BUSINESS SOLUTIONS FOR THE GLOBAL POOR

Creating Social and Economic Value

V. Kasturi Rangan, John A. Quelch, Gustavo Herrero, and Brooke Barton

Foreword by C. K. Prahalad
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The idea that the private sector can contribute to the goal of poverty alleviation is a relatively new concept. There has long been an implicit compact between the private sector on one side and the UN, the World Bank, aid agencies, national governments, and civil society on the other. They agreed, on the basis of historical evidence, that the private sector was an unlikely vehicle for dealing with poverty. The goals of profits, growth, and innovation were assumed to be contrary to the task of poverty alleviation. The purpose of this book is to continue challenging this deep-seated, ideologically grounded assumption.

The convergence of the interests of the world’s poor and the private sector are driven by their specific needs. The poor, who represent 80 percent of humanity, are eager to reap the benefits of globalization: high-quality products and services at affordable cost as well as access to global markets. Today they are not constrained by ignorance of what is possible. Ubiquitous connectivity—through television, radio, cell phones, and PCs—is systematically breaking down barriers to information.

Managers, in turn, are searching for new markets. In their quest for sustained growth, telecoms such as Nokia, Motorola, and Vodafone have broken many a dogma. The industry expects three billion people (half the world’s population) to be connected by cell phone by 2009–2010. People at the bottom of the economic pyramid (BOP) are driving this growth.

New business models—phone ladies in Bangladesh, prepaid cards as a mechanism for promoting affordable consumption, and increasingly flexible regulatory environments
for telecom services—are showing that the poor can be a market, one that propels global growth and has an impact on costs and prices worldwide. Further, BOP consumers, though value-conscious, have proved that they can rapidly adapt to new technology. They are also willing to pay for what they receive. The growth of Celtel, a wireless service in sub-Saharan Africa, and MTN in South Africa, Nigeria, and now in Iran demonstrates that working with the BOP markets need not lead to lowering profitability or market capitalization. In fact, the opposite is true.

Experiments in a variety of industries, from fast-moving consumer goods (Unilever) to microfinance (ICICI in India), housing (CEMEX in Mexico), retailing (Casas Bahia in Brazil), personal computing (AMD, Intel, Microsoft), and health (Aravind and Narayana Hrudayalaya in India), have shown that the opportunity is real. The debate is not whether the BOP is a true market or whether it can be profitable. The question is, How can it be tapped?

This opportunity forces managers and others to challenge their assumptions. They must come to terms with the need for innovations to serve BOP markets—not just in creating new hybrid technologies (for example, PCs running on car batteries in a hut) but for entirely new business models. Equally important are (1) creating the capacity to consume, (2) cost structures that are a fraction of those in developed markets, and (3) innovations in distribution and logistics.

The works in this volume describe successful BOP business models from around the world. They represent interesting experiments if considered one study at a time, but collectively they reveal a new way of doing business. By focusing on a range of industries—from housing to microfinance, from agriculture to health—and covering a geographical spread from India to Mexico and South Africa, the collection helps managers and public policy makers anchor their thinking on the role of the private sector and market-based solutions to poverty alleviation. It is a manifesto on how to combine profits and poverty alleviation.

What is the long-term impact of private sector involvement in poverty alleviation? First, it brings choice to BOP consumers. Access to world-class products and services at affordable prices and the benefits of choice are critical elements in developing self-esteem and dignity for BOP consumers. Consumption also creates new forms of entrepreneurial activity leading to new sources of livelihoods. For example, in India there is a new phenomenon of thousands of entrepreneurs who sell prepaid cards and charge cell phones for a fee. Second, the private sector enables BOP consumers to access global markets, as in the case of ITC. The two sides of the equation—consumption and new livelihood opportunities—are at the core of poverty alleviation. Finally, private sector involvement, when profitable, promotes new investments and scaling. Multinationals can create a global market for a successful experiment held in one locale. Consumption, new livelihoods, and scalability are the elements that lead to democratizing commerce, making the benefits of a global economy accessible to all.

This is our new challenge. This collection of studies represents a significant step in facilitating the process of engaging business in the most pressing problem we face.
Although each of us has been independently engaged on topics related to the role of business in poverty alleviation, the idea of hosting a conference to bring focus to this area germinated quite informally. Two of us had an initial concept for such a gathering, which was further developed with the input from a number of our colleagues at the Harvard Business School (HBS).

This conference would not have been possible without the support of the school’s Division of Research and Faculty Development. Three people in the division in particular deserve our thanks: Dean Jay Light, Senior Associate Dean Krishna Palepu, and former Dean Kim Clark. Each of them gave the necessary encouragement at various critical times in the planning of the event.

The conference from which this book is drawn—*A Conference on Global Poverty: Business Solutions and Approaches*—met December 1–3, 2005. Nearly 120 academics and practitioners from around the world attended the conference. We thank them and their sponsoring organizations for taking the time to earnestly examine what may be one of the most pressing issues facing global business today. They are far too many to name in this section, but a complete listing and their affiliations are found in the Appendix. We are particularly thankful to the six keynote speakers who addressed the conference at various points over the three days, challenging them with innovative ideas on the role of business in addressing poverty: David Ellwood (dean, Harvard University’s Kennedy School of Government), Kurt Hoffman (director, Shell Foundation), George Lodge (professor emeritus, Harvard Business School), Andrew Natsios (administrator,
USAID), Ray Offenheiser, (president, Oxfam America), and C. K. Prahalad (professor, University of Michigan’s Ross School of Business).

We are also extremely grateful to the numerous faculty members at HBS and Harvard University who went to extraordinary lengths to make this conference a success. Their unusual dedication and participation in both the conference and the book is a testament to the cross-disciplinary thinking and intellectual excellence that the problem of global poverty requires. Here we would like to especially acknowledge the roles played by James Austin, Joe Bower, David Brown, Allen Grossman, Linda Hill, Robert Kaplan, Tarun Khanna, Herman Leonard, and David Upton in moderating sessions and leading discussion groups.

As editors, we would like to congratulate the contributors to this volume for a job well done. Each paper had to undergo revision, and the authors stayed focused on the task in good spirit, enhancing the quality of the collection. We believe that their work—and the work of others like them—will affect the critical task of formulating lasting solutions to global poverty.
BUSINESS SOLUTIONS
FOR THE GLOBAL POOR
INTRODUCTION

The problem of global poverty is ubiquitous and enduring. Although sustained economic growth in countries such as India and China has brought down the overall poverty level, we are still far from achieving the UN’s top Millennium Development Goal\(^1\) of halving the number of people living in extreme poverty by 2015.\(^2\) We have all heard the statistics: nearly half of the world’s 6.5 billion people survive on less than $2 a day, and 1.2 billion get by on just half that amount. We know that widespread hunger and malnutrition are among the many grim consequences; according to the United Nations, more than 800 million people routinely do not have enough to eat.\(^3\)

Despite these sobering facts, the women and men who dwell at the base of the pyramid (the so-called BOP) have begun to capture the attention of corporate executives and senior managers. This emerging interest has been driven by the innovative work of a growing number of businesses that are redefining their interaction with the poor from a secondary activity to one integral to continued business growth and profitability. Their approach has been showcased by C. K. Prahalad, Stuart Hart, and Allen Hammond,\(^4\) scholars whose work has awakened business attention to a potential “fortune at the bottom of the pyramid.”\(^5\) Not only is there a vast, untapped BOP market for goods and services, these authors argue, but business can play a critical role in connecting these underserved consumers to the economic mainstream, with tremendous social benefits to the poor themselves.
We believe, however, that the BOP represents less of a “fortune” than a solid market opportunity that can be cultivated only through the hard work of market development bolstered by cross-sector collaboration. Indeed, successful BOP initiatives offer a refreshing take on the age-old problem of poverty alleviation precisely because their approach reenvisions how governments, nonprofit organizations, and private enterprise might collaborate to redefine good business practice. Such initiatives draw to the fore latent business opportunities in what has long been an overlooked, undervalued market.

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There isn’t enough tax money in the world to make a dent in poverty. It’s got to be done privately. And we know that one of the answers is promoting domestic businesses. But we also know that for a domestic business to flourish, it requires the nourishment that comes from global attachment, from integration into the world economy, from access to markets, credit, and technology. And where does this come from? This comes from the 63,000 multinational corporations that are now the engines of globalization.

George Lodge, professor emeritus, Harvard Business School, keynote speaker, HBS Conference on Global Poverty, December 2005

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Those business opportunities are not insignificant. A recent article estimated the BOP market for goods in the eighteen largest developing countries at $1.7 trillion. This does not include the potential investments in other aspects of poverty alleviation such as infrastructure for energy or transportation. One estimate put the value of such investments at more than $300 billion in 2003.

As more and more businesses target their share of the BOP “fortune,” there is ample need to critically examine the success factors in and obstacles to operating in this market. How do businesses formulate BOP strategies? What are the key components of such a strategy? What are the characteristics of successful enterprises and leaders? What steps have they taken to address the managerial, operational, and cultural challenges of working with and serving the poor? Just what impact are these approaches having on the bottom line and on poverty itself? Finally, is business alone a sufficient force to help the poor climb the economic ladder?

To answer these questions, in December 2005 Harvard Business School convened its first-ever conference on business approaches to poverty alleviation. Entitled “A Conference on Global Poverty: Business Solutions & Approaches,” the event assembled 120 academics and practitioners from around the world to explore how doing business with the poor can be both a profitable—and a socially beneficial—undertaking.
The aim of the conference was not so much to direct business attention to the fortune at the base of the pyramid. Instead, our goal was to analyze and draw practical lessons from the actions and approaches taken by successful enterprises engaging the BOP segment.

Building on the richness of three days of discussion, we are pleased to bring together in this volume thirty-two papers presented at the conference. Most chapters are coauthored by academics and corporate, nonprofit or public sector managers. Each is anchored to one or more concrete case examples. All told, they draw on initiatives undertaken by more than fifty enterprises in twenty countries and deliver practical and powerful how-to insights gleaned from leading BOP ventures around the world.

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When business is faced with a problem it can’t look up to the heavens and pray for a solution. It rolls up its sleeves and solves the problem. Because if a company doesn’t solve the problem, it goes out of business. This problem-solving capacity is why I think the private sector can provide tremendous social value in tackling poverty.

Kurt Hoffman, director, Shell Foundation, keynote speaker, HBS Conference on Global Poverty

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The book is divided into six thematic parts structured to reflect the multifaceted nature of poverty and the broad range of actors—multinational and local businesses, entrepreneurs, civil society organizations, and governments—that play a role in its alleviation. Nonetheless, it must be kept in mind that this book is a collection of papers developed for a conference, and as such they may not all fall neatly into one of the six parts we have created for them; nor do they fully exhaust each theme. Furthermore, many papers address multiple themes and could have easily appeared in another section of the book.

Part One: Just Who Are the Poor?

It hardly needs to be said that the poor represent a vast market; as of 2006, nearly four billion people lived on less than $5 a day. Without doubt, the four billion people represented in Figure I.1 are too numerous and varied to be treated as a single group. In fact, they are extremely heterogeneous, representing a variety of subgroups that differ by socioeconomic status, culture, and gender.
We find that the true rock bottom of the economic pyramid consists of what might be called a “poverty market,” where most people still lack the basic necessities of life: sufficient food, clean water, and adequate shelter. The sheer precariousness of their daily existence may preclude them from meaningfully participating in the market, as consumers or producers. Poor health, lack of nutrition, financial vulnerability, and a dearth of marketable skills shut the so-called ultrapoor out of the economy and, if they are lucky, into the hands of nonprofit agencies and government relief programs.

In contrast, those individuals at the middle of the base of the pyramid, with incomes between $1 and $5 per day, participate in “submerged markets,” often indulging in consumption of packaged goods, apparel, and appliances much like those at the top. These submerged markets, as with conventional markets the world over, are driven by voluntary exchanges of goods and services for money or monetary equivalents. Nevertheless, they are often extremely inefficient and lack the infrastructure and supporting institutions that characterize the “exchange” markets at the top of the pyramid. For example, submerged consumers may not have bank accounts or access to formal credit, but they may be able to obtain loans from money lenders or other channels at above-market rates. Similarly, they may have physical access to markets and

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**Figure I.1. The Global Income Pyramid.**

<table>
<thead>
<tr>
<th>Annual per capita income</th>
<th>Population</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;$20,000</td>
<td>100 million</td>
<td>Exchange market</td>
</tr>
<tr>
<td>$2,000–$20,000</td>
<td>2.0 billion</td>
<td>$5/day or less</td>
</tr>
<tr>
<td>$725–$2,000</td>
<td>1.2 billion</td>
<td>Submerged market</td>
</tr>
<tr>
<td>$365–$725</td>
<td>1.6 billion</td>
<td></td>
</tr>
<tr>
<td>&lt;$365</td>
<td>1.2 billion</td>
<td>Poverty market</td>
</tr>
</tbody>
</table>

commercial centers but are forced to walk miles to reach them, and once there they are able only to exchange goods through barter.

Chapters One through Three take a close look at these differences and examine the characteristics, preferences, and habits of both the ultrapoor and those already engaged in submerged markets.

**Part Two: Meeting the Basic Needs of the Poor**

To add value to the exchanges taking place at the higher levels of the BOP, companies must first come to grips with the day-to-day needs of those living at the rock bottom. These are the men and women who spend their waking hours struggling to meet their families’ minimum needs for physical security, food, water, shelter, health care, and energy. The hierarchy of these basic needs may be a matter of debate, but unless the poor have access to the full bundle it is impossible for them to ascend the pyramid and participate as consumers in market exchange.

Chapters Four through Ten look at this challenge through a series of case studies that examine the role of business in meeting the poor’s basic needs for security, health care, and utilities such as water, gas, and electricity. Without a clear pathway to profit, private investors are not normally motivated to meet the poor’s basic needs. In fact, many successful cases of private provision to poor consumers owe their profitability to enlightened government policies that enable adequate returns for investors. Such policies seem to have a common characteristic: they provide just enough incentive to attract the private entity to develop the infrastructure but leave it to the companies to collect the rest of the return from consumers of their service. This crucial link has forced innovative market mechanisms to emerge in terms of product and service design, and delivery and compliance.

**Part Three: Building the BOP Value Chain**

*By creating a positive business environment, providing the right tools for entrepreneurship and trade, and offering private sector partnerships, you open the door to people to pursue their own development. There is no development approach which is more edifying to a person, and in turn, more durable in results, than this.*

Andrew Natsios, administrator, USAID, keynote speaker, HBS Conference on Global Poverty
The poor engage in a range of economic activity; they are both consumers and producers. However, because of variation in their purchasing power, level of economic and geographic integration, and risk-taking ability, their consumption and production patterns are often markedly different. Chapters Eleven through Fourteen examine a series of case studies about companies that have successfully adapted their value proposition to the needs of low-income, submerged market consumers in the retail, technology, and consumer goods sectors. In Chapters Fifteen through Seventeen, we look at the role of business in creating employment opportunities at the BOP, as well as how the private sector can facilitate integration of the poor into the global production system.

The Poor as Consumers

The poor differ from affluent consumers in a number of ways. Low-income consumers tend to shop frequently and buy in small quantities. Their purchasing habits are driven by low and highly variable incomes (which they often earn on a weekly or even daily basis), as well as by other constraints, such as lack of storage space or appliances to preserve and cook food. Because of their economic vulnerability, the poor also have a much lower tolerance for risk taking than their wealthier counterparts. This tendency is exacerbated by the fact that many rural poor live in “media-dark” areas characterized by extremely low penetration of electronic media and a high level of illiteracy. Thus they lack access to essential information about products or services—information commonly available to wealthier consumers. This situation of low risk-taking ability and imperfect information often manifests itself in a reluctance to switch brands or adopt new products, because doing so may pose higher financial risk than sticking to the status quo, even when the products are sold at a discount. For companies seeking to overcome existing brand loyalties, this means finding ways to allow low-income consumers to experience a new product or service in a risk-free, firsthand manner—whether through product demonstrations or the recommendation of friends and neighbors.

The Poor as Producers

Much has been made (and deservedly so) of the potential consumer market at the base of the pyramid. However, consumption is inherently linked to income, and for many observers the drive to sell consumer products to the unemployed and underpaid is putting the proverbial cart before the horse. Indeed, companies may best make use of the BOP by leveraging the productive capacity of the poor as an input—in both supply and distribution chains—to business. Bringing BOP-produced goods to market is not easy, however; poor producers often lack the information, infrastructure,
risk-taking ability to commercialize their products without the intervention of rent-extracting intermediaries. However, as contributors to this volume show, improving information flow and market access can go a long way toward empowering the poor and reducing procurement costs for companies.

On the distribution end, companies have looked to the poor themselves as a primary channel to the BOP market. For example, low-income, community-based salespeople can be extremely effective in building demand for goods in the hard-to-service rural market. What’s more, because such salespeople have deep knowledge of the economic situation and reliability of their neighbors, they furnish the market intelligence critical to building a creditworthy customer base.

Part Four: Business Models at the Base of the Pyramid

The fourth part of the book offers three integrative chapters that provide overarching business principles for serving the base of the pyramid. They also highlight the fact that companies seeking to operate at the BOP face a number of unique challenges:

- Because of the unintended, but nevertheless, real cultural distance and lack of engagement between corporate decision makers and the poor, companies may overlook crucial business opportunities if they do not proactively transform their organizational culture.
- A lack of essential infrastructure in developing countries and poor markets makes operating at the BOP a difficult, and potentially costly, undertaking.
- Finally, companies are challenged to find ways to bring BOP initiatives to scale and sustainability within the time frames dictated by traditional corporate targets.

To be truly responsive to low-income clients, companies must strengthen bottom-up market intelligence and outreach, while also ensuring that corporate leadership sets a tone of openness and engagement from the top. Making this change requires a shift in worldview and hard-wiring a sensitivity to the poor throughout the business. Companies that work successfully with the BOP typically have organizational cultures that are entrepreneurial, and they frequently possess leadership that sets the vision externally while internally reinforcing the openness and patience needed to support new, sometimes risky, BOP ventures.

Companies interested in engaging BOP markets often operate in an environment devoid of the valuable physical, legal, and institutional infrastructure that undergirds mainstream markets. For instance, a basic lack of physical connectivity—be it by road, air, or rail—characterizes many rural markets and poses tremendous challenges for
companies seeking to operate profitably in this space. In many developing coun-
tries, companies seeking BOP customers must learn to adapt their business model in
the context of uncertain (or virtually nonexistent) legal institutions that fail to protect
essential property rights. As detailed in Part Four, success may rely on community-
based agents and leveraging the poor’s social capital in order to build incentives for
all actors to “play by the rules.” The role of social capital is also significant in over-
coming obstacles related to weak economic institutions. In the absence of formal
credit bureaus, many microcredit organizations, for example, rely on the self-selection
and mutual monitoring of a group of entrepreneurs to reduce credit risk and mini-
mize default.

A final challenge lies in the fact that companies are under inevitable pressure to
quickly bring their BOP ventures to scale. In many such ventures, the true profit dri-
ver lies in volume, rather than in profit margin. However, because of the challenges
already outlined (ill-equipped organizational cultures and the serious institutional
and infrastructural deficits that characterize the BOP environment), few BOP ventures can
be expected to reach scale at the pace seen in their mainstream counterparts. Indeed,
those BOP ventures that do quickly reach scale often credit some of their success to
support from governments, multilateral donors, and nonprofit organizations. Others
that grow more slowly have benefited from enlightened managers who take the view
that a BOP venture’s steep start-up costs are a long-term investment.

**Part Five: The Role of Government and Civil Society**

Chapters Twenty-One through Twenty-Seven elaborate on the theme that support-
ive government structures, vibrant civil societies, and empowered entrepreneurs are
drivers for reaching the BOP and essential partners. Although the profit motive reigns
supreme in many of the cases examined in this volume, the conditions that make serv-
ing the poor profitable are frequently shaped by nonmarket actors. Government inter-
vention—or the mere threat of such intervention—is one powerful driver. In South
Africa, government-led initiatives to empower the country’s long-oppressed black
population spurred private sector actors to voluntarily take steps to integrate black-
owned businesses into their value chain. In the United States, efforts by the federal
government to end discriminatory lending practices through the Community Rein-
vestment Act have spawned profitable new markets for banks targeting low-income
individuals. In some cases, companies (particularly public utility providers) choose
to serve the poor because if they do not their goodwill with community groups and
civil society—and therefore their ability to serve any customer segment at all—may
be at risk.