The Fortune at the Bottom of the Pyramid

Eradicating Poverty Through Profits

C.K. Prahalad

Enabling Dignity and Choice Through Markets
Praise for

*The Fortune at the Bottom of the Pyramid*

“C. K. Prablad argues that companies must revolutionize how they do business in developing countries if both sides of that economic equation are to prosper. Drawing on a wealth of case studies, his compelling new book offers an intriguing blueprint for how to fight poverty with profitability.”

Bill Gates
Chairman and Chief Software Architect,
Microsoft

“The Bottom of the Pyramid belongs at the top of the reading list for business people, academics, and experts pursuing the elusive goal of sustainable growth in the developing world. C. K. Prablad writes with uncommon insight about consumer needs in poor societies and opportunities for the private sector to serve important public purposes while enhancing its own bottom line. If you are looking for fresh thinking about emerging markets, your search is ended. This is the book for you.”

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“Prablad challenges readers to re-evaluate their preconceived notions about the commercial opportunities in serving the relatively poor nations of the world. The Fortune at the Bottom of the Pyramid highlights the way to commercial success and societal improvement—but only if the developed world reconceives the way it delivers products and services to the developing world.”

Christopher Rodrigues
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“An important and insightful work showing persuasively how the private sector can be put at the center of development, not just as a rhetorical flourish but as a real engine of jobs and services for the poor.”

Mark Malloch Brown
Administrator
United Nations Development Programme

“Most people recognize that poverty is a major problem in the world, yet they throw up their hands and say, ‘What to do?’ Not so C. K. Prablad. The Fortune at the Bottom of the Pyramid gives us hope and strategies for eradicating poverty through profits that benefit all. Pass this book on to those who need to read it.”

Ken Blanchard
co-author of *The One Minute Manager®* and
*The Secret: What Great Leaders Know-And Do*
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The Fortune at the Bottom of the Pyramid

C. K. Prahalad

Harvey C. Fruehauf Professor of Corporate Strategy and International Business
The University of Michigan Business School
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Contents

Preface  xiii
About the Author  xxi

Part I  The Fortune at the Bottom of the Pyramid  ............1

Chapter 1  ■  The Market at the Bottom of the Pyramid  ............3
  The Power of Dominant Logic  ......................6
  The Nature of the BOP Market  .................10
    There Is Money at the BOP .......................10
    Access to BOP Markets  .........................13
    The BOP Markets Are Brand-Conscious .........14
    The BOP Market Is Connected ..................14
    BOP Consumers Accept Advanced Technology Readily .........15
  The Market Development Imperative .................16
    Create the Capacity to Consume ................16
    The Need for New Goods and Services ............19
    Dignity and Choice  .........................20
    Trust Is a Prerequisite .........................20
  Benefits to the Private Sector .............21

Chapter 2  ■  Products and Services for the BOP ...............23
  A Philosophy for Developing Products and Services for the BOP  ........24
  Twelve Principles of Innovation for BOP Markets .........25
Making It Happen ..............................................28
Conclusion .................................................46

Chapter 3 ■ BOP: A Global Opportunity .........................47
Engaging the BOP ..........................................48
Local Growth Opportunities ...............................50
   Learning to Grow .........................................50
Local Innovations and Global Opportunity ...............52
BOP Solutions for Developed Markets ...................53
Lessons for MNCs from BOP Markets ...................55
   Capital Intensity .........................................55
   Sustainable Development ..............................57
   Innovations .............................................57
The Cost of Managing .......................................58
Learning to Live in a Network of Relationships .......61

Chapter 4 ■ The Ecosystem for Wealth Creation ...............63
Market-Oriented Ecosystem ................................65
Ecosystems for a Developing Country .....................66
Learning the Sanctity of Contracts .......................68
Reducing Inequities in Contracts .........................69
Building Governance Capabilities Among the Poor ....72

Chapter 5 ■ Reducing Corruption:
Transaction Governance Capacity .......................77
Are the Poor Poor? ..........................................78
Transaction Governance Capacity (TGC) .................81
Building TGC .............................................83
The Andhra Pradesh e-Governance Story .................85
eSeva .....................................................89
Center for Good Governance .............................90
Impediments ...............................................93
Lessons from the Andhra Pradesh Experiment ..........94
Appendix: List of eSeva Services ..........................97
Chapter 6

Development as Social Transformation ..................99
  Development as Social Transformation ..................100
  Breaking Down Barriers to Communication ...............102
  BOP Consumers Upgrade .................................105
  Gaining Access to Knowledge ............................106
  Identity for the Individual ...............................107
  Women Are Critical for Development ...................108
  Evolving Checks and Balances ...........................108
  The Real Test: From the Pyramid to the Diamond .......109

Part II

Business Success Stories from the Bottom
  of the Pyramid ..............................................113

  Financing the Poor ........................................115
  Aravind Eye Care—The Most Precious Gift ..............131
  Energy for Everyone .....................................137
  Agricultural Advances for the Poor
    —The EID Parry Story ................................149
  Retail for the Poor .......................................159
  Information Technology to the Poor ......................169
  The Jaipur Foot Story ....................................187
  Health Alerts for All ....................................191
  Transparent Government ..................................201
  The Annapurna Salt Story ................................213
  Homes for the Poor—The CEMEX Story ..................221
  From Hand to Mouth—The HHL Soap Story ...............235
Part III  On the Web at ftpress.com

- Video Success Stories
  35 minutes of video success stories filmed on location in the bottom of the pyramid in India, Peru, Mexico, Brazil, and Venezuela
  Casas Bahia (3:54)
  CEMEX (3:07)
  Annapurna Salt (4:05)
  Hindustan Lever Limited (4:16)
  Jaipur Foot (4:40)
  Aravind Eye Care (6:08)
  ICICI Bank (4:23)
  ITC e-Choupal (4:08)
  EID Parry (4:12)
  Voxiva (3:33)
  E+Co/Tecnosol (4:34)
  Andhra Pradesh (3:30)

- Full Success Case Stories in pdf format

  The Market at the Bottom of the Pyramid
    Casas Bahia: Fulfilling a Dream
    CEMEX: Innovation in Housing for the Poor
  Known Problems and Known Solutions: What Is the Missing Link?
    The Annapurna Salt Story: Public Health and Private Enterprise
    Selling Health: Hindustan Lever Limited and the Soap Market
  Known Problems and Unique Solutions
    Jaipur Foot: Challenging Convention
    The Aravind Eye Care System: Delivering the Most Precious Gift
  Known Problems and Systemwide Reform
    ICICI Bank: Innovations in Finance
    The ITC e-Choupal Story: Profitable Rural Transformation
    The EID Parry Story
Scaling Innovations

The Voxiva Story

Innovations in Energy: E+Co’s Investing in Tecnosol

Creating Enabling Conditions for the Development of the Private Sector

Citizen Centricity: E-Governance in Andhra Pradesh

The EID Parry Story

Innovations in Energy: E+Co’s Investment in Tecnosol

Citizen Centricity: E-Governance in Andhra Pradesh

■ Biographies of the Researchers/Writers of the Success Case Stories from The Fortune at the Bottom of the Pyramid .........................247

■ About the Video Success Stories .........................255

■ Index .........................................................257
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Preface

This book is a result of a long and lonely journey for me. It started during the Christmas vacation of 1995. During that period of celebration and good cheer, one issue kept nagging me: What are we doing about the poorest people around the world? Why is it that with all our technology, managerial know-how, and investment capacity, we are unable to make even a minor contribution to the problem of pervasive global poverty and disenfranchisement? Why can’t we create inclusive capitalism? Needless to say, these are not new questions. However, as one who is familiar with both the developed and the developing world, the contrasts kept gnawing at me. It became clear that finding a solution to the problems of those at the bottom of the economic pyramid around the world should be an integral part of my next intellectual journey. It was also clear that we have to start with a new approach, a “clean sheet of paper.” We have to learn from the successes and failures of the past; the promises made and not fulfilled. Doing more of the same, by refining the solutions of the past—developmental aid, subsidies, governmental support, localized nongovernmental organization (NGO)—based solutions, exclusive reliance on deregulation and privatization of public assets—is important and has a role to play, but has not redressed the problem of poverty.

Although NGOs worked tirelessly to promote local solutions and local entrepreneurship, the idea of large-scale entrepreneurship as a possible solution to poverty had not taken root. It appeared that many a politician, bureaucrat, and manager in large domestic and global firms agreed on one thing: The poor are wards of the state. This implicit agreement was bothersome. The large-scale private sector was only
marginally involved in dealing with the problems of 80 percent of humanity. The natural question, therefore, was this: What if we mobilized the resources, scale, and scope of large firms to co-create solutions to the problems at the bottom of the pyramid (BOP), those 4 billion people who live on less than $2 a day? **Why can’t we mobilize the investment capacity of large firms with the knowledge and commitment of NGOs and the communities that need help? Why can’t we co-create unique solutions?** That was the beginning of my journey to understand and motivate large firms to imagine and act on their role in creating a more just and humane society by collaborating effectively with other institutions.

It was obvious that managers can sustain their enthusiasm and commitment to activities only if they are grounded in good business practices. The four to five billion people at the BOP can help redefine what “good business practice” is. This was not about philanthropy and notions of corporate social responsibility. These initiatives can take the process of engagement between the poor and the large firm only so far. Great contributions can result from these initiatives, but these activities are unlikely to be fully integrated with the core activities of the firm. For sustaining energy, resources, and innovation, the BOP must become a key element of the central mission for large private-sector firms. The poor must become active, informed, and involved consumers. Poverty reduction can result from co-creating a market around the needs of the poor.

We have to discard many of the “for and against” views of the world. For example, “are you for globalization or against it” is not a good question. Globalization, like all other major social movements, brings some good and some bad. Similarly, global versus local is not a useful debate. The tensions are real. Very early in my career, I learned that even within the multinational corporation (MNC) that is not a settled debate.

Similarly, the debate between small (e.g., microfinance) and large (e.g., multinational firms) is not a useful debate either. Large business can bring efficiency. NGOs can bring creativity to solve the problems that face us all. Certainly, I wanted to avoid the paternalism towards the poor that I saw in NGOs, government agencies, and MNCs.

**This book is concerned about what works.** This is not a debate about who is right. I am even less concerned about what may go wrong. Plenty can and has. I am focused on the potential for learning from the few experiments that are going right. These can show us the way
forward. I do not want the poor of the world to become a constituency. I want poverty to be a problem that should be solved. This book is about all of the players—NGOs, large domestic firms, MNCs, government agencies, and most importantly, the poor themselves—coming together to solve very complex problems that we face as we enter the 21st century. The problem of poverty must force us to innovate, not claim “rights to impose our solutions.”

The starting point for this transition had to be twofold. First, we should consider the implications of the language we use. “Poverty alleviation” and “the poor” are terms that are loaded with meaning and historical baggage. The focus on entrepreneurial activities as an antidote to the current malaise must focus on an active, underserved consumer community and a potential for global growth in trade and prosperity as the four to five billion poor become part of a system of inclusive capitalism. We should commence talking about underserved consumers and markets. The process must start with respect for Bottom of Pyramid consumers as individuals. The process of co-creation assumes that consumers are equally important joint problem-solvers. Consumers and consumer communities will demand and get choice. This process of creating an involved and activist consumer is already emerging. The BOP provides an opportunity to turbocharge this process of change in the traditional relationship between the firm and the consumer. Second, we must recognize that the conversion of the BOP into an active market is essentially a developmental activity. It is not about serving an existing market more efficiently. New and creative approaches are needed to convert poverty into an opportunity for all concerned. That is the challenge.

Once the basic approach was clear, the opportunities became obvious. The new viewpoint showed a different landscape and a focus on early and quiet attempts by some firms to explore this terrain. Unilever and its Indian subsidiary, Hindustan Lever Limited, was one such early experimenter. Around 1997, I found a kindred spirit in colleague Professor Stu Hart at the University of Michigan Business School (UMBS), who was approaching similar problems from a sustainable development perspective. We produced a working paper called “The Strategies for the Bottom of the Pyramid.” Needless to say, not a single journal would accept the article for publication. It was too radical. Reviewers thought that it did not follow the work of developmental economists. Nobody noticed that we were offering an alternative to the
traditional wisdom of how to alleviate global poverty. Thanks to the Web, various revisions of the working paper circulated freely. Surprisingly, a number of managers read it, accepted its premise, and started to initiate action based on it. Managers at Hewlett-Packard, DuPont, Monsanto, and other corporations started a venture fund and dedicated senior managers’ time and energy to examine this opportunity. Meanwhile, the Digital Dividend conference organized by Dr. Allen Hammond and the World Resources Institute in Seattle in 1999 provided a forum to examine these ideas in depth. I have not looked back. Since 1997, I have used every possible platform—academic, managerial, and governmental—to push the idea of the BOP as a market and a source of innovations. During the last five years, slowly at first but now more rapidly, a large number of NGOs, academics, and managers have started to discuss the need for an alternate approach to poverty alleviation and the potential role of the private sector and entrepreneurship as one of the critical elements.

The publication of the two articles, “The Fortune at the Bottom of the Pyramid,” in *Strategy+Business* (January 2002) with Stu Hart, and “Serve the World’s Poor, Profitably” in the *Harvard Business Review* (September 2002) with Allen Hammond, facilitated the process of widespread discussion within corporations. Today, the discussion is not about “whether” but how fast and where. We have come a long way.

In the fall of 2002, several MBA students at the UMBS came to me and said that they would like to work with me on BOP issues and that they were intrigued by the ideas they had seen in print as well as my message in numerous lectures on campus and outside. I was not easily convinced. I imposed extraordinary demands on them to convince me that they really cared. They convinced me overwhelmingly. They were ready to travel, explore opportunities, and endure the painful task of assembling convincing evidence. That was the start of the now widely accepted XMAP projects (a variant of International Multidisciplinary Action Projects [IMAP], which UMBS has long supported with faculty mentoring.) The X in XMAP stood for experimental. The enthusiasm of the students, especially Cynthia Casas and Praveen Suthrum, provided the glue and helped see the project through administrative difficulties. I am grateful to all the MBA students whose dedication made this book possible.

The book is in three parts. In Part I we develop a framework for the active engagement of the private sector at the BOP. It provides the basis
for a profitable win–win engagement. The focus is on the nature of changes that all players—the large firm, NGOs, governmental agencies, and the poor themselves—must accept to make this process work. Part II describes 12 cases, in a wide variety of businesses, where the BOP is becoming an active market and bringing benefits, far beyond just products, to consumers. The cases represent a wide variety of industries—from retail, health, and financial services to agribusiness and government. They are located in Peru, Brazil, Nicaragua, Mexico, and India. They represent a wide variety of institutions working together—subsidiaries of MNCs, large domestic firms, startups, and NGOs. They are all motivated by the same concern: They want to change the face of poverty by bringing to bear a combination of high-technology solutions, private enterprise, market-based solutions and involvement of multiple organizations. They are solving real problems. The BOP consumers get products and services at an affordable price, but more important, they get recognition, respect, and fair treatment. Building self-esteem and entrepreneurial drive at the BOP is probably the most enduring contribution that the private sector can make. Finally, decision-makers do not often hear the voices of the poor. We tend to make assumptions about how they feel. Part III (video stories on ftpress.com) is an attempt to tell the story primarily from their perspective. Each of the research teams—MBA students—went with video cameras and recorded their conversations with the BOP consumers as well as with the company managers. We collected well over 100 hours of video as part of the research. We present 35 minutes of the story from the point of view of the BOP consumers, the so-called poor. They are the primary storytellers. They tell us in their language—from Portuguese to Hindi—their view of what the involvement of the private sector and the resultant transition have meant for them. The three parts—the rationale for and the approach to private-sector involvement, the in-depth case studies, and the voices of the BOP consumers—are all an integral part of the book. They are intended to focus not only on the intellectual but also on the emotional arguments for encouraging private-sector engagement.

No research of this nature can be done without the active support of firms and managers. They gave us open access, their time, and their insights. Their enthusiasm was infectious. None of us who was a part of the research need any more convincing. We do know that the entrepreneurship and inventiveness of dedicated managers can bring a sea of change rapidly. That is true across the world. We could not have
documented the richness of the transformation taking place at the BOP through the efforts of dedicated management teams without an unstinting effort by the students. The names of the students who were involved in developing the cases stories are given at the end of the book.

Research of this nature, on the cutting edge, cannot take place in an academic institution without the active support of the dean. Dean Robert J. Dolan bet on the initiative. Associate Dean Michael D. Gordon remained a constant source of encouragement to me and to the students in all stages of the project, from obtaining enough video cameras to providing substantive inputs to the research. His deep belief and commitment to the research agenda were critical to the project. Several of my colleagues provided support. I owe special thanks to Associate Dean Gene Anderson, Associate Dean Izak Duenyas, and colleagues Andy Lawlor and Jan Svejnar, former Director of the William Davidson Institute.

It was fortuitous that Kofi Annan, Secretary General of the United Nations, constituted a special commission on Private Sector and Development under the auspices of the United Nations Development Program and its Administrator Mark Malloch Brown. As a member of the Commission, I had a chance to share my ideas with the members of the Commission and staff and found a very useful platform for dialogue. Nissim Ezekiel, Yann Risz, Sahb Sobhani, Jan Krutzinna, and Naheed Nenshi showed great willingness to debate and challenge many of the ideas presented in this book. I have benefited from their dialogue. It is my hope that the body of work represented in this book influenced the thinking of the Commission as well.

No project of this size can be done without the active support of a wide variety of people. Cynthia Shaw (UMBS) and Fred Wessells provided editorial assistance in reducing the mountain of data we had collected on each case story into a manageable document. Russ Hall provided additional editorial support and helped in considerably improving the case studies and the text. Many of my colleagues, including Prof. M. S. Krishnan, Prof. Venkat Ramaswamy, Prof. Michael Gordon, and Ron Bendersky (Executive Education, UMBS) helped with detailed suggestions for improving the text. Hrishi Bhattacharyya (Unilever), Allen Hammond (World Resources Institute), and Jeb Brugmann and Craig Cohon (Globalegacy) provided useful insights. The Prentice Hall team has been exceptional in its support and belief in the message. Jerry Wind (Wharton) accepted the idea of
this book with great enthusiasm. The editorial team led by Tim Moore and including John Pierce and Martin Litkowski was remarkable in their support. Their commitment to this book has been a source of strength. Patti Guerrieri was always willing to help and produced yet another revision of the manuscript with patience and quiet competence. Kimberly Ward (UMBS) oversaw the entire project, and Brian Greminger worked magic with the videos. Both of them, by their dedication to the students and to the overall project, were a source of inspiration. Finally, the students stayed with the project for over a year, always managing to do more and accommodating what must have appeared to be random demands on their time.

The biggest supporters of this project were my family. Our children, Murali Krishna and Deepa, and the latter’s husband, Ashwin, kept me going when I was willing to give up the idea of writing a book-length manuscript. As always, my wife, Gayatri, was my source of strength. She deeply believed in the cause and accompanied me to a wide variety of on-site visits, be it Jaipur Foot or the Shakti Amma. She willingly created the space and time for me to work on this project.

It is my hope that this book will provide the impetus for a more active engagement of the private sector in building the marketing ecosystems for transforming the BOP.

C. K. Prahalad
San Diego
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About the Author

C. K. Prahalad

“...he may well be the most influential thinker on business strategy today.”

BusinessWeek

Internationally recognized as a specialist on corporate strategy and value-added of top management in multinational corporations, he has consulted with many of the world’s foremost companies. In addition to being the Harvey C. Fruehauf Professor of Business Administration at the University of Michigan, he serves on the board of Directors of NCR Corp., Hindustan Lever Ltd., and the World Resources Institute.

A prolific author as well, his book, Competing for the Future (co-authored with Gary Hamel), was a national bestseller and was the Best Selling Business Book of the Year in 1994. He also co-authored Multinational Mission: Balancing Local Demands and Global Vision (in 1987 with Yves Doz) and The Future of Competition: Co-Creating Unique Value with Customers (in 2004 with Venkat Ramaswamy).

He has been named among the top ten management thinkers of the world in every major survey for over ten years.
Turn on your television and you will see calls for money to help the world’s 4 billion poor—people who live on far less than $2 a day. In fact, the cry is so constant and the need so chronic that the tendency for many people is to tune out these images as well as the message. Even those who do hear and heed the cry are limited in what they can accomplish. For more than 50 years, the World Bank, donor nations, various aid agencies, national governments, and, lately, civil society organizations have all fought the good fight, but have not eradicated poverty. The adoption of the Millennium Development Goals (MDG) by the United Nations only underscores that reality; as we enter the 21st century, poverty—and the disenfranchisement that accompanies it—remains one of the world’s most daunting problems.

The purpose of this book is to change that familiar image on TV. It is to illustrate that the typical pictures of poverty mask the fact that the very poor represent resilient entrepreneurs and value-conscious consumers. What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win–win scenarios where the poor are actively engaged and, at the same time, the companies providing products
and services to them are profitable. This collaboration between the poor, civil society organizations, governments, and large firms can create the largest and fastest growing markets in the world. Large-scale and wide-spread entrepreneurship is at the heart of the solution to poverty. Such an approach exists and has, in several instances, gone well past the idea stage as private enterprises, both large and small, have begun to successfully build markets at the bottom of the pyramid (BOP) as a way of eradicating poverty.

The economic pyramid of the world is shown in Figure 1.1. As we can see, more than 4 billion constitute the BOP. These are the people who are the subject matter of this book.

**THE BOTTOM OF THE PYRAMID (BOP)**

The distribution of wealth and the capacity to generate incomes in the world can be captured in the form of an economic pyramid. At the top of the pyramid are the wealthy, with numerous opportunities for generating high levels of income. More than 4 billion people live at the BOP on less than $2 per day. They are the subject matter of this book.
As you turn these pages, you will discover companies fighting disease with educational campaigns and innovative products. There are organizations helping the handicapped walk and helping subsistence farmers check commodity prices and connect with the rest of the world. There are banks adapting to the financial needs of the poor, power companies reaching out to meet energy needs, and construction companies doing what they can to house the poor in affordable ways that allow for pride. There are chains of stores tailored to understand the needs of the poor and to make products available to them.

The strength of these innovative approaches, as you will come to appreciate, is that they tend to create opportunities for the poor by offering them choices and encouraging self-esteem. Entrepreneurial solutions such as these place a minimal financial burden on the developing countries in which they occur.

To begin to understand how all of this is remotely possible, we need to start with some basic assumptions:

- First, while cases certainly can be found of large firms and multinational corporations (MNCs) that may have undermined the efforts of the poor to build their livelihoods, the greatest harm they might have done to the poor is to ignore them altogether. The poor cannot participate in the benefits of globalization without an active engagement and without access to products and services that represent global quality standards. They need to be exposed to the range and variety of opportunities that inclusive globalization can provide. The poor represent a “latent market” for goods and services. Active engagement of private enterprises at the BOP is a critical element in creating inclusive capitalism, as private-sector competition for this market will foster attention to the poor as consumers. It will create choices for them. They do not have to depend only on what is available in their villages. If large firms approach this market with the BOP consumers’ interests at heart, it can also lead to significant growth and profits for them. These characteristics of a market economy, new to the BOP, can facilitate dramatic change at the BOP. Free and transparent private-sector competition, unlike local village and shanty-town monopolies controlled by local slum lords, can transform the “poor” into consumers (as we illustrate with examples). Poverty alleviation will become a business development task shared among the large private sector firms and local BOP entrepreneurs.
Second, the BOP, as a market, provides a new growth opportunity for the private sector and a forum for innovations. Old and tired solutions cannot create markets at the BOP.

Third, BOP markets must become an integral part of the work of the private sector. They must become part of the firms' core businesses; they cannot merely be relegated to the realm of corporate social responsibility (CSR) initiatives. Successfully creating BOP markets involves change in the functioning of MNCs as much as it changes the functioning of developing countries. BOP markets must become integral to the success of the firm in order to command senior management attention and sustained resource allocation.

There is significant untapped opportunity for value creation (for BOP consumers, shareholders, and employees) that is latent in the BOP market. These markets have remained “invisible” for too long.

It is natural for you to ask this: If all of this is so obvious, why has this not yet occurred?

**The Power of Dominant Logic**

All of us are prisoners of our own socialization. The lenses through which we perceive the world are colored by our own ideology, experiences, and established management practices. Each one of the groups that is focusing on poverty alleviation—the World Bank, rich countries providing aid, charitable organizations, national governments, and the private sector—is conditioned by its own dominant logic. Let us, for example, examine the dominant logic of each group as it approaches the task of eradicating poverty.

Consider, for instance, the politicians and bureaucrats in India, one of the largest countries with a significant portion of the world’s poor. India is home to more than 400 million people who qualify as being very poor. The policies of the government for the first 45 years since independence from Great Britain in 1947 were based on a set of basic assumptions. Independent India started with a deep suspicion of the private sector. The country’s interaction with the East India Company and colonialism played a major part in creating this mindset. The experience with the indigenous private sector was not very positive, either. The private sector
was deemed exploitative of the poor. This suspicion was coupled with an enormous confidence in the government machinery to do what is “right and moral.” For example, the government of India initiated a series of large industrial projects in the public sector (owned by the Indian government) in a wide variety of industries, from steel to food distribution and global trading in essential commodities. India’s general suspicion of the private sector led to controls over its size and expansion. Some sectors of economic activity were reserved for small-scale industries. In textiles, for example, the “hand loom sector” dominated by small firms was given preference. There was no credible voice in public policy for nurturing market-based ecosystems that included the large and the small in a symbiotic relationship. The thinking was cleanly divided among the public sector (mostly large firms with significant capital outlay as in steel), the private sector with large firms strictly controlled by the government through a system of licenses, and a small-scale sector. The focus of public policy was on distributive justice over wealth creation. Because of the disparities in wealth and the preponderance of the poor, the government thought its first priority must be policies that “equalized” wealth distribution. Taxation, limits on salaries of top managers, and other such measures were instituted to ensure distributive justice. The discussion further polarized around the somewhat contrived concepts of rural poor and urban rich. The assumption was that the rural population was primarily poor and the urban population was relatively rich. However, the data increasingly does not support this distinction. There are as many rural rich as there are urban poor. Poverty knows no such boundaries. In the developing world, more than one third of the urban population lives in shanty towns and slums. These traditional views reflect the philosophy behind actions taken by bureaucrats and politicians. During the last decade, a slow but discernable transition has been taking place from the traditional to a more market-based outlook.

This much-needed and desirable transition is in its infancy. The dominant logic, built over 45 years, is difficult to give up for individuals, political parties, and sections of the bureaucracy. This is the reason why politicians and bureaucrats appear to be vacillating in their positions. Most thinking people know where they have to go, but letting go of their beliefs and abandoning their “zones of comfort” and familiarity are not easy. We also believe that it is equally difficult for a whole generation of BOP consumers to give up their dependence on governmental subsidies.
We have explicitly focused on ideology and policy and not on the quality of implementation of projects focused on the poor, be it building roads and dams or providing basic education and health care. The distinct role of corruption, which seems so endemic to developing countries in general, deserves separate treatment (see Chapter 5).

Private-sector businesses, especially MNCs (and large local firms that emulate their MNC competitors), also suffer from a deeply etched dominant logic of their own, which restricts their ability to see a vibrant market opportunity at the BOP. For example, it is common in MNCs to have the assumptions outlined in Table 1.1. These assumptions dictate decision and resource allocation processes for developing countries and BOP markets in particular.

These and other implicit assumptions surface in every discussion of BOP markets with managers in MNCs and those in large domestic firms in developing countries that fashion their management practices after those at successful MNCs. These biases are hard to eradicate in large firms. Although the dominant logic and its implications are clear, it is our goal in this book to challenge and provide counterpoints. For

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>The poor are not our target customers; they cannot afford our products or services.</td>
<td>Our cost structure is a given; with our cost structure, we cannot serve the BOP market.</td>
</tr>
<tr>
<td>The poor do not have use for products sold in developed countries.</td>
<td>We are committed to a form over functionality. The poor might need sanitation, but can’t afford detergents in formats we offer. Therefore, there is no market in the BOP.</td>
</tr>
<tr>
<td>Only developed countries appreciate and pay for technological innovations.</td>
<td>The BOP does not need advanced technology solutions; they will not pay for them. Therefore, the BOP cannot be a source of innovations.</td>
</tr>
<tr>
<td>The BOP market is not critical for long-term growth and vitality of MNCs.</td>
<td>BOP markets are at best an attractive distraction.</td>
</tr>
<tr>
<td>Intellectual excitement is in developed markets; it is very hard to recruit managers for BOP markets.</td>
<td>We cannot assign our best people to work on market development in BOP markets.</td>
</tr>
</tbody>
</table>

Table 1.1 The Dominant Logic of MNCs as It Relates to BOP

example, BOP markets enable firms to challenge their perspectives on cost. We will show that a 10 to 200 times advantage (compared to the cost structures that are oriented to the top of the pyramid markets) is possible if firms innovate from the BOP up and do not follow the traditional practice of serving the BOP markets by making minor changes to the products created for the top of the pyramid.

Most charitable organizations also believe that the private sector is greedy and uncaring and that corporations cannot be trusted with the problems of poverty alleviation. From this perspective, profit motive and poverty alleviation do not mix easily or well. Aid agencies have come full circle in their own thinking. From aid focused on large infrastructure projects and public spending on education and health, they are also moving toward a belief that private-sector involvement is a crucial ingredient to poverty alleviation.

Historically, governments, aid agencies, nongovernmental organizations (NGOs), large firms, and the organized (formal and legal as opposed to extralegal) business sector all seem to have reached an implicit agreement: Market-based solutions cannot lead to poverty reduction and economic development. As shown in Figure 1.2, the dominant logic of each group restricts its ability to see the market opportunities at the BOP. The dominant logic of each group is different, but the conclusions are similar. During the last decade, each group has been searching for ways out of this self-imposed intellectual trap. To

![Figure 1.2](image-url) The influence of dominant logic.
eradicate poverty, we have to break this implicit compact through a BOP-oriented involvement of the private sector.

We have to change our long-held beliefs about the BOP—our genetic code, if you will. The barrier that each group has to cross is different, but difficult nonetheless. However, once we cross the intellectual barrier, the opportunities become obvious. The BOP market also represents a major engine of growth and global trade, as we illustrate in our subsequent stories of MNCs and private firms from around the world.

The Nature of the BOP Market

The nature of the BOP market has characteristics that are distinct. We outline some of the critical dimensions that define this market. These characteristics must be incorporated into our thinking as we approach the BOP.

There Is Money at the BOP

The dominant assumption is that the poor have no purchasing power and therefore do not represent a viable market.

Let us start with the aggregate purchasing power in developing countries where most of the BOP market exists. Developing countries offer tremendous growth opportunities. Within these markets, the BOP represents a major opportunity. Take China as an example. With a population of 1.2 billion and an average per capita gross domestic product (GDP) of US $1,000, China currently represents a $1.2 trillion economy. However, the U.S. dollar equivalent is not a good measure of the demand for goods and services produced and consumed in China. If we convert the GDP-based figure into its dollar purchasing power parity (PPP), China is already a $5.0 trillion economy, making it the second largest economy behind the United States in PPP terms. Similarly, the Indian economy is worth about $3.0 trillion in PPP terms. If we take nine countries—China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa, and Thailand—collectively they are home to about 3 billion people, representing 70 percent of the developing world population. In PPP terms, this group’s GDP is $12.5 trillion, which represents 90 percent of the developing world. It is larger than the GDP of Japan, Germany, France, the United Kingdom, and Italy combined. This is not a market to be ignored.
Now, consider the BOP within the broad developing country opportunity. The dominant assumption is that the poor do not have money to spend and, therefore, are not a viable market. Certainly, the buying power for those earning less than US $2 per day cannot be compared with the purchasing power of individuals in the developed nations. However, by virtue of their numbers, the poor represent a significant latent purchasing power that must be unlocked. For example, all too often, the poor tend to reside in high-cost ecosystems even within developing countries. In the shanty town of Dharavi, outside Mumbai, India, the poor pay a premium for everything from rice to credit. Compare the cost of everyday items of consumption between Dharavi and Warden Road (now redesignated B. Desai Road), a higher income neighborhood in Mumbai. The poverty penalty in Dharavi can be as high as 5 to 25 times what the rich pay for the same services (Table 1.2). Research indicates that this poverty penalty is universal, although the magnitude differs by country. The poverty penalty is the result of local monopolies, inadequate access, poor distribution, and strong traditional intermediaries. Large-scale private-sector businesses can “unlock this poverty penalty.” For example, the poor in Dharavi pay 600 to 1,000 percent interest for credit from local moneylenders. A bank with access to this market can do well for itself by offering credit at 25 percent. Although 25 percent interest might look excessive to a casual observer, from the point of view of the BOP consumer, access to a bank decreases the cost of credit from 600 percent to 25 percent. The BOP consumer is

<table>
<thead>
<tr>
<th>Item</th>
<th>Dharavi</th>
<th>Warden Road</th>
<th>Poverty Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit (annual interest)</td>
<td>600–1,000%</td>
<td>12–18%</td>
<td>53.0</td>
</tr>
<tr>
<td>Municipal grade water (per cubic meter)</td>
<td>$1.12</td>
<td>$0.03</td>
<td>37.0</td>
</tr>
<tr>
<td>Phone call (per minute)</td>
<td>$0.04–0.05</td>
<td>$0.025</td>
<td>1.8</td>
</tr>
<tr>
<td>Diarrhea medication (per kg)</td>
<td>$20.00</td>
<td>$2.00</td>
<td>10.0</td>
</tr>
<tr>
<td>Rice (per kg)</td>
<td>$0.28</td>
<td>$0.24</td>
<td>1.2</td>
</tr>
</tbody>
</table>

focused on the difference between the local moneylender rates and the rates that a commercial bank would charge. The bank can make a reasonable profit after adjusting for risk (10 percent over its traditional, top-of-the-pyramid customers). We argue later that the BOP consumers do not represent higher risk.

These cost disparities between BOP consumers and the rich in the same economy can be explained only by the fact that the poverty penalty at the BOP is a result of inefficiencies in access to distribution and the role of the local intermediaries. These problems can easily be cured if the organized private sector decides to serve the BOP. The organized sector brings with it the scale, scope of operations, and management know-how that can lead to efficiencies for itself and its potential consumers.

The poor also spend their earnings in ways that reflect a different set of priorities. For example, they might not spend disposable income on sanitation, clean running water, and better homes, but will spend it on items traditionally considered luxuries. Without legal title to land, these residents are unlikely to invest in improving their living quarters, much less the public facilities surrounding their homes. For example, in Dharavi, 85 percent of the households own a television set, 75 percent own a pressure cooker and blender, 56 percent own a gas stove, and 21 percent have telephones. In Bangladesh, women entrepreneurs with cell phones, which they rent out by the minute to other villagers, do a brisk business. It is estimated that the poor in Bangladesh spend as much as 7 percent of their income on connectivity.

Access to BOP Markets

The dominant assumption is that distribution access to the BOP markets is very difficult and therefore represents a major impediment for the participation of large firms and MNCs.

Urban areas have become a magnet for the poor. By 2015 there will be more than 225 cities in Africa, 903 in Asia, and 225 in Latin America. More than 368 cities in the developing world will have more than 1 million people in each. There will be at least 23 cities with more than 10 million residents. Collectively, these cities will account for about 1.5 to 2.0 billion people. Over 35 to 40 percent of these urban concentrations will be comprised of BOP consumers. The density of these settlements—about 15,000 people per hectare—will allow for intense distribution opportunities.
The rural poor represent a different problem. Access to distribution in rural markets continues to be problematic. Most of the rural markets are also inaccessible to audio and television signals and are often designated as “media dark.” Therefore, the rural poor are not only denied access to products and services, but also to knowledge about what is available and how to use it. The spread of wireless connectivity among the poor might help reduce this problem. The ability to download movie and audio clips on wireless devices might allow firms to access traditionally “media dark” areas and provide consumers in these locations with newfound access to information about products and services. However, this is still an evolving phenomenon restricted to a few countries.

The BOP does not lend itself to a single distribution solution. Urban concentrations represent a problem distinct from that of the distribution access to dispersed rural communities. Worldwide, the cost of reach per consumer can vary significantly across countries. A wide variety of experiments are underway in these markets to find efficient methods of distributing goods and services. One such experiment, Project Shakti at Hindustan Lever Ltd. (HLL) in India, is a case in point. HLL created a direct distribution network in hard-to-reach locales (markets without distribution coverage through traditional distributors and dealers). HLL selected entrepreneurial women from these villages and trained them to become distributors, providing education, advice, and access to products to their villages. These village women entrepreneurs, called Shakti Amma (“empowered mother”), have unique knowledge about what the village needs and which products are in demand. They earn between Rs. 3,000 and 7,000 per month (U.S. $60–$150) and therefore create a new capacity to consume for themselves and their families. More important, these entrepreneurial women are increasingly becoming the educators and access points for the rural BOP consumers in their communities. This approach is not new. Avon is one of the largest cosmetics operations in Brazil and has used a similar approach by leveraging more than 800,000 “Avon ladies” as distributors to reach even the most remote regions of Amazonia.

The BOP Markets Are Brand-Conscious

The dominant assumption is that the poor are not brand-conscious. On the contrary, the poor are very brand-conscious. They are also extremely value-conscious by necessity.
The experience of Casas Bahia in Brazil and Elektra in Mexico—two of the largest retailers of consumer durables, such as televisions, washing machines, radios, and other appliances—suggests that the BOP markets are very brand-conscious. Brand consciousness among the poor is universal. In a way, brand consciousness should not be a surprise. An aspiration to a new and different quality of life is the dream of everyone, including those at the BOP. Therefore, aspirational brands are critical for BOP consumers. However, BOP consumers are value buyers. They expect great quality at prices they can afford. The challenge to large firms is to make aspirational products affordable to BOP consumers. These consumers represent a new challenge for managers with increased pressure on costs of development, manufacturing, and distribution. As a result, BOP markets will force a new level of efficiency in the MNCs, as we demonstrate in Chapter 2.

The BOP Market Is Connected

Contrary to the popular view, BOP consumers are getting connected and networked. They are rapidly exploiting the benefits of information networks.

The spread of wireless devices among the poor is proof of a market at the BOP. For example, by the end of 2003, China had an installed base of 250 million cell phones. India had an installed base of approximately 30 million. The Indian market is growing at about 1.5 million handsets per month. The expectation is that India will reach 100 million handsets by 2005. Brazil already has 35 to 40 million. Both the current market size and the growth rates suggest that the BOP market is a critical factor in worldwide wireless growth. Telecommunications providers have made it easier for BOP consumers to purchase handsets and service through prepaid cards. The proliferation of wireless devices among the poor is universal, from Grameen Phone in Bangladesh to Telefonica in Brazil. Further, the availability of PCs in kiosks at a very low price per hour and the opportunity to videoconference using PCs are adding to the intensity of connectivity among those at the BOP. The net result is an unprecedented ability of BOP consumers to communicate with each other and the firms from which they wish to purchase goods and services, and with the politicians who represent them.
Connectivity also allows the BOP consumers to establish new patterns of communication away from their villages. With cell phones and TV, the BOP consumer has unprecedented access to information as well as opportunities to engage in a dialogue with the larger community. As a result, word of mouth among BOP consumers is becoming a very potent force for assessing product quality, prices, and options available to them. The spread of good bargains as well as bad news can be very rapid. For example, in India, it appears that some consumers found worms in chocolates sold by Cadbury, a large and very successful MNC. Ten years ago this would have been a nonevent, but with access to multiple and fiercely competitive TV channels, wireless, and Internet, the news spread so rapidly across India that not just managers within Cadbury but all managers involved in the “fast-moving consumer goods” industry were surprised and worried.2

BOP Consumers Accept Advanced Technology Readily

Contrary to popular belief, the BOP consumers accept advanced technology readily.

The spread of wireless devices, PC kiosks, and personal digital assistants (PDAs) at the BOP has surprised many a manager and researcher. For example, ITC, an Indian conglomerate, decided to connect Indian farmers with PCs in their villages. The ITC e-Choupal (literally, “village meeting place”) allowed the farmers to check prices not only in the local auction houses (called mandis), but also prices of soybean futures at the Chicago Board of Trade. The e-Choupal network allowed the farmers access to information that allowed them to make decisions about how much to sell and when, thus improving their margins. Similarly, women entrepreneurs in southern India, given a PC kiosk in their villages, have learned to videoconference among themselves, across villages on all kinds of issues, from the cost of loans from various banks to the lives of their grandchildren in the United States.3 Chat rooms are full of activity that none of us could have imagined. Most interestingly, in Kerala, India, fishermen in traditional fishing boats, after a day of productive work, sell their catch to the highest bidders, using their cell phones to contact multiple possible landing sites along the Kerala coast. The simple boats, called catamarans, have not changed, but the entire process of pricing the catch and knowing how to sell based on reliable information has totally
changed lives at the BOP. The BOP consumers are more willing to adopt new technologies because they have nothing to forget. Moving to wireless from nothing is easier than moving to wireless from a strong tradition of efficient and ubiquitous landlines.

The Market Development Imperative

The task of converting the poor into consumers is one of market development. Market development involves both the consumer and the private-sector firm. We consider the risks and benefits to the private-sector firm later. Here, we reflect on the incentives for the BOP consumer, who is so far isolated from the benefits of access to regional and global markets, to participate. What are the benefits to the BOP consumer? Our examples are drawn primarily from the stories that appear in the book.

Create the Capacity to Consume

To convert the BOP into a consumer market, we have to create the capacity to consume. Cash-poor and with a low level of income, the BOP consumer has to be accessed differently.

The traditional approach to creating the capacity to consume among the poor has been to provide the product or service free of charge. This has the feel of philanthropy. As mentioned previously, charity might feel good, but it rarely solves the problem in a scalable and sustainable fashion.

A rapidly evolving approach to encouraging consumption and choice at the BOP is to make unit packages that are small and, therefore, affordable. The logic is obvious. The rich use cash to inventory convenience. They can afford, for example, to buy a large bottle of shampoo to avoid multiple trips to the store. The poor have unpredictable income streams. Many subsist on daily wages and have to use cash conservatively. They tend to make purchases only when they have cash and buy only what they need for that day. Single-serve packaging—be it shampoo, ketchup, tea and coffee, or aspirin—is well suited to this population. A single-serve revolution is sweeping through the BOP markets. For example, in India, single-serve sachets have become the norm for a wide variety of products, as shown in Table 1.3.

The number of products sold in the single-serve format is rapidly increasing. The format is so popular that even firms producing high-end
merchandise have to adopt it to remain viable long-term players in the growing markets. For example, in the shampoo business, the situation in the Indian market is shown in Figure 1.3.

Measured in tons, the size of the Indian shampoo market is as large as the U.S. market. Large MNCs, such as Unilever and Procter & Gamble (P&G), are major participants in this market, as are large local firms. Because the poor are just as brand-conscious as the rich, it is possible to buy Pantene, a high-end shampoo from P&G, in a single-serve sachet in India. The entrepreneurial private sector has created a large market at the BOP; the penetration of shampoo in India is about 90 percent.

A similar approach to creating capacity to consume is through innovative purchase schemes. More BOP consumers in Brazil are able to buy appliances through Casas Bahia because the firm provides credit even for consumers with low and unpredictable income streams. Through a very sophisticated credit rating system coupled with counseling, Casas Bahia is able to provide access to high-quality appliances to consumers who could not otherwise afford them. At the same time, the firm ensures that its consumers are not overstretched. The default rate is very low at 8.5 percent, compared to over 15 percent for competitor firms. Casas Bahia has also created a new pool of repeat customers. Cemex, one of the world’s largest cement companies in Mexico, follows a similar approach in its “do-it-yourself” business focused on the BOP market. The idea is to help the consumers learn to save and invest. By creating a pool of three women who save as a group and discipline and pressure each other to stay with the scheme, Cemex facilitates the process of consumption by bundling savings and access to credit with the ability to add a bathroom or a kitchen to their homes.

### Table 1.3 Creating the Capacity to Consume: Single-Serve Revolution

<table>
<thead>
<tr>
<th>Single-Serve Value at Retail</th>
<th>$</th>
<th>Typical Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. 0.50</td>
<td>0.01</td>
<td>Shampoo, confectionary, matches, tea</td>
</tr>
<tr>
<td>Rs. 1.00</td>
<td>0.02</td>
<td>Shampoo, salt, biscuits, ketchup, fruit drink concentrate</td>
</tr>
<tr>
<td>Rs. 2.00</td>
<td>0.04</td>
<td>Detergent, soap, mouth fresheners, biscuits, jams, spreads, coffee, spices</td>
</tr>
<tr>
<td>Rs. 5.00</td>
<td>0.10</td>
<td>Biscuits, toothpaste, color cosmetics, fragrance, bread, cooking oil, skin cream</td>
</tr>
</tbody>
</table>

*Note: Shampoo and biscuits are shown under different price ranges because these items are available in multiple single-serve and low unit pack quantities.*
Creating the capacity to consume is based on three simple principles best described as the “Three As”:

1. **Affordability.** Whether it is a single-serve package or novel purchasing schemes, the key is affordability without sacrificing quality or efficacy.

2. **Access.** Distribution patterns for products and services must take into account where the poor live as well as their work patterns. Most BOP consumers must work the full day before they can have enough cash to purchase the necessities for that day. Stores that close at 5:00 PM have no relevance to them, as their shopping begins after 7:00 PM. Further, BOP consumers cannot travel great distances. Stores must be easy to reach, often within a short walk. This calls for geographical intensity of distribution.

3. **Availability.** Often, the decision to buy for BOP consumers is based on the cash they have on hand at a given point in time. They cannot defer buying decisions. Availability (and therefore, distribution efficiency) is a critical factor in serving the BOP consumer.

Of course, the ideal is to create the capacity to earn more so that the BOP consumers can afford to consume more. The ITC e-Choupal story illustrates how farmers with access to the Internet and thereby access to
the prices of commodities around the world can increase their incomes by 5 to 10 percent. These farmers can decide when and how much to sell based on their understanding of the likely price movements for their products. Modern technology not only allows them to realize better prices, but also to improve their logistics. The aggregation of food grains allows for efficiencies for both the farmer and the buyer.

By focusing on the BOP consumers’ capacity to consume, private-sector businesses can create a new market. The critical requirement is the ability to invent ways that take into account the variability in the cash flows of BOP consumers that makes it difficult for them to access the traditional market for goods and services oriented toward the top of the pyramid.

The Need for New Goods and Services

The involvement of the private sector at the BOP can provide opportunities for the development of new products and services.

Amul, a dairy cooperative in India, has introduced good quality ice cream at less than $0.05 per serving, affordable by all at the BOP. This product is not only a source of enjoyment; the milk in it is also a source of nutrition for the poor. Now, Amul is planning to introduce a natural laxative-laced ice cream called “isabgol-enriched.” It is too early to tell whether the product can be a success. However, the experimentation is what the game is about. Similarly, the popularization of pizza by the same company allows the poor to obtain an adequate quantity of protein. PRODEM FFP, a Bolivian financial services company, has introduced smart automated teller machines (ATMs) that recognize fingerprints, use color-coded touch screens, and speak in three local languages. This technological innovation allows even illiterate BOP consumers to access, on a 24-hour basis, high-quality financial services. Cemex, as we saw earlier, provides access to good quality housing. Through Tecnosol, the BOP consumers in rural Nicaragua have access to clean energy from renewable sources—solar and wind power. Previously, these consumers did not have access to grid-based electricity and were dependent on more expensive sources, such as kerosene and batteries. Now they have energy that is affordable enough to run their households. Casas Bahia not only sells appliances, but has also introduced a line of good quality furniture oriented toward the BOP markets. Furniture has become one of the fastest growing businesses for the company as well as a source of pride and satisfaction to its consumers.
Dignity and Choice

When the poor are converted into consumers, they get more than access to products and services. They acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and rich.

The farmers we interviewed at an ITC e-Choupal were very clear. The traditional auctioning system at the government-mandated markets (mandis) did not offer them any choices. Once they went to a mandi, they had to sell their produce at the prices offered on that day. They could not wait for better prices or haul their produce back to their villages. More important, the local merchants who controlled the mandi were not very respectful of the farmers. One farmer remarked, “They make rude comments about my produce. They also raise the prices in the auction by $0.02 per ton. It is as if they have already determined the price you will get and they go through the motions of an auction. It used to be very demeaning.” Not any longer. Now, the same farmers can access information on the Web across all the mandis and can decide where, when, and at which prices they want to sell. Similarly, women in self-help groups (SHGs) working with ICICI Bank in India also have had their dignity restored. As a group, they decide which borrowers and projects will receive loans. This involvement of women in leadership development and in learning about finances and bank operations has given them a new sense of personal worth. The single-serve revolution has created a revolutionary level of choice for consumers at the BOP. For example, the “switching costs” for the consumer are negligible because she can buy a sachet of shampoo or detergent or pickles; if she is not satisfied with her purchase she can switch brands the next day. Firms must continuously innovate and upgrade their products to keep customers interested in their brands, thereby improving quality and reducing costs.

Trust Is a Prerequisite

Both sides—the large firms and the BOP consumers—have traditionally not trusted each other. The mistrust runs deep. However, private-sector firms approaching the BOP market must focus on building trust between themselves and the consumers.

This is clearly evident when one visits a Casas Bahia store. BOP consumers here venerate the founder, Mr. Klein, for giving them the opportunity to possess appliances that they could not otherwise afford.
Although the shanty towns of Sao Paulo or Rio de Janeiro can be dangerous to outsiders, Casas Bahia trucks move freely around without worry. The same is true for Bimbo, the provider of fresh bread and other bakery products to the BOP consumers in Mexico. Bimbo is the largest bakery in Mexico and its trucks have become symbols of trust between the BOP consumers and the firm. The truck drivers are so trusted that often the small store owners in the slums allow them to open their shops, stock them with bread, and collect cash from the cash boxes without supervision. Both Casas Bahia and Bimbo believe that the truck drivers who deliver their products to the BOP consumers are their ambassadors and neither company will outsource the delivery process. In fact, all managers at Bimbo must work as truck drivers for the company to become better educated about their customers.

MNCs often assume that the default rate among the poor is likely to be higher than that of their rich customers. The opposite is often true. The poor pay on time and default rates are very low. In the case of ICICI Bank, out of a customer base of 200,000, the default rate is less than 1 percent. The default rate at Grameen Bank, a microfinance pioneer in Bangladesh, is less than 1.5 percent among 2,500,000 customers. The lessons are clear. Through persistent effort and the provision of world-class quality, private-sector businesses can create mutual trust and responsibility between their companies and BOP customers. Trust is difficult to build after 50 years of suspicion and prejudice based on little evidence and strong stereotyping.

**Benefits to the Private Sector**

We have identified the immediate benefits of treating the poor as consumers as well as the poverty alleviation process that will result as businesses focus on the BOP. It is clear that the consumers (the poor) benefit, but do the private-sector businesses benefit as well? The BOP market potential is huge: 4 to 5 billion underserved people and an economy of more than $13 trillion PPP. The needs of the poor are many. The case for growth opportunity in the BOP markets is easy to make. However, to participate in these markets, the private sector must learn to innovate. Traditional products, services, and management processes will not work. In the next chapter, we discuss a philosophy of innovation focused on BOP markets.
Endnotes


Index

A

Accountability, eGovernance, 209-210
Achuthanandan, V. S., 241
Adatiyas, 170
ADB (Asian Development Bank), 192
Advertising, Casas Bahia, 164-165
Aid agencies, 3, 9
Affordability, 18
Afghanistan, amputees, 187
Agricultural Produce Marketing Act, 178
Agricultural Products Marketing Act, 170
Agriculture
distribution infrastructure, 152
EID Parry. See EID Parry Agriline Indiagrine, 150
quota restrictions, 151
rice, 154
sugar, 150
trading, 170-174
trading infrastructure, 152

Ala, 52
Alerta, Voxiva Inc., 194, 196-197
Alleviating poverty, 5
Amputees, 187
Amul cooperative, 19, 31-32, 38, 46, 64, 108
Amway, 44
Andhra Pradesh e-governance story, 85-89
impediments to, 93-94
lessons from, 94-95
Vision 2020, 202
vision statement, 208
Annapurna, 216-217, 219-220
marketing, 218
packaging, 217
Project Shakti, 218-219
transportation, 217
Antibacterial agents, 239
Appliances, Brazil, 159
Aravind Eye Care System, 29,
37-38, 132-133, 135. See also Aravind Eye Hospitals
Aravind Eye Hospital, 45, 131-132
capital intensity, 56
doctors, 134
eworld-class delivery system,
development of, 53
eye camps, 133
Aravind Eye Hospital & Post
Graduate Institute of
Ophthalmology, 134
Aravind Medical Research
Foundation, 133
Asian Development Bank
(ADB), 192
Aurolab, 132
Automatic Milk Collection System
Units (AMCUS), 31
Automotive/two-wheeler manufacturers, and BOP customers, 57
Avon, 44, 108
Rural Development
Initiative, 122
SHGs, 123-128
interest rates, 116
microfinancing, 116
Rural Development
Initiative, 119
savings accounts, 29
SHG-Bank Linkage Program, 117
State Bank of India, 118
Banking Regulations Act of
1949, 116
Bill paying, Casas Bahia, 165-166
Bimbo bakery, 21
Biomass energy, 140
Biometric authentication
systems, 57
Blindness. See Aravind Eye Care
System
BMVSS, Jaipur Foot, 188-190
BOP (bottom of the pyramid)
active engagement of private
enterprises at, 5
Andhra Pradesh e-governance
experiment, 85-89
impediments to, 93-94
lessons from, 94-95
building governance capabilities
among the poor, 72-76
Center for Good Governance
(CGG), 90-93, 99
guiding principles, 91
and characteristics of market
economy, 5
economic value creation at, 56
encouraging consumption and
choice at, 10-12

B
Banga, M. S., 44, 51
Bangladesh, women
entrepreneurs, 12
Bank of Madura, 44, 72-73, 119
lending, 74-75
and maturation of SHGs, 73
merger with ICICI, 74
SHGs, 120-122
Banking, 116
Bank of Madura, 119
SHGs, 120-122
government initiatives, 117
Grameen Bank, 52
ICICI Bank, 117-119
indirect-channel partnership
model, 128

B
Banga, M. S., 44, 51
Bangladesh, women
entrepreneurs, 12
Bank of Madura, 44, 72-73, 119
lending, 74-75
and maturation of SHGs, 73
merger with ICICI, 74
SHGs, 120-122
Banking, 116
Bank of Madura, 119
SHGs, 120-122
government initiatives, 117
Grameen Bank, 52
ICICI Bank, 117-119
indirect-channel partnership
model, 128

B
Banga, M. S., 44, 51
Bangladesh, women
entrepreneurs, 12
Bank of Madura, 44, 72-73, 119
lending, 74-75
and maturation of SHGs, 73
merger with ICICI, 74
SHGs, 120-122
Banking, 116
Bank of Madura, 119
SHGs, 120-122
government initiatives, 117
Grameen Bank, 52
ICICI Bank, 117-119
indirect-channel partnership
model, 128
engaging, 48-49

eSeva, 89-90

as global opportunity, 47-62

lack of money at, 10-12

learning from, 49

local growth opportunities, 50-51

learning to grow, 50-52

local innovations and global opportunity, 52-53

market development at, 2

philosophy for developing products and services for, 24-25

products/services for, 23-46

transaction governance capacity (TGC), 81-83

building, 83-85

components of, 84

degrees of, 81

BOP consumers

ability to adapt/resilience of, 108-109

and advanced technology, 15-16

cost disparities between the rich and, 11-12

and risk, 12

upgrade, 105-106

BOP markets

access to, 12-13

access to financial services, 29-30

brand-consciousness of, 13-14

business design criteria, 30

connectedness of, 14-15

delivery of products/services, 45-46

developed markets compared to, 34-37

and firms’ challenge of cost perspectives, 9

large, 50

and multinational corporations (MNCs), 5

nature of, 10-16

as new growth opportunity for private sector, 6

NGOs as lead experimenters in, 32

and the private sector, 6

sustainable development, 33-34

twelve principles of innovation for, 25-26

Brazil

appliances, 159

Avon, 13

Casas Bahia. See Casas Bahia

Business Design Associates, research team for CEMEX, 222

C

Cadbury, 15

Capital intensity, and BOP markets, 55-57

Carne (passbook), 160

Casas Bahia, 166

Casas Bahia, 14, 107, 159

appliance sales, 17

bill paying, 165-166

carne (passbook), 160, 166

credit analysts, 161

credit cards, 166

currencies, 164

customers, 163

default rate at, 17
financing, 160-161
furniture sales, 19
identity cards, 107
marketing, 164-165
supplier negotiation processes, 164
traditional values meets modern IT solutions, 165
training employees, 162-163
trust, 21
Cataract surgery, and commitment to quality in BOP markets, 29
CEMEX, 17-18, 46, 106, 108, 221
Construmex, 231-232
distributors, 233
offices in Mexico, 233
sales representatives, 232
deskilling of work, 40
Dolex, 232-233
informal segment, 222
Mexican economic crisis, 221
Patrimonio Hoy, 40, 224, 226
customer retention, 230
delivery of raw materials, 228
distributors, 225
Guadalajara, 226
local governments, 230
marketing, 229
masonry training, 230
prerequisites for distributors and resellers, 225
promoters, 225
revenue, 228
savings and credit, 227
socios, 224, 227
sustainability, 229
Patrimonio Hoy Calle Digna, 230
Patrimonio Hoy Escolar, 229
Patrimonio Hoy Te Impulsa, 230
research team, 222-223
women, saving money, 224
CEMEX Philippines, 233
Center for Good Governance (CGG), 90-93, 99
guiding principles, 91
Center for Disease Control (CDC), 39, 45, 54
Central American Handwashing Initiative, 238
Challenges to e-Choupals, 183-184
Chandra, Ram, 34-37, 188
Chandran, Sudha, 187
China, contract governance, 80
Citicorp, 30
Citizen’s Alert, Voxiva Inc., 198
Citizen-centered government, 203
Citizen-centric government, 202
Civil society organizations, 3
Cleanliness, beliefs about, 241
Commission agents, 170-171
operating margins, 174
Communication. See also information technology between e-Choupals and ITC, 180
media dark, 237
Voxiva Inc., 192-193
Alerta, 194, 196-197
Citizen’s Alert, 198
Communication barriers, breaking down, 102-105
Complaints, resolving, 208-209
Confederation of Indian Industries (CII), 80
Connectedness, of BOP markets, 14-15
Construmex, 231-232
distributors, 233
offices in Mexico, 233
sales representatives, 232
Consumer analysis, 202
Contracts, 69
learning the sanctity of, 68-69
reducing inequities in, 69-72
Corporate social responsibility (CSR) initiatives, 6
Corruption, 95
as market mechanism for privilege access, 84
reducing, 77-98
Cost
of diarrheal disease, 238
of energy, 139
of Jaipur Foot, 190
of Lifebuoy, 239
of managing, 58-61
of SARS, 192
Creating the capacity to consume, 16-19
“Three As”, 18
Credit. See also financing
Patrimonio Hoy, 227
SPC credit check, 160
Credit analysts, Casas Bahia, 161
Credit and Savings for the Hardcore Poor, 128
Credit cards, Casas Bahia, 166
Crop-specific intervention, reengineering, 177
Cross-selling, 165, 167
Currencies, Casas Bahia, 164
Customer response, 202
Customer retention, Patrimonio Hoy, 230
Customer service, Metro Customer Care program, 208
Customers, Casas Bahia, 163

D

Daily price inflation, 173
DART (dialogue, access, risk benefits, and transparency), 105
De Soto, Hernando, 78-84, 107
Delivery
of products/services, 45-46
of raw materials, Patrimonio Hoy, 228
Department of Defense, 45
Department of Epidemiology (DOE), 194
Deskilling work, 26
Developed markets, BOP solutions for, 53-54
Development, as social transformation, 99-112
Development assistance, assumptions at core of, 78
Deveshwar, Y. C., 175
Dialogue, access, risk benefits, and transparency (DART), 105, 109
Diarrheal disease, 235-236, 238
consumer beliefs and behaviors, 236
Digital photography, EID
  Parry, 156
Direct-access, bank-led model
  (ICICI Bank), 119
Diseases, 39
  diarrheal disease, 235-236
  consumer beliefs and behaviors, 236
  infectious diseases, 53-54, 191
  minimizing spread of, 192
SARS, 192
Distribution, 43-44
  Distribution infrastructure, agriculture, 152
Distributors
  Construmex, 233
  Patrimonio Hoy, 225
  “Do-it-yourself” business focused on the BOP market, 17
Doctors, AEH, 134
Dolex, 232-233
Dominant logic, 6-7
  influence of, 9
  of MNCs as it relates to BOP, 9
  power of, 6-10
  of public policy makers in India, changes in, 8
Donor nations, 3

E

E+Co, 45, 137-138
  energy, 142-144
  investments, 144
  energy through enterprise, 141
  relationship with Tecnosol, 145
e-Choupals, 170, 173-174
  Agricultural Produce Marketing Act, 178
  challenges to, 183-184
  communication with ITC, 180
  farmers’ gains, 181-182
  goals, 177
  guiding management principles, 175-176
  ITC’s gains, 182-183
  location of, 178
  people who lose because of e-Choupals, 183-184
  prices, 180
  reengineering
    crop-specific intervention, 177
    intelligent first mile, 178
    low-cost last mile, 178
    samyojaks, responsibilities of, 181
    sanchalaks, 178-180
East India Company, 6
Economic pyramid, 4
E-Governance, 87, 202
  accountability, 209-210
  components of, 204
  cost of computerizing all departments, 204
  eSeva Centers, 205-207
  services offered, 206
  implementing, 205
  Public-Private Partnership model, 205
  transparency, 208
  vision statements, Andhra Pradesh, 208
Egypt, trapped resources of, 79
EID Parry Agriline, 43-44, 106, 149-151, 155
education, 157
farm advisory services, 157
franchises, 153-154, 156
ICT, 153
Internet kiosks, 153-154
rice, 154
strengths of, 154-155
Electricity. See energy
Elektra (Mexico), 14, 43, 57
Energy, 137-139, 147-148
cost of, 139
E+Co, 138, 142-144
investments, 144
grid extension projects, 141
and incomes, 139
livestock, 146
renewable energy, 140-141
Tecnosol, 144, 146-147
Energy through enterprise, 141
eSeva, 89-90, 107, 205-207
list of services, 97-98
eSeva Centers, 205-207
services offered, 206
Eye camps, AEH, 133

F
Farm advisory services, EID Parry, 157
Farmers, 151. See also agriculture
gains from e-Choupals, 181-182
marginal farmers, 151
raising income of, 152
as sanchalaks, 179-180
transportation costs, 181
Farming. See agriculture
Fast-moving consumer goods
(FMCG) industry (India), 66-68, 175
File disposal, 209
Financing
banks, 29
Casas Bahia, 160-161
ICICI Bank, 117-119
interest rates, 116
microfinancing, 116
Rural Development Initiative, 119
SHG-Bank Linkage Program, 117
Fingerprint recognition systems, 57
Food and Drug Administration
(FDA), 45
Foreign direct investment (FDI), 64
Franchises, EID Parry, 153-154, 156
Furniture sales, Casas Bahia, 19

G
Geothermal energy, 140
Germs, 242
Global Handwashing Initiative
Public Private Partnership, 243
Global Public Private Partnership
for Handwashing with
Soap, 237
Goals of e-Choupals, 177
Government
citizen-centered government, 203
eGovernance. See eGovernance
institution-centered government, 203
Patrimonio Hoy, 230
Government employees, 204
Government initiatives, banking, 117
Grameen Bank (Bangladesh), 64, 108
default rate at, 21
development of microfinance in Bangladesh, 52-53
Grameen Phone (Bangladesh), 14
Grid extension projects, 141
Grievances, resolving, 208-209
Guevara, Gioconda, 147

H
Habib’s, 65
Hand-washing, 236, 238
marketing, 239-240
Health
behavior change education campaigns, 242
cataract operations, 29
diarrheal disease, 235-236
consumer beliefs and behaviors, 236
diseases. See diseases germs, 242
hand-washing, 236
HLL. See HLL
hypothyroidism, 213
IDD, 30-31, 52, 213-214
infectious diseases, 53-54, 191
partnerships between private business and public-health organizations, 243
reporting systems, 192
surveillance data, 192
Voxiva Inc., 39, 192-193
Health crises, 214
Health in Your Hands—A Public Private Partnership, 237
Hindustan Level Ltd. See HLL
HLL (Hindustan Lever Ltd.), 46, 63, 67-68, 216-217, 219-220, 235, 237
Annapurna, 216-217, 219-220
marketing, 218
packaging, 217
transportation, 217
behavior change education campaign, 242
Lifebuoy, 238
cost of, 239
Lifebuoy Swasthya Chetna, 242
linking hand-washing to life changing events, 239-240
marketing, 218, 238-239
as a nodal form, 68
packaging, 217
stimulating demand for soap, 239-240
transportation, 217
Hostile environments, 26-27
designing for, 42-44
Housing, CEMEX. See CEMEX
Humane Action Foundation, 128
Hydroelectricity, 140
Hypothyroidism, 213
pharmaceutical industry, 53
public-sector industrial projects, 7
retail shops, 36
Universal Salt Iodization law, 215
wireless market, 28
Indiagriline, 150
Indian Atomic Energy Agency, 31
Indian market, 174
Indian pharmaceutical industry, 53
Indian Prevention of Food
Adulteration law, 216
Indian Market Research Bureau, 241
Indian shampoo market, and
multinational corporations
(MNCs), 17
Indirect-channel partnership model,
ICICI Bank, 119, 128
Infectious diseases, 53-54, 191.
See also
diseases
minimizing spread of, 192
Inflation, 173
Information and communication
technology (ICT), 149
EID Parry, 153
IDD (iodine deficiency disorder),
30-31, 52, 213-214
Identifying functionality, 34-37
Identity cards, Casas Bahia, 107
Immigrants, Mexican
immigrants, 231
Implementing eGovernance, 205
Incomes and energy, 139
India
Andhra Pradesh
Vision 2020, 202
vision statement, 208
contract law in, 79
cooking style, and iodine loss, 179
diarrheal disease, 235
Kerala
feelings about hand-washing
campaign, 240
soap, 239
pharmaceutical industry, 53
public-sector industrial projects, 7
retail shops, 36
Universal Salt Iodization law, 215
wireless market, 28
Indiagriline, 150
Indian Atomic Energy Agency, 31
Indian market, 174
Indian pharmaceutical industry, 53
Indian Prevention of Food
Adulteration law, 216
Indian Market Research Bureau, 241
Indian shampoo market, and
multinational corporations
(MNCs), 17
Indirect-channel partnership model,
ICICI Bank, 119, 128
Infectious diseases, 53-54, 191.
See also
diseases
minimizing spread of, 192
Inflation, 173
Information and communication
technology (ICT), 149
EID Parry, 153
IDD (iodine deficiency disorder),
30-31, 52, 213-214
Identifying functionality, 34-37
Identity cards, Casas Bahia, 107
Immigrants, Mexican
immigrants, 231
Implementing eGovernance, 205
Incomes and energy, 139
India
Andhra Pradesh
Vision 2020, 202
vision statement, 208
contract law in, 79
cooking style, and iodine loss, 179
diarrheal disease, 235
Kerala
feelings about hand-washing
campaign, 240
soap, 239
Internet services, EID Parry, 156
Investments, E+Co, 144
Iodine, 30-31, 52, 213, 215
Indian cooking, 215
Iodine deficiency disorder (IDD), 213
in India, 30-31
IOL, 37-38
ITC, 46, 69-72, 175
Agricultural Produce Marketing Act, 178
Agricultural Products Marketing Act, 170
agricultural trading, 173
contracts, 69-70, 72
information technology, 174
International Business Division (IBD), 69
social agenda, 175
ITC e-Choupal, 15, 18, 20, 42-43, 63, 173-174
capital intensity, 56-57
communication with, 180
e-Choupal network, 15, 18, 20
friction sources, 70-72
asymmetry in ability to enforce contracts, 71
asymmetry in ability to social standing, 71-72
asymmetry in access to information, 70
asymmetry in choice, 71
gains from, 182-183
goals, 177
guiding management principles, 175-176
infrastructure, 101
intended uses of system, 102
sanchalaks, 102-104
unplanned activities at, 103

J
Jain, Yuri, 235
Jaipur Foot, 34-36, 45, 53, 187-190
BMVSS, 189
cost of, 190
design considerations, 35
Johnson, Dr. Pamela, 193

K
Kachha adatiyas, 170
Kamath, K. V., 117-119
Kentucky Fried Chicken, 65
Kerala
feelings about hand-washing campaign, 240
HLL, 239
Kharif, 180
Klein, Samuel, 159
Knowledge, gaining access, 106-107
Kochhar, Chanda, 126

L
LAICO (Lions Aravind Institute of Community Ophthalmology), 132
Land mines, 187
Land registration, 86-88
LaRocco, Phil, 138
Legal identity, importance of, 107
LG, 50
Lifebuoy, 238
cost of, 239
Lifebuoy Swasthya Chetna, 242
Lions Aravind Institute of
Community Ophthalmology
(LAICO), 132
Literacy, EID Parry, 157
Livestock, capital for energy, 146
Local growth opportunit-ies, 50-51
learning to grow, 50-52
Location of e-Choupals, 178
Losers because of e-Choupals, 183-184

M
Managing, costs of, 58-61
Mandi, 15, 69-70
Mandi trading system, 170-174
Marginal farmers, 151
Market development, 16-21
creating the capacity to consume, 16-19
dignity/choice, 20
new goods/services, need for, 19
trust, 20-21
Market development at BOP, 2
Market-based ecosystems, 100
Market-based solutions, to poverty, 9
Market-oriented ecosystem, 65-66
Marketing
Casas Bahia, 164-165
HLL, 238-239
hand-washing, 239-240
Patrimonio Hoy, 229
salt, Annapurna, 218
Markets, Indian market, 174
Martinex, Luis Enrique, 232
Mary Kay, 108
masonry training, Patrimonio
Hoy, 230
McDonald’s, 37, 65
McKinsey & Company, 80
McMurray, Dr. Laura, 239
Media dark, 237
Member requirements for
SHGs, 123
Membership fees, socios
(Patrimonio Hoy), 227
Metro Customer Care program, 208
Mexican immigrants,
remittances, 231
Mexico
Guadalajara, CEMEX, 226
tandas, 223-224
trapped resources of, 79
Meyer, Paul, 191, 193
Microfinance institutions, 118
Microfinancing, 116
Microregulations, 80
Microsavings, 72
Milk cooperatives (India), 64
Millennium Development
Goals (MDG), 3
Minimizing spread of disease, 192
Minimum support price (MSP), 151
Mohanty, P.K., 92
Money, saving, 223-224
Monsoon Hungama offer, 28
MSP (minimum support price), 151
Multinational corporations (MNCs), 5
dominant logic of, 8-9
and emerging economies, 24
and Indian shampoo market, 17
learning to live in a network of relationships, 61-62
lessons from BOP markets, 55-58
capital intensity, 55-57
innovations, 57-58
sustainable development, 57
product portfolios, 23
Murugappa Group, 150
EID Parry, 150
farmers, raising income of, 152
*Mystery of Capital, The* (De Soto), 78-79

N
Naidu, Nara Chandrababu, 85, 202
National Bank for Agriculture and Rural Development, 116
SHG participation, 123
National Commission of Energy, 147
National Council of Applied Economic Research (NCAER), 109-112
National Health System (United Kingdom), 45, 53
Nirma Ltd. 52, 55, 105-106
Nongovernmental/organizations (NGOs), 9, 41

O
Ogilvy & Mather, 242
Online Performance Monitoring System, 209
Operating margins, commission agents, 174

P
Packaging salt, Annapurna, 217
Parry’s Corner. *See* EID Parry Agriline
Partnerships between private business and public health organizations, 243
Passbook (carne), 160
Patrimonio Hoy, 224, 226
customer retention, 230
delivery of raw materials, 228
distributors, 225
Guadalajara, 226
local governments, 230
marketing, 229
masonry training, 230
prerequisites for distributors and resellers, 225
promoters, 225
revenue, 228
savings and credit, 227
socios, 224, 227
membership fees, 227
sustainability, 229
Patrimonio Hoy Calle Digna, 230
Patrimonio Hoy Escolar, 229
Patrimonio Hoy Te Impulsa, 230
PC kiosks, 15
Performance, of products/services, 25
Performance indicators, accountability, 209
Performance management system (PMS), 92-94
Personal digital assistants (PDAs), 15
Peru, Voxiva Inc., 193, 197-198
Perus, legislation per year, 80
Poor and high-cost economic ecosystems, 11
Poverty access to distribution in rural markets, 13
asset-rich, capital-poor countries, 78-79
disparities in wealth and the preponderance of the poor, 7
governance capabilities, building, 72-76
and spending habits, 12
trapped assets, 79
Poverty alleviation building a framework for, 1-2
as a business development task, 5
Poverty penalty in Dharavi, India, 11-12
Poverty reduction, assumptions at core of, 78
Pracharani, 218
Price performance, 28-30
Price shifts, intra-day price shifts, 174
Prices, e-Choupals, 180
Private sector, benefits of poverty alleviation process, 21
Procter & Gamble (P&G), 17
PRODEMFFP, 19, 57
interface, 43
Products/services for BOP (bottom of the pyramid), 23-46
broad system architecture, 27
delivery of, 45-46
deskilling work, 26
distribution, 43-44
education of customers on product usage, 26
hetereogeneity of consumer base, 27
hostile environments, 26-27
designing for, 42-44
hybrid solutions, 25
hybrids, 30-32
innovate in methods of distribution, 27
interfaces, 43
performance of, 25
price performance, 28-30
process innovation, 26, 37-38
product development, 26
resource intensity, reducing, 26
scalable solutions, 25
scale of operations, 32
Professional Assistance for Development action, 128
Project managers, SHGs, 122
Project Shakti, 13, 218, 220
Promoters
Patromonio Hoy, 225
SHGs, 124
Public private partnerships, Global
Public Private Partnership for
Handwashing with Soap, 237
Public sector, time, 197
Public-private partnership,
sanitation, 237
Public-Private Partnership model,
eGovernance, 205
Publishing, EID Parry, 156
Pukka adatiyas, 170
Pundiselvi, Ms., 115
Purchasing power parity (PPP),
10-12
PV (solar photovoltaics), 140
Revenue, Patrimonio Hoy, 228
Rice, 154
Rockefeller Foundation, 138
Rural Development Initiative, 119
ICICI Bank, 122
Rural income distribution, 111-112
Rural Planning and Credit
Department and National Bank
for Agriculture and Rural
Development, 116
Rural poor, access to distribution, 13
S
Salt, 213-215
Annapurna, 216-217, 219-220
marketing, 218
packaging, 217
transportation, 217
Salt farming, 214
Samsung, 50
Samyojaks, responsibilities of, 181
Sanchalaks, 70, 170, 178-180
Sanitation
hand-washing, 236
HLL. See HLL
public-private partnership, 237
Saraswathi, Ms., 115
SARS (severe acute respiratory
syndrome), 192
Saving money, 223-224
Savings, Patrimonio Hoy, 227
Savings accounts, 29
Savings First—Credit Later, 124
Seasonal price inflation, 173
Self-help groups (SHGs), 58-61,
100, 107, 116, 125
Bank of Madura, 120-122
building governance capabilities, 73
cost of management, 60
evolution of, 74
ICICI Bank, 123-124, 126, 128
identities at, 107
maturation model, 73-74
member requirements, 123
Project Shakti, 218-219
Services, developing for BOP, 24-25
Sethi, Dr. P. K., 36
Severe Acute Respiratory Syndrome (SARS), 38-39
Shakti Ammas, 13, 60, 68-69, 108
Shakti program, HLL, Unilever, 44
Shanker Netralayer, 106
SHG-Bank Linkage Program, 117
Shiva, Dr. Vedana, 240
Simple, moral, accountable, responsive, and transparent (SMART), 202
Single-serve packaging, 16-17, 57
Small and medium enterprises (SMEs), 63-64
SMART (simple, moral, accountable, responsive, and transparent), 202
Smart automated teller machines (ATMs), 19
Soap, 239
antibacterial agents, 239
HLL. See HLL
stimulating demand for, 239-240
Social agenda, ITC, 175
Social service consultants (SSCs), 122
Social transformation checks and balances, evolution of, 108-109
drivers of, 105
e-Choupals, 101-102
gaining access to knowledge, 106
identity for the individual, 107
knowledge, gaining access to, 106-107
morphing of the pyramid into a diamond, 109-112
women and development, 108
Socialization, humans as prisoners of, 6-7
Socios, Patrimonio Hoy, 224, 227
membership fees, 227
Solar photovoltaics (PV), 140
SPC credit check, 160
SSCs (social service consultants), 122
State Bank of India, 118
Sugar, 150
Supplier negotiation processes, Casas Bahia, 164
Surveillance data, 192
Sustainability
Construmex, 231
Patrimonio Hoy, 229
Sustainable development, 57
Switching costs, 20
T

Tamil Nadu Agriculture University (TNAU), 153
Tamil Nadu University for Veterinary and Animal Sciences (TANUVAS), 153
Tandas, 223-224
Tatas, 50
Technology. See also information technology
acceptance of, 15
cell phones, 28
English keyboards, 102
Tecnosol, 19, 144, 146-147
relationship with E+Co, 145
Telefonica (Brazil), 14
Thiagarajan, Raj, 73
Tibbs, Harpreet-Singh, 242
Time, 197
Top of the pyramid, 4
Trading infrastructure, agriculture, 152, 170-174
Training employees, Casas Bahia, 162-163
Transaction governance capacity, 77-78, 81-83
building, 83-85
components of, 84
criteria required by, 84-85
degrees of, 81
Transparency, 81, 201
eGovernance, 208
Transportation
Annapurna salt, 217
costs for farmers, 181

Trend analysis, 209
Triclosan, 239
Trust, 20-21
Tupperware, 108
TVS Electronics, 36-37

U

Unilever, 17, 31, 44, 46. See also HLL
United States, Voxiva Inc., 197
Universal Salt Iodization law, 215
Upgrading BOP consumers, 105-106
Urban areas, and the poor, 12-13
U.S. Food and Drug Administration (FDA), 45

V

Venkataswamy, Dr. G., 36-37, 131
Virtuous cycle, 93-94, 111
Vision 2020, 202
Vision statements, Andhra Pradesh, 208
Voice recognition systems, 57
Voxiva Inc., 39, 45, 54, 192-193, 198
Alerta, 194, 196-197
Citizen’s Alert, 198
Peru, 39-40, 193, 197-198
United States, 197
W

Waste generation, 34
Water usage, 34
Wealth creation, 63-76
contracts
  learning the sanctity of, 68-69
  reducing inequities in, 69-72
ecosystems for a developing
country, 66-68
market-oriented ecosystem, 65-66
Wind power, 140
Wireless devices, 15
Women
  and development, 108
  saving money, 224
World Bank, 3, 6, 41, 78
  hand-washing campaign in
  Kerala, 241
World Health Organization
  (WHO), 39, 41, 192

Z

Zambrano, Francisco Garza, 222