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Sustainable Business at the Base of the Pyramid

Guest Lecture for the Course **Innovation for Sustainability**

by Maximilian Bruder



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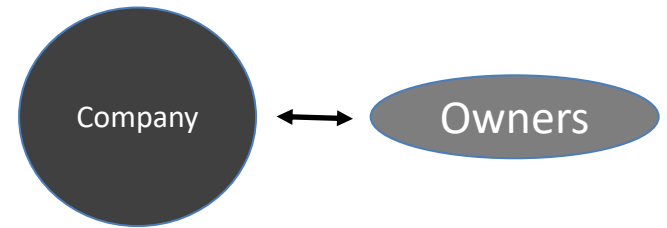
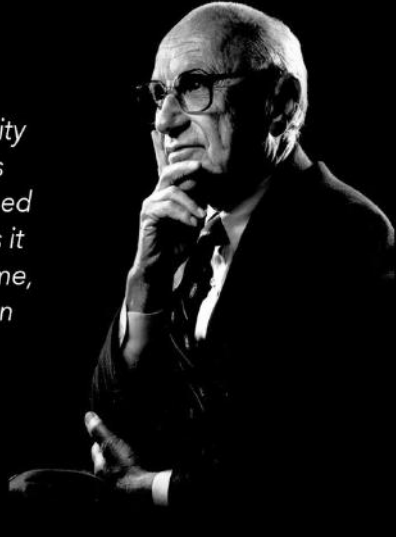
2. The Purpose of the Firm



2.1. Shareholder Theory

“Friedman Doctrine”

Milton Friedman: *"there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."*



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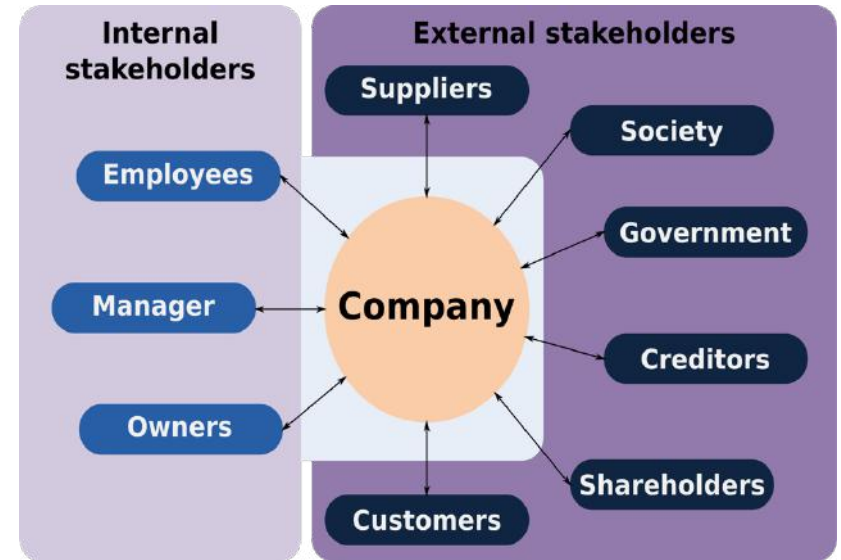
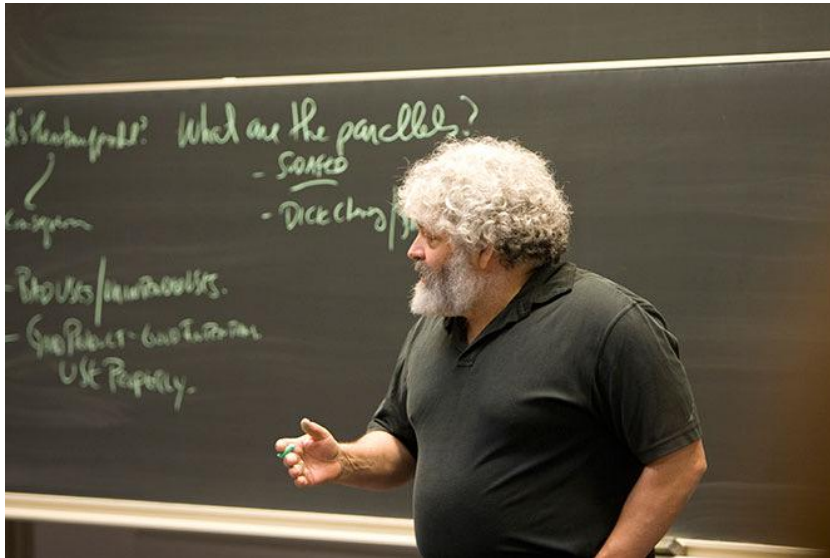
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2.2. Stakeholder Theory

R. Edward Freeman



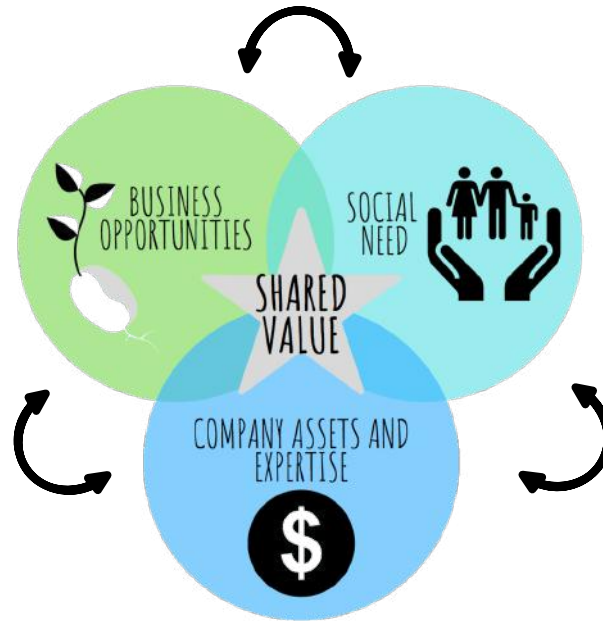
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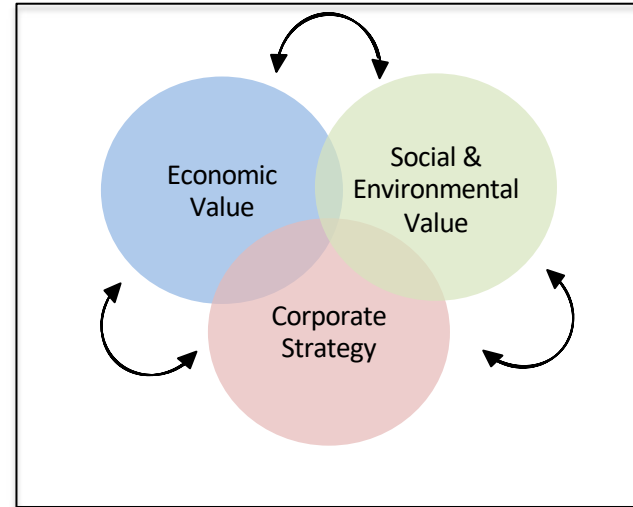
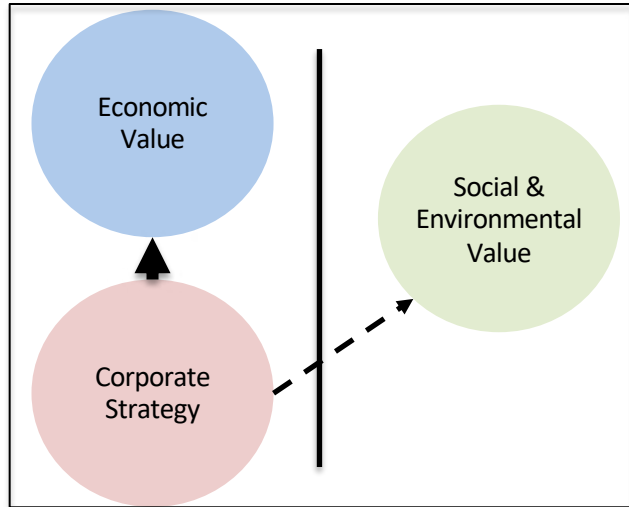


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2.3. Mutual (Multiple) Value Creation



2. The Purpose of the Firm



From moral obligation

Strategy / CSR

to strategic opportunity



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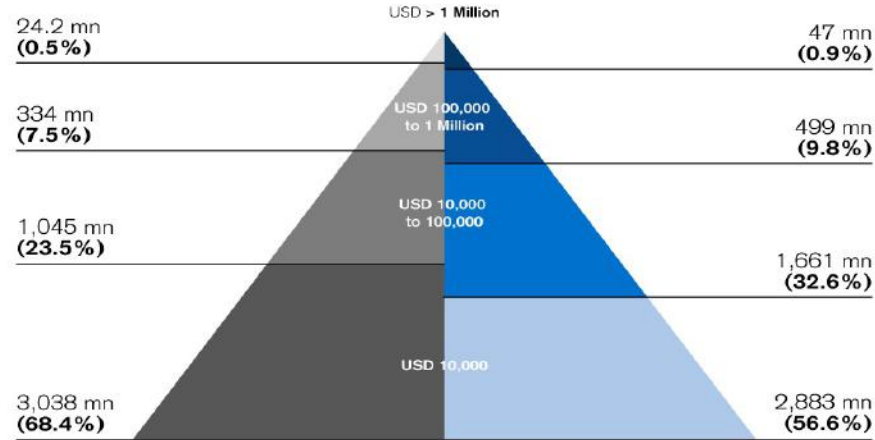
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3. The Base of the Pyramid

2010 vs 2019

Number of adults (% of world population)



Source: Credit Suisse Global wealth report 2019



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3. Business at the Base of the Pyramid

Maximizing Shareholder Value



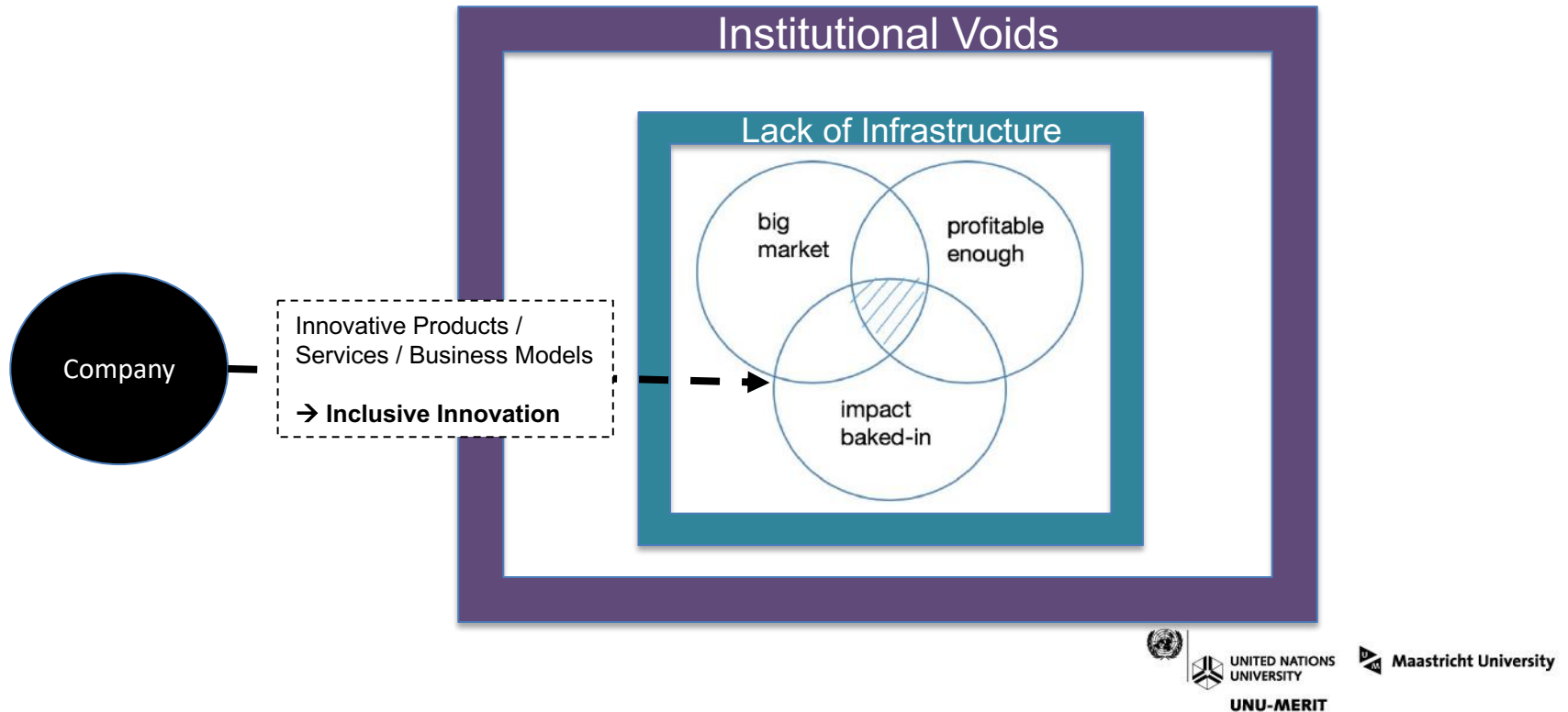
Purpose of the Firm

Slowing Economic Growth in Developed Markets

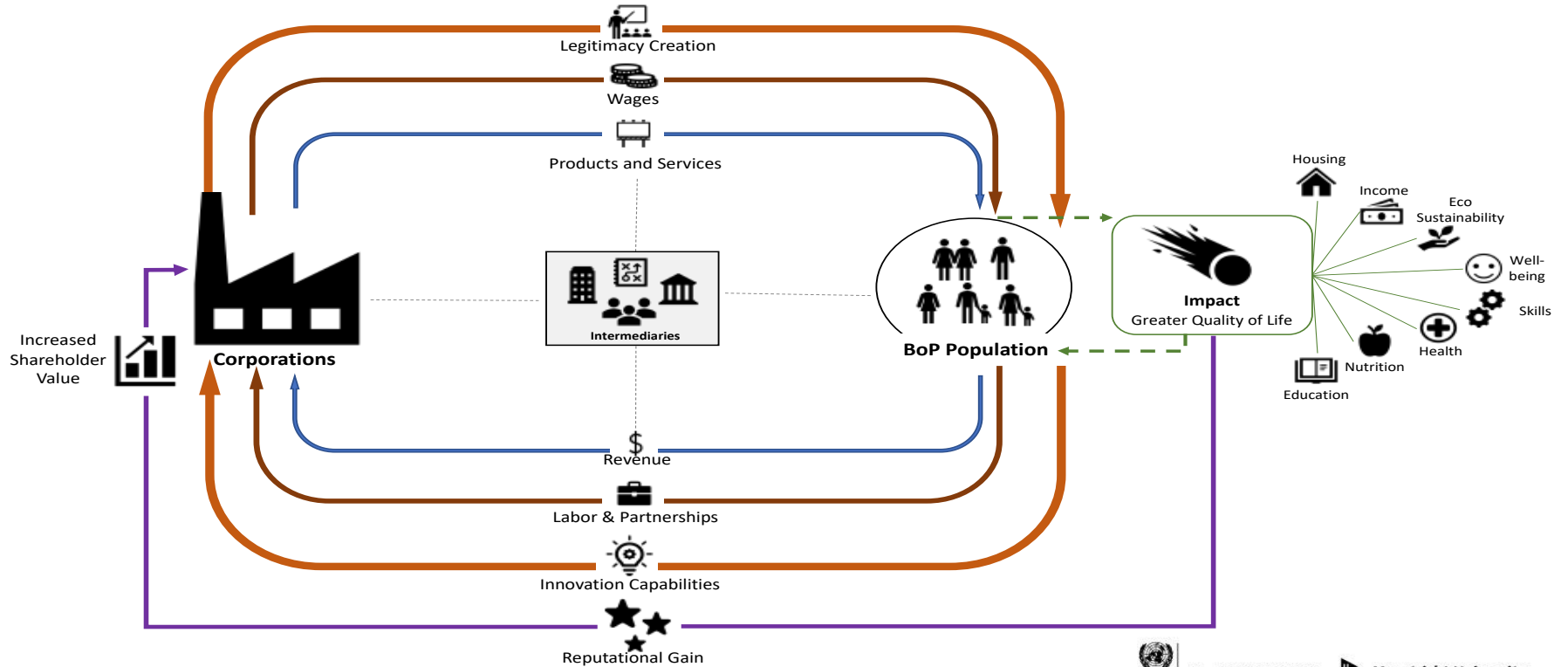
What are the ways for (multinational) companies to deal with these systemic pressures effectively?



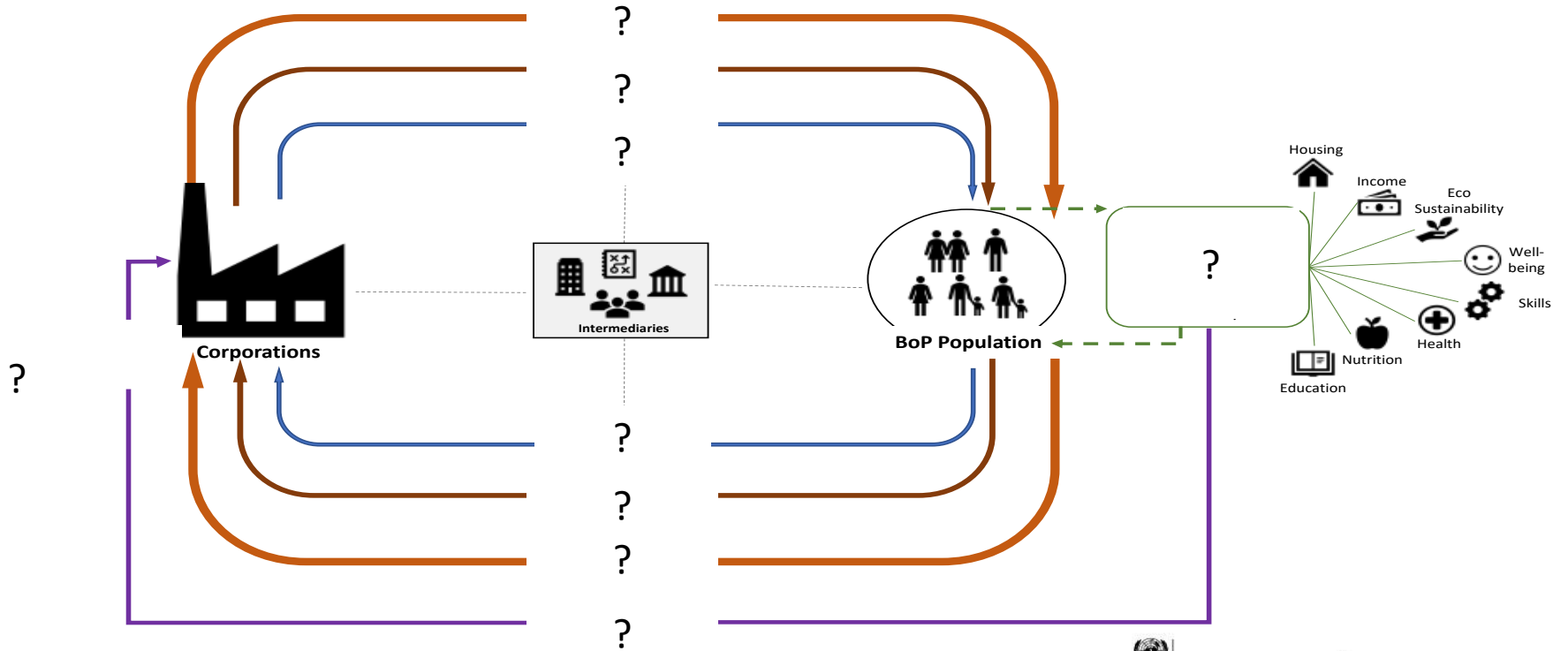
3. Business at the Base of the Pyramid



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3. Business at the Base of the Pyramid



BoP Approach as a Means of Combining Profits with Purpose



Win-Win-Win Situation



Multiple Iterations of the Approach have Developed

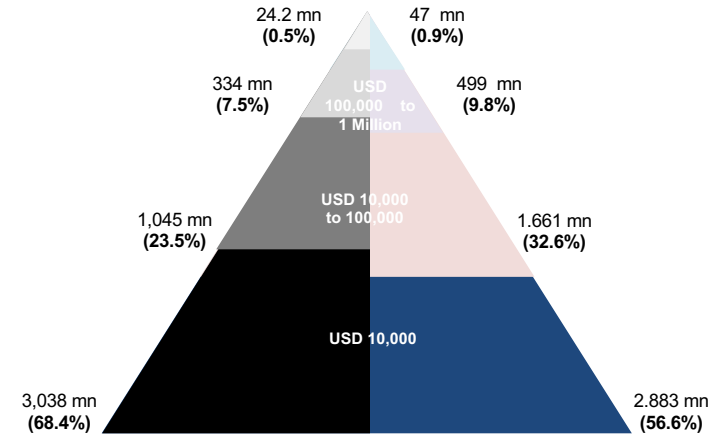
- BoP 1.0 – Selling to the Poor
- BoP 2.0 – Co-creation with the Poor
- BoP 3.0 – Integration of Environmental Concerns



Possibility of Reverse Innovation



Governments Aim to Maximize Returns from BoP Ventures



**Global Wealth
Distribution 2010**

3. Business at the Base of the Pyramid

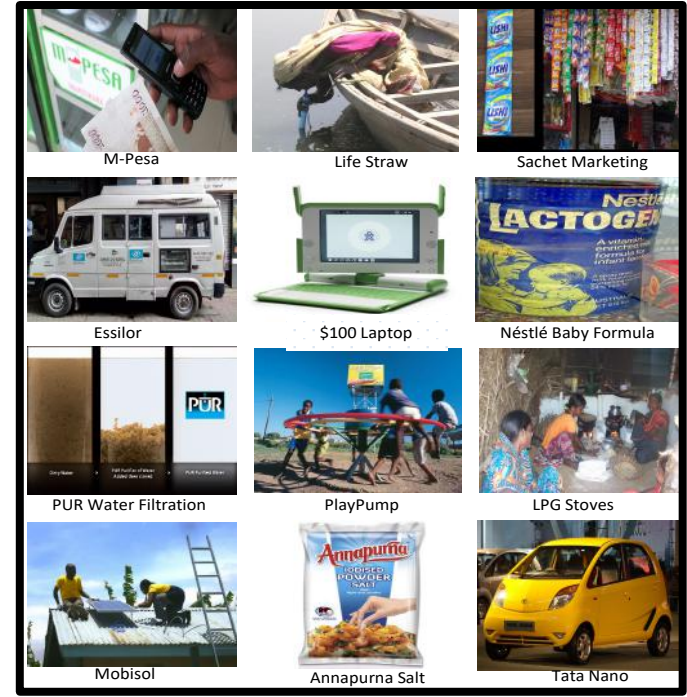
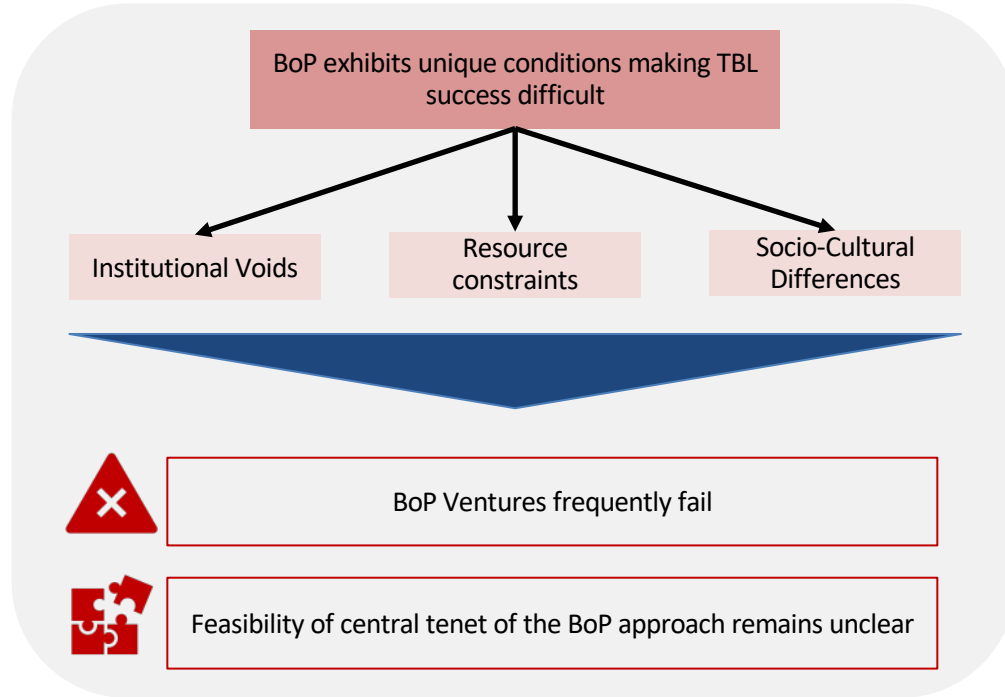


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4.1. BoP Ventures



JAIPUR RUGS



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LifeStraw



100 Dollar Laptop



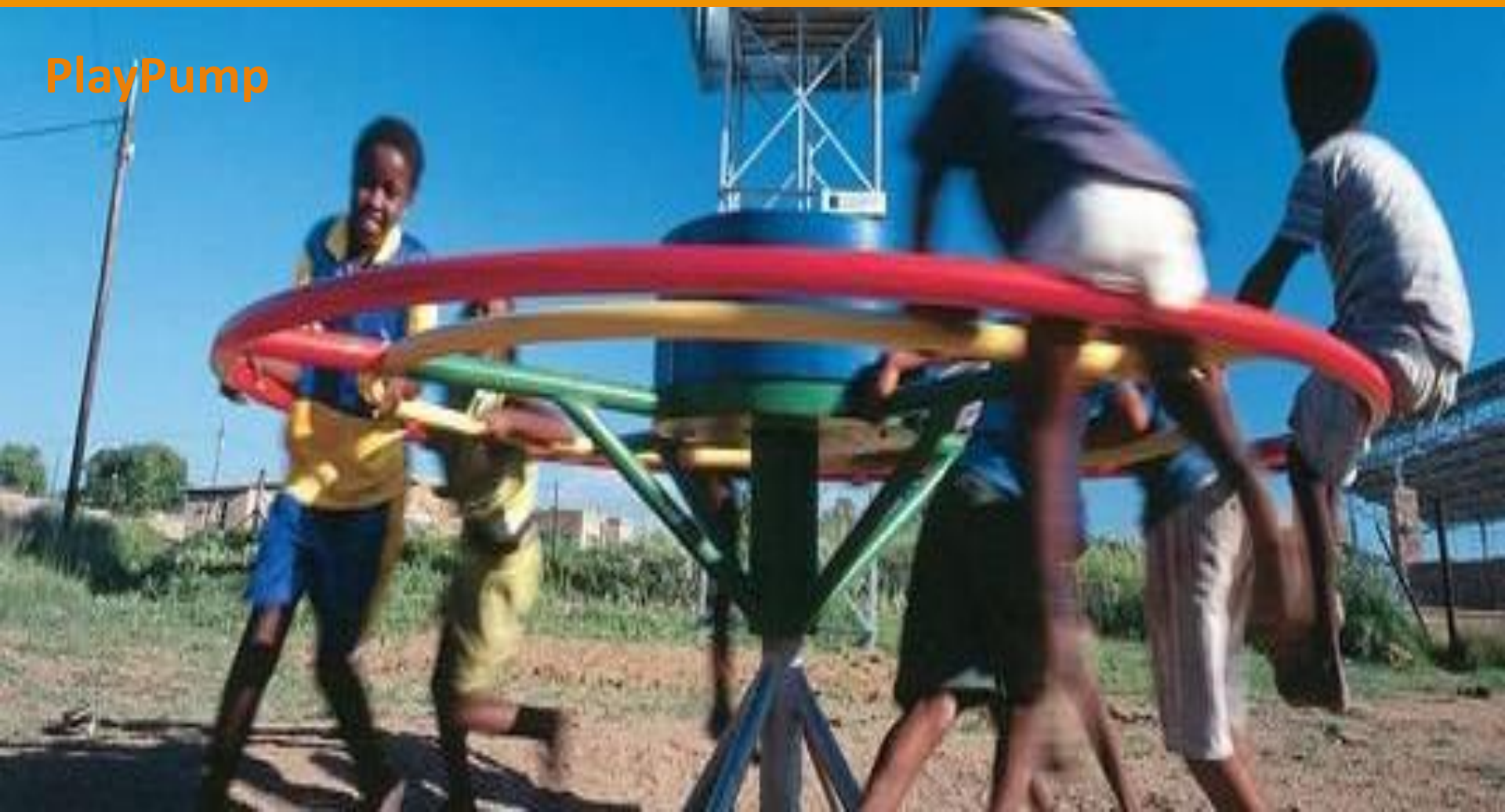
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PlayPump



Essilor Eyecare



M-Pesa



Sachets



Factory

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4.2. Lack of Impact Evaluation



"My question is: Are we making an impact?"

- Impact for companies is displayed in P&L but not often publicized
- Impact on the consumers & environment is rarely evaluated



4.3. Pitfalls for Organizations Attempting to Introduce Innovations at the BoP

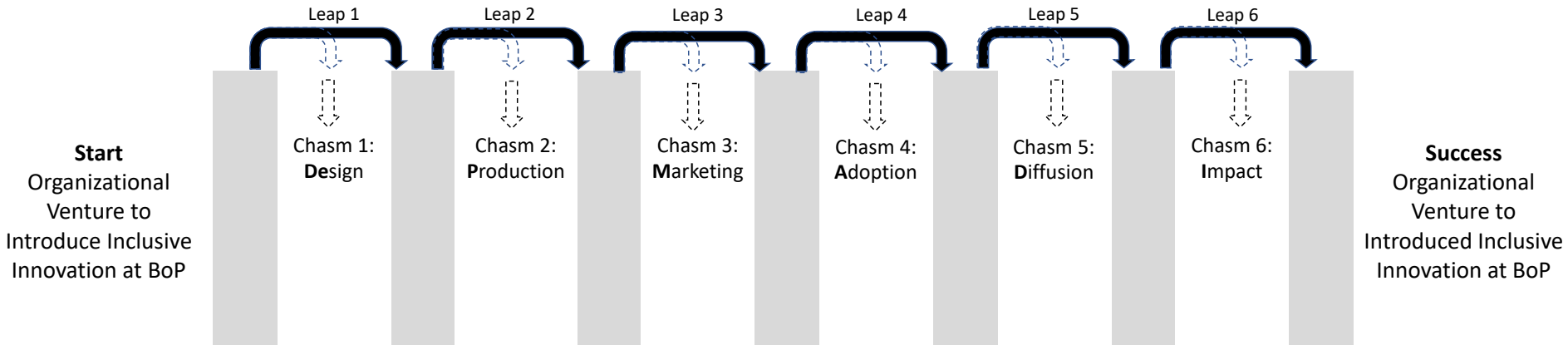
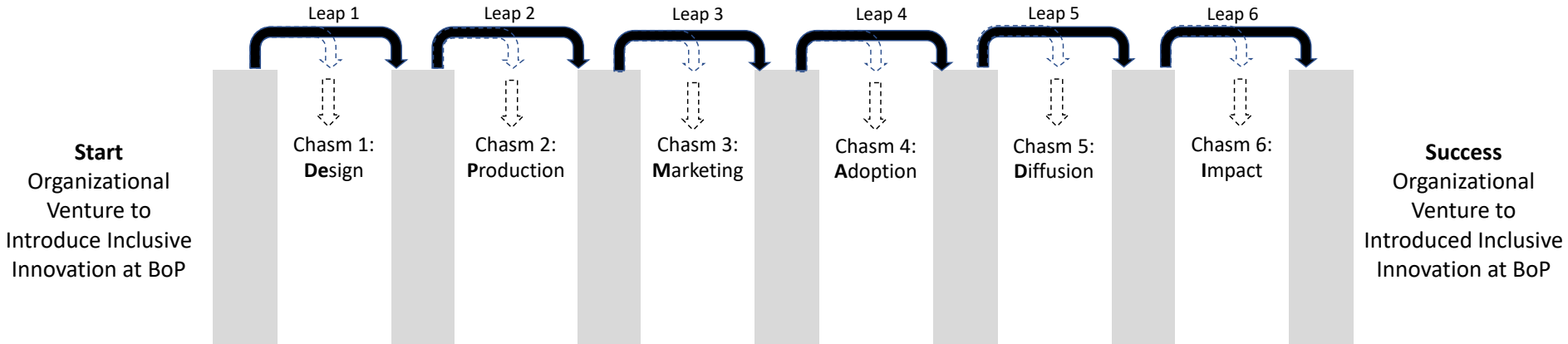


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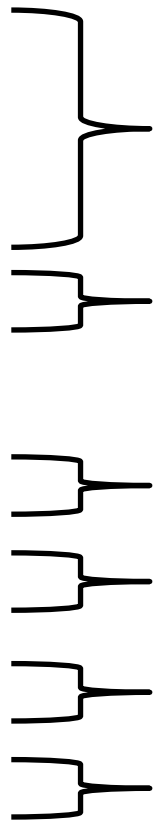


5.1. How to Overcome these Chasms?



Chasms	
Design Chasms	De1.No existing external tech for specific BoP
	De2. Existing tech not a good fit for BoP
	De3. Existing tech not accessible
	De4. Missing tech. infrastructure in BoP context
	De5. Non-evident / Insufficient value proposition
	De6. low appropriateness
Production Chasms	P1. Short product life
	P2. Need to create a manufacturing facility in the developing country
	P3. High costs to export to developing country
	P4. Lack of qualified personnel in developing country
	P5. Lack of access to infrastructure
	P6. Shortcomings in infrastructure
	P7. Conflicts/corruption
	P8. Competition for inputs in local markets
	P9. Easy to imitate product and strong local competition
	P10. Costly to scale-up production due to firm/systemic constraints
	P11. Other = systemic problem
Marketing Chasms	M1. No existing/weak distribution channels
	M2. No existing/weak retail channels
	M3. B2B partners difficult to find
	M4. Respect of commitments difficult to ensure with B2B partners
	M5. Promotion/Communication not customized to local context
	M6. Inaccessible price and/or lack of third party payer
	M7: Other = design of commercialisation strategy
Adoption Chasms	A1. Targeted consumer is not aware of the product
	A2. Targeted consumer does not know how to use product
	A3. Targeted consumer cannot appreciate utility of innovation
	A4. Targeted consumer is unable to pay
	A5. Target Consumer is Unwilling to Pay
	A6. Targeted consumer does not possess complementary assets
Diffusion Chasms	DF1. Power structure of social networks that plays against adoption
	DF2. Weak Communication channels (internal)
	DF3. Other

Solution Strategies
Design Appropriate Innovations (Culturally)
Design Appropriate Innovations (Financially)
Design Appropriate Innovations (Education / Skill)
Design Complementary Innovations
Design Innovations with a Dual Value Proposition
Design Innovations with an Emphasis on Frugality / Low Frills
Design Innovations with an Emphasis on High-Tech
Continuously Fine-tune and Adapt Existing Innovation
Reduce Innovation Price by Reducing Quality
Leverage Existing Organizational / Subsidiary Facilities
Involve the BoP in Value Chain Process
Employ Low-Cost Innovation Methods to Reduce Cost
Form Partnerships and Alliances to Decrease Competitive Pressure and Create Legitimacy
Employ Small Margins, High Volume Strategies
Adjust Communication and Marketing to Cultural Setting
Create Ecosystems of Capacity Building Suppliers, Producers, Distributors



Intimately know needs & wants at BoP
→ Design Appropriately

Use local resources and be frugal

Reduce Price by any Means Possible

Integrate BoP into the Value Chain
→ Build local capabilities

Form Partnerships

Use unconventional marketing & distribution methods

Policy Implications



Support and guide private sector activities in public-private partnership



Novel forms of financing (green bonds, social impact bonds)



Government must act as a facilitator to improve infrastructural conditions and ease institutional constraints to facilitate doing business



Overall objective must be for policymakers to enact policy that combines system-wide economic growth, while assuring that the poor can participate fully in the opportunities unleashed, and so benefit and contribute to that growth



→ Inclusive innovation efforts should become less necessary for the BoP, because they will be addressed by broader developmental achievements



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6. Conclusion

- **Business models** are concerned with how the firm defines its competitive strategy
- Sustainable Business Models
 - Incorporates a triple bottom line approach
 - Creates value for broader set of **stakeholders**

- Constraints at BoP may lead to **innovations** circumventing them
- Plethora of innovation models have developed
- **Reverse innovation** may extend benefits of successful BoP products to developed countries



- **Stakeholder theory:** business can be understood as a set of relationships among groups that have a stake in the activities that make up the business
- **Resource-based theory** proposes that firms' competitive advantage stems from utilization of capabilities and resources

- 3Ps are **joint-ventures** between public sector and private companies
- Policymakers include broader pro-poor **economic growth** through their policies



