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 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**

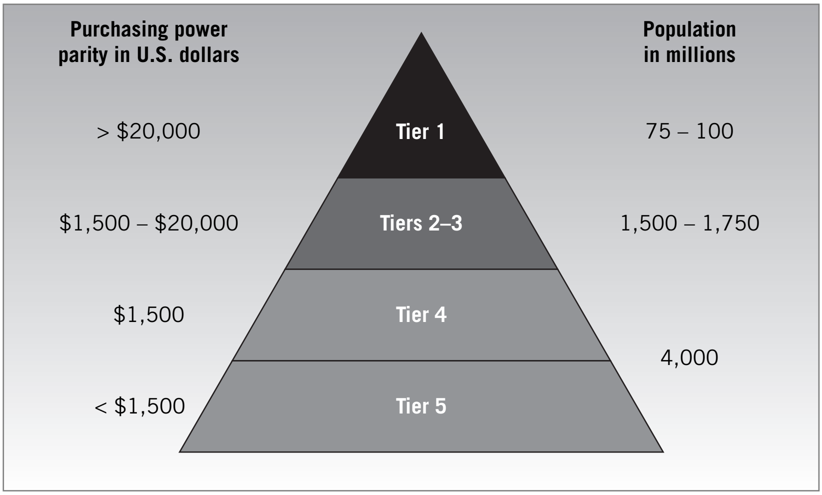

Figure 1.1 The economic pyramid. *Source:* C. K. Prahalad and Stuart Hart, 2002. The Fortune at the Bottom of the Pyramid, *Strategy+ Business*, Issue 26, 2002. Reprinted with permission from *strategy + business*, the award-winning management quarterly published by Booz Allen Hamilton. www.strategy-business.com.

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 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 market.
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.

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

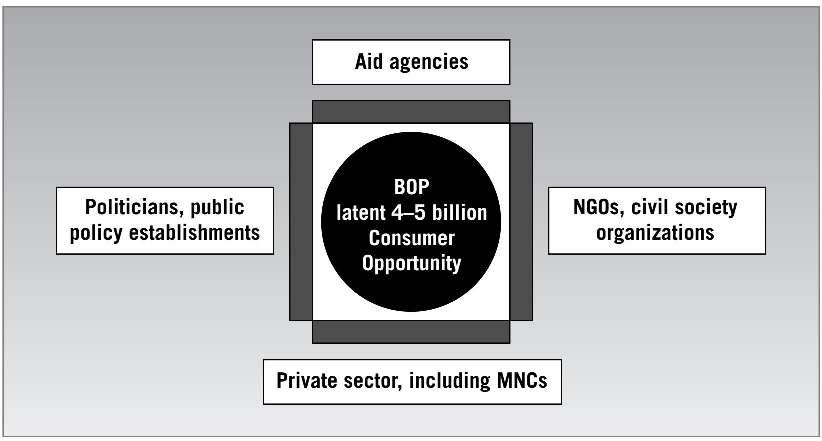

Figure 1.2 The influence of dominant logic.

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 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.

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.[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.

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 in several countries. The technology of wireless and PC connectivity is allowing the BOP population to be actively engaged in a dialogue with each other, with 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.[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.

The number of products sold in the single-serve format is rapidly increasing. The format is so popular that even firms producing high-end

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.

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.

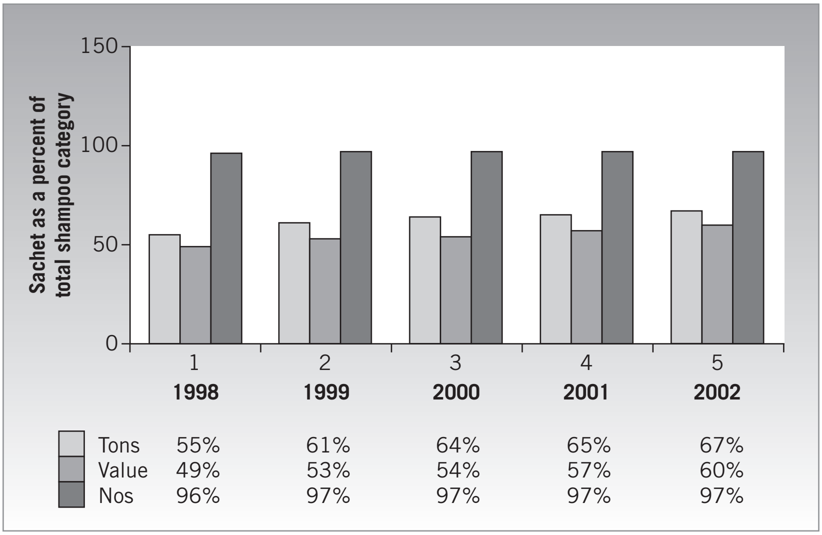

Figure 1.3 Single-serve sachet as a percentage of total shampoo market in India.

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.[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 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[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 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

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