BoP 2.0 for large corporations: co-creating wealth at the base of the pyramid

Workshop // Social business and BoP

Moderator

Henri de Reboul
General Delegate, IMS - Entreprendre pour la Cité

Speakers

Sébastien Goua
Project Officer, French Red Cross

Sébastien Lambroschini
Director, ACTED Horn of Africa

Emmanuel Marchant
General Delegate, danone.communities

François Perrot
Project Head, Lafarge

Shyama Ramani
Professor, Maastricht University School of Business & Economy

Fabienne Riom
Manager, France BoP Learning Lab, RSE BoP department, ESSEC IIES

Bernard Saincy
Director of Social Responsibility, Direction of Sustainable Development, GDF Suez

Rustam Sengupta
Founder, Boond

Gilles Vermot-Desroches
Director of Sustainable Development, Schneider Electric

Executive summary

Interest in BoP ("Base of the Pyramid") strategies has grown in the past years. BoP 1.0 led to the successful strategies of BoP 2.0. In theory, the approach is sound, but it does not take into account the realities on the ground, hence it must be developed to meet corporate objectives and the needs of poor populations through a combination of activities. It starts with the co-creation of the market, involving the community in the projects and creating offers based on understanding needs. It is necessary to create access to BoP products and services for poor populations. The BoP is a strategic corporate plan based on a sound business model.

Synthesis

For some years, companies have attempted to create products, services and new ways of selling to poor communities. From the first BoP approach advanced by C.K. Prahalad, it has been a matter of adapting the product and reaching the consumer.

The process involves building a solid business model that ensures the sustainability of the social goal, which is sometimes lacking in pure charity initiatives. Profit therefore becomes a way to alleviate poverty, to reach populations and to maximize social impact; the impact is defined according to the purpose of the company and the location in which it is carried out.

There are many critics of this vision, with an emphasis on the fact that poverty cannot be dealt with just by treating poor populations as consumers. Companies must also participate in increasing the consumers' incomes.

The BoP 2.0 Protocol co-written by professors Stuart Hart and Erik Simanis is based on corporate experiences and incorporates different academic areas. It has several objectives: first, to know and understand populations, regardless of the distance between them and the corporations; then, to create an environment leading to new product development and a highly innovative research and development space. The protocol is a good methodological stimulus, but does not quite reflect what happens in reality and requires further examination. There is a gap between what most companies want – to make greater inroads into communities – and the realities of business – the need in the short term for a return on investment. However, what has to be done? How much can innovation in the economic model and the different actors be implicated?

In a process described as "2.0", the first step is to co-create the market, which is a long and difficult process involving many different actors:

•   All stakeholders must be involved in construction: NGOs and associations, social entrepreneurs, financial partners, public authorities, target populations.

•   Partnerships must be established based on what stakeholders are able to contribute.

•   Social entrepreneurs, NGOs and associations must not be considered as subcontractors; they bring an understanding of the population and in particular provide linkage between populations and companies.

•   The work of the companies must complement and not duplicate that of the social entrepreneurs.

•   Companies must provide skills.

As **Sébastien Goua** emphasized, associations must also learn to include companies in their projects. The role of the different partners will evolve as the project does. The social business model is one of proximity: **Emmanuel Marchant** stated the importance of utilizing local resources, working with local populations and providing opportunities for the poorest communities. Governance should be that which is best adapted to different projects, partners and interests. Governance and projects are created

at the same time and both evolve over time. It is crucial that mutual trust exists between partners and that mutual expectations are clear. Partnerships with target communities are at the heart of the 2.0 protocol: It is necessary to find someone to speak within the community: at the beginning, a company that becomes involved in social business is a stranger invited into a community.

Gilles Vermot-Desroches suggested involving BoP populations either as part of the value chain or throughout the value chain.

Developing a new offer adapted to BoP populations often involves disruptive innovation: it is necessary to completely rethink an offer and its distribution platform. In BoP 2.0, the process starts with the need to create an offer, and not the other way around.

Shyama Ramani distinguishes two types of products:

•   BoP product: a product or service adapted to the BoP population.

•   "Pro-poor" product: a product or service which helps the BoP population, which does not create only classical and direct consumption but also has an impact on the population's living conditions.

BoP populations are not that well understood by big businesses yet, and a fortiori neither are their needs:

•   To make needs surface and understand them, it is necessary to meet populations and communicate with them.

•   The existence of need, even when expressed, does not equal a demand; it is useful to involve intermediaries with respect to this issue.

•   BoP populations face various problems (lighting, potable water, etc.), and therefore need choices and financial means to pay for several services.

•   The user is often not the purchaser, which creates a gap, because while the user wants to purchase the product, the purchaser will not necessarily be ready to do so.

•   The key BoP 2.0 issue is not product development or financial solutions, but providing access to the product. Access requires, in particular, offering consumers a choice and educating them on the utility of proposed products and services.

•   Distribution must be carried out by someone integrated into the community and who is trusted by the community, because the sale is a difficult element of the BoP strategy. The distributor must speak the same language as the consumers and be religiously and culturally linked to them.

•   The target community must be convinced of the benefits of the product. **Rustam Sengupta** spoke about the difficulty of getting communities to accept energy or potable water solutions, while some other products are relatively easy to sell.

Bernard Saincy stated that to be sustainable, corporate strategies must

incorporate certain BoP elements:

* They allow the development of future markets.

* They encompass corporate responsibility for different publics.

* They bring a great deal of innovation to a company.

BoP 2.0 involves reinventing a new business model for companies. While the durability of a project is increased, it is not always evident that the model is sustainable and efficient. Each situation needs its own solution, in order to reflect local context.

The **Lafarge** model, for example, shows that 1.0 and 2.0 processes may be carried out in parallel. In Indonesia, the group launched 2 projects in two different cities:

* In the first city, the company developed a 1.0 process, positioning itself in an existing market and creating partnerships with private local promoters.

* In the second city, it completely created the market, which was much more innovative, by, for example, offering microcredit for housing.

While the BoP 1.0 initiative is a relatively rapid process, because it involves becoming a part of an existing market, the BoP 2.0 strategy requires much more time and energy to create a market and its ecosystem. In fact, rather

than simply adapting their offer, companies must, in particular, allow access to poor populations by involving them in their projects and not just selling it to them at a cheaper price. In BoP initiatives, companies must be humble. They must learn, because we are still at the beginning of the process. As stated by **Fabienne Riom**, it is necessary to think experimentally and remember that a project will evolve as it is carried out.

Official rapporteur:
Daphné Leclabart, IMS-Entreprendre pour la Cité