

Building Business with Impact and Scale: Highlights from the Max Havelaar Lecture

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The 4.5 billion poorest people on this planet, often referred to as the base of the pyramid (BoP), lack affordable access to goods and services that could dramatically improve the quality their lives.ⁱ Despite decades of effort and billions of dollars invested, we have found that we cannot donate our way out of poverty.ⁱⁱ These efforts must be complemented by an expanded role for business. Indeed, business can create value by delivering goods and services, and the potential to do so profitably is enormous.ⁱⁱⁱ

The promise of creating sustainable and scalable businesses that truly alleviate poverty, however, remains unfulfilled.^{iv} In particular, we have yet to provide enterprise managers with a toolkit of strategies, frameworks and process to facilitate their journey to sustainability at scale.^v The implicit assumption seems to be that each enterprise has to respond in a unique way to the specific context it faces. This thinking has downplayed the value of understanding lessons learned and the opportunity to use experience – both successful and less so – to understand best practices.

To be sure, each BoP enterprise faces a distinct context.^{vi} But so does each enterprise in the developed world. Yet that hasn't constrained the development of strategies, tools, frameworks and processes that business leaders can use to navigate the complexities of the environment in which they operate. To name just a few, there are Porter's five forces, the four Ps of marketing, and the SWOT analysis. What each of these has in common is a standardized framework that can then be customized to reflect the local realities that different enterprises face.

These frameworks, however, were designed for developed world markets. BoP enterprises operate in an impoverished environment and seek to serve impoverished people. While BoP enterprise development is not about reinventing the principles of business – enterprises must create the right internal design, plan for scale, build a viable value proposition and seek the right partners – it is about recognizing that these principles need to be applied in different ways. This means that the frameworks made for the developed world may not be sufficient or correct in the BoP context.

What we need is a toolkit that is specifically developed with the BoP in mind. BoP enterprise leaders need standardized frameworks that they can modify to their unique context. At the very least, such a guide will help these enterprise leaders avoid some classic mistakes that many BoP ventures seem to make over and over, while providing a roadmap for their journey to scale. The Sustainability at Scale toolkit is, I believe, the first framework to focus on a set of actionable tools and strategies that can guide BoP enterprise leaders.

Research Background

This toolkit was derived from examining and understanding success and disappointment in the field, is based on my research over the past 15 years, with various colleagues, on building sustainable and scalable businesses in BoP markets. This includes a longitudinal study from 2002-2005 of 18 initiatives across six multinational corporations (MNCs) seeking BoP market entry.^{vii} All six companies agreed to provide extensive access to key people and core documents associated with their BoP initiatives for an extended period of time. Data included gathering publicly-available and internal materials, attending company presentations and meetings, visiting company facilities and, most importantly, conducting semi-structured interviews with the individuals involved in developing BoP-oriented initiatives at the six MNCs.

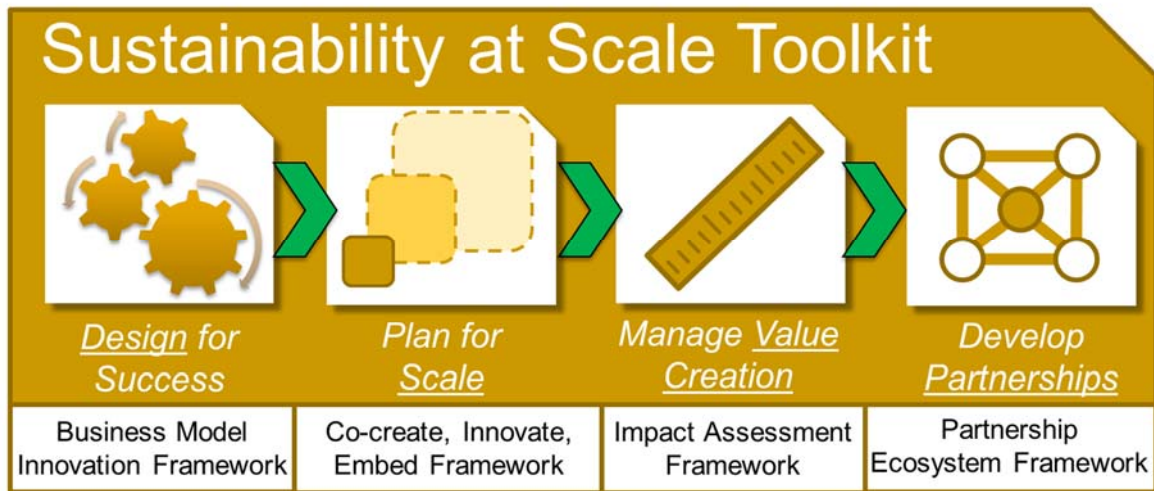
Subsequent research has included collaborations with BoP enterprises in health care, energy, agriculture, sanitation, housing, consumer goods, and other impact areas. These studies incorporate both quantitative data (primarily from surveys) and qualitative data (mainly from interviews) and have examined value creation, social impact, capability development, and partnership ecosystems in Africa, Asia, and Latin America.^{viii} A number of these studies are supported by the enterprises, while others are funded by the development community. I have presented the findings from this research in papers, books, book chapters, case studies, and reports, as well as a variety of forums across the globe. Company partners include CEMEX, Centrolac, Coca-Cola, Danone, DuPont Farm Shops, GE Healthcare, GE Power, Gilead Science, Hershey, Hewlett-Packard, Honey Care Africa, ITC Limited (India), Microsoft, Movirtu Cloud Phone, Nike, Penda Health, Pfizer, Philips, Procter & Gamble, Riders for Health, Sanergy, SC Johnson, SunnyMoney, Sustainable Harvest, Swiss Re, Tetra Pak, Unilever, Villa Andina, VisionSpring, and Walmart.

Toolkit for Building Sustainable, Scalable Enterprises

The Sustainability at Scale toolkit, as shown in Figure 1 and discussed below, includes four frameworks. These are:

1. The Business Model Innovation Framework: developing an effective internal design/structure
2. The Co-create, Innovate, Embed Framework: key principles for moving from design to pilot to scale
3. The BoP Impact Assessment Framework: building a viable value proposition from the perspective of the BoP
4. The Partnership Ecosystem Framework: building the cross-organizational collaborations needed for sustainability at scale

Figure 1: Sustainability at Scale Toolkit

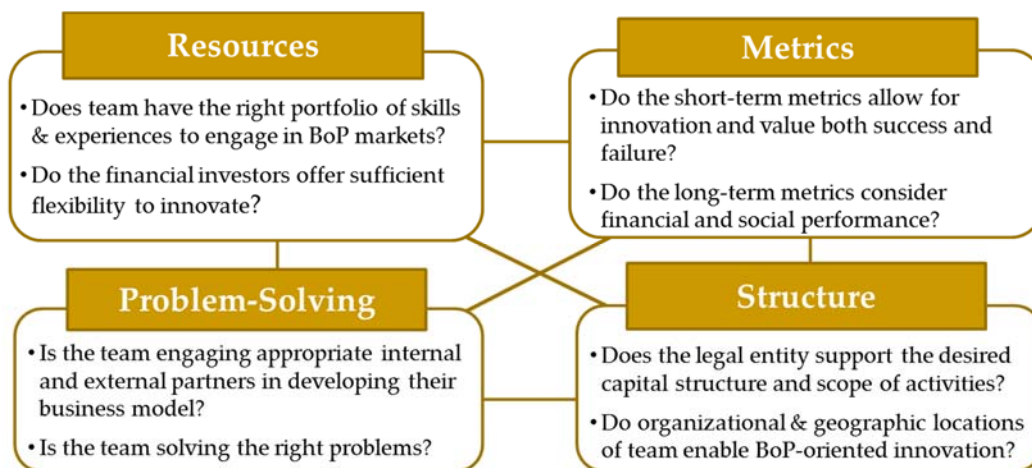


Business Model Innovation Framework

The opportunity for business model innovation (see Figure 2) is influenced by four key factors: resources available, structure, problem-solving approaches, and metrics. Important questions for each key factor include the following:

- Resources: does the team have the right portfolio of skills & experiences to engage in BoP markets?
- Metrics: do the short-term metrics allow for innovation and value both success and failure?
- Problem-solving: is the team engaging appropriate internal and external partners in developing their business model?
- Structure: does the legal entity support the desired capital structure and scope of activities?

Figure 2: Business Model Innovation Framework



Co-create, Innovate, Embed Framework

Enterprise leaders must plan for scale from the start and expect to transition through three phases (see Figure 3):

- Envision stage: Do enterprise leaders understand how to co-create solutions with the BoP?
- Pilot stage: Do enterprise leaders know how to orchestrate effective experiments that focus on testing specific hypotheses that provide clear learning outcomes?
- Expand stage: Do enterprise leaders have the skills to continuously collect, learn from and act on evolving information from the BoP market and its customers and producers?

Figure 3: Co-create, Innovate, Embed Framework

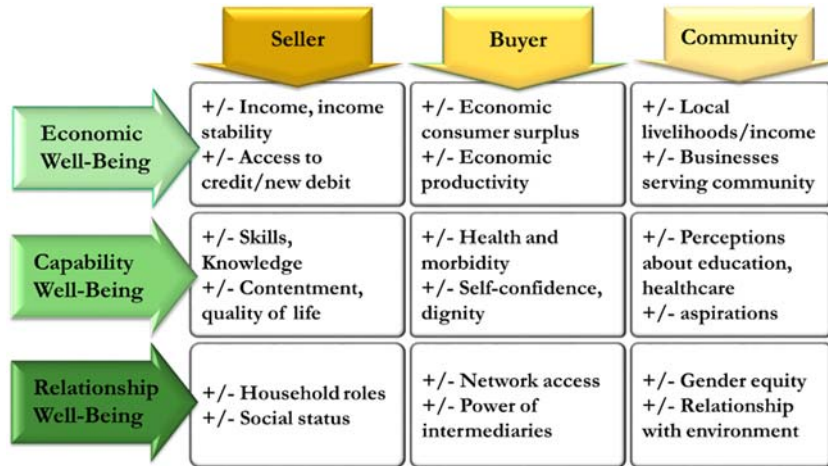


BoP Impact Assessment Framework

Enterprise leaders must truly understand the value it creates for its customers, suppliers, and other key stakeholders (see Figure 4). In BoP markets, alleviating poverty is a key source of value creation. Some important questions include the following:

- Do enterprise leaders understand how their business model alleviates poverty?
- Do they understand how to improve their value proposition by enhancing the positive impacts from their enterprise activities as well as how to mitigate negative ones?
- Do they recognize how their value proposition may change in different contexts and over time?

Figure 4: BoP Impact Assessment Framework



Partnership Ecosystem Framework

Enterprise leaders will likely need to integrate their efforts with a variety of partners, including those from the development community (see Figure 5). Some important questions include the following:

- Do the enterprise leaders understand the partnership opportunity landscape?
- Has the enterprise developed the necessary partnership ecosystem?
- Are the enterprise leaders prepared to adjust their partnership ecosystem as the market situation and needs of the enterprise change?

Figure 5: Partnership Ecosystem Framework

	Enterprise Development	Market Creation
Action Enabling	<p>Facilitate Enterprise Activities</p> <p><i>Market Intelligence</i></p> <ul style="list-style-type: none"> o Cultural context, competitive landscape o Consumer demand, supplier preferences <p><i>Market Access</i></p> <ul style="list-style-type: none"> o Connection to distributors, other platforms o Implementation support <p><i>Value Creation</i></p> <ul style="list-style-type: none"> o Assess poverty impacts 	<p>Facilitate Market Transactions</p> <p><i>Demand Creation</i></p> <ul style="list-style-type: none"> o Awareness raising, behavior change o Micro-credit, other sources of financing o Vouchers/subsidies <p><i>Supply Enhancement</i></p> <ul style="list-style-type: none"> o Advisory services for producers o Improved inputs o Aggregation of outputs
Capacity Building	<p>Enhance Enterprise Resources</p> <p><i>Financial Capital</i></p> <ul style="list-style-type: none"> o Grants, equity, debt, loan guarantee <p><i>Human Capital</i></p> <ul style="list-style-type: none"> o Talent development, technical assistance <p><i>Knowledge Capital</i></p> <ul style="list-style-type: none"> o Processes, tools, and frameworks <p><i>Social Capital</i></p> <ul style="list-style-type: none"> o Legitimacy, access to networks 	<p>Enhance Market Environment</p> <p><i>Value Chain Infrastructure</i></p> <ul style="list-style-type: none"> o Physical infrastructure development o Quality assurance and certification o Market transparency <p><i>Legal Infrastructure</i></p> <ul style="list-style-type: none"> o Policy changes and regulation enforcement <p><i>Institutional Infrastructure</i></p> <ul style="list-style-type: none"> o Banking, legal, property sector enhancement

Looking Ahead

Together these four frameworks provide enterprise managers with a set of guiding principles for building business that serve the BoP. When adapted to the enterprise's unique context, they can help these leaders avoid some classic mistakes, while providing a roadmap for the journey to scale. More details on and examples about using these frameworks are available in the book "*The Base of the Pyramid Promise: Building Businesses with Impact and Scale*".^{ix} Moving forward, our goals must include offering concrete guidelines for how to build better enterprises while simultaneously alleviating poverty.

ⁱ This piece includes material drawn from blog postings and web content that I have developed.

ⁱⁱ See Ridell and Easterly, among others, for more on this. Easterly, W., *The White Man's Burden: Why the West's Efforts to Aid the Rest have Done so Much Ill and so Little Good*. 2006, New York: Penguin Press; Riddell, R.C., *Does Foreign Aid Really Work?* 2007, Oxford: Oxford Press.

ⁱⁱⁱ See Prahalad, C. K. (2005). *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. Upper Saddle River, NJ: Wharton School Publishing; Hart, S. L. (2005). *Capitalism at the Crossroads: The Unlimited Business Opportunities in Serving the World's Most Difficult Problems*. Upper Saddle River, NJ: Wharton School Publishing; Hammond, A. L., Kramer, W. J., Katz, R. S., Tran, J. T. & Walker, C. (2007). *The Next Four Billion: Market Size and Business Strategy at the Base of the Pyramid*. Washington, DC: World Resources Institute and International Finance Corporation; and T. London & S. Hart (2011), *Next Generation Business Strategies for the Base of the Pyramid: New Approaches for Building Mutual Value*. Upper Saddle River, NJ: FT Press.

^{iv} Kolk, A., M. Rivera-Santos, and C. Rufin, Reviewing a decade of research on the "base/bottom of the pyramid" (BOP) concept. *Business and Society*, 2014. 53(3): p. 338-377.

^v London, T. (2016). *The Base of the Pyramid Promise: Building Businesses with Impact and Scale*. Stanford: Stanford University Press.

^{vi} London, T. and S.L. Hart, Reinventing strategies for emerging markets: Beyond the transnational model. *Journal of International Business Studies*, 2004. 35(5): p. 350-370.; Lashitew, A. and van Tulder, R. Social innovation at the base of the pyramid: How embeddedness drives hybrid practices in mainstream business. Working Paper

^{vii} London, T., Business Model Development for Base-of-the-Pyramid Market Entry. *Proceedings of the Seventieth Annual Meeting of the Academy of Management* (CD), 2010. ISSN 1543-8643.

^{viii} See, for example: London, T., R. Anupindi, and S. Sheth, Creating mutual value: Lessons from ventures serving base of the pyramid producers. *Journal of Business Research* 2010. 63(6): p. 582-594.; London, T. and H. Esper, Assessing poverty-alleviation outcomes of an enterprise-led approach to sanitation. *Annals of the New York Academy of Sciences*, 2014. 1331: p. 90-105.; London, T., H. Esper, A. Grogan-Kaylor, G. Kistruck., Connecting poverty to purchase in informal markets. *Strategic Entrepreneurship Journal*, 2014. 8(1): p. 37-55.; London, T. and R. Anupindi, Using the base-of-the-pyramid perspective to catalyze interdependence-based collaborations. *Proceedings of the National Academy of Sciences*, 2012. 109(31): p. 12294-12301.

^{ix} London, T. (2016). *The Base of the Pyramid Promise: Building Businesses with Impact and Scale*. Stanford: Stanford University Press.