

## **On the Frontlines**

### **The BOP Beckons**

Why grassroots design will determine the winners in developing markets

By Joshua Weissburg

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**H**ow do you go about delivering reliable energy to poor, off-the-grid villages in India? If you're an established energy company, you don't.

Enter Decentralised Energy Systems India (DESI Power), a young, India-based power company that built a biomass gasification plant that runs on inexpensive agricultural residues such as ipomoea, a weed plentiful throughout the Indian countryside. DESI's power plant in the village of Baharbari provides a cheap, clean source of electricity that the village uses to meet local microenterprises' and agricultural laborers' needs, such as pumping water and charging batteries. Indeed, the driving idea behind DESI Power is to make a profit from designs that fall outside the standard power generation model, and in doing so to create worthwhile jobs and economic growth in places that the government has all but forgotten. DESI does make a profit: The company generates a 10 percent return on its investment by building, owning, and operating the power plants before eventually turning them over to local power producers.

But DESI Power is the exception. Though there is literally a world of opportunities for firms to meet basic demand for housing, water, energy, medical insurance, legal and financial services, and much more in developing markets, few are doing so. Accord-

ing to a recent Ashoka report, large companies have tapped only about 20 percent of new markets. Corporations often draw workers from these populations, but rarely do they flip the equation and develop products, services, and brands that target the poor's basic social and infrastructure needs.

Why is serious investment in bottom-of-the-pyramid (BOP) markets the exception rather than the rule? What keeps companies from building lines of business by meeting the needs of the poor in developing markets?

First, and perhaps most fundamentally, these new markets look awfully different from the standardized markets of the West. Even firms that recognize opportunities in developing markets sense that going about business as usual in these places is like trying to fit a square peg into a decidedly round hole.

Weak infrastructure creates challenges to product distribution that range from uncertain to insurmountable. Some Indian companies have gone so far as to build their own roads, power systems, and phone networks – powerful signals that developing markets are worth the hassle, but not exactly a siren call to entice eager new entrants. Income – particularly

the disposable kind – is low, and cultural differences make certain products or services unsuitable. For example, because the Koran prohibits interest, paid or received, banks pursuing Muslim customers need alternatives to loans.

This leads us to the second barrier: Most companies don't know how to package products for poor people, and they don't know what products and services the poor prefer. Too often, bottom-of-the-pyramid business plans simply repackage consumer goods popular in developed markets to fit the price range of emerging market customers. Retail-focused companies such as Unilever have, indeed, earned new customers with this strategy: Unilever's Lux soap, Sunsilk shampoo, and Lipton tea are becoming household staples in India and South Africa. But consumer goods are, in many cases, peripheral to a more substantial opportunity with a wider potential customer base in developing markets – namely, meeting the basic demand for housing, clean water, medical insurance, and legal and financial services that fit local needs, customs, and income.

A third barrier, ironically, is that business investments in social and infrastructure needs often face the highest regulatory hurdles. This is a byproduct of how policymakers and nonprofits often approach the needs of the poor, which are mostly handled within the realm of social or government work. Charity and government subsidies are cer-

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tainly important stopgap measures to meet the poor's social and infrastructure needs, particularly when sudden needs arise. But economists often talk about the way these stopgaps crowd out private investment if they're adopted as long-term measures.

The result is that governments and charities – purposefully or unwittingly – deny the poor the chance to make basic choices about their own needs and well-being. When the poor are enclosed in a bubble of protective policy, the links that provide accountability in the marketplace between consumers and suppliers disappear.

### The Grassroots Solution

But there is another way to look at developing markets. Rather than starting with the status quo in rich countries and measuring business opportunities in poor ones by gauging what it would take to recreate that environment, businesses can take a step back and do what entrepreneurs have always done: ask questions like “What do people need?” “Why don't they have it?” and “How do they get it?”

That approach is the essence of grassroots design. Though it requires more initial thought and creativity, it makes things far simpler in the long run. Businesses that start with a grassroots design process end up with products and services that meet real, as opposed to perceived, needs; integrate local materials and processes; and reflect the culture and aesthetic of their customers. Of course, a company that embraces grassroots design does not gain the benefits of simply importing its existing business model and product line. But mass markets are fragmenting everywhere, and firms that learn to design up from local circumstances will compete better wherever they operate.

Most firms that wholeheartedly embrace grassroots design are small, but they have striking stories to tell. Natura Fibretech bases its booming business on Coirply, an inexpensive alternative to wood that it developed from coconut fiber, which grows throughout India. The Bangalore-based company is growing 40 percent per year because it redesigned this local resource – which for generations has been used to make rope and door-mats – into a product significantly cheaper than plywood but comparable in quality to the best hardwoods on the market.

Natura creates thousands of high-paying local jobs, most of them filled by women, by selling local enterprises the technology to harvest coconut fiber. The company then buys this material back and manufactures it for commercial use in everything from India's booming housing market to durable bedsprings for affordable, comfortable mattresses. As Natura's business expands in India and abroad, the company will be even better positioned to offer low-cost, high-quality products to poor customers.

Of course, grassroots design doesn't always produce radically new, locally sourced products. In some instances, it simply yields new processes that fit existing products to local markets. Mexican food services company Cuadritos, for instance, has developed a proprietary chemical engineering process that creates safe, nutritious, flavorful food products out of the 17,000 tons of expired yogurt, soy milk, vegetables, and other foods that Mexicans throw out daily. The company starts by collecting waste from large-scale food producers such as Dannon and ends up with protein-rich cookies, instant soups, yogurt drinks, and soy powder at affordable

prices. (Packages designed to feed one family for a week cost just \$3.20.)

But how can big companies integrate grassroots design? Often, creative partnerships provide the best opportunities. The resources and know-how of a large corporation, together with the creative thinking and practical experience of those in the social sector, can quickly meet a specific need, something that has eluded aid organizations and government agencies for years.

Take CEMEX, one of the top three global cement manufacturers, which partnered with a local social service organization to better serve the housing needs of Mexico's low-income population. CEMEX did not need to develop new products. It needed new financing, delivery, and service arrangements that would generate cost-efficient sales to groups (not just to individuals); ensure the timely delivery of materials; and provide technical advice to do-it-yourselfers. CEMEX now serves a new market representing potential sales of \$500 million to \$600 million per year. In less than 10 years, this CEMEX initiative has acquired a larger client base than all subsidized housing programs in Mexico combined.

Everyone benefits from businesses designed on a grassroots level. Businesses gain access to pertinent market research. Social service providers that partner with businesses gain insight into how the corporation relates to its customers, a share of revenues, and the crucial feedback link that markets offer. Local entrepreneurs gain an outlet for their ideas. And poor customers are presented with a rare prospect: a product that meets their basic needs, tailored to their lifestyle and dependent on their own initiative and investment. □