

Dear Aneel - Thank you for your thoughtful piece on “The Fortune at the Bottom of the Pyramid”. It appears that you have three basic arguments against it.

1. The measurement problem
2. The distinction between consumption and income generation in poverty alleviation
3. The fallacy of an opportunity at the bottom of the pyramid

The Big Picture:

My thesis is simple. Over 80% of the people in the world are ignored as a market by the organized sector (including MNCs and large domestic companies). This was and is the “underserved and the unserved market”. This population does not typically have access to world class products or services or to regional and global markets for their effort and production. Awareness, access, affordability and availability continue to be the problems. Yes, I look at *both consumption and production*. The ITC and EID Parry examples are about production. So is the microfinance example. Creation of transparent markets and a market based ecosystem is also an integral part of the argument. There is a whole chapter on ‘*transaction governance*’ or creating transparent conditions for markets to flourish (chapter 5). So is a *market based ecosystem* including SMEs, single entrepreneurs, NGOs and cooperatives, not just MNCs (chapter 4). I also talk about how to create products and services for the BOP market to be profitable (Chapter 2). Further, most of the case examples are about personal and family productivity. ITC and EID Parry, Cemex, health (Annapurna, Soap, Voxiva). This totality represents the argument on Poverty alleviation. You chose to focus on one aspect of the argument-consumption. I wonder why? The examples of production and income generation – ITC- as a solution that you offer, as an alternative, is in the book. So is the need to create transparent markets. So is the need for new business models and creativity (which you do not cover).

The focus of the book is on 5 billion underserved. They are also poor. But it is naïve to believe that 5 billion represent a monolith (are one segment). Every experiment described in the book does not necessarily have to serve all the segments of the 5 billion underserved. No single business model can do that. My goal was to amplify weak signals and experiments that have potential in this general space. Annapurna and the Soap examples are about the difficulty of educating the poor on health benefits as well as how arduous it is to work with multilaterals. Do firms fail in their experiments? Yes, they do.

Data Inconsistencies:

I realize the problems of defining poverty using income and even expenditure assessments. Is there a wide variation in the way the “underserved” is described? Yes. Less than \$2,000 per capita, \$2/day per person are used in the argument. Do 4 billion live below \$ 2/day? Al, Stu and I are very aware of the problems of measurement of the underserved and the poor. Al at the World Resources Institute has started a large scale effort, with the IFC to reassess the data from various sources and to arrive at the structure of the Pyramid, by country. It is likely to be the most current and they have used

household survey data. It should be out in October 2006. It shows yet a different view. Let me give you a preview. The data are as follows:

More than \$21,730 PPP per capita	0.5 billion
\$3,260 - \$21,730 PPP per capita	2.0 billion
Less than \$3,260 PPP per capita (\$458)	4.0 billion

The WRI/IFC study confirms that 4.0 billion are below \$2/day.

Add to this the underground economy and the remittances from overseas. (India received \$ 21 billion+ in remittances from overseas last year. Mexico received \$18 billion). The complexity of the problem defies precise measurement. (I am glad that as a result of my drawing attention to this “forgotten population” to business more people have started to devote their attention to understand this space better. You are a good example). One way to escape this malaise of measurement is to shape this world differently rather than study, in greater depth, its income characteristics. We know that there is a large population out there – be it 4 or 5 billion underserved. (The size of this market does not depend on its income characteristics alone but how we can create the capacity to consume. More of this later). *Shaping the world requires a point of view and some evidence to show that this is possible.* The book is about a point of view. I have tried to apply only one set of tests in my work: Does it change the conversation? Does it show the opportunity? Does it lead to some action?

I respect precision. But to define poverty line as \$ 1.08 or \$ 1.48 is pseudo precision. So is the ability to compute precisely the total number within those income boundaries. In my work I was looking for *dimensionality and directionality*. My goal was never to measure poverty; much less with great precision. There are others who do this well. My goal is to look for an alternative to the tired and tested methods including government subsidies and public sector schemes to remedy this situation.

The broad dimensions of the problem and the opportunity to make a difference is about changing the quality of life of 4-5 billion people who are underserved and most of them are below the radar screen of the organized sector. If it is only 3.5 billion so be it. It is still a large number and worthy of our attention.

Consumption- Income- Production:

I am surprised that you fall into the same trap that most do. Consumption can and does increase income.

Can Casas Bahia (and such other examples of consumption) alleviate poverty? I find this a very interesting argument. Let us start with four propositions:

- a. The poor live in high cost micro-economic systems (see CKP/AH: HBR)

- b. They do not have access to good quality products and services (be it water, food, furniture or credit)
- c. They are prisoners of local monopolies; including local moneylenders
- d. They have no recourse to law. The local landlords can and do enforce their will on the local population.

Is the ability of someone at the BOP with volatile wages to get access to credit (at 20% rather than 300%), improving income? Does a family of four having a small refrigerator and eating better food improving the quality of life? Is someone becoming independent (one blind person means two people without wages- one who cannot see and one who needs to take care of that person). Is releasing at least one person to do work- even at minimum wages- improving the earning potential of the family? Is helping poor people to avoid diarrhea, helping the family to save on needless costs associated with healthcare, much less, needless death? Is this income? Is this improving the quality of life? Is avoiding mental retardation at an incremental cost, adding to income? The idea of a “poverty penalty” is real. See the report from Brookings. In the USA poor families pay for everything- food, autos, finance; reducing the poverty penalty is adding to real income.

Poverty alleviation is, simply, improving the disposable income for the families- by reducing the costs of services, improving its quality, and releasing their time to do work that is productive.

I also find that you dismiss somewhat easily the cell phone revolution. Did you believe in 1999 that more than 50 % of the cell phones will be sold to the poor in emerging markets including such desperately poor markets as in Sub-Saharan Africa (CelTel) or in S Africa (MTN, Vodacom)? Needless to say in India and China. (All cell phone makers are MNCs and the new ones from China are also becoming MNCs). Of course they had to invent new business models from Grammen Phone to “prepaid cards”. I am continually humbled by the inventiveness of people who want to serve this population.

Lesson: Creating the capacity to consume is different from serving an existing market. Creating the capacity to consume can increase disposable income (no different from income generation). Creating the capacity to consume can build new and profitable markets at the BOP.

There are many ways to do this:

- a. single serve (Is Aspirin OK if Shampoo is bad)
- b. monthly payments (Is kitchen cabinet OK if TV is bad)
- c. pay per use (is cell phone OK if videogames are bad)
- d. New distribution models (is ITC e-Sagar OK if Shakti Ammas are bad)
- e. Low prices (is a water filter OK if iodized salt is bad)

There is another way that consumption leads to income generation. For example, Grameen Phone has 250,000 phone ladies- all entrepreneurs. There are over 100,000 telephone booth operators in Africa and the number is growing. Bharati estimates that it will need about 500,000 individual entrepreneurs to sell “prepaid cards and charge cell phones” for cell phone users in India alone.

I know that you think “Fair and Lovely” is a bad idea. This is an ideological stance. I believe in choice. I believe that the “poor” must have choice. You may believe that the “rich and the elite can decide what is good for the poor, because they cannot decide for themselves”. (Fair and Lovely does have moisturizer and sun block). I know you do not approve of single cigarette sales; how about beedis which is more affordable and more deadly? Should a consumer have choice between beedis and cigarettes?

We can also argue that this population does not need PCs. Should AMD, Negroponte, and Intel stop all their efforts to create an affordable PC? Should we fix the drainage in Dharavi before we give them access to global connectivity? I just want you to see how ideology gets so intertwined with our approaches. I am explicit about my preferences. So should you. State your position with respect to “who decides for the poor”. I emphasized the consumer side because, as I stated clearly in the book: “We should commence talking about underserved consumers and markets. **The process must start with respect for the Bottom of the Pyramid consumers as individuals...**Consumers and consumer communities will demand and get choice...we must recognize that the conversion of the BOP into a market is essentially a developmental activity...**New and creative approaches are needed to convert poverty into an opportunity for all concerned. That is the challenge**”. (Emphasis in the original text. Preface, page xiii)

Is there a Real Market?

Time will tell whether BOP is a market or not. I believe that it is. So do a lot of others (maybe foolishly). ICICI just enhanced the role of rural marketing. They believe that the total market for credit in rural India is Rs.15,000 billion (now mostly done by moneylenders at 100% may be). The banks have just scratched the surface with Rs. 40 billion. Even if the organized sector only got to Rs. 10,000 billion and reduced the interest rate from a 100% to 20%, you can calculate the income generated for the poor. Consumption of credit, even to buy a TV, can create income. Obviously ICICI expects to make a profit. This is one of their two corporate initiatives- global and rural!! ITC thinks it can make money. P&G, HLL, Nestle all think so.

The World is Moving Forward:

I believe that the world has moved on. The Inter-American Development Bank (focused on Latin America) just adopted the Bottom of the Pyramid as their focus. They call it the “opportunity for the majority”. Academy of Management calls it “business for the benefit of all”. For the last year I have been talking about “democratizing commerce”. So the debate is not anymore about *how many are really poor; it is about how to bring the benefits of global standards at affordable prices and increase access.*

This is a longer letter than I usually write. Because of the high regard I have for you I have taken the time to give a detailed and diligent response. Hope it helps.