



ASHOKA INNOVATORS FOR THE PUBLIC

A Framework for Developing Market-Based Strategies that Benefit Low-income Communities

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[Ashoka's](#) Full Economic Citizenship initiative and Changemakers have launched a global search for innovative market-based strategies from both businesses and citizen sector organizations that improve the lives of low-income individuals in different parts of the world. This article describes the conceptual framework for the competition that will be ongoing until October 20, 2005.

The Changemakers Innovation Awards series is based on a unique “open source” format where participants compete by entering the best solutions to pressing social issues while collaborating to advance current initiatives. This new competition will provide the chance for business and social players to exchange promising practices and develop partnerships that leverage the strengths of both sectors to provide sustainable solutions for low-income communities. Please join us at Changemakers.net.

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A Framework for Developing Market-Based Strategies that Benefit Low-Income Communities

Poverty is to a large extent a main result of the marginalization of the two-thirds of the world's population from the formal economy. Because they are typically ignored by the markets, the low-income communities are at the mercy of inefficient suppliers or are deprived of critical goods and services – such as electricity, housing and healthcare - that improve their lives and develop their businesses.

What is not always acknowledged is that low-income families tend to pay more than the rest of us for the goods and services they need in order to survive. In spite of this, most businesses still consider them unviable customers who are too risky to serve. However, this situation is starting to change as authors like Prahalad¹ and Hart² demonstrate to business audiences that learning to serve the “Base of the Pyramid” (BoP) may indeed be the next frontier of globalization and growth.

During the past 20 years, nothing has contributed more to change the perception of low-income people as viable clients than the “Micro-credit Revolution.” Hundreds of organizations around the world have found a way to sustainably deliver small loans (less than \$250 per loan) to more than 50 million micro-entrepreneurs.

When this global phenomenon started in the early 80s, there were detractors on all sides. Commercial bankers thought it was too risky and it would never reach scale. Citizen sector leaders voiced the concern that charging positive interest rates (instead of subsidies) would divert these organizations from serving the poor.

Multi-lateral development banks and governments hesitated to invest in an approach that was spreading at unprecedented speed, but was yet unproven to them as an effective development tool. It took governments more than a decade to start working on a regulatory environment to foster micro-credit, and many countries are still at it. But the 50 million micro-entrepreneurs that are now “bankable” and working their way out of poverty speak for themselves.

Today, all these actors recognize that they have a unique role to play and that together they have an historical responsibility to take this new industry to hundreds of millions of low-income people who still lack access to credit and other financial services in spite of the fact that most of them could pay for these services.

As discussed below, the market dynamics of low-income market segments defy the traditional business logic that is applied to mid- and high-income segments: pricing strategies aim at the lowest possible price, the delivery infrastructure must be capable of handling a significant number of small – by most standards tiny – transactions, promotion strategies require a

¹ “The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits”, C.K. Prahalad (2004)

² “Capitalism at the Crossroads”, Stuart L. Hart (2005)



considerable amount of consumer education, and even the needs and values of consumers are, in many senses, structurally different.

Learning to serve the poor through market-based approaches involves an acute learning curve for most companies, particularly large multinationals, as well as for many citizen sector organizations (CSOs). Succeeding at the BoP requires inventing a new form of doing business and an unprecedented level of business-social congruence.

The last three decades have seen the emergence of millions of CSOs around the world. With an estimated volume of resources of \$1.1 billion and 19 million jobs at the global level (excluding religious congregations), the non-profit sector is already equivalent to the eighth-largest economy in the world.³ Many of these CSOs have more experience than businesses - especially large businesses - in delivering products and services to low-income consumers and small producers.⁴ In the process of fulfilling their missions of creating positive social change, these organizations -- and the social entrepreneurs that lead them -- have become leading developers of innovations that serve low-income citizens.

Micro-credit is only one example of an increasing number of market-based social innovations and therefore, an approach that is in many cases also profitable.

In addition to a multiplicity of social innovations at the BoP, this global phenomenon has sparked an extensive array of diverse social networks - many invisible to the uneducated eye. These social networks constitute the early stages of an infrastructure that specializes in serving the poor, one that could also be leveraged by businesses as they enter this new market.

At Ashoka, we believe that in order to fully serve the poor we must advance decisively towards this business-social congruence. By this mean, we mean long-term commercial collaborations that are centered on leveraging the core competencies of both sectors and designed to transform the economies and living conditions of low-income communities. We refer to this new type of business/social model as "hybrid value chains".

Businesses, particularly those whose products and services address basic human needs, can enter low-income market segments more effectively and with deeper social impact through partnerships with highly innovative citizen sector organizations. On the other hand, CSOs can scale their impact significantly by learning to leverage the infrastructure and experience of businesses while advancing their social missions. Communities would be better served if an increasing number of new actors compete and collaborate to deploy solutions that maximize the value added to the poor.

³ "The 21st Century NGO: In the Market for Change." SustainAbility, UN Global Compact & UN Environment Program (UNEP) Publication, London, 2003. See www.sustainability.com

⁴ Johns Hopkins Center for Civil Society Studies – Dimensions of the Non-Profit Sector, Johns Hopkins, Baltimore, 1999.



The Framework and the Mosaic of Solutions

Changemakers and Ashoka's Full Economic Citizenship Initiative have designed a framework for this collaborative competition that aims to identify and spread market-based models that achieve both social impact and profits. Because we believe the most powerful solutions that serve low-income consumers and small producers are precisely those that are not constrained by the for-profit versus non-profit distinction, the nine solutions selected here to illustrate emerging principles are from both business and citizen sectors. In fact, several of them have more than one type of actor and involve cross-sector partnerships.

This framework operates in two dimensions. First, it enunciates, across columns, three of the main factors that make low-income market segments fundamentally different than most markets. Behind each factor are barriers to entry – real or perceived – that are used by many professionals to explain their skepticism about the profit-making potential of low-income markets. The framework then centers on three key principles for succeeding in this BoP space. These principles represent new standards emerging from practical applications that are meant to inspire and guide the innovation process going forward. At the core of these principles are multiple innovations that are illustrated by the mosaic of solutions. These nine solutions were developed and refined over the years by creative businesses or social entrepreneurs who are determined to demonstrate that it is possible to reach scale, deliver impact, and generate profits at the same time.

But before navigating through the factors and the multiple strategic choices that they suggest, let's take a quick look at the three principles emerging from these solutions.

1. **Design products and services that tap into the wealth of the poor:** transforming the apparent scarcity of means into multiple opportunities by capitalizing on the resources already available to low-income communities.
2. **Change radically the logic behind your business model:** succeeding in reaching scale requires not only an affordable product but re-thinking each step along the value chain from production and distribution to pricing, promotion and delivery to end consumers.
3. **Leverage the power of communities as both consumers and producers:** in a way in which interventions that contribute to increasing the income of small producers and micro-entrepreneurs have the synergistic effect of increasing the demand for goods and services of low-income families.

All the solutions discussed below have the potential to become a new generation of best practices, redefining the strategies of both business and CSOs. Because innovations usually emerge simultaneously in more than one location and context, you will probably think of other initiatives around the world using the same "How To's" that are not mentioned here.

During the next three months, Changemakers would like to invite you to share these examples on this Website with the other participants and help the community to refine these principles, or

possibly add new ones. You will also notice that most good solutions address more than one factor as well as incorporate the different elements imbedded in multiple principles.

Finally, we would like to recognize that in the process of underscoring a particular aspect of an innovative solution, we probably have over-simplified what may be a carefully synchronized systems-changing solution. We encourage all readers to visit the original Web sites to learn directly from these business and social entrepreneurs about the multiple dimensions of their solutions.

Mosaic of Market-Based Strategies Benefiting Low-Income Populations⁵ Examples from Citizen-Sector Organizations and Businesses:

Factors/ Principles⁶	Limited purchasing power of individual clients	High volume business based on small (even tiny) individual transactions	Poor understanding of the human and social capitals of low income communities
Design products and services that tap into the wealth of poor	“World Class Quality at Affordable Price” <i>David Green Health (Global)</i>	“Combining Retail and Financing” <i>Casas Bahia (Brazil) Consumer Goods</i>	“Acquiring Technology through Micro-Leasing” <i>Fabio Rosa Energy (Brazil)</i>
Change radically the logic behind your business model	“Multi-Tiered Pricing Model” <i>Rebeca Villalobos Health (Costa Rica)</i>	“Group Micro-Lending and Demand Aggregation” <i>Prof. Muhammad Yunus Financial Services (Global)</i>	“Save and Build Assets Now” <i>CEMEX/Patrimonio Hoy Housing (Mexico)</i>
Leverage the power of communities as both consumers and producers	“Shared Purchasing” <i>Grameen Telecom ICT (Bangladesh)</i>	“Transforming economies of Small Producers” <i>Dr. Verghese Kurien Dairy (India)</i>	“Leveraging Social Networks” <i>ICICI and CSOs’ Financial Services (India)</i>

⁵ The solutions contained in this mosaic have been chosen to illustrate concrete and powerful market-based strategies targeting low-income communities. Their inclusion here does not constitute an endorsement on Ashoka's part of their social impact dimension.

⁶ Factors refer to the characteristics that distinguish low-income markets from traditional ones. Principles represent new standards emerging from practical applications that are meant to inspire and guide the innovation process going forward. Note that although the best solutions probably speak to more than one principle, we have chosen to emphasize one specific innovative aspect. If you would like to learn about the multiple innovations behind each solution, please click on each name for a fuller description of each case.



The Factors and Solutions that Address Them

For the most part, there are three factors (perceived or real) that affect negatively the ability of private companies and civil society organizations to serve low-income markets. As shown in the mosaic diagram, these are: (i) the limited purchasing power of individual clients; (ii) high volume businesses based on small (even tiny) transactions; and, (iii) a poor understanding of the human and social capital that low-income communities possess. Below is a discussion of each factor and the strategic choices made by business and social entrepreneurs who managed to successfully overcome these constraints.

1. Limited individual purchasing power:

When talking about the business opportunities at the BoP, most businesses and CSOs are too quick to point out that low incomes limit individual purchasing power and therefore market demand. For businesses, this fact translates into most of the world's population being considered unattractive customers, while for CSOs and governments it is usually the justification for delivery systems that rely, too comfortably or unnecessarily, on subsidies and consequently do not achieve scale or sustainability over the years.

But few players in the BoP market take on the challenge of developing product offerings that consumers can pay for. The resulting paradox is that low-income consumers, usually served by small companies and the informal sector, tend to pay higher prices for the same products and services than consumers with higher income levels.

The purchasing power of individual low-income consumers may indeed be low but in the aggregate these consumers can represent a significant market opportunity, provided that price does not become a barrier for the consumer. For instance, [Rebeca Villalobos](#) (Ashoka Fellow) – a social entrepreneur in Costa Rica – has developed a multi-million dollar operation that delivers integrated vision care services to hundreds of thousands of consumers, irrespective of their income levels. By using a “multi-tiered” pricing system that allows each consumer to pay according to his or her ability to pay, Rebeca avoids discriminating against consumers on the basis of price.

[David Green](#) (Ashoka Fellow), another social entrepreneur, is leading the way by taking this concept even further, arguing that what we need is “compassionate capitalism.” David is demonstrating that if you focus on lowering the cost of health products, you can profitably serve millions of people. Through Project Impact, David is making quality medical technology and healthcare accessible and affordable to millions of low-income citizens. His intraocular lenses and hearing aids, manufactured in India, are priced up to 20 times lower than other similar brands on the market. David is in the process of taking this concept globally through a combination of business and social partnerships.⁷

When neither cross-subsidization nor a low-cost model is appropriate, it is time to think about your potential consumers as clusters of demand and design “shared purchasing” arrangements.

⁷ Profits, With a Conscience, From the April 11, 2005 Red Herring



[Grameen Telecom](#), one of the most successful examples comes from Bangladesh where a cell phone company that works in partnership with the Grameen Bank - one of the largest banks in the world that specializes in serving rural areas – has contributed to create more than 110,000 micro-businesses that sell cell phone airtime to villagers throughout the country. This system is so effective that Bangladesh may be able to skip completely the need to invest in a fixed phone line infrastructure for rural areas.

All these cases underscore the fact that, in most instances, focusing on the limited purchasing power of individual low-income consumers is simply a reflection of our inability to imagine and develop a product offering and a viable business model for this market segment.

2. **High-volume business based on small (even tiny) individual transactions:**

In a market based on small (even tiny) transactions, the challenge for both business and CSOs is to find ways to achieve scale. Both sectors must answer key strategic questions like those we include below before they can commit to scaling-up the size of their enterprises.

If you are a business and you can make the same amount of money with 1,000 customers, why would you go to the trouble of expanding to 100 times more clients if the complexity and the perceived risk would significantly increase? If you are a CSO and you want to maximize your impact but at the same time you are concerned about ensuring the sustainability of your organization, how would you strike the appropriate balance between what you charge for your services and reaching the largest number of people?

In each industry, the answer will probably be different, but what does not change is that increasing levels of competition are making growth and scaling-up a necessity for both businesses and CSOs.

For various reasons, few large companies take into account the social impact that they could directly generate through their products and services when evaluating new business opportunities. Particularly if these new opportunities require the capacity to manage a significantly higher number of clients, they also typically increase the complexity of operations and imply a smaller profit per transaction. One business entrepreneur who became a legend by tackling this challenge was Henry Ford.

Ford's vision consisted in transforming the automobile from a boutique product for the rich to a product for the masses. To make this vision a reality, Ford not only had to make a series of radical innovations applied to the four-cylinder engine itself, but he also invented the concept of assembly line and transformed the principles behind large manufacturing operations throughout industries.⁸ His innovation resulted in the creation and massive distribution of the "Model T" that only cost a fraction of his closest competitor's price with a unit price of US\$260. In the first 5 years of production, 1.5 million "Model T" cars were sold - more than the total number of cars produced in history.

⁸ "The Support Economy: Why Corporations are Failing Individuals and the Next Episode of Capitalism", Shoshana Zuboff and James Maxim. (2003)



By changing the automobile industry, Ford improved the lives of millions of people. In this historical context, Ford was as much a business entrepreneur as he was a social entrepreneur.

Just like Ford, when Professor Muhammad Yunus, founder and manager of the [Grameen Bank](#), invented “group micro-lending” in Bangladesh in the early 80s and started the “Micro-credit Revolution,” he was not constrained by the fact that he would need to invent a system that could handle hundreds of millions of tiny transactions of less than one dollar each annually (all of this operating in rural areas and without electricity or computers). In classical entrepreneurial fashion, Yunus decided upfront that what was needed was to simultaneously create an affordable financial product and an infrastructure capable of serving millions of consumers. “Group micro-lending” is testing the boundaries of the financial system by challenging financial institutions to face the fact that serving the poor can be good business, if you know how to do it.

Micro-credit is not the only financial service innovation for the poor. Retail and financing companies like [Casas Bahia](#) in Brazil and Elektra in Mexico are becoming billion dollar operations by aggressively expanding their offerings of consumer and electronics goods to low-income market segments.

Is this a sign that lending to the poor is becoming mainstream? Maybe. Would significant numbers of businesses and CSOs be able to develop the core competencies needed to profitably handle a high volume of small transactions? Could fostering more competition result in better financial terms for low-income clients? Most probably.

Some are concerned that mainstreaming this combination of retail sales and financing of consumer goods will, in many cases, impoverish the poor even further. Others argue that it should be left to each individual consumer to decide and that as long as these type of offerings are combined with significant income-generating opportunities, they will benefit the poor. What nobody would dare to argue however is that for-profit operations like Casas Bahia and Elektra will continue expanding and are evidence of the gigantic business opportunity at the BoP.

When it comes to generating employment and income-generating opportunities, [Amul Dairy](#) is a remarkable example of the benefits of daring to think on a large scale. Amul is a holding entity for more than 10,000 milk cooperatives and processing facilities in India. The entire system is a profitable operation whose “stockholders” are 8 million dairy farmers who own just one or two cows that they raise in their backyards.

Today Amul is close to a billion dollar “corporation” and one of the leading brands that supplies India with fresh milk and dairy products. Amul was primarily the vision of Dr. Verghese Kurien, who in the ‘50s gave himself permission to re-invent the milk industry. At the core of Amul’s vision is the power of seeing millions of decentralized milk producing operations as one gigantic corporation that serves the same class of small producers.

Over the years, Dr. Kurien and his team developed multiple interventions along the value chain and even established several institutions, including a university that specializes in serving the needs of its milk producers and their communities. By systematically identifying and tapping



into a range of business opportunities, Amul has become one of the most successful holdings of cooperatives and business-social partnerships in the world.

3. Poor understanding of the human and social capital of low-income communities:

Living under very challenging conditions, low-income communities have developed multiple skills and alternative resources in order to survive. Among the most powerful of these is a web of trust-based relations and self-help groups that constitute the cornerstone of social capital for grassroots communities. As illustrated below, social entrepreneurs are demonstrating that the multiple manifestations of this social capital can become an invaluable resource for helping to empower consumers and small producers to change their living conditions.

There is an array of consumer products that can be marketed massively without requiring an in-depth understanding of the dynamics of low-income markets. Examples of these include global brands of soft drinks, alcoholic beverages or even batteries. But when it comes to addressing basic needs like electricity, housing, health or even business services, it is essential that those engaged in designing new offers analyze and identify specific ways of leveraging the human and social capital available in the communities they intend to serve. While international development programs have been doing this for years with mixed success, few companies have attempted to leverage social capital to develop new markets.

Natura and Avon, both innovative companies in the cosmetics industry, have creatively applied the concepts of “beauty consultants” at an unprecedented scale. With more than 400,000 sales promoters each in Brazil alone, both companies have become billion-dollar concerns.

How could ‘network marketing’ approaches be applied to other markets? Could these “beauty consultants” use their entrepreneurial drive to address both business and social issues? Guilherme Leal, one of Natura’s founders, is committed to exploring this new business-social frontier as he challenges his company to revisit their values and ethics beyond the more traditional corporate for social responsibility goals – an area where Natura is already leading the way.

Energy systems based on solar panels have been available for decades but few consumers were willing and able to take on the risk of investing a couple of thousand dollars in them. On the other hand, financial service providers would rarely be willing to offer credit for equipment that could easily be removed and therefore was not accepted as collateral.

With no credit option available, millions of families living in rural areas go without electricity in spite of the fact that an appropriate technology exists. To address this problem, [Fabio Rosa](#) (Ashoka Fellow) is spreading “micro-leasing,” a solution that could change this situation by allowing consumers to pay over time.

Rosa started his business-social journey by asking these potential customers a different kind of question. Instead of the classical “How much will you pay for electricity?” question, Rosa learned how much these communities were already spending on the combination of kerosene,



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candles, diesel fuel, batteries and other alternative sources of energy. When he determined that the amount that most low-income families were already spending was on the order of US\$25 per family, his challenge became to design a leasing system that would support spreading this technology. The system he devised is now promoted by members of these communities who are trained to be promoters by Rosa.

A similar approach was followed by CEMEX, the third largest global cement manufacturer, when it sent a team to live in a slum for several months with the mission of learning about the typical decision-making process of low-income families building or upgrading their home. The answer was a combination of insights that led CEMEX to create "[Patrimonio Hoy](#)", a Mexican private company operating one of the most successful housing programs in the world.

These insights included the fact that it is women, not men, who save regularly to progressively build a family home, one room at a time. Originally inspired by the Grameen Bank's "group lending" concept, CEMEX/Patrimonio Hoy designed an offer that requires clients to save about \$10 per week over a period of 70 weeks to finance the building materials required to build a new roof or add a new room.

Clients can choose from more than 250 different building materials provided by well-established suppliers. At the core of Patrimonio Hoy's offer is the realization that the company is "making it possible for these women to realize the aspiration of having a better home." This insight led Patrimonio Hoy to choose promoters among community members and fundamentally changed the conversation between potential clients and thousands of promoters of Patrimonio Hoy' services. A conversation that had been based on commercial transactions and building materials became one centered on the values and life aspirations of hundreds of thousands of families. Through this approach, Cemex radically changed the logic of its business model from that of a commodity competing on the basis of price to one of a package of value-added services designed to better serve an increasingly important emerging market.

[ICICI](#), one of the leading commercial banks in India, is quickly reaching out to low-income consumers in rural areas by leveraging the client base and social networks of micro-credit organizations operating. ICICI is improving the effectiveness and profitability not only of its operations but also those of its citizen sector partners. At the core of this pyramidal model are over 8,000 community self-help groups with the ability to mobilize savings as well as group loans enabled through a social collateral system.

Would ICICI become a new way of doing business at the BoP for commercial banks? Is it just a temporary alliance needed to reach scale? Would low-income markets become a significant market segment for ICICI? Over the long-term, can financially sustainable CSO's with significant social capital be a more effective retail infrastructure at the community level than commercial banks?

If we take a deeper look at all the examples included in this mosaic, the multiple dimension of successful business models come to life. For low-income market segments this translates in the combination of the three principles: affordable products that tap into the wealth of the poor, a new logic behind business models capable of reaching unparalleled scale based on small



transactions, and new ways (often surprising) of leveraging the power of communities of buyers and producers.

In advancing the concept of “World Class Quality at Affordable Price”, David Green leverages the human and social capital of Aravind Hospital. Rebeca Villalobos goes beyond delivering profitably vision care services by mobilizing rural communities and primary schools to address blindness as a social issue. CEMEX/Patrimonio Hoy is combining network marketing with an integrated set of services that are designed to empower women to aspire to a better home.

On the other hand, Grameen Bank is able to aggregate the demand of its 2 million clients through a series of highly standardized steps but at the same time the whole system rests on the ability of tens of thousands of local credit promoters to establish trust-based relations and customized conversations with his or her micro-entrepreneurs clients. Moreover, Grameen Telecom is commercially viable because Grameen Bank (a separate entity) is not only contributing to increase the income of these micro businesses but has provided the necessary social networks and infrastructure for the “Grameen phone ladies” to operate.

Through these – and many other -- examples, a new way of doing business is emerging. Overall, we believe that market approaches based on social innovations represent a tremendous potential for large-scale social impact and new wealth creation, offering opportunities to low-income communities, citizen sector organizations and businesses.

As most system-change innovation development, creating these hybrid value chains is raising important issues about the role and responsibilities of the different players. Can increased access to products and services contribute to significantly improving the lives of low-income communities? How can companies serve both their stockholders while committing to increasingly serve low-income consumers? Is this approach good business? Would citizen sector organizations deviate from their original missions by opting for profit-making approaches and commercial partnerships? And from a sustainable development perspective, how could we strike a balance between the need to integrate the two thirds of the world's population to the global economy and the sustainability of our planet?

In closing, let's remind ourselves that finding the appropriate answers to these types of questions will require removing the artificial barriers that exist among the different sectors of society. As we advance to this unprecedented level of business/social congruence, it is necessary to learn to compete as well as collaborate while we invent together this new space. In the spirit of this open source “collaborative competition”, we invite you to participate sharing your approaches and innovations as well as your thoughts. Please visit www.changemakers.net and join us in this historical journey.

Valeria Budinich has more than 20 years experience in developing innovations designed to serve micro and small producers around the world. As Ashoka's Vice President for Full Economic Citizenship (FEC), she focuses her work on serving low-income communities by enabling commercial partnerships between social and business entrepreneurs. The opinions expressed here are her responsibility and do not necessarily represent Ashoka's views. The author would like to express her gratitude to her Ashoka colleagues, particularly Stephanie Schmidt and Kimberly Manno-Reott, who made significant contributions to the concepts and ideas presented here.