Base of the pyramid: A market to learn from

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Low-income markets can help to develop virtuous circles based mainly on co-creation capabilities that are hard to beat.

The income gap between the rich and poor is widening. Estimates suggest that by 2050, 85 percent of the world's population will live in developing countries. They are the markets of the future.

If companies do not take this sector of the population into account, they will be unable to thrive, and the benefits of the global market will be nonexistent. Thus, it is necessary to do business in these markets, and that requires radical innovations, in both technology and business models.

Companies deciding to enter at the so-called "base of the pyramid" (BoP) will find great opportunities for developing innovative solutions that work effectively to reduce poverty. At the same time, they will have a source of competitiveness that will enable them to adapt freely to the demands of the market.

For these reasons, IESE Prof. Joan Enric Ricart and research assistant Juliana Mutis set out to explore these markets as a method for learning and innovation in the field of business strategy, in their article "Innovación en modelos de negocio: la Base del la Pirámide como campo de experimentación" ("Innovation in Business Models: The Base of the Pyramid as a Field of Experimentation").

Adapting to the market context

Most BoP business experiences are in the field of corporate social responsibility. However, some practices are gradually infiltrating the company's core strategy and business operations.

Low-income environments require a business model that overcomes the barriers to entry. Success in BoP business depends on how the company articulates its business model (its choices) and how it leverages the socioeconomic development (the consequences) that it generates.

Consider the market context in developing countries: most people do business in the informal economy; live in isolated rural areas or illegal neighborhoods in urban areas; do not use banking services; often do not even appear in the census; and have no access to basic services. In this context, it is necessary to develop models that are efficient, which create value for all actors, intervene in areas where the market fails and/or enable some of the vicious circles of poverty to be overcome.

That is what Nestlé did in 2006 when it invested $47 million to install a new plant to make products with cheaper packaging, in order to supply markets with less purchasing power - a market valued at $2.8 billion in global terms.

Another example is Pasa, part of the Agrolimen Group, which has achieved a high level of penetration in Africa and an excellent position in many countries with its powdered soups.

To do so, it used price as a strategic element and reduced costs by means of local production and supply, while using appropriate technologies and the design of global products.

It also aimed for a capillary distribution system adapted to each local market and established strategic alliances with local partners, in order to obtain a clear and sustainable competitive advantage in terms of consumer awareness, brand investment, product adaptation and local costs.

A platform for learning

The enormous needs and complex contexts of these markets make them suitable areas for developing the skills of tomorrow. These are mainly based on co-creation and developing networks of experiences, which enable companies to build practices and compete on the basis of innovative business models.

An example is Philips Electronics' Distance Healthcare Advancement (DISHA), which began with the aim of providing medical services. It used a car fully equipped with telemedical technology and various strategic alliances to perform medical diagnoses for the inhabitants of rural areas in India.

For DISHA, a business model based exclusively on diagnosis was not entirely profitable. However, it was the necessary link to begin its work at the BoP. Systematization of the consumers' experiences allowed the service to become more sophisticated and be complemented by additional services for the community, such as medical insurance.

The BoP can also become a challenge that enables capacities of competitiveness, based on innovation and flexibility, to be put to the test as the main driving forces of value. It is also a field for experimentation in co-creation experiences.

Co-creation requires the development of networks of experiences, and competing with the same business model is not feasible in all environments. Changing it quickly is also not easy, and these networks help to achieve this.

The Nueva Group is an example. Its company, Amanco, succeeded in implementing a business model to sell irrigation systems to small-scale farmers.

One of the main skills it developed was that of establishing unconventional strategic alliances (social entrepreneurs, international organizations, etc.) and using their skills as support. The network of experiences enabled them not only to have alternative models, but also to transfer the knowledge obtained to another company in the same group, Masisa, which is using these networks to develop a model in the housing sector.

According to the authors, innovation is, therefore, what enables trends in developed markets to be anticipated, such as renewable energies, telemedicine and banking services using mobile telephony.

A unique opportunity

In an environment in which consumers demand an increasing number of solutions but are only willing to pay for products, low-income markets enable innovation in terms of how this solution is supplied.

The necessary interaction between the company and its environment to free up the factors associated with poverty will lead companies to create virtuous circles based mainly on co-creation capabilities and the development of networks of experiences.

These networks will, in turn, enable them to gain access to others' capabilities and investments, replicate these models on a larger scale and create a new level of competitive advantages and imitation barriers.

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