



The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid

A Reader's Guide for Alliance Builders From the Global Development Alliance

June 2007

Introduction

The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid study published by the World Resources Institute (WRI) and International Finance Corporation (IFC) and released in March 2007, provides development practitioners with information and ideas to engage international and local private sector counterparts in productive alliances. It allows you to identify opportunities, industries, and companies to address the unmet needs of the underserved in ways that enable them to work them out of poverty. The report identifies alliance models that have been successful in meeting the market needs of the poor in developing and rebuilding states that improve their lives and livelihoods.

Purpose of the Reader's Guide:

- Enable program and policy managers to link *The Next 4 Billion* report to match USAID development goals with key industries and companies that are targeting "Base of the Pyramid," or BOP, markets across sectors.
- Use *The Next 4 Billion* to help make the business case to the private sector for alliances.
- See successful models of BOP alliances that have delivered measurable development impact.

What is *The Next 4 Billion*?

For several years, serious study has demonstrated that there is an untapped market among the very poor that can be served through market-based approaches in ways that elevate the quality of their lives. There are numerous case studies of successful enterprise development and product innovation that have profitably reached this customer base.

The WRI/IFC report is the latest work in this growing body of evidence that underserved people at the base of the economic pyramid are an attractive, if overlooked target audience for investment. The title refers to the approximately four billion individuals around the world who have incomes below \$3,000 per year (in local purchasing power). The analysis draws on income data from 110 countries and standardized expenditure data from 36 countries across the globe. *The Next 4 Billion* is an important first look at the market opportunity represented by these four billion individuals, also known as the "Base of the Pyramid" (BOP).

The Next 4 Billion is the first quantitative assessment and characterization of BOP markets. This report answers:

- How large is the BOP and what is its income by country and region?

- What is the total market size and consumer ability to pay within a number of critical business sectors, including water and sanitation, energy, IT/telecom, healthcare, food, transportation, and financial services?

The Next 4 Billion – Why Now?

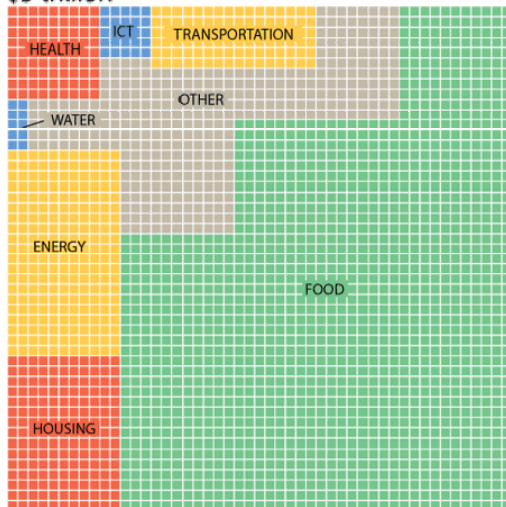
Development practitioners focus much of their effort on poor and vulnerable populations. Many approaches for increasing economic development and access to healthcare, shelter, and education are advanced through market-based strategies. The BOP constitutes a \$5 trillion global annual market that is primed to be tapped. Despite this enormous purchasing power, BOP markets are often very poorly served, dominated by the informal economy, and—as a result—relatively inefficient and uncompetitive.

The Next 4 Billion analysis suggests significant opportunities for more inclusive market-based approaches that can better meet the needs of the BOP, increase their productivity and incomes, improve their welfare and empower their entry into the formal economy.

Rural areas dominate most BOP markets in Africa and Asia; urban areas dominate most in Eastern Europe and Latin America and the Caribbean. In terms of spending, food dominates BOP household budgets. As incomes rise, however, the share spent on food declines, while the share for housing remains relatively constant and the shares for transportation and telecommunications services and products grow rapidly.

Market Opportunities:

Estimated BOP market by sector \$5 trillion



The diverse local characteristics of BOP markets show there are market opportunities that create value locally (franchises or distribution networks) and enable access to markets (phone cards, insurance products).

There are also direct marketing opportunities for such products as dual fuel cook stoves and housing materials made from recycled materials. Allied market-driven activities in the dominant food sector include agricultural development and the production of raw materials, processing of foodstuffs, packaging, distribution and marketing to commercial buyers and consumers.

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How to Use *The Next 4 Billion*

You may wish to begin with the report's Executive Summary which makes the case for treating the world's four billion low-income population as consumers with purchasing power. The full text can be accessed electronically at:

www.wri.org/business/pubs_description.cfm?pid=4142

For a comprehensive analysis of the BOP market, Chapter 1 provides a detailed breakdown of demographics and regional market characteristics. The \$5 trillion BOP market is described by market size, composition, and spending patterns. These are important building blocks for strategic objectives in any development program planning.

If your goal is to identify more specific development needs by country, you can read summaries by country (country breakdowns for 36 countries can be found in Appendix B pp. 113-149).

Chapters 2-9 provide reviews by industry sector, illustrating opportunities, successes, and failures through case studies from a variety of countries:

- Food market (\$2,894 billion) pp. 88-95
- Energy market (\$433.4 billion) pp. 76-87
- Housing market (\$331.8 billion) pp. 68-75
- Financial services market (not available) pp. 96-103
- Transportation market (\$179.3 billion) pp. 60-67
- Health market (\$158.4 billion) pp. 34-41,
- Information and communications market (\$51.4 billion) pp. 42-51
- Water market (\$20.1 billion) pp. 52-59

The first step in deciding which industry sector to focus on will be to match up your strategic development goals with the industries segmented in *The Next 4 Billion*. Sometimes this will be obvious, as in the case of improving access to clean drinking water. In other cases it may be less clear; for example, if you have an objective around reducing child malnutrition you would certainly want to look at the Food and Health chapters, but you might also look at the Transportation chapter if it is less the amount or quality of food but rather its distribution that is the issue.

In reviewing the industry chapters, you should be alert for ideas around newly emerging partnership opportunities. For example, the Financial Services Market chapter highlights the involvement of international and national banks but also the importance of mobile telecom companies in improving access to financial services.

Sample Case LAC Region: Guatemala Housing Industry

You are the Mission Director in Guatemala and you know that access to affordable housing is a key issue impacting poverty in the country. Your goal is to improve citizens' access to housing and you would like to build an alliance as part of the approach.

Before you contact any construction or building supply companies based in or operating near Guatemala, you read the Guatemala country summary (Country Table Sample, page 9 in Executive Summary Booklet or Appendix B, page 126 in the Full Report) to get a sense of the BOP market demographics. For example, you learn that the largest share of Guatemala's BOP population (29.7% of a population of 11.4 million) earns approximately \$1,000 annually, and approximately half those people live in urban areas while the other half live in rural areas. You also learn that total BOP spending on housing in Guatemala is \$1.6 billion or \$911 per household, which is only one quarter of what BOP households spend on food. Therefore these consumers must be judicious in their spending so quality and costs are key to attracting their business.

Next you read the chapter on The Housing Market (pp. 68-75) and learn about an innovative housing program rolled out in Mexico by Cemex called Patrimonio Hoy, which makes housing affordable and improves build times. The chapter also discusses the issue of informal home ownership in some BOP countries which leads to additional problems such as lack of access to

power and water. Potential solutions are described, such as land reform programs which help bring ownership into the formal sector and new financial services.

Sample Case Africa Region: Sierra Leone Agribusiness

You are the Mission Director in Sierra Leone. Food represents the largest share of BOP household spending in Sierra Leone although nearly half of the working-age population engages in subsistence agriculture. Your goal is to increase agricultural productivity. As part of a solution, you would like to build an alliance.

Before contacting agricultural supply companies operating in Sierra Leone, you look at the country summary for Sierra Leone to get a better sense of BOP market demographics (Appendix B, page 142). You learn that the largest share of Sierra Leone's BOP population, equal to 44.5 percent of a population of 5.1 million, earns approximately \$788 annually. You also learn that total BOP spending on food in that same population band is \$453 per capita, which is equal to roughly 57 percent of total income per capita for that population. Therefore, despite a high percentage of the population participating in agriculture, a significant proportion of income is still being spent on food.

Next you read the chapter on the Food Market (pp.89-95) and learn about an innovative agricultural development enterprise program introduced in Kenya, Tanzania, and Mali by KickStart, which has introduced market-driven technologies for African entrepreneurs, creating enterprises at every level of the value chain from manufacture to distribution, retailing, and end use by farmers. The chapter also explores the issue of food meeting the nutritional needs of low-income populations and improving food distribution mechanisms.

Using USAID's current framework for foreign assistance and the market segments present in the report, practitioners can scan potential market opportunities across the board. You can use this matrix to match opportunities identified by *The Next 4 Billion* with your own priorities. As an exercise to begin matching needs with opportunities, you could construct a worksheet to plot potential intersections as follows:

USAID Objectives	Health	ICT	Water	Transportation	Housing	Energy	Food	Financial Services
Peace and Security (conflict)								
Governing Justly and Democratically								
Investing in People (health, education, social services)								
Economic Growth (trade, agriculture, environment)								
Humanitarian Assistance								

Wherever you find overlap, even across sectors, you have the coordinates you need to begin planning a market-based strategy to advance your development agenda.

OPPORTUNITIES FOR THE DEVELOPMENT COMMUNITY

The key lessons to take from *The Next 4 Billion* are:

- 1) BOP business planning can be complementary to rebuilding states and providing sustainable development.
- 2) Consumers benefit when they have choices from competition in the market.
- 3) The poor are already consumers, but they are badly served and pay a poverty penalty for most of their goods and services.
- 4) There is untapped potential for the private sector to lower prices, raise quality, increase access and create jobs.
- 5) The opportunity to scale is tremendous.

Note:

While the BOP perspective identifies new ways of creating win-win scenarios with the private sector, USAID's focus remains on development and the beneficiaries. Our alliances should assist with the production of BOP commodities and services that positively impact the well-being of consumers. Our alliances with WISHH/Solae in Southern Africa, Grameen Phones in Rwanda, Plumpy'Nut in Malawi, and ApproTec (Kickstart) Tredlepumps in Kenya and Tanzania are all good examples of product development that empower those at the base of the pyramid. Scaling opportunities can be derived from workforce development initiatives and linking SMEs run by the BOP to competitive value chains with larger companies. Descriptions of these alliances can be found on the internal USAID website at:

<http://gda.usaid.gov/alliances/index.html?s=SVHTWWJYBVXBPD SHGDMHRBQYLYTQYNT>