Serving the World’s Poor, Profitably
by C. K. Prahalad and Allen Hammond

Consider this bleak vision of the world 15 years from now: The global economy recovers from its current stagnation but growth remains anemic. Deflation continues to threaten, the gap between rich and poor keeps widening, and incidents of economic chaos, governmental collapse, and civil war plague developing regions. Terrorism remains a constant threat, diverting significant public and private resources to security concerns. Opposition to the global market system intensifies. Multinational companies find it difficult to expand, and many become risk averse, slowing investment and pulling back from emerging markets.

Now consider this much brighter scenario: Driven by private investment and widespread entrepreneurial activity, the economies of developing regions grow vigorously, creating jobs and wealth and bringing hundreds of millions of new consumers into the global marketplace every year. China, India, Brazil, and, gradually, South Africa become new engines of global economic growth, promoting prosperity around the world. The resulting decrease in poverty produces a range of social benefits, helping to stabilize many developing regions and reduce civil and cross-border conflicts. The threat of terrorism and war recedes. Multinational companies expand rapidly in an era of intense innovation and competition.

Both of these scenarios are possible. Which one comes to pass will be determined primarily by one factor: the willingness of big, multinational companies to enter and invest in the world’s poorest markets. By stimulating commerce and development at the bottom of the economic pyramid, MNCs could radically improve the lives of billions of people and help bring into being a more stable, less dangerous world. Achieving this goal does not require multinationals to spearhead global social development initiatives for charitable purposes. They need only act in their own self-interest, for there are enormous business benefits to be gained by entering developing markets. In fact, many innovative companies—entrepreneurial outfits and large, established enterprises alike—are already serving the world’s poor in ways that generate strong revenues, lead to greater operating efficiencies, and uncover new sources of innovation. For these companies—and those that follow their lead—building businesses aimed at the bottom of the pyramid promises to provide important competitive advantages as the twenty-first century unfolds.

Big companies are not going to solve the economic ills of developing countries by themselves, of course. It will also take targeted financial aid from the developed world and improvements in the governance of the developing nations themselves. But it’s clear to us that prosperity can come to the poorest regions only through the direct and sustained involvement of multinational companies. And it’s equally clear that the multinationals can enhance their own prosperity in the process.

Untapped Potential

Everyone knows that the world’s poor are distressingly plentiful. Fully 65% of the world’s population earns less than $2,000 each per year—that’s 4 billion people. But despite the vastness of this market, it remains largely untapped by multinational companies. The reluctance to invest is easy to understand. Companies assume that people with such low incomes have little to spend on goods and services and that what they do spend goes to basic needs like food and shelter. They also assume that various barriers to commerce—corruption, illiteracy, inadequate infrastructure, currency fluctuations, bureaucratic red tape—make it impossible to do business profitably in these regions.

But such assumptions reflect a narrow and largely outdated view of the developing world. The fact is, many multinationals already successfully do business in developing countries (although most currently focus on selling to the small upper-middle-class segments of these markets), and their experience shows that the barriers to commerce—although real—are much lower than is typically thought. Moreover, several positive trends in developing countries—from political reform, to a growing openness to investment, to the development of low-cost wireless communication networks—are reducing the barriers further while also providing businesses with greater access to even the poorest city slums and rural areas. Indeed, once the misperceptions are wiped away, the enormous economic potential that lies at the bottom of the pyramid becomes clear.

Take the assumption that the poor have no money. It sounds obvious on the surface, but it’s wrong. While individual incomes may be low, the aggregate buying power of poor communities is actually quite large. The average per capita income of villagers in rural Bangladesh, for instance, is less than $200 per year, but as a group they are avid consumers of telecommunications
services. Grameen Telecom’s village phones, which are owned by a single entrepreneur but used by the entire community, generate an average revenue of roughly $90 a month—and as much as $1,000 a month in some large villages. Customers of these village phones, who pay cash for each use, spend an average of 7% of their income on phone services—a far higher percentage than consumers in traditional markets do.

It’s also incorrect to assume that the poor are too concerned with fulfilling their basic needs to “waste” money on nonessential goods. In fact, the poor often do buy “luxury” items. In the Mumbai shantytown of Dharavi, for example, 85% of households own a television set, 75% own a pressure cooker and a mixer, 56% own a gas stove, and 21% have telephones. That’s because buying a house in Mumbai, for most people at the bottom of the pyramid, is not a realistic option. Neither is getting access to running water. They accept that reality, and rather than saving for a rainy day, they spend their income on things they can get now that improve the quality of their lives.

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