Opportunities for the Majority in the Caribbean

Opportunities for the Majority

Stuart Hart
S.C. Johnson Chair in Sustainable Global Enterprise
Professor of Management
Capitalism at the Crossroads

“...global capitalism stands at a juncture similar to the one faced in 1914. Between 1914 and 1945, world war, depression, fascism, and communism almost succeeded in eliminating capitalism from the face of the Earth. The problems global capitalism now faces (international terrorism, the backlash against globalization, global-scale environmental change) are no less daunting. Constructively engaging these challenges will be the key to ensuring that capitalism continues to thrive in the coming century—to everyone’s benefit.”

Stuart L. Hart
The Paradox of Globalization

Development & Progress
Economic Growth
Production Expansion

Cultural Imperialism
Economic Inequality
Ecological Degradation
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The Elusive Quest for Growth

Purchasing Power
Parity in U.S. dollars

Wealthy >$15,000 800
Emerging Middle Class (MOP) $1,500-15,000 1,500
Base of the Pyramid <$1,500 4,000

Saturation of current markets
Existing capability; New market
New capability; New market


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Base of the Pyramid Sector: More than Meets the Eye

Purchasing Power Parity (PPP)

Informal Economy
(Small enterprises, bartering, sustainable livelihood activities, subsistence agriculture)

Hidden Assets

$9.3 trillion in assets worldwide without legal title

Size as % of GNP
Nigeria: 70%
Mexico: 40%
Brazil: 30%
Germany: 20%
Japan: 10%
USA: 10%

Source: de Soto, 2000
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The Poor Live in High Cost Economies

<table>
<thead>
<tr>
<th></th>
<th>Dharavi (Shantytown)</th>
<th>Warden Rd. (Suburb)</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Credit (Annual Interest)</td>
<td>600-1000%</td>
<td>12-18%</td>
<td>60-75X</td>
</tr>
<tr>
<td>Municipal Grade Water (cu.m)</td>
<td>$1.12</td>
<td>$0.03</td>
<td>37X</td>
</tr>
<tr>
<td>Phone Call (per minute)</td>
<td>$.04-.05</td>
<td>$.025</td>
<td>2X</td>
</tr>
<tr>
<td>Diarrhea Medication</td>
<td>$20</td>
<td>$2</td>
<td>10X</td>
</tr>
<tr>
<td>Rice (per kg)</td>
<td>$0.28</td>
<td>$0.24</td>
<td>1.2X</td>
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Mumbai, India

“You don’t have to be that good to create tremendous consumer surplus!!”


Stuart L. Hart
Many Companies are Beginning to Experiment with the BOP

- Nutristar, Nutridelight (nutritional drink), Pur (water purifier)
- Hindustan Lever (detergent for the poor in India and Brazil), Annapurna (iodized-Salt for the poor)
- Making solar power affordable (India)
- Banco Real, microcredit in Brazil
- Vodacom community services in South Africa, joint venture between Vodafone and Telkom SA
- Solar powered digital camera in India and community information systems
- Program in South Africa to help entrepreneurs enter the supply chain and profit from new business ventures.
- Water for all program to periurban areas in Brazil

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A Tale of Two MNCs

Strategic Logic: Stagnating sales in primary markets

Target Market: Low income consumers in developing countries


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## Opportunities for the Majority in the Caribbean

### Contrasting BOP Strategies

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<thead>
<tr>
<th>Product Structure</th>
<th>Nike</th>
<th>Unilever</th>
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</thead>
<tbody>
<tr>
<td>Integrated</td>
<td>Protected</td>
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<tr>
<td>30-50% gross margins</td>
<td>Long-term growth; reduced margin</td>
<td></td>
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<tr>
<td>Existing marketing &amp; manufacturing</td>
<td>6-8 weeks in villages; local sales agents</td>
<td></td>
</tr>
<tr>
<td>Current retailers</td>
<td>Small retail outlets</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Product Pricing</th>
<th>Nike</th>
<th>Unilever</th>
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</thead>
<tbody>
<tr>
<td>Failed to hit targets; never reached the BOP</td>
<td>Path breaking growth; reached the BOP</td>
<td></td>
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<table>
<thead>
<tr>
<th>Problem-solving</th>
<th>Nike</th>
<th>Unilever</th>
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<thead>
<tr>
<th>Partners</th>
<th>Nike</th>
<th>Unilever</th>
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<tr>
<th>Outcome</th>
<th>Nike</th>
<th>Unilever</th>
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“The aspiring poor present a prodigious opportunity for the world’s wealthiest companies. But it requires a radical new approach to business strategy”

C.K. Prahalad and Stuart Hart
“The fortune at the bottom of the pyramid”
Strategy+Business, January 2002
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Emerging Markets: Incremental Extension

Strategy: Sell to elites and emerging middle class

Result: Incremental Innovation

Base of the Pyramid

“Emerging” Markets
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Base of the Pyramid: The Great Leap Downward

Example: DG 2B without power

Result: Massive growth opportunity

“Down Markets”

Base of the Pyramid

Source: Stuart Hart and Clay Christensen, 2002, “The great leap: Driving innovation from the base of the pyramid”

• BOP 1.0
  – Different price point
  – Redesign packaging
  – Low cost production
  – Extended distribution
  – Partner with global NGOs

• BOP 2.0
  – Deep listening
  – Putting the last first
  – Build capacity
  – Leapfrog solutions
  – Ecosystem of local partners

“Selling to the Poor”

“Creating Mutual Value”
Engaging Fringe Stakeholders

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Implications for Corporations: New Skill Development

- Deep listening
- Engaging fringe stakeholders
- Putting the “last” first
- Radical Transactiveness
- Co-creation

“Native Capability”
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From Smaller Sachet Packages To Bigger Mindsets

Engaging the BoP differently…

Customers ▶️ Partners
Clients ▶️ Colleagues

To serve the BoP, MNCs will need to develop a new capability…

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…Native Capability

The ability to…

- Engage with marginalized groups and communities in mutual business partnership
- Build long-term relationships of trust and understanding with BoP communities
- Creatively marry MNC capabilities and technologies with those of BoP communities through a process of co-creation
- Evolve the business model from the ground up
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The Base of the Pyramid Protocol™

Building a Community of Interest

www.bop-protocol.org
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BoP Protocol™: Overview

Co-Generated Business Concept

“Opening Up”
Launch a non-business specific immersion guided by two-way dialogue and humility

Co-Developed Business Model

“Building the Ecosystem”
Bring together a diverse network of partners that incubate the business ideas and bridge capability gaps

“Enterprise Creation”
Fine-tune and grow the business by conducting small-scale experiments and scaling out to new communities

Locally-Embedded Global Business Network

Stuart L. Hart