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Abstract

Poor people – at the bottom of the pyramid (BOP) – represent a very attractive market opportunity. The 'BOP proposition' argues that selling to the poor can simultaneously be profitable and help eradicate poverty. This is at best a harmless illusion and potentially a dangerous delusion. This paper shows that the BOP argument is riddled with fallacies, and proposes an alternative perspective on how the private sector can help alleviate poverty. Rather than focusing on the poor as consumers, we need to view the poor as producers. The only way to alleviate poverty is to raise the real income of the poor.

JEL Codes: I30; M10

Key Words: Poverty; Bottom of the pyramid; Selling to the poor; social responsibility

"Low-income markets present a prodigious opportunity for the world's wealthiest companies – to seek their fortunes and bring prosperity to the aspiring poor."

-- C.K. Prahalad and Stuart L. Hart, The Fortune at the Bottom of the Pyramid, *Strategy + Business*, January 2002

Widespread poverty is an economic, social, political and moral problem. Eradicating, or at least alleviating, poverty is an urgent challenge. For many decades, various institutions have tried to address this challenge: local governments, developed country governments, international organizations (such as the World Bank and the United Nations), aid foundations and non-governmental organizations. The intellectual discourse has been largely in the fields of public policy and development economics.

More recently, large companies, business schools and management experts have entered this arena. CK Prahalad, a well-known business guru, is one of the pioneers of this move, and certainly the most visible and prolific writer in this field. He has been instrumental in developing a set of ideas often referred to as the 'bottom of the pyramid' (BOP) initiative. The BOP argument can be succinctly summarized as:

1. There is much untapped purchasing power at the bottom of the pyramid. Private companies can make significant profits by selling to the poor.
2. By selling to the poor, private companies can bring prosperity to the poor, and thus can help eradicate poverty.
3. Large multinational companies (MNCs) should play the leading role in this process of selling to the poor.

It is argued that selling to the poor can simultaneously be profitable and eradicate poverty. There is both glory and fortune at the bottom of the pyramid. This is, of course, a very appealing proposition and has drawn much attention. Prahalad's (2004) book has achieved much visibility. The world's top CEOs have discussed this topic at recent sessions of the World Economic Forum. There have been many conferences targeted at this topic, such as the conference titled 'Eradicating Poverty through Profit' in December 2004 organized by the World Resource Institute. Various MNCs such as Unilever, Hewlett Packard, and SC Johnson have undertaken BOP initiatives. Several business schools (such as IESE Barcelona, North Carolina, Cornell, and University of Michigan) have set up BOP centers and offer MBA courses in this area.

The BOP proposition is indeed too good to be true. It is seductively appealing, but it is riddled with fallacies. There is neither glory nor fortune at the bottom of the pyramid – it is all a mirage. This paper will argue that the BOP proposition is both logically flawed and inconsistent with the empirical evidence. This has serious implications for both firm strategies and public policy. We will propose an alternative perspective on how the private sector can help alleviate poverty. Rather than focusing on the poor as consumers, we need to view the poor as producers. The only way to alleviate poverty is to raise the real income of the poor.

Poverty Line

Poverty is, of course, a matter of degrees and involves subjective judgments. It is not surprising that there are intense debates about where to draw the poverty line (Ravallion, 2003; Sala-I-Martin, forthcoming). Richer countries draw the poverty line at higher consumption levels than poorer countries. Since 1990, the World Bank has measured poverty by the standards commonly used in low-income countries, which generated the widely accepted ‘dollar a day’ poverty line. This poverty line is then converted to local currency using the latest Purchasing Power Parity (PPP) exchange rates, and the local consumer price indices are then used to adjust for inflation. This work was updated recently (Chen and Ravallion, 2001) resulting in a poverty line of $1.08 per day in 1993 prices, still often referred to as ‘$1 per day’ poverty line. In most countries the government determines its own national poverty line; for example, in India the national poverty line is $1.48 in 1999 prices, at PPP exchange rate of Rs. 8.17 (Virmani, 2006).

People below the ‘extreme poverty’ line of ‘$1 per day’ cannot meet basic needs for survival: nutrition, health care, safe drinking water, sanitation, education for children, adequate shelter and clothing (Sachs, 2005). This definition of ‘extreme poverty’ is probably too conservative. Another commonly used standard, more representative of middle-income countries, is ‘$2 per day’. At this level of ‘moderate poverty,’ the basic needs of survival are met, but just barely.

Both these measures of poverty are widely used in development economics and public policy fields. For example, in 2002 all the 191 United Nations member states agreed to the Millennium Development Goals. The first goal of this declaration is to eradicate extreme poverty and hunger, and set the target: “halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day” (United Nations, 2005). The World Bank uses both $1/day and $2/day lines. Virtually all research on poverty uses a poverty line somewhere in between $1 to $2 per day. In his book on BOP, Prahalad (2004) uses the $2 per day criterion. We too shall use the $2/day line in this paper.

Most analysts define poverty in monetary terms; but, there is much debate about whether to use consumption or income measures. The World Bank and some researchers (for example, Ravallion 2004) use consumption measures; The United Nations (2000) and other researchers (for example, Sala-I-Martin, forthcoming) use income measures. Ravallion (2004) argues that the consumption poverty measure should be doubled to reflect the items implicitly included in the income measure, which are government expenditure and private investment. Therefore, the $1/day consumption poverty line is roughly equivalent to $2/day income line.[1]

The BOP argument is inconsistent in its definition of the poverty line, and often uses a level much higher than $2 per day. Prahalad and Hart (2002) started with a definition of the poor as per capita annual income (at purchasing power rates) of $1500 or less. In the next article, Prahalad and Hammond (2002) changed the income level to $2000 per year.

[1] Most of this difference is due to government spending, since the poor have a low savings rate.

In his book, Prahalad (2004) defines it as $2 per day. These are big differences! There is no discussion at all of how to choose the income level to define the poor.

Any discussion of poverty is surely critically affected by the definition of the poverty line. It is difficult, and probably impossible, to prescribe solutions without first defining the nature and the scope of the problem. The BOP proposition emphasizes selling to the poor people. A household with a per capita consumption of $2000 per year probably would consider purchasing a motorcycle; a household with a per capita income of $1 per day certainly could not contemplate such a purchase. Whether there is a fortune at the bottom of the pyramid depends on how one defines the 'bottom'. Similarly, how to alleviate poverty too depends on the definition of poverty. People who consume less than $1 per day have very different needs and priorities than people who consume more than five times as much.

How Many Poor People

Prahalad and Hart (2002) state that there are 4 billion people with per capita income below $1500 per year. Prahalad and Hammond (2002) assert there are 4 billion people with per capita income below $2000 per year. Prahalad (2004, p.4) states that there are more than 4 billion people with per capita income below $2 per day. So what are the true facts?

Measuring the number of poor people is surprisingly difficult. Even after agreeing on a poverty line, there are intense debates about the exact number of poor people. The World Bank measures consumption poverty using data drawn from household surveys. Other researchers measure income poverty using data drawn from national accounts (The Economist, 2004a; Sala-I-Martin, forthcoming). These two methods yield widely different results. An important controversy relates to the adjustment of individual consumption levels as derived from a survey, by the ratio of the per capita consumption from the National account statistics to the survey mean for the same item (Virmani, 2006). For example, the World Bank discontinued such an adjustment in 1993; the Government of India continues to believe that such an adjustment is necessary to get a true picture of the poverty rates. The World Bank estimates a poverty rate of 35.3% for India in 1999 based on $1 a day; the Indian Government estimates a significantly lower poverty rate of 26% using its national poverty line of $1.48 in 1999.

The World Bank estimates there were 1.1 billion people consuming less than $1 per day, and 2.7 billion people consuming less than $2 per day, in 2001. Sala-I-Martin (forthcoming) estimates there were 322 million people with income below $1/day, and 600 million people with income below $2/day. In the controversies on the measurement of poverty, the World Bank has the highest estimates, while Sala-I-Martin is essentially at the other extreme. So, the number of poor people in the world is somewhere between 322 million and 2.7 billion depending on the definition of poverty, source of data, assumptions made, and the method of analysis. Most researchers argue that the World Bank methodology over-estimates the number of poor people. Even if we take the most conservative approach, World Bank methodology and $2/day poverty line, there are 2.7

billion poor people in the world – not even close to the 4 billion number used by the BOP literature. These are big differences given the total population of the world is only 6.1 billion. If we use a lower poverty line or a lower estimate of the number of poor people, then the potential market at the BOP is even smaller, and the argument against the BOP proposition is even stronger.

Surprisingly, Prahalad (2004, p.33) even claims that "the poor as a market are 5 billion strong." This tendency to exaggerate seems to be contagious. Various newspaper and magazine articles in discussing the BOP proposition similarly exaggerate the number of poor people (for example, Washington Post, 2005). The Economist (2004b) uncritically quotes Prahalad that there are "4 billion-5 billion people on under $2 a day," a number well above even the World Bank estimate. This in spite of the fact that a few months earlier The Economist (2004a) argued that the true extent of poverty in the world is significantly less than that estimated by the World Bank! Even an article in the highly respected academic journal *Administrative Science Quarterly* incorrectly quotes the World Bank as saying "four billion people in the world earn less than $2 per day" (Walsh *et al*, 2005).

Pointing out the problems with the BOP argument in terms of definition of poverty and the number of poor people is not just quibbling about the details. Nor are we trying to minimize the problem of poverty. By any measure, poverty is a serious problem, and there is no need to exaggerate it in order to mobilize the will and the resources to solve it. These are important issues for defining the nature and scope of the problem, and the potential solutions.

Target Market

A central aspect of the BOP proposition is that there is a 'fortune' at the bottom of the pyramid. Surely this depends on the number of poor people and their per capita purchasing power. Prahalad (2004, p.21) claims that the BOP potential market is $13 trillion at PPP. This grossly over-estimates the BOP market size. Let us use the most 'favorable' numbers: the $2/day *consumption* poverty line and the World Bank estimates. In that case the *average* consumption of poor people is $1.25 per day and there are 2.7 billion poor people, which implies a BOP market size of $1.2 trillion, compared to the world's gross national income of $48.5 trillion at PPP in 2002 (The World bank, 2005). So, the bottom 44% of the world population accounts for only 2.5% of the total purchasing power.

Even at $1.2 trillion the BOP market is still of a significant size. But, from the perspective of a MNC, that is an overestimate. To understand the problem of poverty and the consumption patterns of the poor, it is appropriate to convert local currencies into dollars at the PPP rates, as we have been doing above. But, from the perspective of a multi-national company from a rich country selling to customers in a poor country, profits will be repatriated at the financial exchange rates, not at PPP rates. The ratio of financial exchange rates to PPP rates for poor countries is in the range of 3 to 7 (World Bank, 2005); for China it is 4.5 and for India it is 5.3. Even at a conservative ratio of 4, the size of the BOP market, from the perspective of a MNC from a rich country, is only $0.3 trillion – compare this to the $11 trillion economy in the United States alone.

No Fortune

Not only is the BOP market quite small, it is unlikely to be very profitable, especially for a large company. The costs of serving the markets at the bottom of the pyramid are very high. The poor are often geographically dispersed and culturally heterogeneous. This increases distribution and marketing costs and makes it difficult to exploit economies of scale. Weak infrastructure (transportation, communication, media, and legal) further increases cost of doing business. This may be somewhat less true for the urban poor (compared to the rural poor) who are often geographically concentrated into slums. Another factor leading to high costs is the small size of each transaction. For example, ICICI Bank reckons that providing $1.3 million in loans to microfinance clients currently requires 40 times more manpower than a corporate loan of the same size (Easton, 2005).

Poor people are, of course, price sensitive. "Companies assume that poor people spend only on basic needs like food and shelter." Prahalad and Hammond (2002) disagree, "but such assumptions reflect a narrow and largely outdated view of the developing world. …In fact, the poor often do buy 'luxury' items." Quite the contrary! Poor people who live on less than $2 per day and can barely meet their basic survival needs are unlikely to buy luxury items. Diverting expenditures from these basic needs to luxuries is probably not in their self-interest. The poor in fact do not spend much on luxuries – sensibly so, from our perspective. The National Sample Survey conducted by the Government of India estimates the consumption pattern for the poor as shown in Table 1 (Gangopadhyay and Wadhwa, 2004). Food alone accounts for over 60% of the consumption of the poor; this clearly does not leave much room for luxuries!

Table 1. Consumption pattern of the poor in India

	Food	Intoxicants	Clothing	Fuel	Rent	Misc. Services[2]
Urban poor	60%	3%	8%	9%	2%	19%
Rural poor	65%	3%	8%	8%	(included in misc. services)	15%

Prahalad (2004, page 11) urges companies to make a fortune by unlocking the latent purchasing power at the bottom of the pyramid. To do this, companies surely need to have an accurate understanding of the income and consumption patterns of the target market. Companies following the BOP proposition often fail because they overestimate the purchasing power of the poor people and try to market products/services at too high a price point. Virtually none of the examples cited by the BOP proposition support the recommendation that companies can make a fortune by selling to the poor. The BOP

[2] Includes health, communication, entertainment, etc., and rent in the case of the rural poor.

argument mistakenly sees a fortune at the bottom of the pyramid because it is inconsistent in defining the poverty line. Several of the examples that apparently support the BOP proposition involve companies that are profitable by selling to people well above the poverty line, but who seem poor only in relative terms, especially to a Western researcher.

Casas Bahia

Prahalad (2004) cites the case of Casas Bahia which has become a large retailer in Brazil by "converting the BOP into consumers. … Casas Bahia carries and sells top-quality brands: Sony, Toshiba, JVC, and Brastemp (Whirlpool). There is a misconception that because customers are poor they do not desire quality products." It is quite obvious that poor people desire quality products; the problem is that they can not afford such products. People whose income is less than $2 per day and can barely meet their basic survival needs do not purchase top quality electronic appliances! This confusion arises because of inconsistency in defining the poverty line. As mentioned earlier, Prahalad defines the BOP to be income below $2 per day. But, while discussing Casas Bahia, Prahalad (2004, p. 119) states that economic segments C, D, and E in Brazil are considered to be the bottom of the pyramid, implying a poverty line of R$2,000, equivalent to $2000 (at PPP) per family per month. Later on the same page, Prahalad states that the Casas Bahia customers have an "average monthly income twice the minimum wage (R$400)", that is equivalent to $800 per month. Either way, Casas Bahia customers (individually or as a family) are much above the $2 per day poverty line. Casas Bahia is a big, profitable retailer but has little to do with the BOP proposition if we define the poverty line appropriately. This is the cause of the BOP fallacy that poor people buy top quality products.

Iodized Salt

Many people in developing countries suffer from iodine deficiency, leading to diseases such as goiter. Salt is an excellent carrier of iodine, and it is very inexpensive to add iodine to salt. A problem is that some of this iodine in salt is lost in the process of storage, transportation and cooking. Hindustan Lever Limited (HLL), the Indian subsidiary of Unilever, has developed a proprietary micro-encapsulation technology to stabilize the iodine content in salt. Prahalad (2004) cites the case of Annapurna salt marketed to the bottom of the pyramid by HLL.

However, the fact is that the penetration of Annapurna salt among the poor is miniscule at best. The branded salt market in India accounts for only 20-30% of the total market; the rest of the market is served by the unorganized sector (Sarvani, 2003). Annapurna is the second largest with a market share of 35% of the branded sector, which implies a share of 7-10% of the total market. Annapurna salt is priced at Rs. 7.5/kg, the same as the market leader Tata salt; whereas the small regional producers sell iodized salt at Rs. 2/kg (Prahalad, 2004, page 181). It is unlikely that many poor people are paying such a high premium for Annapurna salt. The BOP proposition is adamant about selling high quality products at a low price to the poor. Yet, Annapurna sells at a price premium of 250%! Not too many poor people see this as a bargain. Annapurna may be a profitable business based on a good product embodying a valuable technology, but it is not an example supporting the BOP proposition.

Coca-Cola

Balakrishna and Sidharth (2004) applaud Coca Cola in India for launching in 2003 its low-price, affordability strategy, which hinged on raising the overall consumer base by offering carbonated soft drinks in smaller pack sizes of 200 ml at Rs. 5, which is equivalent to $0.57 (at PPP). This is 'affordability' for the Indian poor?! Coca Cola's BOP initiative is certainly not helping the poor. Nor is it helping Coca Cola. Facing complaints from its bottlers and retailers, the company reversed this low-price strategy and began to raise prices by August 2004. But analysts say this entire exercise cost the company in terms of its own profitability. Coca Cola's new global CEO, Neville Isdell is believed to be not very hot on Coke's rural focus in India, and has restructured the Indian operations under two new CEOs (Bhattacharya, 2005).

Ice Cream

"Amul, a large Indian dairy cooperative, found an instant market in 2001 when it introduced ice cream, a luxury in tropical India, at affordable prices (2 cents per serving). Poor people want to buy their children ice cream every bit as much as middle-class families, but before Amul targeted the poor as consumers, they lacked that option" (Hammond and Prahalad, 2004). Prahalad (2004, page 19) later changes the story to "Amul … has introduced good quality ice cream at less than $0.05 per serving, affordable by all at the BOP." Actually the price of Amul ice cream is much higher. According to Amul's website, their cheapest ice cream sells for Rs. 5 – equivalent to $0.57 (at PPP) for a 50ml serving (a rather small serving). We doubt too many poor people living on less than $2 per day find this ice cream a bargain.

Till Amul entered the Indian ice cream market in 2001, Hindustan Lever was the largest firm in this market. Prahalad and Hart (2002) commend Hindustan Lever for radical innovation that allows ice cream to be transported across the country cheaply in non-refrigerated trucks, and thus reach the BOP market. The reality is that Hindustan Lever instead of expanding to the bottom of the pyramid has actually retreated to the very top of the pyramid. In 2002 Hindustan Lever decided to compete on differentiation in the market rather than on price. It also brought its focus down to six mainline cities only, where 60 per cent of the ice-cream market exists, having realized that the returns from serving other less affluent markets were inadequate (Kamath, 2002; Bhattacharya, 2004). After this change in strategy towards the very top of the pyramid, Hindustan Lever made a profit in the ice cream business for the first time ever.

Single Serve Revolution: A Dud

The single most mentioned example in the BOP literature is shampoo sold in sachets to the poor. "A single-serve revolution" is sweeping through poor countries, as companies learn to sell small packets of various products such as shampoo, ketchup, tea, coffee, biscuits, and skin cream.[3] "A rapidly evolving approach to encouraging consumption and choice at the BOP is to make unit packages that are small and, therefore, affordable" (Prahalad, 2004, page 16). This is a fallacy.

The poor might prefer small packages because of convenience and managing cash flow. Companies might prefer to sell small packages to encourage trial, brand sampling, and impulse purchases. But, small packages definitely do not increase affordability. A customer might be 'fooled' into thinking a smaller package is more affordable.[4] But, the only way to increase real affordability is to reduce the per unit price. By the BOP logic, an easy way to solve the problems of hunger and malnutrition would be to sell food in smaller packages thus making it more affordable to the poor!

In most cases, the packaging cost per unit is higher for small packages. Small packages often do sell at slightly lower unit prices; this is probably because of the greater competitive intensity and hence lower profit margins in this segment. Sometimes small packages sell at a higher or the same per unit price as large packages. For example, Prahalad mentions that HLL sells Annapurna salt in three different package sizes, but at exactly the same unit price. (Recall our earlier discussion that Annapurna sells at a 250% premium to small local producers of iodized salt.) We are not surprised that small packages of salt "have been slow to penetrate mass markets; however, they have been successful in surprise niche markets such as college students living in hostels" (Prahalad, 2004, page 186). It is difficult to see why Prahalad argues that HLL is pursuing a BOP strategy.

"The entrepreneurial private sector has created a large market at the BOP; the penetration of shampoo in India is about 90 percent" (Prahalad, 2004, page 17). Shampoo in sachets is no more affordable than shampoo in bottles; affordability depends on the unit price. In fact, shampoo in sachets probably leads to some wastage since the consumer has to use a fixed amount each time. The poor might be better off spending their money on a cheaper product, such as soap, than on shampoo. Diarrhea is a major problem in India; ironically, most cases of diarrhea can be prevented simply by washing hands with soap. Prahalad (2004, page 209) reports surveys that indicate that only 30% of households use soap daily. Surely the poor would be better off increasing their consumption of soap at the expense of shampoo.

Financing schemes

"More BOP consumers in Brazil are able to buy appliances through Casas Bahia because the firm provides credit even for consumers with low and unpredictable income streams. … Casas Bahia is able to provide access to high-quality appliances to consumers who could not otherwise afford them" (Prahalad, 2004, page 17). The BOP proposition again falls prey to a fallacy: providing credit does not change the affordability of a product.

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[3] It is interesting to note that the pioneer of this revolution was CavinKare, an Indian start-up firm which first introduced shampoo in sachets in 1983, and not MNCs such as Unilever and P&G with their technological and marketing prowess.

[4] This is the reason why supermarkets in the USA are required to display per unit price in addition to price per package.

The finance term for Casas Bahia ranges from four months to one year, with an average of six months. All that the financing scheme does is provide instant gratification at a price. A poor consumer could save money and buy the appliance later by paying cash, or buy now on credit. For the privilege of this instant gratification, he pays an interest rate of over 4% per month. People with "low and unpredictable income" would be well advised to save and pay in cash; this will enable them to do a better job of comparison shopping too.[5] It is not surprising that many of Casas Bahia's customers do not understand well how to unbundle the purchase price and the interest cost and instead focus on the monthly installment payment (Aparna, 2005).

"Whether it is a single-serve package or novel purchasing schemes, the key is affordability without sacrificing quality or efficacy" (Prahalad, 2004, page 18). The only way to make a product truly more affordable is to reduce the per unit price. Changing package size or providing credit might provide other benefits to the consumer – it definitely does not change affordability. This is analogous to the person with a new credit card believing that he can now afford to spend more money; a short-term credit line does not change one's income or purchasing power.

In an ironic twist, it is common for *paanwallas* (small kiosks selling tobacco and other sundry products) in India to sell single cigarettes. This does not make cigarettes any cheaper nor more affordable. But, it does increase the consumption of cigarettes probably to the detriment of the poor.

Prahalad (2004, page 57) recognizes the negative impact of the proliferation of single serve packages on the environment. He then optimistically dismisses the problem by arguing that the MNCs have both the incentives and resources to solve the environmental problem. This is too facile a conclusion. It has been over twenty years since the first introduction of shampoo in sachets, and the MNCs have not yet solved the environmental problem caused by plastic packaging. The problem is even more severe for the poor who often do not have proper garbage disposal facilities. Maybe there is a need for regulatory intervention to take into account the 'externalities' of environmental pollution.

Lower Prices

One way to alleviate poverty is to reduce the prices of the goods and services the poor buy (or would buy), thus increasing their effective income. To have a significant impact on the purchasing behavior of the poor, the BOP proposition calls for price reductions of over 90%.[6] This is too ambitious a target and rarely achieved; we will settle for price reductions of at least, say, 50%

There are only three ways to reduce prices: 1) reduce profits, 2) reduce costs without reducing quality, and 3) reduce costs by reducing quality. If it is true that the average

[5] An affluent person might be able to increase his welfare by paying the interest rate and preponing his consumption.
[6] Prahalad (2004, page 30) calls for improving price-performance by 30 to 100 times; this is equivalent to reducing price by 97% to 99%.

profit margin in a market is well over 50%, we should certainly endeavor to make the market more ‘efficient’ and reduce monopoly profits resulting in significant price reduction. Even allowing for the fact that the poor are often subject to local monopolies, this must be a rare situation. Therefore, the only realistic way to reduce price is to reduce cost. The BOP proposition is adamant that we should not reduce quality in this process.

Unless all the current producers are grossly inefficient, the only way to reduce cost by over 50% without reducing quality will always require a significant improvement in technology. Good examples of this are found in the areas of computers, telecommunications and various electronic products. It is difficult to find examples of such dramatic cost reduction in other product categories. It is not surprising that the BOP proposition repeatedly uses these same examples. We should also note that the ultimate impact on the real income of the poor due to these major price reductions is quite low because the poor spend only a small part of their income on such electronic products. The poor spend over 80% of their income on food, clothing and fuel – products that have not benefited from such dramatic technological changes in a long time.

At times the BOP proposition exaggerates the price reduction achieved by making inappropriate comparisons. A frequently cited example in the BOP literature is the Aravind Eye Care System, a not-for-profit organization in India. Prahalad (2004, page 29) claims that Aravind has reduced the cost of a cataract operation to $25 to $300 compared to $2,500 to $3,000 in the USA. Aravind is an excellent organization that has reduced costs through scale economies, specialization and process design. But, the above comparison exaggerates the achievements of Aravind. First, to be consistent, Aravind’s costs should be converted into dollars at PPP rates, not at financial exchange rates as Prahalad does (2004, page 269). Second, several factors lead to high health care costs in the USA such as high labor costs for doctors, nurses and orderlies, high administrative costs due to third party payment system, and malpractice insurance. Comparing Aravind’s costs to costs in the USA is irrelevant. For example, the cost of a haircut in a small Indian town is similarly dramatically lower than in the USA. This does not imply any breakthrough achievement by the Indian hair salon. The appropriate comparison is between Aravind and a hospital in India. Aravind is an innovative organization that deserves to be commended and needs no exaggeration to highlight its achievements.

Cost-quality trade-offs

Contrary to the BOP proposition, the goal is to reduce both cost and quality in such a way that the cost-quality trade-off is acceptable to the poor consumers. A good example of this logic is the low-price detergent introduced by Nirma in India. In 1969 Karsanbahi Patel started a small business to sell a cheap detergent powder he had formulated in his kitchen. The quality of Nirma was clearly inferior to that of Surf, the product marketed by Hindustan Lever, the Indian subsidiary of Unilever. “Nirma contained no ‘active detergent’, whitener, perfume, or softener. Indeed tests performed on Nirma confirmed that it was hard on the skin and could cause blisters” (Ahmad and Mead, 2004). Largely because of this Nirma sold at a price about one-third the price of Surf. Nirma rapidly became a success. In 1977, Surf had a market share of 31 % compared to 12% for Nirma. Ten years later in 1987, the market share of Surf had come down to 7% while that of Nirma had gone up to 62%. Contrary to the BOP proposition, the poor do like cheap low-quality products! This is not because they cannot appreciate good quality nor is it because they do not want good quality. They simply can not afford the same quality products as the rich; they have a different price-quality trade-off. They are even willing to put up with a detergent that sometimes causes blisters!

Most often reducing costs while reducing quality does not require a major technological advance. Prahalad and Hart (2002) admire the R&D prowess of Unilever to harness state-of-the-art technology to serve the poor. Yet in this famous example of Nirma, it was a lone chemist who formulated the product in his kitchen. Unilever introduced its own low-cost detergent Wheel in 1988, 19 years after the introduction of Nirma, at a price slightly above that of Nirma. Even today, the market share of Wheel trails that of Nirma.

Nirma is a perfect example of a win-win situation. The company has created a large market and made significant profits. The poor are better off now that they can buy an affordable detergent. In a real sense they are economically better off. We need more products like Nirma.

Selling cheap low-quality products does not hurt the poor. Insisting on not lowering the quality actually hurts the poor by depriving them of a product they could afford and would like to buy. The BOP proposition argues that selling low quality products to the poor is disrespectful. Quite the contrary, imposing our price-quality trade-off on the poor is disrespectful of their preferences. The myth is that low-quality implies terrible, shoddy, or dangerous products. It is better to think of quality as a relative concept.

Quality broadly defined

Garvin (1987) develops a framework for analyzing quality by considering eight dimensions of quality: performance, features, reliability, conformance, durability, serviceability, aesthetics, and perceived quality. To further expand this concept, we might add other dimensions such as availability, timeliness, convenience, and customization. The customer takes into account all these dimensions and arrives at a subjective judgment of the overall quality of the product (or service), and is, by definition, willing to pay a higher price for a product with higher quality – this is the price-quality trade-off. Holding technology and firm capabilities constant, it costs more to produce higher quality products – this is the cost-quality trade-off. To profitably serve the poor, the firm needs to make the cost-quality trade-off in a manner consistent with the price-quality trade-off made by the target customer.

The BOP proposition correctly celebrates the 'shared access' model as a way to make products more affordable to the poor. A successful business is for the poor to share or rent products such as cell phones. The poor, like the rich, would prefer to exclusively own a cell phone; but the poor make a price-quality trade-off and opt to share a phone. The shared access model is not confined to the poor. Very rich people can choose to own private jet planes, while the merely rich often settle for a fractional ownership. The old business model of time-share condominiums has recently been extended to very upscale resort homes.

Even the Aravind Eye Care System achieves its low cost partially by trading off quality. Prahalad (2004, page 272) argues that the quality of treatment at Aravind is as good as or better than at the best eye care centers in the world by considering the rate of medical complications. This is too narrow (and technical) a view of quality. Aravind achieves scale economies through specialization and attracting patients from a wider geographic radius. The patient therefore gives up something in terms of convenience – an aspect of quality broadly defined. It is, of course, a trade-off that the patients of Aravind like, but a trade-off nonetheless.

Raise Income

Not only is there no fortune, there is not even glory at the BOP. It is a fallacy to claim that there is much ‘untapped’ purchasing power at the BOP. The poor, in fact, obviously consume most of what they earn, and have a low savings rate. Getting the poor to consume more will not solve their problem, contrary to the BOP argument. The poor do not need convincing to consume more; they want to consume more. Their problem is that they can not afford to consume more.

The BOP proposition tries to increase the consumption choices available to the poor by targeting various products and services, such as shampoo, iodized salt and televisions, at the BOP. Holding the poor consumer’s income constant, the only way he can purchase the newly available product is to divert expenditure from some other product. If he is a ‘rational’ consumer, this will increase his welfare. However, as a practical matter, this is unlikely to result in a significant change in his poverty situation. Additionally, if for some reason, the poor consumer is irrational in his resource allocation choice, the BOP initiative might even result in reducing his welfare.

The only way to help the poor and alleviate poverty is to raise the *real* income of the poor. There are only two ways to do this: 1) lower the prices by appropriately lowering quality of the goods that the poor buy, which will in effect raise their income, and 2) raise the income that the poor earn. The BOP proposition eschews the first approach because it is insistent on not lowering quality. It deemphasizes the second approach because it views the poor primarily as consumers rather than as producers.

Role of MNC

The third and final element of the BOP proposition is that MNCs should take the lead role in the BOP initiative to sell to the poor (Prahalad and Hart, 2002). In fact, to the extent that there are opportunities to sell to the poor, it is usually small to medium sized local enterprises that are best suited to exploiting these opportunities. Markets for selling to the poor usually do not involve economies of scale. First, the size of the markets at the bottom of the pyramid is quite small. Products sold to the poor usually involve less automation and more labor intensive manufacturing. They also usually involve a lower level of product technology, further reducing scale economies. The poor are also often culturally more heterogeneous across geographic boundaries, whereas the more affluent consumers are becoming more homogeneous globally. This too reduces the economies of scale. In fact, for large countries such as India, the enterprises serving the poor are often not even national in scope, but rather tend to be local or regional firms. It is interesting, and not accidental, that in spite of the BOP emphasis on MNCs, virtually all the examples cited in Prahalad's (2004) book are fairly small not-for-profit organizations or local firms but not MNCs. One exception to this is the multi-national company Unilever which is often cited in the BOP literature.

It is certainly true that HLL, the Indian subsidiary of Unilever, has been a leader in penetrating the rural market. But, that is not the same as selling to the poor – there is a significant fraction of the rural population that is not poor. A major theme of the BOP argument is that "quantum jumps in price performance are required to cater to BOP markets" (Prahalad, 2004, page 25). It is difficult to argue that HLL has achieved this jump often. Quite the opposite, in virtually all product categories, HLL sells products at a price premium. This is probably good marketing strategy designed to maximize profits, but it is not a strategy for targeting the poor as a large market. Its market share in many product categories is dipping as new competitors offer rock-bottom prices in recent years. Even as sales slid, margins have been rising. ``We've been very careful to benefit shareholders," says Chairman M.S. Banga (Business Week, 2004).

HLL is not a 'bad' company; it is a well managed company that is motivated by profits. The problem arises when the BOP proposition paints HLL as a paragon of virtue that is eradicating poverty. We just want to separate hype from reality. For example, Prahalad (2004, page 67) states that HLL has created a rural direct-to-consumer distribution system called Shakti that is likely to cover 1 million entrepreneurs by 2005. In reality, the project had reached a size of only 12,000 entrepreneurs in 2005 (Rangan and Rajan, 2005), and financially broke even first in 2004. If Shakti does ever reach the size of 1 million entrepreneurs, then that would be cause to worry about the welfare of the poor. A producer of consumer goods having exclusive control of such a large distribution channel with minimal competition would surely provide opportunities for monopoly rents.

Harmless Illusion or Dangerous Delusion

The BOP proposition is based on a mirage. There is no fortune to be made by selling to the poor. Neither will selling to the poor eradicate poverty. However, given the continuing problem of poverty, we might argue that it is an experiment that is worth trying. Even if the BOP proposition is an illusion, we should perhaps try the solution given the high stakes involved. Or, is it true that the BOP proposition can hurt the very people it is trying to help? In that case the BOP proposition is actually a dangerous delusion. Which is it: a harmless illusion or a dangerous delusion? There are two perspectives to consider here: the private enterprise and the poor.

Fortune at the BOP

We have argued that the BOP market is quite small; there is no big untapped purchasing power here. Moreover it is not a very profitable market. Companies that target this market are likely to be disappointed. Writing about a recent conference on rural markets, Bhushan (2003) concluded that “success in rural India has eluded several corporations.” Donati, Chairman of Nestle India, recommended that companies “should focus on high GDP areas – whether the population is urban, semi-urban or rural.” This is not to suggest that there are no success stories of selling to the poor. But these are isolated instances. Opportunities for profit by selling to the poor are not nearly as pervasive as the BOP proposition argues. This is even truer from the perspective of a large company, especially a MNC. Since the scale economies are very limited, the profit opportunities are best exploited by small to medium sized local firms.

One exception to this logic is when the price of a product can be dramatically reduced such that the poor can now afford the product. The BOP proposition insists that this be achieved without any sacrifice in quality or effectiveness. This makes it almost impossible to create such markets unless there is a dramatic technological breakthrough. The most realistic way to achieve a significant price reduction is by reducing the overall quality appropriately such that the poor find the price-quality trade-off acceptable. Nirma, the cheap detergent, is a perfect example of this approach. Unfortunately, even examples like Nirma are not very common.

It is interesting that the BOP proposition emphasizes opportunities for significant profits, and yet cites many ‘supporting’ examples of not-for-profit organizations. For instance, a frequently cited example is the Aravind Eye Care System in India, an excellent not-for-profit organization. If a private company is motivated not by economic profits, but by social responsibility, then of course there are many opportunities for marketing to the poor. Many large companies, especially MNCs, have set up side ventures to help the poor without expecting a financial return.

Eradicating Poverty

The BOP proposition emphatically views the poor as consumers, as untapped purchasing power. It 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. This is free market ideology taken to an extreme. This is a potentially dangerous aspect of the BOP proposition. 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. 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) 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."

Exploitation of the Poor

It could be argued that the BOP initiative results in the poor spending money on products such as televisions and shampoo that would have been better spent on higher priority needs such as nutrition and education and health. Prahalad dismisses such arguments as patronizing and arrogant; how can anybody else decide what is best for the poor? The problem is that the poor often make choices that are not in their own self interest.[7] We examine below the consumption choices of the poor in the context of two products: alcohol and whitening cream.

Poverty and Alcohol

Alcohol consumption is a financial drain for the poor. As we saw in the survey of the Indian poor cited earlier, intoxicants account for 3% of household consumption, even more than rent. This number, 3%, understates the true 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.

Should the poor have the right to consume, and even abuse, alcohol? Yes. Is it in their self interest to do so? Undoubtedly, no. Should companies have the right to profit from sale of alcohol to the poor? Yes, but even in rich, capitalistic economies the governments put some constraints on this right, such as 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,

[7] The rich also often make choices not in their self interest, but the consequences are not as severe in their case.

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. Alcoholic drinks are easily available in coffee shops and sundry shops without a liquor license. 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. 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. Legal and social mechanisms for consumer protection are often very weak in developing countries, and even more so with regard to the poor people.

Whitening Cream

Hammond and Prahalad (2004) cite the example of a poor sweeper woman expressing pride in being able to use a fashion product, Fair & Lovely, a skin cream marketed by Unilever. "She has a choice and feels empowered." In response to criticism of this example, the authors disagree with the critics' "underlying premise that they know what is best for low-income communities. If a street sweeper chooses to spend part of her meager earnings on a product that she believes improves her quality of life, then surely that choice is a basic right." This is a disingenuous argument used to mask the real debate. Hammond and Prahalad (2004) misleadingly describe Fair & Lovely as "part sunscreen, part moisturizer, and part skin-lightener." The very name of the product, and the advertising of the product clearly emphasize the skin lightening aspect of the product. "On its web site the company calls its product 'the miracle worker' which is 'proven to deliver one to three shades of change'" (Leistokow, 2003). A package sold in Egypt displays one face six times, in an ever-whitening progression, and includes 'before' and 'after' photos of a girl who presumably used the product. Fair & Lovely is one of Unilever's 'power brands' and is marketed in over 38 countries in Asia, Africa and the Middle East.

One TV advertisement aired in India "showed a young, dark-skinned girl's father lamenting he had no son to provide for him, as his daughter's salary was not high enough – the suggestion being that she could not get a better job or get married because of her dark skin. The girl then uses the cream, becomes fairer, and gets a better-paid job as an air hostess – and makes her father happy" (BBC News, 2003). Another advertisement showed two attractive young women having an intimate conversation. The lighter-skinned woman has a boyfriend and consequently is happy. The darker-skinned woman, lacking a boyfriend, is not. Her friend advices her to use Fair & Lovely.

The All India Democratic Women's Association campaigned against these advertisements as being racist, discriminatory, and an affront to women's dignity. Ravi Shankar Prasad, minister of Information and Broadcasting, said "Fair & Lovely cannot be supported because the advertising is demeaning to women and women's movement" (The Economic Times, 2003). Unilever has since discontinued these two advertisements in India.

In a Malaysian advertisement for Fair & Lovely, a train attendant fails to catch the attention of her love interest, a businessman who buys a ticket from her everyday, until she appears one day with fairer skin. Responding to criticism of this advertisement, Unilever's Malaysian subsidiary said "our TV commercial was never intended to suggest any correlation between skin color and beauty" (Wall Street Journal, 2002). Women's groups are not gullible enough to believe this and find such advertisements to be offensive.

The Indian society, like many others, unfortunately suffers from racist and sexist prejudices. This leads many women to use skin lightening products, sometimes with negative health side-effects (Browne, 2004). Hammond and Prahalad (2004) argue that the poor woman "has a choice and feels empowered because of an affordable consumer product formulated for her needs." This is no empowerment; at best, it is a mirage; at worst, it serves to entrench her disempowerment. Women's movements in countries from India to Malaysia to Egypt obviously do not agree with Hammond and Prahalad, and have campaigned against these products. The way to truly empower this woman is to make her less poor, financially independent, and better educated; we need social and cultural changes that eliminate the prejudices that are the cause of her deprivations. If she was truly empowered, she would probably refuse to buy a skin lightener in the first place.

Should women have the right to buy Fair & Lovely? Yes. Should Unilever have the right to make profits by selling these products? Yes; Unilever after all did not create the prejudices that feed the demand for this product. Although it is likely that the company helps to sustain these prejudices however unwittingly. In any case, we should impose some constraints on this right in terms of truth in advertising, full disclosure of ingredients in the product and its potential side effects. Even in rich capitalist countries, governments impose restriction on free markets to protect consumers in various ways, such as regulations related to labeling disclosure, truth in advertising, and marketing to minors. Consumer movements are active in areas where there are no legal restrictions, such as the recent pressure on McDonald's to introduce healthy meals. Such consumer protection, both legal and social, is inadequate in the developing countries. This is even more true in the context of selling to the poor, who often lack the information and education needed to make well informed choices.

The BOP proposition is not satisfied with just giving the company the right to sell skin lightening cream. It goes further and commends the company for empowering women and helping eradicate poverty. This is an intellectually and morally problematic position.

The Poor as Producers

The BOP proposition focuses on the poor as consumers. "By focusing on the BOP consumers' capacity to consume, private sector businesses can create a new market" (Prahalad, 2004, p.19). To the contrary, we argue for the need to view the poor primarily as producers, not as consumers. Rather than emphasizing selling to the poor, we should emphasize buying from the poor. By far the best way to alleviate poverty is to raise the income of the poor.

Even though the BOP proposition conceptually focuses on the poor as consumers, it sometimes cites examples of successful organizations that treat the poor primarily as producers. We agree with these examples and will highlight some of them below. In discussing solutions to poverty, it is useful to conceptually separate the role of the poor as consumers and producers.

Micro-finance

The best example of helping to raise the income of the poor is the field of microfinance. This clearly creates better job opportunities for the poor; it often also has other beneficial effects such as increasing self-esteem, social cohesion, and empowering women. A pioneer in this field is the Grameen Bank in Bangladesh, founded by Muhammad Yunus in 1976. The central objective of the Grameen Bank has been to "reverse the age-old vicious circle of 'low income, low saving & low investment', into virtuous circle of 'low income, injection of credit, investment, more income, more savings, more investment, more income'" (Grameen Bank, 2005). The key here is to view the poor as investors, entrepreneurs, and producers, not as consumers.

Microfinance has been around for a long time, and there has been much proliferation. Nobody knows even roughly how many microfinance institutions there are in the world, but it is certainly a very large number (Easton, 2005). The pioneers in the field of microfinance were charitable social organizations that by intent have been barely profitable, but did seek to be sustainable. More recently, large banks and insurers have been attracted to this field by the potentially lucrative market; ICICI Bank, cited by Prahalad (2004) is a good example. The global financial institutions have noticed this market but most are moving slowly and with much caution. A major concern is whether microfinance is really profitable. While some institutions are clearly profitable, industry-wide data is much less positive. Of 7,000 microfinance institutions, fewer than 100 claim financial self-sufficiency (Prahalad, 2004, p. 293) – presumably an even smaller fraction is economically profitable. The small size of each transaction leads to high costs. For microfinance to succeed as a business, costs will have to come down. There is much hope for using information technology to reduce costs significantly. Whether there is a 'fortune' to be made here is still uncertain. Typically, the large financial institutions, including ICICI Bank, are entering microfinance through their corporate responsibility or community development departments, not their core for-profit operations.

Similar to the BOP proposition, the allure of microfinance is based on the argument that the institutions that adopt the rationale of good banking will automatically also serve the task of poverty reduction. This has been termed as the win-win proposition (Morduch, 2000); there is both glory and profits in microfinance. In a comprehensive survey of the microfinance field, Khawari (2004) concludes that “the development of the rhetoric of making profits while reducing poverty simultaneously (win-win situation), however, has moved much faster than the empirical evidence and the claims have yet to be really substantiated.” Most of the evidence and literature on the subject of microfinance appears self-praising; there is a paucity of good empirical research. The fact is that most microfinance programs are subsidized. Some donors believe that little more than 5 percent of the programs will be financially sustainable ever (Morduch, 2000).

There is no empirical support for the view that there is a fortune to be made in microfinance. But, at least does it help to alleviate poverty? The answer is probably yes, but the empirical evidence is mixed (see, for example, Sharma and Buchenrieder, 2002; Khawari, 2004). A few studies have even found that micro-credit has a negative impact on poverty; poor households simply become poorer through the additional burden of debt. However, we agree with Khawari’s (2004) conclusion that ongoing subsidies to microfinance are worthwhile and can benefit the poor.

Create Efficient Markets

The poor often sell their products and services into inefficient markets and do not capture the full value of their output. Any attempt to improve the efficiency of these markets will raise the income of the poor. Amul, a large dairy cooperative in India, is a great example of this approach. Amul collects milk from 12 million farmers twice a day from 100,000 villages. Amul started by selling milk, but has since forward integrated into more value added products such as butter, milk powder, cheese, ice cream, and pizza. More recently it has even entered direct retailing through franchising parlors. Amul is owned by the poor (it is a cooperative), and buys from the poor (the farmers, who are its members); however, its customers are mostly from the middle and upper income groups, and export markets. Dr. Kurien, Chairman of Amul, says Amul “has decimated the evil presence of rent-seeking middlemen from dairy business in India. It has empowered farmers through skills of procurement, processing, marketing-- and more recently -- of being in direct touch with the customer through retailing” (Kurien, 2005).

Another example along similar lines is e-Choupal, an initiative of ITC in India (Prahalad, 2004). Based on an innovative business model, e-Choupal has brought efficiency to the system for moving soybeans from the individual farmer to the oil processing plants. It has reduced dramatically the role of, and the rents captured by the middlemen in this process. The poor farmers can now sell their soybeans into a more efficient market and thus capture more of the value of their output. The e-Choupal network has been expanded to sell agricultural inputs to the farmers. ITC views the poor farmers not as consumers, but rather as producers. “Our e-Choupal is fostering inclusive growth and *enhancing the wealth creation capability of marginal farmers*” (emphasis added) says Y.C. Deveshwar, Chairman of ITC. Even though e-Choupal is growing rapidly and provides real value to the farmers, the business itself is not yet profitable. Deveshwar is confident that e-Choupal will achieve breakeven, but refused to divulge a timeframe target (The Hindu, 2006).

Job Creation

Ventures such as microfinance, Amul and e-Choupal are commendable because they improve the productivity of poor individual farmers and help create micro-enterprises. However, it is small and medium sized enterprises that provide most of the jobs and generate most of the new employment in the development process. In various sectors of the economy, large enterprises are needed to exploit economies of scale. For significant alleviation of poverty, we need to facilitate the migration of people from (subsistence) agriculture to the industrial sector – this requires creation of a large number of low-skill jobs in the industrial sector.[8]

Global poverty is concentrated in East Asia, South Asia and Africa. By far the most significant reduction in poverty in the last fifteen years has taken place in East Asia (mostly China); it is not coincidental that China has also created the largest number of industrial jobs. India has fared worse because the creation of a small number of high level service jobs (information technology and back office processing) has not benefited the poor. The rate of job creation has been even worse in Africa.

Role of the Government

For the poor agricultural laborers to migrate to even low-skill industrial jobs, they need basic health care and essential education – which are in the domain of the public sector. This can be illustrated by comparing China and India, which have both been moving towards market-oriented economies, but with differing results. Sen (2000, p.42) concludes "while Indian efforts have slowly met with some success, the kind of massive results that China has seen has failed to occur in India. … When China turned to marketization in 1979, it already had a highly literate people, especially the young, with good schooling facilities across the bulk of the country. … In contrast, India had a half-literate adult population when it turned to marketization in 1991, and the situation is not much improved today. … The health conditions in China were also much better than in India because of the social commitment of the pre-reform regime to health care as well as education." Even in 2003, the adult literacy rate in India is only 61% (compared to 91% for China in 2000); because of the gender bias, the situation is even worse for Indian women. Even this may understate the problem in India. The Economist (2006) argues that "the official national literacy rate of 61% includes many who are able to write their names but are functionally illiterate."

The government needs to facilitate the creation and growth of private (small, medium and large) enterprises in labor intensive sectors of the economy, through appropriate policies (such as de-regulation), infrastructure (such as transportation), and institutions (such as capital markets). In India, archaic labor laws discourage investment in labor intensive industries and encourage capital for labor substitution – exactly the opposite of what a country with low labor costs and unemployment needs. Small and medium sized enterprises need financing options – both debt and equity -- in the range of $10,000 to $1

[8] In some small economies, it is possible that the job creation occurs primarily in the service sector rather than the industrial sector.

million that are almost non-existent in developing countries (Shell Foundation, 2005). Lack of good infrastructure results in geographically fragmented markets and firms that are too small to exploit scale economies.

The best antidote to poverty is economic growth. There is much evidence linking poverty reduction to economic growth – the so called 'trickle down' or 'multiplier effect'. But, there are two problems with this argument. First, the trickle down effect may be too little and too slow. Poverty is not just an economic problem; it is also a moral and political crisis. We need to target programs specifically at poverty reduction rather than just wait for the general multiplier effect to kick in. The recent political changes – disillusionment with the Washington Consensus and a drift to the populist left -- in several South American countries (such as Venezuela, Bolivia, and Peru) support such an emphasis on poverty reduction.

Second, poverty can not be defined only in economic terms; it is about a much broader set of needs that permit well being. Development can be seen as a "process of expanding the real freedoms that people enjoy" (Sen, 2000). "The point is not the irrelevance of economic variables such as personal incomes, but their severe inadequacy in measuring many of the casual influences on the quality of life and survival chances of people". The BOP proposition focuses on companies, marketing and prosperity; it sees the social, cultural and political benefits at best as by-products of economic gains. In contrast, we think that social, cultural and political freedoms are desirable in and of themselves, and also enablers of individual income growth. We should emphasize the role of the government in cultivating and safeguarding these other (non-economic) freedoms.

Virmani, an economist with the elite Planning Commission of the Government of India, argues that "India's poverty ratio of around 22% in 1999-2000 is in line with those observed in countries at similar levels on per capita income" (Virmani, 2006). This is consistent with the argument that the way to reduce poverty is to achieve economic growth. But Virmani goes on to concede that the improvement in social indicators in India has not kept pace with economic growth and poverty decline. This is the result of government failure to "fulfill the traditional, accepted functions of the government like public safety and security, universal literacy and primary education, public health education, provision of drinkable water, sanitation drains and sewage facilities, public health (infectious and epidemic diseases), building road, and creating and disseminating agricultural technology." While there has been a distinct shift in political ideology of the world towards an increasing role of the market (as opposed to the government), providing the above functions still needs to be in the public domain, especially in the context of the poor.

Downside of the BOP Proposition

Even if not intentional, a by-product of the BOP proposition is to de-emphasize the role of the state in providing basic services and infrastructure. Actually, the BOP proposition goes further. Prahalad is quoted as saying "if people have no sewage and drinking water, should we also deny them televisions and cell phones? … It is absolutely possible to do well while doing good" (Time, 2005). The poor surely have a right to buy televisions; the issue is whether it is in their self interest to buy televisions. Prahalad (2002) argues 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.

Why do the poor accept that access to running water is not a realistic option? Even if they do, why do we accept this bleak view? We should emphasize the failure of the government and attempt to correct it. We need to give a 'voice' to the poor – this is a central aspect of the development process.

Prahalad (2002) describes the impressive extent of business activity in the slums of Dharavi (in Mumbai). "The seeds of vibrant commercial sector have been sown." But, we should be cautious about celebrating this entrepreneurship too much. 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. This poses a bigger problem for women because of obvious reasons of anatomy, modesty and susceptibility to attack. Televisions are not an adequate substitute for lack of sanitation.

According to a popular myth, upon being told that the peasantry had no bread to eat, Marie Antoinette callously said, "let them eat cake." Upon being told today that the poor have no drinking water, presumably she would say "let them drink Evian." The BOP proposition goes a step further and implies 'let them watch television.' Metaphorically the BOP proposition is in bed with the television manufacturers seeking to profit from this situation. Subscribers to the free market ideology might find this conduct acceptable, even if somewhat unsavory. Adding to the ideological quagmire, the BOP proposition wants the television manufacturer to be seen as being virtuous: selling televisions to the poor helps eradicate poverty. Even if we concede that televisions help the poor to escape the burden of their bleak lives and thus provide some value to the poor, how do they help *eradicate* poverty?

To truly solve the problem of poverty, we need to go beyond increasing the income of the poor; we need to improve their capabilities and freedoms along social, cultural, and political dimensions as well. The role of the government is critical in some of these dimensions. This is the second dangerous aspect of the BOP delusion. By emphatically focusing on the private sector, the BOP proposition detracts from the imperative to correct the failure of the government to fulfill its traditional and accepted functions such as public safety, basic education, public health, and infra-structure. There is no alternative viable mechanism for achieving these results.

The downside of the BOP proposition can be illustrated by the metaphor of a seriously wounded person being tended by an ineffective doctor (either incompetent or corrupt or both). A Good Samaritan is appalled by the situation and takes charge -- and puts a band-aid on the patient. The doctor walks away thinking somebody else is now responsible for the patient. The Samaritan feels good about his actions. A management consultant advises the Samaritan to start a business of selling band-aids. The patient continues to deteriorate.

The private sector and NGOs are not an adequate substitute for the government and cannot fulfill its functions on a large enough scale. They can however be useful catalysts and complements to the government. It is in the interest of the private sector to exercise its influence to help ensure that the government does fulfill its role effectively.

Beyond the Hype

We fully support the BOP proposition when it treats the poor as producers and focuses on increasing their income and productivity. The fact that some of these ideas, such as microfinance, are much older than the BOP proposition is not a major criticism. The problem is that the BOP proposition sheds no new light. For example, it does not address the critical issue of how to make microfinance a consistently profitable business. The bigger problem is that the BOP proposition only infrequently treats the poor as producers. By far the greater emphasis is on seeing the poor as consumers and unlocking their purchasing power. Here the BOP proposition is both conceptually and empirically wrong.

The BOP proposition is characterized by much hyperbole and very weak research methodology. The fortune and glory at the bottom of the pyramid are a mirage. The fallacy of the BOP proposition is exacerbated by its hubris.

Thomas Kuhn (1962) in his famous book *The Structure of Scientific Revolutions* applied the term ‘paradigm’ to describe a set of beliefs that help scientists organize a conceptual worldview. Kuhn argued that science is “a series of peaceful interludes punctuated by intellectually violent revolutions” – paradigm changes. By this definition, scientists such Copernicus, Darwin, Newton, and Einstein caused paradigm shifts. Prahalad (2004, page 45) states that all the examples used in his book challenge the current paradigm. Selling appliances on credit – as does Casas Bahia – is not even a novel idea, let alone a new paradigm. But, Prahalad (2004, page 10) is not content with changing paradigms, and asks us to change “our genetic code”!

The Millennium Development Goals adopted by the United Nations member states targeted halving of extreme poverty in 25 years. Finding this pace too slow, Prahalad (2004, page 112) states “I have no doubt that the elimination of poverty and deprivation is possible by 2020.” But why be satisfied with only poverty eradication when so many other problems plague the world? Prahalad and Hammond (2002) argue that the BOP initiative will not only eradicate poverty, but also cure economic stagnation, deflation, governmental collapse, civil wars, and terrorism. And all this in 15 years!

Walsh et al (2005) are awed by Prahalad’s (2004) ambition: “he is trying to eradicate worldwide poverty in 15 years for goodness sake!” They argue for cutting Prahalad some slack; “we cannot let people suffer and die while we pause to clarify the logic”. We think exactly the opposite. It is precisely because poverty is such a serious issue that we should be careful to validate the logic and demand much rigor. Solving the crisis of poverty requires recommendations supported by logical analysis rooted in data, not exhortations based on unsupported assertions and hyperbole. The poor deserve no less.

Conclusion

Private companies should try to pursue marketing to the poor. However, the profit opportunities are modest at best and we suggest a cautious approach. Large companies that require scale economies should be even more hesitant. The best opportunities exist when the firm reduces price significantly by innovatively changing the price-quality trade-off in a manner acceptable to the poor.

The private sector can help alleviate poverty by focusing on the poor as producers. One way to do this is to make markets more efficient such that the poor capture the full value of their outputs. Certainly the best way for private firms to help eradicate poverty is to invest in upgrading the skills and productivity of the poor, and to help create more employment opportunities for the poor. This is the win-win solution; this is the real fortune at the bottom of the pyramid.

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