Next Generation Business Strategies for the Base of the Pyramid

New Approaches for Building Mutual Value

Ted London
Stuart L. Hart
Contents

Acknowledgments .............................................. xvi
About the Authors ........................................... xvii
Dedication to C.K. Prahalad ................................. xxiii
The Big Picture by C.K. Prahalad ......................... xxvi
Foreword by Y.C. Deveshwar ............................... xxxiii

Introduction  Creating a Fortune with the
Base of the Pyramid .......................... 1

Ted London, William Davidson Institute & Ross
School of Business, University of Michigan;
and Stuart Hart, Johnson School of Management,
Cornell University

The introduction, by co-editors Ted London and Stuart
Hart, conveys the core message of the book: that the next
generation of BoP business strategies won’t be about
“finding a fortune at the base of the pyramid,” but rather,
about “creating a fortune with the base of the pyramid.”
The shift from “fortune-finding” to “fortune-creating” has
implications for how BoP ventures are organized, and
how their strategies are conceived and implemented.
Co-editors London and Hart introduce the three core
sections of the book—Roadmaps for Success, Strategic
Opportunities, and Effective Implementation—and
explain how the contents of each can help venture leaders
approach the challenges and opportunities of BoP
markets.
Part One: Roadmaps for Success

Chapter 1 Building Better Ventures with the Base of the Pyramid: A Roadmap 19
Ted London, William Davidson Institute & Ross School of Business, University of Michigan

Ted London’s chapter addresses how venture leaders can maximize the chances that their business development efforts in BoP markets will succeed. Which business practices should guide your efforts—and which ones should you be sure to avoid—as your venture moves through the stages of designing, piloting, and scaling? How do you craft initial business models, effectively test these approaches, and create sustainable competitive advantage? Using the perspective of “creating a fortune with the base of the pyramid,” London provides a set of guiding principles (a “roadmap”) that answer these and other critical questions relevant to both existing and start-up BoP ventures.

Chapter 2 Innovation for the BoP: The Patient Capital Approach 45
Robert Kennedy, William Davidson Institute & Ross School of Business, University of Michigan; and Jacqueline Novogratz, Founder and CEO, Acumen Fund

Co-authors Robert Kennedy and Jacqueline Novogratz explain how social entrepreneurs and “philanthrocapitalists” are changing the BoP landscape by connecting innovative business approaches to “patient capital”—money that is expected to generate returns over a longer period than is typical of (say) venture capital. They identify four types of innovation that are proving critically important to success in operating in BoP markets, and show how a range of enterprises are applying these approaches in the field.
Part Two: Strategic Opportunities

Chapter 3  Taking the Green Leap to the Base of the Pyramid  
Stuart Hart, Johnson School of Management, Cornell University

Can the BoP teach the “ToP” (the “top of the pyramid”) anything? Author Stuart Hart says “yes.” In the old BoP model, Western entrepreneurs sought to sell goods and services to the BoP with little regard to environmental consequences. Today, Hart argues, the next generation of entrepreneurs are trying to develop distributed, small-scale, “small-footprint” products and services that are more appropriate to the BoP context—and may well point the way toward better models for the ToP, as well.

Chapter 4  Needs, Needs, Everywhere, But Not a BoP Market to Tap  
Erik Simanis, Center for Sustainable Global Enterprise, Johnson School of Management, Cornell University

Market creation, argues author Erik Simanis, is fundamentally different from market entry. And although the BoP is a “basket of compelling needs,” it is not yet a “market” in the traditional sense of that term. As a result, entrepreneurs in the BoP context have to think in terms of market creation—and understand how to achieve that end in a uniquely challenging context. The wise venturer in the BoP space, Simanis writes, learns how to frame the value proposition and manage the innovation process (through seeding, base-building, and growth and consolidation) in ways that align business strategy with BoP opportunity. Through a sustained case study involving a soy-protein product, Simanis illustrates how to stay on track while building markets with the BoP.
Part Three: Effective Implementation

Chapter 5  
A Micro-Level Approach to Understanding BoP Markets .......................... 129

Madhu Viswanathan, University of Illinois, Urbana-Champaign

"The devil is in the details," as the old saying goes. In this chapter, Madhu Viswanathan makes the case that BoP markets have to be understood at the ground level—from the bottom up—if a venture is to succeed in those marketplaces. What are the marketplace-relevant characteristics of poverty? In the one-to-one interactional marketplaces of the BoP, the boundaries between "human" and "economic" issues tend to get blurred, long-term relationships tend to trump short-term ones, "rich networks" make up for resource constraints, and consumption and entrepreneurship can be two sides of the same coin. BoP entrepreneurs, therefore, have to concretize, localize, and "socialize" their products and services.

Chapter 6  
Reframing Design for the Base of the Pyramid .............................................. 165

Patrick Whitney, Institute of Design, Illinois Institute of Technology

By enabling breakthrough products, issues of design have come to the fore in the industrialized world, which is leaving behind economies of scale for economies of choice. Contrasting the Apple iPhone with the Chotukool refrigerator, author Patrick Whitney explores the provocative question of whether strategic design techniques that have proven themselves at the top of the economic pyramid might also prove useful—in identical or modified forms—when applied to base of the pyramid markets. His answer is "yes"—albeit with some important caveats.
Chapter 7  BoP Venture Formation for Scale  ....... 193

Allen Hammond, Ashoka

Social enterprises do good works. But unless they achieve a significant scale, they aren’t in a position to serve millions of BoP customers, or to help reshape economies. Author Allen Hammond argues for a combination of both bottom-up and top-down enterprise formation to better reach and serve BoP markets, and explains how that productive mix can be accomplished. Additionally, he suggests, BoP entrepreneurs can build business ecosystems (rather than stand-alone ventures) to support scale. Hammond explains how “hybrid” organizations can serve that purpose—and provides insights from a real-world example.

Conclusion  A Continuing Journey  .................. 217

Ted London, William Davidson Institute & Ross School of Business, University of Michigan; and Stuart Hart, Johnson School of Management, Cornell University

Co-editors Ted London and Stuart Hart look at “the journey ahead”—both in terms of the future of BoP-oriented ventures, and in terms of the research that needs to be done to help advance our understanding of the field, which ultimately will help those BoP-oriented ventures succeed. They present—and begin the debate about—five core assumptions that underpin the BoP domain, which collectively help set the BoP agenda of tomorrow.

Appendix  Attendees from 2009 Conference: Creating a Shared Roadmap  ............ 233

Index  ............................. 239