Strategic Innovation at the Base of the Economic Pyramid

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Introduction

Much has been written about strategic innovators – companies that develop radical new strategies to attack entrenched competitors and create new markets in the process [Bower and Christensen (1995); Hamel (1996 and 2000); Kim and Mauborgne (1997), Markides (1997), Govindarajan and Trimble (2006)]. These organisations achieve their success by moving beyond industry norms or ‘sustaining’ innovations to achieve some form of architectural or business model innovation, thereby disrupting established competitors and generating value for themselves, their customers and their shareholders [Christensen, (1997); Markides, (1998)].

A significant enabler of strategic innovation in recent years has been the emergence of information and communication technologies that have reduced transaction costs and accelerated the exploitation of architectural innovation at the industry level (Anderson & Markides, 2006).

As already proposed by Derek Abell (1980) in his seminal work on the subject, all companies in an industry develop their strategies on the basis of the answers that they give to three key questions: Who should we target as customers; What products/services and what value propositions to offer the chosen customers; and How to offer these products/services in a cost-efficient way. Strategic innovation takes place when a company identifies gaps in an industry positioning map, goes after them, and these gaps grow to become big markets. By “gaps” we mean: (a) a new WHO - customer segments emerging or existing customer segments that other competitors have neglected; (b) a new HOW - customer needs emerging or existing customer needs not served well by other competitors; and (c) a new HOW - ways of promoting, producing, delivering or distributing existing (or new) products/services to existing (or new) customer segments (Hamel and Prahalad, 1991).

But much of the research on strategic innovation has been focused on developed rather than developing markets, despite a recent surge of research interest in the fast-growth economies of the developing world. Were companies, we asked, pursuing strategic innovation with customers at the base of the economic pyramid (BOP) in emerging markets? And if so, how might strategic innovation in the developing world be different to strategic innovation in developed markets? It is with these questions in mind that we embarked on a two-year research project to explore strategic innovation at the BOP in more detail. The thrust of our research was to identify and study in detail a number of strategic innovators from a variety of industries in developing markets, to try to understand the reasons behind their success and to explore how these reasons might differ to what we have observed with strategic innovators in the developed world.

Based on the findings of our research we think that strategic innovation in developing markets is different in three significant ways: First, strategic innovation in the developing world is not so much concerned about discovering new Whos - there's plenty of under- and non-consuming customers to go around. Those consumers at the very bottom of the economic pyramid who are largely served by the informal economy – those with per capita incomes of less than $1,500 – are estimated to number more than 4 billion. For more than a billion people - roughly one-sixth of the world's population - per capita income is less than $1 per day. The 20 biggest
emerging economies include more than 700 million such households, with a total annual income estimated at some $1.7 trillion, and this spending power is about equal to Germany’s annual gross domestic product. The spending power of Brazil’s poorest 25 million households amounts to $73 billion per annum, while China’s poor residents account for 286 million households with a combined annual income of $691 billion. India has 171 million low-income households with a combined $378 billion in income.

So rather than discovering a new WHO our research has revealed that strategic innovation at the base of the economic pyramid is much more about discovering a new WHAT and a new HOW to serve these easily identifiable consumers.

Second, in the developed world, the companies that discover a new WHAT tend to focus on discovering new or different benefits to offer the customer (e.g. whereas Seiko and Timex emphasized the accuracy and price of their watches, Swatch emphasized the design and coolness of theirs; and whereas British Airways emphasized frequency of routes and service, easyJet emphasized price). But at the base of the economic pyramid, the emphasis of discovering a new WHAT is different: In developing markets, the goal is not so much to discover new benefits for the product, but to offer or adapt products that might well have been created in the West to consumers that are significantly poorer and culturally different. For this to succeed, a company must find a way to change the price-performance ratio in a dramatic way, and/or to modify the product in ways that make it culturally acceptable. Reducing or eliminating features from a product or service might be one way to deliver reduced prices, but companies can also look to alternatives such as products designed for shared use or smaller serving sizes. Companies can also adapt the ingredients or functionality of manufactured products to adapt to local cultural or religious norms. In other words, a company needs to use strategic innovation to achieve what we define as affordability and acceptability.

Third, in the developed world, the emphasis is to discover totally different HOWS that are different from existing competitors. Companies such as Dell Computer, Enterprise Rent-a-Car and Zara have built highly differentiated business models through this kind of ‘architectural’ innovation. But in the developing world, the goal is frequently to develop appropriate distribution channels when none exist or are very underdeveloped, and to create demand for a product or service when existing demand is absent or nascent. Firms can look to local transportation methods such as riverboat or bullock carts, but can also consider direct sales organizations, digitization of physical products such as tickets, or other innovations in supply chain management and distribution. Education can become an important element of driving demand for a product, and companies might also need to consider alternative media channels in areas where access to the press is limited or where television or radio ownership...
is not widespread. The emphasis of developing a new HOW in the developing world then is upon twin dimensions – what we term availability and awareness.

Strategic innovators that we have observed that have been able to deliver along these four dimensions – affordability, acceptability, availability and awareness - have not only experienced strong market-share and profit growth, but have also delivered life-enhancing products and services to some of the world’s most needy consumers.

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*A first step to strategic innovation at the BOP – products and services that are affordable*

Perhaps the greatest hurdle that we identified for firms to overcome in serving BOP consumers was to ensure that products or services on offer were affordable. BOP consumers have low disposable incomes and are therefore either non-consuming or under consuming many products and services. To reach this new ‘who’ strategic innovators need to develop products that match the cash-flows of customers who frequently receive their income on a daily rather than weekly or monthly basis. For example, two-thirds of Indian villagers are in the bottom income band making them acutely sensitive to price, and more than two-thirds of their income is typically spent on food. Other products such as soaps, scents, shampoos and even telecommunications services must be purchased with the meager income that is left over.

With close to 50 percent of the population in the Philippines living below the poverty line, affordability of mobile telecommunications was a major issue. Socioeconomic breakdown in the Philippines falls into five categories A, B, C, D and E. The A, B and C segments are upper, upper middle and lower middle income families, while the D and E segments are lower income and below the poverty line groups. Smart discovered that while PHP 100 (the lowest price for a prepaid card in 2002) was not a lot of money for a consumer from the A or B segments, this amount represented a significant cash outlay for a family living in poverty. Indeed, one hundred pesos represented a more than 80% share of daily income for over half of the families in the country. Quite simply, said the analysts, a very large segment of the population would be unable to afford mobile telephony, and mobile penetration was likely to peak at no more than 30% of the population by 2008.

To develop propositions to reach the low end of the market, and particularly consumers in the D and E segments, Smart recognized that it could not benchmark others in the mobile industry, as there were very few cases of mobile network operators who had successfully developed propositions for very low income consumers. Instead, Smart looked at companies that already served this segment with other products and services, and undertook its own market research on consumer buying behavior.

Not surprisingly, when Smart looked to companies such as Procter & Gamble and Unilever that served the D
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and E segments with fast moving consumer goods they discovered that these firms had developed low-priced micro-packs for daily necessities such as shampoo, soaps, cigarettes and food. While these ‘sachets’ did not represent the most economical way of purchasing goods, they met the needs of consumers in terms of low purchase price. The vast majority of these items were sold through the country’s small ‘Sari-Sari’ stores that survived on high turnover low value transactions. Indeed, “tingi-tingi” or “purchasing goods in small amounts” was part of daily life. Customer surveys revealed that low-income Filipinos made an average of four to five trips a week to their local Sari-Sari store.

To reach its BOP consumers, Smart Communications developed an over-the-air recharge technology (detailed below) and developed prepaid pricing plans that offered airtime in sachet-like packages. Prices were broken down into much smaller denominations than had previously been available – as low as PHP 30 (US$0.54). The new pricing packages were a huge success, and within ten months these lower denomination packages were generating 3 million daily top-ups, with revenues of more than $2 million a day. Smart subsequently launched Pasa (transfer) Load, making re-loads even more accessible for low-income customers. The new service allowed consumers to transfer loads as low as PHP 10 (US$ 0.18), from one account to another. By January 2004, denominations of PHP 2 (US$0.03), PHP 5 (US$0.08), and PHP 15 (US$0.27) were added to the Pasa Load lineup.

While Smart offered sachet pricing, the profits margins on these sachets matched or exceeded those that had been made on pre-paid cards – as is the case for sachet products in much of the FMCG world. The result – as of end 2004 Smart had amongst the highest EBITDA margins (63.7%) of any network operator in the Asia-Pacific region, despite having amongst the lowest average revenues per user (ARPU).

In India, small towns often suffer from long power cuts lasting 8 to 12 hours a day. For many shopkeepers, an alternative source of power is an absolute necessity. But many cannot afford to buy a generator as even the lowest-capacity Honda generator is priced at INR. 20,000 (US$ 430), and banks are not willing to give unsecured loans to small retailers. A Honda distributor in Uttar Pradesh came up with a novel scheme. He encouraged 20 shopkeepers to come together and contribute INR. 1,000 (US$ 22) each month into a common pool. Through a lottery system, one shopkeeper was able buy his Honda generator set each month. This scheme was repeated every month until all members of the pool ‘won’ a generator. This easy, interest-free, self-managed installment scheme was soon expanded by Honda to other parts of the country.

Also in India, it is not uncommon to see four people on a motor scooter: a man driving, a child in front, and his

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wife on the back holding a baby between them. This is an affordable but dangerous form of transportation for the 5 million Indians who own motorbikes but can't afford the standard economy car, and sometimes leads to accidents, hospitalizations and deaths. To respond to a large demand for affordable automobiles the automotive division of the country’s largest conglomerate TATA is developing a low-cost car and in an effort to reduce costs, the company is testing the concept of a build to order flat-packed automobile that could be distributed only partially-assembled.

TATA recognizes that distribution and storage costs represent a significant portion of the total cost of a new car in India, particularly in more isolated regions. It also acknowledges that while labor costs at its manufacturing plants are not high compared to international standards, there is an abundance of even less expensive automotive engineers at small and medium sized repair shops across the country. So the company is considering shipping modular car kits to small, local business units combining assembly, sales and service under one roof. This approach would replace the dealer, and, therefore, the dealer's margin, with an assembly-cum-retail operation that would be combined with very low-cost service facilities. TATA is also experimenting with cost-saving materials and components such as plastic body panels, and simplified manufacturing techniques. Instead of welded bodies, Tata is assessing the viability of bolted or glued panels. The goal of the company is to bring its low-cost vehicle to market at a retail price of less than INR. 100,000 (US$ 2,200) by end 20084. While this project is still under development, its commercialization would represent real strategic innovation within the automotive industry.

A new WHAT - Driving acceptability for products and services at the BOP

The second challenge in serving BOP markets is to gain acceptability for the product or service. For cultural, societal, religious or even political reasons it might not be possible to simply offer products designed for developed world customers to those in the developing world. Therefore, the most successful strategic innovators in BOP markets are often those that offer a new ‘what’ - products or services that are adapted to the unique needs of both customers and distributors.

Consider Indian women and their hair. In a country in which many poor communities have cultural taboos related to displays of luxury, hair grooming is often a woman's only indulgence. Women rarely leave home with a hair out of place, and they are willing to explore opportunities for caring for their trusses. But there is also an ingrained belief that cheaper shampoos are too harsh, with many low-income women preferring to use a single soap for both hair and body. Rather than try to fight this widely held perception through marketing efforts to increase the acceptability of low-cost shampoo, Hindustan Lever decided to create a cheap general purpose

soap with special ingredients for healthy hair. The highly successful new soap was called Breeze 2-in-1, and distribution was targeted at smaller towns and rural areas.5

Also in India, homegrown FMCG company CavinKare’s successful entry into the fairness cream segment with its brand ‘Fairever‘ was based on the first-hand insight of people in rural India drinking saffron mixed with milk for a fairer complexion. Based on this, the company created a saffron-and-milk formulation face cream in low-cost sachets – just INR 5 (US$ 0.11) for the smallest 9-gram pack. By end 2004, just 24 months after launch, the company had achieved an 18.5 per cent market share among fairness creams6.

In the mid 1990s Haier Group, China’s leading home appliance manufacturer, discovered that poorer customers in rural areas believed that the purchase of a washing machine only to be used for washing clothes was somewhat frivolous. Indeed, many rural consumers used their washing machines not only to launder clothes, but also to do other tasks such as cleaning vegetables. Some companies might have told customers to stop such behavior and voided warranties for clogged drainpipes, but instead Haier product managers asked the company’s engineers to modify existing products by installing wider pipes that would not clog with vegetable peels. The company then affixed instructions on the modified washers, with easy to understand directions on how to clean potatoes and other vegetables using the machine. The company also developed a washing machine to make cheese from goats’ milk. Innovations like these increased the acceptability of washing machines and helped Haier to win market leadership in China's rural provinces, while avoiding the price wars that have plagued the country's appliance industry. Several factors have contributed to Haier's success, but a lynchpin has been its ability to increase the acceptability of its products amongst low-income Chinese consumers. No wonder Haier was the first mainland Chinese company to be featured in a Harvard Business School case study7.

Smart’s consumer research revealed that mobile phone ownership was viewed as important by BOP consumers in the Philippines not only for ‘entertainment and enjoyment’ purposes. Many consumers indicated that access to mobile telephony could help to make their lives easier (and possibly even allow them to save money), by reducing the need for travel to adjacent villages or towns to search for work or to check market prices for their agricultural produce. For example, the cost of a text message to an employer in an adjacent village to check for work availability could be as little as one-tenth the cost of traveling to that village by public transport. Other consumers indicated a desire to be able to seek medical advice or call a doctor.

One of the major barriers for consumers to use mobile telephony had been the high-cost of mobile handsets. Few consumers in the D and E segments had bank accounts or an income high enough to be considered for a

6 For more information on CavinKare’s innovative product developments for BOP markets in India see ‘Does Market research help increase sales’, www.CavinKare.com
subsidized mobile device, so handset acquisition had been a significant barrier to usage. But since 2001, a major development in the Philippines market had been growth of used handset imports, with thousands of devices being imported from more developed markets. Smart’s research revealed that second hand handsets were becoming available at US$35 to US$40, drastically decreasing barriers to ownership.

In the presence of strong consumer demand and low-cost handsets, Smart recognized that one of the major ‘acceptability’ barrier to overcome was the reluctance of Sari-Sari stores to stock pre-paid cards due to the relatively high inventory costs and security concerns. These issues were largely dealt with by Smart’s introduction of OTA technology and sachet-based pricing. Furthermore, Smart worked to ensure that the start-up costs associated with becoming a retailer were minimal. A prospective merchant needed a bank account, a GSM handset, a retailer SIM card, costing PHP 100 (US$1.79), and an initial load balance of just PHP 300 (US$5.37). With such low capital requirements several hundred thousand retailers were attracted as Smart partners in a few months, allowing the company to build an extensive retail footprint. In turn, these retailers reached a broader market area since sales could take place electronically, eliminating any need for consumers to travel to a retailer.

The user-friendly SMS distribution interface could be sold in a personal fashion complementary to sari-sari business practices. In some cases merchants extended their existing on-credit purchasing model already used for staples and sachets to Smart Load. End retailers received a 15% mark-up on sales, and many indicated that they could make as much or more revenue selling OTA minutes as they could from other consumer goods sales. According to Smart, some retailers earned up to PHP 1000 (US$18.00) per day in re-Load sales, and the company’s electronic distribution network spurned thousands of entrepreneurs to become resellers. Smart estimated that, of the more than 500,000 retailers at end 2004, approximately 90% of which were micro businesses.

**Addressing Supply Chain Issues to deliver a new HOW at the BOP - Availability**

Another significant challenge in serving BOP markets is to ensure the availability of products and services. Unlike in the developed world, distribution channels in BOP markets can be fragmented or non-existent and the task of simply getting products to people can be a major hurdle to overcome. So to reach hard to reach customers successful firms need to develop what the strategic innovation literature defines as a new ‘how’ – a new way of producing, delivering or distributing products or services.

Consider the challenge facing companies wishing to target low-income consumers in India’s 627,000 villages, which are spread over 3.2 million square kilometers. In many parts of the country roads are little more than rutted dirt tracks, and in the monsoon season these can be literally washed away. In the north, roads to isolated villages cut across snow-covered mountain passes that can be closed for weeks at a time. The time to cover
even small distances under such conditions can be long, stretching supply chains and adding cost. So while there might be a BOP market of more than 700 million Indians, delivering goods and services to them is not easy. Strategic innovators are those firms that are able to overcome the sometimes significant barriers to product or service distribution and thereby tap previously unexploited market opportunities. The flat-pack automobile under development by TATA has already been mentioned above, and represents an attempt to deal with the complexities and expenses of distribution in the Indian market.

Global FMCG company Unilever believes that poor countries could well hold the key to the company’s long-term profitability. The company anticipates that by 2010, half of its sales will come from the developing world, up 32% from at the turn of the millennium. Hindustan Lever Ltd (HLL), the giant of India’s INR. 600bn (USD$13.8 billion) consumer goods market, is a model for that shift and has spent years developing a distribution system which enables its products to reach even the most isolated BOP consumers. To access far-flung towns and villages, HLL distributors use auto rickshaws, bullock-carts and even canoes.

Or take the example of Eveready, one of the best known brands in India. Its batteries and torches are the market leaders, commanding 45 per cent and 80 per cent market share respectively. In line with its positioning as the lowest-cost producer of the highest quality products with better customer reach, Eveready has introduced various innovations in distribution to reach the maximum number of customers. Eveready’s extensive distribution network includes 1,000 vans, more than 4,000 distributors and 44 warehouses. These vans reach 60,000 retail outlets directly, each van making 50 to 60 calls per day. The company ensures that the van revisits a retailer every 15 days, with the stock for vans supplied by small-town distributors. For every territory there are approximately three city vans and four upcountry vans – the largest company owned van distribution system in India.

In the Philippines, Smart Communications Inc. recognized that availability was perhaps one of the biggest barriers to providing mobile telecommunications to BOP consumers. More than 65% of the Philippines’ population lives in rural areas, and the country is comprised of more than 7,000 islands. While Smart had network coverage for 75% of the population by early 2003, the 50,000 resellers of its pre-paid cards were predominantly medium sized storeowners and dedicated mobile resellers in towns and cities, and the company had very limited penetration of the small ‘Sari-Sari’ (Sari-Sari means varied in Tagalog) stores in non-urban areas. The company recognized that providing such stores in isolated rural areas with pre-paid cards would make supply chain management costly and difficult. Many analysts claimed that it simply could not be done profitably.

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9 For a detailed discussion of Smart Communication Inc. in the Philippines see Jamie Anderson, A V Vedpuriswar and Arun Khan (2005), ‘Smart Communications Inc. Case A and Case B’, European School of Management and Technology Case Study 2005003. The case study is available for free download from the European Case Clearing House http://www.ecch.com/freecase
To overcome the complexity of distributing pre-paid cards, Smart developed an innovative over-the-air (OTA) payment system. Called Smart Load, the new technology allowed a retailer to load a customer’s airtime from a specially designed, retailer SIM (the small electronic network access card inside the retailer’s mobile handset) - all electronically. With the launch of Smart Load, Smart minimized physical product distribution costs by creating a demand response stocking system for pre-paid airtime. Product distribution became faster, more efficient, and more secure. The special retailer SIMs allowed retailers to “open” or “close” their retail handsets via SMS and enabled them to sell their service outside a physical location, and outside regular store hours. The ability to reload electronically meant consumers could purchase airtime even in remote rural locations. Retailers did not have to obtain stock and sell pre-paid cards. The Smart Load service eventually allowed Smart to eliminate the distribution of lower denomination re-load cards altogether.

On the other side of the world in Brazil, in remote mining towns such as Cripurizao 1,500 kilometers away from anything like civilization, Avon saleswomen travel along the Amazon and its tributaries in ferries, small boats and even canoes to serve isolated communities, villages and even male gold miners who regularly purchase perfumes and beauty supplies. Through their persistence in overcoming barriers to distribution in far-flung communities, Avon’s saleswomen have helped to propel the company to a leading position in the Brazilian cosmetics market, despite a tough economic environment.

Marketing Fundamentals at the BOP - Awareness

Awareness is yet another example of firms needing to develop a new ‘how’ and is rooted in the fact that many BOP customers are largely inaccessible to conventional advertising media — for example in India only 41 per cent of poor rural households have access to TV. In other developing markets, consumers simply might not understand why they should consume new products or services with which they have had no previous experience. Quite simply, traditional approaches to advertising and marketing that have been developed over many decades in the developed world can come unstuck in markets where the underlying environment can be a world away from North America or Europe.

To overcome the lack of television penetration in many parts of the rural Philippines, Smart invested heavily in billboards along roads, in urban areas and in rural communities, and also developed point of sales marketing materials tailored specifically for Sari-Sari stores. The company also developed advertisements suitable for attachment to Jeepneys (the most pervasive form of public transport in the Philippines) and three-wheeler taxis. The company also worked closely to train its seven largest national dealers, who in turn trained sub-dealers and others in the distribution channel such as Sari-Sari storeowners, students and housewives who could also become resellers. A key element of this process was winning support for the system from these seven dealers through a series of workshops. Smart agents also visited colleges and universities to promote Smart Load.

hosting seminars on how to enroll as a Smart retailer and typical commission and mark-up structures. In return for universities allowing agents on to their campuses, Smart in return provided sponsorship of school activities and events. Similar seminars were held in low-income suburbs of urban areas, rural communities and villages to enroll Smart retailers. Smart admits that the most powerful tool for building awareness of Smart Load came from these micro-entrepreneurs who marketed OTA reloads directly to friends, family and members of their local communities.

Hindustan Lever has also tailored its marketing activities to build brand awareness. The company makes widespread use of street performances -- magicians, singers, dancers and actors – to promote products such as soap and toothpaste. Lever and Ogilvy Outreach, a marketing arm of Ogilvy & Mather, recruit local performers in areas that the company wants to target. Scripts are changed for different dialects, education levels, and religions. Following a series of such performances in northeastern India, HLL saw the awareness of Breeze, its low-cost 2-in-1 soap, increase from 22% to 30%. Similarly, a similar program to promote Rin Shakti, a moderately priced detergent bar and powder brand, saw awareness increase from 28% to 36% over a six month period.11

Also in rural India, mobile handset vendor Nokia has undertaken what it calls its ‘Nokia Mobile Van Consumer Education Program’. The program is based upon Nokia branded vans that act as traveling retail and distribution centers designed to improve the awareness of mobility. Potential consumers are educated on a range of products and services, including entry-level mobile devices and Indian themed ring tones. The company’s vans have visited more than 1,000 villages and achieved over six million customer contacts since February 2004. The campaign has helped Nokia to maintain a significant market share lead over its rivals in the Indian market, and the company is the most recognized mobile phone brand in the country.

Finally, in China research by Procter and Gamble revealed that many poor mothers tended to use cloth rags rather than disposable nappies not necessarily because of affordability, but because of a commonly held belief that disposable nappies could cause infertility or bow-leggedness. In response, the company embarked on developing educational advertisements to overcome these cultural perceptions12.

INSERT EXHIBIT B ABOUT HERE

11 For a good discussion of Hindustan Lever’s use of street performances see Balu, ibid. For more detailed information in the company’s strategy in the detergent market see M. Gorman, P. Werhane and J. Mead (2004), ‘Hindustan Lever Limited and Project Sting, Darden Business Publishing Case Study. For a wider discussion of the FMCG industry in India, see A. Neela Radhika (2004), ‘Changing trends in retailing and FMCG industry in India’, ICFAI Centre for Management research Case Study.

Concluding remarks

Just as in the developed world strategic innovation in BOP markets takes place when a company identifies gaps in an industry positioning map, goes after them, and these gaps grow to become big markets. But in the developing world, the emphasis is not so much on identifying new WHOs – these consumers exist in their billions, and are those customers who are often unable to actively participate as part of the formal economy. The emphasis is instead upon discovering a new WHAT or a new HOW to serve these customers effectively, which can be realized by leveraging what we define as the 4As – acceptability, affordability, availability, and awareness.

The strong financial performance of companies such as Hindustan Lever and Nokia India is well documented, and the Haier Group is today the world's fourth-largest home appliance maker, with 2005 sales of $12.8 billion. And look to Smart Communications Inc. - in early 2005 Philippine Long Distance Telephone Company (PLDT), Smart’s parent organization, revealed a net profit of PHP 28.04 billion (USD 512 million) for the full year 2004, up from PHP 2.12 billion (USD 38 million) the previous year. The record results beat market expectations, thanks in the main to explosive growth in revenues coming from Smart’s new customers in the D & E segments, and PLDT had the largest market capitalization among Philippine listed companies. Mobile penetration reached 30 percent at the end of 2004, almost 50 percent at end 2005, and some industry observers now predict penetration rates of 70 percent or more by 2008. Strategic innovation at the base of the economic pyramid is different from strategic innovation in developed countries, yet in both contexts it is capable of creating enormous market value.
EXHIBIT A – 4As Framework

Text box – Strategic Innovation and the 4As Framework

**Affordability** relates to the degree to which a firm’s goods or services are affordable to BOP consumers. This is fundamental to reaching the new ‘who’ in developing markets – customers who are non-consuming or under consuming due to low incomes. Many consumers in developing countries survive on daily wages, meaning that cash-flow can be a significant problem. Companies need to be able to deliver offerings at a price point that enables consumption by even the poorest consumers.

The extent to which consumers and others in the value chain are willing to consume, distribute or sell a product or service relates to **acceptability**. In BOP markets, the most successful strategic innovators create a new ‘what’ - products and services that are adapted to the unique needs of customers, distributors or both. These firms respond to specific national or regional cultural or socioeconomic aspects, or address the unique requirements of local business practices.

**Availability** is the extent to which customers are able to readily acquire and use a product or service. Distribution channels in BOP markets can be fragmented or non-existent and the task of simply getting products to people can be a major hurdle to overcome. Strategic innovators are adept at inventing methods of distributing or delivering their products and services to even the most isolated BOP communities.

Another dimension requiring the development of a new ‘how’ is **awareness** which relates to the degree to which customers are knowledgeable about product or services. With many BOP customers largely inaccessible to conventional advertising media, building awareness can be a significant challenge for companies wishing to serve low-income consumers in the developing world. To overcome these constraints companies must innovate in their use of alternative communication modes and methods.
EXHIBIT B – Smart Case Study

**Textbox - A Smart idea** In early 2002 most industry analysts believed that the Philippines market for mobile telecommunications services was headed towards saturation. The majority of the population was unable to afford mobile services, and it was estimated that in a best case scenario only 30% of the population would be using a mobile phone by 2008. The CEO of Smart Communications Inc., Napoleon L. Nazareno questioned if it might be profitable to serve the massive but still untapped pool of low-income consumers, and spurned his company to develop and implement a highly innovative strategy to reach low-income customers. At the heart of this approach was Smart Load, a mobile proposition involving sachet-based pricing (similar to that seen in the FMCG world), a revolutionary over-the-air (OTA) mobile reloading technology, and a decentralized sales and marketing approach. Through the implementation of this strategy, mobile penetration in the Philippines hit 30% at year-end 2004, and industry analysts now estimate that penetration could reach upwards of 70% by 2008.
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Appendix A - About the research.

This article derives from research on serving customers at the bottom of the economic pyramid in industries such as fast moving consumer goods (FMCG), financial services, telecommunications, consumer electronics and home appliances. The research has used an action-based methodology, founded on enquiry, analysis and testing. As process research, the study has focused on understanding the causal dynamics of particular settings, with an assumption that “causation is neither linear nor singular” (Pettigrew, 1990: 269). It has aimed to articulate best practices as companies deal with the challenges of serving low-income customers in developing markets, and in many respects has explored strategies that are still evolving.

A two-year research project was undertaken to test the hypothesis that strategic innovation was taking place at the base of the economic pyramid, and that strategic innovators were overcoming common challenges and developing structured approaches to serving BOP customers. Field visits were made to countries in Africa, South Asia, East and South East Asia, and direct field observations and in-depth interviews took place with companies that had succeeded in serving customers living in poverty. Companies were identified from the existing body of literature and personal contact.

Data was collected and case studies developed on firms that have been successful in serving low-income customers in developing markets. The study followed directives for case-based research (Pettigrew, 1990; Yin, 2003), and was based upon multiple sources of evidence: archival data, industry publications, interviews and direct observation. The study conformed with Yin’s (2003: 35) recommendations for developing construct validity and reliability. Multiple sources of evidence were used to achieve data triangulation, thereby reinforcing construct validity (Yin, 2003: 97). As analysis of the companies under analysis evolved, progress was communicated to key executives and managers in the firms under analysis, thereby encouraging the early identification of possible rival explanations and ensuring internal validity (Yin, 2003: 36).

From the academic literature, field visits and the development of case studies, the research was refined during 2004-2005 in a reiterative process of application, testing and adaptation. Then, through feedback from our academic colleagues, classroom discussions and further interviews with executives involved in the application at companies, shared approaches to strategic innovation in developing markets were identified and used to build theory and make the concepts generic enough so they could be utilized by other managers.