

Social Business Enterprises:

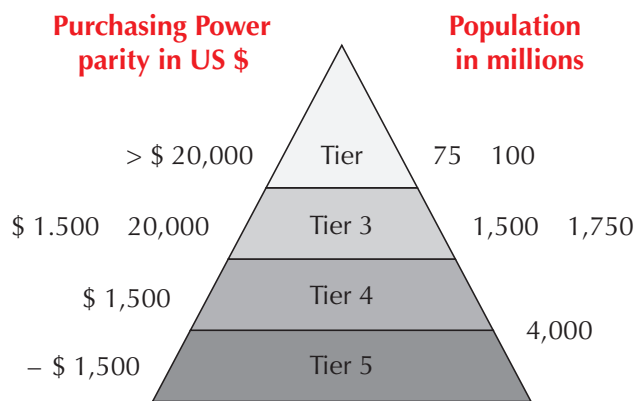
New markets – new ways out of poverty?

Four billion people who live on less than two US dollars per day represent in total an enormous purchasing power. Multinational corporations such as Nestlé, Unilever, Danone and Dr. Oetker discovered these markets long ago and now seek to attract this customer group with new products and marketing strategies. It is time to take a close look at the effects of this development on poverty.

Twenty years after the start of the Uruguay Round, four billion people still have an annual income whose purchasing power in local currency is less than US\$ 3,000. In actual US dollars that is less than US\$ 3.35 per day in Brazil, US\$ 2.11 in China, US\$

1.89 in Ghana and US\$ 1.56 in India (World Resources Institute, 2007. *The Next 4 Billion*). Despite the fact that in a number of very different countries – particularly China and India – strong economic growth has led to an improvement in general living standards, broad sections of the population have experienced no gains.

In 2004 C. K. Prahalad unfolded a new theoretical approach to the reduction of poverty in his book “The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits”. Prahalad’s



Source: Prahalad, 2004

strategy is based on the assumption that the activity of multinational corporations in low-income markets contributes both to company profits and to the reduction of poverty. With the publication of his book Prahalad opened up debate about the “bottom of the pyramid” (BOP) market theory.

According to Prahalad, low-income markets should be a central focus of the private sector’s involvement in the economy. In his view, poor population groups can benefit from global economic growth only through increased participation in the international market. The core of his argument is that companies in low-income regions create jobs there by manufacturing products that are adapted to the needs of the relatively poor population of the

area. A local momentum is built up: as low-income groups become involved in the production cycle, their purchasing power increases, they become consumers of the products that they have themselves produced, and so the cycle continues. On account of their financial and logistical strengths, Prahalad sees multinational corporations as playing a pioneering role in opening up low-income markets.

Prahalad is of the view that implementation of his proposed measures would result in disadvantaged population groups assuming greater responsibility for their own affairs and poverty being reduced.

The plan that Prahalad outlines in his book is seductive and has attracted enormous interest in both academic and business circles. The World Resources Institute’s report “The Next 4 Billion”, published in 2007, supports Prahalad’s theory; it puts the annual purchasing power of low-income people at US\$ 5,000 billion. According to the WRI report, the highest potentials are in Asiatic countries, followed by Latin America and Eastern Europe. In Africa the BOP market is somewhat smaller at US\$ 429 billion (WRI, 2007). Because low-income households spend up to 50 percent of their income on food, the WRI sees the largest market potentials in the food products sector.

“Saving the world with a cup of yogurt”

The list of those who are discovering the BOP markets as potential sales markets for themselves includes many of the world’s large companies. Products are manufactured that are specially designed – through their size, low cost, contents and ingredients, and marketing – to appeal to low-income population groups. Nestlé terms them “Popular Positioned Products”; its plan is that they should bring in 10 billion

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euros in the long term (Mende 2007, Food für die Welt).

The best-known BOP project of recent years takes the form of cooperation between the Grameen Bank and Danone in Bangladesh. "Saving the world with a cup of yogurt" was CNN's headline on 15 March 2007; the article describes the business idea behind Grameen Danone Social Business Enterprises. "Social business enterprises" are companies that include non-profit factors in their business concept.

The factory in Bogra (Bangladesh) commenced production at the start of 2007. The company buys milk from small-scale producers in the region in order to make yogurt. The Grameen Bank makes small loans which enable people to buy the yogurt at the factory and sell it door-to-door. The yogurt is enriched with essential vitamins and minerals and so helps to provide a healthy diet for the poor. The company claims that up to 1,600 jobs have been created within a radius of 20 miles of the factory. After three years Danone will withdraw its start-up capital of US\$ 500,000 from the project, but it will make no additional profit; all other profits will be invested locally, thus remaining in the region. Grameen and Danone plan to build another 50 such factories in the next 10 years, proving that it is possible to combine business profits and social responsibility in a "win-win" scenario (Prasso, 2007: *Saving the world with a cup of yogurt*).

Unilever has also recognised the potential of such business undertakings. Patrick Cescau, Group Chief Executive, highlights the importance of sustainable action for Unilever. He emphasises that a company must include ecological and social factors in its business strategy if it is to be competitive.

This brings a new element into the discussion, one that Prahalad largely

The Grameen Bank in Bangladesh started a PPP project with Danone. This organisation is experienced in reaching the very poor.

ignores in his account of the theory – the effects of a positive company image in opening up new market segments. Socially responsible behaviour is recognised by many sectors of the market; in a time of growing market saturation it becomes an increasingly important element of competitiveness. From a business point of view it is worth "doing good" in order to strengthen the company's global image.

Without doubt, the theory of the BOP market sits well with the trend of the times. It is a logical development of liberal economic thinking; by transferring the task to the private sector, it largely releases both governments and society from their duty to provide for low-income population groups.

In return, commercial organisations are seeing new marketing opportunities unfold at a time when the pressure of competition is strong. Trends in the retail trade, in particular, demonstrate how markets in developing countries have grown in importance in recent years. In the last few years the market share of global retail chains has grown by between 25 and 30 percent in India and by more than 10 percent in China and Russia (Kearney, 2007: *Growth Opportunities for Global Retailers – Global Retail Development Index*). If companies were to focus only on the high-income sectors in developing countries, these markets would soon be saturated (WRI, 2007). The real prospects of profit lie – according to the WRI's projections – in opening up low-income markets.



Photo: picture-alliance/Codong

The other side of the coin

What does the other side of the coin look like? Does increased investment in low-income markets really live up to its promise, benefiting poor population groups in the way that Prahalad describes in his theory?

The question is at present impossible to answer. The most serious criticism of the BOP market theory is that the economic, social and ecological interactions involved have not been adequately evaluated. A coherent analytical framework focusing on the poverty reduction impact of such enterprises has not yet been drawn up. The list of examples – both in Prahalad's book and in other articles – yields little useful information. Often there is a complete absence of empirical evidence of the impact on poverty and of any analysis of the ecological effects.

A study carried out by Oxfam and Unilever in Indonesia in 2003 sought to analyse Unilever's entire value-adding chain from the point of view of its impact on poverty. The results are inconclusive; no definitive answer is provided to the question of whether Unilever's activity has had a positive or negative impact on poor population groups and small producers. The

authors establish that some 300,000 people earn their living from their involvement in the Unilever value-adding chain but the opportunity costs are complex and difficult to calculate, making it impossible to establish the true nature of the impact on poor population groups and small producers.

Even in low-income markets there are established production and marketing structures. When multinational corporations invest in BOP markets in the way that Prahalad recommends, these existing institutions must compete with the new investors and may be forced out of business. This type of competition is particularly evident in the food trade. Altered demand structures, price pressure and competition from imports make it more difficult for small-scale producers to access the market and can put small traders out of business (Wiggerthale, 2007: *Supermärkte auf dem Vormarsch im Süden, eine Bedrohung für Kleinbauern?*). Any analysis of the effect of investment by international corporations on low-income groups is meaningless unless it takes such opportunity costs into account.

From a development perspective one of the fundamental weaknesses of Prahalad's theory is that it sees the poor primarily as consumers. In order to reduce poverty, incomes and therefore purchasing power must rise. Low-income population groups are thus viewed chiefly in their role as producers and workers (Karnani, 2006: *Fortune at the Bottom of the Pyramid: A Mirage. How the private sector can help alleviate poverty*).

A further criticism of the theory is that it takes no account of the very low level of consumer protection in many developing countries. If corporations target low-income consumers with special marketing strategies, one must ask whether they are creating consumer needs rather than servicing them. As Prahalad mentions in his

book, low-income population groups often come from an environment of limited educational opportunity. Critical evaluation of advertising and of the products themselves is often not something for which consumers are equipped.

Unilever sends saleswomen with picture books to Indian villages to advertise its products. They target mainly women, who are at the same time provided with advice on nutrition and baby care. Twenty thousand villages are involved and around 20 million people have been contacted (Mende 2007). It is of course desirable and necessary for women to receive advice on these important issues. But this advice should come from an independent source. This is essential to ensure that the primary interest of the advice service is not marketing.

Commitment is no substitute for political responsibility

The strongest criticism of the BOP market theory is that its focus is on company profit and not on poverty reduction. To enable the two aspects to be combined with positive results, a robust legal framework is required. The central aim of such a framework must be to ensure that low-income consumers, producers and workers are protected by the law. In many developing countries there is a complete absence of any such legal provision and of adequate implementation of such legislation as does exist.

Prahalad has triggered debate on the BOP markets and the impact of multinational corporations on development opportunities; this has had the positive effect of initiating another important discussion – this time on the economic potential of national and local markets in developing countries. In the past the promotion of exports has tended to ignore the potential of national mar-

kets. The debate has boosted recognition of the market potential of low-income groups. This potential needs to become an element of a long-term poverty reduction strategy which acknowledges members of low-income groups in their manifold activities as producers, entrepreneurs and workers and not just in their role as consumers. To underestimate the potential of local and national business undertakings would be a major mistake.

Zusammenfassung

Vier Milliarden Menschen, die von weniger als zwei US-Dollar am Tag leben, haben, wenn man sie als Gesamtheit betrachtet, eine immense Kaufkraft. Längst haben multinationale Unternehmen wie Nestlé, Unilever, Danone und Dr. Oetker diese Märkte entdeckt und versuchen, die Käuferschichten mit neuen Produkten und Marketingstrategien für sich zu gewinnen. Welche Auswirkungen diese Entwicklung auf Armut hat, gilt es kritisch zu hinterfragen. Kann die einkommensschwache Bevölkerung von wirtschaftlichen Beziehungen zu den Konzernen profitieren? Und inwieweit kann die Wirtschaft für die Armen dieser Welt Sorge tragen?

Resumen

Cuatro mil millones de personas de este mundo sobreviven con menos de dos dólares norteamericanos al día – pero aun así, como conjunto representan un inmenso poder de compra. Hace ya tiempo que estos mercados han despertado el interés de empresas multinacionales como Nestlé, Unilever, Danone y Dr. Oetker, quienes tratan de conquistar a estos consumidores con nuevos productos y estrategias de mercadeo. Es necesario examinar críticamente cuáles son las repercusiones de este desarrollo para la pobreza. ¿Se puede afirmar que la población de bajos ingresos saca provecho de las relaciones comerciales con las grandes multinacionales? ¿Hasta qué punto puede la industria privada hacerse cargo de los pobres de este mundo?