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Romanticizing the Poor Harms the Poor

Aneel Karnani
Stephen M. Ross School of Business
at the University of Michigan

Email: akarnani@umich.edu

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Abstract

A libertarian movement that emphasizes free markets to reduce poverty has grown strong in recent years. It views the poor as "resilient and creative entrepreneurs and value-conscious consumers". This romanticized view of the poor is far from the truth and harms the poor in two ways. First, it results in too little emphasis on legal, regulatory, and social mechanisms to protect the poor who are vulnerable consumers. Second, it results in overemphasis on microcredit and under-emphasis on fostering modern enterprises that would provide employment opportunities for the poor. More importantly, the libertarian proposition grossly under-emphasizes the critical role and responsibility of the state for poverty reduction.

A libertarian movement that emphasizes free markets to reduce poverty has grown strong in recent years. The think tank World Resource Institute advocates 'development through enterprise' and emphasizes business models driven by a profit motive that engage the poor as producers and consumers. The Private Sector Development network, part of the World Bank, focuses on private sector led growth in developing countries. CK Prahalad (2005), a prolific exponent of this perspective, argues that selling to the poor people at the 'bottom of the pyramid' (BOP) can simultaneously be profitable and help eradicate poverty. The BOP proposition has caught the attention of senior executives and business academics. Many multinational companies (such as Unilever and SC Johnson) have undertaken BOP initiatives; the world's top CEOs have discussed this topic at recent sessions of the World Economic Forum. Several business schools (such as University of Michigan and University of North Carolina) have set up BOP centers.

This libertarian approach to reducing poverty necessarily assumes that the poor are fully capable and willing participants in the free market economy. Prahalad (2005) explicitly urges us in the very first paragraph of his book to recognize the poor as "resilient and creative entrepreneurs and value-conscious consumers". However, the rest of the book does not provide *any* empirical support for this assumption about the behavior of the poor as consumers and as entrepreneurs. The United Nations, having designated 2005 as the International year of Microcredit, declares on its website, "currently microentrepreneurs use loans as small as $100 to grow thriving business and, in turn, provide [for] their families, leading to strong and flourishing local economies." This is hype and the United Nations provides no empirical evidence to support its bold assertion.

I will argue that the view of the poor as "resilient and creative entrepreneurs and value-conscious consumers" is empirically false. This romanticized view of the poor does not help them, and actually harms the poor. First, it results in too little emphasis on legal, regulatory, and social mechanisms to protect the poor who are vulnerable consumers. Second, it results in overemphasis on microcredit and under-emphasis on fostering modern enterprises that would provide employment opportunities for the poor. More importantly, the BOP proposition grossly under-emphasizes the critical role and responsibility of the state for poverty reduction.

This is not to advocate a return to statist policies that stifled economic growth for decades in countries such as India and China. Contemporary economic history clearly demonstrates that the free market system is the best way to achieve overall growth and development. But that does not mean that there is no role for the state. Rajan and Zingales (2003, p. 293) persuasively argue that "markets cannot flourish without the very visible hand of the governments." There is a need to impose some limits on free markets to prevent exploitation of the poor (Karnani, forthcoming). Another vital role of the state is to provide basic services such as infrastructure, public health and education. Both these responsibilities of the state are even more critical in the context of poverty reduction.

Poor as Value-Conscious Consumers

The BOP proposition views the poor primarily as consumers, as untapped purchasing power. Providing increased consumption choices to the poor person will increase his welfare, assuming he is a rational consumer. It is almost an "item of faith" among development economists that the poor act rationally (Economist, 2007). Civil society organizations have often argued that targeting the poor as a market might cause them to wastefully spend part of their already meager income on low priority products and services (for example, Clay, 2005, chapter 5). Hammond and Prahalad (2004) dismiss such arguments as patronizing and arrogant; how can anybody else decide what is best for the poor? The BOP proposition argues that the poor have the right to determine how they spend their limited income and are in fact value-conscious consumers; the poor themselves are the best judge of how to maximize their utility.

Only the expenditure patterns of the poor, and not their utility preferences, can be directly observed. The BOP proposition assumes on ideological grounds, and without empirical evidence, that the poor must be maximizing their utility preferences, and that these preferences are congruent with the true self-interest of the poor. This is free market ideology taken to a dangerous extreme, and harms the poor. Even a stalwart proponent of noeliberal policies like *The Economist* concludes that the poor do make choices, and the empirical evidence suggests that "they are not always the best ones" (The Economist, 2007). I will argue below that the assumption that the poor are value-conscious consumers is empirically false; additionally, it is morally problematic.

The poor in fact are vulnerable by virtue of lack of education (often they are illiterate), lack of information, and economic, cultural and social deprivations. A person's utility preferences are malleable and shaped by his background and experience, especially so if he has been disadvantaged (Sen, 2000). It is not appropriate to assume that the expressed preferences are truly in the self-interest of the poor. We need to look beyond the expressed preferences and focus on people's capabilities to choose the lives they have reason to value. Amartya Sen (2000, page 63), the Nobel Prize economist, eloquently states:

> "The deprived people tend to come to terms with their deprivation because of the sheer necessity of survival, and they may, as a result, lack the courage to demand any radical change, and may even adjust their desires and expectations to what they unambitiously see as feasible. The mental metric of pleasure or desire is just too malleable to be a firm guide to deprivation and disadvantage. … Social and economic factors such as basic education, elementary health care, and secure employment are important not only in their own right, but also for the role they can play in giving people opportunity to approach the world with courage and freedom."

Empirical Evidence

Unfortunately there are few micro-level studies on the purchasing behavior of the poor. In an excellent survey of research on the consumption choices the poor make, Banerjee and Duflo (2006) show that the poor spend "surprisingly large" fraction of their total income on alcohol, tobacco, and entertainment (be it televisions, weddings, or festivals). The poor enjoy such products as much as affluent people do, and maybe even more so given the rather bleak lives of the poor. It is easy to rationalize any particular consumption choice of the poor. But, it is problematic that the poor do not spend enough on their own nutrition, health and education. In spite of being poor, they could invest more in their own future because the poor "could easily save more without getting less nutrition by spending less on alcohol, tobacco, and food items such as sugar, spice and tea" (Banerjee and Duflo, 2006).

One survey of the poor in Udaipur in India found that 55% of the adults were anemic, and that 65% of adult men and 40% of adult women were underweight (Banerjee, Deaton, Duflo, 2004). Meenakshi and Vishwanathan (2003) find that the poor are buying less and less calories over time. Partly as a result of this general weakness, the poor are frequently sick. Banerjee and Duflo (2006) speculate that one cause of this surprising under-spending on nutrition is the "growing availability of consumption goods."

The data suggest that the poor lack self-control, yield to temptation, and spend to keep up with their neighbors (Banerjee and Duflo, 2006). In this they are no different than people with more money, but the consequences of bad choices are more severe for the poor. Efroymson and Ahmed (2001) tell a moving, but not uncommon, story of Hasan, a rickshaw puller, who spends $0.20/day on tobacco. When asked if his three children ever eat eggs, he exclaimed, "Eggs? Where will the money come from to buy them?" If Hasan didn't buy tobacco, each of his children could eat an egg a day, or other nutritious foods, and be healthier as a result. For more affluent people the consequences of smoking are not as bleak as children's malnutrition.

Empirical data dos not support the romanticized view of the poor as 'value conscious consumers'. The problem is that the poor often make choices that are not in their own self interest. The rich also often make choices not in their self interest, but the consequences are not as severe in their case. Selling to the poor can in fact result in reducing their welfare. Therefore, there is a need to impose some limits on free markets to prevent exploitation of the poor (Karnani, forthcoming). Markets work best when appropriately restricted to protect the vulnerable. To examine one example in depth, I study below the consumption choices of the poor with respect to alcohol.

Poverty and Alcohol

Alcohol consumption is a financial drain for the poor. The reported share of household income spent on alcohol and tobacco by the poor is high in all countries, ranging from 6% in Indonesia to 1% in Nicaragua (Banerjee and Duflo, 2006). The poor in India spend about 3% of their household income on alcohol and tobacco (Gangopadhyay and Wadhwa, 2004). These numbers understate the true consumption level since it is usually only the man in the household who engages in this consumption. Baklien and Samarasinghe (2004) in their in-depth field study find that "money spent on alcohol by poor families and communities is underestimated to a remarkable degree. … A large part of alcohol expenditure is unseen. … Over 10% of male respondents report spending as much as (or more than!) their regular income on alcohol."   Sadly, the poorer people spend a greater fraction of their income on alcohol than the less poor.

Aside from the direct financial cost, alcohol abuse imposes other economic and social costs such as work performance, health and accidents. "Domestic violence and gender based violence was almost taken for granted in nearly all settings as an automatic consequence of alcohol use. Deprivation of the needs of children due to the father's heavy alcohol use was regarded simply as a misfortune of the children concerned" (Baklien and Samarasinghe, 2004). There is much evidence showing alcohol abuse exacerbates poverty (for example, Asunta, 2001).

The Economist (2006a) cites SABMiller which has succeeded in several African countries with Eagle, a cheaper beer made from locally grown sorghum (rather than imported malt). SABMiller is able to price the beer at a level below that of mainstream clear beers in Uganda, Zambia and Zimbabwe partly because it has obtained a reduction in excise duties from the governments involved. Andre Parker, managing director for Africa and Asia division, says, "The brand is reliant on the excise break, so we are working with the governments to lower the excise rate so that the retail price is below that of clear beer. The margin, though, is at least as good as our other brands" (Bolin, 2005). Eagle beer is profitable for SABMiller and a practical example consistent with the BOP proposition, but it is probably detrimental to the overall welfare of the poor consumers. Activist consumer organizations advocate higher (not lower) taxes on alcohol to support public education and rehabilitation programs (for example, Asunta, 2001).

Should the poor have the right to consume, and even abuse, alcohol? Yes. Is it in their self interest to do so? Undoubtedly, no – at least at the levels many drink. Should companies have the right to profit from sale of alcohol to the poor? Yes, but even in rich, capitalist economies the governments put some constraints on this right, such as 'sin taxes,' restrictions on advertising, and sale to minors. Yet, in many developing countries, such constraints are sometimes missing; even when they do exist, they are poorly enforced, especially in the context of marketing alcohol to the poor. For example, in Malaysia, bottles of 'samsu' (the generic name for cheap spirits) advertise outrageous claims that it is "good for health, it can cure rheumatism, body aches, low blood pressure, and indigestion. Labels also claim it is good for the elderly, and for mothers who are lactating" (Asunta et al, 2001). Even MNCs have got into the act. DOM Benedictine, which contains 40% alcohol, claims health giving and medicinal properties. Guinness Stout suggests it is good for male fertility and virility. Alcoholic drinks are easily available in coffee shops and sundry shops without a liquor license. 45 percent of Malaysian youth under 18 consume alcohol regularly. In an ironic twist on the 'single serve packaging' idea often championed by the BOP proposition, samsu is available in small bottles of about 150ml and "sold for as little as $0.40-0.80. … It is obvious that these potent drinks are packaged to especially appeal to the poor" (Asunta et al, 2001).

Aside from the government, activist movements also play a role in protecting the consumer. Alcoholics Anonymous is a fellowship of men and women who share their experience, and help each other that they may solve their common problem with alcoholism. The poor in emerging economies usually do not have access to such rehabilitation programs. In 1991 in the USA, Heilman Brewery introduced PowerMaster, a malt liquor with high alcohol content, targeted to African American youth. A campaign led by African American leaders resulted in the product being withdrawn from the market within a few months. Such social mechanisms for consumer protection are often very weak in developing countries, and even more so with regard to the poor people. There is a need for checks and balances on powerful companies, especially MNCs, marketing to the poor.[1] The romanticization of the poor as 'value conscious consumers' has resulted in too little emphasis on legal, regulatory, and social mechanisms to protect the vulnerable consumers.

Poor as Entrepreneurs

Many poor people are entrepreneurs in the literal sense: they are self-employed, raise the capital, manage the business and are the residual claimants of the earnings. But, the current usage of the word 'entrepreneur' requires more than the literal definition. Entrepreneurship is the engine of Joseph Schumpeter's dynamism of 'creative destruction.' An entrepreneur is a person of vision and creativity who converts a new idea into a successful innovation, into a new business model. Some poor people are certainly true entrepreneurs, and have created thriving businesses – these are the subjects

[1] For another case study in this vein, Karnani (forthcoming) focuses on skin whitening cream marketed by Unilever.

of heart-warming anecdotes. But, the empirical evidence suggests that the vast majority of the poor lack the skills, vision, creativity and drive of an entrepreneur.

Banerjee and Duflo (2006) argue that the poor have a "reluctance to psychologically commit themselves to the project of making as much money as they can." In a study of farmers in Kenya, Duflo et al (2006) find that few farmers use fertilizers, even after the benefits -- average return on investment of over 100% -- have been demonstrated to them. Not many Ghanaian farmers cultivate pineapples which would achieve returns of 250-300% (The Economist, 2007). This is perhaps understandable: the poor face such bleak circumstances that they come to believe the future is hopeless. Over a hundred years ago, George Orwell wrote that poverty "annihilates the future" – that bleak trenchant observation is just as valid today.

The vast majority of self-employed poor are caught in subsistence activities with no prospect of competitive advantage. The self-employed poor usually have no specialized skills and often practice multiple occupations (Banerjee and Duflo, 2006). Many of these businesses operate at too small a scale. The median business operated by the poor has no paid staff; most of these businesses have very few assets as well. With low skills, little capital and no scale economies, these businesses operate in arenas with low entry barriers and too much competition; they have low productivity and lead to meager earnings that cannot lift their owners out of poverty. There is no evidence to support Prahalad's (2005) assertion that the poor are 'resilient and creative entrepreneurs.'

This should not be too surprising. Most people do not have the skills, vision, creativity, and persistence to be true entrepreneurs. Even in developed countries with higher levels of education and infrastructure, about 90% of the labor force are employees rather than entrepreneurs (International Labor Organization, 2007). Even with greater availability of financial services in developed countries, only a small fraction have used credit for entrepreneurial purposes. Most poor people are not self-employed by choice and would gladly take a factory job at reasonable wages if possible. The romanticized view of the poor as 'resilient and creative entrepreneurs' is far from the truth. The International Labor Organization (ILO) uses a more appropriate term: 'own account workers.'

This romanticization of the poor as entrepreneurs has led to an overemphasis on microcredit as a way to reduce poverty. The Nobel Peace Price for 2006 was awarded to the Grameen Bank in Bangladesh and its founder Muhammad Yunus, a pioneer of the microcredit movement. The Nobel Committee affirmed that microcredit must play "a major part" in eliminating poverty. Many governments subsidize microcredit. For example, P. Chidambaram, Finance Minister of India, is a supporter of microcredit. The United Nations designated 2005 as the International year of Microcredit. But, the reality of microcredit is less attractive than the promise (Karnani, 2007). Even a supporter of neoliberal policies like *The Economist* (2006b) concluded that most studies suggest that microcredit is beneficial but only to a limited extent. The problem lies not with microcredit, but rather with microenterprises.

Creating opportunities for steady employment at reasonable wages is the best way to take people out of poverty. Governments in fragile states have limited political capital and capacity. They would be better off focusing on issues such public health and education, infrastructure, and sound legal and banking systems that foster modern entrepreneurship, which in turn would provide employment opportunities for the poor (Bhide and Schramm, 2007). Microlending to marginal businesses is a distraction. Bateman and Elelrman (2005) go further and argue that microcredit actually undermines long-term sustainable development through fostering informalization, marginalization, and de-industrialization. Microcredit is very closely identified with the promotion of informal non-industrial enterprises overwhelmingly below efficient scale, which suggests problems in the long term. Bolivia and Bangladesh are the two countries that pioneered microcredit; after more than 30 years of much microlending, it is difficult to find its positive impacts on overall economic development. The microcredit approach is plausibly implicated in the evolution of disturbingly weak, unsophisticated and very fragmented economic structure. On the other hand, countries such as China, Vietnam and South Korea have achieved rapid growth and significant reduction in poverty by fostering modern entrepreneurship, and hence job creation, through emphasis on economic reforms, public services and infrastructure.

Role of the State

In recent years, the political ideology of the world has shifted decisively towards an increased role for markets. There is a growing 'neoliberal' movement which seeks to decrease the role of the state and to 'marketise' all public sector functions. In particular, the BOP proposition argues that the private sector should play the leading role in poverty reduction (Prahalad, 2005). This is a dangerous delusion because it grossly underemphasizes the role and the responsibility of the state for poverty reduction.

Romanticizing the poor as 'value-conscious consumers' leads to inadequate protection of the poor who are vulnerable consumers by virtue of lack of education, lack of information, and economic, cultural and social deprivations. It is primarily the role of the state to provide such protection. Romanticizing the poor as 'resilient and creative entrepreneurs' results in inadequate creation of job opportunities for the poor. It is the role of the state to foster modern entrepreneurship and job creation by implementing appropriate pro-market policies, providing infrastructure and sound legal and financial systems.

Facilitating creation of job opportunities is not enough. The state is also responsible for services such as basic education, public health, water, sanitation, public safety and infrastructure, which help increase the productivity and the employability of the poor, and thus their income and well-being. The BOP proposition underemphasizes the role and responsibility of the state to provide these public services.

Contrary to the BOP proposition, the empirical evidence supports a larger role for the state in social services in developing countries. Pattnayak (2006) calculates the public expenditure on education as a percentage of GNP for developed countries to be 5.46% in 1980 and 5.54% in 1997; the comparable numbers for developing countries are 3.99%

and 3.92%. World Bank (2006) data indicate public education expenditure to be 5.6% of GDP for developed countries and 4.1% for developing countries, in 2004. Similarly, public health expenditure accounted for 6.7% of GDP in 2004 in high income countries compared to 1.3% in low income countries (World Bank, 2006). Governments in developing countries need to play a larger role in education and public health.

Prahalad and Hammond (2002) describe the impressive extent of business activity in the slums of Dharavi (in Mumbai), "the seeds of vibrant commercial sector have been sown." Prahalad has said "if people have no sewage and drinking water, should we also deny them televisions and cell phones?" (Time, 2005). Writing about the slums of Dharavi, Prahalad and Hammond (2002) argue that the poor accept that access to running water is not a "realistic option" and therefore spend their income on things that they can get now that improve the quality of their lives. This opens up a market, and the BOP proposition urges private companies to make significant profits by selling to the poor. (This paper focuses on poverty alleviation, not profit maximizing strategies for firms; however, this advice to companies is riddled with fallacies – see the two sidebars.)

But, we should be cautious about celebrating this entrepreneurship too much and romanticizing the poor. Sharma (2000) in her emotive book about Dharavi states that while enterprise in the midst of deprivation is to be admired, there is absolutely "nothing to celebrate about living in a cramped 150 sq. ft. house with no natural light or ventilation, without running water or sanitation." The UN-Habitat estimates that in Dharavi there is one public toilet for every 800 people. Writing about the slums of

Kibera (in Nairobi), The Economist (2007b) observed, "most striking of all, to those inured to the sight of such places through photography, is the smell. With piles of human faeces littering the ground and sewage running freely, the stench is ever-present."

The real issue which the BOP proposition glosses over is: why do the poor accept that access to running water is not a realistic option? Even if they do, why should we all accept this bleak view? Instead, we should emphasize the failure of government and attempt to correct it. Amartya Sen (2000) says "social and economic factors such as basic education, elementary health care, and secure employment are important not only in their own right, but also for the role they can play in giving people opportunity to approach the world with courage and freedom."

The neoliberal approach looks to the private sector for the solution to the failure of public services. There is much debate about whether the direct production of these services should be privatized. But, few would argue that the state can totally avoid its responsibilities. For example, if water supply is privatized, the government needs to regulate the rates or ensure that the poor have enough purchasing power to buy water. In the case of a 'public good' such as sanitation and public health, the market cannot solve the problem. Even late Milton Friedman advocated school voucher system, and not for the state to withdraw totally from the field of education. The state must be responsible for services when there is a natural monopoly (piped water), when it is a public good (public health), and for the sake of equity (education). When the state fails, the market might be a partial complement, but it cannot be a total substitute. The government in every developing country certainly professes to accept responsibility for these traditional functions. Yet, it has failed dismally to deliver on its promises.

As an example of the failure of public services, consider the case of India. The Indian economy is growing rapidly, the stock market is at an all time high, Indian companies are expanding abroad, and a large middle class is emerging. It is the best of times. Contrast this with another India. There is persistent income inequality and gender inequality. 79% of Indians are below the commonly used $2/day poverty line. 39% of adults are illiterate. 10% of boys and 25% of girls do not attend even primary school. 49% of children are underweight for their age. 9% of children die in the first five years of their lives. 31% of rural households and 9% or urban households do not have access to safe drinking water. 81% of rural households and 19% or urban households do not have a toilet. 400,000 children die of diarrhea (a waterborne disease) every year. The boom in the private sector has been accompanied by a significant failure of the state. The cost of this failure is borne disproportionably by the poor.

The rich often purchase these services from private enterprises. The middle class are the main beneficiaries of the public service expenditures. The poor have no or little access to these services, or get very low quality public services, or pay very high prices for private services. For example, the rich go to world-class private hospitals and clinics. The middle class has access to reasonable public health facilities. While public health centers do exist to serve rural and poor areas, these centers are grossly under funded and understaffed. Even worse, the staff are under qualified, and often absent. Children of the rich go to exclusive private schools. The middle class uses a mix of private and public schools. Children of the poor often do not go to school or go to low quality public schools. In one survey, a quarter of the teachers were absent and another quarter were present but not teaching. Absentee rates for teachers and health workers are higher in poorer regions. The rich have ample access to clean water: they purchase bottled drinking water, drill private tube wells and use booster pumps. The middle class settles for piped water even if only for a few hours a day. The poor have no or little access to clean public water supply. The rich hire private guards. The middle class live in reasonably well policed neighborhoods. The poor have little protection from thugs and criminals.

The burden of failure of public services is borne disproportionably by women, which exacerbates gender inequality. Lack of access to toilets poses a bigger problem for women because of anatomy, modesty and susceptibility to attack. Women often lose much time to hauling buckets of water over long distances. Women are more likely than men to need medical care; they are expected to care for sick family members, especially children. Girls attend school less often, especially in poor families.

Giving a 'voice' to the poor is a central aspect of the development process. In many developing countries, an autocratic government has denied a voice to the poor. Even in developing countries with a representative democracy, the political process has been hijacked by various vested interests. The business community, bureaucrats, politicians and the media are full of self congratulations on the booming private sector – for example, on the increased penetration of cell phones. However, the representative image of a developing country is not a cell phone, but rather defecating in public. For example, in Mumbai, the business capital of India, about 50% of the people defecate outside. There is no magic solution, but the starting point is passion and anger at the failure of the state to provide these basic services.

Conclusion

A libertarian movement that emphasizes free markets to reduce poverty has grown strong in recent years, and has attracted the attention of business executives, academics, and public officials. This approach explicitly views the poor as “resilient and creative entrepreneurs and value-conscious consumers”. This romanticized view of the poor is far from the truth and harms the poor in two ways. First, it results in too little emphasis on legal, regulatory, and social mechanisms to protect the poor who are vulnerable consumers. Second, it results in overemphasis on microcredit and under-emphasis on fostering modern enterprises that would provide employment opportunities for the poor. More importantly, the BOP proposition grossly under-emphasizes the critical role and responsibility of the state for poverty reduction. The support for the BOP proposition is intellectually problematic; the implications of the BOP proposition are morally problematic. The BOP approach relies on the invisible hand of free markets to alleviate poverty. We should instead require the state to extend a very visible hand to the poor to help them climb out of poverty.

Fortune or Mirage at the BOP?

Fortune at the BOP: Large multinational companies can make a fortune by selling to the poor people at the bottom of the pyramid.

Mirage of a Fortune: The alleged large and lucrative market at the bottom of the pyramid is a mirage, and companies are much better off targeting the growing middle class in emerging economies.

Fortune at the BOP	Mirage of a Fortune
BOP market size is $13 to $15 trillion.	BOP market size is only $0.36 trillion[2]
There is much 'untapped' purchasing power at the BOP.	The poor have a low savings rate, and little 'untapped' purchasing power.
Profit margins in BOP markets are high.	BOP markets are not so profitable because the customers are price sensitive, and the cost of serving them is high given the small size of transactions and poor infrastructure.
The poor often buy 'luxury' items.	The poor spend 80% of their meager income on food, clothing, and fuel alone, leaving little room for luxuries.
Companies should reduce prices dramatically without reducing quality.	A significant improvement in technology could reduce prices dramatically without reducing quality, such as in computers, telecommunications and electronics. But, in most other product categories, the only way to reduces prices significantly is to reduce quality. The challenge is to do this in a way that the cost-quality trade-off is acceptable to the poor.
Single serve packages increase affordability.	Single serve packages do increase convenience and help the poor to manage cash flow. But, the only way to increase real affordability is to reduce the price per use.

[2] See sidebar 'How big is the BOP market?'

Large MNCs should take the lead role in the BOP initiative to sell to the poor.	Markets for selling to the poor usually do not involve significant scale economies, and small to medium sized local firms are better suited to exploiting these opportunities.

How Big is the BOP Market?

The growing appeal of the BOP proposition has been fueled by the argument that the poor people represent a large and lucrative market. Prahalad (2005) argues that the poor, defined as people living on less than $2 per day, at purchasing power parity (PPP) rates, represent a market size of PPP$13 trillion. Allen Hammond, vice president of World Resource Institute (WRI) and a leading advocate of the BOP proposition, asserts that "the buying power of these poorer markets weighs in at a staggering $15 trillion a year" (Wall, 2006). Given such large estimates, it is not surprising that the BOP proposition has become so popular.

In an article available on Internet in 2006, I argued that such BOP market estimates are gross exaggerations.[3] Using rough calculations from then existing World Bank data, I estimated the BOP market to be $1.2 trillion at PPP, and $0.3 trillion at exchange rates, in 2002. From the perspective of multinational companies, the BOP market size is $0.3 trillion, since companies necessarily convert local currencies into home currency at exchange rates. In response to my article, Prahalad insisted, in an interview published in *Fast Company* in March 2007 that he had not overestimated the size of the BOP market.

We now have new data to resolve this debate. The report *The Next 4 Billion,* released in 2007 by International Finance Corporation (the private sector arm of the World Bank group) and WRI, estimates the size of the BOP market based on unique (and previously unreleased) access to the household surveys of 146 developing and transition countries.

I have calculated the BOP market in 2002 using data from *The Next 4 Billion* for a poverty line of $1000 at PPP (which corresponds roughly to the commonly used $2/day in 1990 prices standard). In that case, the global BOP market size is only $0.36 trillion at exchange rates, which is remarkably close to my earlier estimate.

The alleged large and lucrative market at the bottom of the pyramid is a mirage. Fueled by rapid economic growth, the shape of the economic pyramid is

[3] This article has since been published. "The Mirage of Marketing to the Bottom of the Pyramid." *California Management Review.* Summer 2007.

changing in many developing countries leading to a rapid emergence of the middle class. Companies seeking new profitable opportunities are much better off targeting this vast new pool of consumers – the fast growing middle class – in the emerging economies, especially China and India.[4]

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[4] See, for example, *The 'Bird of Gold': The Rise of India's Consumer Market,* McKinsey Global Institue, May 2007, and *From 'Made in China' to 'Sold in China': The rise of the Chinese urban consumer,* McKinsey Global Institute, November 2006.

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