

## **Innovating for the Middle of the Pyramid in Emerging Countries**

The transformation of emerging markets in recent decades has generated a new, growing, and very large middle-class market, also known as the middle of the pyramid. This market segment, which is middle by the standards of emerging markets yet low by the standards of advanced economies, is extremely attractive for firms, but still poorly understood and underserved. This volume presents detailed analyses of exemplary firms that have innovated products, services, and business models to fulfill the needs and desires of these new middle classes. It provides useful insights for managers, consultants, researchers, and students interested in emerging economies, and actionable lessons on how to innovate for a new and expanding market segment.

ALVARO CUERVO-CAZURRA is Professor of International Business and Strategy at Northeastern University, AIB Fellow, and coeditor of *Global Strategy Journal*. He studies the internationalization of firms, particularly emerging market multinationals; capability upgrading, mainly technological capabilities; and governance issues, especially corruption in international business. He received a PhD from MIT and an honorary doctorate from Copenhagen Business School.

MIGUEL A. MONTOYA is Full Professor and was the Director of the Graduate School at Tecnológico de Monterrey, Mexico. He is country representative at AIB-LAC and a founding member of the Fudan Latin America University Consortium. He has published on international business and economics, particularly emerging market multinationals, trade, and investment between China and Latin America. He coedited the book *Mexican Multinationals* (Cambridge University Press). He received a PhD from Universitat Autònoma de Barcelona, Spain.

PROOF

# Innovating for the Middle of the Pyramid in Emerging Countries

*Edited by*

ALVARO CUERVO-CAZURRA

*Northeastern University*

MIGUEL A. MONTOYA

*Tecnologico de Monterrey*



**CAMBRIDGE**  
UNIVERSITY PRESS

**CAMBRIDGE**  
UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

One Liberty Plaza, 20th Floor, New York, NY 10006, USA

477 Williamstown Road, Port Melbourne, VIC 3207, Australia

314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre,  
New Delhi – 110025, India

79 Anson Road, #06–04/06, Singapore 079906

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning, and research at the highest international levels of excellence.

[www.cambridge.org](http://www.cambridge.org)

Information on this title: [www.cambridge.org/9781108480192](http://www.cambridge.org/9781108480192)

DOI: [10.1017/9781108647731](https://doi.org/10.1017/9781108647731)

© Cambridge University Press 2021

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2021

Printed in <country> by <printer>

*A catalogue record for this publication is available from the British Library.*

*Library of Congress Cataloging-in-Publication Data*

ISBN 978-1-108-48019-2 Hardback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

*Sebastian Cuervo, the future*

*Celina Zaragoza, Lupita Bayardo, Andrea, Migue,  
and Nacho Montoya*

PROOF

PROOF

# Contents

List of Figures	<i>page ix</i>
List of Tables	<i>x</i>
List of Contributors	<i>xii</i>
Preface	<i>xvii</i>
1 Innovating for the Middle of the Pyramid in Emerging Countries	<i>1</i>
ALVARO CUERVO-CAZURRA	
2 New Middle Classes in Medium-Income Countries	<i>22</i>
MIGUEL A. MONTOYA AND FRANCISCO J. VALDERREY	
3 Innovation That Saves Lives	<i>44</i>
MIGUEL A. MONTOYA AND FRANCISCO J. VALDERREY	
4 Education for Everyone	<i>81</i>
OTTO REGALADO-PEZÚA AND DANIEL LEMUS-DELGADO	
5 “My House, My Pride”: The Housing Problem in the Middle of the Pyramid	<i>119</i>
LUCÍA RODRÍGUEZ-ACEVES, JOSÉ MANUEL SAIZ-ÁLVAREZ, EDGAR MUÑÍZ-ÁVILA, AND MARIO ADRIÁN FLORES-CASTRO	

6	Banking the Unbanked: Innovative Business Models Championing the Financial Inclusion of Latin America's MoP	157
	EILEEN DASPRO AND JASENKO LJUBICA	
7	Great Products for the MoP Consumption Practices	193
	JORGE L. ALCARAZ AND MIGUEL A. LOPEZ-LOMELÍ	
8	It Is Show Time!	223
	OTTO REGALADO-PEZÚA AND ANA BELÉN PERDIGONES	
9	Money, Money, Money: Innovating Access to Credit	260
	MAURICIO CERVANTES AND JOSE F. MORENO	
10	Inclusive Hedging: The Microinsurance Catalyst	293
	L. ARTURO BERNAL, ISAÍ GUÍZAR, AND XIOMARA VÁZQUEZ	
11	From Mission Impossible to Mission Accomplished! Innovative Business Models Strengthening Poor Distribution Channels	320
	JASENKO LJUBICA AND EILEEN DASPRO	
12	Innovating for the Middle of the Pyramid in Emerging Countries: Doing Well by Doing Good	352
	ALVARO CUERVO-CAZURRA AND MIGUEL A. MONTROYA	
	Index	382

# Figures

1.1	Market size in the base on the pyramid by income segments	<i>page 8</i>
2.1	Middle-income population share, Latin American countries	32
3.1	Drivers of innovation in business models in the health care industry	52
4.1	The impact of education on social mobility – Peru	91
4.2	Latin America: private tertiary enrollment (%)	99
8.1	Food service value growth by market	229

# Tables

1.1	Income distribution in the largest twenty countries by population	<i>page</i> 12
1.2	Lavish and frugal innovation	13
2.1	Percentage of wealth, divided by social class and selected region measured by daily income and adjusted by Purchasing Power Parity (PPP)	24
2.2	Comparison among selected emerging economies	26
2.3	Latin America, regional data and middle classes	34
2.4	Middle class in Latin America, selected countries	37
3.1	Health care industry per capita expenditure. Selected countries, OECD	49
3.2	Selected health indicators for major Latin American countries	54
3.3	Comparative of business models and strategies for selected companies	71
3.4	Innovative actions as per time and market from selected companies	75
4.1	Selected indicators related to participation and completion	85
4.2	Evolution of the gross tertiary enrollment rate in Latin America	89
4.3	Gross enrollment ratio, tertiary, both sexes (%) by region	98
5.1	Percentage of vulnerable people	123
5.2	Percentage of households with access to improved sanitation facilities	124
5.3	Average density (number of members per room, proxy for crowding)	126

5.4	Cases comparison: Dimensions of the solutions created	149
6.1	Percentage of adults age 15+ with a financial account	161
6.2	Opportunities, challenges, and innovations for the microfinancing in LAC's MoP	164
7.1	Milano and Marisa S. A.	209
8.1	Evolution of the world media, leisure, and entertainment sector, in millions of USD	226
8.2	Projection of retail sales by country, in millions of USD	234
8.3	Ranking of the 10 leading parks on a world level, in USD	246
8.4	Top 20 global aquatic parks, in USD	248
8.5	Top 20 theme/aquatic parks in Latin America, in USD	249
9.1	Global financial inclusion, country statistics	264
9.2	Banco Compartamos loan characteristics	272
9.3	Microfinance institutions in Argentina	278
9.4	Main characteristics of the institutions analyzed	283
10.1	Employment of health or medical insurance in low and middle-income economies, Bolivia, Brazil, Guatemala, Haiti, and Mexico (percentage)	297
10.2	Insurance spending per capita for the Group of Seven and selected Latin American countries, in USD	298
10.3	Comparison of cases	315
11.1	Opportunities, challenges, and innovations for the poor distribution channels in LAC's MoP	346
12.1	Alternatives for developing innovations for the middle of the pyramid	366
12.2	Types of innovations for the middle of the pyramid	376

# Contributors

**Jorge L. Alcaraz** is Professor of International Business at Pontificia Universidad Javeriana Cali in the Management Organizations Department. He holds a PhD in International Business and was a visiting scholar at Columbia University. His main research interest is in the different factors affecting the global strategy of enterprises from emerging economies, particularly those from Latin America.

**L. Arturo Bernal** is Professor of International Finance at Tecnológico de Monterrey (Mexico), where he also received a doctoral degree. He studies risk management using derivatives. He also analyzes real options valuation. He has published articles in academic journals.

**Mauricio Cervantes** is Professor of International Strategy at Tecnológico de Monterrey (Mexico). His research interests are Microfinance, Base of the Pyramid, and Cultural Finance. He is the executive director of the Asia Pacific Institute of Monterrey Tec. He is a consultant in the areas of International Finance, Portfolio Theory, Risk Coverage, and Business in China. He has been a visiting professor at University of International Business and Economics in Beijing, China; Portland State University, USA; Universidad San Francisco de Quito, Ecuador; ESAN, Graduate School of Business, Peru. He holds a PhD in Finance from UT-Austin/Tecnológico de Monterrey (Mexico), an MBA, and a Bachelor's degree in Electronic Engineering.

**Alvaro Cuervo-Cazurra** is Professor of International Business and Strategy at Northeastern University. He studies the internationalization of firms, particularly emerging market multinationals; capability upgrading, focusing on technological capabilities; and governance issues, especially corruption in international business. He is Fellow of the Academy of International

Business and coeditor of the *Global Strategy Journal*. He received a PhD from the Massachusetts Institute of Technology and an honorary doctorate from Copenhagen Business School.

**Eileen Daspro**, DBA, is Clinical Professor of International Business at the University of San Diego School of Business. Her research interests include the international competitiveness of firms and internationalization strategies in emerging markets. She has published in the *Latin American Business Review*, the *Journal of Business Ethics* and Cambridge University Press. She is a NASBITE Certified Global Business Professional and Trainer.

**Mario Adrián Flores-Castro** is a regional vice president of Tecnológico de Monterrey (Mexico). He currently leads the team representing Mexico in the Global Entrepreneurship Monitor (GEM). He has done research in the United Kingdom, the United States, and Latin America. Before joining the academic world, he worked for over ten years at companies such as The Goodyear Tire and Rubber Company and Continental Tires. He holds a PhD in Business Administration with specialization in Operations. He also holds an MS in Industrial Engineering and is a mechanical engineer.

**Isaí Guízar** is Professor of Finance and Economics at Universidad de Guadalajara. Guízar's primary research field is development economics and finance. His current research areas include financial services in developing countries, interest rate restrictions, and the effects of credit rationing on microenterprises. He holds a PhD from The Ohio State University.

**Daniel Lemus-Delgado** is Professor of International Relations at Tecnológico de Monterrey (Mexico). He studies the national and regional innovation system, specifically in emerging countries. He also analyzes the relationship between building innovation capacities and culture, with a special interest in East Asia. He is a member of the National System of Researchers in Mexico. He received a PhD from Colima University, Mexico.

**Jasenko Ljubica**, PhD, is Associate Professor at National Research University, Higher School of Economics, St. Petersburg, Russia. His research lies at the intersection of Organizational Behavior, Organizational Psychology, and Human Resources in International Business where he studies Expatriate Management and Global Leadership as well as Organization and Management Theory where he studies Business Models. He also specializes in Research Methods in Management Sciences.

**Miguel A. Lopez-Lomeli** has a PhD in Entrepreneurship and Management with specialization in Marketing from the Universidad Autonoma de Barcelona (UAB), Spain. He had a professional career for twenty years in sales and customer marketing at the Procter & Gamble Company in Mexico, United States, and the Latin America Region, holding positions from sales representative to director of customer marketing for Latin America. He teaches courses in sales and marketing strategy in the Undergraduate and Executive Education programs at Tecnológico de Monterrey (Mexico). He has published articles in various academic journals, as well as book chapters.

**Miguel A. Montoya** is Professor of International Economics and Business at Architecture, Art, and Design School at Tecnológico de Monterrey (Mexico). He studies multinational companies of Latin America. He also analyzes innovations at Base of the Pyramid in emerging markets. He has published articles in various academic journals and book chapters. He received a PhD from the Autonomous University of Barcelona.

**Jose F. Moreno** has a PhD in Finance from the University of Texas Pan-American. He is Associate Professor of Finance at the University of the Incarnate Word in San Antonio, Texas.

**Edgar Muñiz-Ávila** is Professor of Business Creation and Director of the Entrepreneurship and Innovation area at Tecnológico de Monterrey (Mexico). He studies entrepreneurship with special

interests in social entrepreneurship, creation and development of enterprises, and family businesses. For the last nine years, he directed the Business Incubator and the Enterprise Acceleration program. He received a PhD from University of Antonio de Nebrija.

**Ana Belén Perdigones** is Director of Master Programs and a professor at ESIC Business & Marketing School in Madrid, Spain. She has a Master's in Marketing by ESAN in Lima, Perú and a Master's in Marketing Science by ESIC. She is a specialist in market research, business intelligence, and consumer behavior in emerging markets. She is Fellow of the Higher Education Academy (FHEA) – AdvanceHE.

**Otto Regalado-Pezúa** is Professor and Chair of Marketing Department at ESAN Graduate School of Business, Peru. He received his PhD degree in Organizations Sciences from the Université de Nice-Sophia Antipolis, France. His research interest areas include services marketing, higher education, and tourism systems.

**Lucía Rodríguez-Aceves** is Professor of Entrepreneurship at Tecnológico de Monterrey (Mexico). She studies knowledge management and strategy, with a special interest in using social network analysis to measure collaboration in knowledge-based networks. She participates in the Global Knowledge Research Network and the Iberoamerican Knowledge Systems Community. She received a PhD in Business Administration from the EGADE Business School of Tecnológico de Monterrey (Mexico).

**José Manuel Saiz-Álvarez** has a PhD in Economics and Business Administration from Autonomous University of Madrid, Spain, and a PhD in Sociology from Pontifical University of Salamanca, Spain. He has been the academic director of Business Administration Doctoral Studies, Nebrija University, Spain, and a member of the Scientific Research Council, Professor Edward Lipinski School of Economics, Law and Medical Sciences at Kielce, Poland. He is a member of the editorial board and referee of numerous national and international journals and appears in Who's Who in the World.

**Francisco J. Valderrey** is a professor at Tecnológico de Monterrey (Mexico). His research focuses on strategy in the tourism industry, as well as marketing in China and negotiation strategy in multicultural environments. He has published several articles on Asia Pacific topics, and most recently he started a research group analyzing technology and global business. He has coauthored two textbooks on fundamentals of marketing. He earned a PhD in Administration and Marketing from the University of Valencia in Spain.

**Xiomara Vázquez** is an associate professor at Tecnológico de Monterrey (Mexico). She has published in the Microfinance field. She has been a speaker at international academic events in the United States, Canada, Brazil, Argentina, and Spain. She had been the Accounting and Finance Department director and Master in Finance director. She received a PhD in Economics and Management Sciences from the Universidad de Guadalajara in 2011, as well as a Master's in Finance (Honors), a Master of Business Administration, and a Bachelor of Accounting (Honors) from Tecnológico de Monterrey (Mexico).

# Preface

Innovation is at the core of the development of countries and the advantage of firms. Much attention has been paid to how companies in advanced economies innovate to serve the needs of demanding and wealthy consumers who are willing to pay premium prices for novel products and services. Additionally, these companies benefit from a sophisticated innovation system at home that supports their ability to create new products and services. Recently, the topic of frugal innovation has emerged to acknowledge that companies in emerging economies can develop new products and services to address the needs of people with extremely low levels of income. These innovations are designed to provide the first access to very basic goods and services for individuals who have very little money to pay for them. However, this leaves individuals that are middle-income by emerging economy standards, even if they are low income by advanced economy standards, underserved. Such customers do not have the income to pay for the latest highly innovative products, but already have some basic products that cover their essential needs and some money to splurge on new products. These middle-income customers in emerging economies are the ones we are analyzing in this book, aiming to understand how companies have developed innovations that address their more sophisticated needs without attaching the premium prices that normally accompany their latest products.

The idea for the book came from a research project on innovations for low-income consumers in emerging markets that started at Tecnológico de Monterrey in Guadalajara, Mexico in 2012. This project resulted in a number of academic research papers. As the research progressed, it became apparent that the innovations we were identifying and the consumer needs we were studying were not quite what the literature was discussing. Consumers in Mexico had much higher

levels of income than those studied in other countries. They already had their basic needs covered and were looking for better products and services rather than first-time access to products and services. As a result, we started considering developing a collaborative volume to deepen the understanding already gained about innovations and extend it to analyzing innovations for the new middle classes in emerging markets. Hence, at a meeting in May 2015, we decided to bring the ideas into a book format that would facilitate the dissemination of the insights gained beyond the academic community. In May 2015, we had a meeting with potential coauthors to discuss the core idea of the book and the structure of its arguments, identifying the initial challenges and cases. From June to October 2015, the authors of each chapter gathered secondary data on the cases and the innovations created to solve particular challenges and outlined some of the themes that they thought could be relevant to the study. In September 2015, we obtained a grant from the Mexican nongovernmental organization Promotora Social Mexicana ([www.psm.org.mx](http://www.psm.org.mx)) to fund the research project. This generous grant enabled us to go deeper into the analysis and gave us the freedom to explore what we considered were relevant issues. A conference on October 15–16, 2015 helped consolidate the arguments, reorganize the structure of the book, and ensure progress. Once the chapters were created using secondary data, the authors of each chapter conducted interviews with current and past managers of the companies to understand in more detail the reasons behind the actions taken and gather additional data that were not publicly available. On March 9, 2016, a second conference ensured progress. At this conference, the authors of the chapters agreed on the common framework and structure for the chapters to ensure the identification of insights and the drawing of conclusions across chapters. The authors of the chapters continued working on refining the arguments and ideas, incorporating suggestions for improvement from 2017 to 2019.

This lengthy process of gestation resulted in a book that is both timely and deep in its arguments. We hope that the conclusions that

we draw from the analysis are useful for other academics analyzing the topic of innovation, as well as for managers of companies interested in better understanding how to innovate to serve the needs of the growing middle classes in emerging markets. To facilitate this, we asked the authors to write their chapters in an accessible manner, moving all the academic discussions into endnotes to facilitate the reading of the cases and the understanding of the conclusions.

We are grateful to many people for their support in helping create this book. Of course, our first thanks go to the authors of the chapters for diligently working on them and incorporating the suggestions for improvement from the group, going deep into the topics and providing useful insights. We also are grateful to the managers of the many companies that we analyze for providing a candid explanation of the innovation process and sharing both the ups and downs of serving the needs of middle-income consumers. We appreciate all the logistics and research of the staff at Monterrey Tec in Guadalajara, in particular Omar Robledo, S. Raúl Silva, and David Roque. We are grateful to Promotora Social Mexicana for providing funding for this research project and their continued support in this large venture. We also benefited from funding coming from Tecnológico de Monterrey in Guadalajara and Northeastern University that enabled us to travel and meet face-to-face to discuss ideas and coordinate the project. Finally, we thank our families for their support and patience, especially during the long hours that we could not be with them.

PROOF