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Prahalad's thoughts on poverty eradication

By K Jayshankar

Dr. C.K. Prahalad, one of the foremost management thinkers of current times, died on Saturday, 16th April, 2010. Prahalad was known for his outstanding work in the area of corporate strategy, particularly for popularizing the concept of 'core competence'. Besides, in his work he was a strong advocate of the lessons from the innovative business practices of the emerging markets, which as The Economist notes, 'now rivals the rich countries for business innovation'.

While Prahalad was prolific in his writings, his book *The Fortune at the Bottom of the Pyramid - Eradicating Poverty Through Profits*, created a stir when it came out. Prahalad maintained that the old paradigm of the developed world cannot be the model for emerging economics. What is not often known is that the term 'bottom of the pyramid' was historically first used by President Franklin D Roosevelt in 1932 in a speech during the Depression era. Trust the politicians to realize that 'the forgotten man' (another of FDR's concept) needed attention. But while economists have always maintained that societal transformation can happen through government policies, Prahalad's work highlighted that poverty alleviation can be approached from another angle: from leveraging the market route by engaging the business senses of the corporate world rather than just appealing to them for cheque book philanthropy.

Looking at the world from a statistical perspective we know that there is a vast number of people who are surviving thinly on mere sustenance levels, with a study indicating that over 2.5 billion people across the world live daily on barely \$2.50. These people represent not just the fringes of society but are visible all around - very vividly in developing economies in urban shanties. However, they are also in the developed world, surviving on handouts of the soup lines and Salvation Army hand-me-downs.

Through his research Prahalad presented a convincing argument that there is an undiscovered and vacant market at the bottom of the pyramid (BOP) and that the large organized sector (particularly, the global, multi-national giants) should wake-up to the opportunities lying in this segment. His emphasis that removing the scourge of poverty required an approach which involved invoking the power of the private sector was a refreshing difference from the conventional wisdom that banked on what he called 'the aid focused infrastructure project'.

An internationalist who had researched across geographies, Prahalad saw substantial developmental processes and practices arising from market innovations in the developing world which had been largely ignored. This shaped his point of view that the lower most segment of society are not merely brand conscious, but thanks to modern telecommunication and television, these markets - 'the BOP market' - as he called it, had constituents who are equally hungry for better and branded products. His message to the companies was loud and clear: you need to innovate to fulfill the needs of the BOP market, by looking at them both as consumers and producers. The social argument that he offered was quite specific: besides financial succor that servicing the BOP markets offered, it also gave dignity to this class of people who had been largely neglected by the national development process and were often treated as basket case situations.

How is all this relevant? When you look at what is happening across the globe, it is evident that governments do not have resources to tackle large scale basic needs of its people. It is also clear that the entrepreneurial gene is not a monopoly of the well-heeled. Millions survive in the urban shanties with their wits and their instinct to trade with the limited resources that they possess. Asia's largest urban slum is in Mumbai, located in a large tract called Dharavi.

And this is not of India alone. This picture applies equally well to Brazil (Sao Paulo), Nigeria (Lagos), Kenya (Nairobi), Bangladesh (Dacca), South Africa (Johannesburg) and all other nations where a large number is just crying out for understanding and assistance to market themselves. The rise of micro-finance as a tool for growth and meaningful self-development is a concrete example of how the BOP market can not just survive but do well when the special needs of this segment of society is recognized. The economist in Muhammad Yunus appreciated that society can be shaped better by empowering women at the lowest strata. This understanding gave birth to the innovation of micro-finance and thereby a new financial tool has transformed lives not only in Bangladesh but also other parts of the developing world.

This transfer of thought and cross-fertilization has been successfully demonstrated in product development too. Some of the most quoted examples are in the fast moving consumer goods (FMCG) sector. Historically, multi-national firms like Unilever, Nestle, Procter & Gamble, etc. have taken their super-sized packaged products to newer geographies only to find that consumer response to their successful products was low in these new markets.

What they found was that while the poorer segments of society were aspiring for their new products but were choosing local variants who offered them in smaller packages (including sachets), which allowed them to buy at what they considered to be affordable prices & quantities. Hindustan Unilever is a classic example who found that they were losing market share to local Indian firms. Learning quickly, they adapted to meet the local challenge by offering their products too in smaller quantities and with their competitive pricing, they quickly found a whole new segment who had been eager to join their ranks, as the brand was well known through their mass advertising.

Transferring this learning of 'sachet marketing' to other developing markets has generated great success and has opened new avenues of growth to them. A host of other examples can be offered but suffice it to say that Prahalad's thought leadership (and the work of other researchers) has been transformational. Truly, Prahalad's has been a life well lived. RIP, Prahalad.

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