individual weavers and artisans. Fabindia started as a wholesale export company in 1960 and has since established itself as a major player in the Indian retail market, with 17 community-owned companies as its associate companies. These companies have their own warehouses, contributing to the efficiency of Fabindia's supply chain. Their principal buyer is Fabindia, which positions itself as an ethnic-chic store for a variety of products, particularly garments. Fabindia focuses on retail, wholesale exports, and institutional sales to corporations, resorts and

hotels. Fabindia had US\$ 80 million in sales in 2007 and plans to establish growth to 250 stores over the next four years. Artisans Micro Finance Pvt Ltd owns 49% of Fabindia, while 20,000 artisan shareholders own 26%, with private investors and employees making up the final 25%. As a community-owned company, the value of the artisans' shares increase as the company's stock rises. Some artisans have doubled their share value, which they can use as collateral for loans.

Source: Word Press, 2008<sup>[19]</sup>

In traditional large-scale production models, everything from procurement to production, processing, packaging and marketing is standardized. That works efficiently when companies can use established channels for supply and sourcing, and they are targeting middle- and high-income consumers. However, production costs increase when demand is broadly dispersed and volumes vary, as is the case at the BOP. In these settings, localized production centres can be a more effective approach. The French company Nutriset S.A., which manufactures Plumpy'Nut, a fortified food for extremely malnourished children, has adopted such a strategy. The company sought to lower manufacturing and delivery costs, allow flexible production schedules, and maintain high quality standards by introducing a tailored licensing system. It outsources production to local franchisees, some of which operate as mini-manufacturing units, in Malawi, Niger, Ethiopia and the Democratic Republic of Congo, and plans expansion to other regions. Nutriset works intensively with franchisees on quality control and monitoring. This makes it possible for local production to significantly reduce delivery costs, while creating jobs and capacity<sup>(17)</sup>.

Although the pursuit of economies of scale has been a central tenet of conventional business models for a long time, the means to achieve it are different for BOP markets, where scale is often better understood and evaluated at the micro, rather than the macro, level. To challenge the conventional wisdom of economies of scale, consider the following questions:

- Where should the company scale up and where should it scale out?
- Can the company balance both kinds of scale simultaneously?
- How will the company adopt a decentralized system, encourage innovation, and still ensure product quality and effective management?



#### Emerging Rules for Success

- Design products and processes for micro markets and evaluate them accordingly
- Leverage what has been learned from other local initiatives rather than create over-arching structures for monitoring. Maintain decentralized governance and implementation

### 3.5 Governing through Influence Rather than Authority

As companies grow, the natural inclination is to exert more control on decision-making and tighten monitoring and audit systems. Yet, at the BOP, information gathering and control has to happen through collaboration and with local partners. Given the wide dispersion of villages and communities in emerging markets<sup>o</sup>, it is crucial to retain a high degree of flexibility and decentralization, in order to adapt to local changes and control costs. To reduce the overall costs of monitoring when enlisting the BOP as consumers and co-producers, companies must first align their goals with the community's interests and then introduce local checkpoints. Organizations that have managed to link their interests to those of their local partners have found that they can deliver more value at significantly lower cost. This is also true for partnerships with different organizations.

<sup>o</sup> For the purposes of this report, an emerging market is one whose social and business activities are in the process of industrialization.



When considering doing business with BOP communities, companies are often concerned about the substantial monitoring costs that might be required to ensure compliance with quality standards. A better approach is to reduce the need for monitoring by aligning the interests of the employees with those of the company so that employees are motivated to deliver better results. This can be achieved by developing shared aspirations and values, leveraging incentives such as profits so that employees benefit when the organization benefits. In order for this to work, however, companies will need to rethink their business models and current shareholders will need to relinquish some rights in exchange for broadening the range of benefits.

One organization that has succeeded with such a partnership approach is Child and Family Wellness Shops in Kenya. They have adopted a franchise model to deliver healthcare, and offered the nurses who run their local clinics shares in the company. That motivates the nurse-owners to provide high quality healthcare and reach out to the community with information and education. Not only has providing nurses with better remuneration improved health in the community, it has also helped to retain

local talent, which addresses the problem of “brain drain” – the outmigration of skilled professionals – that affects many developing countries<sup>[20]</sup>.

Even after aligning with the interests of local partners, companies will still need to ensure that standards, payments and other requirements are met. Some companies appoint an “aggregator”, who serves as a point of contact for accountability and fee collection from the community. For instance, rather than trying to collect money from individual customers in a village for using its services, a company could consolidate payments using a commission-based local entrepreneur who collects payments from individuals, thereby reducing the collection costs for the company and ensuring timely payments.

Some companies partner with communities for the purposes of governance. That’s what the Manila Water Company Inc. did when it established a community-based collection programme for water consumption. To assess and collect fees, it installed a “mother” meter for the whole community, which was responsible for jointly paying the bill. The community now employs local checkers to ensure individual payment, which saves the company from having to employ additional resources. As a result, the programme has become a source of local employment, generating more than 10,000 jobs since it started operations in 1997<sup>[21]</sup>.

Besides working with local players, businesses can partner with other organizations to create and share assets. But these organizations should be viewed more as a network of peers, rather than vendors. One of the main challenges with such arrangements is the establishment of clear governance standards. Often partnerships have broken down because the partners didn’t share common goals. Even when aspirations and values are shared, the partnership must still create an open architecture for organizations to enter and exit on the basis of their capacity to operate in the market. For example, if there is an arrangement among financial sector companies to create a common customer-credit database, each of the players ought to be able to contribute and benefit. There should be clear guidelines for how various organizations will participate and how their contribution will be valued, if they choose to exit.

### Emerging Rules for Success

- Align incentives to create “natural” monitoring mechanisms and structure the programme so that there is a clear economic benefit for the business partners to follow agreed-upon guidelines
- Create entrepreneurs rather than employees and provide flexibility and a high degree of autonomy in decision-making

There is authoritative power in the social forces that bind communities together, and the key to success among the BOP is to tap into it. Companies that have aligned the interests of communities, and then allowed individuals and other partner organizations to manage them, have unlocked great potential, while reducing the overhead costs of monitoring. The key to making partnerships work lies in aligning

the interests of all stakeholders towards a common goal. That calls for viewing community members as partners, not just salaried employees. To ensure quality control, companies can engage managers at the community level and design incentives for the communities to manage themselves. To challenge conventional wisdom about governance, consider the following questions:

- What partners – with whom the company might share responsibilities and profits – can help it achieve its goals? Will the organization be willing to relinquish its power in order to lower monitoring costs?
- How can the company align incentives to reinforce accountability and trust with the community?
- How can the company establish clear governance standards and an open architecture where partners can enter and exit freely?
- How will the company value their contributions despite its focus on long-term profits?

### Box 4 – Rajawali’s Express Taxi, Indonesia – Creating Incentives for Entrepreneurship

At the height of the Asian financial crisis, hundreds of large corporations and small businesses closed down, resulting in massive lay-offs. In Indonesia, the unemployment rate rose from 4.7% to 9.1%. Road conditions were very poor: 36,000 people were killed in auto accidents in 2005. That is nearly 100 deaths per day – the second worst record in the world. Rajawali’s Express Taxi entered this environment, and to access capital, collaborated with leasing companies and banks to purchase taxi units. These taxi units were offered to drivers with a partnership scheme. The drivers make an upfront payment of Rp. 5,000,000 (~ US\$ 400) and make daily payments of Rp. 170,000 (~ US\$ 14), and after five years the drivers are eligible to own the

car. As a result, it transformed the traditional business model between large transport companies and drivers’ groups into a business-to-business partnership. To ensure that customers were served well, Rajawali provided training and transportation allowances of US\$ 1.00 a day to its drivers. The company quickly became the country’s second-largest taxi operator with a fleet of 2,257 taxis and 4,000 drivers. Other businesses benefited from the drivers’ earnings, including food vendors, consumer electronics stores and clothing shops.

Source: United Nations Development Programme, 2008<sup>[22]</sup>

# Chapter 4 – New Approaches: Design Principles for Success

- Companies will need to innovate their business models targeted to the BOP to unlock their potential as the “next billions” who can be engaged by business
- Companies need to redesign their offers, their product supply chain arrangements and their marketing and communication to profitably engage with the next billions
- Collaboration with other companies, government, civil society organizations and especially poor communities themselves is critical to improve economics, enhance offers and fill gaps

The BOP often find themselves having to make difficult compromises: their incomes are limited, yet they desire products and services that are suited to their needs; they require information, yet they have difficulty accessing it; they live in scattered towns and rural villages, yet they must deliver their wares to distant markets. Companies first need to invest in developing a comprehensive understanding of the BOP and the constraints they face. The next step is to create new business models that break these compromises and give low-income people a sustainable foothold in a market that allows them to thrive.

This chapter addresses what it will take to convert the BOP into the next billions. It presents a set of design principles for developing new business models that are based on an analysis of more than 200 case studies and numerous discussions with companies planning on or currently engaging with the next billions as consumers, producers or entrepreneurs. The design principles are structured along four parts of a typical business model: product innovation, supply chains, marketing and partnerships. They apply specifically to the circumstances of the next billions and together present a framework for innovation. The five principles, seen in Exhibit 3, are:

1. Create life-enhancing offerings
2. Reconfigure the product supply chain
3. Educate through marketing and communication
4. Collaborate to form non-traditional partnerships
5. Unshackle the organization.

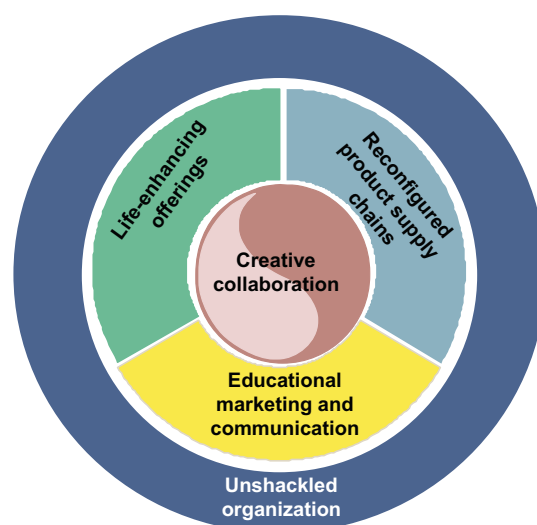
The chapter concludes with a discussion of how companies can help new business models succeed by unshackling the organization. It should be noted,

however, that these principles are given as suggestions rather than prescriptive solutions. There is no silver bullet in this market. Organizations will need to be prepared to consider many kinds of innovations on several fronts.

## 4.1 Create Life-enhancing Offerings

Life-enhancing means offering products and services that improve livelihoods and trigger the economic multipliers that allow the next billions to overcome their constraints. Rather than offer the same products they sell in the mass markets of developed economies, companies need to adapt their products and prices to the specific needs of the next billions.

### Framework for innovation: Design principles for success





A farmer in a rural area, for example, may want a rugged mobile handset with a data feed that provides wholesale prices at nearby markets, whereas a day labourer in a city may care more about how the handset looks and feels and its ability to take pictures. Therefore, mobile operators and handset manufacturers need to design products and services that deliver both aspirational and pragmatic value. Research suggests the following practical guidelines:

#### **Price for the budgets of the next billions.**

Because the next billions have low incomes and little savings, large up-front purchases are often out of their reach. For many products, pricing will involve some consideration of credit terms. Producers and retailers of large-ticket items, such as durable goods, for example, could offer financing tailored to the next billions' budgets in order to increase sales. Service providers, such as mobile operators, could "fit the pocket" of consumers by lowering recharge amounts, offering flexible terms, and encouraging free or low-cost trial use.

One of the best ways to make products available is to offer less expensive and smaller packages. For example, a BOP customer may need a small loan for a one-time purchase of inputs for a business operation or for an emergency. Yet, many institutionalized credit offerings are expensive and available only for large amounts. With a minimal investment in restructuring, a financial institution might offer small-size loans with flexible repayment terms. Since families tend to pool their funds for expensive purchases, certain products should appeal to all family members. One possibility would be prepaid family plans for mobile handsets because family members tend to share them.

**Tailor products to address local constraints and emphasize quality.** Developing low-cost products shouldn't mean sacrificing quality. In fact, because the BOP can't afford products that break down, they will often pay a premium for quality they can trust – even if they have to use credit or trade down to less expensive products in other categories. Some companies have demonstrated successful examples of assuring quality for locally tailored products and in turn earning the loyalty of the consumers. Take the example of International Development Enterprises India (IDE India) which is a



#### **Ramesh, Farmer – India**

Ramesh cultivates onions and peas on his 2.5-hectare plot in the Raigad district of Maharashtra, India. He lives with his wife, their two children and his parents, while a younger brother works in the city. He places a high priority on securing a good education for his children and is determined to see them have a better life.

Ramesh's land is rainfed and generates two harvests in a good year, earning the family an annual income of US\$ 1,000. At the start of the season, Ramesh takes a loan, either from the local bank or the village moneylenders, to buy inputs. In years of drought incomes are low – and with little savings, debt repayment becomes difficult.

He sells his harvest to various vendors in larger towns and cities. Determining who to sell to requires a great deal of planning and travelling. Prices vary according to buyer, location and time of year. Ramesh usually travels to two or three sites to assess prices before hiring a small truck to ship his produce to the selected buyer. Typically, Ramesh does not get paid immediately upon delivery. The owner of the market stall pays him whenever he next visits the town.

With access to better information on farming practices and local market prices, Ramesh could improve his productivity and earnings. Better access to credit would also allow him to increase his return on investment.

Source: The Boston Consulting Group 2008<sup>[6]</sup>

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social enterprise that engages actively with small-scale farmers by supplying manually operated treadle pumps. As uninterrupted power supply is rarely available to these small landholders, they could not use electrical pumps. IDE India designed pumps which required no power supply and enabled farmers to trade up from manual methods of drawing and transporting water to the treadle pumps. In order to keep retail prices low, product manufacturing is outsourced to local manufacturers, who follow a stringent quality assurance programme and participate in IDE India's warranty scheme. The enterprise has also facilitated partnerships in service hubs that provide processing facilities and allow for intermediary sales of produce. This provided broad-based support to farmers and convinced them to pay money for the product as its easy to use and of high quality. IDE India has successfully helped farmers to increase their productivity and in many cases they have doubled their income, often within two years of purchase<sup>[23]</sup>.

**Develop environmentally sustainable approaches.** Raising the income and consumption level of the BOP will place immense pressure on already-stretched resources such as land, water, energy and ecosystems. Therefore companies should explore economically sustainable solutions that have a minimal impact on the environment. Products and services offered to low-income populations should aim for innovative and eco-friendly methods of production and consumption. Goods marketed to the next billions should utilize packaging that minimizes environmentally harmful wastes. Farming techniques and inputs should be developed to address environmental concerns while also enhancing farmers' incomes.

## 4.2 Reconfigure the Product Supply Chain

Of the BOP, 68% reside in rural areas, where physical access – for both distribution and sourcing – is a challenge. Even in urban areas, distribution requires a network of micro-traders. Companies often wrestle with tradeoffs between cost, coverage and control. Distribution networks need to reach disparate neighbourhoods and villages, while remaining viable at low volumes and prices. Manufacturers need to ensure that they have adequate oversight of pricing, stocking, and service throughout the distribution chain to fulfil quality requirements. The following recommendations could guide the design of effective distribution networks:

**Source from local producers.** The potential for increased agricultural production is one of the "hidden assets" that often lies untapped in BOP communities. Companies can develop this value by working with local producers to improve the quality and volume of their output for a specific market. Sourcing locally can reduce the cost that companies incur to reach and serve the next billions, enable provision of customized products for local preferences, and build trust and credibility for the company's brand. Most importantly, it can provide a sustainable source of local income, which is vital to BOP farmers facing volatile markets. Companies might offer mechanisms such as forward contracting or guaranteed purchasing to reduce risk and uncertainty for farmer incomes. Local sourcing, however, often requires companies to expand their traditional role and actively coordinate the full supply chain, often enough by cooperating with several partners. One of the most prominent examples of local production is Shokti Doi yoghurt, which was introduced by Grameen Danone Foods Ltd in Bangladesh. Shokti Doi is sourced from, partly processed by, and distributed and consumed by the local low-income segment<sup>[24]</sup>. Once a coordinated supply chain is established, it will grow into a platform that can facilitate other benefits to producer, consumer and company. Another successful example in this domain is Fair Winds Trading Inc., who partners with Gahaya Links, a Rwandan woman-owned firm that manages a network of 3,000 Rwandan women who weave baskets sold through an exclusive agreement with Macy's in the US<sup>[25]</sup>.

**Broaden reach and save costs by leveraging local distribution channels.** Service providers can work with local entrepreneurs to leverage existing low-cost distribution channels. In Brazil, Nestlé outsources the “last mile” of its distribution network to women entrepreneurs in small villages. They receive the company’s products through the mail and sell them door to door throughout the neighbourhood, thus increasing the company’s reach and brand credibility. Another company in India gives its salespeople bicycles to reach villages with populations of less than 5,000.

Companies could also cooperate to bundle product distribution in BOP regions, thus reducing costs for all involved. Small product manufacturers in Brazil partner with international retailers such as Carrefour and Wal-Mart to supply private-label products, thereby reducing retailers’ supply-chain costs, as well as manufacturers’ marketing costs. As a result, nearly 33% of the population is now buying private-label products<sup>1</sup>. In South America, S.A.C.I. Falabella started providing financial services to unserved segments as a way to drive retail sales; the services now generate at least 50% of the company’s bottom line. In another example from Brazil, banks have offered their products and services through lottery shops and post offices. As a result, 28% of unserved municipalities and 98% of Brazilian towns now have banking services.<sup>[27]</sup>

In addition, companies can capture discretionary retail spending by combining distribution efforts. Agricultural retail centres in Indian rural areas offer a one-stop shopping service, providing small-scale farmers with a range of products and services.

**Find creative ways to overcome infrastructure constraints.** A key constraint in sourcing goods from BOP producers is the risk of loss or damage of agricultural products due to poor storage and transport infrastructure. Companies buying from the poor have been addressing this by establishing “scaled out” local processing and collection centres. Training producers and handlers can also help reduce these losses. Sometimes, it doesn’t take a lot to realize significant improvements. Metro, a cash and carry outlet in India, suffered losses in its tomato supply as high as 40%. It turned out that during their breaks, handlers sat or slept on top of bagged



#### Javan Isindu, Beekeeper – Kenya

Javan Isindu is a farmer in Siaya, Kenya’s poorest district, where 60% of the population lives below the national rural poverty line of US\$ 288 per year. Farming on land alone is insufficient to meet all the financial needs of Javan’s family. He and other local farmers find beekeeping to be a good source of supplemental income, as the hives are relatively low-maintenance and take up little space, and the bees help cross-pollinate their crops, boosting farm yields.

Each of his 10 beehives generates up to US\$ 150 per year, a substantial addition to his family’s income. He also hosts 20 additional hives for other community members. Javan delivers the honey by bicycle to a collection centre run by Honey Care Africa, a regional company. The collection centre engages 70 farmers and is administered by a local steering committee. The honey is extracted, and then shipped to Nairobi for processing, packaging and shipping to local and international retailers.

Source: World Economic Forum, BAACH Kenya 2007<sup>[26]</sup>

tomatoes. By changing its packaging to crates on which they could sleep, Metro was able to reduce waste to 15%<sup>[28]</sup>. Companies can also turn the lack of infrastructure into a business opportunity. The M-PESA service by Safaricom in Kenya, for example, allows individuals to transfer money via mobile phones. Cash can be deposited or redeemed at local shops that are licensed as agents. By converting small-scale local retailers into a



distribution network for the service, the company is overcoming the lack of more established service channels.<sup>[29]</sup>

### 4.3 Educate through Marketing and Communication

Given low literacy levels and lack of access to mass communication, BOP consumers are often unfamiliar with new products and their intended benefits. As a result, companies need to create marketing programmes that are as educational as they are persuasive, and they must establish strong credibility and recognition for their brands.

**Educate about product benefits.** Once BOP consumers are convinced of the value of a new product, they are often eager to invest in it. Unilever's successful hygiene promotion campaigns in India involved product promoters visiting villages to educate consumers on the health benefits of its soap. In a similar manner, agricultural input companies have used farmer training programmes, agro-dealer certification, and model farms to train farmers on the use and benefit of specific products.

Companies can create opportunities for new customers to experience their products firsthand through displays, guided product trials, or explanations by trusted advocates. This approach is especially necessary for complicated products such as electronic equipment, as well as for products that might be perceived as potentially harmful, such as fertilizers and other agricultural inputs. In India,



Hindustan Unilever's Project Shakti – a distribution network of village women – is a good example of explanation by trusted advocates. The women educate their neighbours about the need for personal hygiene and demonstrate the effectiveness of the company's products<sup>[30]</sup>.

**Create word-of-mouth advocacy.** Consumers in this market are more likely to trust a friend or family member than a salesperson they don't know. Leveraging such informal communication networks can become a powerful sales tool. That insight led a Brazilian retailer to hire salespeople from the same neighbourhoods where its customers lived and thereby increase its sales significantly. One consumer-goods company in India identified key opinion makers in several communities and developed a partnership with them to market products in the neighbourhood. The company's offerings now reach 80,000 villages, which account for about 15% of its rural sales<sup>[27]</sup>. Intel Corporation partnered with the Vietnamese government to advocate its low-price Thánh Gióng personal computers in rural community centres; the company now sells over 3,000 systems a month to small business owners in Vietnam<sup>[27]</sup>.

**Aim for trust and identity in branding.** Low-income consumers are generally more willing to accept an unfamiliar product if it carries a well-known brand or is endorsed by a trustworthy institution. Companies with strong brand recognition can leverage that asset by launching additional products and brand extensions.

However, because many companies have yet to access BOP markets, relatively few brands are widely recognized. New entrants to the market can overcome this obstacle by partnering with established brands in another industry – for example, a financial services firm could collaborate with a trusted consumer products brand to promote its services. A number of Latin American companies have successfully used this model – for example, the arrangement between the Brazilian retailer Magazine Luiza S.A. and Unibanco (União de Bancos Brasileiros S.A.) to offer consumer credit for shopping<sup>[27]</sup>.

Once a company has secured customer loyalty, it is important to preserve that trust. Many BOP regions have few or poorly-enforced consumer-protection regulations for truth in advertising or labelling. Consumers therefore rely on direct experience or inter-personal communication to form an opinion about a brand. Building and preserving a strong reputation therefore becomes key for companies seeking long-term success in the BOP market. Consumer trust must be secured through consistently delivered quality and reliability.

#### 4.4 Collaborate to form Non-traditional Partnerships

As noted earlier, mass production is often ineffective in the BOP market. Serving this segment requires companies to go beyond traditional “we-make-it-and-you-buy-it” relationships to include the BOP in the actual production of the offer, as well as its distribution. By engaging with the BOP as a market of producers as well as consumers, companies can substantially lower the cost to serve, since the local communities have established networks and deeper reach. This includes collaboration on two levels: partnering with local communities and collaborating with organizations. Such arrangements are a good way to reduce production costs. Collaboration also captures “hidden” assets – in the form of untapped resources and local knowledge – while increasing local incomes. That enhances the BOP’s ability to purchase more goods and services and generates a virtuous economic cycle for long-term sustainability.



#### Ana Maria, Seamstress – Brazil

Ana Maria is 36 years old and used to work as a part-time housemaid in São Paulo. She has two children – her son is nine years old and her daughter is eight. She is a single parent and had no additional source of income.

Ana worked only in the mornings and came back home every afternoon to look after her children. She earned approximately R\$ 300 (US\$ 120) per month, and on days that she was unable to reach work because one of her children was ill or because she had to visit their school, she lost her wages for the day. Maria had a few free hours every evening, but she was unable to leave home at this time because of her children. Since Ana worked as a housemaid, she did not have any documentary proof of her income. As a result, no bank was willing to give her a loan.

She was finally able to get small loan through a special retailer scheme. The loan was extended to her without any documents. She used this money to buy a sewing machine and started repairing clothes. She worked from home in the evenings and was able to use her free time at home to earn more and fill in the gaps even when she couldn’t make it to work.

Ana has now started working as a seamstress from home and supplies clothes to the local retailer who pays her a fixed fee and profits, depending on the profits made. She now makes approximately R\$ 600 (US\$ 240) per month and has bought a mobile phone for herself. She has purchased a TV and a fridge and is thinking of expanding her business by co-opting some of the women who live in her neighbourhood.

Source: The Boston Consulting Group 2008<sup>[31]</sup>



### ***Unlock local potential by engaging with communities***

By employing hidden assets in local communities, companies can reduce overall cost to serve, customize local offerings, improve delivery, and penetrate deeper into markets to fill gaps.

#### **Partner with communities rather than individuals.**

One of the biggest challenges in using local resources is the cost and complexity of sourcing from small-scale producers. A potential solution is to involve community aggregators, often village leaders, who can serve as focal point for a group of producers. PepsiCo in India uses such an approach in its contract farming program for high quality potatoes. PepsiCo signs contracts with group of farmers in a village and empowers a village coordinator who enjoys the confidence of the farming community. The coordinator aggregates supply, disseminates information on farming practices and technologies, and plays a role in setting mutually agreed and preannounced prices.

Not only do such aggregation schemes make it easier for companies to source in this market, they also make sourcing from the BOP easier for the local community. Most families who supply to companies aren't able to guarantee a consistent flow of goods because they have other constraints. For instance, women who weave high-quality carpets also need to take care of their families. Since they work on varied schedules, they can't deliver fixed volumes directly to the companies who buy their goods. But when village women work together collectively, they can organize their work flow so that the company can receive regular shipments of goods in required volumes.



**Invest in talent and expertise building.** Another problem with integrating local producers is that they often don't have the necessary skills to meet a company's quality standards. Most companies are reluctant to invest in workers' skill base when that may also benefit its competitors. Furthermore, the investments required are substantial and often entail building missing infrastructure, so they can be unprofitable for single players. One solution is to set up consortiums with other companies interested in the market and work collectively towards creating a talent pool. Another option is to deconstruct the value chain and "de-skill" activities performed in the field or at the point of service delivery. The Aravind Eye Care model in India<sup>[16]</sup> and the Pesinet healthcare model in Mali<sup>[14]</sup> are two examples of this. In both cases, specialist doctors remain in cities, while field staff who have received basic training perform the first level of patient screening and information collection for diagnosis.

#### **Create incentives that encourage self-**

**governance.** Most organizations are reluctant to source from the BOP because they believe quality will be poor, and monitoring for quality control is costly. Yet, it is possible to establish low-cost local checkpoints to ensure that quality standards are met by aligning the interests of the co-producers. Coca-Cola innovated along these lines in developing countries in Asia and Africa, where it established "manual distribution centres" (MDC) staffed by local entrepreneurs. Originally developed in East Africa by its bottling partner Coca-Cola Sabco (CCS), the distribution system is built around thousands of small, independent distributors. Coca-Cola bottlers actively manage MDC owners as third parties, supporting them to establish their operations, secure



microfinancing, and design effective delivery operations to keep customers in stock<sup>[18]</sup>.

***Form deep collaborations with unconventional partners***

To succeed in this challenging market, companies need to work with other players to develop the right products, services, and delivery mechanisms. But serving the next billions will require them to go beyond traditional forms of partnership, to include civil society organizations and even competitors. In doing so, they will be able to share costs, as well as capabilities and knowledge. And they can enhance current offers through bundling and convenient access, and fill the gaps in market infrastructure.

**Share products and assets.** Companies can partner to bundle several products and services together, often making those products more affordable. In Brazil, Telefónica S.A.'s partnership with Abril S.A. to offer Internet services over the television network is one such example. Companies can also share distribution and retail networks, and leverage common logistics and facilities<sup>[27]</sup>. Consider the partnership of IFFCO, a fertilizer company in India, and Airtel, a telecommunications company. Airtel realized that IFFCO had an established and efficient sales channel to widely disperse rural farmers, so Airtel used it to market and distribute its own products for farmers<sup>[32]</sup>.

Channel sharing might also involve a global medical company providing local drug companies in emerging markets with licenses to produce life-saving drugs. The local companies bring to the table a deeper reach and more efficient sales force, while

the global company brings superior capacity in research and development systems. The global company might also be able to receive benefits from the government for such initiatives.

**Share capabilities and knowledge.** Organizations can also collaborate in deeper ways to distribute or process information, share knowledge for product innovation, or improve efficiency. For example, the records that telecommunications operators have on individual payment histories could be used by a finance company as a proxy to establish their credit worthiness. Financial service companies are exploring ways to use this information to provide micro-insurance and other financial products. Or an insurance company might enter the low-income market by having the local postman help to market its products door-to-door and return with feedback on product satisfaction. Such collaboration practices give companies rapid access to critical knowledge on market movements and local consumer behaviour, and they help to eliminate the market inefficiencies of reaching the BOP.

**Make Partnerships Work.** The pay-off for non-traditional partnerships is the development of valuable skills in producers, partners, and consumers that will provide long-term profits. They will also help to build mutually beneficial infrastructure for all stakeholders, including governments. To make such partnerships work, companies should assess their capabilities, assets, and knowledge base – then identify other partners who have the additional resources they need. Next, they should analyse the pros and cons of collaborating, with a long-term view of profits. In initiating a partnership, they should establish clear

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governance structures, clearly outline roles, and agree on how the outcomes will be distributed for mutual benefit. Finally, before work begins, they need to make sure their systems and performance metrics are aligned.

One of the most important things for companies to keep in mind when partnering in the BOP market is that some companies have a head start. These leaders can serve as active drivers or facilitators, and not merely participators. That means orchestrating an arrangement in which it is easy for new players to enter and old ones to leave in order to maximize adaptability to changing conditions.

#### 4.5 Unshackle the Organization to Help New Business Models Succeed

Most organizations – even those well established in emerging markets – focus primarily on serving mass and affluent markets. As a result their cultures, organization structures, and metrics are likely to be out of step with the demands of BOP markets. Companies might consider the following remedies:

**Demonstrate senior level commitment.** Success in next billions markets requires strong commitment from the leadership team and active advocacy within the organization. These initiatives should be on senior management's radar and receive special recognition, in order to motivate employees to be a part of the effort.

**Create focus and accountability.** An exclusively top-down approach can limit the innovation required to develop effective ways of serving this market. Companies also need champions within the organization. Barclays and Citigroup for example, both have departments focused on micro credit, to develop opportunities for low-income customers.

**Provide decision rights and autonomy.** The separate departments and champions need to be empowered so that they are not constrained by the norms and processes that govern corporate activity in developed markets – such as standard cost-saving and revenue goals. These often need to be adapted to allow for the up-front investments or longer pay-back horizons required for developing BOP business models.



**Establish objective metrics.** New metrics help to strengthen accountability and track results. Companies also need to rethink the metrics they use to make go / no-go decisions. Return on capital, for example, is a better metric than the more traditional “operating margin” when serving high-volume, low-priced markets. A low-priced brand of detergent in India, for example, has an advantage over higher-priced brands due to lower investments in product development and marketing, giving it superior returns on capital.

**Create lean and agile structures.** BOP business units need to minimize costs and stay flexible. They should avoid duplication and create shared assets and services rather than loading on large overheads.

**Provide access to capabilities and knowledge.** Many organizations create functions that are responsible for transferring best practices across business divisions. These “success agents” are essentially managers who translate learnings from business models into pointers that other divisions can use for entering a new market. Some companies also acquire local companies to accelerate the process of understanding the BOP market and developing appropriate brands and business models.

A market of 3.7 billion people spending US\$ 2.3 trillion per annum remains largely excluded from formal markets. This is a growing population, living in expanding economies worldwide. While there are numerous challenges involved in reaching them effectively as consumers or business partners, they provide significant opportunities for companies that find successful approaches.



## Chapter 5 – New Alliances: Priorities for Stakeholders

The innovative approaches described in this report can form the foundation of new growth opportunities for companies that are bold enough to experiment. The right type of engagement can bring about a transformation in the lives of the BOP by linking them to formal markets as producers and consumers. Companies that are first to establish sustainable, profitable and scalable business models to include the BOP will establish a competitive advantage by securing market share and winning the long-term loyalty of consumers and producers.

Businesses entering these markets will need to consider how best to engage the next billions; and how best to approach this new opportunity. More often than not, other stakeholders play a key role in enabling or supporting BOP business models. This might include the hard and soft infrastructure managed by government; or capacity-building and organizing of BOP producers and entrepreneurs by civil society organizations and community organizations. While companies take the lead in designing and executing their business models, these other stakeholders are often an integral part of the process.

### **Strengthening incentives for business engagement**

What drives companies to seek engagement with the poor as either producers or consumers? In many instances changes in government regulation or tax policies have unlocked opportunities. Lower taxes on mobile phone airtime and handsets have spurred company investments in low-income mobile telecom markets. Rising commodity prices and import tariffs have prompted many food companies to adopt local sourcing methods with small farmers.

With the right checks and balances, governments can strive to encourage companies to adopt inclusive business models, by fostering public-private partnerships and encouraging investments in cross-industry collaborations. Civil society organizations can play a vital role in broadening consumer acceptance and creating BOP awareness about product benefits.



### **Facilitating corporate engagement and establishing models**

Companies typically have certain inherent gaps when operating in the BOP market. At times businesses do not have the necessary assets and skills needed to understand, reach, win the trust of and empower the BOP. To overcome these barriers, companies can utilize the existing capabilities and strengths of other stakeholders. Cross-industry and multistakeholder collaboration can combine partners' capacities – bringing companies together with their peers, as well as NGOs, donors and governments, to implement business models effectively at the community level.

### **Building momentum and accelerating progress**

Success breeds success. Proven business models are often copied by other companies. The success of Celtel and Celpay in the Democratic Republic of Congo has prompted other large companies to build similar enterprises. Successful experiments by Unilever and Nestlé have encouraged many other companies to distribute their products through micro-entrepreneurs. The Grameen Bank is widely credited for establishing the viability of microfinance across many markets.

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Other stakeholders, including government, academia, international organizations, civil society organizations and the media, can accelerate this process by highlighting effective models, facilitating learning and knowledge-sharing, and monitoring and evaluating results. Raising the visibility of successful BOP business initiatives creates both learning and goodwill for companies.

Most of the business models discussed in this report were neither conventional nor easy to initiate in their early stages. To unleash the large potential that exists for both the next billions as well as for businesses, commitment is required not only from companies, but also from other organizations – governments, NGOs, donor agencies, international organizations, and research institutions and universities, as well as the general public.

Businesses, civil society organizations and governments can all benefit by collaborating around shared priorities. Each stakeholder has a unique set of capacities and mandates that can often be

enhanced or extended through effective collaboration with others. The following table highlights ways in which the core capacities of different stakeholders can be leveraged to facilitate BOP business activity.

### Key Actions for Stakeholders

Organizations that are bold enough to experiment and committed to creating new ways of sourcing, producing, and delivering products and services to the next billions will gain a considerable advantage in the years to come. Over the next decade, even in the face of global economic challenges, the base of the pyramid is likely to be a source of continued economic growth. Companies that start engaging in this opportunity now can establish a footprint in this growing market, at the same time, investing in the communities that will lead and drive its expansion. The net result will substantially improve livelihoods, while generating economic growth for companies and communities alike.



## Key Actions for Stakeholders to Develop and Scale BOP Business Models

Stakeholder group	Primary Role	Actions/Capabilities
<b>Businesses</b>	<ul style="list-style-type: none"> <li>Develop and implement commercially sustainable business models</li> </ul>	<ul style="list-style-type: none"> <li>Understand the specific needs and constraints of the BOP</li> <li>Invest in R&amp;D and new product development for the BOP market</li> <li>Assess opportunities to integrate the BOP into value chains and reduce overall costs</li> <li>Invest in capacity building of BOP suppliers and distributors</li> <li>Partner or collaborate with others to align complementary investments, share supply and distribution costs, and improve the enabling environment</li> <li>Design a new organizational model that fosters experimentation, focuses on core activities, and encourages collaboration with other players</li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li>Provide key public infrastructure and services</li> <li>Define and implement policy and regulation</li> </ul>	<ul style="list-style-type: none"> <li>Create regulations and policies that encourage innovation and effective collaboration</li> <li>Invest in the business enablers to improve market-related infrastructure and policies, and provide essential services</li> <li>Educate and support the BOP – create and empower consumer forums; conduct public education campaigns; strengthen capacity of producers and entrepreneurs</li> <li>Foster public-private partnerships – convene, align and mobilize stakeholders around common priorities</li> </ul>
<b>Civil Society Organizations</b>	<ul style="list-style-type: none"> <li>Support communities in improving livelihoods</li> <li>Advocate for community needs</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the technical, commercial and agricultural capabilities of the BOP to enable higher quality and efficiency of production</li> <li>Create enabling market infrastructure such as producers' associations</li> <li>Create consumer forums to protect the public interest</li> <li>Embrace new non-traditional roles in business partnerships, for example, by providing a distribution system to efficiently deliver products and services, as well as education and skills for the BOP</li> </ul>
<b>Donors, international organizations, and research/academic organizations</b>	<ul style="list-style-type: none"> <li>Define priorities for stakeholder action</li> <li>Monitor and assess results</li> <li>Share knowledge on best practices</li> </ul>	<ul style="list-style-type: none"> <li>Conduct research to identify business and market development opportunities that would benefit the BOP and communicate to stakeholders</li> <li>Undertake or fund R&amp;D for new product development targeted at the BOP</li> <li>Fund the start-up phase of new business models to enable experimentation</li> <li>Identify public-sector policy and investment priorities to enable inclusive business models</li> <li>Conduct public education campaigns on key products or concepts</li> <li>Collect and share best practices and lessons – monitor, evaluate and assess impacts of business models on an ongoing basis</li> </ul>

# Terminology

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## **Base of the pyramid (BOP)**

The 3.7 billion people populating the lowest income strata in the world, who earn up to US\$ 3,000 per person per year (in 2002 PPP\$), or roughly US\$ 8 per person per day (in 2002 PPP\$).

## **BOP penalty**

The additional costs for basic goods and services that BOP customers often pay, compared to higher-income customers. For example, water trucked into slums and sold to households often has a higher unit price, and lower quality, than water provided to central neighbourhoods through municipal water systems.

## **Business enablers**

Companies providing goods and services which enable commercial and market-based activity. These can include financial services, telecom, energy, transport and logistics products and services, among others.

## **Business model**

The product or service offering, as well as the operational processes and financial arrangements, which comprise a specific private-sector activity or programme. "Operational processes" include preparation and delivery of the product to the customer. "Financial arrangements" include investments, credit, costs and revenue that lead to value creation. "Business model innovation" involves significant changes in two or more components of the business model to redefine a company's position in the market and create superior value.

## **Civil society organizations**

Nongovernmental, not-for-profit organizations whose activities are dedicated to the public interest in some way. These can include NGOs, cooperatives, citizen groups, charitable foundations and international donor organizations.

## **Discretionary income**

Surplus income left after individual or household spending on essentials such as food, fuel, housing, medicines and transport. Also called "disposable income", it is often spent on information and communication services (ICT), higher education, packaged goods, durables, and lifestyle and entertainment goods and services.

## **Economic multipliers**

An effect that occurs when rising incomes spur increased spending, benefiting local business and entrepreneurs and catalysing additional economic benefits.

## **Next billions**

Consumers, producers and entrepreneurs within the BOP who are currently excluded from formal markets, but could be engaged profitably by companies through innovative business models.

## **Purchasing power parity (PPP)**

The value of a given amount of foreign currency, expressed in terms of the US dollar value of a similar basket of goods. PPP is based on the theory of long-term equilibrium exchange rates, which states that exchange rates of any two countries tend to equalize their purchasing power in the long term. In 2005 for example, US\$ 1 could be exchanged for 7.6 Chinese Yuan. However, the PPP value of US\$ 1 in China was 1.8 Yuan, meaning that it would take 1.8 Yuan to purchase goods and services valued at US\$ 1 by the World Bank.

## **Subsistence level**

Income at or under the World Bank's poverty line of US\$ 1.08 a day (in 1993 PPP terms), which translates to US\$ 1.34 a day in 2002 PPP terms.

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- <sup>[29]</sup> Vodafone. "Safaricom and Vodafone launch M-PESA, a new mobile payment service". [http://www.vodafone.com/start/media\\_relations/news/group\\_press\\_releases/2007/safaricom\\_and\\_vodafone.html](http://www.vodafone.com/start/media_relations/news/group_press_releases/2007/safaricom_and_vodafone.html), 2007.
- <sup>[30]</sup> Hindustan Unilever India Ltd. "HUL Shakti – Changing Lives in Rural India". [www.hllshakti.com](http://www.hllshakti.com), 2008.
- <sup>[31]</sup> The Boston Consulting Group, Personal Interview, 2008. Some personal details have been disguised to protect the individual's privacy. Picture taken by The Boston Consulting Group staff
- <sup>[32]</sup> World Economic Forum, Roundtable Conference New Delhi, India, "Project Sampark", 2008.
- <sup>[33]</sup> World Bank, Washington DC. "Global Economic Prospects Report", <http://wwwr.worldbank.org/gep2009>, 2008.

This appendix discusses calculation methods and sources used for the following estimates presented in this report:

1. *Size of the BOP population*: This was estimated at 3.7 billion in 2002. Data is derived from 2002 data sources, based on data in two leading reports (*The Next 4 Billion* by the World Resources Institute, 2007<sup>(1)</sup>, and the 2007 *World Development Report* by the World Bank<sup>(2)</sup>).
2. *BOP population sub-groups*: Three sub-groups estimated, based on income – 1 billion in the lowest segment; 1.6 billion in the middle segment; 1.1 billion in the top segment.
3. *Total BOP income*: This was estimated at US\$ 2.3 trillion in 2008. In this case, 2008 data was estimated since no comparable, widely recognized data on aggregate income and expenditure data of the BOP are available. The estimate is based on extrapolations from income statistics of the BOP for 2002.
4. *BOP income growth rates*: 8% growth rates calculated in the BOP market (based on 2002-2008 data) which, if projected forward to 2015, lead to a total market of US\$ 4.0 trillion.

## 1. Size of the BOP population

The following steps were taken to arrive at an overall population estimate of the BOP:

1. *Starting point*: Database of The Economist Intelligence Unit (EIU) 2002<sup>3</sup>, which presents household population numbers distributed over nominal household income levels.
2. *Establishing upper income threshold for the BOP*: The income threshold of US\$ 3,000 per person per year equivalent to US\$ 8 per day (in 2002 PPP) was used, presented in the World Resource Institute's 2007 report, *The Next 4 Billion*. WRI determined this threshold based on global income-expenditure surveys.
3. *Conversion of PPP income per country/region to income in nominal US\$*: US\$ 3,000 PPP was converted to nominal US\$ for each country, based on the PPP to local currency factors from the International Monetary Fund and exchange rates from US\$ to local currency for 2002. This was done in order to compare EIU income strata (presented in nominal US\$) to income thresholds for countries/regions (presented in US\$ PPP). Conversion factors for entire regions such as Africa were obtained from secondary research.
4. *Conversion of WRI individual incomes to household incomes*: Adjustment of income thresholds from individual to household levels were conducted to compare EIU income strata (presented for households) to income data for countries/regions (presented for individuals).
5. *Total BOP population*: BOP population from each country/region were summed to create an aggregate total. BOP population from each country/region is calculated by comparing the adjusted WRI income data to the EIU income strata database. If income levels were between pre-specified income strata (e.g. US\$ 1,000-2,000), the population within the strata was assumed to have a uniform distribution to determine the population within that level.

## 2. BOP population sub-groups

1. *Defining three different BOP segments based on income*:
  - Lowest BOP segment: The World Bank's lower poverty line of US\$ 1.08 per person per day at 1993 PPP was adjusted to the 2002 PPP level of US\$ 1.34 per person per day
  - Middle BOP segment: The World Bank's second poverty line of US\$ 2.15 per person per day at 1993 PPP was adjusted to US\$ 2.7 per person per day in 2002 PPP
  - Top BOP segment: This was defined using the maximum income level for the BOP, described above, which is US\$ 8 per person per day at 2002 PPP
2. *Population per segment*: For each segment, population estimates were compiled as described in Section 1 above: after making adjustments for comparability of EIU and WRI data (individual incomes to household incomes and PPP\$ to US\$), the population data for each country/region was compiled to estimate the total population for each income segment.

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### 3. Total BOP income

The following steps were taken to arrive at an overall income estimate of the BOP:

1. *Starting point income of 2002*: Database of the Economist Intelligence Unit (EIU) 2002<sup>[3]</sup>. Total BOP income of each region/country was computed as the weighted sum of the average income for each income bracket (e.g. average income of the bracket US\$ 1,000-2,000 is US\$ 1,500) and the population within that income bracket. This assumes, however, that the population within an income bracket is uniformly distributed, an assumption consistent with Step 5 in Section 1 in interpolating populations for given cut-offs. This results in an income pool of US\$ 1.7 trillion in 2002.
2. *Computing income growth figures*: Average income growth for the BOP income brackets in each country were computed from 2002 to 2008. The resultant growth figure was determined to be 5% nominal rate per annum. Note that this is a different figure from the 8% historic growth 2002-2008 (explained below), which also captures the "wealth effect", e.g. upward migration of the BOP to higher income brackets, as explained below.
3. *Computing 2008 income figures*: The growth of the aggregated/total income of each segment for a specific region/country was used to extrapolate the total BOP income of 2002. Subsequently, this data was used to calculate today's (2008) income pool of US\$ 2.3 trillion.

### 4. BOP income growth rates

To project the potential growth of BOP income over time, the historic growth rates were calculated based on 2002-2008 data and then applied forward, as follows:

1. It was assumed that BOP incomes would migrate upward only, into higher income brackets, over time. The potential for downward migration was not factored into the estimate.
2. The aggregated wealth of the migrators was determined over time for each region. This was done by computing the number of people leaving the BOP income bracket every year using the EIU's population statistics from the years 2002 to 2008.
3. The aggregated wealth of migrators was added to the aggregated wealth of the non-migratory

BOP population. This was done knowing the number of migrators every year and assuming that the average income of these migrators is the income bracket immediately above the BOP.

4. The resulting growth rate of 8% per year was used to project the combined wealth of the BOP population from 2008 to 2

Given that the food and economic crises of 2008 have negatively impacted the livelihoods of the poor and emerging market growth rates to a degree not yet fully quantified, the projected continued 8% growth rate should be considered as a potential scenario but not a definitive prediction. As of December 2008, the World Bank was projecting continued growth in emerging markets for 2009, albeit at lower levels than previously expected.<sup>[33]</sup>

While the computed figures match the World Bank's figures on an aggregate basis, they do not do so on a regional basis. This is for the following reasons:

1. PPP adjustments applied by the World Bank for individual countries were not accessed for this estimate; instead, the analysis derived these from secondary sources.
2. Regional population distributions according to income were used from the EIU database, which could be different from the World Bank's population database.

Lastly, this analysis does not utilize the World Bank's latest revised definitions of the poverty line (Source: Policy Research Working Paper of the World Bank Development Research Group, August 2008<sup>[4]</sup>). This is largely due to lack of information on PPP adjustments made on a regional basis (which the World Bank states are a departure from past methods of calculating populations below the poverty line). Hence, our population estimates differ from the latest published World Bank report.



## Appendix 2: Case Study Selection Process

This report features several examples and case studies of BOP business models. These case studies represent a wide array of geographic regions, industry sectors, partners, and business models. They are intended to illustrate high-quality and innovative business approaches. The case studies were selected through a rigorous screening process. The report team conducted research of secondary sources (60 published reports, several organizational databases and Web research) and primary sources (company and organizational interviews and submissions) and created a database of 200 case studies with the following characteristics:

1. **Business-led** initiatives (or those featuring strong private-enterprise engagement) that are proven or intended to be **commercially viable**, and do not depend on donor funding or subsidies for the long term
2. **Targeted to BOP** consumers, producers and entrepreneurs
3. **Demonstrable social benefits**, such as increased income; creation of new market opportunities; or provision of access to needed goods and services
4. **Strong potential for scaling** across multiple geographies, based on existing record or potential for replication

To determine which case studies to include in the report, the team, which consisted of employees of the World Economic Forum and The Boston Consulting Group, applied a second filter to select cases with the following characteristics:

1. **Innovation** in the business model, for example, a new product design; alternate go-to-market strategy; new partnerships
2. **Relevance** to the themes or ideas discussed in the report
3. **Novelty** within the public sphere; initiatives that had already received heavy international publicity were de-emphasized in favour of lesser-known but equally valid examples
4. **Partner involvement**, illustrating collaboration between sectors; government engagement; or other players



As a final step, selected case studies were evaluated by an impartial team of expert reviewers from the following institutions:

- The John F. Kennedy School of Government at Harvard University
- World Resources Institute
- The Schwab Foundation for Social Entrepreneurship

Case study reviewers were asked to evaluate the case study selections according to the above criteria, taking into consideration additional factors such as regional balance. Feedback and recommended additions from the expert review group determined the final selection of cases incorporated into the report.

While some of the case studies have been independently evaluated, many have not. The authors themselves did not independently evaluate the accuracy of case studies. Future studies that independently quantify the commercial and social outcomes of BOP business models would be helpful. There is limited availability of such data.

# Appendix 3: List of Case Studies Cited

Chapter	Relevant Theme	Description	Country	Organizations involved	
Chapter 3 – New Perspectives: Challenging Deep-seated Beliefs	Affording access rather than ownership	Shared-use mobile handsets	Bangladesh	Grameen Phone	
		Market price information and online commodity trading	Kenya	(KACE) Kenya Agricultural Commodity Exchange	
		Celpay	Congo	Celtel	
	Monetizing hidden assets	Banking products and services for small-scale entrepreneurs	Peru	Mibanco	
		Strengthening traditional microfinance mechanisms	Ghana	Barclays	
	Bridging the gap in public goods through private enterprise	Healthcare to reduce infant mortality	Mali	Pésinet	
		RFID-based ID cards for multiple services	India	A Little World	
	Scaling out vs. scaling up	Eye care for the poor	India	Aravind Eye Care	
		Plumpy'Nut ready-to-eat therapeutic food for malnourished children	Africa	Nutriset S.A.	
		Developing local entrepreneurs to improve distribution	Ethiopia/Kenya	The Coca Cola Company, Coca-Cola Sabco	
		Community-owned company sourcing from low-income artisans	India	Fabindia Ltd	
		Affordable healthcare products and services for the most vulnerable	Kenya	Child & Family Wellness Shops	
	Governing through influence rather than authority	Community-based monitoring system for water supply	Philippines	Manila Water	
		Empowering taxi drivers as entrepreneurs through training and finance	Indonesia	Rajawali's Express Taxi	
Irrigation products and financing for poor farmers		India	International Development Enterprises (IDE) India		
Chapter 4 – New Approaches: Design Principles for Success	Reconfigure product supply chains	Development of local manufacturing and distribution	Bangladesh	Groupe Danone, Grameen Bank	
		Establishing an international supply chain for high-value baskets made by women	Rwanda	Fair Winds Trading Inc., Gahaya Links, Macy's Inc.	
		Distribution model engaging female entrepreneurs for door-to-door sales	Brazil	Nestlé S.A.	
		Partnering with local private label suppliers	Brazil	WallMart, Groupe Carrefour	
		Using lottery shops to sell banking products	Brazil	Caixa Econômica Federal	
		Leveraging store network and customer loyalty to build a banking business	Chile	S.A.C.I Falabella	
		Improved packaging for fresh produce to reduce post-harvest waste	India	METRO Cash & Carry International	
		M-PESA telecom-based cash transfer service	Kenya	Safaricom, Vodafone	
		Educating through marketing & communication	Partnering with governments for credible marketing of low-cost PCs	Vietnam	Intel
			Partnering with a trusted brand to gain access to BOP consumer markets	Brazil	Unibanco, Magazine Luiza S.A.
	"Shakti" programme engaging female entrepreneurs for door-to-door sales		India	Unilever Plc	
	Collaborate to form non-traditional partnerships	Local sourcing from small-holders	India	PepsiCo	
		Collaborating to bring Internet to the masses through television	Brazil	Telefonica S.A., Abril	
		Leveraging IFFCO's distribution network across rural India to sell telecom services from Airtel	India	IFFCO, Bharti Airtel	
	Unshackle the organization	Establishing divisions within the company to focus on the BOP	World	Citigroup, Barclays	





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