

Innovation and Quality: Drivers of Successful Ventures that Seek Success in Catering to Consumers who Live in Poverty

Dr. Satya P. Chattopadhyay

Associate Professor of Marketing

Arthur J Kania School of Management, University of Scranton, USA

ABSTRACT

The next big challenge in a global marketplace is to engage the very large segment of world population which survives on less income than the defined poverty level by any measurements that may be applied. This segment in the past has been the focus of aid and charities and been at the receiving end of poverty alleviation programs created by a variety of international donor agencies, with very limited success. It is time now to take a different approach. A radical re-thinking of the problem now has resulted in a novel approach: that of engaging them as customers like any other. The underlying assumption is that folks in this segment still spend billions of dollars in the aggregate and are now able to critically examine offerings and choose to go after quality and value just like any other segment. The opportunity to tap into this huge market lies in innovative entrepreneurial efforts that make goods and services available to this segment without compromising on performance and quality. This paper explores the nature of innovation that is likely to result in entrepreneurial success in what is called the Base (Bottom) of the Pyramid marketplace.

Keywords: Innovation, Quality, Entrepreneurship

1.0 Introduction

In spite of the economic advances in the strengthening economies of China, India, Brazil, Russia and other countries, it is still true that a significant majority of the global population still have to survive on less than \$5 per day. While the exact number of people in that segment, and the specifics of the daily amount can be debated, it is undeniable that the vast majority of the world's population has very limited purchasing power. However, the purchasing capacity of this global segment is huge by virtue of the segment size that is relevant. In addition, with the advent of the leap-frogging advances in mass communication and rapidly proliferating reach of media into the lives of people, there has been the homogenizing of the aspirations of people around the globe, and cutting across segments. An increasing proportion of the population at the so called "Base of the Pyramid" now need and want the products and services that have previously been associated with the relatively small middle class alone. The gap between the aspirations and the ability to acquire them has spawned significant social unrest, causing considerable worry among leaders of governments who feel inadequately prepared to deal with it.

C. K. Prahalad suggested in his seminal work "Fortune at the Bottom of the Pyramid" that the solution to this growing problem may well reside in a novel approach to the marketing of goods and services. He suggested that creative approaches to meeting the needs of this BOP segment may well serve two important purposes. The idea has since taken hold. One benefit has been the increase in the quality of life of more and more of the BOP population. The other benefit has been the incubation and birth of a new class of entrepreneurs who seek to use this opportunity to raise themselves and those around them out of the depths of poverty. This class of entrepreneurs has included individuals as well as employees in the corporate sector who have taken on the challenge of thinking out of the box to profitably satisfy the BOP customers.

As the BOP focus has matured over the last ten years, scholarly interest has focused on the analysis of this approach in order to identify critical success factors and significant inhibitors that seem to predict the

outcome of BOP ventures that have been documented in a growing library of related case studies. The qualitative evaluation of BOP literature suggests that two very important constructs appear to explain a large proportion of the variation in outcomes of the BOP ventures. First is the nature and degree of innovation that the BOP targeting entrepreneur exhibits. Second is the focus on the quality of product and or service that is delivered to the BOP customers.

The purpose of this paper is to suggest a way to empirically validate the role of innovation and quality in a spectrum of BOP ventures that span a variety of country settings and levels of sophistication. Depth interviews with entrepreneurs in a number of developing economies will be the methodology employed for this exploratory study that hopes to provide insights that provide policy implications and the impetus for future research in the field.

2.0 Bottom of the Pyramid (BOP)

A definition of market always has stressed that to be part of market there is the necessary condition that the individual or organization must be “willing” and “able” to enter into a transaction to satisfy a need or a want. The basic understanding was that there has to be sufficiency of available resources and then a willingness to part with the resource in an exchange. The willingness concept was explored further in the light of disposable and discretionary income that helped categorize it. In practice however, it was accepted as logical that marketers in order to survive had to focus on the zone of the discretionary income where profits were to be made as consumers appeared to be willing to spend more for the “right” product. The high end of the market, or the so called top of the pyramid was considered the holygrail to aspire to.

However, as the emerging markets of India, China, Brazil and the like opened up in the 1990s, it became obvious that the potential markets of the future were there, and they were not like the markets of yesterday. These are demographically huge markets, much larger in size than the “middle class markets” that had traditionally been the source of bread and butter for consumer marketers. With globalization and access to media, the needs and wants of this huge group of population was changing rapidly even as the resigned acceptance of their living conditions of abject poverty turned into a increasingly organized protest against stark income inequality. The existing market structure was not geared to meeting there needs and had to be coerced into serving small sections of it by fiats, legislative or otherwise. The requirement of banks to serve minority communities and enterprises and NGO driven micro-financing operations were seen more as social justice initiatives than business ventures with potential. Another response was to use mass production capacity to produce goods and services of low or indifferent quality that could then be sold at throwaway prices to the low end of the market. The marketers guessed wrong. The market at the “Bottom of the Pyramid,” those made up of consumers making less than a few dollars per day quickly started looking past the charity handouts and the shoddy quality of goods and services targeted to them.

It is at this juncture that the idea that the BOP market can be a source of wealth creation rather than a client for charitable hand-outs or a dumping ground for low quality goods and services started taking hold. Let by Prahlad and others, the idea that it was possible to successfully market to this huge segment took hold. After the initial disdain, it became clear that not only was this market viable, but it was the opportunity that was the biggest game in town when it came to sustaining enterprises over the near and intermediate future.

In the past decade, the BOP market perception has evolved into a model that allows the for-profit private enterprises to partner with non-profits and developmental agencies to create synergistic initiatives that in addition to meeting the shareholder needs, also contribute to economic development of the markets served in significant and visible ways. The BOP perspective allows for organizations to plan and implement “social

marketing” objectives and truly cater to the needs of the broad spectrum of stakeholders, not just their shareholders.

Tayo Akinyemi contributing to the nextbillion.org website says about finding a trade-off between “doing well” and “doing good”:

“Certainly there are trade-offs, but it appears that the gap is closing. ...To me, BOP is the counterpoint in the balance between social and financial profit and promotes the notion that the pursuit of social good can be a core, not ancillary, function of business. Superficially speaking, social enterprise, social entrepreneurship, and venture philanthropy seem to focus on “entrepreneurializing” socially-focused organizations and pursuits; while corporate social responsibility (CSR), public private partnerships and BOP aim to leverage private enterprise for social good. Clearly, these are only the broad strokes, and don’t capture the complexity of the similarities and differences.”

This brings us to a central question: Are their specific enablers that are needed if we are to successfully enter the BOP market and achieve the balance that is referred to, above.

Prahlad (2007) in a talk at the BOP Conference (WDI, University of Michigan) suggests that a “game changing” perspective of the problem at hand is called for. Some of the necessary ideas are already in place. Few will debate the fact that mere recognition of “lack of opportunity” for the masses does not do anything. What is needed is active search for ways to provide opportunities to all. While progress has been made in reducing the prevalence of abject poverty in some instances, the stark income inequality that has surfaced in all of the emerging markets is a potent potion for unrests and disruption, unless controlled and hopefully resolved. According to Prahlad, the preoccupation with defined income-levels as basis for catering to unique needs must give way to a more holistic goal of acceptable lifestyle goals that are universal aspirations coming about as a result of large scale globalization and sharing of information. Affordability is not a uni-dimensional construct, but rather a comfort zone in a upward trending price vs. quality continuum. The long held view regarding acceptable technology (meaning lo-tech for the masses) has given way to securing greater access to hi-tech for all. To sum up, Prahlad exhorts us to straddle the Pyramid with offerings that exhibit a commonality of quality and standards, with packaging and delivery adjusted to the different levels of the pyramid.

3.0 Innovation in Entrepreneurship

The lofty goal above can be attained only via a special type of entrepreneurship. Both individual (also referred to as independent) and corporate entrepreneurship are needed for significant gains in entry into the BOP market. As seen in the basic definition, an entrepreneur is one who finds an opportunity that others have given up on as too difficult to pursue and develops a strategy to utilize it in order to achieve individual and collective goals. At heart of entrepreneurship is the ability to successfully “think out of the box” and follow through with implementation. In organizations, this would typically be a small group and even an individual who makes a compelling case of organizational assets being channeled into a non traditional venture. This innovative move must overcome the organizational inertia in order to move forward to implementation. The independent entrepreneur also must be able to successfully innovate and push the venture into implementation.

Ted Landon (2007) suggests a framework for examining entry into the BOP market. In his model the focus has to be on the design, implementation and performance stages. His model identifies co-creation and joint efforts of the independent and corporate entrepreneur as contributing to a successful design stage. The

implementation phase will require integrating the local and external resources in a harmonious manner that above all must be a exchange relationship of mutual learning rather than one side teaching the other. The hallmark of success in the performance stage of course will be in the ability of the venture to be sustainable and revenue generating for meeting surplus and future growth needs.

Landon (2007) is correct in focusing on co-creation as a cornerstone of success in entrepreneurial ventures aimed at the BOP market. The role of innovation can be tied to the “creation” aspect very directly. Few will argue that the basic trend of the price-performance graph is upward sloping to the right. This clearly indicates a level of comfort with the fact that low price can be expected to result in low quality. If the relationship changes at all, it is more often the result of market forces of competition holding the price where quality increases. This usually happens at market segment level, and in the best case scenario may trickle down to the adjacent lower level of the market. A very good example of this has been the recent innovations in the low cost air travel market. The innovative low cost carriers have certainly brought new consumers into the market. To really serve the BOP market, this attack on the price-performance graph has to be more radical.

True innovation in the successful BOP entrepreneurial venture will be a radical re-thinking of value delivery to the market in a way that truly improves the overall quality of life. It may make sense to think of an evolutionary path for BOP that begins with “selling” to the market (focusing on availability) that develops into “marketing” which takes into account the specific needs of the BOP market and develops products and services appropriately, to the next stage where focus changes to innovative delivery of the best and highest performing products to the BOP market.

Some examples of innovative entrepreneurship in this model are:

1. Delivering Internet Access and Web Identity to Remote Villages
2. Providing Reading Glasses to Rural Poor
3. Solar Power Delivery to Small Living Units
4. Low Cost Pre-Fabricated Housing for Urban Poor
5. Single Use Packaging of Hygiene and Cosmetic Products

4.0 Evaluation of Role of Innovation in Entrepreneurship in the BOP Market

There are of course plenty of examples of entrepreneurship at the low end of the market where small entrepreneurs manage to eke out a living, and in some cases substantially improve their own standard of living in the process. What needs to be determined is how different is the nature and role of innovation and the impact of these entrepreneurs on the standard of living of the customers.

Proposed areas of enquiry:

- A. Has innovation adapted to the local context?
- B. Has innovation affected lives?
- C. Has innovation affected productivity of society?
- D. Has innovation affected social network structures?
- E. Has Innovation impacted prevalence of poverty?

Methodology:

A judgement sample of twenty-five entrepreneurial ventures were selected in the Bicol region of the Philippines. The setting was chosen because the author has professional linkages with a University there,

and that University has a mission of developing and fostering entrepreneurs who focus on operating within the region and seek to improve economic conditions for themselves and those around them. It also provides an opportunity to examine the role training in outcomes of entrepreneurial ventures. The region of Bicol is an economically distressed one, and certainly a very good exemplar of the BOP market that has been discussed.

An interview schedule with sight visits has been organized to provide observation and self-report data on the structure and scope of the ventures as well as demographic and psycho-graphic information on the actors. While the study has a broader purpose, this research will focus on uncovering the type and role of innovation that is involved in each case.

References: Supplied upon request

Author's Background

Dr. Satya Chattopadhyay teaches Enterprise Management, International Marketing, and Marketing Research at the Arthur J. Kania School of Management at the University of Scranton where he has won awards for his research and contribution in development of technology curriculum. Dr. Chattopadhyay is Honorary Professor of Management of The Academy of Management of Kyrgyz Republic. In addition, he has been Visiting Professor of Marketing at the French Ecole Superior du Commerce et Management (ESCEM) in France, Peking University's China Center for Economic Research, Remnin Business School of Renmin University of China, Capital University of Economics and Business in Beijing, and Kyiv Mohyla Business School at Kyiv Mohyla Academy, Ukraine. Dr. Chattopadhyay was awarded the Fulbright Senior Scholar Fellowship by the US Department of State in 1999 and 2004. Dr. Chattopadhyay has published regularly in academic journals and made numerous scholarly presentations at international conferences and institutions of higher learning. In addition to his teaching and research, Dr. Chattopadhyay is active in international aid projects involving quality management and enterprise management technology with USAID, USIA, Swiss Development Corporation, Eurasia Foundation and the World Bank, in Vietnam, Kyrgyzstan, Slovakia, Kazakhstan, and Republic of Georgia.