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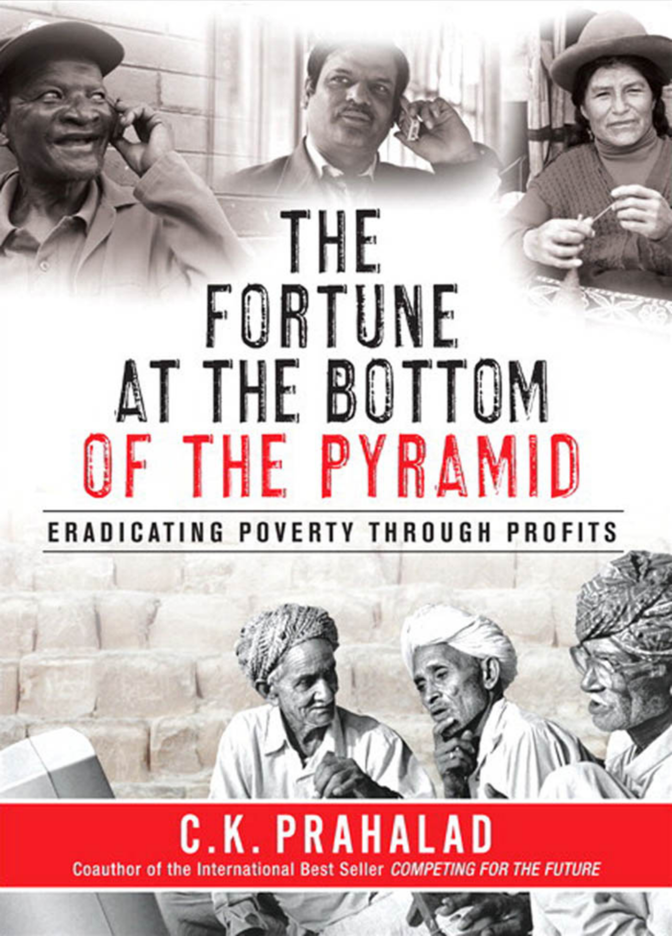

THE FORTUNE AT THE BOTTOM OF THE PYRAMID

ERADICATING POVERTY THROUGH PROFITS

C.K. PRAHALAD

Coauthor of the International Best Seller *COMPETING FOR THE FUTURE*

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The Fortune at the Bottom of the Pyramid

"C.K. Prahalad 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."

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Revised and Updated 5th Anniversary Edition

C.K. Prahalad

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Videos relating to the case studies and bonus case studies are located on the book CD. You can also download them at the following Web site:

www.ftpress.com/Prahalad

Ebook readers can view extended case studies at the end of the ebook, following the index.

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 cannot 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 (for example, microfinance) and large (for example, 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 toward 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 might 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 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 the 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.**

When 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 and 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.

This book is in five parts. In Part I, a new introduction outlines the progress in the BOP agenda since the publication of the book in 2004. It is an update five years later that confirms the growth and sustainability of the idea. In Part II, which was part of the original 2004 edition (left unchanged), 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 III contains letters from CEOs of major corporations supporting the approach, while Part IV describes cases, in a wide variety of businesses, where the BOP become an active market and brought 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, private enterprise, market-based solutions, and involvement of multiple organizations. They are solving real problems. The newest of these case studies, that of Jaipur Rugs, opens a new perspective on building global supply chains that benefits the BOP producers. Part V contains the videos that accompany the case studies (available on the CD and www.ftpress.com/Prahalad).

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.

On the CD and ftpress.com are video stories that 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 and with the company managers. We collected more than 100 hours of video as part of the research. We presented 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 were 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 biographies of the students who were involved in developing the case studies are given at the end of this 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, then 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 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 study 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 Wharton Business Publishing team has been exceptional in its support and belief in the message. Jerry Wind (Wharton) accepted the idea of this book with great enthusiasm, and Steve Kobrin at Wharton continues the school's support and encouragement. Throughout all the editions, the publishing teams, led by Tim Moore, were 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 more than 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 provides 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

Guide to Readers

The book is organized in five parts. The purpose of this guide is to outline the scope and the rationale behind each part. This should make it easy for readers to navigate through the book.

Part 1: Private Sector and Poverty: Progress During 2004-2009

This part contains the new introduction to the book. It provides a brief outline of the progress made since the book was launched in the later part of 2004. The focus is on what we have learned from the efforts of both global and local firms' initiatives on the emerging "rules of engagement" with the BOP.

Part 2: The Original Text of the Book

We have consciously kept the original text as is. There was no attempt to update the chapters. The goal was to preserve the integrity of the text and do the updating—our learning over the last five years—in the introduction.

Part 3: CEO Reactions to the Concept and the Book

We asked ten CEOs to reflect on the concept of the role of the private sector and BOP markets, as well describe the impact this book has had on their efforts, if any. These CEOs represent a wide variety of organizations. These firms represent a wide variety of industries, geographical origins, sizes, and heritages. The letters from the CEOs reflect their voices. These ten views included in this part also contain the views of a Dean of a business school and a prominent NGO.

Part 4: Cases Studies and CEO Comments

In this part, we have included one new case. Jaipur Rugs demonstrates how a global supply chain can be built with the poor of India as the providers of the sophisticated capability to weave world-class hand-knotted rugs using imported wool from Australia and exporting finished carpets to the United States.

We have left the other cases as they were in the original book but added an update section.

The updates were written by the CEOs of the companies. Each CEO took stock of the progress they have made since the time the case was written. We are pleased to say that all the initiatives have grown and made great progress. Each one has written their own version of the changes, and you will see a wide variety of lengths, focus, pride, and accomplishment in each one of these updates.

Part 5: Video Clips

Each case has a video attached to it. The role of the video is to give a sense of people, locales, the impact of the private sector initiatives on their lives, and their views of what has changed for them. This is the perspective from the BOP.

The videos are available on the book's CD and online at www.ftpres.com/Prahalad.

Focus: Multiple Perspectives

As can be seen from the organization of the book, the goal was to provide multiple perspectives. We start from the author's review, to CEOs who have started new initiatives during the last five years, to progress made by those whose pioneering work gave the impetus to the book in 2004. Most importantly, it retains the voices of the BOP consumers, producers, investors, and innovators in the videos.

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, C.K. Prahalad has consulted with many of the world's foremost companies. In addition to being the Paul and Ruth McCracken Distinguished University Professor of Strategy 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 more than ten years.

I

The Market at the Bottom of the Pyramid

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 and 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.

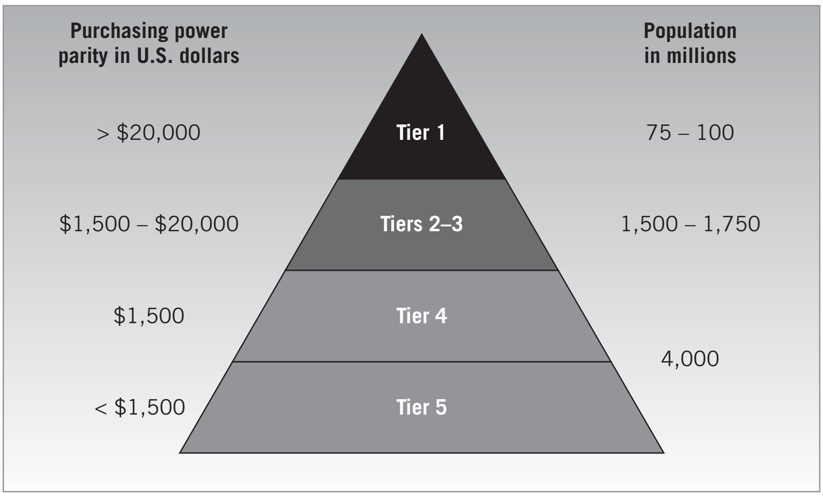

Figure 1.1 The economic pyramid. *Source:* C.K. Prahalad and Stuart Hart, 2002. The Fortune at the Bottom of the Pyramid, *strategy+business*, Issue 26, 2002. Reprinted with permission from *strategy+business*, the award-winning management quarterly published by Booz Allen Hamilton. www.strategy-business.com.

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 fosters attention to the poor as consumers. It creates 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 can 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 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, "Reducing Corruption: Transaction Governance Capacity").

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.

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

Assumption	Implication
The poor are not our target customers; they cannot afford our products or services.	Our cost structure is a given; with our cost structure, we cannot serve the BOP markets.
The poor do not have use for products sold in developed countries.	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.
Only developed countries appreciate and pay for technological innovations.	The BOP does not need advanced technology solutions; they will not pay for them. Therefore, the BOP cannot be a source of innovations.
The BOP market is not critical for long-term growth and vitality of MNCs.	BOP markets are at best an attractive distraction.
Intellectual excitement is in developed markets; it is very hard to recruit managers for BOP markets.	We cannot assign our best people to work on market development in BOP markets.

Adapted from C.K. Prahalad and Stuart Hart, *The Fortune at the Bottom of the Pyramid*, *strategy+business*, Issue 26, 2002. Reprinted with permission from *strategy+business*, the award-winning management quarterly published by Booz Allen Hamilton. www.strategy-business.com.

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 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 eradicate poverty, we have to break this implicit compact through a BOP-oriented involvement of the private sector.

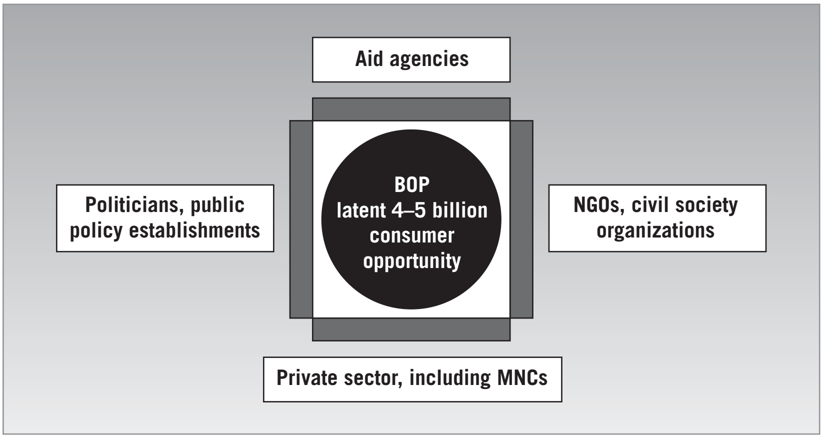

Figure 1.2 The influence of dominant logic.

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, after 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 U.S. $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 U.S. $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 (see 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 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.

Table 1.2 The Poor and High-Cost Economic Ecosystems

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

Source: Reprinted with permission from *Harvard Business Review.* "The Poor and High Cost Economics Ecosystems." From "Serving the World's Poor Profitably" by C.K. Prahalad and Allen Hammond, September 2002.

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 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. More than 35 to 40 percent of these urban concentrations will be composed 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.[1]

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, "Products and Services for the BOP."

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 and reached 100 million handsets by 2005. Brazil already had 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 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 in several countries. The technology of wireless and PC connectivity allows the BOP population to actively engage in a dialogue with each other, with the firms from which they want 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 and opportunities to engage in a dialogue with the larger community. As a result, word of mouth among BOP consumers is becoming a potent force for assessing product quality, prices, and options available to them. The spread of good bargains and bad news can be 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.[4] 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.

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

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

Note: Shampoo and biscuits are shown under different price ranges because these items are available in multiple single-serve and low unit pack quantities.

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.

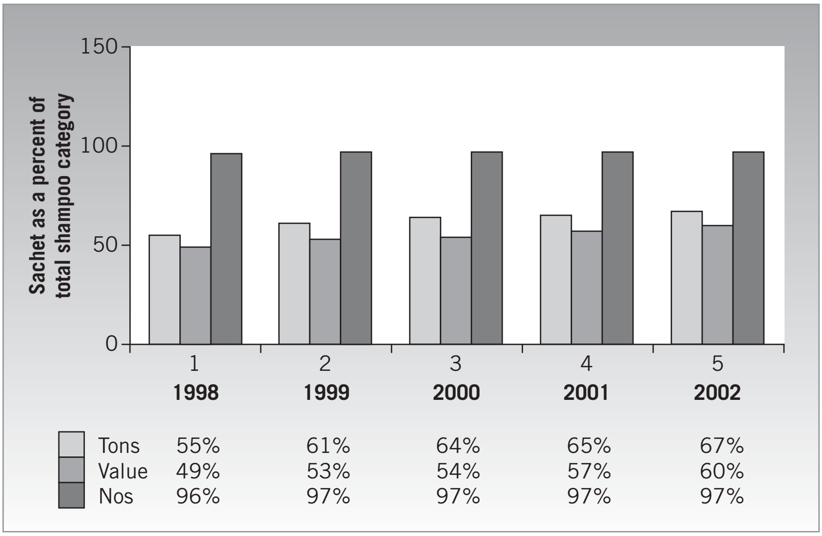

Figure 1.3 Single-serve sachet as a percentage of total shampoo market in India.

A similar approach to creating capacity to consume is through innovative purchase schemes. More BOP consumers in Brazil can buy appliances through Casas Bahia because the firm provides credit even for consumers with low and unpredictable income streams. Through a sophisticated credit rating system coupled with counseling, Casas Bahia provides 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 low at 8.5 percent, compared to more than 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.

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 and 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.[5] 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.[6] 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 and 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 clear. The traditional auctioning system at the government-mandated markets (mandis) did not offer them any choices. When 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 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 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[7] 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 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 and the poverty alleviation process that can 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.

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