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TITLE Foreword

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AVAILABLE IN *Sustainability Challenges and Solutions at the Base of the Pyramid: Business, Technology and the Poor* (ed. Kandachar and Halme)

FORMAT Hardback

DATE September 2008

ISBN 978-1-906093-11-2

PAGES ix-xi

MORE DETAILS <http://www.greenleaf-publishing.com/bop>

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Foreword

Stuart L. Hart

We have come a long way since 1998 when C.K. Prahalad and I first introduced the concept of companies focusing attention on serving the needs of the 4 billion poor at the bottom (base) of the pyramid (BoP).¹ Since then, significant momentum has been established around this agenda, with literally scores of companies, multilateral institutions and colleagues around the world working actively in this arena. And with ten years of experience on which to reflect, this book represents a very important step in the evolution of BoP theory and practice.

Indeed, over the past decade, it has become apparent that the BoP offers both enormous opportunities and challenges for companies accustomed to serving the wealthy at the top of the economic pyramid. One of the most important early misconceptions that needed to be overcome was the notion that there are BoP ‘countries’ out there with vast new markets to penetrate. Unfortunately, the BoP represents neither a country nor a market: it is instead a demographic category. Indeed, *every* country has a BoP—including the United States, Western Europe and Japan.

And seldom do BoP communities (i.e. rural villages, urban slums, shanty towns) represent pre-formed ‘markets’ ready to penetrate. More typically, given the absence of top-of-the-pyramid infrastructures and institutions, markets in the BoP have to be developed or even created from scratch. However, the tremendous entrepreneurial energy in the ‘informal economy’ (i.e. extralegal sector) combined with the existence of a substantial ‘poverty penalty’ (i.e. the poor are typically preyed upon by vendors of high-priced, poor-quality products and services) make the BoP a potentially attractive business opportunity.

Once companies recognised the unique characteristics associated with BoP communities, many set their sights on achieving the price points needed to ‘penetrate’ them with stripped-down versions of their existing products. To achieve this, wholesale changes

¹ A working paper by the two of us entitled ‘Raising the Bottom of the Pyramid’ was first circulated in 1998. It took four years for it to be published as C.K. Prahalad and Stuart Hart, ‘The Fortune at the Bottom of the Pyramid’, *Strategy+Business* 26 (2002): 1-15.

in business models were required: local sourcing and production, extended distribution, single-serve ‘sachet’ packaging, micro-finance, NGO partnerships, and a variety of other innovations. With early success stories like Hindustan Lever and Grameenphone paving the way, hundreds of companies launched new BoP business initiatives aimed at serving some portion of the 4 billion poor at the BoP.

This is indeed an exciting and positive trend. However, as with any emergent phenomenon, new interventions solve problems, but they also create new ones. As commercial momentum in the BoP has grown, three new problems have now become apparent. Without immediate and urgent attention these new problems have the potential to derail the entire BoP agenda.

First, most ‘BoP business initiatives’ do not really serve the true ‘base of the pyramid’. Instead, most represent ‘down-market’ moves into incrementally lower income classes with existing products at lower price points. While this is not necessarily a bad thing, especially if these products and services are superior to what is currently available, we should not delude ourselves into believing that this strategy alone will solve the global poverty problem! Indeed, effectively reaching those at the bottom of the income pyramid probably requires a completely new approach.

Second, to generate rapid sales and profits, many companies have chosen to simply adapt environmentally unsustainable products and services to sell in the BoP ‘mass market’. Left unchecked, this path clearly leads to environmental oblivion. Indeed, sustainably serving the BoP requires radical innovation—the incubation of the clean and sustainable technologies of tomorrow. New technologies, including biomaterials, wireless information technology, sustainable agriculture, nanotechnology, point-of-use water purification, renewable energy and distributed generation hold the keys to solving many of the world’s environmental challenges. Learning to close the environmental loop at the base of the income pyramid is thus one of the key strategic challenges—and opportunities—facing companies in the coming decade.

Because clean technologies are almost always ‘disruptive’ in character (i.e. they threaten incumbents in current served markets), the BoP is often the best place to focus initial commercialisation attention. Unlike the traditional model of rapid industrialisation, which relies heavily on conventional (unsustainable) technology, this new approach to development seeks instead to fuel growth through the incubation and rapid commercialisation of the green (sustainable) technologies of tomorrow. Indeed, through such a strategy, the developing economies of the world could become the breeding ground for a ‘Green Leap’ Revolution.

Third, increasing corporate activity in the BoP has raised concern that such strategies are nothing more than the latest form of corporate imperialism. A growing chorus of voices now raises the fear that commercial BoP strategies represent nothing more than veiled attempts to ‘sell to the poor’, as though simply turning the poor into ‘consumers’ will address the fundamental problems of poverty and sustainable development. Aneel Karnani has perhaps captured this growing concern most provocatively in his article, ‘Misfortune at the Bottom of the Pyramid’.² Rather than focus on the poor as consumers, he cautions, we need to view the poor as producers because the only way to alleviate poverty is to raise the real income of the poor.

2 Aneel Karnani, ‘Misfortune at the Bottom of the Pyramid’, *Greener Management International* 51 (2007): 3-17.

I could not agree more! However, I would take this even a step further: We need to get beyond the idea of thinking of the poor as either ‘consumers’ or ‘producers’. Such a framing continues to fuel the misconception that poverty alleviation is simply a matter of raising income so that the poor can increase ‘consumption’. Instead, as business-people, we should begin to think of the poor as ‘colleagues’ and ‘partners’ engaged in the co-creation of entirely new businesses that generate mutual value. To do this, companies must combine their advanced technology and global reach with deep local understanding. Companies must put the corporate ‘hammer’ down and live alongside those in BoP communities in a spirit of humility and mutual learning. Such a mind-set shift requires the development of new skills that I have called ‘native capability’.³

Unfortunately, most initial corporate forays into the BoP have been ‘alien’ in nature. While commendable as a first step, such ‘first-generation’ BoP strategies represent arm’s-length attempts to quickly tap into a new market without understanding the real needs or aspirations of those living there. Tragically, such ‘BoP 1.0’ strategies, as I have called them, have spawned a growing backlash, not only among academics, but also among civil-society partners and, most ominously, among the poor themselves. If the enterprise-based approach to development is to flourish in the future, it is imperative that we move rapidly to a ‘second generation’ of BoP strategy based on native capability. Such a ‘BoP 2.0’ approach requires more than deep listening: it calls for *deep dialogue* by building personal relationships of trust, understanding and respect through which new possibilities for locally embedded businesses can emerge.

For the past six years, I have been engaged, with a group of colleagues, in the development and testing of such a new business process—the BoP Protocol.⁴ The BoP Protocol is a co-venturing process that integrates within a corporate entrepreneurship framework leading-edge thinking across a range of fields, including economic anthropology, international development, empathy-based design and environmental management. Key principles, techniques and methods have also been adapted from the fields of participatory rural appraisal (PRA) and asset-based community development (ABCD). By creatively marrying companies’ and communities’ resources, capabilities and energies, the BoP Protocol process brings to life new business ideas and models that exceed what either partner could imagine or create on their own.

In summary, it appears that building BoP businesses that create enduring and sustainable community value requires an entirely new strategic process and corporate capability. This wonderful collection of essays assembled by Prabhu Kandachar and Minna Halme addresses virtually all of the challenges to realising this opportunity—and more. In the pages that follow, you will find a rich set of contributions by a diverse set of highly qualified authors. Indeed, between these covers lie many answers, but also a host of new and important questions regarding the promising new approach to sustainable development called the Base of the Pyramid.

Stuart L. Hart, August 2008

3 Stuart L. Hart, *Capitalism at the Crossroads: The Unlimited Business Opportunities in Solving the World’s Most Difficult Problems* (Upper Saddle River, NJ: Wharton School Publishing, 2005).

4 For the latest articulation of this approach, see Erik Simanis, Stuart Hart and colleagues, *The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy* (Ithaca, NY: Cornell Center for Sustainable Global Enterprise, 2008).