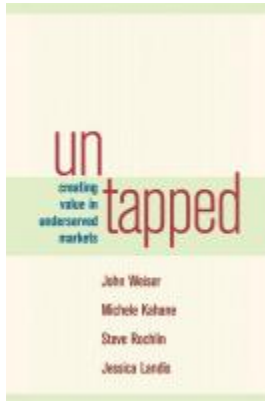


NextBillion Interview: Creating Value in Underserved Markets

Submitted by Rob Katz on July 20, 2006 - 16:13.



How much momentum does the “base of the pyramid” hypothesis have behind it – and at what point does hope become hype? I recently read [Untapped](#), the latest business/strategy book to discuss underserved markets and their profit potential, with a wary eye – would it live up to the hope, or fall victim to the hype?

As far as this book is concerned, hope wins out. [Untapped: Creating Value in Underserved Markets](#) stays away from hyperbole and isn't overly reliant on anecdotes - if you want to explore the nuts and bolts of BOP business strategy, then *Untapped* is a must-read. What sets this book apart is the authors' unwillingness to glaze over important details or jump to conclusions – *Untapped* is a serious examination of value creation in underserved markets.

I had the pleasure of interviewing two of *Untapped's* four co-authors, [John Weiser](#) and [Michele Kahane](#), who guided me through the book's genesis and offered some insights into the secrets to BOP success. Our conversation is detailed below.

Rob Katz: How did this book come to fruition?

Michele Kahane: It all started in 1996 with the Ford Foundation's [Corporate Involvement Initiative](#), which brought the operational resources of companies to bear on community problems. At the time, it was pretty revolutionary for companies' business units – not their CSR or philanthropy arms – to be “doing good.” We dug into the success stories coming out of the Initiative, which led us to our five success factors.

Rob Katz: The [five success factors](#) you outline in your book are:

1. mine local market information
2. when realities don't fit your model, try a new one
3. prepare to cope with cultural challenges
4. make a match with partners who can help you

5. improve the environment for doing business

Which of the five was the easiest to demonstrate with data and examples – and which was the most difficult to support?

John Weiser: It was clear throughout our research and writing that matching companies with effective partners was a precondition for success. It's hard to make money by yourself in a new market – you've got to work with someone else. Two-thirds of our examples involved companies working with NGO partners, for instance.

From my perspective, the hardest one to write about was number three – change internal incentives and challenge cultural assumptions. What made it hard was that even though it was important, it's an issue which is very sensitive. Many of the companies that we worked with didn't want to have their challenges in this area, and how they addressed them, discussed in a book. They were worried that they would be seen to be racist, sexist, or "classist". We had to work hard to come up with examples that we could actually write about.

Michele Kahane: I agree with John that the third factor was tough, but I also want to say that I think we succeeded in finding some solid proof. For example, financial service companies (banks, insurance companies) have for a long time assumed that low-income communities were bad credit risks, and many have been accused historically of redlining and discrimination. While they may not be comfortable admitting that their misperceptions of risks are related to cultural assumptions, examples like Fannie Mae provide ample evidence that low-income people can be good credit risks. The University of North Carolina studied this question very closely on behalf of Fannie Mae and the Ford Foundation, and found that there have been misperceptions of risk – although it is difficult to confirm the reason why bankers held these misperceptions.

Rob Katz: Critics of the BOP hypothesis often ask me how we can alleviate poverty by selling more stuff to the poor. How does *Untapped* address this?

Michele Kahane: The fact is that the poor, as consumers, do need critical goods and services – not serving them isn't going to help them out of poverty somehow. This is especially true in the case of healthcare and financial services, where innovative approaches have enabled underserved communities to "consume" financial and healthcare services.

John Weiser: I agree with Michele, and I'll add that we don't focus exclusively on the BOP as consumers – a large part of *Untapped* is about low income individuals as entrepreneurs, producers, and workers. Marginalized markets, almost by definition, have yet to build wealth. We devote an entire chapter to workforce development, including the example of Manpower, which has everything to do with building incomes at the BOP – the BOP as a producer vs. the common BOP as consumer

construction.



Rob Katz: You say that this book is about business strategies to serve untapped markets, yet many of your examples come out of the corporate philanthropy and CSR areas. How do you reconcile the seeming contradiction?

John Weiser: Not all of our examples are from the CSR or corporate philanthropy areas – some are, though, and that’s primarily because they are the most innovative examples of linking corporate citizenship to actual business. Just because something starts in the CSR department doesn’t mean it can’t become part of the core business. Companies that use corporate philanthropy as a research and development tool for new market development can succeed.

Rob Katz: Some companies are finding it hard to generate profits at the BOP – how can your five principles help them?

Michele Kahane: Businesses aren’t just “missing” profits – they have to develop them. That’s what CEMEX did from the consumer point of view – they went into a totally new market, understood it deeply, and worked hard to develop a profit center among poor people. Fair Trade is an example on the producer side, where the businesses went in and created value with farmers, and now both reap the benefits.

Rob Katz: So what are the next steps – when will the BOP hypothesis move to the next stage, and how will companies achieve broader success?

John Weiser: There is no silver bullet; companies need to work on a variety of fronts – internal and external – to make change happen. I see it happening in three steps. First, companies have to wake up to the opportunity that there’s a lot of money to be made here. Second, there needs to be a sectoral analysis of the opportunities. How are other people in my sector working in underserved markets, and where are my own opportunities? Third, there needs to be better financing for social innovation. The NGO partners that are so critical to these companies’ success are under funded. Governments that need to make regulatory changes to improve the business environment are also under funded. There’s some private sector money

going in here, but not enough, and some of it is even flowing to the wrong places. Unless we can keep growing a vibrant social innovation sector, primarily the NGOs, there won't be enough of or the right kind of partners for companies to learn and work with.

Michele Kahane: I'd challenge the idea that there has yet to be broad success. Some companies are serving underserved markets and don't even realize it – they do it because it's business. Their customers just happen to be this BOP constituency that we're talking about. Rush Communications, Russell Simmons' company, is a great example. He's bringing telecom access to underserved markets and it's not because these markets are underserved, it's because there's demand and Simmons sees that.

John Weiser: Operationalizing the BOP hypothesis requires sophisticated analysis and strategy, as well as multiple levers. You need a good business model, a decent environment in which to work, and you need good partners – without those three levers, no strategy can be successful in the long term.