

Opportunities for the Majority in the Carribean

# Opportunities for the Majority



**JOHNSON SCHOOL**  
Cornell University

**Stuart Hart**

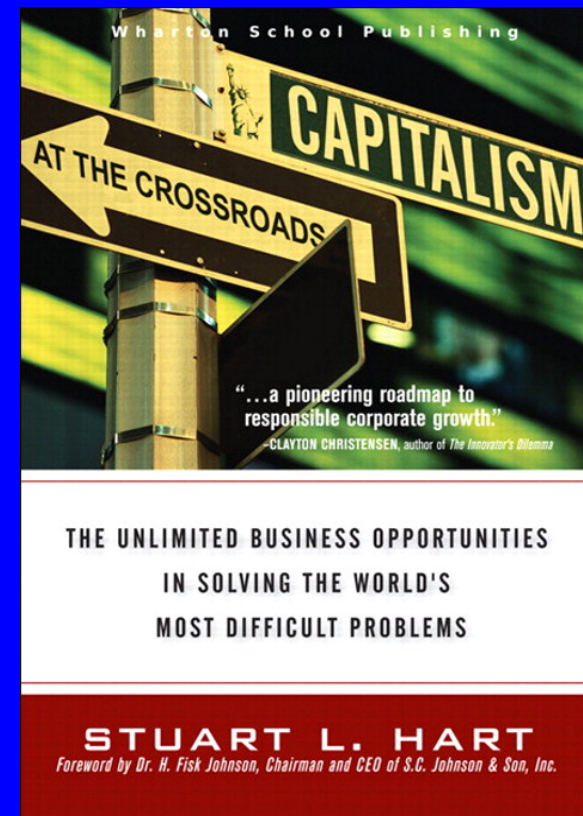
**S.C. Johnson Chair in Sustainable Global Enterprise  
Professor of Management**

Stuart L. Hart

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# 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.”



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# The Paradox of Globalization

Development & Progress

Economic Growth

Production Expansion



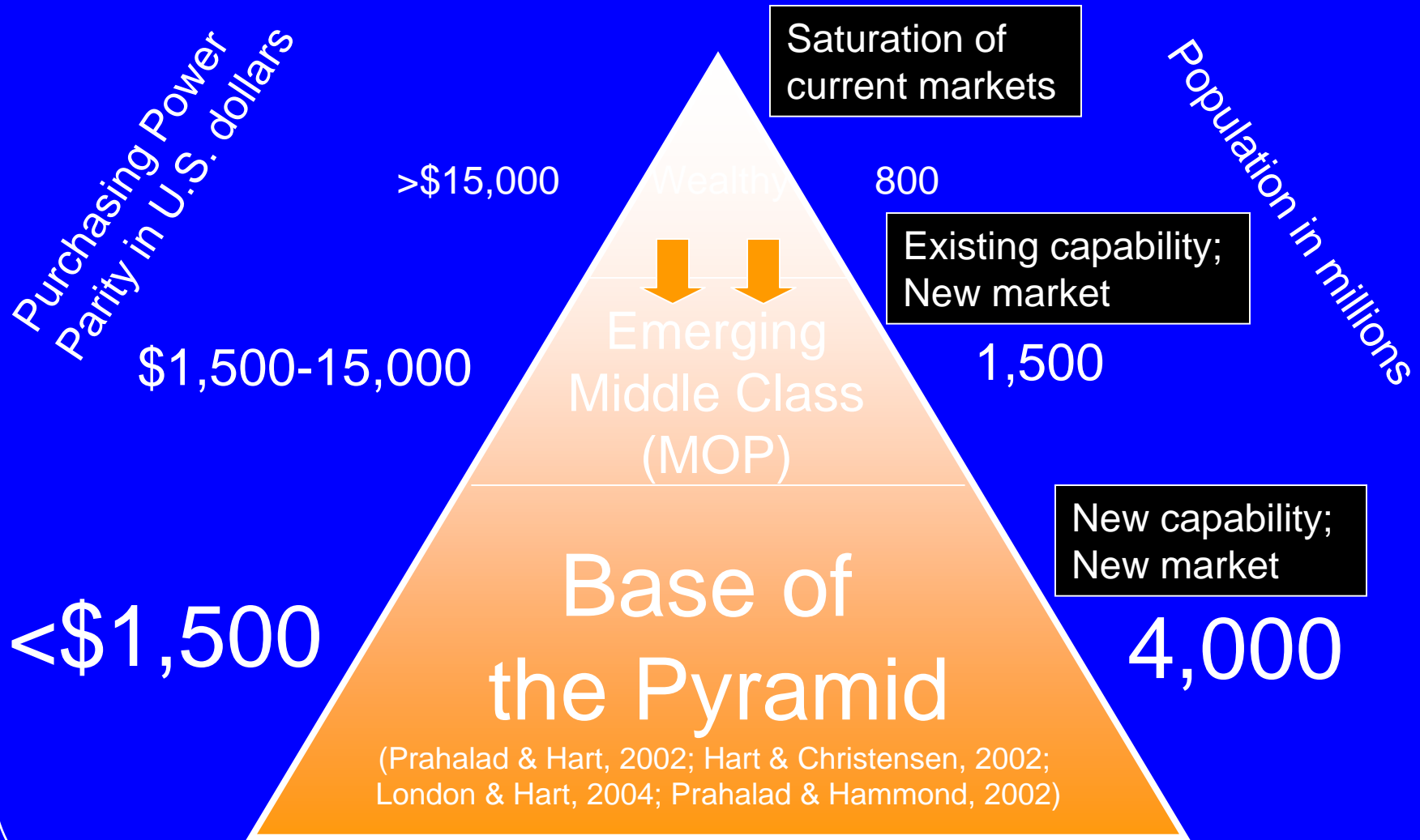
Cultural Imperialism

Economic Inequality

Ecological Degradation

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# The Elusive Quest for Growth



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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%**

## The Poor Live in High Cost Economies

Mumbai, India

	Dharavi (Shantytown)	Warden Rd. (Suburb)	Multiplier
Cost of Credit (Annual Interest)	600-1000%	12-18%	60-75X
Municipal Grade Water (cu.m)	\$1.12	\$0.03	37X
Phone Call (per minute)	\$.04-.05	\$.025	2X
Diarrhea Medication	\$20	\$2	10X
Rice (per kg)	\$0.28	\$0.24	1.2X

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

Source: C.K. Prahalad and A. Hammond, “Serving the poor, profitably” 2002

## Opportunities for the Majority in the Caribbean

# Many Companies are Beginning to Experiment with the BOP



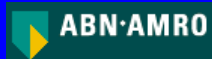
➔ Nutristar, Nutridelight (nutritional drink), Pur (water purifier)



➔ 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



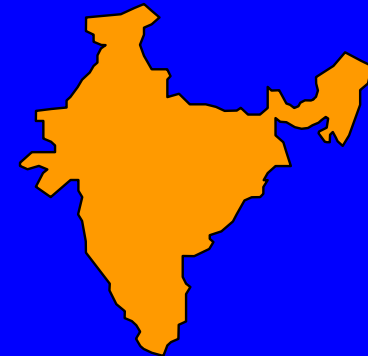
➔ Program in South Africa to help entrepreneurs enter the supply chain and profit from new business ventures.



➔ 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

Source: McDonald, London & Hart (2002); Ellison, Moller & Rodriguez (2002)



## Contrasting BOP Strategies

	Nike	Unilever
Product		
Structure	<ul style="list-style-type: none"><li>• Integrated</li></ul>	<ul style="list-style-type: none"><li>• Protected</li></ul>
Pricing	<ul style="list-style-type: none"><li>• 30-50% gross margins</li></ul>	<ul style="list-style-type: none"><li>• Long-term growth; reduced margin</li></ul>
Problem-solving	<ul style="list-style-type: none"><li>• Existing marketing &amp; manufacturing</li></ul>	<ul style="list-style-type: none"><li>• 6-8 weeks in villages; local sales agents</li></ul>
Partners	<ul style="list-style-type: none"><li>• Current retailers</li></ul>	<ul style="list-style-type: none"><li>• Small retail outlets</li></ul>
Outcome	<ul style="list-style-type: none"><li>• Failed to hit targets; never reached the BOP</li></ul>	<ul style="list-style-type: none"><li>• Path breaking growth; reached the BOP</li></ul>

**“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

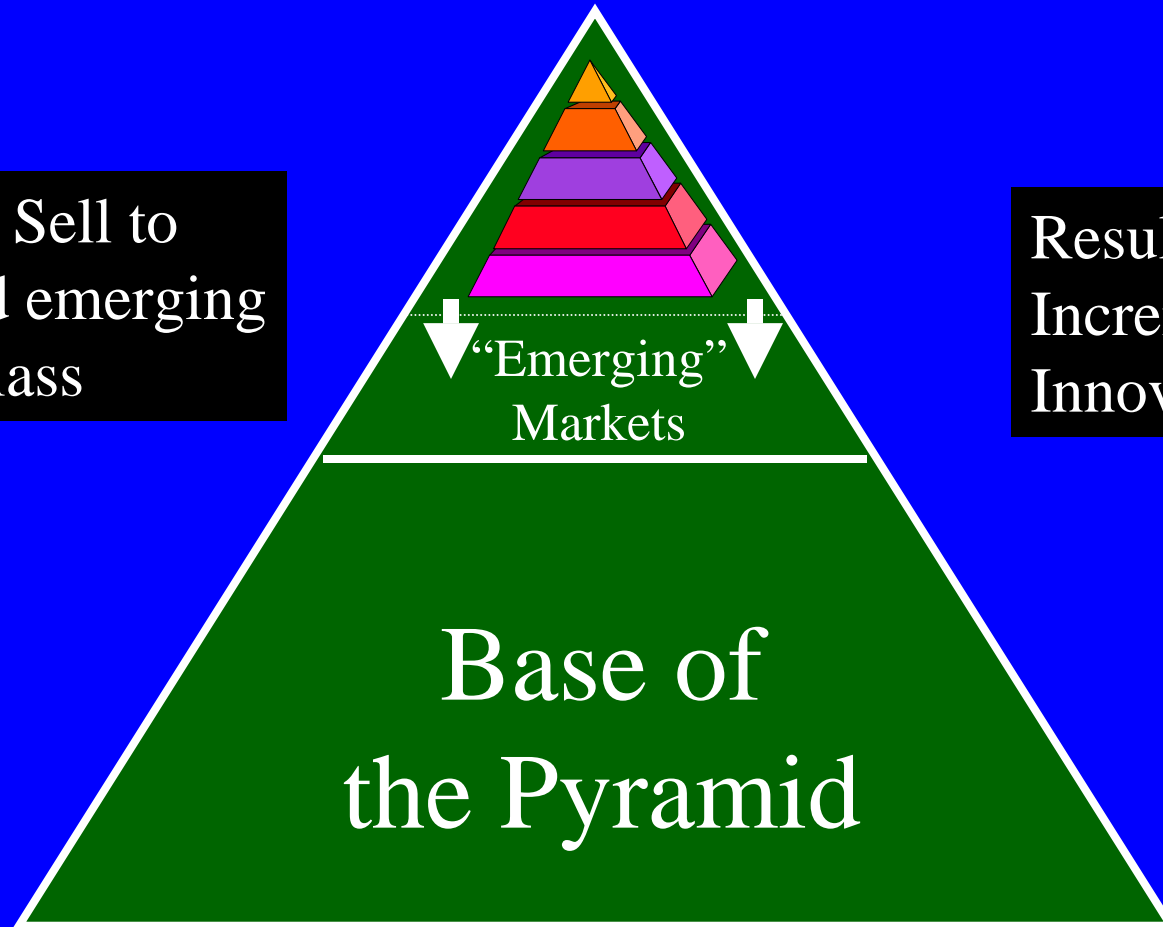
“The fortune at the bottom of the pyramid”

Strategy+Business, January 2002

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## Emerging Markets: Incremental Extension

Strategy: Sell to elites and emerging middle class



Result: Incremental Innovation

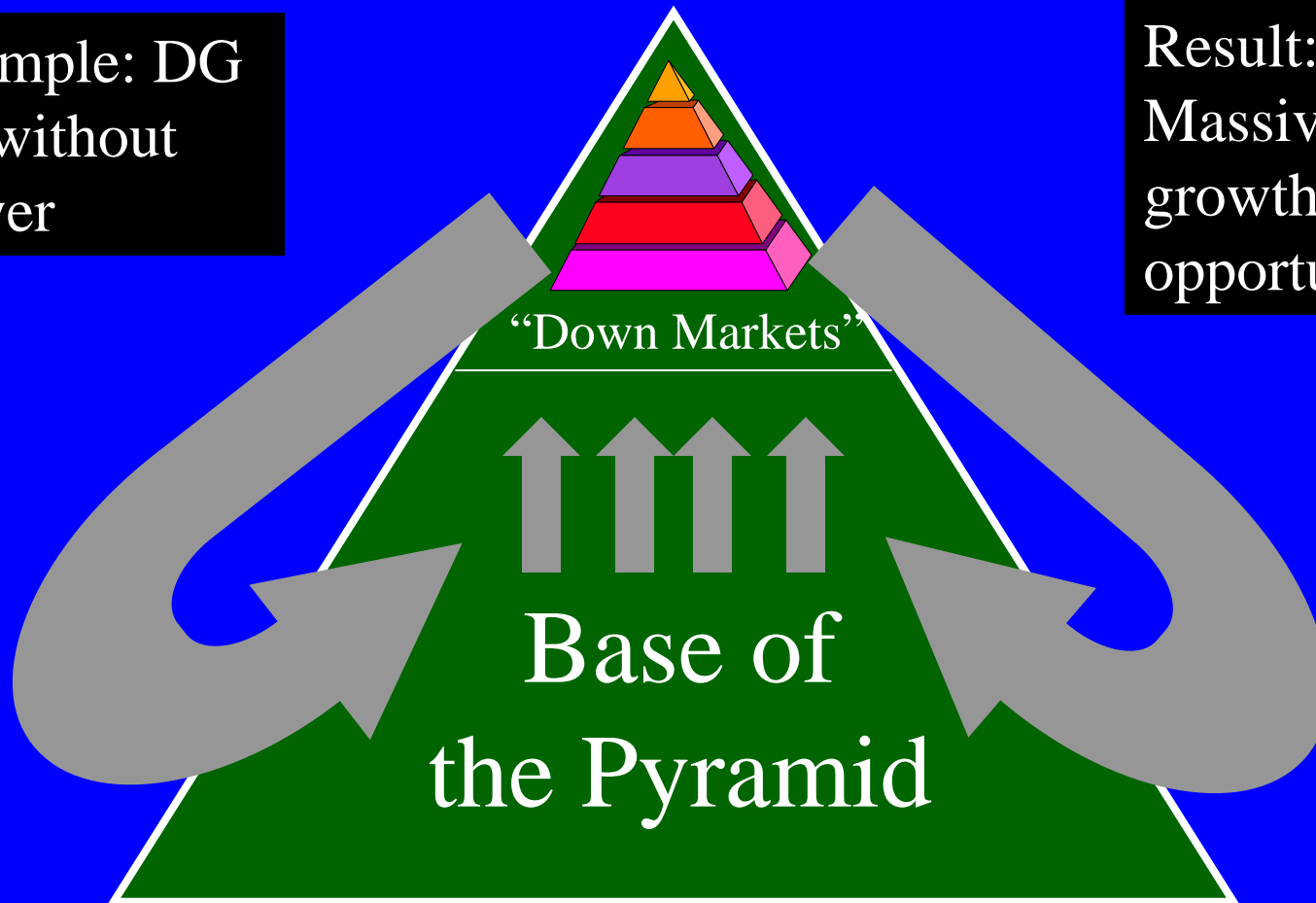
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## Base of the Pyramid: The Great Leap Downward

Example: DG  
2B without  
power

Result:  
Massive  
growth  
opportunity



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

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## First Generation BOP Strategy: “The Child With a Hammer”

- **BOP 1.0**

- Different price point
- Redesign packaging
- Low cost production
- Extended distribution
- Partner with global NGOs

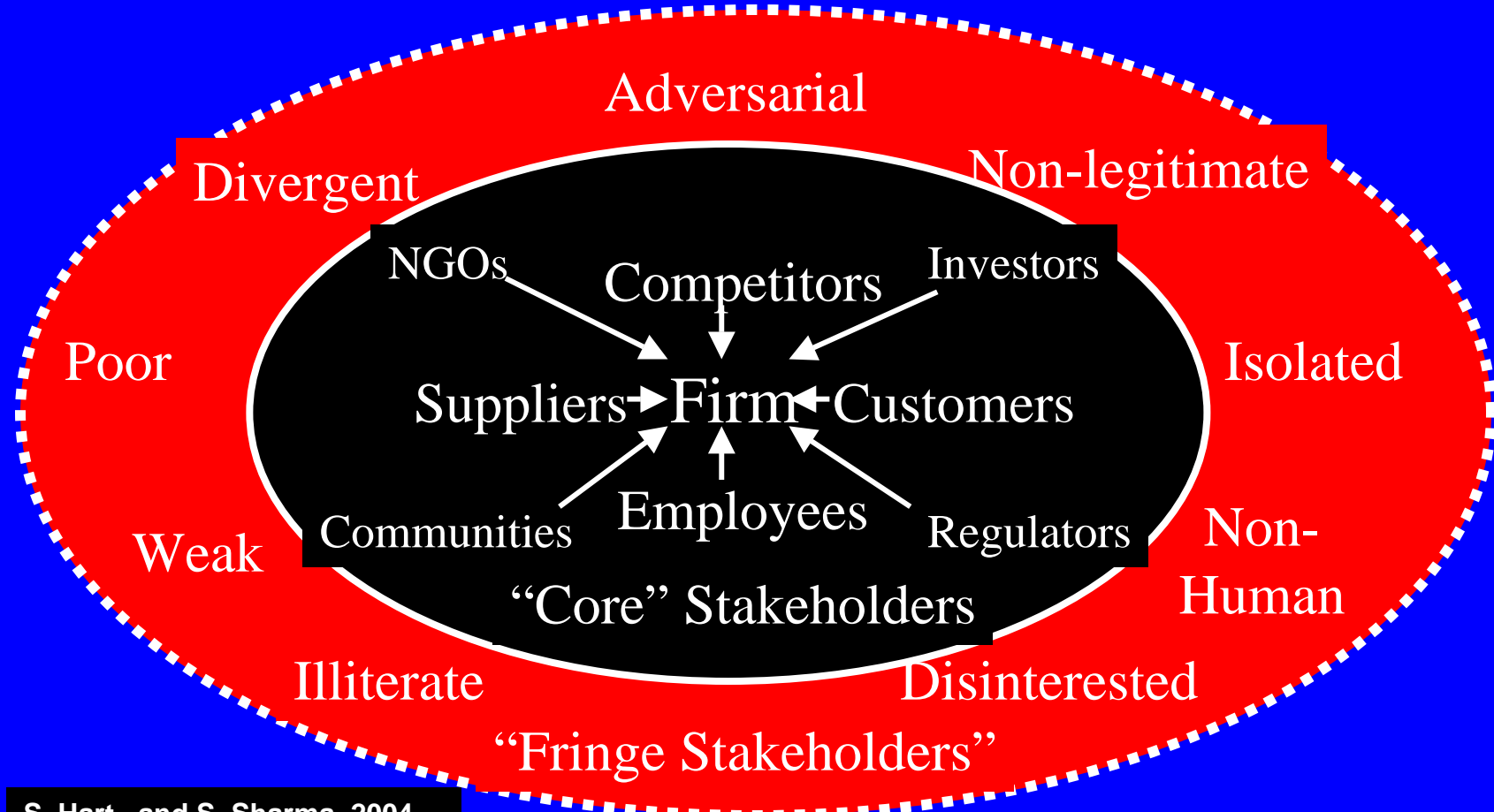
“Selling to the Poor”

- **BOP 2.0**

- Deep listening
- Putting the last first
- Build capacity
- Leapfrog solutions
- Ecosystem of local partners

“Creating Mutual Value”

# Engaging Fringe Stakeholders



S. Hart, and S. Sharma, 2004,  
"Engaging fringe stakeholders  
for competitive imagination"

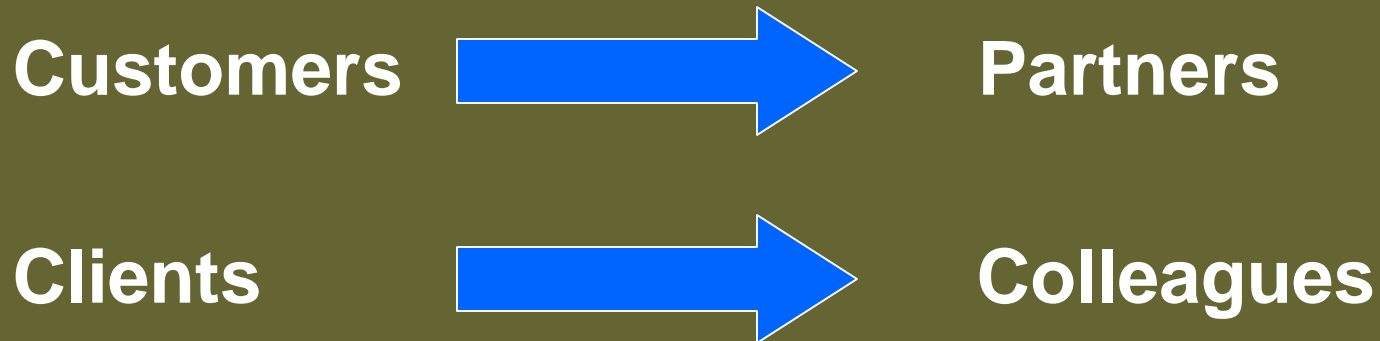
## Implications for Corporations: New Skill Development

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

**“Native Capability”**

## From Smaller Sachet Packages To Bigger Mindsets

Engaging the BoP differently...



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



## **...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

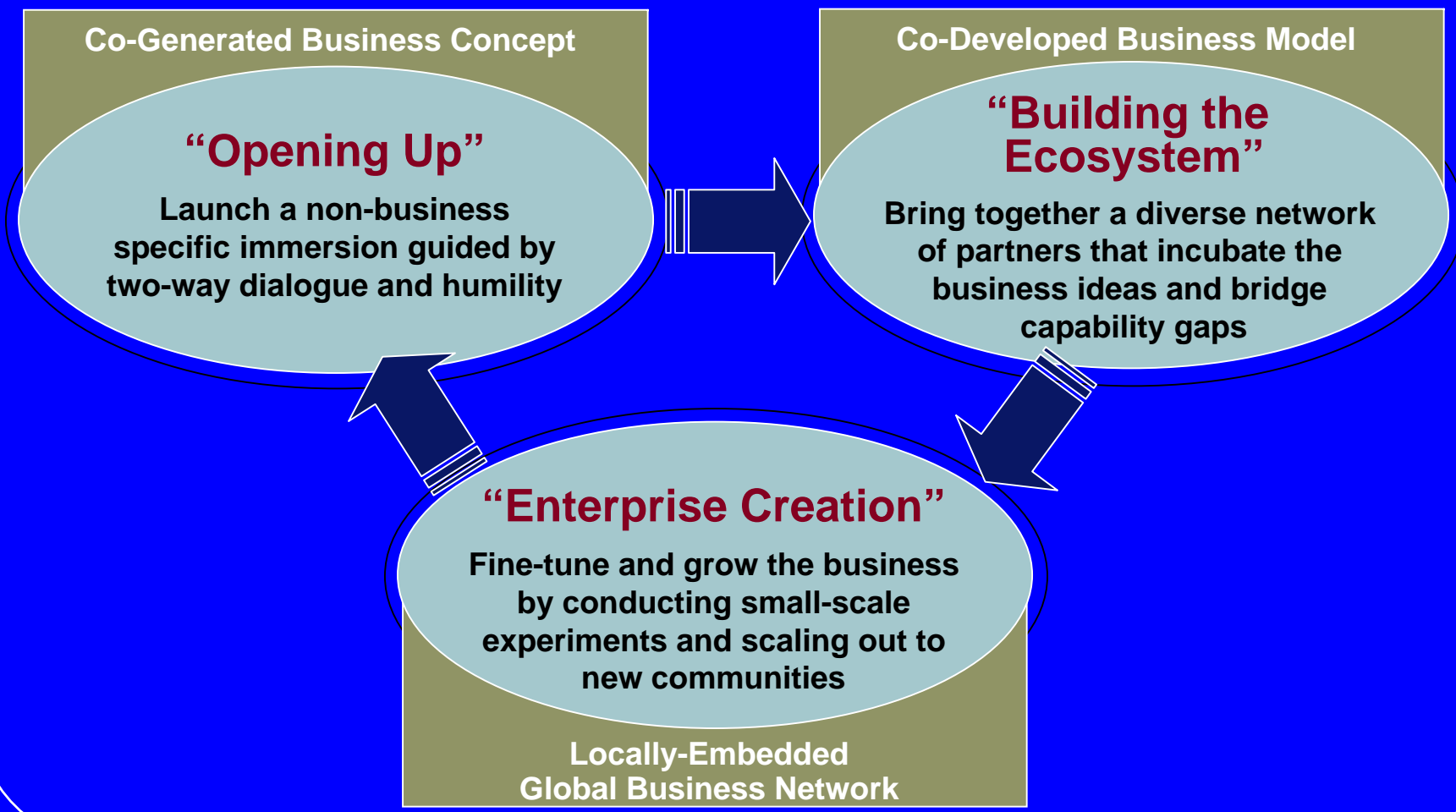


[www.bop-protocol.org](http://www.bop-protocol.org)

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# BoP Protocol™: Overview





## Base of the Pyramid Learning Lab™



**Center for Sustainable Global Enterprise  
Johnson School of Management**