

HBR.ORG

Harvard Business Review



MARCH 2015
REPRINT R1503B

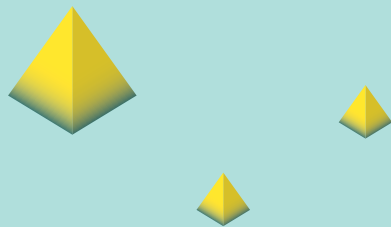
THE BIG IDEA


Reaching the Rich World's Poorest Consumers

Five leading companies have adapted nonprofit business models to serve the bottom of the pyramid in France. by Muhammad Yunus, Frédéric Dalsace, David Menascé, and Bénédicte Faivre-Tavignot

THE BIG IDEA

REACHING THE RICH WORLD'S POOREST CONSUMERS





**Five leading companies
have adapted nonprofit
business models to
serve the bottom of the
pyramid in France.**

*by Muhammad Yunus,
Frédéric Dalsace,
David Menascé, and
Bénédicte Faivre-Tavignot*

POVERTY IS NOT JUST AN EMERGING-MARKET PROBLEM.

In the United States more than 45 million people, or 15% of the population, are officially poor, according to the Census Bureau. What's more, this percentage has increased every year but one (2006) since the 21st century began. At 16%, Japan is doing no better. And in the European Union almost 120 million people—one in every four—are classified as at risk of poverty or social exclusion.

In the past, businesses in the developed world have largely ignored the needs of these groups. To be sure, they know that not all their customers are rich, and many companies have invested significantly in creating low-cost products and services specifically tailored to people on a tight budget. Most automakers have offered low-budget cars for decades: The Model T Ford, the VW Beetle, the Mini Cooper, and the Citroën 2CV were in their time designed for what their manufacturers saw as the budget market. Low-cost "hard discounters" such as Aldi and Lidl in Europe and Market Basket in the United States have emerged relatively recently in the retail industry.

But the low-cost, low-price products and services that have traditionally served poorer consumers in Europe are usually still out of reach for the 25% who are at risk of poverty. Consumers in this group often can't buy essential products and services without significant aid from the state—whose ability to provide such aid is diminishing even as the need for it grows. Limited public transportation, for example, means that many poor people in rural districts must rely on aging, extremely cheap vehicles. Someone whose car breaks down may be out of work as a result.

In recent years a number of large corporations have started approaching problems of this kind in

a new way. In 2009 Martin Hirsch, the former French high commissioner in charge of poverty alleviation, and Emmanuel Faber, then the food giant Danone's deputy general manager (now its CEO), came together to form the Action Tank—a not-for-profit association directed by Jacques Berger, of HEC. Through the Action Tank a number of leading multinationals have joined forces with NGOs and government organizations to experiment with developing social businesses in France.

"Social business" is a concept originally devel-

oped in the context of poor countries. Such a business has three key characteristics: First, it seeks to alleviate social problems, including all forms of poverty. Second, it must be run sustainably—that is, it should not lose money. Third, profits—when they exist—are reinvested in the business rather than funneled back to shareholders. Investors eventually get back only the money they initially invested. Danone and a growing number of other multinationals have for some time been engaged in social businesses in Bangladesh and other poor countries, but applications in the developed world are rare.

Among the first companies to join Danone in the Action Tank were the eye-care company Essilor, the construction giant Bouygues, the telecommunications group SFR, and the carmaker Renault. Early results from these companies' experiments suggest that the social business model is both an efficient way of fighting poverty and a productive source of new business ideas. Their ventures are sustainably providing high-quality products and services to very poor people at rock-bottom prices.

Essilor's social business, Optique Solidaire, is a good example. Working with all the company's supply chain partners, including insurance companies, it has succeeded in driving down the cost of a pair of high-quality reading glasses to poor pensioners from 230–300 euros to less than 30 euros. After

Idea in Brief

THE PROBLEM

Poverty reaches far beyond emerging markets. In the European Union alone, almost 120 million people—nearly 25% of the population—are deemed at risk of poverty or social exclusion.

THE CURRENT APPROACH

Corporations usually try to meet the needs of poorer consumers with low-cost, low-price offers while still making a profit. They have improved access to many products and services, but a substantial number of consumers are still largely excluded.

THE SOLUTION

In France, the not-for-profit Action Tank is experimenting with an alternative: the social business model. It differs in a number of ways from traditional low-cost models—beginning with the fact that its primary goal is to solve social problems for customers.

spending 15 months working out the offering and three months conducting an experiment in Marseille, Optique Solidaire has built a network of more than 500 “solidarity retailers” across France. They are opticians who have volunteered to spend some of their time selling the glasses at a sharply reduced profit margin. Target customers—people over 60 with minimal resources—receive a voucher and a letter from their insurance company telling them about the offer and supplying the address of the closest participating optician. Essilor’s goal is to recruit 1,000 retailers in France and to equip 250,000 to 300,000 people with glasses they could not otherwise afford.

In the following pages we present the social business model that is emerging from experiments like this and demonstrate how radically it differs from traditional low-cost business models. The new model, perhaps counterintuitively, looks more like that of a high-end solutions provider than that of a discount supplier. Obviously, financial profit is not its goal. We will describe the business benefits, both tangible and intangible, that social businesses can provide and the factors that contribute most to their success.

The Model

Let’s begin by looking at the value propositions that social business models offer. These typically involve:

Customer exclusivity. Unlike low-cost models, social business models are exclusive: Companies determine up front which and how many consumers the program will serve, and no one else is eligible for the offer. The target may be broad.

For instance, SFR and the French charity Emmaüs, which focuses on the homeless, regard all poor people who have a mobile phone as eligible for the services offered through their project Téléphonie Solidaire. But the target may also be narrow, such as poor consumers older than 60 (Essilor), poor families with a child aged six months to 24 months (Danone), or poor consumers who need a car to get—or keep—a job (Renault).

In determining eligibility, social businesses usually work with nonprofits, which rely in turn on local associations and public programs to find potential beneficiaries. This approach also reduces companies’ costs.

High-quality products and services. In a low-cost business model, every consumer, whether poor or not, evaluates the trade-off between the company’s standard and low-cost offers. If they are



Early results from these companies’ experiments suggest that the social business model is both an efficient way of fighting poverty and a productive source of new business ideas.



too similar, the company runs the risk of cannibalizing its standard offer. Thus it must downgrade key attributes in the cheaper offer to create a distinct trade-off.

In a social business model, the offer can remain unchanged if the economics allow. This is important, because the goal of the social business is precisely to give poor people access to an *existing* product or service whenever possible. Danone, Renault, and SFR provide poor customers with products and services identical to those offered to richer ones. The only difference in Optique Solidaire's offering is a limited assortment of frames; lens quality remains the same.

The commitment to high quality means that social businesses don't lower their costs by redesigning products or manufacturing processes, as low-cost businesses may do. They focus on changing the economics of sales and distribution. The solution is often to partner with nonprofits or to work with distributors on a noncommercial basis, as Essilor did. And as we'll see, companies that devise an integrated, solution-style offering can offset costs in one component with savings in other components.

Carefully designed solutions. Unlike low-cost companies, which are defined largely in terms of products and services, a social business often (though not always) expresses its value proposition as a solution to a social problem customers have. Renault's Mobiliz is a case in point. The project's goal is to resolve transportation issues for poor people. In cities, Mobiliz works with the NGO Wimoov to find the cheapest form of mobility for working poor people, whether it be the metro, buses, or bicycles. In rural areas, however, the project's customers need access to a cheap car and affordable maintenance, which Mobiliz provides through a network of "solidarity garages." Network participants (garages owned or franchised by Renault) dedicate a portion of their time and resources to repairing damaged or broken cars for qualifying customers at a nominal cost. The French NGOs Wimoov, FASTT, and UDAF are responsible for "recruiting" customers.

An often-important part of social business solutions is promoting behavior change on the part of customers. Danone's *Projet Malin*, a joint program with the French Red Cross, provides low-income parents with affordable and nutritious food for children, educational materials, and courses delivered by independent third parties. "The purpose of our program is to ensure that children are well nourished,"

says Benjamin Cavalli, of the Red Cross. "We ask the mothers if they want to attend an educational workshop to develop good nutritional practices. Many do." (Programs must take care not to seem patronizing; for example, there's no need to lecture poor commuters on how to travel.)

Thinking in terms of solutions can help companies with the challenge of costs. Since 2000, French law has required that a city of more than 3,500 inhabitants that is part of an "urban center" of more than 50,000 must have at least 25% of its dwellings qualify as social (public) housing. Understandably, companies doing this kind of construction try to minimize direct costs through efficiency. But Bouygues realized that building apartments inexpensively didn't necessarily make them affordable over the long term.

Working with the Action Tank, the company estimated that in the Paris area, construction accounts for less than 30% of total housing costs over the life of a building. Land accounts for about 12%, financing for 15%, maintenance and repair for 12%, and usage (heat, electricity, water, garbage collection, and other running expenses) for about 35%. So the company has broadened its scope to offer a more integrated service. It has proposed innovations such as decreasing the size of individual units in order to build in neighborhoods with better connections to public transportation (an idea borrowed from the hotel industry), creating a common laundry room (unusual in France), asking tenants to take care of the cleaning (including the garbage), and setting up efficient water distribution systems. Some of these innovations would entail up-front costs, but the downstream savings would more than cover them.

The Hidden Payoffs

The primary purpose of a low-cost business is to create shareholder value by generating profits. Although the business makes products accessible to poor consumers, that is merely a means of delivering on its promise to shareholders. Because a social business seeks to alleviate social problems sustainably, however, its profits are plowed back into the company. But that's not to say that social businesses yield only social returns. In fact, the spillover effects of creating them may in the long run be as commercially valuable as the profits of a low-cost business. Those effects include uncovering opportunities for innovation in new markets, motivating employees,

and enhancing the company's reputation—along with demand for its products and services.

Breakthrough innovation. Social businesses have long been recognized as what Rosabeth Moss Kanter, of Harvard Business School, has called “beta sites for innovation.” Emmanuel Faber has described Danone's social business in Bangladesh, which started in 2005, as “the best R&D lab ever.” To be sure, low-cost businesses do often trigger innovation in processes and design, but the innovation of social businesses tends to be more radical, because they are trying to maintain the original quality of their products and services. As we saw with Bouygues, this forces them to break away from product-centered innovation and focus instead on *consumer-centered* innovation.

François Rouvier, the manager of Mobiliz, says, “Developing the Dacia [Renault's low-cost car in Europe] was a formidable challenge for Renault. We started with existing cars and left no stone unturned to make it cheaper. In a sense, we were going downward. But in the social business model we put the constrained customer, not the product, at the center of the action, and we seek to help her go upward. This is a whole new mindset.”

As a result, companies can identify ways to increase access to their commercial products as well. For example, Renault's consumer-centered research revealed that the prohibitive cost of qualifying for a driver's license was a major reason that fewer and fewer young people in France were buying cars. The company teamed up with ECF, France's leading driving school, to develop a computer game for learners. By speeding up the learning process, it can drastically cut the overall cost of lessons.

Social business models also spark innovation through the high level of collaboration they involve. In particular, they enable companies to leverage existing capabilities in the not-for-profit sector. Essilor has launched several commercial projects as a result of its experiment. In Southeast Asia, for example, it has applied the idea of sending vouchers to customers via a third party. Rather than waiting for people to visit opticians and buy glasses from them, Essilor works with corporations that send letters to their employees offering to share or even

bear the cost of glasses. This improves both employees' quality of life and the quality of their work—a triple win that benefits Essilor, its customers, and their employers.

Motivation. Our experience shows that social business models generate a lot of motivation and meaning for workers, who are often less engaged when their employer's sole purpose is to make shareholders happy. One of Renault's goals for Mobiliz was to strengthen the social DNA of the company; the name stands for both the mobility of the consumers Renault serves and the mobilization of its people. The company has been surprised by how positively its dealer network and sales force have reacted.

“We thought Mobiliz would not be welcome, because by definition the model makes it impossible to make money;” says Claire Martin, Renault's vice



The innovation of social businesses tends to be more radical, because they are trying to maintain the original quality of their products and services.

How Social Businesses Differ from Low-Cost Businesses

Here's a quick comparison of the two models:

	Low-Cost	Social
VALUE PROPOSITION	OBJECTIVE TO MAKE A PROFIT BY IMPROVING ACCESS TO PRODUCTS AND SERVICES	TO IMPROVE ACCESS TO ESSENTIAL PRODUCTS AND SERVICES IN A FINANCIALLY SUSTAINABLE MANNER
	EXCLUSIVITY ANY CONSUMER CAN BUY THE OFFER	THE COMPANY DECIDES WHO THE TARGETS ARE AND HOW TO FILTER THEM
	QUALITY LOWER, TO AVOID CANNIBALIZING THE REGULAR OFFER	UNCHANGED
	FOCUS LOW-PRICE PRODUCTS AND SERVICES	AFFORDABLE SOLUTIONS TO SOCIAL PROBLEMS
	OPERATIONS RECONFIGURING THE PRODUCTION SUPPLY CHAIN TO REDUCE COSTS	RECONFIGURING THE DISTRIBUTION SUPPLY CHAIN TO REACH TARGETED CONSUMERS
SOURCE OF VALUE	PARTNERSHIPS OPTIONAL CO-CREATION WITH PROFIT-MAXIMIZING ORGANIZATIONS	REQUIRED CO-CREATION WITH THIRD PARTIES THAT HAVE A SOCIAL WELFARE OBJECTIVE
	INNOVATION PRODUCT-CENTERED	CUSTOMER-CENTERED AND ECOSYSTEMIC
	EMPLOYEE MOTIVATION WEAK	STRONG
	REPUTATION MAY BE QUITE LOW	LIKELY TO BE HIGH

president for corporate social responsibility. “But we received encouragement from people throughout the firm. The reaction of the sales department was so favorable that we are now facing a highly unexpected problem: too many garages that volunteer and not enough low-income car owners who can be identified and channeled through our partnering NGOs.” This level of enthusiasm almost certainly translates into higher rates of employee retention and productivity.

Reputation. Large corporations that introduce low-cost products are quickly suspected of trying to make money on the backs of the poor, which can damage their overall brand image. For instance, after Danone introduced low-cost yogurts on the French market in 2010, public reaction forced the company to discontinue the product line. Nutriset, the world leader in emergency food for developing countries, had to abandon two consecutive attempts to sell nutrition bars to very low income consumers in France, because social activists argued that it was an immoral way to make money and that the goal should be to offer “real meals.”

But when a company starts a social business, which is expressly not for profit, it can change stakeholders’ perceptions. The model breaks down barriers and helps the company build new relationships based on trust. Emmanuelle Vignaud, Danone’s brand marketing manager, says, “Social business projects show that our firm has a more comprehensive and long-term mindset. We are not considered ‘predators’ anymore, which has concrete consequences. One key pediatrician, who had refused to meet with us before, agreed to be interviewed for more than two hours to help us understand how baby food will evolve. We have also earned the trust of two pediatricians’ union leaders, who are involved on the board of Projet Malin. These relationships could be immensely useful as we look for new product ideas going forward.”

To be sure, the low-cost model has a long history—probably best exemplified by the Model T Ford—of providing people with access to goods and services. Its ability to generate financial returns aligns it with the goals of most companies. We believe, however, that the social business model has the potential to provide even greater access, and its spillover benefits can create value over the long term, making it a significant alternative to low-cost business ventures.

Making the Model Work

Veolia, Total, La Poste, and Michelin are among the large organizations that are now joining the Action Tank to experiment with social businesses. The success of such projects in France has spurred the creation of action tanks in Portugal and Belgium to help companies develop similar programs. Our experience in France has enabled us to pinpoint the crucial factors.

Always put the social goal first. Companies must keep in mind the point we made earlier: Social businesses have *social goals* and *business spillovers*, not the reverse. If a social business is created to stimulate innovation or improve reputation, it will generate suspicion among its partners, threaten the cooperation needed for innovation, and look like corporate hypocrisy to company employees. This doesn't mean, of course, that you can't talk about the spillover effects—just that they have to take second place or you won't get them at all.

Be patient and selective in partnering. It takes time to construct the right model for the social problem you are addressing. (Schneider Electric has worked with the Action Tank since the latter's inception, but because it's primarily a B2B firm, selecting a project was challenging. Schneider is only now starting to experiment with measuring energy consumption for poor people.) Negotiations are necessary both internally and with external ecosystem partners. Finding the right organizations to partner with is difficult: You need to understand their cultures and mindsets—especially when they're nonprofits, whose participation and credibility are essential for success. The Action Tank has been helpful in making connections and deepening understanding of partnership challenges, and many of the world's top consultancies have practices that specialize in social ventures.

Keep it as simple as you can. Poor people in developed countries often have a lot of choice. SFR and Emmaüs have identified more than 300 social service programs in France. But each has its own, sometimes complicated, processes and eligibility criteria, and poor people with limited time find it hard to make an informed choice among them. Even when a social business can identify all potential beneficiaries (as Optique Solidaire was able to), it's generally able to reach only about 30% of them. Some social businesses are now developing traditional push marketing initiatives such as advertising and

couponing to raise public awareness of their products and services.

Start local. Don't try to launch a national program from scratch. Figuring out how to collaborate with nonprofits is better handled on a small scale. Luckily, the customer exclusivity of social businesses makes it easy to run experiments. Essilor needed 18 months to work out the right model including its pilot project in Marseille, and Danone's *Projet Malin* is still being refined in just four cities. Determining how to filter customers can be especially challenging.

SOCIAL BUSINESS is still in its infancy. Early evidence suggests, however, that it can help companies looking for market-based solutions to poverty issues. Its business spillovers—innovation, motivation, and reputation—are significant. More important, it is demonstrating that large corporations can be powerful agents of social change when they partner with other organizations. And social businesses can unify all society's organizations, including businesses, nonprofits, and government agencies. That is no small achievement, because we need all our talents in the fight against poverty. ♥ **HBR Reprint R1503B**



Muhammad Yunus, the founder of Grameen Bank, a microfinance business that first operated in rural Bangladesh, won the 2006 Nobel Peace Prize.

Frédéric Dalsace is an associate professor of marketing and holds the Social Business, Enterprise and Poverty chair at HEC Paris. **David Menascé** is the managing director of Azao, a consulting company specializing in social business, and an affiliate professor at HEC Paris. **Bénédicte Faivre-Tavignot** is an affiliate professor at HEC Paris and the academic director of its master's program in sustainable development.

