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Mindset drives success: Selling beneficial products at the base of the pyramid

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Abstract Why are so few organizations selling beneficial products at the base of the pyramid (BoP) successful? This is not simply a story of companies failing, and it is one with a dramatic consequence as low-income people do not benefit from products that can improve their way of life. Instead, they continue to drink unsafe water, cook on stoves that emit fumes that kill over 1 million people per year, light their homes with dangerous kerosene lamps, and fall ill from a mosquito bite. Based on a multiyear field research program conducted in 25 countries, we argue that having a specific mindset about BoP customers is consequential to an organization's success. Many organizations start with the assumption that BoP customers lack money, knowledge, and jobs. By contrast, successful organizations start from the assumption that customers can and will pay if they are provided with a satisfactory solution to their needs and are reassured about the level of risk involved. We detail the different practices that follow from this mindset change in the areas of value proposition, communication, and distribution and show how these practices can make or break the organization's financial sustainability.

1. Driving beneficial product success

Why do as many as 4 million people die in developing countries because of cookstove fumes (Clean Cooking Alliance, 2020; World Bank, 2017)? Modern cookstoves with healthier combustion fumes cost little, and they have rates of returns that anyone would dream of because they allow people to immediately save on charcoal or other fuel costs. Still, many organizations (for-profit or nonprofit) at the base of the pyramid (BoP) seem to fail outright, others only manage to live through philanthropic support, and many more get stuck operating at a very low scale—too low to have a

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significant impact. Cookstoves represent only one example; the same could be said for many, if not all, beneficial products: goods that save and/or directly improve the lives of people (Clyde & Karnani, 2015). These goods cover basic needs such as water filters, latrines, solar systems, and nutritious food (Friebe, von Flotow & Täube, 2013; Khandelwal et al., 2017; Koehler, Thomson & Hope, 2015; Ramirez, Dwivedi, Ghilardi & Bailis, 2014; Rema, Duflo & Greenstone, 2016).

We searched for the most successful organizations in 25 different countries and discovered a small number of enterprises that have managed to break even and scale (Pascale, Sternin & Sternin, 2010). We traced their success back to eight practices relating to value proposition, communication, and distribution strategies. We then sought to understand what underpinned these practices. We propose that a simple set of implicit cognitions about the BoP—or mindsets—drives successful organizations and may well be the root cause of their success. Adopting a mindset that sees the BoP as customers entitled to the best possible offer instead of seeing them as poor beneficiaries who lack money and jobs has the potential to dramatically increase the success of organizations selling beneficial products, and thus will improve or even save lives at the BoP (Banerjee & Duflo, 2011; Collier, 2008).

2. The key role of mindsets

Over the past 9 years, we conducted in-depth studies on six sectors in which beneficial products provide solutions to a social problem: clean energy, safe water, smallholder agriculture, nutrition, housing, and sanitation. We wanted to learn from the field which operational models had worked—beyond the hype of storytelling found in magazines and on philanthropic websites—and why they worked when others fail. We searched for all relevant organizations and progressively built a database of over 1,000. We visited 139 organizations, systematically collecting data and interviewing customers, and subsequently conducted 50 sectorial workshops to validate our findings.[1] Even though we have a biased sample, we found less than half of the organizations we surveyed had reached operational breakeven, with only a fraction of those achieving profitability.

The consequences cut deeper than organizations shuttering. It means that low-income people still do not benefit from these products and continue cooking on stoves whose fumes kill over 1 million people per year, drinking unsafe water, or lighting their homes with unsafe and expensive kerosene lamps. Simply put, increasing the success rate of these companies should be a crucial ethical and development priority (Banerjee & Duflo, 2011); understanding what successful organizations have done is a key step toward that goal.

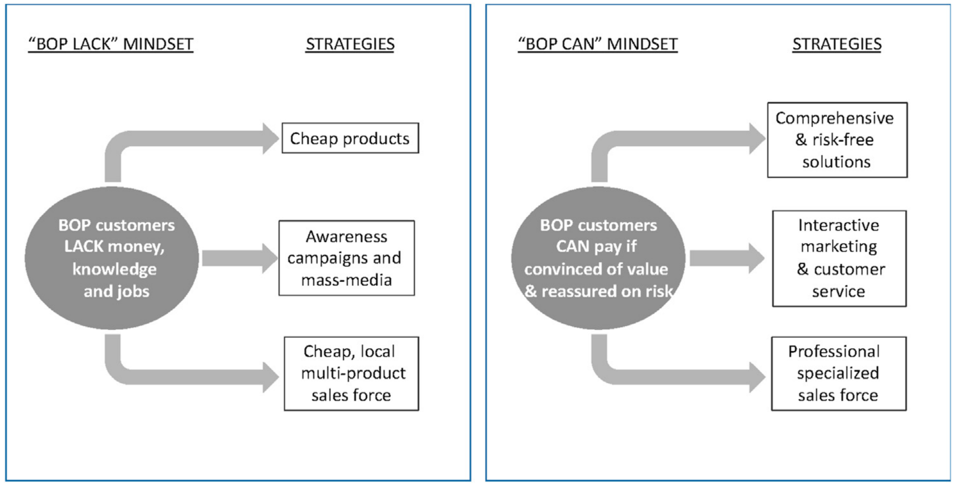
We examined the go-to-market strategy of successful organizations across all sectors in our sample, covering the three key areas of value proposition, communication, and distribution. Despite the diversity of our sample, we found a surprisingly consistent set of practices across successful organizations.

Probing further, we suggest that the key differentiating factor underpinning all these practices is the mindset organizations adopted when thinking about the BoP. Mindsets are groups of assumptions, beliefs, and cognitive frames individuals may have, explicitly or not (Gupta & Govindarajan, 2002; Murphy & Dweck, 2016; Werhane, 2008). Mindsets help people make sense of the world with which they interact. We use the concept at the organizational (not individual) level and, thus, we are talking about an organizational mindset, proposing that members of a given organization may share a similar set of assumptions, beliefs, and cognitive frames. In turn, this organizational mindset drives actors to take strategic action in specific directions while unselecting alternative paths.

Traditionally, organizations selling at the BoP start with the premise that customers are too poor to pay the full price of the goods and services on offer (Anderson & Markides, 2007; Kolk, Rivera-Santos & Ruffin, 2014; London, 2016; Prahalad, 2004), and that they are not educated enough to fully understand the benefits of these products (Karnani, 2017; Figure 1, left panel). Consequently, these organizations design their offer to lower prices as much as possible (*cheap products*) and engage in large-scale *awareness marketing campaigns* to educate consumers and explain their products' benefits (London, 2016; Prahalad, 2004). In addition, these organizations often want to create sales jobs for the local population and accept to sell multiple unrelated products to provide their sales force with sufficient sales volumes (*cheap local multiproduct sales force*) (Garrette & Karnani, 2010). We call this mindset *BoP Lack*, as organizations consider that the defining characteristic of the BoP is that they lack money, knowledge, and jobs. While paved with good intentions, this road leads to low sales, poor profitability, nonscalable models, and low impact.

[1] See the Appendix for more information on our six-stage research methodology.

Figure 1. Different mindsets drive different strategies



Contrary to their BoP Lack peers, successful organizations start from the implicit assumption that the BoP can and will pay if they are provided with a satisfactory solution to their needs and are reassured of the level of risk involved in their investment (Figure 1, right panel). Hence, these organizations believe that the BoP need a comprehensive and risk-free solution (D'Andrea, Ring, Aleman & Stengel, 2006; Ireland, 2008). Instead of investing in expensive awareness and marketing campaigns that aim to educate the BoP about product benefits, *BoP Can* organizations communicate this offer via interactive marketing and customer service (Beninger & Robson, 2015; Nakata & Weidner, 2012). Finally, these organizations do not take on the additional role of creating jobs for the BoP but focus instead on selling life-changing products to them in the most efficient way possible (*professional specialized sales force*). This BoP Can mindset leads to a more business-oriented approach, treating targeted customers as rational, profit-maximizing decision-makers paying for—and entitled to—quality products and services. In turn, this frames the different practices, which we detail in Figure 2. Put together, we believe that these practices significantly improve a venture's likelihood of achieving financial sustainability and long-term impact.

3. Value proposition: From cheap products to comprehensive and risk-free solutions

A common belief, and a key one for BoP Lack organizations, is that beneficiaries are too poor to pay (Anderson & Markides, 2007); hence, the subsidies, or sometimes the product redesign, to lower product price. However, cheaper products do not automatically lead to higher sales at the BoP (D'andrea et al., 2006; Ireland, 2008). Many beneficiaries who receive such products for free still do not use them and sometimes even resell them on the market for a fraction of their price (Mullainathan & Shafir, 2013).

So if price is not the solution, what can companies do? The BoP Can companies seem to have worked along two dimensions. The first is to make sure that consumers have an immediate reason to buy the product, either (1) because of money saved immediately or (2) because of nonmonetary immediate rewards. The second dimension is to reduce the risk that inevitably accompanies new investments, through the offer of (3) a holistic, "risk-free" solution, sometimes with (4) loyalty schemes guaranteeing products' impact.

3.1. Money first: Save your customers money from day one

Financially, many of the beneficial products we studied have incredible internal rates of returns, often surpassing 100% and reaching as high as 5,000%, but BoP consumers are not ready to make the upfront investment needed to get those returns. Thus, some BoP Can companies have found inventive forms of financing to reduce the upfront cash outlays (Anderson & Markides, 2007; Friebe et al., 2013; Nakata & Weidner, 2012). For example, Toyola, a Ghanaian company selling improved cookstoves that reduce charcoal use by 40%, offers its customers a tin box dubbed "the Toyola box" in which they are advised to put their

Figure 2. **Eight practices of the BoP Can mindset: Value proposition, communication, and distribution**

Comprehensive and risk-free solutions (Value proposition)	**Proximity marketing and customer service** (Communication)	**Professional and specialized sales force** (Distribution)
1. Money first: save your customers from day one 2. Offer short-term nonmonetary gains: pleasure, convenience, pride 3. Provide risk-free holistic solutions, not cheap products 4. Add compliance mechanisms to ensure long-term product benefits	5. Use tangible demonstrations of benefits, not awareness campaigns 6. Spend on customer satisfaction, not mass media	7. Focus the sales force on a coherent set of products 8. Use villagers as short-term promoters, not salespeople

charcoal savings every day for a month before Toyola requests its first payment. A month later, when Toyola sales agents come back, customers open the box and typically already find a third to half of the price of the stove in savings. They only have to find the remaining half of the stove price to buy one, which makes the payment much easier. Suraj Wahab, the co-founder of Toyola, commented: "It's simply economics. The product is targeted at very poor people, so the first thing they want to hear is: How does it hit me?" Similarly, SAFL, a microcredit bank specialized in agricultural products in India, offers credit with installments that start only after a full season has passed so that farmers can use the additional income generated by their purchase to repay their loan.

3.2. Offer short-term nonmonetary gains: Pleasure, convenience, and pride

Some beneficial products do not bring immediate financial benefits (e.g., soap, fortified foods). Instead, they create an additional expense in the short-term as they generally are more expensive than the existing alternative. Many firms have tried to sell these products—with limited success—by insisting on their long-term health benefits.

Our research suggests that one possible solution is to match the short-term pain (the higher expense) with short-term surrogate rewards that customers value (see Hasan, Lowe & Petrovici, 2019; Jebarajakirthy & Lobo, 2015). These rewards can be as simple as a bliss factor (e.g., a nice smell for soap or great taste for food) if the price premium is moderate. As put by a low-income mother buying Nutribon, a nutritious complementary food product, for her daughter despite its higher price compared to nonfortified alternatives: "I gave this product to my daughter once, and she liked it very much. I know that it is good for her, so I keep buying it, even if it costs more."

Convenience is an attribute that low-income customers value like any other customer. For example, Nutri'zaza, an inclusive business in Madagascar, and Gret's Nutrifaso program in Burkina Faso, both sell nutritious fortified complementary food designed to ensure children age 6 to 24 months get the key micronutrients they need to grow healthily. Like Nutribon, however, their products are 5 to 8 times more expensive than the same quantity of nonfortified flour—a serious barrier to purchase for low-income households. Both organizations found that delivering warm porridge to mothers' doorsteps at breakfast time tremendously increased their penetration in poor urban neighborhoods compared to selling the dry flour in shops. Indeed, mothers save precious time with ready-to-eat porridges and are happy to pay for that convenience.

Finally, aspiration can be a powerful motivational factor, in particular for children's products (Pitta, Guesalaga, & Marshall, 2008; Srivastava, Mukherjee & Jebarajakirthy, 2020). For example, a campaign by the Social Marketing Company in Bangladesh promoted a complementary multinutrient powder called Monimix that showed two children playing on a train: one active child, curious and lively, fed with Monimix, and a sleepy one. That campaign increased sales by 20%—30% compared to the previous year. Purchasing the product gave parents the immediate feel-good pride of having done the right thing for their child.

3.3. Provide risk-free holistic solutions (not cheap products)

As we discussed above, the typical BoP Lack response to slow sales is that products are too expensive. This was Cemex's initial reasoning when, in the late 1990s, it decided to sell half-size cement bags in poorer areas to help households gradually invest in building an additional room. As sales plummeted, Cemex executives commissioned ethnographic research on target clients and switched to a BoP Can mindset. Cemex's new program, Patrimonio Hoy (Ownership Today), offered customers not just cement bags but the guarantee that they would succeed in building an extra room in less than 1.5 years when the average time it took previously was 4.5 years with 40% of materials wasted in the meantime. How? Patrimonio Hoy offered them all the construction materials they needed to build an extra room as well as a bundle of additional services: technical assistance from an architect, free storage of construction material, free transportation to their doorstep when they were ready to build, and credit over 70 weeks for a weekly amount they could afford. Customers paid a membership fee, which transparently added a premium of 26% over the price of building materials. That price premium did not stop the program from selling over 500,000 home improvement packages worth around $1,000 in poor suburbs throughout Mexico over 10 years. Patrimonio Hoy became one of Cemex's most successful offerings.

As this example shows, low-income customers have "less room for error" (Chakravarti, 2006, p. 367). They want a risk-free solution (Beninger & Robson, 2015; D'Andrea et al., 2006); something that, even in case of failure, will not leave them in a worse situation than the one in which they started. As a result, they need not only a product but also the technical assistance and convenience (e.g., product delivery, storage) that will improve their success chances (Friebe et al., 2013). They need an adapted financial arrangement that will not just allow them to pay at their rhythm over time but also reassure them of the fact that the company serving them will fulfill its promise—otherwise they can stop paying (Pitta et al., 2008). In other words, they want the company to take on some of their risk as they invest in the company's product.

3.4. For fast-moving consumer goods, add a loyalty scheme

Contrary to buying a durable good, which only requires a single purchase decision, fast-moving consumer goods (FMCG) such as fortified foods or antibacterial soaps will only be beneficial if customers are able and willing to buy and use these products compliantly for prolonged periods. This requires them to purchase these beneficial products repeatedly. Sporadic consumption will not only fail to provide the intended benefits but also leave consumers worse off because they will spend more money than they would have on the common alternatives to these products and gain no result.

Consequently, distributors of consumer goods with long-term benefits must adapt their marketing strategy to account for these specific challenges. In addition to the immediate rewards seen above, successful companies propose loyalty schemes (or rebuying incentives) that ensure regular use and thus maximize the probability that customers will get the expected impact from their purchase. For example, Gret Nutrifaso created a subscription scheme for its delivery channel of ready-to-eat porridges. Mothers could buy the porridge by the unit or invest in biweekly or monthly cards (without any discount on individual meal price). After a few weeks, over 50% of mothers had subscribed despite its significant upfront price. Paying in advance, they felt reassured that their child would be able to eat a good meal for several weeks in a row and would be healthier. Some of them told us that it helped them reduce their risk of not finding the cash every day. The good news with these rebuying incentives is that they also make good business sense: customers commit to buying a product over time and become recurring customers.

4. Communication: From mass marketing campaigns to interactive marketing and customer satisfaction

Organizations working under a BoP Lack mindset posit that the reason BoP customers do not buy their products is that they lack knowledge about their benefits (Chakravarti, 2006; Viswanathan, Rosa & Harris, 2005). Accordingly, they focus their communication efforts on explaining these benefits, creating awareness campaigns and using mass media to reach as many customers as possible as quickly as possible. Our field investigation, unfortunately, corroborates previous research that shows that general awareness campaigns and mass media barely increase sales for new beneficial products (Beltramo, Blalock, Levine & Simons, 2015).

By contrast, BoP Can organizations believe that the real barrier to purchase is risk (D'Andrea et al., 2006). Customers need to understand the product benefits, but even more importantly they need to be reassured about the fact that this product will truly deliver those benefits. Consequently, successful firms actively interact with their customers to ensure that their customers perceive and believe in the promised gains by providing concrete proof of their products' benefits over time (Viswanathan, Sridharan & Ritchie, 2010). In particular, two practices help achieve this: (1) tangibly demonstrating benefits and (2) investing in customer satisfaction.

4.1. Use tangible demonstrations of benefits

Too often, when firms launch a beneficial product, they spend significant resources on awareness campaigns explaining the product's impact. These investments do raise product awareness, but awareness alone does not generate behavior change or sales. Given BoP customers' legitimate aversion to risk, BoP Can firms instead focus on providing concrete proof of results, notably through *field demonstrations* (Anderson & Markides, 2007; Beninger & Robson, 2015; Chikweche & Fletcher, 2012). These demonstrations are seldom about explaining how products work or what their long-term health benefits are. Rather, the more immediate, tangible, and spectacular the demonstration is, the better.

For instance, marketers of solar lights such as Greenlight Planet or d.light demonstrate at night how much brighter their product is compared to kerosene lamps. This proves the product's immediate benefits (i.e., better quality lighting and no kerosene cost). As shared by Anish Thakkar, the cofounder and CEO of Greenlight Planet: "Our agents often pour water on the light and throw it on the ground to show prospective customers that it will last," once again reducing the product failure risk perceived by potential customers.

In addition, successful demonstrations typically provide customers with proof of longer-term benefits. In the case of Toyola, salespeople use the Toyola boxes we described to let customers experience for themselves how much money they can save over the stove's lifetime (100% of customers who try the stove with this mechanism end up buying it). Toyola reaches penetration of over 50% on average in villages where it sells its products, and by 2016 had sold over 600,000 stoves.

4.2. Invest in customer satisfaction to get positive word of mouth, not mass media

In order to spread the word on their products to as many customers as possible, many companies choose to invest in mass media (e.g., billboards, national radio ads, TV advertising). Just like awareness campaigns, mass media campaigns never reach the tipping point that marketers hope for when a sufficiently established product brand will ensure sustained sales without further marketing spend (Viswanathan, 2007). Ad campaigns, if well designed, result in a short-term sales increase. But, again and again, we found that short-term sales increases do not allow companies to grow sustainably.

Rather, long-term growth comes from positive word of mouth, which is slower to kick in but much more powerful when it does (Beninger & Robson, 2015; Nakata & Weidner, 2012). For example, GERES' Improved Cookstove Program in Cambodia, which oversaw the distribution of over 1.8 million cookstoves, acknowledged that after three marketing campaigns via posters, TV, and radio, only 20% of its customers had bought the product based on these campaigns. Instead, word of mouth remained the most important trigger for purchase decision. Across all the examples we have seen, be they quality durable or consumer goods, word of mouth systematically becomes the main trigger for purchase—explaining over 50% of the sales—within a few years of market entry.

A major consequence is that success in these markets is more dependent on time than on money (Pitta et al., 2008). Time and patience are necessary to build sustainable sales, letting potential customers try the products, following up with first adopters to ensure they become satisfied users, and then letting word of mouth convert the following waves of users (Ramirez et al., 2014). Investing money instead in vast marketing campaigns will not do the trick.

The key here is to invest in good customer service. The example of Patrimonio Hoy is particularly telling. According to Henning Alts, the Director of the Program: "Around 60% of our customers know about Patrimonio Hoy through former customers' recommendations...So we are focusing on ensuring customer satisfaction on our technical assistance, on the delivery system and the offer in general." Indeed, Patrimonio Hoy stands out in its efforts to measure satisfaction, using Net Promoter Scores (NPS[2]). It systematically calls 10% of its active customers every month to track monthly performance and identify dissatisfied customers. The company's staff compensation is tied to individual NPS scores and they are responsible for rectifying any bad ratings. This ensures immediate action for any dissatisfied customer, preventing negative word of mouth. At the time of our research, Patrimonio Hoy reached a remarkable NPS of up to 85%.

Mass marketing can, however, prove useful in two instances. The first one is when a (new) FMCG sells through retail for the first time. There, a TV or radio ad can help convince the distribution actors (retailers, wholesalers, etc.) that the product is visible enough and will soon be in demand. However, we have also seen products, such as the fortified porridge sold by Nutri'zaza in Madagascar, gain enough traction via pure proximity marketing for retailers to put the product on their shelves after a few years of door-to-door sales. The second case is once products have been peer-vouched and become known and trusted, and customers simply need to know where to buy them. The purpose here is not to convince doubtful prospects, but to provide information to already convinced buyers; mass media is well suited for that role.

5. Distribution: From local multiproduct salespeople to a specialized professional sales force

Distribution has always been a key bottleneck when selling to the BoP (Anderson & Markides, 2007; Vachani & Smith, 2008). Many organizations selling beneficial products in a BoP Lack mindset have tried to kill two birds with one stone, setting up a local sales force to create employment in addition to the positive impact of the products sold (Scott, Dolan, Johnstone-Louis, Sugden & Wu, 2012). They assumed this would also make sales easier, as local people have the trust of their peers.

While these practices seem to make sense at first glance, they cannot lead to a profitable sales model. BoP Can overwhelmingly prefers professional sales forces and supports it through two final practices: (7) focusing the sales force on a coherent set of products; and (8) limiting the role of villagers to that of referral providers.

5.1. Focus the sales force on a coherent set of products

Many BoP Lack organizations choose to provide their sales force with a diversified basket of goods, hoping for two outcomes. First, with several products to sell, their salespeople should cater to more of the critical needs of their fellow villagers and increase their impact. Second, they should earn more commission given the greater number of products to sell. The underlying assumption is that selling additional products via the same distribution channel generates substantial additional sales at marginal additional costs (Dolan, 2012; Rachid, 2014).

Unfortunately, all the beneficial products we talk about here are new to customers, and each requires a dedicated demonstration. The more unrelated products there are to demonstrate, the slower the learning curve to become good at selling just one of these products. In addition, the salesperson must spend more time with each customer. As a result, the salesperson sees fewer customers per day and ends up with fewer total sales per customer seen. Indeed, when we compared multiproduct category organizations with focused organizations, we found that monocategory sales forces consistently sold four to five times as much as multicategory ones, on a full

[2] NPS is computed as the number of customers who say they will definitely recommend the product or service minus those who say they will not (Reichheld, 2003).

time equivalent (FTE) basis (\$22,000—\$65,000 vs. \$6,000—\$12,000 per year).

Low sales commissions result in high sales force turnover, often above 50% per year, as salespeople do not find this arrangement lucrative enough. The consequences are a loss of expertise and managers spending a lot of time recruiting and training new salespeople in the same area. This is done at the expense of coaching existing salespeople and building on their expertise, as well as expanding the sales force to new territories. In addition to not creating sustainable employment, this results in notable fixed management costs.

Moreover, adding products increases the complexity of company processes. This, in turn, further increases fixed overhead costs (e.g., to find suitable products, order from multiple suppliers, organize distribution), without generating expected additional sales. This explains why none of the 10 multicategory organizations we studied had reached profitability.

5.2. Use villagers as short-term promoters, not salespeople

Local villagers can play a role, though, as illustrated by Toyola: The organization works with full-time, specialized, mobile salespeople, who change area regularly. When the salespeople reach a new village, they demonstrate the improved cookstoves, leave a few products for a free trial (on credit for one month, as explained above) and offer the testers the chance to take on a promoter role vis-à-vis their peers. These local villagers—which Toyola calls *evangelists*—call back salespeople once they have aggregated at least 10 convinced prospective customers and make a commission when the agent comes back and makes the sales. With this system, Toyola agents each sell on average 4,000 cookstoves per year and generate over \$50,000 of revenues for their employer. Local villagers can be used as short-term referrals, who bring new customers at a low cost while topping up their main income with commissions for their work.

6. Diverging consequences

Put together, these eight practices have far-reaching implications in terms of an organization's long-term viability. As a review, organizations can use these practices to bolster sales of beneficial products to BoP customers:

1. Save your customers money from day one;
2. Offer short-term monetary gains;
3. Provide risk-free holistic solutions;
4. Add a loyalty scheme;
5. Tangibly demonstrate benefits;
6. Invest in customer satisfaction to get positive word of mouth;
7. Focus the sales force on a coherent set of products; and
8. Use villagers as short-term promoters.

Finally, we look at how the two approaches—BoP Lack vs. BoP Can—result in different business models and different success levels.

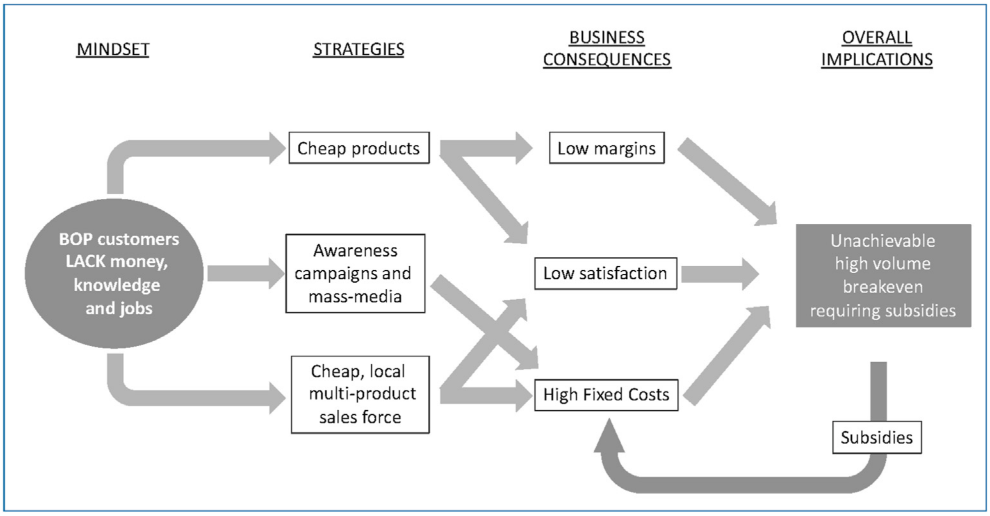
6.1. BoP Lack approach: Unachievable high volume and low margin model

In the BoP Lack approach, organizations assume that BoP customers cannot afford to pay full price for their products (Figure 3). In response, the organizations create cheaper products. However, these products fail to answer BoP customers' needs; hence, sales do not take off. The few customers who buy are likely to be dissatisfied and generate bad word of mouth, which further slows down sales. In addition, charging low prices limits the margins that organizations can make on products, typically leaving only a 10%—20% gross margin for distribution.

BoP Lack organizations also assume that BoP customers do not understand the benefits of the offered products. To overcome this, they engage in mass awareness and marketing campaigns, incurring the corresponding high fixed costs. Unfortunately, these campaigns turn out to be relatively ineffective. Though volumes may momentarily increase while the campaign is running, they generally go back to lower levels afterward as those who bought the product are likely to have suffered from an inadequate follow-up, leading (again) to customer dissatisfaction from purchasing a cheap product with poor service.

Finally, BoP Lack organizations aim to create local jobs, assuming their limited distribution margins will be sufficient to employ a cheap, local sales force. They often go for a basket of multiple products to increase the earning potential of their sales force. But these local sales forces typically fail to sell enough to make a living, resulting in high sales force turnover rates. High turnover then

Figure 3. Consequences of the BoP Lack approach



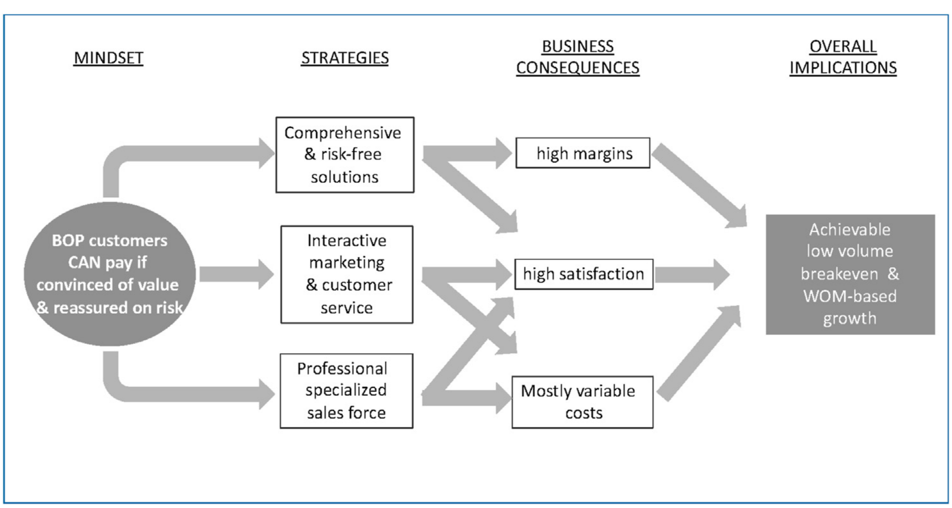
forces organizations to spend a lot on management, constantly recruiting and training new salespeople. These high fixed costs add up to those of mass marketing campaigns.

The result is that this approach is burdened with a low margin, high fixed-cost challenge, which requires high sales volumes to breakeven. However, as we have seen above, sales simply cannot take off, as the value proposition, marketing strategy, and sales force all fail to address customers' risk aversion and concerns about the product. These organizations have no choice but to start fundraising to finance their fixed costs. These fundraising efforts add further to their fixed costs, creating an unsustainable business model.

6.2. The BoP Can approach: A high margin, low-volume breakeven

With the BoP Can approach (Figure 4), organizations rightly assume that customers are willing to pay for products if they are convinced of their value and are reassured of risk. To truly address the needs of their customers, these organizations create holistic solutions, including comprehensive customer services (financing, maintenance, guarantee, technical assistance, etc.). Organizations can charge higher distribution gross margins than their BoP Lack peers—at least 30% and, more generally, in the 40%—50% range. This is significantly higher than the distribution margins of similar complex hardware

Figure 4. Consequences of the BoP Can approach



products in developed countries, which stand at 20%—30%. These margins enable organizations to cover the high variable costs of providing a comprehensive, risk-free offer of quality goods and services; hire a specialized, professional sales force to conduct below-the-line marketing activities and convince community after community to purchase their products; and deliver a good after-sales service to ensure customer satisfaction. Customer satisfaction, in turn, triggers positive word of mouth and the next round of sales.

Effective below-the-line marketing eliminates the need for mass media campaigns. Further, high sales and high margins allow organizations to pay their sales force well, which limits turnover and the related management costs. BoP Can organizations have low fixed costs. Indeed, they have transformed the fixed costs of the BoP Lack model into variable costs (i.e., sales force salaries, transportation costs, below-the-line marketing material), which are still high but have the advantage of only growing with sales. With high margins and low fixed costs, organizations following this approach will break even at a relatively low volume, which allows them to scale up. This is the only way the last-mile distribution challenge for beneficial products will ever be solved sustainably.

Appendix. Research methodology

This article is based on our in-depth study of six sectors: clean energy, safe water, smallholder agriculture, nutrition, housing, and sanitation. For each sector, we followed a six-stage methodology (see Table 1). We started by conducting extensive desk research, both to find interesting organizations and to identify experts in each sector. We used our long-standing contacts with social enterprise networks such as Ashoka and the Skoll Foundation; sector experts from recognized institutions such as the UN, the World Bank, or bilateral aid agencies, and key companies active in each sector to identify the most promising business models and organizations. We then extended our reach through the snowball sampling technique. We pursued this initial scoping phase until we reached the point where we could no longer identify sectoral experts with new recommendations for organizations to look at. In total, we interviewed over 170 experts and built a database of over 1000 organizations, all selling beneficial products to the BoP: in this initial list, each sector included anything from 50 to 400 organizations.

The second stage (filtering) consisted of eliminating organizations that were either still at the pilot stage (too early to estimate the model's success) or purely grant-funded (philanthropic organizations). We kept organizations that were partly reliant on grants, provided they were selling their products. We did not set a minimum percentage of internal revenues generated, because the level of grant funding was closely tied to the scale of these organizations. At this stage, we eliminated up to 60% of the organizations initially listed. However, this percentage varied greatly by sector, as it depended on their relative maturity.

In the third stage, we clustered the remaining organizations by business model. In each sector, we realized that there was a limited number of business models and that these were replicated across regions and countries. For example, when working on access to energy, we developed four clusters: sales of devices, sales of larger equipment such as solar home systems, mini-grids, and improvement/extension of existing utility. In safe water, we had similar clusters of sales of devices, local water treatment plants (similar in business model to minigrids), an extension of existing utilities, and sales of flasks and tabs (an FMCG model that we did not find in access to energy). In sanitation, we had only two clusters: sanitation as a service in urban areas, and toilet sales and construction in rural areas.

Then, we went to the field (fourth stage). For each cluster, we selected 3 to 10 of the most successful organizations in terms of scale and sustainability. The number of organizations visited per cluster resulted from several criteria, including the number of clusters, the maturity of the sector, and the budget available. Though we admit that we might have missed some interesting and novel business models, we are confident that the selected organizations were among the most successful businesses in each of the six sectors. For each organization, we conducted face-to-face or phone interviews with the top management, and for over 90 of them, we conducted field visits including observation of their operations and interviews with operational staff (salespeople and sales managers). We interviewed at least five to ten customers from each organization. Taken all together, these field visits represented over 250

Table 1. Research method

STAGE	Indicators	Energy[a]	Agriculture	Water	Housing[b]	Sanitation	Nutrition	Additional Cross-sectorial Search	TOTAL
1- Sectorial search to identify organizations selling beneficial products (desk research and expert interviews)	Number of experts involved	41	21	35	18	30	32	n.a	**177**
	Number of organizations identified	399	203	124	97	85	39	45	**992**
2- Filtering: Elimination of the projects either at the pilot stage or purely grant-funded	Number of market-based initiatives which could be readily assessed	380	165	82	48	51	16	45	**787**
3- Clustering: Grouping the projects in distincts businsess model clusters	Number of business model clusters identified	4	3	4	2	2	2	4+3[c]	
4- Field visits: staff interviews, observation of the operations, customer interviews	Number of organizations visited	42	15	19	10	12	7	34	**139**
5- Sectorial reports	Number of reports	2	1	1	1	1	1	2[d,e]	**8**
6- Sectorial workshops (with additional organizations)	Number of organizations present	18	5	6	0	0	17	4[d]	**50**

Notes:
[a] two different studies were published, 8 years apart;
[b] This report remains unpublished (sponsor's request);
[c] 4 clusters for FMCGs and 3 for durable goods;
[d] These reports and workshops were cross-sectorial;
[e] One report remains unpublished (sponsor's request).

days in over 25 different countries and hundreds of interviews, over nine years. The goal of this in-depth analysis, going beyond the scope of traditional research methods, was to gather precise operational data and gain a better understanding of each business model, its effectiveness at convincing consumers, and its economics.

For our fifth stage, we analyzed the findings from the field visits and summarized the lessons learned into sectorial field reports. These reports provided an estimate of the market potential of inclusive businesses in each sector and proposed recommendations to key stakeholders (large companies, social enterprises, investors, donors, NGOs) to help scale these initiatives. This led us to identify that marketing and last-mile distribution were key bottlenecks to commercial success in all sectors. We, therefore, conducted two further studies focused on these topics, gathering cross-sectorial insights first on durable goods, and later on fast-moving consumer products.

Finally, we conducted workshops with more than 50 organizations selling beneficial products. These workshops were designed to validate our findings among experts, heads of organizations, and our sponsors. The dozen social businesses that have spontaneously written to thank us for helping them to refine their own model after having read our reports, have confirmed the validity of our conclusions and allowed us to further substantiate our findings.

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