



INCLUSIVE PROSPERITY THROUGH SHARED EXPERIENCES

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Forget Calls to Action and apology tours.

There has never been a better time for companies who are serious about “making the world a better place” to do so. Changing global demographics and megatrends have lowered the cost of learning. Millennial attitudes have made engagement on social issues more urgent and less risky. Companies today can help to reduce inequality and strengthen society through the creation of shared experiences. They can also gain new managerial capabilities in the process. The recent experience of emerging markets offers some critical insights.

The debate about the role of business in society has reached a fever pitch in large firms and startups alike. Business leaders are increasingly judged not just on financial metrics, but their stances on a wide range of social issues. Larry Fink, CEO of BlackRock, was unusually direct in articulating his view for business’ responsibility in his 2018 letter to shareholders:

“Society increasingly is turning to the private sector and asking that companies respond to broader societal challenges. Indeed, the public expectations of your company have never been greater. Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.”

These expectations weigh heavily on most businesspeople. Despite many firms' stated desire to "make the world a better place," there is often a lack of clarity inside organizations about why and how business should engage on social issues. How can companies balance profit and social impact in uncertain times? After all, the definition of a decent standard of living is itself a moving target, and the metrics for measuring social impact are evolving. Fewer innovations are successful, the diffusion of technology coexists with increasing global inequality, and public trust in companies has declined. This ambiguity feeds risk aversion among all stakeholders.

Understanding the recent experience of emerging markets offers some optimism and insight into how business can approach these challenges. The private sector played a pivotal role in creating a middle class by addressing longstanding social inequality and embracing innovation and technology. The demographics and infrastructure in many emerging markets have forced business to directly address societal concerns such as job creation, income and gender inequality, and skill development. Markets had to be created from scratch (e.g. you have to build roads in order to sell cars). Operating in emerging markets requires focus on affordability, but must be rooted in a deep understanding of consumer aspirations. Most innovation in emerging markets has required a high degree of collaboration between corporations, government, and NGOs. These lessons are a helpful guide for mature markets as well.

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Global Megatrends

Despite abundant global volatility, business leaders can take heart due to three global megatrends that are creating new opportunities:

- **Reduction in extreme poverty:** The World Bank reports that 1.1 billion people have moved out of extreme poverty since 1990. Almost 35% of the world's population lived on less than \$1.90 per day in 1990, by 2013 that number was 10.7%. The task around development is no longer about aid and distributing basic goods and services, but broadband access, creating skills and enabling opportunity. The progress on extreme poverty has (rightfully) been tempered with concern about inequality within and between nations. However, this significant shift toward open-ended questions (e.g. from preventing famine to maintaining health) *creates opportunity for entrepreneurial solutions.*
- **Widespread adoption of mobile technology:** The number of mobile phones exceeded the number of people on the planet in 2014. The GSMA estimates that there are 5 billion unique mobile phone users today, and smart phones will soon grow to about 50% of this number. Business now has the ability to engage with a much larger pool of consumers, advertise, and drive offline sales.

The implications for innovation are significant as well. There is Big Data available for poor consumers as well as wealthier ones. Companies have many more options in terms of understanding their consumers. They no longer have to make cost-prohibitive travel or rely on guesswork and anecdotes to understand consumer attitudes and preferences. They can now ask and observe directly. There is also a global mobile payments infrastructure in place (mPesa, Ant, Paytm and others) and adoption rates are increasing rapidly. *The global adoption of technology has significantly lowered the cost of learning and made transactions more reliable.*

- **Changing Millennial Attitudes:** Generational shifts in attitudes toward work and business have made it easier (and more necessary) for companies to incorporate innovation and social purpose in their operations. The 2017 Deloitte Millennial survey reveals that 71% of Millennials believe that business innovation improves society. In earlier years, the Deloitte survey showed that 90% of Millennials believed that the purpose of business extends beyond profits.

Furthermore, younger workers and consumers are keen to help bring about social change through business, not merely protest those who are seen as not doing enough. The belief in business as a force for good suggests that the active engagement of business on social issues may not be as risky as once thought—in fact, *companies putting forth a clear vision often enables them to attract the best talent.*

Convergence of Market Requirements

Revisiting the Bottom of the Pyramid (BOP) framework and its evolution is a helpful starting point in understanding how business can approach inequality. The idea was to transform the world's poor into a consumer market, challenging business to develop profitable products and business models while becoming more inclusive.

The rapid economic growth and diffusion of technology in the last two decades has created a convergence in the tastes and requirements of consumers in emerging markets and large sections of the developed world. BOP design principles were initially created to understand the needs of the poor, but they are also helpful in understanding and coping with **income inequalities**. In the US, statistics show that one in six Americans is now living below the poverty line, and many of those affected are children. Furthermore, the gains in living conditions in many



emerging markets remain fragile and can easily be erased with inflation, or even a poor monsoon. Unemployment is a huge concern globally. The income levels among the vibrant middle and upper classes in emerging markets are similar to those of many populations that need help in the West (students, veterans, elderly, rural populations).

Consider what is required for this type of innovation: designing something that is easier to use, affordable, requires less training, and can be re-used. The learning from the BOP can be brought to bear on many of these global challenges. If companies can design for these requirements, they will have wide global demand for their products and services:

BOP Market Necessities	Developed Market Consumers
Lower cost	Elderly/ Fixed Income
Ease of use	Students, Career changers
Sustainability	Eco-conscious consumers
Scale	Unemployed

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Envisioning more extreme conditions helps business sharpen its thinking and value proposition in several ways. First, producing products and services on the massive scale needed in emerging markets requires keen attention to sustainability at the outset. Second, very few organizations have capabilities to truly observe and understand the lives of consumers with very limited incomes. For this reason, the idea of co-creation and public-private partnerships is helpful. Third, though the “digital divide” persists, technology remains an important tool in improving access to information and services.

The firms that created successful products and services for the BOP (GE, Microsoft, Pepsico among them) acquired new capabilities in the process. They had to learn how to deal with income volatility, not just low incomes, as part of business models. Business had to learn how to deal with diversity—in aesthetic preferences, and vastly different skill levels—such as how to design for multiple generations in the same household. Entering these new markets required explicit attention to creating trust and credibility. The ideas of income volatility, coming to terms with diversity, and creating trust are as relevant for businesses in Mumbai as they are in Manhattan.

Managerial Lessons

A direct approach to designing for profit and social good is new territory for many firms. The complexity of social problems can lead to innovations that are too complex to be scalable. Business succeeds in the social realm when it focuses on manifesting aspirations, creating choices, and increasing inclusion. These elements also help to rebuild trust in business and in society.

Focus on aspirations, not just needs. Looking for unmet needs is a natural focus of innovators, and perhaps more so for those in the social realm. However, the traditional view of “basic needs” explains very little of what is consumed among the world’s poor. If we look at a slum in terms of needs, the focus would likely be on better food, health, and sanitation. These are certainly important. However, the goods and services that have *actually been adopted at scale*—cell phones, personal care, education, branded fashion, and financial services—*reflect aspirations*. This is an important lesson. Creating “dumbed-down” solutions forces companies into the untenable position of competing with counterfeiters. Even the poorest consumers gravitate toward value and quality. They understand intuitively which products and services will allow them to “leapfrog.” Their purchase decisions indicate that they want respect, not charity.

The rise in incomes and aspirations is very encouraging for business leaders—there may in fact be much less adjustment needed to operate across various income categories today. It’s important to remember that in emerging markets, the rich and poor often live in very close proximity. A luxury neighborhood may be very close to slums. The rich and poor don’t live in isolation—they do talk with and observe one another. Even if the poor can’t afford something, they are reasonably knowledgeable about what’s on the market and what people are using, especially in urban areas. That knowledge shapes consumer preferences. Rising incomes and migration to urban centers means that preferences and therefore designs may need to change faster for new consumers than for other segments. When the design is done well, the product doesn’t necessarily have to be the cheapest, either. People tend to adopt it very quickly—even at higher price points.

Create choices, not “solutions.” It’s natural for companies to be oriented toward providing “solutions,” but most social problems are multifaceted. A lot of the inequality we see around the world reflects a lack of choices, not a lack of awareness. Imagine a world where your only options for transport were walking or owning a Tesla. That is how the world looks in many categories for billions of consumers. In the West, companies like Sears, Walmart and others

emerged to fill this gap, and this phenomenon is underway to various degrees in emerging markets. This is where business can make an enormous impact.

The causes of poverty, for example, vary by region—from civil conflict, gender inequality, lack of education, to poor governance. However, what all of it translates to for individuals is essentially the same—a lack of choices. This is felt in every aspect of a person's life—from where they live, the job they can hold, the food they can eat, and their aspirations for their families. If business did nothing more than help create more choices, they would automatically be reducing poverty and inequality. The focus on creating choices as opposed to solutions is also more attainable for business leaders. Providing choices for consumers in navigating complex social dynamics is both more respectful to them and more likely to unleash the creative potential inside organizations.

Mitigate risk through inclusion. Volumes are written about the accelerating pace of change, the volatility of markets and the threat of automation. Success in an uncertain world demands that companies embrace inclusion in how they innovate. The customer journey may be a lot more difficult to map out. Responding to income volatility creates a new set of demands on organizations—and opens the door for some companies to gain unique skill sets.

The demographics of emerging markets have helped to create brands that engender loyalty across every income category. For example, Tata owns Jaguar and has amazing luxury hotels. It also has credibility in the BOP and as a force for good in society because of projects like the Nano. Tata may be one of the very few global brands with tremendous credibility at both the high and low ends. Those advantages are significant—and rare. The engagement of brands is incredibly important in producing viable solutions to social problems. Brands can have two very different designs (such as the Jaguar and the Nano) for different segments, but they cannot have two different standards about consumer safety, for example. The lower-priced offering must be designed to a level that validates the luxury consumer's trust in the brand.

The presence of Big Data for all consumer segments also opens the door for companies to understand the design brief for a wide swath of consumers and create new products and services at far lower price points. This trend is seen in technology, new fashion collaborations, and many other categories. Inclusion is not just a philosophical stance, but a powerful risk mitigation strategy.

Rebuilding Trust

The pressure on business today to do more to improve society reflects both a political vacuum and an acknowledgment of the powerful role business can play in all of our lives. Companies that are hesitant to engage directly on social issues would do well to remember that their valuations are increasingly a reflection of intangibles—such as goodwill, brand, and IP. All of those require trust within and outside the company’s walls. The transition to an “ideas economy” also demands that the workforce is engaged with the mission of the firm.

Although there has been some erosion of trust from recent scandals, anecdotal evidence suggests that consumers are quite forgiving of strategic mistakes. People understand that the world is becoming more complex, that companies are under constant earnings pressure, and that innovation is really hard work. The mistakes that are hard for companies to recover from are largely from poor conduct. Consumers are not looking for perfection—they are looking for decency. Calls to action, “listening meetings,” and apologies are viewed with cynicism unless they are accompanied with a clear follow up.

The issues that companies have set their sights on today require an unprecedented degree of collaboration. Delivering great consumer experiences today means combining the capabilities of many companies. When it comes to business trying to address larger issues such as sustain-

ability, security, and poverty reduction, this trend is only amplified as NGOs, governments, and citizens are brought into the fold.

Innovations that produce profits but no social benefit is at the root of why capitalism is being questioned as much in developed countries today as it is in emerging ones. A renewed commitment to *inclusion in the innovation process* is an important first step. Of course, the creation of new markets still raises as many questions as it answers. I think the words of *New York Times* columnist Anand Giridharadas is a reminder of why it is so important:

“Markets quantify hope. They spur self-improvement, for what is measurable can be improved. You know how good you must be to graduate from motorcycle to car and car to S.U.V. Even as consumption loses favor in the West, it is worth remembering that accumulating stuff is a more peaceful, democratic, healthy form of tribalism than light- or dark-skinned, Sunni or Shiite, gentile or Jew.”

Cell phones and TV are not just “stuff”—they can change who we are. What we believe to be possible is shaped profoundly by what we see, and business has the power to shape what we see and experience—for better or worse. We can all possess empathy, but engagement requires some common ground, which must often be created. Business can produce profit and social good by helping people to cope with change and creating shared experiences.

Shared goods + shared services = shared experiences and conversation.

Over time, inequality erodes progress as it erodes trust, and business today has a special role to play in stitching together the bonds in society. **In an increasingly polarized world, business can—and must—do more than ever before.** 📌



Info

About the author

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