



BUSINESS SOLUTIONS FOR THE GLOBAL POOR

CREATING SOCIAL AND ECONOMIC VALUE

V. KASTURI RANGAN, JOHN A. QUELCH,
GUSTAVO HERRERO and BROOKE BARTON

Editors, Harvard Business School

FOREWORD BY C.K. PRAHALAD





JOSSEY-BASS

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BUSINESS SOLUTIONS FOR THE GLOBAL POOR

THE JOSSEY-BASS BUSINESS & MANAGEMENT SERIES

FOREWORD

C. K. Prahalad

**Paul and Ruth McCracken Distinguished University Professor,
Stephen M. Ross School of Business, University of Michigan**

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

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

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

New business models—phone ladies in Bangladesh, prepaid cards as a mechanism for promoting affordable consumption, and increasingly flexible regulatory environments

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

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

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

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

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

This is our new challenge. This collection of studies represents a significant step in facilitating the process of engaging business in the most pressing problem we face.

ACKNOWLEDGMENTS

Although each of us has been independently engaged on topics related to the role of business in poverty alleviation, the idea of hosting a conference to bring focus to this area germinated quite informally. Two of us had an initial concept for such a gathering, which was further developed with the input from a number of our colleagues at the Harvard Business School (HBS).

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

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

USAID), Ray Offenheiser, (president, Oxfam America), and C. K. Prahalad (professor, University of Michigan's Ross School of Business).

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

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

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