



Success in bottom of the pyramid innovation

For those at the ‘bottom of the pyramid’ (BoP), the four billion people or so living on less than two dollars a day, life is hard. Although collectively they have considerable combined purchasing power, they have up to now been traditionally overlooked by businesses. However, major multinational corporations (MNCs) are now seeing opportunities in developing products for the BoP markets, while making a difference to the lives of the poor people.



“For this concept to work, there needs to be strong collaboration between firms, governments, NGOs (non-governmental organisations) and social entrepreneurs,” **Francois Perrot**, BoP project manager of the Lafarge group, told INSEAD Knowledge on the sidelines of a Net Impact conference held recently in Geneva.

Perrot had been moderating a panel discussion on innovation at the bottom of the pyramid at the conference, which examined the opportunities and challenges faced by MNCs in launching and developing pilot projects, as well as their impact on poverty alleviation.

The disconnect between multinationals and those at the bottom of the pyramid

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The operations of firms – especially the MNCs – have become rather disconnected or disembedded from local economies, panellists agreed. Their experience is that NGOs tend to know more about the characteristics of local poverty and what is best for the poor people in a specific area, whereas large companies generally have a limited understanding of the situation on the ground.

“Without insights from NGOs and governments, the products that the MNCs develop or the programmes they launch, would be less than efficient or effective,” says Perrot, whose work within the Lafarge Group Strategy Department consists of identifying business models and executing them with the aim of enabling poor people to have easy access to cement and low-cost houses.

If BoP products – that is, products specifically developed to address the needs of the low-income segments – do not take into account the local specificities of poverty, they may be useless for the people in a certain district or the project may even have a negative impact on their lives, he explains.

Perrot gives as an example of good practice: how EDF, the French electricity supplier, implements

rural power projects in remote areas of Mali. Electricité de France first seeks to understand the consumption habits of these people, in terms of what they do with energy and how they can use it, to ensure that the project they implement is the best technical solution for them - whether it is diesel, solar or energy mix. "It would be a terrible thing to implement a technical solution that would cost more to the poor people, or that would not be appropriate for their use, and in the end, not contribute anything towards helping them achieve a better living."

Challenges multinationals face in BoP projects

Mainstreaming low-income projects and bringing them to a larger scale is one of the main challenges facing companies today.



Panellists at the Net Impact conference considered Unilever's 'shakti' project as the leading example on BoP. Unilever, through its Indian subsidiary HLL, developed a range of products for low-income households in remote areas of India. It then packaged common household products like shampoo and soap in sachets and sold them door-to-door, helped by so-called 'shakti ladies' who make a living from this activity. The 'shakti' range now constitutes a significant part of HLL's revenues – reportedly nearly 15 per cent.

Bringing such projects to scale is a challenge for several reasons. First, firms lack the internal capabilities to develop these projects as they require both strong entrepreneurial skills, as well as the ability to understand and address social issues such as access to water, energy, and housing.

Often the firm's expectations for immediate profit goes against the development of successful BoP projects, the core of which aim to create mutual value for both the firm and the poor. It requires a substantial amount of effort to transform a small pilot project into a large, mainstream activity. Among their portfolio of business development projects, companies may then opt for more profitable projects that can deliver in the short term.

As BoP projects have strong local links, firms may face difficulties in trying to replicate a successful business model in another geographical area of the same country or to export it to a different country. "These projects should be local answers to local

problems," argues Perrot. But a company's profitability, especially that of a multinational, relies on economies of scale that BoP projects may fail to deliver.

The other main challenge is for low-income projects to demonstrate the ability to have a significant impact on the lives of the poor. Does it really improve their living conditions? Are the poor getting a fair deal, while their bargaining power in their dealings with firms is rather limited? These are some of the questions that still need to be addressed by companies in the development of BoP projects, Perrot says.

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