



Management  
& Technology  
Consultants

## CONVERGENCE LETTER

# My clients are poor

*Four billion people are waiting for  
you at the bottom of the pyramid*



Four billion people worldwide live on less than 7 dollars a day, which is seven times less than the poverty line in France. This population's income places them at the bottom of the pyramid (BOP). Some examples in the fields of telecommunications, banking or consumer goods show that firms should see an interest in building strategies that target these individuals. The poorest people, often ignored by the private sector, would gain easier access to goods and services: water, electricity, health, telecommunications... However, such an approach is controversial in many ways. Who makes up the BOP and what are its characteristics? How can the segment touched by poverty be a business opportunity? How can companies convert this opportunity into an economically viable reality?

#### ■ Understanding the opportunities at the bottom of the pyramid

Based on the gross national product by country adjusted for currency effects, 2.1 billion people live on less than 2.5 dollars a day and four billion have daily resources below 7 dollars. This population thus generates nearly five trillion dollars in annual revenues.

The "bottom of the pyramid" approach is based on the following assumptions: billions of people form the bottom of the pyramid;

this segment represents an opportunity that is ignored by most companies, and yet those would gain by developing strategies that fit this market; People would benefit from access to new goods and services customised to their needs and resources.

This market of four billion people is all the more interesting as its growth is important. According to the United Nations, worldwide least developed regions population will grow by 58% over the next 50 years, compared to 2% in the more developed regions.

Several examples show that the BOP is a sound market. Regarding mobile telephony, the number of subscribers to mobile services on the African continent grew from 51.8 million in 2003 to nearly 400 million in 2010. At the very same time, both mobile and internet markets grew twice as fast in Africa as in the world as a whole.

The advantage of tailoring a marketing strategy is also illustrated in the widespread take-up of prepaid offerings<sup>1</sup>. One can buy a scratch card containing a code that allows one to make calls until the credit runs out (top-up voucher)<sup>2</sup>. This pay-as-you-go model is particularly suited to populations without any bank account. In 2008, 96% of African users were using a pre-paid offering.

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1 *“Conjoncture et financement”*, African Economic Outlook, 2009 : In September 2009 The Economist cited the case of Somalia, a country as poor as Ethiopia and a failing political state, but with a higher mobile penetration rate owing to greater market liberalisation.

2 Tcheng (H), Huet (JM), Romdhane (M), *Les enjeux financiers de l'explosion des télécoms en Afrique subsaharienne*, IFRI note, 2010.

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Examples of BOP strategies include marketing of very low-cost domestic lighting systems (Schneider Electric India), drinking-water distribution points in rural areas run by local contractors (Veolia Water), and so on. These companies can offer a low price thanks to industrial research (producing at the best price level according to local conditions), innovative business models (rental system for electricity, pre-paid for water) and ad hoc distribution channels ("power chargers" in India).

### ■ Do not underestimate the challenges of this market

Despite this appeal, obstacles to the development of sound business models for the BOP population remain. One initial barrier is the low rate of bank account ownership: according to the World Bank, only 10% of households in Africa have a bank account. Poor development of the formal financial sector in developing countries is an obstacle for investors, and competition is often limited.

Lack of infrastructure is also a major obstacle. For instance, it is estimated that only 60% of the overall 400,000 African villages are covered by telecommunications networks. Furthermore, informal sector is prominent: 41% of added value in Latin America and 35% in European transitioning economies as well as in the former Soviet Union, against 13.5% in OECD countries.

Besides, businesses have every incentive to develop their BOP strategy coupled with a corporate social responsibility (CSR) approach. Indeed,

a poorly designed strategy can have harmful effects on low-income populations. Their vulnerability requires a serious study of the adverse consequences of crafting an offering for this segment, like the one conducted in Tanzania on families' trade-offs between telephone usage and providing food for their children.

Moreover, reputational risk is high, in a context where the general public associates poor people with donations rather than with a commercial approach. As a result some companies have chosen to limit general public exposure to their BOP programs (e.g. Schneider Electric and its BipBop programme) while other initiatives are more high-profile (Danone publicises its Danone Communities programme through an Internet community, a major annual gathering, etc.). Placing the BOP programme at the heart of a CSR approach reduces communications and mishaps risks vis-à-vis the general public.

Ultimately, one should combine both business and CSR<sup>3</sup> approaches in order to build a BOP commercial initiative with a long-term focus, without reducing it to a charity or humanitarian project.

### ■ Daring to learn

While the BOP market is a business opportunity, recent initiatives show that firms focus on upstream learning approaches. In prac-

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<sup>3</sup> In this connection, see the Hystra report: Access to Energy for the BOP, October 2009

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tice, these amount to pilot projects, viewed as laboratories for the BOP segment. For example, in 2007 Veolia developed a pilot project in Bangladesh for distributing drinking water to the rural poor of the town of Goalmari. The aim was to build an economically viable water treatment, transport and distribution system.

This learning approach often goes hand-in-hand with a strategy of partnerships with established players in the BOP segment. Indeed, bringing on board all stakeholders in the ecosystem (NGOs, local institutions, etc.) is a key success factor. The major benefit of these partnerships is that they facilitate access to the bottom of the pyramid, as the established players have developed a knowledge of this segment that many businesses do not have. Danone, for example, has launched an initiative in Bangladesh in partnership with Grameen Bank, which is playing a historic role for very-low-income populations.

However, such partnerships can lead to misunderstandings that may relate to differences in approach or competing priorities (e.g. between charitable and commercial goals): as such partnerships should be built with a clear rationale for both parties as reconciling social objectives with economic needs can be quite difficult, some might even say not feasible.

## ■ Devising innovative financing

Having in mind that it does not make sense for companies to finance development of non-economically viable products or services, can those very companies afford to enter an expensive learning phase that would ultimately allow them to target the BOP segment on a larger scale - and make a profit?

It does indeed appear that as far as BOP markets are concerned, companies will have to accept a longer return on investment period than they are used to. This lead time must be leveraged in order to develop an offering tailored to the BOP segment, that can be replicated on a larger scale. A business's capacity to enter into a long-term commitment will determine whether or not it succeeds in making profit. The need to set up long-term BOP strategies also has an impact on the governance mode of such initiatives. Indeed a sustainable BOP strategy cannot solely rely on a single manager's willpower: such a move must be part of the business's long-term strategy with a clear objective and associated KPIs, that are quite different from regular business projects.

Public funding can be leveraged in order to promote private sector investment for low-income populations. In some areas regarded as a priority by public authorities (e.g. access to basic services and products), use of low-interest loans will enhance development of BOP strategies. Taking a portfolio management

approach, governments could grant certain concessions provided that business undertakes to serve more "traditional" consumers as well as those at the bottom of the pyramid. Water management in Senegal is an interesting success story: public authorities and private operators were able to address both customer segments with different levels of service (tap stands for poor neighbourhoods) while making a genuine contribution to progress. This success was also made possible by a sound financing plan, based on both funding from international donors and price control.

Rethinking very low income people business approach can lead to financially sound strategies. Indeed:

- This is an undervalued market, where few multinationals companies have launched appropriate offerings. Learning how to become a market leader, over the long term, is particularly beneficial;
- Targeting a segment of low-income individuals can help tap an important pool who will eventually become part of the middle classe;
- BOP markets are not confined to so-called emerging markets; there is a bottom of the pyramid in every market, in France and elsewhere. Companies must put their focus regarding their group of "forgotten" individuals into perspective.

Even if one does not invest in initiatives targeting the poorest segment of the income pyramid, it is nevertheless very instruc-

tive to consider the merits of entering the BOP market. This approach allows companies to assess their own ability to design innovative offerings based on the consumer's basic needs. Moreover, the very same companies reap benefits by getting management to discuss meaningful approaches offering new and motivating prospects.

Targeting customers with very low income, no savings whatsoever and focused on meeting basic or really vital needs, does mean that companies must be able to offer a product or service that is innovative from the design stage through production and financing to distribution.

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