



Poverty as an Opportunity

A new twist on business in emerging markets

Eliot Jamison

Origo | Global Business Advisors

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About Origo

Origo works to build businesses that are powerful economic engines, environmental assets, and socially valuable resources.

Our team is drawn from across the private and social sectors and shares a passionate interest in innovative business systems.





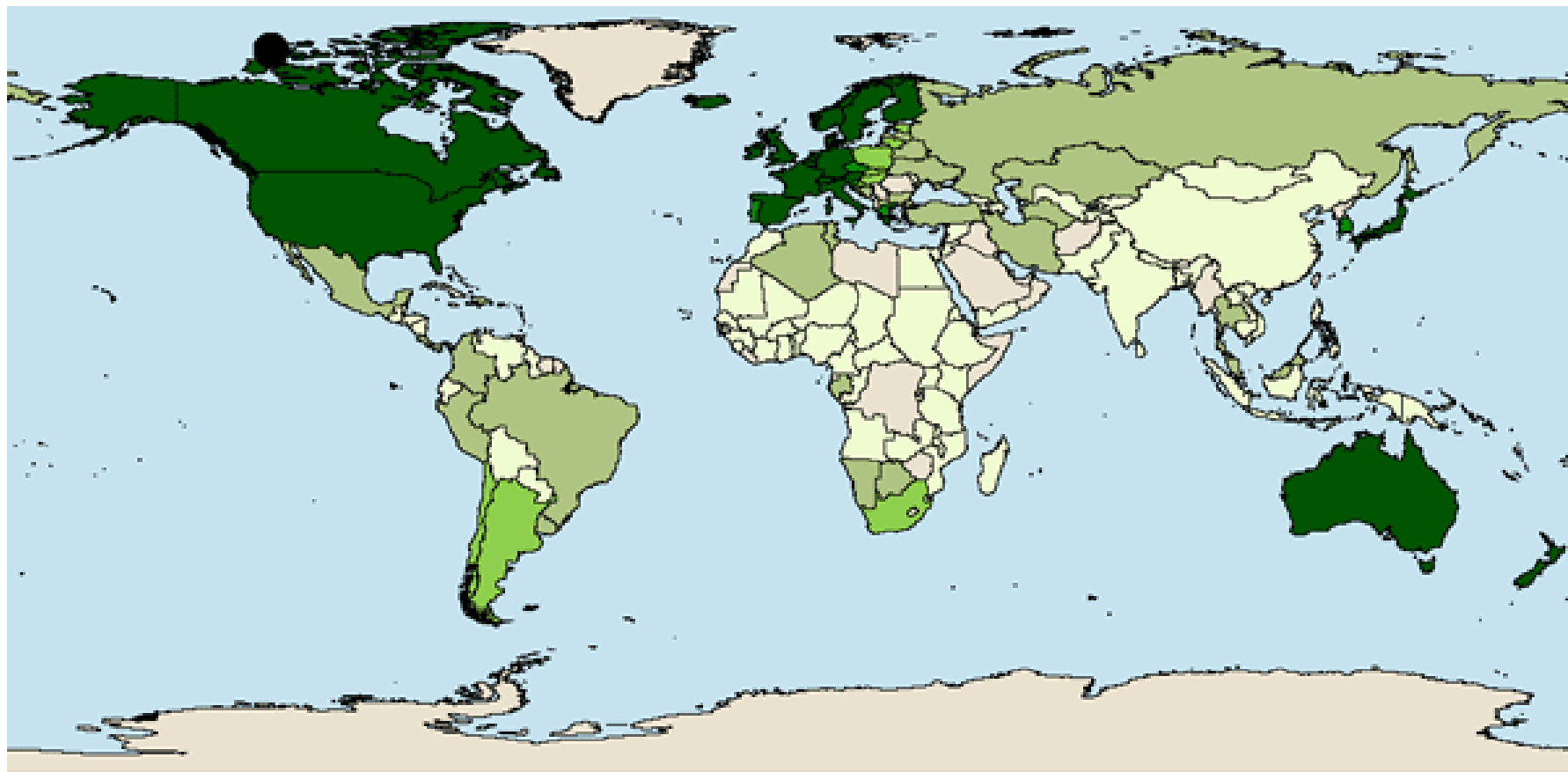
Topics We Will Cover

1. Economic trends
2. Approaches to emerging markets business
3. Market size
4. Implications for business and the public sector
5. Resources for more information



Economic Trends





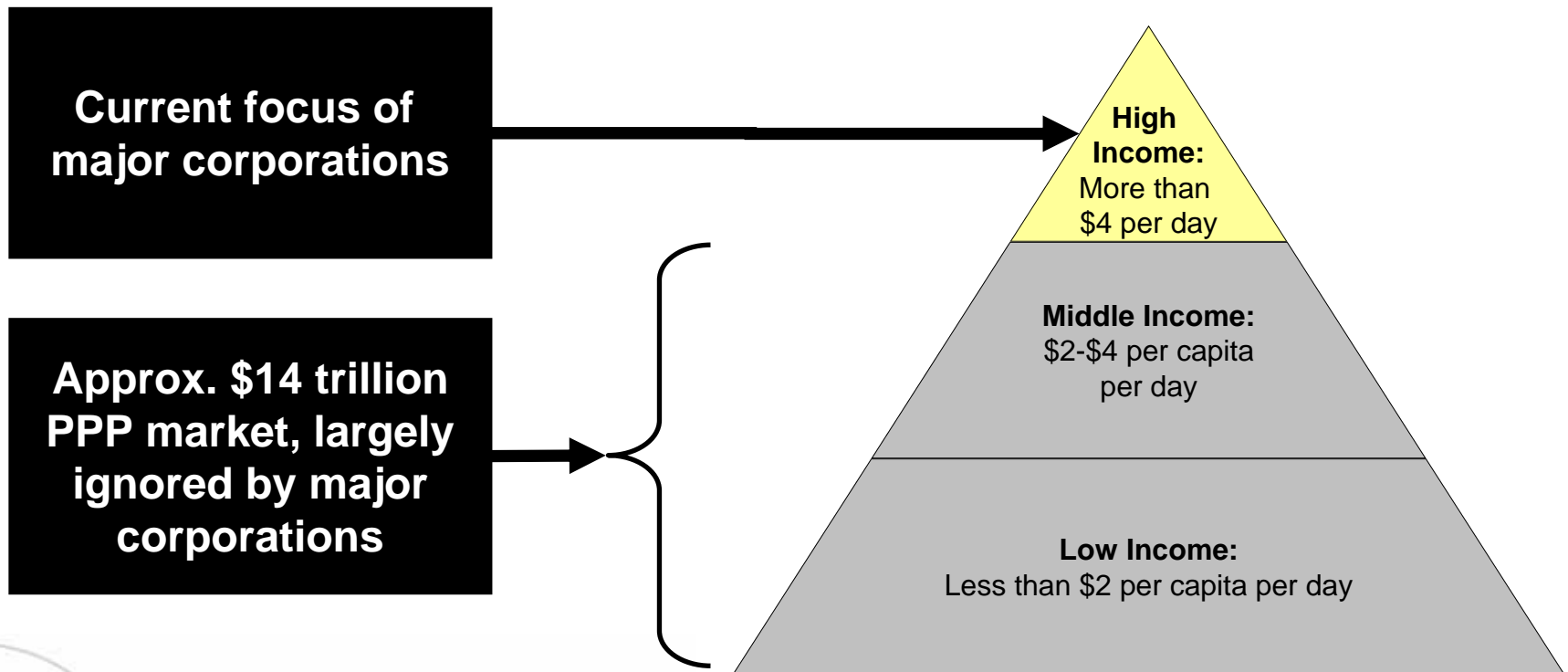


Broad Trends

- **Emerging markets increasingly important:** China and India have grabbed most of the headlines but the story is broader
- **Companies of all sizes,** from MNCs down to startups, must engage emerging markets to maintain long term growth and competitiveness
- **Middle and lower income consumers** are as important (arguably more important) as high income consumers



Base of the Pyramid



Source: Prahalad & Hart, "The Fortune at the Bottom of the Pyramid," 2002



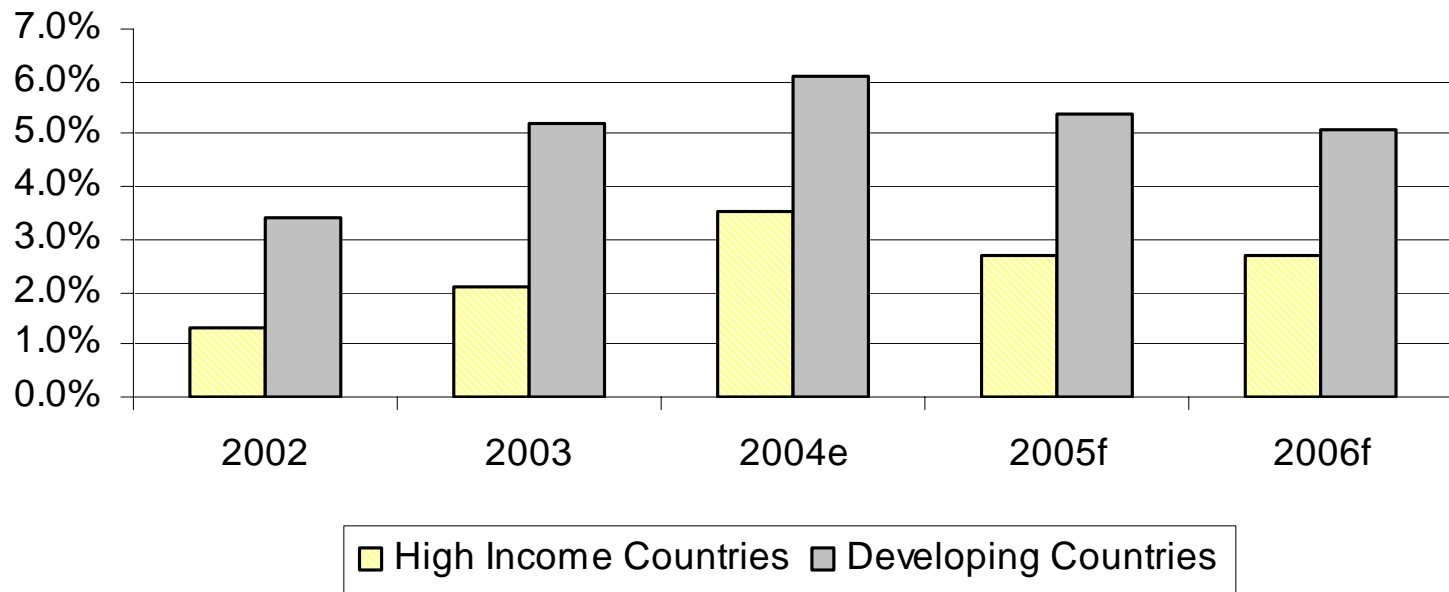
Why Now? New Opportunity

- Higher growth rates
- Technological change
- Improvements to the enabling environment
- More receptive partners



Higher Growth Rates

Comparison of GDP Growth Rates



Source: World Bank – Global Economic Prospects 2005





Technological Change

- Decreased communications costs, ease of access to information
- Decreased transportation costs
- IT systems to manage dispersed production
- Global media





Enabling Environment

- Many countries are making progress with respect to:
 - Governance, legal and regulatory structures
 - Reduced barriers to trade and capital flows
- Evidence from independent advisory firms and the World Bank supports the positive trends
 - Political Risk Services: average risk score improved from 59 to 64 between 1993 & 2003, three times as many countries saw an improving risk climate as a deteriorating one
 - World Bank's "Doing Business 2006" report: 99 countries made their regulatory climate more conducive to doing business, 20 made it more difficult



More Receptive Partners

- Both government and non-profit partners are increasingly interested in working with business
- Government development aid has a mixed track record
 - Need new ways to meet the poverty reduction commitments they have set for themselves
 - History shows: countries that have succeeded in economic development relied on private sector



Capital Flows to Emerging Mkts

- Important to look at both private sector and public sector capital flows
- FDI from OECD countries to the rest of the world was \$668 billion in 2004, has grown substantially in recent years
- Developed country government assistance to low income countries of \$77 billion in 2003; recent commitments suggest substantially increases through 2015
- Remittances from overseas workers estimated to be \$150 billion - \$250 billion annually



Approaches to Emerging Markets Business



Business Approaches

- At a broad level, the opportunities in emerging markets are known
- Business leaders, management consultants moving in the right directions
 - Growth and costs saving opportunities, but
 - They don't push their thinking far enough ...





An example ...

“Companies have only started to capture the large cost savings and revenue gains possible from operating in these countries [emerging markets].”

McKinsey Global Institute



Why BOP?

- Base of the pyramid customers and suppliers are the missing link ... the structure of emerging markets means that you cannot ignore low income segments
- **Responsibility:** Growing transparency and corporate responsibility movements – standards are higher and this is not going to change
- **Opportunity:** The poor don't want to be poor
 - Creative solutions exist if companies change their mindset
 - External resources can help (governments, foundations)



New Approaches

- World Business Council for Sustainable Development / Origo
 - Sustainable Livelihoods business: “doing business with the poor in ways that benefit the poor and benefit the company”
- CK Prahalad and Stuart Hart
 - “Low-income markets present a prodigious opportunity to the world’s wealthiest companies – to seek their fortunes and bring prosperity to the aspiring poor
- World Resources Institute

Example: Vodafone



- Shared use cell phone kiosks in South Africa
 - Revenue: \$123 million in 2003
- M-Pesa: Mobile phone as a wallet & ATM (pilot program in East Africa)
 - Peer transfers, consumer to business, cash withdrawal and deposit at registered retail locations, disbursement and repayment of loans





How to Engage at the BOP

- Basic goods and services
- Lifestyle and income enhancing products
- Partnering with BOP communities in production and distribution



Opportunity: Selling to the BOP

- Poverty tax. BOP consumers pay*:
 - 50x more for credit
 - 40x more for water
 - 10x more for diarrhea medication
 - 2x more for communications
- BOP consumers willing to work, share, rent, to get the product

*From Prahalad & Hart, "Serving the World's Poor Profitably," September 2002



Opportunity: Employing the BOP

- Ultra low-cost labor
- Local entrepreneurs grant access to hard to reach communities
- Local knowledge enables better design



Market Size





Good Estimates are Hard

- CK Prahalad says the BOP market is \$14 trillion, the WRI says it is \$2.5 trillion
 - Primary difference is that Prahalad uses purchasing power adjusted exchange rates
 - Which is more appropriate? Probably market exchange rates ... smaller number
- Large informal economy compounds measurement difficulties





WRI Research

- World Resources Institute is doing good research on BOP market size
- Major conclusions:
 - Top 20 markets represent \$2 trillion opportunity
 - BOP share of total varies significantly by country
 - Low income (BOP) consumers do spend some money beyond basic necessities

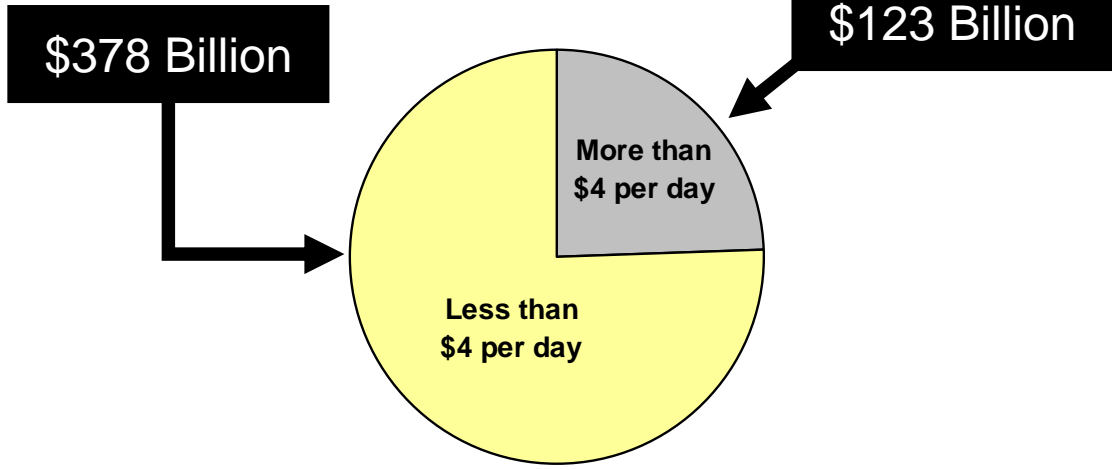


WRI Methodology

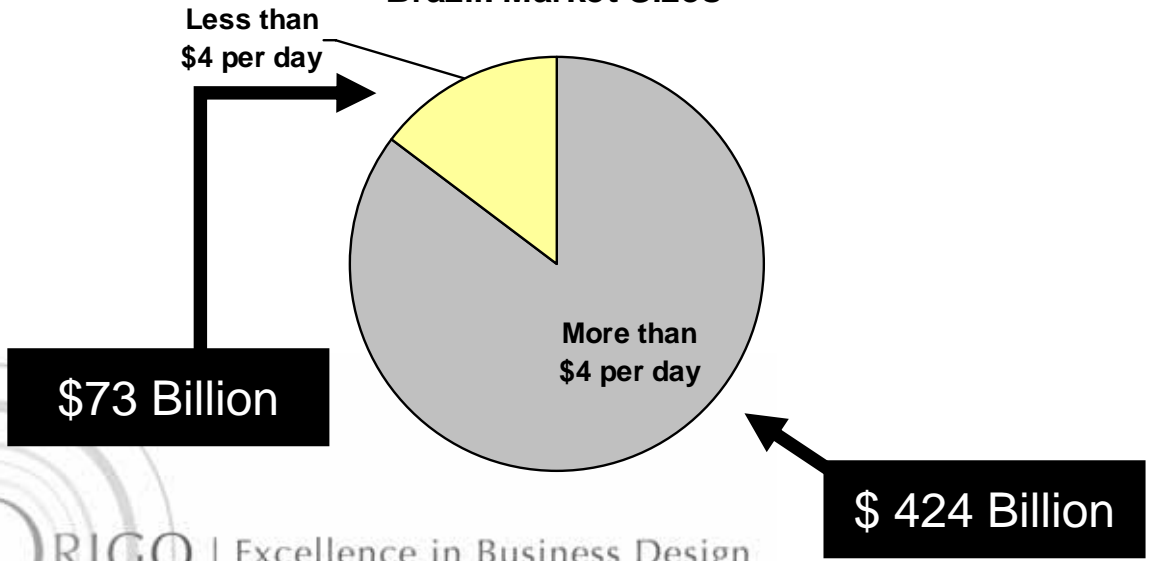
- BOP defined as households with income less than \$6000 / year (purchasing power adjusted)
- Looked at income structure of population on a country by country basis



India: Market Sizes



Brazil: Market Sizes




Opportunities by Sector, Globally:

- \$500+ Billion
 - Consumer Goods
- \$150+ Billion
 - Remittances
 - Microfinance
- \$100+ Billion
 - Health care
 - Connectivity
 - Education & training



Implications for Business and the Public Sector





Implications – Public Sector

- “Enterprise Solutions to Poverty” (Shell Fdn)
- Governments and non-profits need new approaches to meet the Millennium Development Goals

“There are many positive ways for business to make a difference in the lives of the poor – not through philanthropy, though that is also very important, but through initiatives that, over time, will help build new markets.”

Kofi Annan, Secretary General, United Nations





Implications – Business

- Companies face challenges and opportunities in emerging markets
 - Opportunity
 - Responsibility
 - Need to look for opportunities at the base of the economic pyramid
- Success requires a new approach
 - Use local knowledge and resources
 - Be open to unusual partnerships
 - Change mindset's to look for **opportunity** in poverty



BOP Pioneers



Example: Cemex



- World's third largest cement manufacturer
- Saw large volume of Mexico sales going to low-income do-it-yourself builders
- Developed "Patrimonio Hoy," an integrated finance and building assistance program to increase sales of ready mix cement
- Mexican pilot expected to generate \$1.5M profit in 2005 and is expanding to other countries



Example: Shell Solar



- Solar photovoltaic is lowest cost option for rural electrification
- Drawback: high upfront costs
- Shell innovating to eliminate this obstacle
- 1.1M sold since 1980s
- Next 1M expected by 2010



Example: ICICI



- Largest private bank in India
- Has entered microfinance field with business goals
 - Services: savings, credit, insurance & investments, transfer payment
- Innovating in a variety of areas
 - New partnership models btw commercial bank and NGO, securitization





Resources





Resources

- WBCSD (www.wbcasd.ch)
- World Resources Institute (www.wri.org and www.nextbillion.net)
- Origo (www.origoinc.com and www.origonews.com)