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Business models to serve low-income consumers in emerging markets

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Abstract

Multinational corporations addressing low-income consumers in emerging markets face the challenge of designing business models that provide truly beneficial products and services to the poor. Examples of successful cases are scarce, while the literature review provides little help. Guidelines range from a minimum shift from conventional marketing thinking and practice to radically new approaches involving a wide diversity of non-market actors in a variety of settlements. A classification to help researchers and practitioners is needed.

The article contributes to the literature on business models to serve low-income consumers in emerging markets by proposing conceptual framework, a 2 $\times$ 2 matrix. One axis reflects different perceptions of the low-income consumer's conditions (opportunity/constraint), and the other axis reflects the diverse approaches to developing business models (bottom-up/top-down). The four resulting cells become the article's suggested alternative business models. The framework allows classifying the extant literature and identifying opportunities for future research. Typologies provide a first step towards theory development as well as offer managers a sound theoretical structure.

Keywords

Emerging markets, inclusive ecosystems, low-income consumer, market adaptation, market strategy, mission focus, radical innovation

Introduction

It is estimated that, by 2035, the gross domestic product of developing countries will permanently surpass that of all advanced countries (Sheth, 2011). Thus, today, we are witnessing a shift in global economic activity from advanced to emerging markets[1] (Cavusgil and Cavusgil, 2012).

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These markets are attractive as they house 82% of the world's population (Schwab, 2012). However, more than 50% of their population suffers from some degree of exclusion. Also, the macro-environmental conditions are often dysfunctional, and the consumption habits differ from those in advanced markets (e.g. Achrol and Kotler, 2012).

Inclusive businesses[2] addressing low-income consumers[3] face the challenge of designing 'business models that provide truly beneficial products and services to the poor at prices they can afford' (Karnani, 2011: 17); that is, designing double (profit and society) bottom-line programmes (Elkington, 1997). Double bottom-line firms differ from firms that exclusively seek to benefit from selling to these growing markets. Inclusive business are also aligned to the concepts of '*good markets* at the BoP' (Mason et al., 2013a: 402–403), sustainable market orientation 'that involves ingraining product-relevant social good in businesses' (Viswanathan et al., 2009: 406) and 'targeting subsistence consumers while simultaneously enabling them to impact the welfare of communities both socially and economically [. . .] employing the same strategy' (Ritchie and Sridharan, 2007: 209).

Though a literature review on business models to serve low-income consumers in emerging markets shows that several guidelines have been put forward (e.g. Prahalad, 2010), cases achieving the double bottom-line target are still scarce (e.g. Olsen and Boxenbaum, 2009), supporting the call for further research (e.g. Mason et al., 2013b). Vachani and Smith (2008) expressed concern that, 'Unfortunately, inadequate attention has been given to the specific strategies and business models for effectively engaging the bottom of the pyramid' (p. 52).

Specifically, the literature review shows that proposals range from a minimum shift from conventional marketing thinking and practice (e.g. Subrahmanyan and Gomez-Arias, 2008) to radically new approaches for developing business models that involve a wide diversity of market and non-market actors in a variety of settlements (e.g. Reficco and Vernis, 2010). To date, a broad frame of reference has not been developed; a classification to help researchers and practitioners in understanding how to serve these markets is needed.

The purpose of our article is to identify major works published in the literature on business models to serve low-income consumers in emerging markets. We also propose a conceptual framework that allows classifying the extant literature to identify opportunities for future research.

We suggest a 2 × 2 matrix anchored to two dimensions: (1) Does the organization believe that the low-income market is full of opportunities or full of constraints? (2) Is the business model grass root bottom-up or is it top-down mandate? The four resulting cells become the article's suggested alternative business models: market adaptation, mission focus, radical innovation and inclusive ecosystems. For each cell we (a) summarize the extant literature, identifying the underlying discipline(s) and the theories upon which it draws, (b) identify opportunities for further research and (c) provide guidelines for practitioners.

The article is organized in four parts. First, we discuss a set of methodological considerations. Next, we justify our choice of taxonomies and present the conceptual framework: the four alternative business models. Then, we analyse the literature associated with each quadrant of the proposed matrix. Concluding remarks close the article.

Methodological considerations

Little attention has yet been given to the role and the process of theorizing in marketing (MacInnis, 2011; Weick, 1995). These efforts are fundamental to bring coherence and perspective to problem areas (Cooper, 1988) and to guide theory development (Meredith, 1993).

To organize the extant literature on business models to serve low-income consumers in emerging markets, we draw on Cooper's (1988) typology of literature reviews and on a two-step analytical process: revising and summarizing (MacInnis, 2011). On building our conceptual framework (a typology), we follow Miller (1996). First, taxonomies need to be informed by previous classifications of the literature. Our literature review identified different perceptions of the conditions of low-income consumers in emerging markets (Ritchie and Sridharan, 2007), suggesting the opportunity/constraint taxonomy, as well as diverse approaches to developing business models (Viswanathan et al., 2009), suggesting the bottom-up/top-down taxonomy. Second, Miller (1996) advocates that 'the elements used to describe each type are shown to cohere in thematic and interesting ways – ways that have important conceptual, evolutionary or normative implications' (p. 507). For each of the four cells, themes were identified in the extant literature: market adaptation, mission focus, radical innovation, and inclusive ecosystems. Finally, we classified the articles[4] into the matrix's four resulting cells. Table 1 details the relation between the four business models and the literature review.

Four business models

Prior to introducing our first taxonomy, it is necessary to familiarize the reader with the low-income emerging market characteristics, as discussed in the literature. Succinctly[5], emerging markets differ from advanced markets in their regulatory system (e.g. legislation is missing or not enforced), socioeconomic system (e.g. extreme socioeconomic variation within populations), sociopolitical system (e.g. numerous faith based or government-owned/operated enterprises), infrastructure (e.g. poor or inadequate infrastructure), technological system (e.g. lack of data transfer networks) and cultural system (e.g. gender and race inequality). Differences have also been highlighted with regard to suppliers (e.g. chronic shortage of resources in production, lack of managerial capabilities by local community groups), competitors (e.g. consumption of unbranded products and services, household as production unit) and distributors (e.g. traditional mom-and-pop stores, inefficient distribution networks).

To date there is no agreement on the cut-off point for defining low-income consumers.[6] Acknowledging this lack of agreement and that specific regional and within-country differences are high (Portocarrero and Delgado, 2010), the main contrasts with regard to high-income consumers can be synthesized into four main variables: income (e.g. lack of consistent incomes, restricted access to financial products and services, need small out-of-pocket demands); knowledge and skills (e.g. there is high illiteracy and/or school dropout); housing conditions (e.g. as informal settlements which usually lack storing space); and the role of social networks (e.g. high social embeddedness).

Arnold and Quelch's (1998) article was among the first to argue that emerging markets 'constitute the major growth opportunity in the evolving world economic order' (p. 7), but stressed that, 'Marketing in such countries can be intimidating. At the operating level, Multinational corporations (MNCs) must confront a range of unfamiliar conditions and problems' (p. 8). Prahalad and Hammond's (2002) seminal paper also asserted that these markets should be viewed as 'untapped potential' (p. 49), and that MNCs need to focus on 'big market opportunities' (p. 57) – yet, in discussing market conditions, their view was radically different. They contend that 'once the misconceptions are wiped away, the enormous potential that lies at the bottom of the pyramid becomes clear' (Prahalad and Hammond, 2002, p. 49). Thus, all authors see opportunities in terms of overall market potential yet differ in their perception of the market conditions.

Table 1. Literature review by business model.

Year	Authors	Publication	Underpinning Discipline	Topics	Theories they draw on
Market adaptation					
1998	Arnold and Quelch	*Journal of the Academy of Marketing Science*	Marketing strategy	• Marketing mix adaptation	• Live cycle theory • Entry strategy theory
2008	Subrahmanyan and Gomez-Arias	*Journal of Consumer Marketing*	Developmental economics	• Consumption • 4Ps	• Motivation theories
2008	Vachani and Smith	*California Management Review*	Marketing strategy	• Rural distribution	• Distribution theories
2011	Karnani	*Book*	Developmental economics	• Product/price adaptation	• Neoclassical economics
2012	Achrol and Kotler	*Journal of the Academy of Marketing Science*	Marketing strategy	• Marketing mix adaptation	• Theory of human motivation • Network theory
Mission focus					
Year	Authors	Publication	Underpinning Discipline	Topic	Theories they draw on
2003	Alter	*Monograph (Inter-American Development Bank)*	-	• Social enterprise operational models	-
2007	Seelos and Mair	*The Academy of Management Perspectives*	Strategy	• Profitable business models for deep poverty	• RBV • Strategic Alliances
2010	Gómez Samper et al.	*Chapter in book*	-	• Virtues of inclusive business	-
Radical innovation					
2002	Prahalad and Hart	*Strategy & Competition*	Business strategy	• Re-examining assumptions on the BOP • Innovation	-

(continued)

Table 1. (continued)

Year	Authors	Publication	Underpinning Discipline	Topics	Theories they draw on
2004	London and Hart	*Journal of International Business Studies*	Business strategy	• Revision of the transnational approach • Reinventing EM strategies	• International business theory
2005–2010	Prahalad	*Book*	Business strategy	• BOP as business opportunity • Twelve principles of innovation	-
2006	Chesbrough et al.	*California Management Review*	Business strategy	• Reinventing business models • Role of NGOs	-
2007	Ritchie and Sridharan	*Advances in International Management*	Marketing strategy	• Marketing structure	• Social capital theory
2010	Prahalad and Mashelkar	*Harvard Business Review*	Business strategy	• Innovation	-
Inclusive ecosystem					
2007	Hart	*Book*	Business strategy	• BOP protocol	-
2008	Simanis. and Hart	*Working Paper*	Anthropology International development	• Embeddedness • Ecosystems • Co-creation	
2008	Gradl et al.	*Chapter in Book*	Economics Business strategy Marketing strategy	• Stakeholders • Collaboration	• Market systems • Games theory
2010	Márquez et al.	*Book*	Business strategy	• Ecosystems	-
2010	Reficco and Vernis	*Chapter in book*	Business strategy	• Ecosystems	• Systems theory
2010a	Viswanathan et al.	*Journal of Marketing*	Marketing strategy	• Subsistence-consumer merchants • Vendors, customers and family systems	• Systems theory • Network theory
2010	Yunus et al.	*Long Range Planning*	Strategy	• Social business • Business model	• Business Model Innovation

NGOs: non-governmental organizations; BOP/BoP: base or bottom of the pyramid; EM: emerging markets.

Perception of the low-income market conditions: The opportunity/constraint taxonomy

Ritchie and Sridharan's (2007) article was one of the earliest efforts to review the nascent academic research concluding, 'Managers have, by and large, responded to subsistence markets with approaches whose core objective is to sidestep or overcome perceived limitations of these markets'(p. 198). The perception of the market conditions as limitations/problems is aligned with the concept of 'market constraints' (Hart, 2007). The latter 'arise from the absence of conditions that enable markets to function efficiently' (Gradl et al., 2008: 34). Academics and practitioners that perceive the market conditions as constraints argue that it is very costly to serve this market (Karnani, 2011) and that MNCs should offer stripped-down products (Arnold and Quelch, 1998). We will show that the business models associated with this perception adapt or restrict the scope of their endeavour to a focused goal.

Alternatively, academics and practitioners that perceive market conditions as opportunities focus on strengths: aggregated purchasing power of the low-income consumers (Prahalad, 2004), social capital (Yunus, 2007) and social networks (Ritchie and Sridharan, 2007) and highlight the resources that are 'outside' the conventional market-actors of a value chain; that is, 'non-corporate partners' (London and Hart, 2004: 361). We will show that the business models associated with this perception emphasize the role of innovation and alliances, demonstrating that 'the "impossible" can be made "possible"' (Mashelkar, 2009: xiv).

In summary, all authors see overall business opportunities in these markets. However, Ritchie and Sridharan (2007) have provided evidence that there are two perceptions associated with the market conditions. We show that these are linked to different business models, and, thus, opportunity/constraint is adopted as the first taxonomy of our typology.

Approaches to developing business models: The bottom-up/top-down taxonomy

In the most basic sense, a business model is 'the method of doing business by which a company can sustain itself; that is, generate revenue' (Chesbrough and Rosenbloom, 2002: 533). Additionally, a business model elucidates how an organization is linked to external stakeholders, and how it engages in economic exchanges with them to create value for all exchange partners (Zott and Amit, 2007). Finally, business models are dynamic, having the agency to modify the markets (and vice-versa) (Mason and Spring, 2011).

Viswanathan et al. (2009) distinguished 'bottom-up orientation toward subsistence marketplaces' (p. 407) vis-à-vis 'top-down approaches' (p. 407). The bottom-up or grass root approach is also adopted in social enterprises (Alter, 2003), social business (Yunus et al., 2010) and inclusive business (Márquez et al., 2010). Essentially, this approach looks at the needs, strengths and vulnerabilities of consumers in subsistence settings and then formulates the types of interventions needed.

Viswanathan et al. (2009) highlighted that the bottom-up approach differs from the top-down approach 'in a number of important ways' (p. 407). First, the bottom-up approach adopts an empirical grounding at the micro-level phenomena and begins with understanding buyer, micro-entrepreneur and marketplace behaviour; by contrast, macro-level approaches take the perspective of outside businesses, industries or economies. Second, the definition of the marketplace differs. The micro-level approach rather than view *markets to sell to* (and study through market research) sees them as pre-existing *marketplaces to learn from* and co-create solutions that enable sustainability in the broadest sense of the word. Third, the bottom-up approach focuses on the heterogeneous life circumstances found in these markets, whereas top-down approaches seek

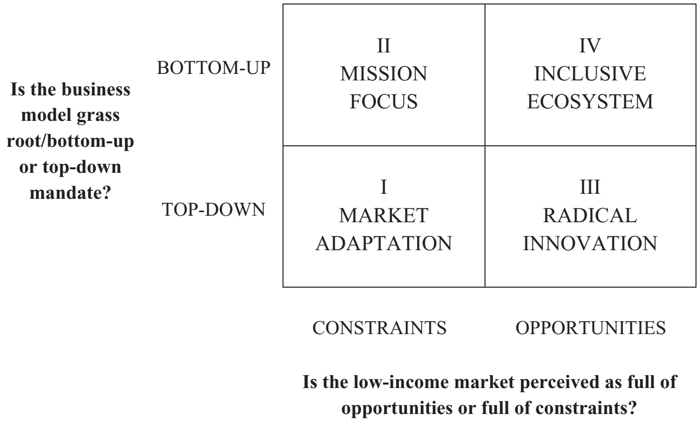

Figure 1. Four business models.

standardization and scalability. Fourth, the bottom-up business philosophy blends the social good and commercial purposes, product-relevant social good must be ingrained in businesses to be successful in subsistence marketplaces. In contrast, top-down business philosophy seeks ‘to do well and do good’ (Prahalad and Hart, 2002: 6), compartmentalizing economic and social goals.

In summary, all authors seek to have a social impact. However, Viswanathan et al. (2009) provide evidence that there are two approaches to developing business models, and, thus, bottom-up/top-down is adopted as the second taxonomy of our typology.

The business model matrix

Based on these two taxonomies, we propose our business model matrix (see Figure 1). We took the ‘market adaptation’ label from Arnold and Quelch (1998) where they argue that ‘adaptations constitute an approach appropriate for market development’ (p. 19). ‘Mission focus’ was drawn from a chapter title, ‘Focused Mission’ (Gómez Samper et al., 2010: 65). Additionally, Alter (2003: 12) uses the term ‘mission’ to define the degree of overlap between social and the economic goals. We drew ‘radical innovation’ from Prahalad and Mashelkar (2010) who observed that ‘some are established companies, and others are start-ups [. . .] The only common link is that they’re all radically innovative’ (p. 134). Finally, ‘inclusive ecosystems’ came from Gradl et al. (2008) and from Reficco and Vernis (2010) who studied inclusive business from an ecosystem approach.

In the next sections, we follow Wood and Vitell (1986); for each of our business models, the associated core literature is summarized, opportunities for further research are identified and guidelines for practitioners are provided.

Market adaptation

> Far from triggering a revolution in business thinking, developing successful strategies requires firms to “get back to basics”. Low-income markets are different from affluent ones; however, although the

> context changes, the logic of business does not change: Durable business principles are still effective guides to strategy development. (Karnani, 2011: 114)

Literature review on market adaptation. The literature review of this research stream shows that academics drew from mainstream thinking in developmental economics, business strategy and marketing strategy. They suggested that overall business models should not be modified, fitting Yip's (2004) categorization of 'routine strategies' (p. 19) and changes should take place at the marketing mix level. The upside of this approach is that access to product and services is achieved.

Arnold and Quelch (1998) drew on life cycle and entry strategy theories. They argued that emerging markets are at the introduction stage and, thus, MNCs should offer a narrow range of basics that the corporation has 'value engineered' for the different conditions in these markets, and that they should work with local distributors, adopting a 'partner policy'.

Subrahmanyan and Gomez-Arias (2008) built on motivation theory to look at consumption, and on models proposed by developmental economists to provide insights for marketing strategies. They suggested using 'the familiar 4P framework to examine marketing implications of approaching the BOP segment' (p. 409).

Vachani and Smith (2008) focused on rural distribution, listing three main disadvantages: inadequate physical links to markets, information asymmetries and weak bargaining power. They argue that a socially responsible market-based distribution system could be achieved by taking cost out through differential or layered distribution, reinventing the distribution channel by developing bidirectional or shared distribution, or taking the long-term view by educating or collaborating across sectors.

Analysing Karnani's (2011) book goes beyond the scope of this article; however, chapter 5 discusses selling beneficial goods to the poor and, thus, was included in our review. Aligned with this section's opening quote, above, Karnani concludes that designing a business model to serve the poor has to provide 'low-cost products the poor actually need and can afford' (p. 143).

Achrol and Kotler's (2012) article discusses three fields of marketing in the third millennium; one of them is sustainable development. They draw on Maslow's (1943) to argue that conventional marketing logic needs to be applied, analysing the unique needs of the poor and, then, 4Ps related programmes developed. Network theory is used to suggest adopting a distributed production–consumption model.

Illustrative cases presented in the market adaptation literature highlight these scholars' recommendations, namely:

- price-related adaptations may involve reducing profits with the aim of compensating by increasing volume, consumer credit, or prepaid cards;
- product-related adaptations include B-brands or low-quality product or single-serve 'sachet' packaging;
- place-related adaptations suggest direct sales, distributed production–consumption, discount stores, layered or shared distribution; and
- promotion-related adaptations entail 'evangelisers'.

Opportunities for future research. Market adaptation draws primarily from mainstream marketing thinking, and we can see, from the recent dates and type of outlet, that it is still a dynamic and current stream of research. However, within the literature, the 4Ps model has been deemed to be too focused on actions as delivered by the firm, suggesting that a new, customer-centric approach is needed (Shah et al., 2006). An alternative, the 4As – acceptability, affordability, availability and awareness (Sheth and Sisodia, 2012) – focuses on outcomes as desired by the customer. According to Sheth and Sisodia (2012), the 4As are not meant to replace the 4Ps, but, rather, 'offer managers a set of conditions that must be fulfilled' (p. 47), while the 4Ps provide the means to do so. We suggest this alternative approach as an interesting path for future research within the market adaptation business model.

Guidelines for practitioners. Conceptually, market adaptation seems to be 'business as usual', but managers adopting this business model need to be especially attentive to the similarities and differences between market conditions around the world, rather than assuming a uniform character for them all (e.g. brand aspirations of the poor). Global, brand-driven businesses cannot realistically approach and solve all of these situations in the same manner (Viswanathan and Sridharan, 2009). We argue that managers need to rely on good market research on the 4As as well as hire local management and/or partners (e.g. distributors) in order to be able to implement sufficient market adaptation that will provide low-income consumers with access to top brands and ensure MNCs profitability.

Mission focus

> In all six experiences, relationships were forged by leader-entrepreneurs with LIS [low-income status] target groups for the express purpose of improving their livelihood; yet none of the leader-founders was driven by charity motives. Profits were sought to ensure venture continuity, to attract new investors and expand sales volumes. (Gómez Samper et al., 2010: 68)

Literature review on mission focus. In our study, we found few authors looking at low-income markets from this perspective. Because contextual conditions are seen as overwhelming (i.e. too many problems and/or too complex), an enterprise's mission usually focuses on addressing one (or a few) market constraints. For example, microfinance is a bottom-up business model focused on addressing low-income consumers' lack of access to financial services – yet microfinance institutions do not seek to solve other issues faced by the same community (e.g. health, education or access to technology). However, through mission focus, efficacy is achieved and large sections of the population are provided with goods or services from which they were previously excluded.

Alter (2003) looked at cases in Latin America, concluding that all social enterprises fall into three main structural categories based on their operational model: First, in the embedded model ('mission centric'), social programmes are self-financed through enterprise activities. For example, Empresa Distribuidora de Energía de Salta (Argentina) identified infrastructure deficiencies and developed a fee-for-service model, offering accessible solar panels of a few watts to rural communities. Christensen et al.'s (2010) study of micro-franchising also fits this description: 'microfranchises are usually established as poverty alleviation tools as well as business' (p. 596). Second, in the integrated model ('mission related'), organizations create enterprises as a funding mechanism to support the non-profit's mission activities. Synergies exist between activities, thus sharing costs and leveraging assets. The Cross-Regional Artisan Center (Peru) is a cultural centre providing training programs for artisans. To fund their services, they created Intercraft, which market the handicrafts. Other examples, from India include Lijjat Papad which markets homemade snacks and food by disadvantaged women. This is also the case of SEWA which markets handcrafted garments made by low-income households. Finally, in the complementary or external model (‘unrelated to mission’), social programmes are distinct from business activities; non-governmental organizations (NGO) make alliances (or create complementary enterprises) as funding mechanisms to support social services. Seelos and Mair (2007) drawing on the resource-based view and the literature on strategic alliances analyse two such cases. For example Waste Concern (which has a social goal) makes an alliance with Map Agro (the largest fertilizing company in Bangladesh) to provide them with organic compost.

Gómez Samper et al. (2010) studied six inclusive businesses and concluded that they all were focused on their mission, flexible and close to the low-income consumers.

Opportunities for future research. Mission focus is in its infancy. Most of the inclusive business/social enterprise/social business literature is still at the descriptive case study level, and thus there is much room for further scientific exploration and analytic research. One such stream could be linked to the entrepreneurial literature. Austin et al. (2006) compared social and commercial entrepreneurs in a bid to understand if they are different beyond their social/commercial goals. These types of studies will become increasingly relevant. Another potential line of future research is to explore the NGO literature and ascertain if these initiatives can escalate (as large NGOs have been able to) or if their local embeddedness is a limitation. A third field to explore might be how the mission–business tension is solved in the managerial decision-making process.

Guidelines for practitioners. The literature reviewed discusses few managerial guidelines, most likely because of the early stages of this area’s conceptual development. Seelos and Mair (2007) suggest business models that leverage on existing company capabilities and develop alliances with local BOP business models.

Radical innovation

> Affordability and sustainability [. . .] should drive innovation. [. . .] do more with less for more people should be the innovator’s dream. (Prahalad and Mashelkar, 2010: 2)

Literature review on radical innovation. These scholars draw mainly from the business strategy literature. Radical innovation business models are also top-down approaches but differ from the market adaptation because they go *beyond adjustments* of the marketing mix variables: they look for innovative solutions. This type of strategy fits Yip’s (2004) definition of ‘radical strategies’. Radical strategies ‘are adopted when changes in the company’s environment render their current business model obsolete or when they voluntarily choose to embrace a new business model’ (Yip, 2004: 18). The upside is that through innovation, potential markets are transformed into actual markets and more consumer value attained; furthermore, often, market spillover effects are achieved, creating new business set-ups (Yazid, 2013).

Prahalad and Hart (2002) is clearly the seminal article for this business model. They are the first to suggest that MNCs should innovate and work together with NGOs, local and state governments and communities; moreover, MNCs should lead this ‘revolution’ (p. 11). However, the article does not go beyond a set of illustrations.

London and Hart (2004) is the first article that explicitly focuses on theory building. They analyse the limitations and misconceptions of the transnational approach and suggest that ‘rather than looking to overcome weakness in an emerging economy business environment’ (p. 364), MNCs should reinvent strategies by focusing on ‘identifying and leveraging strengths in the existing environment and include collaboration with non-traditional partners, co-inventing custom solutions, and building local capacity' (p. 361).

Prahalad's (2005, updated 2010) seminal book lists 12 principles of innovation: quantum jumps in price performance, hybrid solutions (blending of old/new technologies), scalable and transportable across country solutions, eco-friendly products, radical product redesigning, process innovation (logistics), deskilling work/services, educate customers in product usage, adaptability to 'hostile' environments, adaptable user interface (language, culture, skills), reaching the poor at low costs, and broad architecture that enables quick changes.

Chesbrough et al. (2006) highlight the importance of reverting conventional company approach to markets; they argue that it is critical to start by designing the business model (before the product). Specifically, they stress the critical role of the distribution system and need to involve NGOs in its development.

Ritchie and Sridharan (2007), building on social capital theory, suggest an innovative marketing structure to leverage social capital available in subsistence markets. They argue that decentralization (shifting 4Ps decision down the value chain) and externalization (allowing local partners to make marketing decisions independently) 'hold the promise of greater efficiency and enhanced effectiveness' (p. 204) and 'should enable firms to both boost revenues and lower costs in the short to medium run, while also increasing the community's productivity and attractiveness as a market in the long-run' (p. 203).

In their study of how companies innovate, Prahalad and Mashelkar (2010) distinguish between technological and organizational capabilities. It is this second type that interests our review. They distinguish three types of Gandhian innovation: disrupting the business model and altering the industry's economics (e.g. by partitioning work so it can be conducted off-site), modifying organizational capabilities (e.g. by design skills), or creating or sourcing new capabilities (e.g. through collaborative approach).

Opportunities for future research. The literature review shows that extant research provides examples of innovative successful cases but has a low level of conceptualization. The only article that incorporates innovation literatures is Prahalad and Mashelkar (2010). They state that 'the three kinds of Gandhian innovation (i.e. disrupting the business model and altering the industry's economics, modifying organisational capabilities, or creating or sourcing new capabilities) defy the traditional innovation categories: product, process, packaging, and pricing' (p. 135). Their comment invites the possibility to expand or critically revise innovation categories (Cohen and Klepper, 1996). The literature on innovation also identifies different degrees of innovation: radical, incremental, and recombined (Dewar and Dutton, 1986). These two dimensions have been integrated (Bessant and Tidd, 2007). Most radical innovation authors do not reference the literature on innovation; however, the case studies described in the books and articles can be associated with the categories. For example, Aravind could be classified as a radical process innovation case. Dr Venkataswamy understood that to neutralize high costs in quality eye surgery 'productivity and volume were necessary' (Prahalad, 2010, p. 284). The McDonalds business model was used to rethink eye surgery. The goal was to deskill tasks in order to leverage existing labour.

The invitation to collaborate with non-market actors to co-invent solutions suggests exploring the linkages with the open innovation literature (e.g. Chesbrough, 2006) as well as the work within social innovation (e.g. Rubalcaba et al., 2012). Another topic that has yet to be conceptualized is the role of the MNCs in these collaborations. Moore (1996) discusses the role of pivotal leaders, who, from the nodal (controlled) position, try to understand which actors (market and non-market) the new venture requires to be successful. The pivotal organization 'needs to make sure they generate win-win propositions so that partners remain on board and commit to venture success' (Reficco and Vernis, 2010: 119).

Finally, seeing the market conditions as opportunities can be associated with the market-making literature (e.g. Araujo, 2007) as well as the literature on dynamic co-creation of business model; that highlights how actors in a business network interact making and shaping the markets in which they act (Mason and Spring, 2011). A central tenet in this position is the idea that markets are always in the making. The construction of markets requires being able to proactively change the composition and/or roles of players in the market. In short, from a market-making perspective, low-income consumer markets would not be discovered but created.

Guidelines for practitioners. Innovation, as marketing, has two dimensions: *what* to do and *how* to do it. The literature review shows that articles and books have focused on the *what*, suggesting managers to radically redesign products, build alliances with non-traditional partners, co-create solutions, and leverage on local social capital to decentralized and externalized marketing structure. The shortage of advice on *how* to carry out these suggestions is linked to the early stage this literature is in. As a result, tips are drawn from case studies rather than from normative studies. A notable exception is Ritchie and Sridharan's (2007) work. It explicitly states 'our work offers managers a specific framework [. . .] to guide their ground-level marketing decisions' (p. 210).

Inclusive ecosystems

> [W]e have argued for a market system approach to doing business with the poor. A marketing approach considers low-income consumers as individuals, and is, therefore, not different from standard marketing practice. A market system approach considers the structural conditions of the context of poverty. [. . .]A systemic understanding of markets is key to design sustainable inclusive business models. (Gradl et al., 2008: 45)

Literature review on inclusive ecosystems. As shown in Table 1, these scholars draw upon diverse disciplines but always relative to systems theories and the development of ecosystems in the emerging markets. An inclusive ecosystems approach differs from mission focus in that the latter perceives market conditions as constraints and focuses on *a specific* problem that they seek to overcome. Whereas the former sees the interrelatedness of the market conditions as an opportunity to address *several* issues simultaneously. They do so by interacting with an array of non-market actors, but not in the same way as radical innovation business models, in which non-market actors are functional to the development of the market and the implementation of the new business model. Conversely, in an inclusive ecosystems business models, a bottom-up approach is taken and non-market actors are seen as integral parts of the low-income consumers' ecosystem. The upside is that it provides more value to more actors.

Summarizing Hart's (2007) book is outside of the remit of this article. However, his insights into the topic can be understood by briefly introducing the 'BoP protocol' his text discusses.[7] Three interdependent and overlapping phases are suggested: opening up (living the 'local life' through immersion and homestays, resulting in the co-creation of a business concept); creating the ecosystem (developing linkages and relationships with the community and local partners, culminating in the creation of a viable business prototype); and enterprise creation (business venture by pilot testing).

Gradl et al. (2008) clearly stated that they ‘introduce a market system approach to developing inclusive business models’ (p. 31), an approach that stresses the importance of taking into account all of the stakeholders. They highlight that ‘understanding the market as a system also implies that every market system will be different. [. . .] Consequently, every system will have unique combinations of stakeholders and conditions. These differences may affect the replicability of a business model’ (p. 45).

Márquez et al.’s (2010) edited volume analyses 33 inclusive business cases (20 MNCs and 13 social enterprises). Overall, they suggest undertaking institutional transformation, gauging the meaning of value, value bundling, learning loops, linking the ecosystem creatively and a long-term perspective. Their core message is that focus should be on ‘redefining the contours of the business’ (p. 318).

Reficco and Vernis (2010) looked at inclusive businesses from an ecosystem perspective, acknowledging that ‘the ecosystems metaphor [has] been used by several research lines in management, with different scopes’ (p. 112). Reficco and Vernis (2010) explain that ecosystems are different from value chains or value systems as they require accepting that the fundamental goal is creating a system that is harmoniously integrated with the environment (the structural context) as well as the surrounding systems (other market and non-market actors); in short, ‘ecosystem members [. . .] need each other for the whole community to survive and prosper’ (p. 117). They introduce two core system concepts: first, once a viable system has been developed, other projects can be launched; and, second, commercial organizations may have nodal positions, but these are not aimed at exercising control (as in radical innovation), and governance is exercised through alliances in which there is no vertical authority; members’ fate is intertwined and management skills are transferred to the communities. Key concepts in this text are co-dependency, co-evolution, co-learning, co-governance and consensual cooperation.

Viswanathan et al. (2010) focused on the ‘subsistence-consumer merchants’. They studied the system and subsystem of relationships – vendors, customers and family members – as well as the interaction between the systems. They observe that subsistence-consumer merchants are boundary spanners in systems that go beyond business-to-business and business-to-consumer dyads, and even beyond the influence of family. Also of relevance to our article is their discussion of the differences between network and the systems perspectives. They argue that a system-based approach complements the network perspective that is prevalent in current studies of subsistence markets and economic development. The network perspective is most useful to marketing knowledge at the aggregated level, while ‘systems theory transforms nodes into emotionally and cognitively capable people who are actively working to remain productive network members in an ever-changing environment’ (p. 12).

Yunus et al (2010), discuss the social-business model, where ‘social business’ is defined as ‘a self-sustaining company that sells goods or services and repays its owners’ investments, but whose primary purpose is to serve society and improve the lot of the poor’ (p. 309). On describing the success elements of the Grameen group[8] they argue that, in addition to conventional-business model innovation practices, the social-business model recruits social profit–oriented shareholders and specifies social profit objectives upfront.

Opportunities for future research. Most works in the inclusive ecosystem literature draw on systems theory, which suggests a clear future research path. We agree with Gradl et al.’s (2008) call for a framework that gathers together these separate strands of systems research, and for more interdisciplinary dialogue. Reficco and Vernis (2010) statement that ecosystems are not the same as value chains reveals a need to distinguish between the two business models involving non-market actors, particularly because each adopts the term ‘ecosystem’ with a different meaning.

Surprisingly, we have not seen references to the marketing literature on systems thinking (e.g. Layton, 2007; Ng et al., 2012; Vargo and Lusch, 2011), suggesting an opportunity to explore whether these studies can be integrated with the literature on inclusive ecosystems. Additionally, we have seen little reference in the marketing literature to co-creation (e.g. Payne et al., 2008), relationships (e.g. Gummesson, 2002; Sheth and Parvatiyar, 2000) or resource integrations (Vargo and Lusch, 2004, 2011).

Guidelines for practitioners. Adopting a systems approach to serve the low-income consumers in emerging markets implies seeing the environmental conditions as interrelated as well as the opportunity in the possibility of ‘value bundling’ (Márquez et al., 2010). Managers need to ‘open up’ (Hart, 2007) so as to understand the vendors, customers and family systems (Viswanathan et al., 2010) along with the role of non-market actors. Managers need to also understand that, in the inclusive ecosystem business model, the firm no longer holds control, the business concept is co-created and there is co-governance (Reficco and Vernis, 2010). The result is the overall system viability – but this is specific to each environment, making it difficult to replicate (Gradl et al., 2008).

Conclusions

In this article, we have attempted to integrate the expanding yet disperse literature on how to serve low-income consumers in emerging markets through double (profit and society) bottom-line business models. We contribute to current understanding within this field in several ways. First, we have developed an organizing criterion – the business model matrix – encompassing four approaches: market adaptation, mission focus, radical innovation and inclusive ecosystems. Second, for each business model, the corresponding literature is reviewed and suggestions for future research as well as managerial insights are offered. Finally, in this section, we present a set of conclusions from our work.

The literature review provides evidence that we are still in our infancy and that most studies are at the descriptive level and have not yet been associated with existing theories developed in other disciplines (e.g. the recommendation to innovate has not been linked to the vast literature on innovation nor the study of subsistence entrepreneurs to the conventional entrepreneurial literature). We also found that the four streams are not equally developed, with the mission focus business model only recently gaining attention.

The conceptual framework helps academics as it allows them to position their research within a given stream and suggestions have been provided on how these could be further developed. Moreover, by looking at the matrix from the bottom left cell (market adaptation) to the upper right cell (inclusive ecosystems), a shift can be seen from mainstream marketing literature to a broader set of underlying disciplines and theories. This shift has important theoretical implications as it implies cross-fertilizing marketing knowledge with that of other fields (e.g. innovation, systems, social capital). Explicitly grounding the low-income consumers in emerging markets studies would allow following Gummesson’s (2005) call to move from descriptions to conceptualizations in the process of (eventually) generating theory. Additionally, research could also focus on how the business models inform the literature on which they draw.

Low-income markets represent one of the major challenges as well as opportunities for managers in this new millennium. We have seen that each business model is feasible and that adoption of a given business models depends on managerial choices; that is, their perception of the market conditions and approach to developing their firm's business models. Collectively, the article introduces four business models that range from marketing mix related adjustments to a new way of thinking that include a combination of market and non-market actors. This breadth of business models choices makes it critical that managers fully understand the scope and limitations of each one. Moreover, it is vital to understand which is the most suitable for each organization. Finally, our conceptual framework also provides a useful typology for management education as it enables visualizing the diverse business models proposed to serve low-income consumers in emerging markets.

If we want this field to have an impact, it is imperative to shift from guidelines to sound theories. Typologies are of value as they allow resolving contradictions, help identifying the conceptual content of the research field, provide a first step towards theory development as well as provide managers with a sound theoretical structure.

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Notes

1. The term 'emerging markets' is used as encompassing emerging economies, developing markets/economies/countries and the Brazil, Russia, India, China (BRIC) economies.
2. The term 'inclusive business' is used as synonymous with social enterprise and social business. Gradl et al. (2008) adopt the term 'inclusive business models' for those that manage to 'build bridges between business and the poor in a way that benefits both' (p. 31).
3. The term 'low-income consumer' is used to encompass base or bottom of the pyramid ('BoP' or 'BOP'), poor and subsistence consumers.
4. The coverage is representative; that is, the sample presented is not exhaustive but typifies a larger group of material (Cooper, 1988).
5. For further reading see, Burgess and Steenkamp (2006), Karnani (2011), Prahalad and Hammond (2002), Pels and Kidd (2012), Ritchie and Sridharan (2007), and Sheth (2011).
6. The World Bank identifies: \$1 per day (extreme poverty) and \$2 per day (bottom of the pyramid). Karnani (2011) identified a further \$8 per day cut-off point.
7. See also Simanis and Hart (2008).
8. The Grameen Group includes Grameen Back (micro-financial services), Grameen Phone (in alliance with Telenor), Grameen Veolia (water service provider), Grameen Danone (dairy products), amongst others.

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