

# Building Sustainable and Socially Impactful Businesses at the Base of the Pyramid

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## **Abstract**

Estimates suggest that four to five billion people live in poverty. Businesses engage with the base of the pyramid (BOP), typically through corporate social responsibility (CSR) efforts. Such efforts are laudable but are limited by their budgets. An alternative model would be to engage with the BOP as a sustainable business opportunity. The BOP can be customers as has been shown through the work of Unilever. The BOP also often own assets, such as small parcels of land or a few head of livestock. Likewise, the BOP has skills and labour. These can be sustainably leveraged to the betterment of the BOP. In this paper, I describe three initiatives that are profitably engaging with the poor as customers, providers of labour and providers of raw materials, while at the same time helping the target group lead better lives. Abstracting from these initiatives, I offer a framework for building profitable businesses at the BOP.

## **Introduction**

We live in a world that is hardly recognizable from just a few decades ago. Many of us, like the author, have seen the advent of television: a heavy box with a screen size in the low teen inches. If you were lucky enough to own one, it showed grainy black-and-white images, supported by a single or at best a few channels. The telephone was a luxury in many parts of the world, with people on long waiting lists for a connection.

It was not just that phones were rare, but the cost of calling anyone other than a neighbour was prohibitive. Computers, which had only recently been invented, were large machines housed with reverence in large air-conditioned spaces, where one could only enter after taking off ones' shoes. Plane travel was a rare luxury and, not surprisingly, only a few had left home to travel to distant lands.

How the world has changed. Televisions are slim light devices, flashing bright, high definition, colour images on screens that are 40, 50 or 60 inches, or even bigger, supported by hundreds of channels. And, they are ubiquitous—from New York's ritzy Upper East Side to the slums of Mumbai, or the favelas of Sao Paulo. The home telephone is an endangered species, replaced by mobile phones, which now outnumber the population of our planet. The marginal cost of a phone call to someone on the other side of the planet is zero. Indeed, the humble telephone in its latest avatar, the smartphone, packs more computing power and storage capacity than the computers so reverently housed in air-conditioned splendour a few decades ago. The advent of the internet enables this little device on steroids to perform functions that could only have graced the pages of a sci-fi novel, less than 50 ago. Air travel is cheap to the point that high tourist destinations are pondering how to stop the world from descending on them, and space tourism is already a reality for the well-heeled.

Amidst this new world, one element that has stubbornly resisted change is poverty. While the definition of poverty varies, at least by one estimate (Hammond et al. 2007) there are between four and five billion people living in poverty (defined as individuals living on less than \$3,000/year on a PPP [purchasing power parity] basis), which is in excess of the number of people on our planet 50 years ago.<sup>1</sup>

Businesses, mostly, have ignored the poor,<sup>2</sup> but for engaging with them from a philanthropic perspective, under the auspices of corporate social responsibility (CSR) initiatives. While such initiatives are laudable, the typically small budgets for CSR initiatives are too small and not scalable enough to significantly change the poverty landscape. However, if businesses were to engage with the poor as a business initiative, there is a real opportunity to achieve scale and significantly impact poverty.

<sup>1</sup> See <https://www.populationpyramid.net/world/1970/>

<sup>2</sup> FMCG companies are an exception. They have sold branded products that are typically sold to more well-off consumers (e.g., personal care, cleaning, cooking ingredients and snacks), to less affluent consumers in single serving packages, as occasional luxuries.

As a first step in this direction, the seminal work of Prahalad (2005) brought to the attention of the corporate world the potential for profit by engaging with the poor as customers. Prahalad likened the distribution of wealth and income to a pyramid, with a small number of affluent individuals at the top and a large base made up of the poor in developing countries. Whilst governments and other members of the development community, such as the World Bank and WHO as well as NGOs, tended to focus on meeting the needs of the poorest of the poor (the billion people who live on less than \$1.90 per day; World Bank Group 2016), a larger segment of the low-income population—about four billion people—who live on \$2 to \$5 a day, Prahalad argued, could be made the focus of a market-oriented approach and be served at a profit. Their work inspired several organizations, for example Hindustan Unilever, as a first mover, to explore the possibility of engaging with the poor as customers. With a profit motive, budgets were no longer shackled by the limits of CSR spending and could thus become scalable initiatives.

While businesses can, no doubt, engage profitably with the base of the pyramid (BOP) as customers, this isn't the only way in which businesses can engage with this segment. The BOP, at a minimum, has labour that is underutilized, which can be of value to businesses. The BOP also often own assets, such as small parcels of land or a few head of livestock. This surplus labour and/or assets can be profitably leveraged by businesses, while at the same time enabling these individuals to earn a stable income and climb out of poverty. In this paper, I would like to describe three initiatives that are profitably engaging with the poor—as customers, providers of labour and providers of raw materials—while at the same time helping the target group lead better lives. Abstracting from these three initiatives, I would then like to offer a framework for building profitable businesses at the BOP. Finally, I would like to articulate why engagement with the BOP is particularly germane and beneficial to organizations over and beyond profits, particularly in today's environment.

### **Arogya Parivar: A Novartis Social Enterprise**

Chattopadhyay and Angelmar (2018) in their case study on Arogya Parivar report that a presentation by Prahalad to the board of Novartis in 2004, along with reports that several multinational companies like Hindustan Unilever had been profitably selling their products to low-income consumers in emerging markets, convinced the Novartis board that it was time to seriously consider the possibility of commercial

opportunities among the world's poor. Led by Udit Batra, global head of strategic planning, and Jurgen Brokatzky-Geiger, global head of HR, along with Olivier Jarry, senior vice president business development and licensing, Novartis decided to explore if there were potential business opportunities at the BOP.

Novartis decided to focus on India to explore a potential business opportunity as it is home to the largest number of BOP consumers in a single country—80 per cent of the 750 million rural Indians, in 2004, lived on less than \$2 per day. India's healthcare infrastructure was poorer than many similar emerging markets, particularly in rural India. Severe diseases like tuberculosis (TB) were widespread and a major health concern—there were approximately two million new infections and 320,000 deaths a year, resulting in estimated indirect and direct costs of just TB to be \$3 billion and \$300 million, respectively.

Exploratory market research to understand rural BOP consumers in India revealed that they differed not only quantitatively, that is, had lower income, but also qualitatively, that is, they were likely to have literacy problems—35 per cent of Indians were illiterate and lacked knowledge about many products and services, for example, they had poor discerning capability to identify the appropriate doctor for their ailment; felt lost and intimidated when dealing with healthcare providers and navigating the steps required for diagnosis and treatment; had no idea if the medicines prescribed by the doctor were the same as those given by the chemist, whether the treatment recommended was for prevention, cure, or maintenance, and how much the total treatment cost was; and, importantly, did not understand the necessity of completing treatment. They also had less access to transportation—multiple trips to get diagnostics and treatment was difficult and expensive. BOP consumers were strongly embedded in social networks—as they were vital to them and were very important in decision-making—and had ideas and perceptions that were very different from the educated urbanites—for example fainting is common among BOP women due to malnutrition as they traditionally eat last in the family, but people in this segment see fainting as a condition that afflicts women. Importantly, BOP consumers were willing to spend money to be cured, particularly for those who are wage earners.

A first task, therefore, for Novartis was to educate the target consumers, a task complicated by many rural markets being media-dark. Novartis chose six markets to begin with, such that two were in markets with relatively better health infrastructure, two where the infrastructure was really poor and two that lay in between. To educate villagers, Novartis

developed a network of foot soldiers (health educators or HEs) recruited from the villages, who would visit the villages in their territory, educating the villagers about symptoms of key diseases, allergies, nutrition, hygiene, and the like; where to go for proper doctors; and the importance of compliance, etc.

To enable smooth diagnosis and treatment, Novartis identified qualified doctors in the towns around clusters of villages. They also identified and encouraged chemists (pharmacies) to stock a portfolio of medications to cover most ailments that the rural-poor suffered from. These tasks were the responsibility of a sales supervisor who worked with a team of HEs.

One key problem that Novartis faced was that HEs were male, so men were willing to discuss their ailments with them, but women were not. To deal with this issue, as recruiting female HEs in sufficient numbers was not possible, Novartis collaborated with the government employed nurse-midwife, who was responsible for health and nutrition within the community as well as with locally operating NGOs with a health and nutrition focus who had women in their ranks, to speak to the women.

Initially, the educational meetings with the villagers was supported by a van containing a TV that played a video to support the HE's visits. However, this proved too expensive, and after several iterations, Novartis developed a flip chart that was visual and supported the HE's efforts. This was mounted on a tripod for ease of presentation and could easily be packed into a carry tube, which the HE could travel with on a bicycle, the main mode of transportation for the HE.

The programme, branded Arogya Parivar: a Novartis Social Venture,<sup>3</sup> was rolled out in 2007 and broke even in 30 months, well ahead of the target 36 months. By 2013, a mere five years after its launch, the programme covered 370 cells in 11 states, covering 40,000 villages with 42 million people. It was delivering health education to five million people/year through a network of 630 educators and sales supervisors. The programme offered a portfolio of 79 stock-keeping units from 11 therapeutic areas, which covered a majority of the rural disease burden. To ensure treatment, the programme boasted a network of 35,000 doctors and 20,000 pharmacies. Year-end sales in 2013 showed an increase of 25-fold over that achieved in 2007, the launch year.

Since then, the programme has been rolled out in Vietnam and Kenya, under the Healthy Family brand, where too Novartis reports having

<sup>3</sup> Arogya Parivar translates as healthy family.

achieved break-even within a three-year window. As of 2017, the programme delivered health education to 30 million rural BOP members. Three million patients had received treatment and revenues compared to the base years in each of the three markets, which was up 300-fold. By all accounts, it was a very successful business venture for Novartis.

### **Aarong: A BRAC Social Enterprise**

Following the deadly cyclone of November 1970 which devastated Bangladesh, then known as East Pakistan, and the war of liberation in 1971 which resulted in the deaths of hundreds of thousands of fathers, husbands and sons, hundreds of thousands of women were left alone and destitute. With his friends, Sir Fazle Hasan Abed established the Bangladesh Rehabilitation Assistance Committee (a precursor to today's BRAC), using their own funds to set up a relief and rehabilitation centre in the remote area of Sulla, in the war-torn north-east (Chattopadhyay and Wee 2015).

Realizing that poverty was a complex problem to be fought on many dimensions, Sir Abed began working on improving living conditions for the rural-poor in Bangladesh, focusing on the landless-poor, particularly women living below the poverty line. One opportunity for this was through the commercialization of traditional folk art and crafts, in which Bangladesh had a long and rich tradition. In 1976, BRAC started identifying and experimenting with various crafts that women could produce at home such as *nakshi kantha*, embroidered goods, baskets, mats and other items made of cane, bamboo or jute.

At that time, there were few buyers of such products in Bangladesh. Weeks and even months would pass before the women would be paid for their work. The only major fair-price handicraft outlet at the time was the Karika shop in Dhaka, which took goods on consignment. This meant that the producer was not paid until the product was actually sold, imposing enormous uncertainty and hardships on the women who had produced the goods. Thus, the creation of Aarong (1978) and the opening of a retail store in Dhaka came from a need to ensure that poor silk farmers, block printers and embroiderers were paid at a fair market price on delivery.

Aarong worked with the most disadvantaged women. A majority were directly employed by Aarong in its own production facilities, but it also bought products from cooperatives and small producers. For the latter, it

had strict vetting to ensure that they followed fair trade practices. Aarong provided a wide range of services, aside from payment on delivery, to its workers and suppliers such as full design and marketing support, working capital loans, payment advances and interest on deposits. Additionally, producers could attend capacity-building training programmes to improve their managerial, financial and technical skills.

On the demand side, Aarong targeted the local professionals, fashion conscious, urban upper as well as middle class consumers. Its customer base also included Bangladeshis abroad who were looking for products that connected them to their roots and affirmed their identity, and also foreigners. The latter accounted for about 5 per cent of the revenue.

Aarong understood the importance of design and marketing. Its product designs drew customers back to 'indigenous' fashion through a clever blend of traditional and contemporary styles. Using traditional craft in non-traditional ways, it started a trend. Aarong had a dedicated marketing staff to assist with major marketing initiatives, including traditional print and billboard advertising, exhibitions and carefully orchestrated fashion shows. The latter was a first in Bangladesh, and it helped cement Aarong's image as the country's leading fashion house and the preferred destination of middle and upper class urban shoppers.

By the end of 2017, Aarong's sales had surpassed \$60 million a year. Revenue growth in 2017 was 20 per cent. Aarong operated 20 stores around Bangladesh, including a 36,000 sq. ft. flagship store in Dhaka which was crafted to international retail industry standards. The stores served over 20,000 customers per day. Aarong helped provide a livelihood to over 65,000 people. It directly employed more than 40,000 poor and destitute women in 15 full blown centres and 647 sub-centres, under the auspices of The Ayesha Abed Foundation (AAF) (named after the founder's late wife), spread across Bangladesh. In addition, 850 independent cooperative groups and traditional family-based artisans (25,000–30,000 independent artisans and workers in all) marketed their crafts through Aarong.

### **Mrida: Building the Earthspired Brand**

*Mrida* (Sanskrit for soil) is a social-business venture founded in February 2014 with the goal of working with small and marginal farmers to lift them out of poverty by creating win-win outcomes across the value chain, from farm to fork. To do so, Mrida wanted to create the Earthspired

(Inspired by the Earth) brand to build links between small farmers and urban middle-class consumers to provide the former with a sustainable livelihood and the latter with a range of healthy snack and food products, to enhance their well-being (Chattopadhyay et al. 2018).

To this end, Mrida needed to identify crops that could be grown in each area they worked in and for which there was a tradition in the area, so that small farmers would have the knowledge of growing these crops and would be willing to do so. Besides this, the crops needed to be inherently healthy to create healthy snacks and foods for the urban middleclass target customers. Mrida's research revealed that millets and amaranth were two crops that met these requirements. Importantly, Mrida's research also revealed that many small and marginal farmers were not planting on all the limited land they possessed, for fear of animal menace (e.g., in Uttarakhand, wild boar destroy crops) and only planted in areas near their dwelling so that they could easily protect their crops.

Mrida started working with marginal farmers by first helping them form self-help groups. Where such groups already existed, particularly as producer organizations (e.g., Umang in Uttarakhand), they worked with the existing groups and producer organizations. Mrida worked with local transporters for picking up the crops and delivering it to Mrida's warehouse in the suburbs of New Delhi or to an NGO that had production facilities for converting millet and amaranth into flour as well as producing a range of savoury and sweet snacks, including cookies. Along with the capabilities of the founders in nutrition, supply chain management, sales, branding and the like, Mrida created an end-to-end supply chain covering collection, storage, processing, value-addition, branding and market access for a range of healthy flours and snack products.

By paying above market prices to farmers (e.g., Mrida bought millet from Umang at a price 25 per cent higher than the prevailing market price), and doing so on a regular basis, Mrida helped create a sustained increase in the income of the 3,000-plus marginal and small farmers who were members of Umang. On the demand side, by formulating a range of healthy flours (e.g., high protein flours, gluten free flours and low glycaemic index flours), packaged snacks (e.g., roasted savoury millet and amaranth mix) and cookies (e.g., millet based chocolate chip cookies which were tasty but lower in sugar and fats and higher in protein compared to regular cookies), and selling them directly to consumers through farmer's markets, exhibitions, corporate events and the like as well as online through platforms like Amazon, in four short years,



Mrida had reached financial sustainability, turning a small profit at the end of the 2017–2018 financial year, while having impacted the lives of 20,000 small and marginal farmers by helping them to achieve a higher and sustainable income.

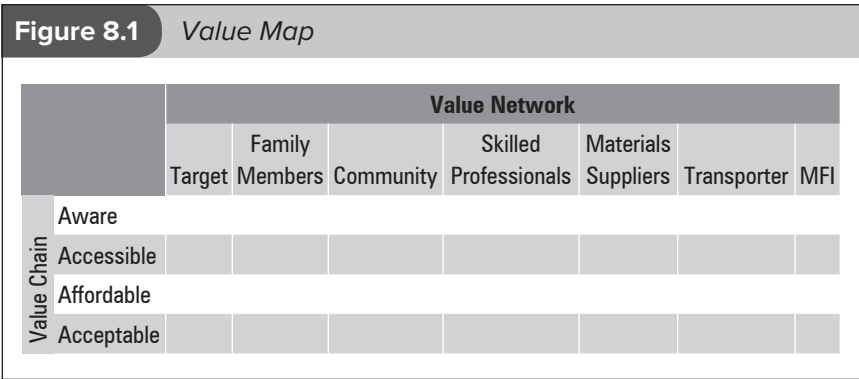
## **Framework for Building Sustainable and Socially Impactful Businesses at the BOP**

A common thread that runs through the experience of all three examples above—which importantly span engagement with the BOP as customers and suppliers as well as by organizations that range from a major multinational (Novartis) and an NGO (BRAC) to a recent start-up—is the need to first immerse oneself within the community one is trying to impact. This is crucial as the population from which the vast majority of managers come is so far removed from that which they wish to impact, that without such immersion, it is likely that they will not be able to acquire the relevant insights and the empathy to develop a successful initiative.

For instance, Novartis couldn't have understood that poor rural consumers didn't understand that women in their households were malnourished and, thus, fainted, and not because it was a natural condition of women. It would have been difficult for Mrida to understand that poor farmers were not planting on all the land they owned because they were concerned that land further from their dwelling was more open to animal menace, and that they lacked the knowledge that some plants they could grow, which were of no interest to animals. Thus, knowledge and contextual acumen of the target of impact needs to be studied through immersive approaches like ethnography.

Once one has understood the target group one wishes to impact, the second step is to create a value map. The value map has two components: the value network and the vertical chain (see Figure 8.1). The value network is comprised of the actors involved in delivering value. Thus, in the case of Arogya Parivar, this would include the patients, their families and the community they are embedded in, which includes doctors, nurses and various other healthcare professionals; and diagnostic labs and pharmacies as well as locally operating NGOs and the government health infrastructures (e.g., rural clinics, health centres, and hospitals).

The value chain consists of the stages of value creation. The framework identifies four stages: awareness, accessibility, affordability and acceptability. Thus, Aarong has to build the knowledge of producing



quality handicrafts. Aarong does so by providing training inputs to skill the destitute women whom they employ in the AAF centres to undertake various artisanal activities or as saleswomen in the Aarong outlets. They have to upskill the independent artisans to be able to produce a consistent and high-quality output. These value-creating activities would all go under the heading of awareness.

Aside from building capability, Aarong needs to make accessible, inputs such as textiles, thread, dyes and so on for the artisans to be able to ply their trade. They also need to make the products produced accessible to the affluent buyers in Bangladesh and abroad. In the case of Arogya Parivar, access includes making connections between BOP patients, proper doctors, diagnostic labs and pharmacists, such that diagnosis and treatment can be rendered smoothly. Thus, under accessibility, we would consider not just access to markets but access to products and services that go in to the process of creating value.

The accessible elements have to be affordable. For Arogya Parivar, this requires health facilities that are reasonably proximate and treatment costs that are within the means of the rural poor they target. For Aarong, the centralized buying of yarn, dyes, fabrics, etc., enables them to provide these inputs to the independent artisans at competitive prices. Likewise, by providing advances against orders or providing financing through BRAC’s microfinance arm, Aarong is able to make it affordable for the artisans to produce goods in a sustained way. Mrida needs to facilitate the availability of seeds, fertilizer and other farm inputs at reasonable prices or provide loans to shift the pattern of agriculture.

Last but not least, the value chain has to be acceptable. Thus, for Arogya Parivar, this means finding ways to have enough female HEs to discuss with and educate the women in the communities they target. For

Aarong, this means having 15 AAF centres and over 600 sub-centres so as not to disrupt the communities within which the women they work with. For Mrida, it requires finding the balance between what small and marginal farmers know how to grow and what the urban target consumers would be willing to buy. Acceptability is more than just a matter of sociocultural fit. It also means building a relationship of trust through transparent pricing (e.g., Mrida buying millets from Umang at a 25 per cent premium), transparent processes (e.g., Aarong paying for products immediately on delivery) and distributing value equitably among the actors engaged in economic activity within the value network (e.g., Arogya Parivar ensuring that doctors, pharmacists, diagnostic labs, local government clinics and the nurse-midwife, all benefit from engaging with the initiative). All four steps need to be managed if the solution is to resonate and take root.

While the value map provides guidance in engaging with the poor, businesses are stepping in to a new domain and, thus, they need to start small and take a test and learn an approach to fine-tune the solution before scaling. Arogya Parivar provides an excellent example of this approach. The initiative launched with six villages from three distinct environments. The first challenge was building awareness. Arogya Parivar decided to use HEs, but a key question was, what was the best way for HEs to engage with and educate poor rural patients and their families? Given that the villages were media-dark, they started with HEs supported by a video van. When this proved too expensive, they experimented supporting HEs with street theatre troupes. This was soon abandoned, as the actors took too much creative license, creating inaccuracies and inconsistencies in what was being communicated. This led to Arogya Parivar developing a visual flipchart to accompany the HE's presentation and visually communicate what she/he was saying—a solution that finally worked.

In sum, I suggest a three-step approach to building a sustainable and impactful business at the BOP: (a) Begin with immersive research of the target constituency. (b) Populate and apply the value map to articulate the business solution. (c) Begin small, and test and learn to fine-tune the solution before scaling.

## **The BOP Imperative**

In closing, I think it is important to point out that engaging with BOP is not just about feeling good or doing so because it is the right thing to do. It makes good business sense.

First, over the past decade, businesses have lost trust. The Edelman Trust Barometer shows that the general trust in business has been steadily declining, and in 2018, consumers in the vast majority for countries, including all the G7 countries, distrusted business.<sup>4</sup> Second, according to Unilever, a majority of consumers considered whether a brand had a higher purpose in mind when making purchase decisions, a finding corroborated more broadly by data gathered by Edelman.<sup>5,6</sup> Third, a full 67 per cent of shoppers are willing to pay more for sustainable products, the creation of social value being one key element of sustainability.<sup>7</sup> Fourth, Millennials, who are the largest percentage of the work force today (40 per cent) and in 10 years are expected to be 75 per cent, take into consideration a firm's higher purpose when making a decision to remain with the firm or not. Specifically, data reported by Deloitte<sup>8</sup> show that 63 per cent of Millennials who do not believe that their organization has a higher purpose intend to leave within two years. However, 88 per cent of these same Millennials, who believe that their organization has a sense of purpose, intend to stay for five years or longer with their current organization. Fifth, data reported by Ernst and Young suggests that firms which prioritize sustainability experience greater revenue growth than firms that do not.<sup>9</sup> Last but not least, given that few firms have attempted to enter this space, it remains relatively uncontested and thus may be a blue ocean that firms can take advantage of, thereby not only being sustainably profitable, but in being so, doing good as well!

<sup>4</sup> See [http://cms.edelman.com/sites/default/files/2018-02/2018\\_Edelman\\_Trust\\_Barometer\\_Global\\_Report\\_FEB.pdf](http://cms.edelman.com/sites/default/files/2018-02/2018_Edelman_Trust_Barometer_Global_Report_FEB.pdf)

<sup>5</sup> Making Purpose Pay: Inspiring Sustainable Living, Unilever, [https://www.unilever.com/Images/making-purpose-pay-inspiring-sustainable-living-170515\\_tcm244-506419\\_en.pdf](https://www.unilever.com/Images/making-purpose-pay-inspiring-sustainable-living-170515_tcm244-506419_en.pdf)

<sup>6</sup> See <https://www.slideshare.net/EdelmanInsights/2017-edelman-earned-brand>

<sup>7</sup> See <https://medium.com/create-brand-love/the-rise-of-the-purpose-driven-consumer-8-reasons-that-prove-purpose-driven-brands-are-here-to-6ba047a8e3cb>

<sup>8</sup> See <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-millennial-survey-2016-exec-summary.pdf>

<sup>9</sup> See [http://www.ey.com/Publication/vwLUAssets/ey-the-business-case-for-purpose/\\$FILE/ey-the-business-case-for-purpose.pdf](http://www.ey.com/Publication/vwLUAssets/ey-the-business-case-for-purpose/$FILE/ey-the-business-case-for-purpose.pdf)

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