

## The Fortune at the Bottom or the Middle of the Pyramid?

The Bottom of the Pyramid (BOP) has emerged as a dominant concept in business, propelled by C. K. Prahalad's *The Fortune at the Bottom of the Pyramid*.<sup>1</sup> Given the enormous attention the concept has attracted, it has the potential to impact the world's billions of poor people—as well as the managerial practices of multinational corporations. This double potential makes it important to analyze how large corporations can serve low-income customers profitably.

Prahalad and Stuart Hart argued in 2002 that multinational corporations (MNCs) have only targeted customers at the upper end of the economic pyramid and have ignored BOP customers, assuming that they are inaccessible and unprofitable. Prahalad and Hart argued further that MNCs should view BOP markets as an unexploited opportunity and be proactive in fulfilling the needs and wants of low-income consumers. To tap the vast markets at the BOP, MNCs must specially design and develop quality products and services, or they must select some to alter and make available at lower cost. Serving BOP customers is a profitable opportunity for corporations. It is also a social imperative, given that two-thirds of the human population (about four billion people) are at the bottom of the economic pyramid. By addressing the BOP, they say, MNCs can curtail poverty and improve the living conditions of the world's poorest.

In these arguments, however, BOP proponents do not take a holistic perspective. Several weaknesses in the BOP theory often go unacknowledged. Considering the far-reaching implications of these proposals, the underlying premises demand careful scrutiny. Several questions need to be answered: Is there really a “fortune” at the bottom of the pyramid? If so, can MNCs tap it as easily as BOP proponents suggest? And—is there also a fortune *for* the bottom of the pyramid?

In answering these questions, I offer an alternative perspective on the BOP concept: I believe that we must help the poor to become selective consumers. That is, we must avoid both undesirable inclusion and exclusion. Undesirable inclusion means marketing products to the BOP that are not likely to enhance their well-being or that they are likely to abuse. Exclusion means failing to offer them products or services that are likely to enhance their well-being. I also suggest a frame-

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Income group	Population	Atlas methodology* (US \$)	Purchasing power parity (international \$**)
World	6.4 billion	6,987	9,420
Low-income	2.4 billion	580	2,486
Middle income	3.1 billion	2,640	7,195
(a) Lower middle income	2.5 billion	1,918	6,313
(b) Upper middle income	598.7 million	5,625	10,924
High income	1.0 billion	35,131	32,524

**Table 1. Population and Gross National Income Per Capita: Atlas Method and Purchasing Power Parity in 2005.**

\* Under this method, the World Bank uses a conversion factor in order to minimize the impact of exchange rate fluctuations in the cross-country comparison of gross national income.

\*\* The “international dollar” is the most commonly used purchasing power parity exchange rate. It is defined as a hypothetical unit of currency that has the same purchasing power that the U.S. dollar had in the U.S. In other words, one can purchase an equal amount of goods and services with an international \$ in a particular country as with a U.S. \$ in the U.S.

Source: World Bank (2006).

work to assess when it is appropriate for large corporations to participate in BOP markets, and I emphasize the need to strengthen poor people’s roles as producers, rather than merely consumers.

#### THE FORTUNE AT THE BOTTOM OR THE MIDDLE OF THE PYRAMID?

Before looking at the larger questions, it’s important to estimate the true size of the BOP market. Prahalad and Hart refer to the four billion people in Tier 4 as the bottom of the pyramid.<sup>2</sup> But certainly income inequality is widespread across the developing countries where the BOP population lives. Many developing countries, especially the least developed countries (LDCs), are characterized by extreme poverty. Many factors make it unrealistic for the private sector to participate in economic development in most LDCs. Among them are inefficient regulation, widespread corruption, lack of basic infrastructure, extreme poverty, and the underdeveloped financial and banking structure. In these countries, people’s most basic needs must be fulfilled before anyone can look at them as profitable BOP markets. The success stories of MNCs serving poor customers cited in the BOP literature are predominantly in fast-growing economies such as India, where the

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Country	Population	Atlas methodology (US \$)	Purchasing power parity (international \$)
<b>Least Developed Economies</b>			
Zambia	12 million	\$490	950
Tanzania	38 million	\$340	730
Uganda	29 million	\$280	1,500
Niger	14 million	\$240	800
Rwanda	9 million	\$230	1,320
<b>Newly Industrialized Economies</b>			
India	1.1 billion	\$720	3,460
China	1.3 billion	\$1,740	6,600
Mexico	103 million	\$7,310	10,030
South Africa	45 million	\$4,960	12,120
Brazil	186 million	\$3,460	8,230

**Table 2: Average Annual Income: Comparing Selected Least Developed Economies and Newly Industrialized Economies.**

*Source:* World Bank (2006). See Table 1 for description of two methodologies.

GDP per capita remains low, as well as in countries like Brazil and Mexico with higher per-capita income. Not surprisingly, BOP advocates fail to provide cases of MNCs serving the BOP population in LDCs.

World Bank data can be used to estimate the true size of the BOP market. In 2005, 2.4 billion people lived in low-income countries (Table 1), and 751.8 million of those lived in LDCs where the per capita gross national incomes averaged U.S. \$378.2. Realistically, these very low income earners at the extreme bottom of the pyramid are not likely to be profitable customers for MNCs. (See Table 2 for comparative figures for selected countries among the LDCs and Newly Industrializing Economies.) In 2001, 1.1 billion people were living on less than \$1 a day, which the World Bank considers to indicate extreme poverty. If we enlarge the base, a total of 2.7 billion people live on less than \$2 a day.<sup>3</sup> The 1.1 billion people living in acute poverty, and struggling to meet even their basic needs, cannot possibly be viewed as a profitable market for large corporations. Whatever fortune does exist is only at the lower middle and middle of the pyramid, definitely not at the bottom. When Prahalad and Hart talk about “doing business with the world’s 4 billion poorest,”<sup>4</sup> they count the entire population of both developing countries and least-developed countries. Depending on the products and services and economic conditions prevailing in poor countries, a significant portion of this population will be totally out of the direct reach of MNCs. MNC involvement in LDCs can be viable and fruitful only after these countries reach a certain threshold of economic development.

Karnani<sup>5</sup> provides an interesting contradiction to Prahalad's estimate that the BOP market size is \$13 trillion at purchasing power parity (PPP).<sup>6</sup> He construes that as a gross overestimation. Using the World Bank estimate of \$1.25 a day as the average consumption of the 2.7 billion poor and total poor, he calculates the BOP market size as \$1.2 trillion. He also points out that MNCs would repatriate profits at actual currency exchange rates, not at PPP. Taking this factor into account, he estimates the BOP market size as less than \$0.3 trillion, which is just 2.3 percent of Prahalad's estimate of \$13 trillion.

#### HYPE AND SACHETS: THE BOP SUCCESS STORY

Whether or not Prahalad's numbers are accurate, his accounts of corporations succeeding at the BOP sometimes strain credulity. They tend to inflate the success of some companies, and give too much credit to a few innovations, such as the use of small packages.

Perhaps the company most often cited in the BOP literature is Hindustan Unilever Limited (HUL),<sup>7</sup> the Indian subsidiary of Unilever, which Prahalad and Hart refer to as "a pioneer among MNCs exploring markets at the bottom of the pyramid."<sup>8</sup> They point to HUL as a successful example of how large corporations can profitably tap BOP markets, for products including candy, salt, and detergent.

First, Prahalad and Hammond write about HUL's success with low-priced candy aimed at the BOP markets.<sup>9</sup> They write that Max candy, a high-quality confection prepared from sugar and real fruit, is sold at retail for about a penny a serving. It is interesting to consider the real fate of this BOP initiative. Starting in 2001, HUL offered Max in two sizes, at 25 paise (.06 cents) and 50 paise (1.2 cents); later, because of low profit margins, the company raised the prices to 50 paise and Rs2 (5 cents). After three years, Max had garnered a market share of less than 5 percent. In 2004, its sales were about Rs500 million (\$12.5 million); the entire organized confectionery industry was estimated at Rs12 billion (\$300 million).<sup>10</sup> In 2005, HUL pulled out of the confectionery business, as the company was not satisfied with its results.<sup>11</sup>

Prahalad has also touted the case of Annapurna iodized salt as another BOP success story for HUL.<sup>12</sup> He writes that although several other salt brands were iodized, HUL was the first to focus on iodine's health benefits in its marketing.<sup>13</sup> But national salt brands, including Annapurna, are beyond the reach of most poor consumers. In fact, most of the poor have been buying more affordable iodized salt brands produced by local companies. National brands like Annapurna cost about Rs7-8 (17.5-20 cents) per kilogram compared to the Rs2-3 (5-7.5 cents) for local brands. In 2002, national brands had a 45 percent share of the overall iodized branded salt market while local brands held the remaining 55 percent share.<sup>14</sup> Also, Tata Salt, not Annapurna, is the leader in the national branded salt market in India. No wonder then, that R. Gopala Krishnan, the former vice president of HUL, said that Prahalad's "illustration of Annapurna salt as co-creating a market around the needs of the poor" was "misplaced"; in fact, he said, "Annapurna salt has not co-

created anything.”<sup>15</sup>

Prahalad also discusses HUL’s Project Shakti, a sales and distribution initiative it started in 2000 to increase product penetration into rural markets. According to the company, this initiative aims “to empower underprivileged rural women by providing income-generating opportunities.” As part of this project, the company selects a woman as a Shakti entrepreneur (Shakti Amma) from a self-help group (SHG) set up by an NGO or government body. The company’s rural distributor supplies the stocks to this woman, who in turn sells the products to consumers as well as to retail outlets in the village.

In Hindi and many other Indian languages, “Shakti” means energy, strength or empowerment. In the Hindu tradition, Shakti represents the goddess and embodies the divine feminine power. The name symbolizes the role envisioned for the women in the new venture. Project Shakti may have helped reduce poverty somewhat, as it typically generates employment for one woman in a village of under 2,000 people, but the net capital flow to rural areas is questionable.<sup>16</sup>

In fact, most of HUL’s BOP initiatives were not proactive and intentional, but were reactionary moves in response to competitive pressure. For instance, HUL was forced to enter the low-cost detergent market. In the middle 1980s, Nirma started selling a low-cost detergent to rural, and low-income urban, customers. Its price was one-fifth that of HUL’s competing brand. Nirma rapidly captured a market that HUL had overlooked. It became the largest selling detergent brand and a household name in India. After five years, HUL recognized that it was vulnerable, and launched its own low-priced detergent brand, Wheel, as part of project STING (Strategy to Inhibit Nirma Growth).<sup>17</sup> As the very name of the project indicates, HUL entered the BOP market with the objective of arresting Nirma’s growth.

### **Is Sachet Marketing Revolutionary?**

BOP proponents mention sachets (small packets) as an innovation that has delivered many products to BOP customers. Prahalad suggests that if BOP customers “don’t have lump sums to buy 20 ounces of shampoo at one time,” a company should “do what Unilever did in India: Sell single servings of shampoo so the cost structure matches what they can afford.”<sup>18</sup> In fact, sachets were introduced in 1976, not by HUL but by CavinKare, a local South India-based company, with its “Velvet” brand.<sup>19</sup>

In 1999, CavinKare came up with another pricing innovation: it launched a 4-ml sachet of Chik shampoo priced at 50 paise (1.25 cents). The launch was a great success: Chik’s market share jumped from 5.61 percent in 1999 to over 23 percent in 2003. It became the largest selling brand in rural markets. As Chik’s volume and market share grew rapidly, HUL saw the potential of the market it had always ignored—as well as its own vulnerability. It responded by launching 50-paise and one-rupee sachets of its Lux, Clinic Plus, and Sunsilk brands. HUL had always viewed rural consumers as a low-margin, inaccessible segment. It entered the BOP market for shampoo primarily because of its potential vulnerability, not as part of

a planned strategy to serve poor customers. Considering all these cases, then, it is simply incorrect to give HUL the status of a pioneer in tapping BOP markets, as the literature on BOP does.

### **Small Isn't Always Beautiful**

BOP proponents view sachets and other small packages as an ideal way to tap low-income markets. Prahalad argues that because small packages are more affordable, they encourage consumption and provide a choice for the poor.<sup>20</sup> But the empirical evidence does not support his contention. An AC Nielsen study on rural markets in India revealed that, for several products, the best-selling package size is the same across rural and urban areas.<sup>21</sup> For products including biscuits, jam, washing powder, sanitary napkins, and milk powder, the smallest available packages are not the largest contributors to the total volumes of products sold in rural areas. The two exceptions are shampoo and razor blades; for these two products the smallest packages do account for the largest share of the total volumes sold. In the cases of jam and milk powder, larger packages (e.g. 500 g) are better sellers, even though smaller packages are available (e.g., 12 g in jam and 3 g in milk powder).

If Prahalad and Hart are correct in their argument that the poor “look for single-serve packaging,”<sup>22</sup> then we would expect small-size packages to be the most popular for most products in rural markets, not just for shampoo and razor blades. The smaller packages of shampoo and razor blades also perform better in urban markets as well as rural ones. For shampoo this is probably true because shampoo sachets offer better value than larger packages. With sachets, consumers pay lower prices per unit volume. For example, Sunsilk Black shampoo in sachets costs approximately 25 paise (.6 cents) per ml. On the other hand, shampoo in a bottle costs approximately 5 paise (1.25 cents) per ml (a 200-ml bottle costs about Rs99, or \$2.50). This is true for almost all the major shampoo brands in India.<sup>23</sup> The artificial price differential actually contributes greatly to the popularity of shampoo sachets. Another study in India, by LG Healthcare, questions whether sachets are valuable for marketers: although they have helped increase penetration, they have also led to a decrease in overall consumption.<sup>24</sup>

For most products, the logic of serving the poor by simply offering smaller packages may not be as workable as Prahalad argues. To make small packs more affordable, companies must keep their unit cost lower compared to larger packs. This does not make economic sense: it is by selling larger packages that companies can reduce their processing and transaction costs, not the other way around. Companies usually reward consumers who buy larger, or economy-size packages, through low-unit pricing, because of their associated cost savings. Low-price shampoo sachets are an atypical case or an unusual distortion of the market. In fact, companies are trying to persuade consumers to move up from sachets to bottles; though sales volume has risen because of sachets, the profits and revenues have dropped.<sup>25</sup>

## LARGER MNC FAILURES WITH THE BOP

In addition to this fairly spotty evidence of financial success, MNCs have not been wildly successful in other aspects of their attempts to enter BOP markets. In some cases they have actively generated trouble; in other cases their apparent success is due to other factors, or they simply are not the remarkable innovations Prahalad claims them to be.

### **MNCs Create Problems**

First, MNCs may actually create serious problems—contrary to the impression one gets from the BOP literature. Prahalad and Hart state: “For corporations that have distribution and brand presence throughout the developing world, such as Coca-Cola Company, the bottom of the pyramid offers a vast untapped market for such products as water and nutritional<sup>26</sup> However, this contention is far from reality, and companies can do more harm than good.

Coca-Cola set up a plant to bottle water in Palachimada, a village in Kerala, a state in southern India. After the plant started operating, the villagers alleged that the groundwater was rapidly being depleted in surrounding areas; they started protesting to protect their well water. The company was also accused of distributing waste sludge containing unacceptably high levels of cadmium to villagers as free fertilizer. In July 2003, the BBC reported that tests conducted in the UK, at the University of Exeter, had shown that the sludge contained dangerous quantities of heavy metals such as cadmium and lead, which had already contaminated the food chain and the groundwater. Further, sludge simply cannot be called fertilizer. It was also said that the company failed to distribute drinking water to the local population satisfactorily.<sup>27</sup> In August 2005, the Kerala State Pollution Control Board (KSPCB) ordered the plant to stop operating, as it did not have the required facilities to treat its waste. KSPCB observed that the cadmium presence in the sludge was 400 to 600 times above the permissible limit and that the plant was contaminating drinking water in the village.<sup>28</sup> This is only one example of the harm that can occur when people in the BOP are seen only as consumers, as potential sources of profits, and not as active individuals participating in their communities.

### **BOP Enablers That Mask Weaknesses**

Moreover, when large organizations succeed in working with the BOP, they often cannot take all the credit for their success. Several factors, often invisible, help organizations to serve BOP markets on a sustainable and profitable basis. These factors, or “BOP enablers,” can come in various forms. For example, other organizations may provide support and access to low-cost or free advertising and communications, and workers may be available at wages below the market rate.<sup>29</sup>

Prahalad cites Aravind Eye Hospital (AEH) as an organization serving poor patients among the BOP population in India. Several facilitating factors helped AEH make its business model sustainable. First, AEH draws its patients to the hospitals from eye camps, which are organized by local business units, wealthy indi-

viduals, or social service organizations such as the Lions Club, Rotary Club, and Vivekananda Kendra. These organizations bear the publicity costs and other costs incurred in organizing the eye camps, such as patient transportation, food, and aphakic glasses. These organizations also pay for expenses related to transportation and meals for the patients selected for surgery.

In addition, AEH pays only for the cost of surgery and medicine.<sup>30</sup> AEH was supported by the SEVA Foundation, Sight Savers International, Canadian International Development Agency, and other organizations in setting up Aurolab, which manufactures intra-ocular lenses (IOL), sutures, and other products used in eye surgery.<sup>31</sup> Through Aurolab, AEH gets supplies of IOL lenses and other products at a substantial discount. In addition, it is somewhat surprising to find AEH being discussed as a BOP success story, because the BOP approach calls on MNCs and the private sector to participate in low-income markets. As not-for-profit organizations, these two organizations are in a different category,

Another facilitating factor for many organizations serving the poor is a body of employees dedicated to a cause and ready to work for below-market pay. For example, doctors and hospital staff at AEH are extremely dedicated to the cause, hard working, and productive—and they work for far less than they would get in most private hospitals in India. Similarly, Amul, described later on, relies on employees who are dedicated to the cause of milk producers. Amul's wage costs are less than 1 percent of total sales volume, while its private sector competitors have a wage cost of about 6 percent of sales.<sup>32</sup>

Several other factors enable organizations to serve BOP customers, including government subsidies, reduced taxes, and access to technological know-how developed at government-funded laboratories at low or no cost. For example, the massive campaign to encourage people to use iodized salt was initiated by government agencies, with support from NGOs and other social institutions. This in turn helped HUL to sell its Annapurna iodized salt in India.

### **Old Wine in New Bottles**

As Prahalad articulates how the private sector can exploit profitable opportunities by tapping BOP markets, he gives the impression that this is a revolutionary idea. But companies have been selling to the BOP in one form or another for several decades. Similarly, as he describes how microfinance is useful for tapping the BOP market, it seems to be a new model for serving the poor. But microfinance has long been recognized as an efficient way to eradicate poverty. The Grameen Bank, Muhammad Yunus's landmark innovation, attracted worldwide attention many years before the BOP concept came to light. Less famous but larger is Bank Rakyat Indonesia, which has the world's largest sustainable micro-banking system and has held a dominant position in commercial microfinance in Indonesia for more than 20 years.<sup>33</sup> Furthermore, organizations such as Amul, the State Bank of India, and Nirma have long realized the importance of serving BOP customers. The State Bank of India (SBI), a public sector bank, has been providing banking services for



two centuries, and has more than 8,000 branches all over the country. It has been serving rural poor customers by providing bank loans for agriculture and other purposes and offering personal banking products. The sheer size of its network of branches helped it reach out to rural customers. In addition to SBI, other national banks and rural cooperative banks have been serving rural and BOP customers, with services designed specifically for them. At some banks, a villager can open an account with as little as Rs500 (\$12.50), whereas MNC banks may require a minimum balance of Rs5000 (\$125) or more, well beyond the capacity of most BOP customers.

Many other organizations such as the National Bank for Agriculture and Rural Development, other nationalized banks, and Nirma have been serving BOP customers for decades. These facts make it difficult to accept Prahalad's contention that few initiatives have focused on developing BOP markets.

### **Closing the Gaps in the BOP Model: Including and Excluding the Poor**

By 2020, Prahalad asserts, poverty can be eradicated through BOP initiatives.<sup>34</sup> To eliminate poverty in just 15 years sounds like wishful thinking. Nor is it clear how the BOP initiatives described above—selling products like candy, shampoo, or detergent—will magically eradicate poverty. Prahalad has not outlined the mechanism that will help eradicate poverty if the poor start buying products from big companies using the little money they have.<sup>35</sup> This is the key issue: BOP consumers really cannot buy more than they currently do because they have so little disposable income.

One interesting approach comes from Karnani, who argues that if the objective is to reduce poverty and increase the income level of the poor, we should view them as producers, not as consumers.<sup>36</sup> But to truly tackle their problems, we must consider how they function as consumers. That is, we need to facilitate production by the poor, and also support them in selective consumption. Selective consumption means choosing to enable or restrict consumption, based on the characteristics of the goods to be consumed and the effect they will have on the well-being of consumers. To understand the dynamics of promoting and curtailing consumption by the poor, it is useful to view it from the perspective of which target markets a company chooses to include and exclude. When marketers make such choices, they can have significant effects for the individuals involved.<sup>37</sup> Developing the poor as producers is also important.

### **Inclusion Decisions**

Some marketing choices encourage the poor to consume products that have negative side effects. Thus the poor are included in the market, but in an undesirable way. An example of such inclusion is marketing products like drugs and tobacco to vulnerable customers who are likely to abuse them. If companies start seeing BOP consumers as a potentially profitable market, those customers become more vulnerable to unethical inclusion.

It is worth considering the complex ways that the marketing activities of large corporations can affect the quality of life for the BOP population. Disparities in income and differences in lifestyles can make the poor and underprivileged feel even more deprived by comparison. When companies intensively advertise and promote their products, BOP customers may aspire to buy products well beyond their basic needs, misplacing their priorities as they allocate their scarce resources.<sup>38</sup> That is, they may spend their meager funds on fashionable products, or on the latest appliances or products that do not enhance their well-being; then they have less to spend on education, nutrition, and health care. Influenced by an attractive advertising campaign, a rural woman may be induced to buy skin lightening cream or hair colorant instead of using that money to buy essential items such as vegetables or health care products.

The problem with the consumer-focused BOP approach is that it does not differentiate between priority and non-priority areas. Prahalad and Hammond even argue that BOP customers are a lucrative market for “luxury” goods.<sup>39</sup> We should not assume, they say, “that the poor are too concerned with fulfilling their basic needs to ‘waste’ money on non-essential goods.” However, marketing non-essential and luxury goods to BOP consumers is their undesirable inclusion by companies. If they use too much, or inappropriate, advertising and other forms of sales promotion, especially to the poor, that can lead the poor to allocate their scarce financial resources to imitative consumption.

The eChoupal case is one example of undesirable inclusion of the poor as a target market. In fact, the eChoupal initiative of ITC, an Indian private sector company, has been prominently discussed in the BOP literature as a good example of a large company serving rural customers. The eChoupals aim to help farmers by providing them real time information about price and market demand of farm produce and also by reducing the market intermediaries. As a model, eChoupal can provide certain benefits to farmers, such as better prices for their farm produce, but ITC is now selling its cigarettes to farmers at Choupal Saagar (rural malls), which were opened as extensions of eChoupal. Since conventional distribution channels are severely limited in their ability to penetrate rural markets, eChoupal is serving as a new distribution channel, increasing the reach of ITC’s tobacco products in rural areas.

Research has shown that people who are poor, less educated, and underprivileged consume significantly more tobacco.<sup>40</sup> If companies aggressively market their cigarettes, they exacerbate the existing tendency of the poor to smoke. The eChoupal initiative should be seen in the overall context of ITC’s attempt to refurbish its image, reducing its business risk by diversifying into other products and using eChoupals as a distribution channel for its various products, including cigarettes. Some commentators have already expressed their concerns. For example, in 2004, an *Economist* writer said that the chairman of ITC was “trying to embellish ITC’s tobacco-stained image,” or perhaps it was looking “to diversify away from a product always at risk of government action” (such as Delhi’s recent ban on smoking in public places).<sup>41</sup>

### **Exclusion Decisions**

On the other hand, the poor can be wrongfully excluded from the market if companies curtail, or fail to enable, their consumption of products that enhance their well-being. One example of an exclusion decision is a company not offering products such as medicines because it assumes the customer cannot pay the specified price.

Karnani argues that seeing the poor as producers, not as consumers, can lead to their being excluded in undesirable ways.<sup>42</sup> I argue that the poor also need to be seen as consumers for two other reasons. First, they can save money if companies provide products at lower cost and offer them greater value. Second, the poor obviously need to be consumers of welfare-oriented goods and services such as fertilizers, pesticides, cattle feed, and other agricultural inputs, as well as insurance and micro-finance. Agricultural inputs directly boost farm income. Consumption of welfare goods also helps raise income. For example, health insurance reduces the risk and cost of medical treatment and helps reduce the productivity loss that results from prolonged ill health or untimely death because they cannot pay for health care. It also adds to the income of the poor, even if they spend their money on health insurance. Thus, consumption of welfare goods can improve the quality of life of the poor and raise their productivity.

Exclusion actions assume more significance because of the peculiar problem of counterfeiting, or look-alike brands, so prevalent in the BOP markets. They succeed mainly because rural people are illiterate and have little consumer awareness. According to a study by AC Nielsen, 80 percent of shoppers who bought fake brands believed that they were buying genuine ones<sup>43</sup>—and fake brands are typically of very low quality. In fact, fake food and drug products can lead to severe health problems, or even death. From the perspective of consumers' welfare, then, it is important to ensure that the products sold to the poor be safe and of decent quality, and they that offer decent value.

Based on these issues of inclusion and exclusion, four criteria can help us to evaluate whether it is appropriate for an MNC to enter a particular BOP market. (1) Can the company's products respond to basic needs such as health, nutrition, education, housing, etc.? (2) Is the company's marketing communication educational and informative or does it create and strengthen people's aspirations to consume goods they do not need? (3) As the products are developed, does the company bear in mind the special needs of BOP consumers, or does it import products already developed for non-BOP markets? (4) Do the products enhance customers' well-being?

### **The Poor as Producers**

Apart from the criteria for selective consumption, the other way to evaluate the value of MNCs in the BOP market is the extent to which they engage the poor as producers. The key here is providing mechanisms to bring products to the market. Two good models are Amul and Shri Mahila Griha Udyog Lijjat Papad, which

enable thousands of milk producers and low-income women to engage in decentralized production. Thus they contribute immensely to income generation among the poor.

Amul, started in 1946, is one of the best examples of an organization transforming the lives of rural people. In a partnership between professional managers and milk farmers, Amul daily collects 6.5 million liters of milk from about 2.6 million farmers and converts it into value-added milk products. Gujarat Cooperative Milk Marketing Federation, which markets milk and milk products with Amul brand, is India's largest food products marketing organization, and its affordable products fulfill the nutritional needs of millions of customers.

Shri Mahila Griha Udyog Lijjat Papad is an organization manufacturing papad,<sup>44</sup> as well as spices, wheat flour, and detergents. This initiative by women, mostly from the lower strata of society, began in Mumbai in 1959. It gradually expanded to 67 branches in different states all across India. Membership has grown from seven founding women to more than 40,000 women. Following the concept of collective ownership, the organization is run by member sisters. Today, membership is open to any woman who has faith in its basic philosophy. For its papad production, the organization has a completely decentralized model. Each morning, at each branch, kneaded dough is distributed among the women. The women take the dough to their homes, and make papads by rolling and then drying them, and return the dried papads after one or two days. The organization's total sales exceed Rs3 billion (\$75 million) with exports of more than Rs120 million (\$3 million). The organization has enabled women to earn economic independence and raise their families' living standards, all through engagement with dignified labor.<sup>45</sup>

### SOME FINAL THOUGHTS

The BOP concept, as popularly stated and accepted, ignores many fundamental elements of poverty alleviation. Education is one such element. Empirical evidence shows clearly that education has a direct impact on economic growth, income generation, and improved quality of life. The East Asian countries (e.g., Japan, Singapore, China, and Korea) invest far more in basic education than do the South Asian countries (e.g., India, Pakistan, and Bangladesh), which have large BOP populations. This difference is cited as a key contributor to differences in their economic growth.<sup>46</sup> According to a World Bank study on the rapid economic growth and education policies in East Asia:

Better performance will depend on, among other things, investments in human capital—specifically education. Underinvestment in education results in severe losses in economic growth and development. Economic miracles do not happen out of the blue; they are based on education miracles. There are no shortcuts.<sup>47</sup>

To eliminate poverty requires free basic education and affordable technical education for the poor through public-private partnerships. On the consumption-production debate described above, education can help the poor in their role as con-

sumers by helping them make better choices and properly allocate their resources. Education can enhance their productivity and make them more efficient. It can provide the poor with marketable skills and thus increase their employment opportunities. Since the poor lack the income to finance a technical education, they need easily available educational loans as well as governmental interventions such as education subsidies.

In addition to education and other support, we need to take a balanced and cautious approach toward the BOP. We do not know exactly how Prahalad's proposed ideas will work. Will they always work? If not, when will they work and when not? Though Prahalad presented only success stories, we also know that BOP initiatives have created serious problems. Examples like Coca-Cola's alleged involvement in depleting the groundwater in Kerala show that MNCs' engagement in BOP markets can also be problematic. To take a balanced approach, we must look at success stories as well as failures. The failures and resulting problems indicate that when MNCs participate in low-income markets, they must be cautious.

We also need systematic research to understand the ways that BOP initiatives can actually help the poor to increase their earning power, and thus benefit them, directly or indirectly. So far, few researchers have examined Prahalad's model for tapping low-income markets. Theories and assumptions about serving BOP markets need to be tested. The limitations of Prahalad's model should be clearly outlined and general theories should be derived. Research on success stories and failures will help us develop a framework for the private sector to engage in BOP markets in less risky and more fruitful ways, creating win-win situations. Developing and testing propositions can be a first step towards this objective. Systematic research and debate can help us understand the problem well and close the gap in the existing BOP proposition.

To conclude, then, Prahalad's work on the fortune at the bottom of the pyramid has become a dominant idea for discussion among practicing managers, academicians, and policymakers. He argues that MNCs can do profitable business with the 4 billion customers at the bottom of the economic pyramid and that doing so will help lift the poor out of poverty. His perspective is promising and defies many conventional assumptions about business. He makes a key contribution by drawing the attention of large corporations to the often ignored and forgotten BOP population. However, considering the dangers and risks involved, all stakeholders should proceed carefully to avoid adding further woes to already marginalized and vulnerable BOP customers. Managers working in MNCs also need to be circumspect in their BOP initiatives in order to minimize possible complications and failures. Instead of simply being driven by a proposition that has attracted wide attention or has an emotional appeal, they should craft their BOP strategies carefully, keeping in mind promises as well as threats on the way. Then we can start to talk about not just the fortune *at* the bottom but also the fortune *for* the bottom of the pyramid.

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## Endnotes

1. Prahalad (2005).
2. Prahalad and Hart (2002, p. 2).
3. World Bank (2002).
4. Prahalad and Hart (2002, p. 2).
5. Karnani (2007).
6. Purchasing power parity (PPP) is used to equalize the purchasing power of different currencies in their respective countries for a given basket of goods. The PPP exchange rate takes into account the cost of living and makes required adjustments for it. For instance, one can exchange a U.S. dollar in a developing country like India and purchase more goods than by spending a dollar in the United States.
7. In 2007, the company changed its name from Hindustan Lever Limited (HLL) to Hindustan Unilever Limited (HUL). In Prahalad's work, HLL was used.
8. Prahalad and Hart (2002, p. 5).
9. Prahalad and Hammond (2002, p. 51).
10. Bhushan (2004).
11. "Hind Lever Unilever Recasts" (2005).
12. Prahalad (2005).
13. Prahalad (2005, p. 179).
14. Gopalakrishnan (2002).
15. Krishnan (2004).
16. Rajshekhar (2006).
17. Ahmad and Mead (2004).
18. "A New Path to Profit" (2005, p.25).
19. Ranganathan (2003).
20. Prahalad (2005, p.16).
21. Dobhal and Munshi (2005). Although the BOP population consists of both rural and urban poor people, the incidence of poverty is much higher in rural areas in India. According to the National Council of Applied Economic Research, in rural areas 55 percent of households are in the "destitute and aspirant" category, with annual incomes under Rs 16,000 (\$400) or between Rs 16,001 and 22,000 (\$400 to \$550), respectively; the corresponding figure for urban areas is 27 percent. Hence comparisons of rural versus urban patterns also reveal broad patterns in the BOP and non-BOP populations
22. Prahalad and Hart (2002, p. 10).
23. Krishnan (2001).
24. "Sachets Swell Market" (2004).
25. "Sachet Success Haunts Shampoo Cos." (2003).
26. Prahalad and Hart (2002, p.12).
27. Rajeev (2005).
28. "PCB Orders Coca-Cola" (2005).
29. Dixit and Sharan (2007).
30. Rangan (1994).
31. Prahalad (2005); Ibrahim, Bhandari, Sandhu, and Balakrishnan (2006).
32. "Can MNCs build brands?"(2003).
33. Robinson (2002, 2004).

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34. Prahalad (2005, p.112).
35. Walsh, Kress, and Beyerchen (2005).
36. Karnani (2007).
37. Sirgy and Lee (1996); Smith and Quelch (1993).
38. Belk (1986); Sarin and Venugopal (2003).
39. Prahalad and Hammond (2002, p. 50).
- 40.. Rani, Bonu, Jha, Nguyen, and Jamjoum (2003).
41. "Cigarettes and virtual cathedrals," *The Economist* (2004).
42. Karnani (2007).
43. Mohan (2003).
44. Papad is an Indian ethnic product made of flour and spices. It can be roasted or fried, and served as an accompaniment to a meal or as a snack or appetizer.
45. For more information on the organization, visit <http://www.lijjat.com> or see Ranganathan (2003).
46. Thomas (2000).
47. Tilak (2002).

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