

R & D for Sustainable Development in Rural Areas: “Marketing to the Bottom of the Pyramid”

Guest lecturer: Alan Hammond, VP for Innovation, World Resources Institute.

Mr. Hammond has been working for several years on how business treats the so-called “bottom of the pyramid” or *BOP* – the poorest people and communities. Generally speaking, the wealthiest one billion people on earth constitute the “top of the pyramid” and receive the overwhelming majority of business attention, products and services; while the poorest four billion are poorly served or invisible to most businesses.

Quick BOP overview:

- The way to solve problems of the poor is to view them in terms of opportunities to meet their needs.
- From a purely economic viewpoint, the opportunity is enormous. In China, 57% of the total income is BOP; in India, 75% of the total income is BOP.
- The poor have similar basic needs, but the ways one meets them may vary from country to country.
- In the current system, one of the largest barriers is inefficient supply chains with tons of middlemen.
- To counteract their limited capital, the poor need small-sized units for purchase: a single text message, a few minutes of phone service, a single-use shampoo “sachet.”

Novel business models are needed, along with (in some cases) novel technologies.

BOP Business Models

Here are a couple of examples that show promise as BOP business models. For other examples, see “What Works: Serving the Poor, Profitably” cited at the end of these notes (PDF linked via the MIT OCW Readings page).

ITC’s “e-Chompal”

ITC is an Indian grain trading cooperative. Through its e-Chompal program, they install a computer at a village site that can serve 6-10 agricultural communities. Prior to the e-Chompal, there probably was no computer access. This new computer delivers daily updates on markets and auctions. When the farmers can watch the trends for themselves and have access to the markets, they can eliminate middlemen traders and dealers, along with their attendant inefficiencies and downright corruptions.

In addition to these benefits, ITC is able to achieve some important business goals with the e-Chompal. They have a channel to deliver auxiliary services

like ag extension recommendations and farm supplies. Over time, they may expand this channel into a massive consumer oriented supply-chain for 4 million farmers and their families (“becoming the WalMart [or Amazon.com?] of rural India”).

Bolivian “Smart ATM”

The rural poor in Bolivia haven’t had access to banks, due to various social and cultural barriers. In response, a for-profit business has created a culturally-appropriate Automatic Teller Machine to serve the rural poor. Each customer gets a smart card with fingerprint authentication, and the ATM provides a touch screen with voice responses in four different languages. It costs ~\$7 per year to have an account.

Customers who have never used banks like it for reasons like:

- They don’t have to go into a fancy bank building; “I can be barefoot.”
- They can use their own language.

This ATM is “four times smarter and ¼ the cost” of a conventional U.S. ATM. As the machine has proven successful, the company that created it is about to grow into an official chartered bank.

How the BOP Market Works

First, businesses must understand the critical needs of the poor. These include:

- Clean water
- Clear air, especially in urban slums
- High quality shelter, i.e. polymer sheet roofing replacements for tin or thatch)
- Food storage
- Health care, i.e. water and mosquito borne illnesses, amputee services...
- Energy, i.e. lighting and cooking

What’s in it for the poor, when a business serves their needs well?

- Access to needed things
- Empowerment
- Fair treatment

Much discussion at this point about whether businesses can treat the poor fairly. Based on Mr. Hammond’s research and experience, the least fair providers are those run by the local government; local small businesses are somewhat better; but in some cases, the large multinational company can be the best behaved.

Thoughts on key technologies:

- Broadband wireless is huge. In India, video conferencing is becoming a great tool because the culture places such emphasis on face-to-face transactions.

- Biometric identification can solve some access problems, where having an ID is necessary to “exist” within the formal economy.

Open Discussion

Q: How could this BOP perspective support good health care?

A: Consider what’s going on with tuberculosis, e.g. in South Africa. After a clinic conducts its first test, the patient needs follow-up in one week. Follow-up visits are difficult for the poor, yet there’s a major social interest in making sure infected people are treated. Instead of requiring the patient to return to the clinic, a BOP business can “chase down” the patient and deliver government-subsidized medicine. And once the medicine is delivered, a strict dosing schedule must be adhered to. Doctors have noticed that even poor patients tend to have cell phones; so they’d like to send text messages (in bulk, automatically) to remind patients it’s time for their meds.

Q: Are all these new high-tech things what the poor really need? Isn’t this just forcing developed world “junk” on them?

A: We shouldn’t be making these choices for them; they should be allowed to make their own choices. The poor are very quick to discard things that don’t deliver the right value – they are among the shrewdest consumers. Yes, they may choose to spend sizeable portions of their income on entertainment when they “should” buy better food. Let’s give them access to all these things and let them decide.

Q: After a particular BOP “success story,” does dissemination to other countries happen?

A: Some. For instance, US AID is helping to carry the ITC e-Chompal model into Africa. The single-use sachets of personal care and household products have become a widespread success.

A closing thought: multinational corporations have an important role to play in serving the poor. They aren’t great at innovation, but they are really good at replicating things and scaling up. When high costs and poor distribution/access are the fundamental barriers, don’t dismiss the multinationals.

References

Hammond, A., and C. K. Prahalad. "What Works: Serving the Poor, Profitably." World Resources Institute.
http://www.digitaldividend.org/pdf/serving_profitably.pdf