Foreword

A few years into the twenty-first century, multinational corporations (MNCs) find themselves on the horns of a dilemma: shareholders expect double-digit returns while the global economy is growing at an average annual rate between 2 and 3 per cent. The answer may reside in focusing on emerging markets, but not the incremental market expansion targeted at the wealthy few; rather at the much larger base of the economic pyramid, the so-called BOP, where between 4 and 5 billion people (or two-thirds of humanity) live, work, consume and relentlessly try to improve their lives.1

The task of unleashing the economic potential trapped in the informal economy in which the majority of the world’s poor operate is a challenge that MNCs, together with a myriad of for-profit and nonprofit organizations (NPOs), have begun to focus on. This change implies a basic challenge: shifting mindsets that traditionally considered that majority too poor to be viable customers of their products.

The challenges organizations face in providing utilities to the poor occur in broad contexts that differ among countries. Organizations need to respond to multiple stakeholders as they confront differing perceptions of the responsibilities of utility companies. Utilities must conform to varying regulations often developed amidst complex political interests. Thus far, articles and papers have centered mostly on how large consumer goods companies such as P&G and Cemex have turned their gaze to the BOP in search of profits, as ascertained by C.K. Prahalad in The Fortune at the Bottom of the Pyramid (2005). The book provided the initial explanations on how different businesses strive to approach this important segment. However, there is little mention of how utilities approach the BOP, managing to build successful commercial relationships that benefit all their stakeholders. Moving forward, in this volume a group of scholars and practitioners have come together to provide their analysis on utility experiences at the BOP worldwide. It brings together global experiences from MNCs, multilateral organizations such as the IDB and the World Bank, and NPOs providing a broad but actionable set of insights on the challenges and opportunities of providing utilities to the poor worldwide.

In the case of AES Corporation, some of our franchises around the world have developed programs to attend the BOP sector and a common
ground found among them is the need for a holistic approach, where the utility company identifies the potential customer, and his or her socio-cultural context, his or her own and very particular consumer patterns and payment abilities, and then develops a comprehensive approach where all the influential factors shape the business model. The relevance of such a holistic approach is analyzed by the different contributors to this book.

As Stuart Hart and Eric Simanis, both from the Center for Sustainable Global Enterprise at Cornell University’s Johnson School of Management, mentioned in an article on innovation,[^2] ‘[g]ood ideas are dime a dozen – turning an idea into a profitable business is where the rubber meets the road. Within such a context, the linear and highly regimented planning models that constitute the heart of much of the managerial and administrative training are likely to fail. It takes a different kind of organizational strategy, one we should call a real options strategy.’ Small-scale experimentation and low-cost trials are the tools that enable this real-option logic where organizational flexibility is of central concern. Following this approach, AES businesses have conducted a variety of BOP initiatives. Examples from EDC in Venezuela and Eletropaulo in Brazil are presented in this book. These experiences have provided the foundations of our global efforts to reduce non-technical electricity losses, and improve service reliability and quality to the communities we serve.

We understand the need for understanding the BOP consumers from a wide variety of perspectives. In 2004 AES started a series of discussions about the BOP market. We sponsored working group meetings that brought together managers working with BOP communities in their service areas; we reached out to practitioners from outside our industry such as Stewart Brand, author and founder of GBN Global Business Network, to share his knowledge on how megacities are being developed, and the implications of the seemingly unstoppable process of migration from rural areas to urban centers.

In countries like Argentina, Brazil, El Salvador and Cameroon we see a tremendous opportunity to increase our customer base: ‘transforming consumers into customers’, as we labeled the effort in AES; using a different approach that brings engineering and sociology together; serving the needs of this sector of the population with the right set of product and services, tailor-made for them; understanding their needs, circumstances and social conditions; building a partnership that will allow the utilities to be a key success factor in helping people in these communities improve their conditions of life. As one of my colleagues at AES, Ivar Pettersson, author of one of the chapters of this book, says: ‘there is a market out there, we need to find it and design solutions that fit their needs. We should not adapt what we have, we should reinvent the way we provide services

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for this sector of the population, understanding the way they live and letting them be part of the design of the solutions.’

The rapid change in customers served signals the positive effect of changing mindsets, engaging stakeholders, and incorporating lessons into organizational processes. In São Paulo, we serve more than 5.9 million customers; in Rio Grande do Sul, 1.1 million; in El Salvador, 1.1 million; and in Cameroon 660000. We must prepare to serve well and sustainably new customers from the BOP, whether coming from rural areas in El Salvador or Cameroon or favelas in São Paulo. It all starts by learning how we do things in different places across our company but also how other stakeholders have found solutions around the world, especially on the ability of bringing these solutions to utilities’ scale. This continued effort in finding the ‘AES Way’ to serve customers is a journey that continues by learning from other firms’ experiences in the industry as well as in others. This is a joint effort that has started to see concrete positive results for companies, poor families, and communities.

In sum, utilities play an essential role in the alleviation of poverty and economic growth. With this book we hope to continue fostering the dialogue between key stakeholders in order to better provide utilities to BOP customers in sustainable ways. Conversations between different entities sharing best practices must go on. We are thankful to all the participants and to Dr Patricia Márquez and Dr Carlos Rufín for their efforts in organizing a workshop and then relentlessly producing this volume that, being a first of a kind, examines the many challenges and opportunities for utilities seeking to serve the BOP sector.

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