



Creating products for those at the bottom of the pyramid

A growing number of global companies are being drawn to the seductive idea that money can be made by developing and marketing products for those at the bottom of the pyramid, some four billion people around the world who eke out a living on about two US dollars a day. Not only are companies attracted by the prospect of discovering markets with untapped growth potential, but they're also aiming to have an impact, in a global society characterized by deep divisions between the haves and the have-nots. But those developing new products for those living in poverty are finding that cost alone isn't the most important factor.

Last month, the Executive Sustainability Roundtable, in conjunction with the INSEAD Social Innovation Centre, highlighted the role that businesses can play in addressing the needs of the poor, as well as the potential that lower income markets hold for firms.

Executing a bottom of the pyramid strategy with a new product isn't easy. Even if you can come up with a product which would help improve the lives of the world's poor, distribution can be difficult due to access barriers in highly segmented lower income markets.

'It's not just about making products cheaper'

When creating innovative, new products for markets at the base of the pyramid, Peter White, Director of Global Sustainability at Procter & Gamble, notes that cost alone is not the issue. "It's not just about making consumer products cheaper," he says. "You've got to come up with products that actually meet the specific needs at the bottom of the pyramid. How do you design products that people need? You have to actually go and find out, and so we send researchers

to find out how people live – how they do their washing, their cleaning (and) what are their problems."

He outlined the case of a water purification system called PUR, which P&G developed in collaboration with the US Centre for Disease Control for commercial markets, targeting low income consumers. The product had clear social benefits, providing clean drinking water for households in places where the health risks of untreated drinking water are high, especially for children. After three years of market tests though, PUR was looking like a commercial failure. Many other firms would have closed down the project, but P&G instead moved PUR to its corporate sustainability department, easing the pressure on turning a profit. Since 2003, P&G has sold the product at cost and worked in partnership with non-profit organisations, who distribute the product through their development and humanitarian relief networks. As White explains, "our products have huge reach and so the opportunity to improve lives and to make sure we reduce our overall environmental impact is primarily through our products."

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A second case was put forward by Christine Heuraux, Director Energy Access Programme at Electricité de France (EDF). She explained how EDF, through Rural Electricity and Services Companies, has helped bring electricity to rural areas of Mali, Morocco and South Africa, which would have been otherwise 'off the grid.' "We have brought electricity to 800,000 people (and) our goal by 2010 is one million."

"This is a drop in the ocean," Heuraux acknowledges, "but if you consider the difference that we've made in the lives of just one country such as Mali, where we provide 8 to 10 per cent of electricity, this is quite important."

Access is important

A third case was presented by INSEAD Advanced Management Programme alumnus, Jayanth Bhuvaraghan of Essilor India and Claude Darnault, Director of Corporate Sustainability, with Essilor International France.

Essilor International, which manufactures and distributes optical lenses, found that in places such as rural India, the absence of adequate eye care facilities has resulted in an almost negligible use of spectacles. Uncorrected refractive error is one of the major causes of blindness, which if detected and corrected, would give a fresh lease of life to individuals. Seeing an opportunity to address this underserved market, Essilor India established a rural marketing division in 2004 to increase the company's reach.

Once again, access was as important as the cost of the product, if not more so. "We did a barrier study, to find out why those living in rural markets weren't buying spectacles, when clearly there was a need," says Jayanth Bhuvaraghan. "And we were surprised that the answer was not just about money."

Partnerships are also key

At the forum, participants also highlighted the importance of finding good partners as a key component of bottom of the pyramid strategies.

These partners may be from the public or private sector, as in the case of EDF. "We are never working alone," Heuraux says. "We are always working with partners, such as Total, Nuon, RWE, Hydro Quebec and ESKOM."

As for Procter & Gamble, it has been working with NGOs which have been trying to raise awareness of the need to treat drinking water. "For PUR, we let our NGO partners use their distribution channels; NGOs such as Population Services International [which] have expertise in health issues" White says.

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"For commercial products designed for Bottom of the Pyramid markets, like Downy One-Rinse, we use our own distribution channels."

Distribution channels that work

Access to markets is also crucial. As Jayanth Bhuvaraghan of Essilor India relates, "we learned that in some cases, the service has to be brought to their door steps."

The company has developed a mobile refraction van which facilitates eye examination and diagnosis, as well as the manufacture and delivery of spectacles, with its technicians collaborating with non-profit partners such as Sankara Netralaya and the Aravind Eye hospital.

"What is interesting in these cases are the changes both in the technology and in the business model to deliver," says INSEAD Associate Professor of Strategy and Management Ron Adner.

Building sustainable models

Heuraux says that when it comes to rural electrification, EDF finds it much more impactful to assist in setting up local energy businesses, using solar panels or fuel powered generators, as opposed to donating them. "You can go the humanitarian route or the market route. In 1994, we started with a humanitarian model, donating generators. It didn't work. No one could repair the generators, and [the project] was very small – just a village, a school, a hospital. If we want to help a few million [people], we have to make it a business, and make it locally sustainable."

This view is echoed by INSEAD Adjunct Professor Margaret Hanson. "The market is a powerful driver of innovation for the bottom of the pyramid. It is also an important source of sustainability."

Business plays a couple of important roles in terms of sustainable solutions, she says. "From the demand side, socially responsible business can help to inform consumption patterns. From the supply side, product innovation goes to the heart of social and environmental sustainability."

The INSEAD alumni-directed 17th Executive Sustainability Roundtable, staged in collaboration with the INSEAD Social Innovation Centre, was held on the Europe campus at Fontainebleau on November 23.

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