

CHAPTER EIGHT

Creating Emerging Market Entrepreneurs

FROM PYRAMID TO DIAMOND, FROM AID TO ENTREPRENEURSHIP

Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty. Microcredit is one such means. Development from below also serves to advance democracy and human rights.

—Ole Danbolt Mjøs¹

This statement from the chairman of the Norwegian Nobel Committee led Grameen Bank, Bangladesh's microfinance institution and its founder, Muhammad Yunus, to be the cowinners of the 2006 Nobel Peace Prize. The award was an important milestone in the world's effort to reduce poverty, as stated in the United Nation's Millennium Development Goals.

Eradicating poverty is arguably humankind's biggest challenge.² The challenge is to transform the structure of wealth in the community from a pyramid to a diamond. A pyramid means there are a few people who have very high purchasing power at the top of the pyramid. More consumers will be at the medium section of the pyramid and the

majority of consumers at the very bottom.³ The pyramid must be reshaped into a diamond. In other words, more people at the bottom of the pyramid should have higher purchasing power and therefore move to the middle level. The bottom of the pyramid will shrink and the middle will fatten.

This has been happening dramatically in China as its economy grows at a fast rate and becomes a world power. Fareed Zakaria found that poverty alleviation is happening at a faster rate in China than in any other country.⁴ This is also happening in India. Extreme poverty in rural India has declined greatly from 94 percent to 61 percent in 20 years from 1985 to 2005. It is projected to decline further to 26 percent by 2025.⁵ According to McKinsey Global Institute, there are five income segments in India (see Table 8.1). In 2005, the biggest disposable income belonged to the bottom segments. However, in 2025, the biggest disposable income will belong to the middle segments. As the middle segment grows, people in this group will have a different lifestyle, and discretionary spending on such items as mobile phones and personal care will climb up on their priority lists.

A team of experts led by Jeffrey Sachs predicted that this transformation from pyramid to diamond would happen universally around the world. They estimated that extreme poverty—people living on less than \$1 per day—will be eliminated by the year 2025.⁶ But an unlikely premise must be

Table 8.1 Prospective View of the Five Income Segments in India

No.	Segment	Annual Income (in Indian rupees)	Aggregate Disposable Income (trillion Indian rupees)		
			2005	2015	2025
1	Global	>1,000,000	2	6.3	21.7
2	Strivers	500,000 – 1,000,000	1.6	3.8	20.9
3	Seekers	200,000 – 499,999	3.1	15.2	30.6
4	Aspirers	90,000 – 199,999	11.4	14.5	13.7
5	Deprived	<90,000	5.4	3.8	2.6

fulfilled: All 22 advanced countries have agreed to provide 0.7 percent of their national income and must consistently contribute this amount of aid.⁷

However, we do not see foreign aid as a sustainable solution. It is like feeding the impoverished people fish but not teaching them how to fish. The real solution has to be an investment and a promotion of entrepreneurship. The poor should be empowered to be able to lift themselves to the middle of the pyramid.

A key actor in this solution is not nonprofits and government. It is corporations that generate the vast majority of the economic development and that own the business network. Companies should help the poor even if only for the selfish reason of expanding the market. However, ultimately the three parties have to work together in collaboration to get the job done.

THREE ENABLING FORCES AND FOUR REQUIREMENTS

Three enabling forces can make this solution happen. The first force is increased access among the poor to information and communication technology infrastructure. The impoverished community needs to be more exposed to information and income-generating opportunities. The Internet transforms farmers in India into a community of e-farmers with access to daily prices of crops in overseas trade markets. They can also search for other important information including the latest farming methods and weather forecasts. This enables them to ask for the best price for their produce.⁸ The introduction of mobile phones by Grameen Phone in Bangladesh also enhances interconnectivity among farmers and hence facilitates community conversation.⁹

The next force is the blend of excess supply, underconsumption in mature markets, and hypercompetition at the top and middle of the pyramid. It stimulates companies to look for other growth markets. Banks started to serve the previously "unbankable" and provide microloans to low-income communities. Some financial institutions in Latin America, forced

by the narrower spread in the top and middle markets, pursue this strategy to gain more diversified portfolio risk.¹⁰ Multinational companies such as Unilever have established a foothold in the rural market in search of growth.¹¹ These consumers have simple needs and therefore require a lower cost to serve. Dell is embracing the Indian market with affordable computers to compensate for its declining sales in mature markets and is collaborating with a number of channel partners.¹²

The final force is government policy to discourage people from migrating to overcrowded urban areas. Urban growth will put heavy pressure on the urban infrastructure. Investment in the rural areas, on the other hand, will increase the quality of life of the rural people and help slow migration. This is what China was aiming at when it planned to increase its budget for investment in rural areas by more than USD13.9 billion in 2008.¹³ It is a strategic step to avoid the kind of infrastructure impairment that happens in India where growth is heavily concentrated in megacities such as Delhi, Mumbai, and Calcutta.¹⁴

All three forces help deliver a huge underserved market. Ease of information access makes it easier to promote products and educate the market. And governments will want to support and facilitate any companies that would like to invest in rural development.

Our observation of these three forces leads us to a solid conclusion: doing well by doing good disruptively—having impressive business growth by making poverty history—can be achieved by investing in emerging markets or in the low end of an established market. This is what Stuart Hart and Clayton Christensen referred to as a “great leap downward”—to the bottom of the economic pyramid, where disruptive innovation is needed to address the social challenges caused by the imbalanced economic growth.¹⁵ Disruptive innovation usually brings cheaper, simpler, and more convenient products that are initially embraced by poor consumers.¹⁶ Examples of disruptive innovations for the poor would include a cell phone selling for \$5, a laptop selling for \$100, and so on.

However, to ensure that the disruptive innovation truly reduces poverty, Michael Chu put forward four requirements:¹⁷

1. Its scale should be huge to reach the billions who are in poverty.
2. Solutions must be enduring and last over generations.
3. Solutions must be truly effective and make a difference.
4. All this must happen efficiently.

Grameen Danone Foods in Bangladesh is one of the few companies that understands these four requirements. When Grameen Group and Groupe Danone formed the 50-50 joint venture, the mission they had in mind was simple: saving the world with a cup of yogurt.¹⁸ An affordable dairy product from the company created several hundred livestock-farming and distribution jobs in the local community. Learning from this small success, the joint venture started to get ambitious. In order to address poverty in a significant way, Grameen and Danone intend to reinvest the profits of Grameen Danone Foods and expand the model throughout the country.¹⁹ This action is 1) huge in scale because of its national rollout, 2) enduring for generations because of its job-creating impact, 3) proven effective because it creates better living conditions, and 4) efficient because it involves the community.

THE MEANING OF SOCIAL BUSINESS ENTERPRISE

Social business enterprise (SBE) is a term coined by Muhammad Yunus to describe a company that is making money while impacting the society in which it operates. It is neither an NGO nor a philanthropic foundation. An SBE is built with a social purpose in mind right from the beginning. But it is also possible to transform an established company into an SBE. The basic factor determining whether a company is dubbed an SBE will be whether the social goal remains its primary business objective and is clearly reflected in its decisions.²⁰

SBEs offer the greatest hope if they can be created from the bottom of the pyramid. Indonesia—a country that is regarded as a microfinance flagship coped with the financial crisis of the 1990s and has continued to develop favorably in its aftermath—provides an interesting case. Bank Rakyat Indonesia's microfinance operations reach approximately one third of Indonesian households. It is estimated to be the world's largest microfinance institution with over 30 million savers and the third largest microcredit provider with more than 3 million borrowers.²¹ The borrowers hopefully will become new social entrepreneurs who will strengthen the economic foundation of Indonesian society.

There are three measures of the success of an SBE in relation to strengthening the economic foundation of the society.²² Using these measures, you can easily identify which company is an SBE and which is not. First, an SBE stretches disposable income. Second, it expands disposable income. And finally, it increases disposable income.

Stretches Disposable Income

An SBE stretches disposable income by providing goods and services at lower prices. An example is Unilever's Annapurna affordable iodized salt. Before the product was widely available, 30 percent of children under five in Africa had iodine deficiency disorders because of heavy consumption of cheaper noniodized salt.²³ Another example is the House-for-Life program.²⁴ Launched in 2005, it is a program from Holcim Sri Lanka offering low-cost housing solutions.

Expands Disposable Income

An SBE expands disposable income by providing goods and services not previously available for the bottom of the pyramid. The development of no-frills high-tech products that address the digital divide provides a good example of expanding disposable income. Nicholas Negroponte's XO and Nova

netPC, the most popular efforts to provide the poor with personal computers, are examples.²⁵ Pharmaceutical companies such as GlaxoSmithKline and Novo Nordisk have begun to improve access to essential medicines to the bottom of the pyramid.²⁶

Increases Disposable Income

An SBE increases disposable income by growing the economic activity of the underserved society. Grameen Phone illustrates an SBE by this measure. The mobile phone industry in Bangladesh—largely driven by Grameen Phone—created a total value added of \$812 million in 2005 and contributed directly and indirectly to more than 250,000 income opportunities.²⁷ Another example is Hindustan Lever's Project Shakti, which employs thousands of underprivileged women as its sales force to bring its products to rural consumers and provides them with significant disposable income.²⁸ The women sell its products, which are in the form of small, affordable sachets suited to the local needs and income level. Hindustan Lever supports the entrepreneurs by providing on-the-job training and introducing them to selling skills.

To whatever level an SBE aspires, ensuring success involves a few guiding principles.

- **Market Education** SBEs must educate the underserved market continuously, not only on product benefits but also on how to increase their quality of life as related to the SBE's business. For example, an SBE selling affordable health supplements will also educate its customers about health and hygiene. Otherwise, the products will not be connected to the customers.
- **Linkage with Local Communities and the Informal Leaders** SBEs must also build linkages with local communities and the informal leaders such as doctors, teachers, heads of villages, and religious leaders. It is

very crucial in doing business with the low-income segment to eliminate the cultural barriers and resistances.

- **Partnership with the Government and NGOs** SBEs must partner with the government and NGOs. Linking the corporate objectives with the government's mission will help reduce the cost of market education and the overall campaign. Also, it will add credibility and facilitate acceptance of the SBE's effort.

MARKETING FOR POVERTY ALLEVIATION

To succeed, all marketing mix variables of an SBE may have to be redesigned. This redesign often creates superior and streamlined business models that challenge conventional ones.²⁹ Table 8.2 provides a summary of the marketing model that needs to be built for a social business enterprise.

Table 8.2 The Marketing Model of an SBE

No	Elements of Marketing	Social Business Enterprise Business Model
1	Segmentation	Bottom of the Pyramid
2	Targeting	High Volume Communities
3	Positioning	Social Business Enterprise
4	Differentiation	Social Entrepreneurship
5	Marketing Mix	
	• Product	Products not Currently Accessible for Low-Income Customers
	• Price	Affordable
	• Promotion	Word-of-Mouth
	• Place	Community Distribution
6	Selling	Sales Force of Social Entrepreneurs
7	Brand	Iconic
8	Service	No-Frills
9	Process	Low-Cost

Segmentation and Targeting

An SBE usually has a simple segmentation target, namely, people at the bottom of the pyramid. However, an SBE can view the market creatively by understanding the variance in attitudes of low-income consumers. Modifying the VALS system, low-income consumers can be classified into four segments³⁰:

1. **Believers** Believers are conservative consumers with strong beliefs in traditional moral values. They love their families and communities. Their consumption pattern is predictable because they always choose familiar brands. Their loyalty to certain brands is high.
2. **Strivers** This type of consumer is driven by social approval. They pursue achievement to impress their peers. They choose products that they can show off and mimic those of the rich. Although achievement-driven, lack of resources inhibits them from moving forward.
3. **Makers** Makers like to express themselves through concrete activities. They build houses and farms with their practical skills. They prefer practical and functional products and are not impressed with emotional value.
4. **Survivors** Because their material resources are the lowest of the four segments, survivors focus on meeting basic needs rather than fulfilling desires. They are cautious consumers who will always look for bargains.

Because an SBE targets a segment that does not have a high value in terms of individual transactions, the aim is high-volume communities. Community is an important part of a strategy to serve lower income customers. First, it helps in spreading the word, which is important for market education and commercial communication. Second, it is easier to control the community groups. In several cases where collection of payment for the services is an issue, having a community

approach is beneficial for an SBE. The community will try to safeguard its integrity and try to help its members in fulfilling their payment obligations. This is true in most microloan contexts.

Positioning-Differentiation-Brand

Poor consumers are not necessarily attracted to whatever is low cost; they value trusted brands. Therefore, the brand should be an icon of the society. According to Douglas Holt, icons represent a particular kind of story that consumers use to address their anxieties and desires.³¹ In this case the anxieties and desires of the poor are the opportunity to improve their way of life.

The positioning in the target segment can be crafted in numerous ways. The company can be positioned as "a hero for the poor" or as a company that "teaches people how to fish instead of giving them free fish." The main message is the same: A social business enterprise helps people to improve their lives by providing affordable products and income-generating opportunities.

If it is a multinational company, the positioning should be localized to the community level. Philips in India, for example, positions itself as a "health care services provider for rural communities."³² Philips India introduced DISHA (Distance Healthcare Advancement Project) in 2005 with the goal of enhancing the quality and affordability of health-care services for poor people. Philips provided mobile clinics in which poor communities can get diagnostic testing and consultation with doctors on topics such as mother-child care and trauma treatments.

To strengthen the positioning, an SBE should try to create social entrepreneurship as a differentiator. A typical differentiation for a real SBE as opposed to other socially responsible companies and NGOs is that an SBE provides a long-term solution by providing entrepreneurship at the bottom of the pyramid.

For example, the Co-operative Group in the U.K. has a set of differentiators deeply rooted in social business entrepreneurship.³³ It establishes its strong position as a leader for fair trade. Compared to other retailers, it sells more fair trade products in more stores. It has private labels of coffee dedicated to fair trade. Furthermore, with its Community Dividend scheme, customers can instantly donate their money to community causes.

Marketing Mix and Selling

A company's differentiation should be reflected in its marketing mix. Its products should be ones not currently available for low-income customers. The price should be affordable. Remember that the most important thing for low-income customers is affordability, not simply cheaper prices. D'Andrea and Herrero argued that in the context of poverty, price is associated with the Total Purchasing Cost, not just price alone.³⁴ Some poor customers, especially those in rural areas, often buy products in urban areas; Total Purchasing Cost can include transportation costs and other costs such as commuting time.

Companies should be creative in packaging. The strategy is the unbundling of product. When disposable incomes limit the amount consumers can buy at any one time, it becomes extremely important to deliver products and services in affordable packages. For example, companies can sell sachets as single packages for one-time use only. Companies can also create a smaller sized product package that is more affordable to lower income customers. These are called economical packages. The actual per-item price for these smaller packages is higher, but they are affordable.

Promotion will use the power of word of mouth within a community. The best way is to approach the informal leaders in the community. An informal leader can be a teacher or a religious leader. Women can also be great product ambassadors. Muhammad Yunus of Grameen Bank extends

microloans virtually only to women because they are influential and they are the majority of the underserved poor. They talk to each other and create conversation in the community.

Distribution is also most effectively done on a peer-to-peer basis within a community. Traditional delivery is too costly to reach distant locations with relatively small markets. Therefore, community distribution that uses consumers as licensed sales agents in low-income areas is often the best possible solution. People trade with their own community, which creates a win-win relationship within the community itself. The buyers can consume an affordable product while the sales agents can create income for themselves.

Production and distribution costs made it unprofitable to sell physical top-up cards for mobile phones in the Philippines that are worth less than 300 pesos. Globe Telecom responded by establishing over-the-air reloading; customers pay a licensed individual distributor to top up electronically. This example also shows how the selling effort can leverage the power of community networks. Our sales force should be from our own target market. People who are in the community are best able to understand the purchase and usage behavior of their peers.

Service and Process

Because the profit margin in terms of percentage for the business at the bottom of the pyramid is relatively small, the business models should be no frills and low cost. To achieve such low cost, community-based service and process are required. Informal leaders such as school principals, teachers, and religious leaders are in the best position to serve the local communities of consumers.³⁵ They are the community service agents that have the information and ability to monitor the service level. Manila Water utilizes collective billing to enforce timely payment. Cemex's Patrimonio Hoy promotes its low-cost building program through teachers and church leaders to gain more buy-in from the community.

**SUMMARY: ALLEVIATING POVERTY BY ENCOURAGING
ENTREPRENEURSHIP**

Poverty remains one of the most urgent problems facing mankind. In too many societies, the distribution of income is in the shape of a pyramid rather than a diamond, with too many poor at the base of the pyramid. But as Prahalad and others have pointed out, there is a fortune at the bottom of the pyramid. China and India, in particular, are making strong moves to turn their pyramids into diamonds. One answer is microlending to the poor, typically women, who use the money in a productive way and show very high rates of repayment. A broader answer is to encourage the formation of social business enterprises among entrepreneurs, companies, and the poor. An SBE is wedded to a social purpose but also hopes to make money in the process. SBEs offer the promise of rescuing poor people by giving them opportunities and also by using a modified marketing mix that makes their product and service offerings more affordable and accessible to the poor.

NOTES

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