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Serving the Poor: Identifying and Managing the Win-Win Opportunities

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Nearly half of the world's population still lives on less than US$ 1500 per year. But even the poor are consumers. Their needs, in some cases, were hitherto taken care of by local entrepreneurs; and in others remained unfulfilled. But as global companies look to grow beyond their fast maturing markets in the developed world, the poor in the developing world are emerging as "new" opportunities. The bottom of the pyramid is beginning to get more visible.[1] This is the simplest of the win-win opportunities. Global firms can find new markets for their goods and services, and the poor can get in exchange better prices, better quality and/or richer diversity of supply. Moreover, there are major demographic shifts that the global firm cannot ignore.[2] For example, Morocco could be a more interesting market in 2025 than Spain. In 2002, the top 20 consumer goods companies spent $10 billion to expand their market shares in third world markets, and total foreign direct investment (FDI) amounted to $162 billion in 2002, up from a mere $15 billion in 1985.[3] Serving these markets in the developing world calls for innovation that focuses more on improving affordability rather than value.

There is another kind of win-win opportunity. Why should our concern for the poor stop at their mere subsistence? We need to respect them as fellow humans, who have a basic right to clean water, basic health care and hygiene, and access to common amenities like electricity, communication and energy. There are countless avoidable deaths each day in the third world due to lack of access to clean water and energy, and basic sanitation and health care. Lack of electricity and communication traps the poor in a cycle of ignorance. Depending on third world governments to uphold human dignity has been a disappointing experience. The corporate sector has begun to step in. A workable model that is emerging is to start offering these services with initial subsidies from NGOs, but progressively retiring these subsidies and making the poor pay for the services that they receive. In order to capture these win-win opportunities, firms not only have to be innovative, but they also have to look beyond their traditional boundaries. These opportunities can only be pursued through cooperative arrangements with host governments and NGOs.

Finally, there is also a growing realization that business and economic development is the most effective weapon in fighting world poverty. Transferring the business DNA to host communities is an important aspect of economic development. This is a policy initiative that global firms must get more involved with.[4] As a recent Shell report asserts the small and medium sized enterprises (SME) sector in particular must grow on a massive scale if the Millennium Development Goals of halving the proportion of people living in extreme poverty by 2015 are to be achieved.[5] Economic development creates jobs, provides skill training, and in turn creates new sources of supply. Getting people out of poverty will also create new consumers. This is the ultimate win-win.

We will examine these win-win opportunities and discuss the leadership challenges in managing each. Figure 1 sketches our view of the expanding opportunity set. For realizing these opportunities, the global firm will have to show a growing social commitment. This does not mean sacrificing profits or hurting the cause of the shareholders, but it does mean accepting lower levels of profitability (and not profits) in exchange for greater levels of growth.

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The Expanding Opportunity Set

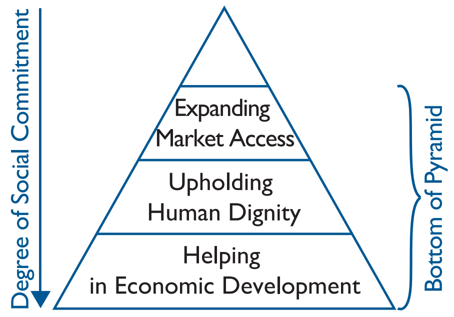

Figure 1

Beyond Value Innovation, Expanding Market Access

Global firms are getting used to the apparently contradictory pursuit of both differentiation and cost leadership. In order to stay competitive, they have learned how to differentiate themselves from their rivals on product and service features that matter to the customer, but at the same time have also kept their costs under control. This is possible if the firm is adept at value innovation,[6] a process in which the firm is able to discern the select features that truly matter to a customer. It tries to excel on these features, even while trimming others that are of little importance to the customer in order to save on costs. Value innovation is necessary when serving the poor, but not sufficient. Paradoxically, the poor are not always looking for the best value for their money. Rather they are looking to satisfy a need with the money that they have. For example, the poor may buy a soap or detergent in small packs that cost a lot more per liter or kilogram than the traditional family pack, but they do not have the cash that allows for the purchase of a bigger ticket item. Or they may not have a large enough storage space to take home a larger pack. Traditional notions around improving the performance to price ratio of a product need to be expanded to include a more complex metric of economic value, affordability and convenience. A global firm entering developing markets must rethink its traditional business model that has been fine-tuned over the years to serve more wealthy western consumers. It will have to reexamine every element of is value chain in order to expand market access for the poor.

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In the past few years, global firms have begun to innovate products that are tailored specifically to the needs of the poor. For example, Advanced Micro Devices Inc. (AMD) an American semiconductor company sees big opportunities in providing Internet access to the poor. AMD has a goal called 50 by 15, aimed at providing Internet access to 50 percent of the world's population by 2015. The company has invented the Personal Internet Communicator (PIC), a device that sells for under $200. But even at that price, it can be a big-ticket item for many in the developing world. Therefore, AMD also had to create innovative financing options in support of its products.[7]

Challenging as these new product launches are, the underlying principles are not new: understanding customers, recognizing the product and service features that they need, offering a package that is affordable, through a channel that is convenient, and addressing customer needs throughout the value chain and not just in the product's features. The real difficulty is in mobilizing people within the organization to accurately gauge the needs of these poor customers. The global firm may have to rely increasingly on its foreign outposts for generating product and service ideas that appeal locally and yet can be executed competitively using the global muscle of the firm, a process described as "Thinking local, but acting global."[8] Serving the poor will require the global firm to become truly customer centric. Migrating decision making authority and power from the corporate center to the field will be its real challenge.

Upholding Human Dignity, at a Profit

This is admittedly a daunting task. However, there are several hopeful examples. P&G has developed at a cost of $10 billion a home water purification product (powder) called PUR that is tailored to the water systems in developing countries. P&G is working with NGOs (UNICEF, CARE, International Rescue Committee etc) to provide the product to areas that need access to clean drinking water due to natural disasters or conflict situations. The company is committed to selling the product at breakeven (around 3 US cents). The hope is that this thin market, subsidized by the

NGOs and P&G will lead to the wider use of the product in other parts of the developing world; and eventually its features will appeal sufficiently to the poor as a product worth purchasing for safeguarding the well being of their families even when there are no natural disasters.[9]

Partnerships with NGOs will not only lessen mutual mistrust, but can also introduce the firm to complementary competencies that these NGOs possess.[10] Cooperating on R&D projects with government sponsors and NGOs is not new to firms. The message here is to consider using a cooperative strategy not just to research and manufacture a product but also to market it. The purpose of the proposed cooperative strategy is to create at first a "thin market" to provide the product with a market toehold. Subsequent developments will not only lead to cost savings (and lower prices), but also to greater willingness on the part of the consumer to pay for the product based on the first hand positive experience with its benefits.

The Shell Foundation is betting on this approach. It has enjoyed a few recent successes in projects that are as wide ranging from the supply of solar home systems to the under-served rural and peri-urban population in south India to an ambitious project called Breathing Space that is aimed at tackling Indoor Air Pollution (IAP) in the third world caused by smoke emitted from indoor cooking with biomass. By providing market-based incentives for the use of more efficient and safer stoves and the availability of cleaner fuels, Shell hopes to get killer smoke out of very large numbers of very poor people's kitchens. This is expected to reduce drastically the 1.6 million associated deaths each year. Apart from the important social contribution that this project can make, it potentially can open new markets for the company's fuels.

There are two key leadership challenges in pursuing this second type of opportunity. The first is the reliance on others to pursue the firm's growth strategy. NGOs and governmental stakeholders often have multiple agendas. Aligning these with the firm's interest is hard work. Making the task doubly difficult is the low level of mutual trust that currently obtains between these players. The second challenge for the global firm is that it may not always be the beneficiary of the new markets that it helps open. Other competing firms can rush in to feed off the new opportunity. However, these are not insurmountable. Global firms have begun training their leaders for more effective stakeholder management. Also, feeding off the new market opportunity does require distinctive competencies. If the lead firm can invest in these before the opportunity is well established, it can enjoy at least a few years of unchallenged success. Venturing into developing markets before others do can create a first mover advantage. The company's brand can be established at a lower cost.

Economic Development, to help expand Consumption

This is the most diffuse of win-win opportunities. Over the past five decades nearly a trillion US dollars have been spent on international aid projects. Despite some obvious gains, critics have argued that much aid has been ineffectively and inefficiently used. There have been very few examples of sustained development and growth as a consequence of this aid. The emerging mantra is to engage the corporate sector directly, like in the projects noted above, and indirectly as a "source of insight, advice and skills transfer."[11] The Shell Foundation provides two compelling reasons for global companies to take the lead in development work:

1. They have a vast repository of the generalized business DNA, encapsulated in their people, knowledge and techniques.
2. They have convening power. A global company's track record, reputation, financial and political reach makes other stakeholders to take notice and act when such a firm takes the lead.

"Venturing into developing markets before others do can create a first mover advantage."

Holcim, a Swiss based multinational, has tried to pursue a win-win strategy of benefiting its shareholders while also helping to develop its host communities. The company's product, cement, is in great demand in developing countries. It is the favored building material for constructing homes and commercial buildings. But the poor cannot afford contractors. They build their own

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homes. However, they have limited knowledge of construction. Also, building materials are usually available only in bulk from central warehouses. In Mexico, for example, Holcim’s subsidiary has set up 120 building material depots called Mi Casa. The goal is not only to supply amateur builders with affordable building materials, but also to help them build houses to acceptable standards. Holcim Apasco has brought together trades people, local authorities, housing law experts and credit institutions to offer housing alternatives to the poor. The company has helped train 500 civil engineers and architects, in close cooperation with local professional associations, and then put them to work in its Mi Casa stores. They help customers with practical advice and the internship that Holcim provides is also good for the future careers of these engineers and architects. Win-win is possible, but as in the Holcim example it requires the firm to be the nodal player in a rich network of government actors, NGOs and professional associations.[12]

What is the win in this for the global firm? More immediately, having a skilled pool of locals will allow the firm to trim its expatriation costs. As the skill base migrates outside the firm, it can create potential opportunities for outsourcing. A richer host community is also a more desirable customer. Early entry is also likely to improve reputation and employee identification in home markets. The advantages can be many, provided there is the willingness to venture.

The primary leadership challenge in pursuing this opportunity is to have a grander purpose that transcends profits. Helping the poor to improve their lot does not create new competitors. This should not be seen as a zero sum game. While it is possible one day for the eager student to know as much as the teacher, it is true only if the latter stops learning. China and India will become threats to the US, Europe and Japan only under such a scenario. The global firm must continue to accumulate new knowledge and competencies, even as it shares the old with firms in the developing world. As the poor develop, they will have increasingly sophisticated needs, which are all market opportunities for the global firms of today.

Conclusion

Increased social commitment can bring improved financial results for the global firm.

However, the leadership challenge in exploiting these win-win opportunities grows progressively from developing “poor-centric” marketing, to winning cross subsidies through cooperative arrangements with NGOs and government, to becoming the nodal player in a rich network of government actors, NGOs and professional associations and taking the lead in shaping public policy.

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