

Bottoms Up



Jack Sim broke the global taboo of toilet and sanitation by bringing it to global media centre-stage with his unique mix of humour and serious facts since 2001 when he founded the World Toilet Organization. He recently started The BOP Hub as a service platform for collaboration of BOP stakeholders. He is a recipient of the Schwab Foundation for Social Entrepreneurship Award and is an Ashoka Global Fellow.

Who says those on top will always remain up there? **Jack Sim** believes the day will come when the bottom will rise, if we will only help them to.

The world's population has now exceeded seven billion. But the distribution of wealth is uneven. Forty percent of the people own 95% of the world's money.

Disequilibrium

As computer software replaces manual labour, and machine automation increases productivity growth, fewer workers are needed. This trend looks set

to grow. To make it worse, a globalised marketplace means jobs are outsourced abroad to lower cost. In developed countries, jobless rates have hit unprecedented levels and this hardship and accompanying discontentment is a time bomb waiting to explode. Poverty in these developed countries is also growing and consumption growth is shrinking.

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Meanwhile, as the few bigger and stronger companies succeed, the rest struggle to sustain profits as more new competition crowds into the rich and middle-class customers at the Top of the Pyramid. Unfortunately, most products and services compete to serve only two billion people who are seen as attractive customers.

The other five billion who earn less than US\$8 a day (both in developed and developing countries) and qualified as poor have, until recently, been neglected. These five billion or so people at the bottom of the pyramid can be divided into three segments (see Table 1).

Saturation Points

Consumption at the Top of Pyramid is also reaching saturation point at least on several dimensions:

- **Weight Saturation:** While eating is a joy, there is a limit to how much we can eat. When the joy of eating becomes an unhealthy habit, we have to stop or be stopped by illness or death.
- **Space Saturation:** We are already reaching a point where there is no more cupboard or storage space

in our homes. When you have to throw away a recently bought dress every time you buy a new one, it makes you wonder if it is prudent to keep shopping for more.

- **Time Saturation:** We only have so much time a day and so many days in a lifetime. With more addictive time-wasters like computer games, social media and endless work and private emails and messages to reply to, we have less quality time to consume.
- **Environmental Saturation:** As we consume, create more rubbish and deplete the Earth's resources, it is now clear that the sustainable limit has been reached or breached. There is a growing movement towards sustainable consumption and this will eventually mean that current economic growth models must be redesigned with new measurements for success.

Perhaps in an ideal world, success might be better measured by how evenly wealth is distributed and enjoyed by all, instead of only by some.

Table 1: The Three Segments in the Base of the Pyramid

	Income per person per day (\$PPP 2005)	Yearly income (\$PPP 2005)	Number of people in 2005 (billion)	% of global population (2005)
Upper segments of the BOP	\$2-\$8	\$700-\$3,000	2.3	35%
Moderate poverty	\$1.25 to 2	\$450-\$700	1.2	18%
Extreme poverty	Less than \$1.25	Less than \$450	1.4	22%
Total BOP population	Less than \$8	Less than \$3,000	4.9	75%

In reality, a gross profit margin at the BOP is rather high. Due to the lack of suppliers, the market is dysfunctional and the poor pay a poverty penalty for everything they buy.

New Equilibrium

For a long time, we have excluded 5 billion or 75% of mankind from our formal economy. Now, by a twist of fate, companies are discovering that these folk at the base of the economic pyramid (BOP) – those who live in relative poverty – are actually the biggest socio-economic group of customers waiting to buy products and services affordable to them.

In fact, they are one of the fastest growing market for cell phones and financing.

Although their incomes in current US dollars are less than \$3.35 a day in Brazil, \$2.11 in China, \$1.89 in Ghana, and \$1.56 in India, their potential volume of consumption cumulatively add up to substantial purchasing power. More precisely, the BOP constitutes an estimated \$6 trillion global consumer market today.

The BOP needs everything from food, housing, water, sanitation, detergent and clothes to energy, home appliances, healthcare, transportation, ICT, education, entertainment and financial services.

Big Blue Ocean Marketplace

If this market is so juicy, how could we have been neglected for so long? Is it profitable?

In reality, a gross profit margin at the BOP is rather high. Due to the lack of suppliers, the market is dysfunctional and the poor pay a poverty penalty for everything they buy.

I recently interviewed an entrepreneur at a micro-finance meeting in Mexico. She borrowed US\$1,000 at a whopping interest rate of 42% per annum. I asked her how she could make any profit with such high cost of capital. She told me she collects orders for shoes from the village, buys them from the city and sells at double the price to her customers!

In fact, the poor has always had to pay double the price paid by wealthier consumers because they have no access to supplies. This is called the poverty penalty. While we get water free from the tap and subsidized sewage systems, the poor has to buy water by the cans and build their own sanitation treatment system or suffer the indignity of open defecation. Lack of sanitation, hygiene, water and hand washing with soap also causes 2.5 million deaths from diseases each year.

About 1.3 billion people live without electricity, 2.5 billion without proper sanitation, 2.7 billion are unbanked and one billion live in slums. These numbers are rapidly growing. But this is why we need to create a vibrant and efficient marketplace to bring about a more equitable society for the BOP where true competition means lower prices and wider choices for the poor.

Learning Curve

The BOP has also recently attracted many impact investors. However, these investors are reporting that while money is not the problem, it is hard to find good projects to invest in. There is a lack of absorptive capacity in the BOP for funding.

Strangely, because we are still at an early learning stage, many fancy ideas that got funded have turned out to be like the “Segway” (once touted as the future of transportation but turned out otherwise). Similarly, poor people simply cannot drink dirty water directly from a Lifestraw filter. The poor also prefer to buy simple \$1 or \$2 spectacles than complicated innovative spectacles that cost \$15 per pair. The One Laptop per Child program has also proved too costly to roll out when commercial computer companies like Acer and HP can produce better models for cheaper.

To be successful, we need to accelerate our learning curve of how to better serve the BOP. Designers are learning that products need to be designed with empathy for the poor; and that appropriate technology is more relevant than merely high technology.

Fortunately, some blockbusters seems to be emerging from within the BOP itself. The Amul milk company¹ in India; Drishtee's² rural distribution of fast-moving consumer goods; MPESA's³ mobile payment system in Africa; Patrimonio Hoy's⁴ low cost housing in Mexico; Selco's⁵ solar home system; BRAC⁶ and Grameen Shakti⁷ in Bangladesh; SaniShop's⁸ micro-franchising. The list is growing.

How did these companies succeed when Western-initiated ideas have experienced either limited success or outright failure?

BOP 101

Many big companies make the mistake of thinking that if they made products in smaller packs or with less features, it would be cheaper and sell well in the BOP.

But the scenario has not worked quite like that. To create consumption, you need a market with income and jobs. To create jobs, you need to invest in training local entrepreneurs

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We buy emotionally and justify it rationally. Therefore, we should sell emotions like love, social status, fear, filial piety, sexiness, safety from gossips/face saving, social acceptance, jealousy, fear, angst, individualism, community respect, better future of children and other perceptions.

whom you can invest in and involve them into your supply chain especially in distribution and franchising. A good market also needs to improve its logistics, road accessibility, good government policy and so on.

So how can we accelerate the knowledge growth of this sector so that we can uplift entire industries to attract and absorb massive investments and growth in the BOP?

I have three suggestions: go to the next dimension, go to the next level, and go back to basics.

The Next Dimension: Aspiration Marketing

Traditionally, the humanitarian sector views the poor as rational people who have little choice but to accept and appreciate whatever products and services are offered to them. This fails to recognize that the poor also have feelings. People are people, and marketing to the poor is no different than marketing Prada, Louis Vuitton, Coca Cola or shampoo to the rich and middle-class.

We buy emotionally and justify it rationally.

Therefore, we should sell emotions like love, social status, ego, fear, filial piety, sexiness (including aesthetic appeal), safety from gossips/ face saving, social acceptance, jealousy, fear, angst, individualism, community respect, better future of children and other perceptions.

But provide the rational justification for the purchase in terms of functionality, convenience, health, hygiene, time-saving, space saving, altruism, etc.

For example, WTO has been found it effective in promoting toilets to villagers on the fear that they would not want their women folk to be seen by other men to be defecating in the open, while giving them the rationale of hygiene in using proper toilets.

The Next Level: Cross-sector Collaboration

The social sector has tended to rely on social entrepreneurs to make a difference in creating social change at scale. But social entrepreneurs face many constraints in funding, resources and capacity.

The way forward is a collaborative effort to integrate solutions within sectors and across sectors with an inclusive approach involving all stakeholders: corporations, technologists, designers, policy makers, investors, philanthropists, academia, and the citizen sector.

Back to Basics: Social Equity

Finally, we need to go back to basics and measure growth in terms of equity.

We need to begin to address the most ignored word in capitalism: “enough.” Understanding the meaning of “enough” will help us appreciate what we already have. It will help us be happier because it frees us from comparing with the next person in a negative way.

In a new sustainable world, those who understand “enough” will be revered as wise. Those who live an ostentatious lifestyle after arriving at a particular station in life will be seen as wasteful.

It is not illegal to accumulate and hoard money, but social norms will eventually lean towards a better quality of life, not quantity of consumption.

The Japanese respect their craftsmen for their perfection; they are dignified notwithstanding the little they may earn relative to the rich businessmen. Such should be our new measure of success.

The world will become a more equitable one if those of us fortunate to be in the top 25% look after those at the bottom.

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¹ Amul, www.amul.com/products.html.

² Drishtee, www.drishtee.com/.

³ Mpesa, <http://en.wikipedia.org/wiki/M-Pesa>.

⁴ Patrimonio Hoy, www.cemexmexico.com/DesarrolloSustentables/PatrimonioHoy.aspx.

⁵ Selco, www.selco-india.com/.

⁶ BRAC, www.brac.net/.

⁷ Grameen Shakti, www.gshakti.org/.

⁸ Sanishop, www.sani-shop.nl/.