

Making a Business of Sanitation: Establishing a World Trade Hub for the Poor

By seeing the poor as customers, the sanitation problem can be transformed into a profitable marketplace for all

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Abstract

This article describes a new initiative driven by Jack Sim, Founder of the World Toilet Organization (WTO) in Singapore. The new project, called the BOP Hub, addresses business options within the Base of the Pyramid (BOP), and seeks to be an integrated marketplace for corporate and non-profit organizations active in various sectors of human development. Sanitation has proven that it can be a profitable business when tailored to the base of the economic pyramid, a term that refers to the four billion poorest people in the world. The hope is that through bottom-up and horizontal information sharing to those people with annual incomes up to and including 3000 USD per capita via the BOP Hub, sanitation will be able to become more accessible and affordable in terms of delivery, and demand creation.

One core aim of the BOP Hub is the distribution of sanitation through a social franchise model: A franchisor trains franchisees who then deliver sanitation products and services to the BOP customers. This social franchise concept has the potential to transform the sanitation sector into a marketplace in which both entrepreneurs and customers profit from generating investments, jobs, and sustainable self-help in a profitable manner. With this innovative initiative, it is hoped to reduce the amount of people living within the BOP, which is the majority of the current world's population, and to provide them with affordable access to sanitation.

Introduction

The Base of the Pyramid (BOP) is the largest, but poorest socio-economic group representing in global terms, approximately 4 billion people who live on less than 2 USD per day. Four billion people, those with annual incomes below 3000 USD (in local purchasing power), form the base of the economic pyramid (BOP). Those below the poverty line carry the burden of poverty penalty, where they often pay more for lower quality goods and services such as water, sanitation, healthcare, education and food due to inefficiencies in distribution and local

intermediaries. Government subsidies, developmental aid and NGOs play an important role in supporting the BOP but there is still a widespread perception that the poor depend on handouts and are unable to help themselves. Therefore, large-scale entrepreneurship as a solution to poverty has not been taken off so far.

In the last few years, there have been a growing group of market practitioners; academics, citizen sector organizations and social entrepreneurs who have defied this perception and are determined to create 'inclusive

Key messages:

- Four billion people are living within the Base of the Pyramid (BOP) living on less than \$2 a day. Collectively, they represent the largest portion of the economy worldwide.
- The aid and donor model has not worked to pull people out of poverty. However, countries in both Asia and Latin America have shown that market-based approaches which spur economic growth can greatly reduce poverty.
- The goal of the BOP Hub initiative in Singapore is to rebrand goods and services so that they are affordable, desirable, and technologically relevant to the needs of the poor. The first project will focus on sanitation marketing in Asia.
- By creating this forum for organisations to share successes and failures of selling to the BOP the goal is to expedite best practice solutions and speed up economic development.
- The end result will be more efficient delivery of goods and services as well as increased leverage for each sector (sanitation, health, food, energy, housing, etc.).

capitalism’ (Prahalad 2004) for the poor. These groups have managed to mobilize the private sector to re-distribute their resources and investment capacity to co-create market based solutions at the BOP. It is becoming more widely accepted that the approach to helping the poor can be best optimized by partnering the BOP consumers with companies from the private sector that produce the products and services. This is an approach, in which both sides profit from revenues and job opportunities.

The Need for a Mind Shift

In Asia, approximately 2.86 billion people live within the Base of the Pyramid; they account for approximately 83% of the world’s BOP. These people live with less than 2 USD a day, and have to use this amount for all their human necessities: buying food and drinking water, housing, health care, energy etc. As research indicates, sanitation is often not taken as a priority for BOP customers although they sometimes save money for other items, such as mobile phones, radios and televisions.

Too often the private and public sector sees the consumers at the BOP as not being able to spend any money – however low income does not mean no income (Figure 1). Contrary to the general belief that “the poor” have no money to spend, the BOP makes up a significant proportion of a country’s consumer base. For example in India, almost half of the population, 563.7 million people, have a cell-phone while only 366 million Indians have access to sanitation (Cohen 2010).

So why do so many people think “the poor” have no money to spend? Unfortunately, international organizations, charities and foundations often show the poor as a pathetic, massive group of people that are helpless. However, this is not true and a superficial perspective. Empirical evidence and data available have proven that there is money to spend even among the poor.

The real question is why do the poor buy more cell-

phones than toilets? The reason lies in the poor marketing of toilets and sanitary products and services. The poor have the same human incentives as the rich; we are all triggered emotionally to buy, while we justify our action rationally only after we have bought something (Feig 2006).

This argument can easily be explained using the example of a cell-phone: A mobile is not just a communication tool; it is a status symbol, a fashion statement, and a lifestyle for an individual. Furthermore, mobiles allow customers to access markets and banking which makes phones seen as a way to make money as well.

A toilet can certainly have the same meaning of a status symbol if we adopt a new bold mindset. We have to sell toilets like we sell a “Prada” handbag – as an object of desire and a symbol for a healthy, sustainable and modern lifestyle.

In order to create a marketplace of sanitation, in which BOP customers are willing to invest money into sanitation products and services, and local entrepreneurs can generate a viable income, we need new business models and creative thinking.

It is becoming more widely accepted that the approach to helping the poor can be best optimized by partnering the BOP consumers with companies from the private sector who produce the products and services needed. The respective models that have proven successful in bringing innovative solutions to this market have regarded the BOP as a segment of consumers with varying priorities and needs. These models have recognized that serving low income populations is different to traditional markets, and have developed their models based on market driven strategies. The population at the BOP is an emerging consumer market that has the potential to be part of the international formal economy, thus expanding the marketplace by four billion additional consumers.

The development of a BOP Hub in Singapore is an initiative designed to play a major role in catalyzing this historic opportunity for making a change in human development. This article will present major aspects of the BOP Hub project, and will explain its main contributions to the BOP market.

Sanitation as a Business – Using the BOP Hub as facilitator of change

Why the need for a BOP Hub?

The BOP Hub is a project which has been developed by Jack Sim, Founder of the

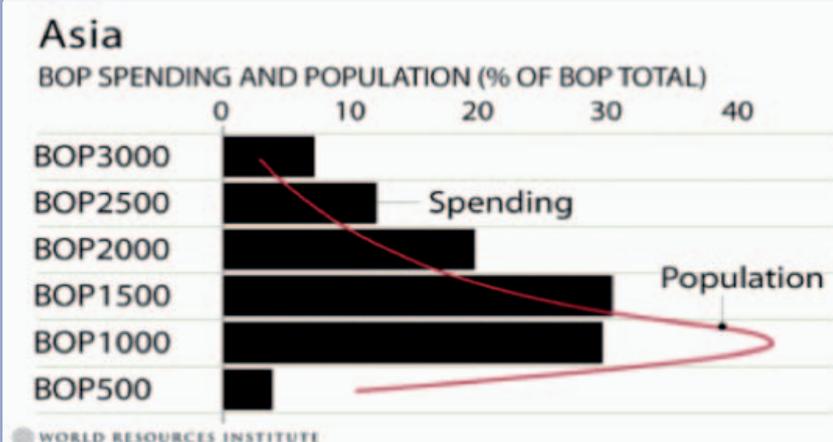


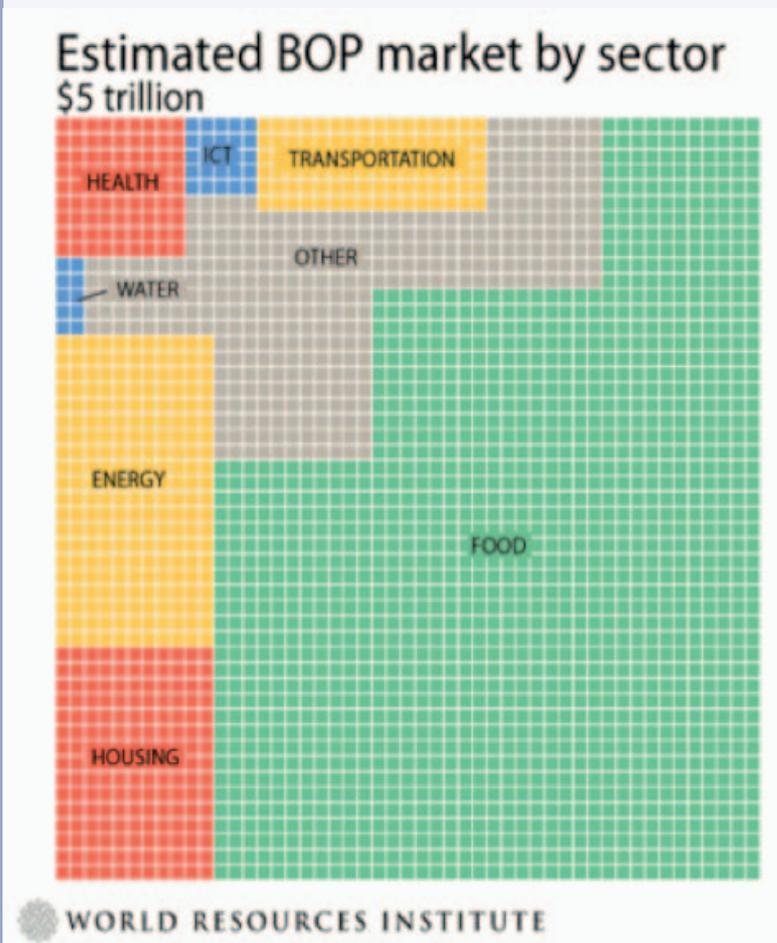
Figure 1: BOP in Asia - Consumer Spending and Population (WRI, 2010)

World Toilet Organization (WTO) in Singapore. His vision is inspired by the concept of “hubs”, an element of everyday life in Singapore, which combines shops, coffee places and food stalls at one particular place. This concept is transferred to development work, in which different for-profit and non-profit organizations active in the BOP market, work underneath one “roof”, and develop their strategies for innovative business-model solutions for the BOP customers. By using technology to connect these organizational units, it will help social entrepreneurs to overcome certain challenges they often face, such as scalability, lack of infrastructure support, capacity, capital and sufficient buy-in from private sector participants. The impetus for creating the BOP Hub is to develop an inclusive platform that can help accelerate scalable solutions to proven localized models that serve low income populations.

The various social innovation efforts currently being developed and employed by organisations in the BOP markets address customers with extreme diversity in the different levels of geographical opportunity, literacy, cultural biases, income levels, infrastructure support etc. In the past, organisations have looked at these various components and came up with a workable solution for their emerging consumer

market that is far from ‘one size fits all’. The goal of the BOP hub will bring together solutions which have been successfully implemented in one segment of the BOP market and could be used to solve a problem in a different segment of the market. So, for example, business driven models that work for making energy accessible for the BOP, could be adjusted for the sanitation market (for projects on access to energy see Ashoka/HYSTRA 2009). The BOP hub allows these “lessons learned” to be efficiently shared and make it easier to scale up current initiatives while at the same time allowing organisations to preserve resources by not trying methods which have failed in other areas. Even if this idea of transforming lessons learnt to other sectors seems to be easy and logical, it is still lacking from the development sector.

Figure 2 shows the different market segments the BOP customers tend to spend their money on: the biggest portion of money goes to food, after that it is energy and housing, as well as transportation, health, information and technology, and lastly water. Sanitation is counted in the ‘water’ segment here, which means that an even smaller square of money is devoted to sanitation specifically. The aim of one of the projects within the BOP Hub is to make sanitation a bigger concern to potential customers.



The BOP Hub will be a shared services platform for the organisations that currently address the BOP communities, which will enable integration of resources, social capital and synergies through cross sector services and shared collaborations. It is meant to be a global initiative that pro-actively serves and facilitates practical market based strategies for large-scale social solutions across all segments in the BOP communities, with the goal of bringing the four billion populations currently living below the poverty line into the formal global economy.

The Hub is integrating cross sector solutions to build on a collaborative network and integrate best practices across sectors that can harness resources and expertise from the private sector and empower the people at the BOP to alleviate poverty through entrepreneurship while using established methods. Further, the Hub is an information base, which connects groups, broadens networks, shares knowledge and captures learning points in order to bring in new participants who want to contribute to invigorating the BOP.

Unlike many business models which neglect the potential of the poor, the Hub seeks to actively engage the poor as entrepreneurs in localized

Figure 2: Market Segments for the BOP (WRI, 2010)

markets and to empower them to scale up their models by developing practical operating principles, synergies and alliances between the social and private/business sector. The aim is to attract investments to the BOP and help legitimize poor entrepreneurs in the same way that micro-financing has for many women throughout the developing world. Finally, the BOP hub will work to make individuals a credible source and agent for large scale social investments within their communities.

Scaling up social enterprises at the BOP

Sanitation will be the sector first addressed by the Hub. The reason for starting with sanitation as the first initiative is that it has tremendous potential for scaling-up any specific program. To scale up a program it is crucial to leverage on existing resources. The BOP Hub will therefore work alongside the Ashoka network, a global association of social entrepreneurs who are working on social innovation around the globe and in various sectors, such as health, energy, housing, disaster relief, water and sanitation, or labour rights. By combining expertise in various fields the goal is to come up with the best solution for a specific field. While a sanitation specialist may be aware of limitations in access to water, a disaster relief expert may have a variety of solutions that can be applied. By combining strengths, the outcome will be stronger and more sustainable. Jack Sim, an Ashoka Fellow himself, and his team believe strongly in leveraging on the existing connections and strong relationships within the network. At the moment, approximately 300 Ashoka Fellows operate at communities at the Base of the Pyramid, and consequently, it is from this platform that the BOP Hub will initiate its operations.

The BOP Hub will be actively reaching out to the Fellows who intend to scale up their social business models. The Ashoka Full Economic Citizenship initiative (FEC) has already carried out considerable work to map out successful frameworks for market-based solutions that could serve low-income communities (Budnich 2005). The BOP Hub intends to build on this knowledge base and act as a capacity provider to the FEC. It will also engage corporations into collaborative Corporate Social Responsibility strategies and for-profit programs.

Secondly, it is important to create the opportunity for the social entrepreneurs to develop potential integrated partnerships and alliances across various market participants that are relevant to their supply chain. This is achieved by developing synergies and integrating resources across various sectors, such as water and sanitation, housing, energy and health.

Based on the power of economies of scale, the BOP Hub will be able to offer collective negotiation strength to the individual entrepreneurs. This collective strength will also enable more access to social capital providers who are looking for scalable social solutions.

Lastly, the BOP Hub will be populated with passionate, dedicated and qualified individuals who represent various sector experts and bring different social entrepreneurial ideas together underneath the Hub's roof. It is through this three tiered approach that the BOP Hub will be most successful.

Sustainable sanitation has the potential for viable business opportunities, which is proven by numerous projects and programs around the world. Initiatives as from Sulabh International (India), Gram Vikas (India), EcoTact (Kenya), or Water for People's Sanitation as Business-Program (Malawi) show that sanitation generates jobs and profits for local entrepreneurs, while enhancing the sanitation situation in a given region. It has also been proven that sanitation can stimulate local economies such as in Vietnam, Bangladesh, and Bolivia (SDC, 2004). WTO, as another example, is currently developing a social franchise model, called SaniShop, which is meant to set up a franchisor that then provides fast replication-training modules for local entrepreneurs that want to become a SaniShop franchisee. WTO is hoping to guide 3,000 SaniShop franchisees in a project time frame of four years. WTO has already developed successful sanitation marketing in Cambodia in collaboration with Lien Aid, USAID, IDE and IDEO in the last 18 months. Lessons learnt will be fed back to the BOP Hub. In order to make lessons learned accessible to more organisations it is crucial to use The Hub as a platform available to all.

Recommendations

1. A virtual platform facilitated by technology:

If synergies and solutions for the BOP are more accessible to a wider group of people, all of whom share the goal of poverty alleviation, the result is a more efficient network of collaborative market forces. The best channel to do so is on a virtual scale. This requires the development of a technology platform ('Software for Action') that will be easily accessible and shared in a self organizing fashion. Again, technology will help here to make the project with business solution for sanitation successful.

2. Develop more effective collaboration and partnerships:

As mentioned before, forming strategic alliances with relevant areas of expertise skills and services from the private sector is a crucial element of a social enterprise: legal, financial, branding/marketing, and franchising expertise is needed. Secondly, there is the need for an on-going and pro-active collaboration with the private sector, such as manufacturers, as well as social capital providers and sponsors at the BOP level.

3. Core stakeholders in the BOP Hub ecosystem:

The BOP Hub brings together four main groups of stakeholders: the target emerging consumers; social

entrepreneurs; market suppliers and producers; and sponsors. The target emerging consumers refer to those customers in the BOP by segmentation (such as water and sanitation, housing, electricity etc.). Social entrepreneurs are social innovators who are creating new market based solutions at the BOP. The innovations produced by entrepreneurs can be driven both by the public and/or private sector. Market suppliers and producers are from the local private sector and from multinational businesses and work in partnership with the social entrepreneurs. Finally, sponsors are key individuals and organizations driving the whole initiative by financial, material, and visionary resources.

Having these different sources of expertise which are willing to work together, the BOP Hub will be a practical yet innovative project which combines business and sanitation, ultimately driving the BOP forward.

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