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Marketing's Lost Frontier: The Poor

Ravi Achrol
George Washington University

Philip Kotler
Northwestern University

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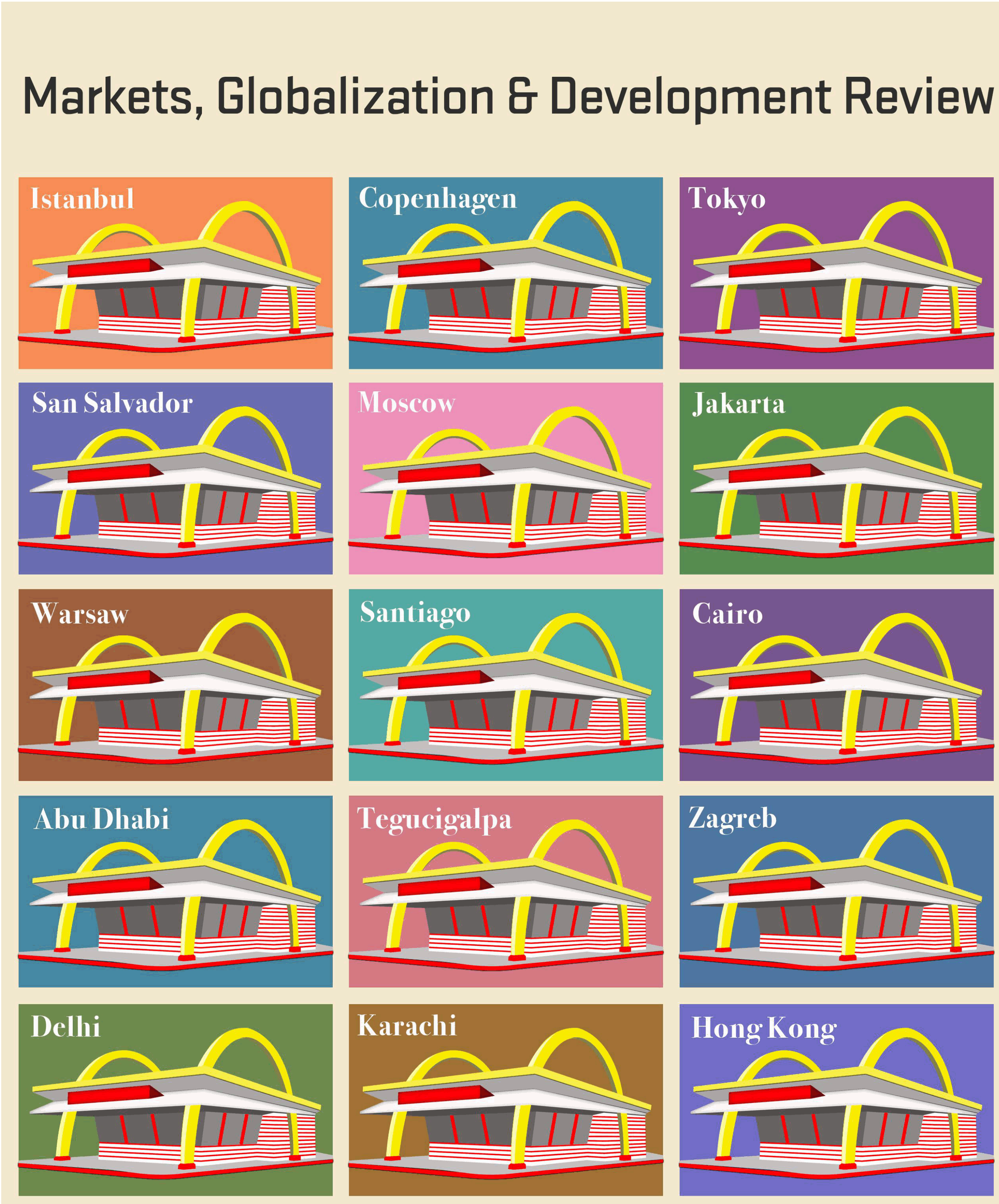
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Marketing's Lost Frontier: The Poor

Introduction

We congratulate the International Society of Markets and Development (ISMD) on launching its new journal *Markets, Globalization & Development Review* (MGDR), co-edited by Nikhilesh Dholakia and Deniz Atik. This article's second author was privileged to have been involved in the Society's first conference in Istanbul. The Society is positioned to lead what should be among the foremost issues before the world in the 3rd Millennium – bringing the poor and struggling masses into the mainstream of economic opportunity and wellbeing. Both of us authors are honored to write this article for the inaugural issue of ISMD's new journal.

The majority of the peoples of this world have been left behind by the economic miracle of the 20th Century. Seventy-one percent of the world's 7 billion human inhabitants in 2011 lived in poverty –15 percent lived in extreme poverty earning less than US $2 per day; and 56 percent earned less than the US standard of poverty of $10 per day (Pew Research Center 2015). The 3.2 billion people at the base of the world wealth pyramid, own just 3% of the world's wealth. In contrast the top one percent own just over half of the world's wealth and the top 10 percent own 87.7 percent (Credit Sussie 2013).

It is perplexing--why has poverty defied the ingenuity of humans in the 20th century? Why can't the people who have sent men to the moon, unraveled the genetic code, cloned life, built glittering cities in China in not much more than a decade, why can't the architects of modern miracles of science solve one of the oldest economic and social problems plaguing humankind?

In 2000 the United Nations issued an impressive document called the Millennium Development Goals (MDG) signed by 180 Heads of State. But in May 2005 UN Secretary General Kofi Annan warned that the poor countries will not meet many, or even most, of the MDG. The UN's new Agenda for Sustainable Development (United Nations 2015, p.6) acknowledges that whereas significant progress was made, progress has been uneven, particularly in the least developed economies, and that some MDG are off-track. The MGD have been superseded by The 2030 Agenda for Stainable Development (ASD) with an even more expansive and ambitious set of 17 goals and 169 targets. So overwhelming is the scope of this document that it will surely provide more grist for the UN's many critics who have long called it irrelevant and ineffective. For those with a management mindset the new UN document will appear fanciful being devoid of the critical analysis of what worked and what didn't with the MGD and why: it is only from such analysis that new vision and goals should emerge.

Influential analysts and financial experts like Jeffery Sachs, Joseph Stiglitz and George Soros have expressed opinions that after five decades and over $2 trillion in "foreign aid," the post-World War II development regime (including the IMF and the World Bank) is in some disrepute and disarray. Maybe it is for lack of determined effort from governments and the community of nations.[1] Some like Jeffrey Sachs believe that the solution calls for a vast transfer of money from the West to the poor countries (Sachs 2005).

But throwing more money at the problem will be no more effective than the effectiveness of the development model used. It is possible today's aid programs are designed with the wrong theoretical tools, or at least, there may be more effective ones available.

No doubt the problem of poverty is mired in a catalytic web of contributing causes – each hard to break – but collectively forging an almost insurmountable barrier. The causes include scarce economic conditions, chronic diseases, poor nutrition, substance abuse, adverse natural environments (poor soils, drought), minimal infrastructure (roads, water, and electricity), negative social factors (crime, domestic violence, and discrimination), little education, lack of family planning, and so on.

The plethora of causes has spawned a diverse set of solutions and a correspondingly long list of international, domestic, and nongovernment intervention programs. The cumulative impact of these, however, has been marginal at best. What impact there has been on the poor is made even less significant in comparison with the huge economic gains enjoyed by the rest of world society. Relatively speaking, and may be absolutely too, the poor have become poorer as the world prospered and the natural habitats of the poor withered, oftentimes as a direct consequence.

The solutions and designs of contemporary poverty alleviation programs are based on models derived from conventional economic theory and sociology. But one model, which has been successful in stimulating the consumer societies of affluent nations, is largely absent from the mix. This is the *marketing model*. As unlikely as it may seem at

[1] Critics see this as ridiculously small. Only a few nations achieve the small UN target for development aid of 0.7% of GDP. The Borgen Project, an anti-poverty advocacy organization, estimates the annual cost of eliminating starvation globally at $19 billion a year, a mere drop in the bucket compared to the $1000 billion of annual military spending (Wikipedia online 2007).

first, the marketing model may offer a viewpoint and methodology that has a better chance of succeeding where others have failed.

The marketing approach is part of the more general model of private sector led growth. Indeed there are encouraging signs of significant trickle down effects from economic growth driven by private industry and open markets. Since the 1980s, globalization and global economic growth have had a noticeable impact on reducing extreme poverty. In October 2015 the World Bank projected that for the first-time the number of people living in extreme poverty (earning US $ 1.90 or less a day) was expected to fall below 10 percent. That is down from 37 percent in 1990. Despite this progress, the number of poor people – at US $10-per-day level – remains extremely high, at about 5 billion or 71% of the world population. Moreover, what progress there has been is very uneven. The most dramatic declines in poverty were in East and South Asia where the bulk of economic growth in the past 25 years occurred. China alone accounted for most of the decline in extreme poverty – between 1981 and 2011, 753 million people in China moved above the $1.90 a day threshold (World Bank 2015, 2016).

From the 1970s, Marketing has become a dominant force in the corporate world, along with Finance. Its reach has spread far and wide outside of commercial markets for goods and services. True the vast amount of modern marketing is preoccupied with selling *more* to, and targeting the needs of the working class, the middle class, and the affluent class. But it is also used to meet the goals and satisfy the needs of consumers of nonprofit organizations, social service agencies, museums, health care firms, sports teams, and art galleries.

The marketing challenge is that the poor do not have much consumption power, money. A company wishing to serve the poor would have to produce products and services very cheaply, price them low, and distribute them in the least expensive way. For a commercial enterprise this may seem a herculean task bordering on infeasibility. Given the pressures from investors, why struggle to find ways to serve the needs of the poor for meager results when there are many avenues to make larger profits in middle and upper market segments?

One solution is that there are so many poor – in Africa, India, China and other less developed economies – that companies could make up for their small margins by the sheer volume of sales. Companies like Hindustan Unilever have risen to this challenge by selling detergent in affordable single-use packets. Another way is to explore shared-consumption such as with mobile phones in certain markets. But the biggest argument is the sum-total argument, the potentially huge economic and social dividend from expanding markets to include such a large mass of under-consuming humanity at the Base of the Pyramid.

If the lives of poor people could reach their true potential, not only would they prosper, but their prosperity would contribute to the wellbeing of everyone else. All round prosperity contributes to GDP while reducing the burden on social programs, on taxpayers and the state; reducing crime and improving governance. Thus even if compassion and altruism were not motivation enough, there are many self-serving reasons why developed countries, affluent societies and global corporations should devote a significant effort to understanding and solving the economic and social dilemma of poverty.

This era of global economic slowdown and turbulence is due in large measure to the maturing of markets in developed societies. *Markets like the U.S., which have fueled the longest sustained period of economic growth and prosperity in human history, are reaching the limits of consumption.* The result is a significant overcapacity in industries such as autos, steel, and construction. Overcapacity leads to intense competition, the demise of weaker firms, and to vigorous merger and acquisition activity. The resulting giant companies compete in imperfect markets and are prone to excesses and fostering consumption bubbles. When the bubbles burst, as they must, Governments and taxpayers are saddled with huge real and social costs because these companies are literally “too big to fail.” These structural upheavals cause job losses and job migration that negatively affect many well-off communities.

Thus the argument we want to highlight in this paper is that: Helping the poor escape from poverty would *expand markets, create opportunity, encourage growth, and raise the incomes around the world* by creating more trade and employment.

Because of the limited marketing literature on issues of the poor, we offer this article in the hope of inspiring more research on how marketing thinking, concepts and tools can be used to help companies serve the poor better. The paper is designed as (1) a survey of the prominent concepts and issues in the literature on poverty, and (2) as a window on some developing ideas coming from marketing.

Conventional Economics Approaches to Alleviating Poverty

To appreciate the difference between traditional approaches to tackling poverty and the marketing approach advocated here, it is helpful to briefly review the former.

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Development Economics

Many economists and others see economic growth through investment and job creation as offering the major hope for poverty reduction. The neoclassic economic development models date to the stark analysis of Wilfred Pareto[2], the Harrod–Domar model, and the model due to Nobel laureate Robert Solow.

The dominant development model today is “New Growth Theory” (Romer 1990; Snooks 1998). The new models postulate macroeconomic outcomes based on microeconomic processes. Besides staple concepts such as utility maximization by households and profit maximization by firms, innovation, knowledge, new product development, human capital and network externalities are of special importance in the new models. Shorn of its formal language new growth theory postulates that economic growth is driven by better serving ever-increasing human wants and desires, and its logic is interchangeable with conventional marketing theory. It is moving the discourse squarely into the business, marketing and entrepreneurship arenas.

But it is useful to keep in mind that economic models, whether based on macro or micro mechanisms, address only part of the complex socioeconomic syndrome of persistent poverty (Ravallion 2010). The poor are trapped in what economists call the *development trap* (Sachs et al. 2004; Snowdon 2009) and sociologists call the *cycle of poverty*. They consist of multiple self-reinforcing low-level equilibria in capital and savings, meager natural resources, unfavorable demographics, poor health and education, poor infrastructure and logistics, and so on, that ensnare the bottom billions of the world population in generational penury. In general, theories of economic growth are rejected as inadequate by those who argue that poverty creates a vicious cycle, and cannot be broken without outside intervention. One kind of intervention is redistribution.

Redistribution Strategy

Some argue that governments should adopt selected redistribution measures such as putting higher taxes on the rich, putting caps on excessive incomes, and relying more on progressive income tax than regressive sales tax that hurts the poor more. Of course, if wealth and income taxes are too high, it can discourage entrepreneurship, innovation,

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[2] Pareto argued that taking a dollar from a billionaire and giving it to a starving person to buy food, does not mean we have increased the amount of satisfaction in the economic system. Because satisfaction is a subjective state, the billionaire could derive as much or more satisfaction from that dollar as the starving person spending it on food.

risk-taking and investment and reduce the rate of economic growth. Excessive income taxes also encourage tax evasion and create opportunities for corruption that can cause lasting damage to a society's governance framework.

Some countries have focused on redistributing the means of production. Extreme redistribution measures have almost always failed. The classic example of all time is the collectivist Marxist-Leninist model of the erstwhile USSR. In agrarian economies the principal means of production is largely land. Countries such as India have a long history of land reform seeking to break traditional exploitative landlord-tenant models that trap the landless in a cycle of poverty. The programs transfer ownership of land to the "tiller" and place caps on the amount of land one individual can own. There is little doubt that these programs transformed the face of rural India, but there is not enough land to go around. The end result is a new landed class of landlords and the poorest elements are left in the same old predicament with no fungible assets and only their labor to sell. In other cases the land was distributed to those who had no agricultural skills and the land eventually trickled through legal backdoors into the hands of the wealthy again.

A second form of redistribution is from wealthy nations to poorer nations, i.e., via Foreign Aid.

The Foreign Aid Solution

The foreign aid argument is also a growth argument. Proponents argue that poor countries do not have the capital resources or savings to grow their economies fast enough or manage enough redistribution to help most of their poor. The theory is due to Rostow (1960) and was developed into the "two-gap" model by Chenery and Strout (1966). Jeffrey Sachs and others have argued that the poor countries need major injections of foreign aid from the rich countries to provide relief and trigger economic development in a sort of Marshall Plan[3].

Critics of foreign aid like Clark Gibson, William Easterly, and Paul Collier suggest that aid in the form of dole can do more harm than good by creating more dependency on the part of the poor, thus perpetuating a long lasting "culture of poverty" (Easterly 2003). Furthermore, distributions

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[3] According to Sachs (2005) raising the world community's level of aid from the current 0.15% of GNP to the 0.7% they have committed to, could raise 1 billion people out of the poverty trap. The World Bank (2002) estimated that an additional $40–60 billion in aid (roughly doubling then current levels) was required to meet the growth targets of the Millennium Development Goal to cut world poverty in half.

in the form of free food, clothing and the like, spill over into "paying populations" and undercut the livelihood of local farmers and small business who make their living from selling such goods. Finally, corruption and inefficient distribution take a heavy toll on the aid dollar, with the result that maybe less than 15 percent of foreign aid actually reaches the intended poor recipients. Instead of aid, the wealthy nations have resorted to various kinds of loan programs, both direct and through institutions like the World Bank, with the sorry result that in 1998, for every $1 that the developing world received in grants, it spent $13 on debt repayment.

Next we briefly review the sociologically oriented models for tackling poverty.

Social and Cultural Anthropology

A second set of poverty interventions can be grouped under the social solutions paradigm, which targets the social dysfunctions and impediments that trap and hobble the poor from escaping the clutches of poverty. Let us start with society-wide value systems. It might well be said that the prevalent social construction of poverty in the U.S. is that the poor are lazy, shiftless, and prone to moral turpitude (crime, violence, alcoholism, substance abuse, too many children). Welfare programs are cast as rewarding the unworthy and fostering a culture of dependency. The U.S. sees itself as a meritocracy where everyone with the will and determination has equal and ample opportunity to succeed. This is social Darwinism, often traced to 19th Century sociologist Herbert Spencer (a modern day contemporary is Charles Murray). Thus the national mindset (Grondona 2000) and mental models of the poor (Appadurai 2004; Lindsay 2000) are key cultural factors distinguishing development-prone and development-resistant nations.

The Culture of Poverty

A monumental problem of poverty is it evolves into this inverted culture of isolationism and alienation from mainstream society and its prevailing values and ethic. The daily experience of the poor navigating their frugal world generates a fluency in the poverty environment, but a near illiteracy in the environment of the larger society (Chakravarti 2006). Anthropologist Oscar Lewis (1998) is among the most influential writers on the structural theory of poverty. The forces of generational penury can be summarized (using our labels) as follows: *Disengagement, Minimalism, Family Instability* and *Fatalism.*

For a number of decades now the United Nations and World Bank initiatives have prioritized social goals over traditional economic ones. A glance at the MDG shows that except for Goal 1, all the remaining seven goals and eleven of their thirteen targets are directly focused on tackling social impediments. Many developing countries are prioritizing programs to provide the poor segments of their citizens with better education, sanitation, health; and protections for women, children and other exploited or discriminated sub populations. Special mention should be made of the empowerment model.

Influenced by the voice of 1998 Nobel laureate in economics Amartya Sen of Harvard University, empowerment has emerged at the vanguard of the contemporary anti-poverty platform of the United Nations' aid agencies (see World Development Report 2000/2001). The empowerment model tackles the issues of governance, participation of the poor in governance, and equitable rule of law. Its three pillars are inclusion, voice and accountability (Narayan 2002). Narayan cites this example: when Uganda instituted public oversight of public school funding, the portion of nonwage allocations that actually reached the schools jumped from 22 percent to 80-90 percent between 1995 and 2000 (see also examples in Easterly, 2003).

Empowerment is an evocative construct, imbued with what Cornwall and Brock (2005) call a "normative power" and an "almost unimpeachable moral authority." Cornwall and Brock offer one of the rare critiques of the empowerment-fired development narrative. Long on stylized rhetoric, the critique is nevertheless an important caveat. The desultory account of the stage-managed *lecture* masquerading as rural "participation" in planning a "locally owned development plan" will instantly resonate with anyone with experience of the working of rural bureaucracy. It is our contention that one of the global ills of the development saga is that it is an arsenal of policy and initiatives without an internal nomological order relating its parts in time and space.

The Problem with Conventional Macro Models

Whereas each of the approaches discussed above has a core rationale and a track history, they also have significant limitations. Here we want to highlight some serious consequences that result from canned solutions to poverty as a macro problem.

The approaches summarized in the previous section of the paper are dominated by income classifications, GDP and growth rates. The UN indexes employ only 2 or 3 additional variables. We submit this is symptomatic of what is wrong with traditional approaches – volumes of stark data and abstract theories that do not have much of a human face and are far removed from reality on the *ground*. The gross classification schemes used by the World Bank and UN economists are reminiscent of

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the industry data used by companies in the pre-marketing era. Those were times when companies thought of markets as industries, they developed products they believed would appeal to the cross-section of the market, and mass marketed them. Current poverty programs have a similar mass-solution design and a mass-delivery mindset. The *marketing concept* introduced a more refined approach to markets and consumers. Firms started focusing on key behavioral differences that segmented consumers into relatively distinct segments of preferences, shopping habits and media habits. They took advantage of this knowledge to develop targeted marketing strategies and optimize their approach to the market.

Like their better off brethren, the poor are numerous and diverse. Detailed studies of the culture, habits and economics of local communities of poverty are needed. It is unlikely that private enterprise can devote the resources to carry out these kinds of in-depth analyses when they expect to be operating on shoestring budgets to deliver lowest cost solutions. Governments will have to step-up and gather and disseminate the data. They will need to ramp up their agencies and programs to measure poverty, to know its circumstances, to describe the social, cultural and economic characteristics of communities of poverty, and monitor whether it is rising or falling, and what is working and what is not of the existing poverty-reduction programs. This must be done at local levels.

Instead of feeding the needs of bureaucrats and economists for mass statistics, the kind of data collected for marketing-based poverty eradication would focus on what commercial companies need to evaluate customer needs and behaviors and how they can be served. The data would incentivize private enterprise into a proactive stance to develop poor communities into the growth engines and markets of the future. The data are a necessary resource for companies to analyze and mine, looking for seed pockets of demand that can serve as footholds in poor markets. The foothold segments will create ripple effects of economic opportunity and growth in neighboring segments, and so on.

Instead of legions of statisticians, Government data collection agencies will need to be staffed with people trained in the behavioral sciences and in marketing research, people who are experienced in the dynamics of consumer behavior and sensitive about how such data relate to marketing opportunities. Market segmentation is fundamental to defining the problem as well as the alternatives available for solving it, both seen from the viewpoint of the *subject* rather than the principal. All too often macro solutions are effective only in addressing the symptoms of poverty than its root causes. Segmentation represents the key mechanism for focusing on local issues over global ones.

There are two classic cases worth keeping in mind. One is the long running feud between social activists and Nestle dating back to the 1970s over its infant food marketing in poor communities. The food substitute is blamed for a variety of harmful economic and social side effects, but especially for increases in infant disease and mortality due to the fact that (1) the substitute needs to be mixed with water which is often contaminated among the poor communities; and (2) the substitute lacks the natural nutrients and antibodies present in mothers' milk that help protect the child from numerous gastric and respiratory illnesses, many of which prove fatal. Even though the health and sanitation standards of the poor may seem alarming to the educated and well-off, nature often provides the poor the best defense against nature itself. Well-meaning but ill-advised interference with this balance can do more harm than good.

A lack of understanding of the lives and priorities of the poor also leads to simplistic conclusions about what is really important to them, and to solutions which appear obvious and simple to us but can mean so little to them. "The Moral of Bednets" an article in the *Economist* in July 2005, is such a story. In January 2005 in a speech to the World Economic Forum, Tanzania's President stated that 150,000 African children die every month from malaria. Hollywood actress Sharon Stone was spurred to pledge $10,000 on the spot to buy bed-nets for Africa's poor, and she challenged the audience to follow her lead. One million dollars were pledged in five minutes, enough to buy 250,000 nets at $4 a piece. But the *Economist* pointed to the kinds of side effects that prevent such gestures from delivering any real value to the intended communities. The free bed-nets were likely to adversely affect the businesses of existing entrepreneurs and distributors of local mosquito nets. And there was no assurance that the people who received the nets would use them in the way they were supposed to be used. A Ugandan newspaper reported that a government official was admonishing villagers not to turn their nets into wedding gowns!

The consequences of project orientations ("product orientation" in the marketing lexicon) can be seen in many highly touted development projects that went awry. One such is the Tata small car factory fiasco. The Tata industrial conglomerate created a sensation in India by promising to build and market a modern day peoples' car, the *Nano*, for a mere $2,500. Cars, no matter how nano, are not the staple consumables of the bulk of the BOP. But it is the kind of consumption synergy that can expand marketing and related livelihood, and push it lower into the social structure of consumption. Tata, in cooperation with the State Government of West Bengal, chose Singur as the site for the manufacturing plant, and the State acquired 1000 acres of quality agricultural land from the peasants (in itself a mistake, diverting scarce prime arable land to an industrial purpose). A rowdy grassroots opposition led by high profile anti-development activists Mamata Bannerjee and Arundhati Roy, opposed the acquisition and shut down the construction. Rowdy counter-demonstrations followed by those who were negatively affected by the inevitable Tata decision to move the factory location to Sanand in Gujarat, on the opposite coast of India.

This spiral of activism could have been avoided if the Company and the State considered the project as a marketing project from start to finish. If it had, it would start with the interests of the displaced people and local residents first, and the interests of the larger India market for a peoples' car second. It would develop a marketing plan to show the local community the benefits it would derive. For example, guaranteeing employment to one member of each displaced family and training that member to work in the plant. And that is only the beginning of the multiplier effect of all the money and economic benefits that would spill over into the local community.

Similar stories abound of large development projects that benefited far-flung markets but ignored local communities and generated powerful social unrest. Poor communities are more aware and more organized than ever before, and the multinational corporation (MNC) that does not come to serve their interests first will be the first to feel the backlash. The core premise of this article is that in a global environment characterized by saturated markets, near capacity consumption and overcapacity in production in the developed economies, the future lies in bringing the 4 billion people – who today are marginal consumers and marginal participants in the economic mainstream – into the mainstream. To do that, they must represent the starting point of every business plan.

There are three new models that have emerged on the development stage. All three have emerged from the thought traditions of business schools (as opposed to traditional sources in economics, sociology and anthropology), and all three have varying degrees of marketing as an underpinning. The models share some common precepts but each has a distinct orientation and a distinct order of priority to the multilevel tasks of poverty alleviation.

Development Models Based On Theories of Business

Two events in the 21st Century altered the visibility of the poor in the corporate world. One was the success of the microfinance model and the 2006 Nobel Peace Prize awarded to Muhammad Yunus, founder of the Grameen Bank in Bangladesh. The second was the late C. K. Prahalad's book *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, published in 2005. Prahalad's book, preceded by articles he wrote with Stuart Hart and Allen Hammond in journals like the *Harvard Business Review*, *Business+Strategy*, and *Foreign Policy*, garnered a large amount of publicity, but also attracted a series of sharp critiques from his colleague Aneel Karnani.

The Prahalad bottom-of-the-pyramid or BOP thesis is widely known, but it is useful to keep the premises of the model in perspective. Based on UN World Development Reports he calculated that 4 billion of the world's people live at the bottom of the pyramid on $1500 per year or less. Yet according to Prahalad, Hart and Hammond, collectively this amounts to a market of $13-15 trillion in purchasing power parity (PPP) terms (Prahalad 2005; Wall 2006).

Prahalad offers many promising examples of the business potential in the BOP. He discusses the saga of the Brazilian retailer *Casas Bahia,* with 350 stores and $2 billion in sales, that sells primarily to the poor (by 2010 it has grown to over 500 stores and $7 billion in sales 760 dec 2015). He talks about how Hindustan Unilever or HUL (subsidiary of Unilever, the UK based MNC) – India's largest marketer of consumer cleaning, cosmetic and household products – evolved from targeting segments with disposable incomes, to become one of the leading marketers to the BOP. Its success led the parent company Unilever to successfully migrate HUL's model to Brazil, and the MNC has adopted BOP markets as a strategic priority.

Another Prahalad case illustration that has fired corporate imaginations is about the potential to leapfrog technology diffusion. Cellular phones entered the developed markets after well over a century of slow and steady development of wired infrastructure and technology. The markets of the poor are especially devoid of infrastructure of any kind. Consequently, now it is developing markets that are driving the explosion in mobile wireless communications. A single cellphone in Sub-Saharan Africa can create a business opportunity (supported by local microfinance lenders) for a small reseller of calls by the minute.

The cellphone saga is undoubtedly a saga of BOP marketing success. Prahalad cited predictions that China, India, and Brazil would have a combined 500 million cellphone users in 2005, compared to 150 million in the United States. Today India alone has nearly 500 million mobile users, and some 10 million new users are signing up each month. A 2009 report from the UN shows cellphone usage in Africa continuing to soar (but unevenly). In the five years between 2003 and 2008, the number of phone subscriptions in Africa grew by more than 500 percent, far in excess of saturated Western markets. In Gabon, the Seychelles, and South Africa there are 100 mobile subscriptions for every 100 people (but in Burundi, Djibouti, Eritrea, Ethiopia, and Somalia, the mobile industry has only penetrated 10 percent of the population). Of course, by 2016, things had changed radically – and the ratio of mobile phones to people was one-to-one, with even the poorest having at least a shared access.

The success of cellphone marketing to the poor should not be understood as a story about marketing modern gadgetry and trinkets to the poor. The poor like all people have an instinctive need to be in touch and to communicate. But more than this elemental need, the cellphone is an essential means of livelihood for a lot of poor. It makes them able to search for work, and others to contact them for work. It connects them to the livelihood grapevines. It makes them more employable since they can be readily contacted at work sites by employers. In the U.S. too, social workers report that cellphones are helping keep the homeless out of poverty by connecting them to employment opportunities. “A growing number of the city's homeless will surprise you by whipping Nokias and Motorolas from otherwise empty pockets. Some homeless shelters have even reported problems with too many guests seeking outlets to charge their phones. Tracfones or other cheap phones with prepaid minutes can be bought for $10 to $15. They do not require credit checks or contracts, and cards for additional minutes sell for $10 and $20 at convenience stores” (News Tribune.com, November 25th, 2007). BOP marketing proponents make it clear that providing cheap and low quality products is not the goal of BOP marketing. Rather the challenge is to develop an innovative and entrepreneurial marketing infrastructure – where nothing existed previously – and through it generate the volume in sales that can make low prices profitable.

Prahalad’s colleague Aneel Karnani has been an inveterate critic of the Prahalad doctrine referring to it as the *mirage* at the bottom of the pyramid (Karnani 2007). He strongly rejects the notion that those living on less than $2 per day constitute a $13-15 trillion (PPP) market. A more recent report entitled *The Next 4 Billion* from the International Finance Corp., an affiliate of the World Bank, estimates the BOP market at $5 trillion using a rather liberal measure of poverty at $3,000 PPP. Karnani, using the same data but a more conventional definition of poverty ($1000 PPP, or roughly $2 per day at 1990 prices), shows the market to be no more than $1.2 trillion (Karnani 2009). Karnani makes two particularly important arguments.

The first is his criticism of Prahalad’s “romanticized” premise that the poor are “resilient and creative entrepreneurs and value-conscious consumers." Available studies show the poor spend a large fraction of their meager incomes on alcohol, tobacco, weddings, festivals and entertainment products like TVs (Banerjee and Duflo 2007; Luttmer 2005; Meenakshi and Vishwanathan 2003). As narrated in a *Business Week* feature story (May 21, 2007), commercial abuse of the poor consumer is rampant even in a sophisticated and regulated society like the U.S. The poor are not rational consumers, lack self-control, yield easily to temptation, and are prone to the same peer pressures for conspicuous consumption that the rich are (Fafchamps and Shilpi 2008). They are very vulnerable to exploitation.

The second is that the "hype" accompanying the BOP narrative carries the intellectual danger of diverting other social and political instruments of poverty alleviation. To some extent the fanfare is a necessary part of marketing to the corporate powers that be. But Karnani is right to be concerned about the danger that it will feed a neoconservative development ideology (what he calls a "libertarian movement") that promotes a profit and private enterprise driven solution at the risk of diverting money and government attention from desperately needed social safety nets, health, and infrastructural programs.

We extend Karnani's second argument to ask whether the MNC is necessarily the best entity to lead the vanguard of marketing to the poor. Staffed by urban educated managers and armed with sophisticated theories and analytical techniques, the MNC probably does not have the organizational structure or talents to nurture grassroots entrepreneurs and livelihoods. It is heavily obligated to investor interests and the stock market. Initial enthusiasm may quickly wane and just as quickly as it arrived on the scene, the MNC may be gone, leaving behind a barren network and the broken aspirations of its early entrepreneurs. Karnani points to ill-fated rural initiatives in India by Unilever in ice cream, and by Coca-Cola. The environment of poverty is extremely fragile, carrying a heavy mantel of despair and despondency. The kind of commitment, patience and long term care required to develop economies for the poor, does not seem to be the natural skill set of the modern MNC. At least not at this stage of its evolution. Bharti Airtel is a pioneer in India's rural markets selling long distance mobile air time at $0.02/minute and has amassed 64 million subscribers. But mobile penetration reached only 2% among 700 million rural consumers in the early stages. Clearly Bharti had to have the patience and resilience to develop its rural market share slowly. We believe that the companies that are best positioned to lead and nurture the growth of the BOP markets are companies like Nirma that pioneered the rural markets for household detergents in India, that started at the grassroots level, and pioneered the business models and consumer solutions that are native to the economy of the poor. It was Nirma's success that drew competitor Hindustan Unilever to the rural markets. If MNCs entering the BOP means the demise of locally grown companies, then we feel it is a tradeoff that is most likely to favor solutions for middle class lifestyles over solutions for poverty.

The second concern that we have is that the profit motive tends to get primacy in the BOP potential as described by Prahalad and his colleagues. True he sees a partnership with nongovernment organizations (NGOs) and other nonprofit interests as vital to developing the network of relationships that are necessary to navigate the often politically charged waters of the BOP, but there is an overriding theme that the MNC and its profit goals are the capstone to this entire cooperative enterprise. Indeed, many NGOs may find working to further the interests of profitmaking firms against their organizational culture and belief systems. They may fear that the high paying, fast moving, performance driven managerial culture of the modern corporation could contaminate their more altruistic and sacrificing culture.

A viable marketing-driven development doctrine probably lies somewhere between Prahalad's enthusiasm and Karnani's cynicism. The social marketing model stands on a neutral profit ground. It is applicable to nonprofit organizations as well as offers a more development driven perspective for profit minded ventures.

The Marketing Argument

The Social Marketing Model

The purpose of social marketing is to offer constructive alternatives that motivate desired behaviors in a target audience. It began as a formal discipline in 1971, with the publication in the *Journal of Marketing* of the article "Social Marketing: An Approach to Planned Social Change" (Kotler and Zaltman 1971). Major contributors to its subsequent development include Nancy Lee, Alan Andreasen, Carol Bryant, Craig Lefebvre, Mike Newton-Ward, Michael Rothschild, and Bill Smith among others. Its core premise is that socially motivated interventions by social and health agencies, NGOs, charitable organizations, corporate outreach, and governments, can be better designed and delivered when structured by the principles that are fundamental to the marketing philosophy. Contrary to the lay perception, the fundamental marketing philosophy is *not* about sales and profit, but about satisfying human needs and improving their standard of living. By extension, the fundamental social marketing philosophy is the welfare of its target population and its integration into the mainstream of life expectations and benefits.

The social marketing approach to poverty differs from the BOP model in that profit is neither a primary nor a necessary condition for it. By definition social marketing is aimed at achieving a socially desirable outcome. The bottom line, when it matters, is an outcome not a goal. In that way the potential exists to open vast new markets that can stimulate the global economy as a whole and move it out of its current stalemate of saturated developed markets and industrial overcapacity. The leading edge of the argument is eliminating poverty. Profit is the result or trailing edge.

The social marketing paradigm has a well-established history of application and success in its native domain of social causes. Cases include reducing tobacco use in the U. S., tuberculosis in Peru, malaria in Nigeria, diarrhea-related mortality in Madagascar, dengue disease in Singapore, and hepatitis-B in China (the cases are discussed in Hong, Kotler and Lee 2010). Social marketing has increased the use of contraception in India and the former Soviet Republic of Kazakhstan.

The highly publicized Nestle infant formula controversy puts marketing in a bad spot from which to argue the benefits it has to offer. But the Nestle example is about *selling* things and not about the genuine marketing approach. Marketing is a *customer driven* approach. Social marketing is a *beneficiary driven* approach. Designed with genuine goals and practiced with genuine concern for the well-being of the target populations, marketing can be a win-win formula for all parties concerned. The planning process and steps in social marketing are fairly well understood and tested:

1. Understanding the behavioral social-psychology of the poor as consumers.
2. Understanding and mapping the “segment” structure(s) of the poor.
3. Developing bottom-up products solutions that are uniquely suited to the needs (suffering) of the targeted segments.
4. Transforming the solutions into “products” with the features, benefits, and supporting services that reflect the unique usage-contexts of the poor.
5. Creating an integrated communication and promotional strategy that incorporates a bundle of messages and incentives that relate the aspirations and motivations of the subjects.

6. Designing a delivery "channel" that fits the search-shopping behavior patterns of the subjects.
7. Ascertaining the social marketing price, and who will pay for it (this is itself a vital parallel marketing strategy since the target "consumers" in social marketing rarely pay).

Next we briefly discuss how the 7-point framework for the analysis, planning and implementation of social marketing programs, outlined above, can be applied to addressing the needs of the poor.

The "Consumer" Psychology of Poverty

The dominant theorem of marketing is customer orientation. Understanding the structure of needs and motivations of the poor is not as simple as adapting the vast amount of available consumer behavior theory and research that has been amassed in marketing. Of course we need relevant theories to develop a scientific and systematic understanding. But it is far from certain that the theories developed to explain the socio-economics of consumers with means and education, is relevant to the mental sets and environs constituting the worlds of the poor (Chakravarti 2006).

As things stand, the theory of the poor consumer is little different from the theory of the wealthy. The grand edifice of economic theory is constructed on a universal premise, all people are assumed to be objectively rational utility maximizers. Their decisions are thus isomorphic with their utility preferences, i.e., structurally identical if we overlook fine-grained differences. We are told that if the choices of the poor seem to result in worse outcomes than for those who grow up in more benign circumstances, this is because the situation of deprivation leaves little room for error (Bertrand, Mullainathan and Safir 2004). Socio-psychological constructions are more accepting of the ecological effects of one's upbringing in shaping individual cognitive abilities, motivations and decision making skills. In a penetrating analysis Chakravarti (2006) argues:

> "Deprivation constrains the poor to deal primarily with consumption options low in absolute value and variety. Hence, it may sharpen their perceptual vigilance and discrimination abilities at these levels relative to those of the more affluent. At the same time, it may dull ability to discriminate among consumption options of higher value and variety."

The unstructured life of poverty diverts the aspirations of the poor toward necessity (securing food to feed the family) and in turn lowers higher order aspirations (the person preoccupied with studying will be out-competed for ways to procure enough food, and may reduce his family's chances of survival in the poverty environment, Appadurai 2004). Thus we see that oft-mentioned paradox in the consumption behavior of the poor – a protracted deliberateness over what we might consider trivial decisions coupled with an impulsive recklessness over major choices.

There are many associated problems with applying standard textbook social marketing concepts to the poor. The use of standard appeals to rationality (either benefit based or fear based) regarding health, nutrition, sanitation, addictions, etc., are likely to bounce off pernicious mental barriers. Poverty demeans the human spirit, undermines achievement orientation, and engenders a kind of fatalism and "learned helplessness" (Chakravarti 2006).

The theories of consumption behavior in conditions of deprivation may not be forthcoming in a hurry due to the logistics, lack of resources, and possibly motivation. Committed researchers may have to learn by doing and observing, and gradually develop the deep insights that can generate useful theories – i.e., evolve an idiographic science. Wilhelm Windelband described the distinction between a conventional nomothetic science, which is based on deductive reasoning and logical-positivist traditions, and an idiographic science which uses "grounded" or constructed theory and ethnographic methodologies. Much of what we say next is conditional on a building-theory-as-we-go approach to social marketing. Probably the first step in this learning process will be via analyses of the segments of the poor. In this paper we start with the prevalent perspective which is based on macroeconomic and social analysis, and then look at the more refined market segmentation approach fundamental to marketing.

The Geodemographics of Poverty

At the broadest level for studying the geodemographics of poverty are the United Nations' Human Poverty Indexes HPI-1 and HPI-2, the much discussed measures of *extreme poverty, moderate poverty* and *relative poverty*, and the major "communities of the poor" such as inner cities, shanty towns and rural areas. The character of poor neighborhoods is influenced by racial, ethnic, religious, nationality, age, and other differences. The enclaves take on the character of communities, exhibiting a crude social order and enduring culture. Space does not permit a discussion of the nature of the macro-differences characterizing the communities of the poor, but it is necessary to acknowledge that any systematic approach to helping the poor has to begin with an understanding of the communities in the which the lives of the poor are embedded. However, macro analysis is only a beginning. It is not too far off to say that most current approaches to alleviating poverty use census-style "mass market" methods of aggregating the poor, and broadcasting aid programs to the mass segments. Modern marketing techniques depend on more fine grained analyses of market segments.

Market Segmentation

To marketers it is self-evident that the delivery of products or services (whether commercial or social in kind), can be made far more effective if the mass markets are segmented based on differences in needs, means, subcultures, motivations, literacy, life cycles, social class, benefits, and so on. Even the poor have distinct "existence styles." A marketing analysis would dig deeper into what differentiates individuals in each community. For example, rural communities can be segmented by terrain, climate and dominant livelihoods (whether pastoral or agricultural and the kinds of animals and crops supported by the land). These are far from startling ideas, but what is lacking is the systematic collection and organization of such data on electronic media so that it can be easily accessed by interested companies, NGOs and charities. Segmentation analyses (e.g., clustering) of this data will identify homogenous pockets of market and service opportunity across diverse environments. We anticipate that the most useful demographic information about the poor will be about profiling the kinds of trades, employment and livelihood available to the poor in different communities. This is because serving *those needs of the poor that contribute to increasing their productivity and stimulating local economies* is the cornerstone of marketing driven programs for alleviating poverty.

The urban poor pose a more complex problem. But we suspect the same kinds of analytical issues are involved here. While non-profits may be primarily interested in identifying segments of high social deprivation (broken families, low education, poor health, addiction, crime), the commercial sector is advised to focus on trade and livelihood segments. The two points made by Porter (1995) should prove especially relevant: (1) segments based on opportunities to serve the community's local needs, and (2) segments based on nearby business clusters that businesses in the poverty zones can be plugged into. This kind of data should be valuable for mainstream businesses to target urban poverty areas where they can develop participatory strategies to the mutual advantage of the firm and the community of the poor.

There are four additional segmentation schemes that fall under the psychographics and behavioral categories of variables that are likely to prove useful for social marketing to the poor. Under psychographics, studies that identify the structure of (i) reference groups, and (ii) social networks, would be valuable for designing and targeting communications. Under the behavioral category, firms will find it useful to know the readiness to change, or readiness to buy, of various groups. Here too there are two useful frameworks, the (i) triage model, and (ii) the stages-of-change model.

Reference group sets are especially important in framing communication messages. Even among educated populations, rational appeals (e.g., smoking related) often do not prove persuasive among the most affected consumers because they bounce off cognitive defense mechanisms. With poor audiences they may be even less effective due to high levels of fatalism. But like their better off brethren the poor seem to share a fascination with movie and sports celebrities. India's mobile phone service provider Bharti Airtel uses popular Bollywood stars as "National Brand Ambassadors," and conducts promotional contests revolving around cricket and music. Understanding social networks and embeddedness is the key to reaching BOP customers. In many poor and rural communities individuality is suppressed. Social influence is transmitted through authority and position as opposed to persuasion (Chakravarti 2006). Group dynamics, role models, opinion leaders and gatekeepers of information play key roles in shaping preferences and adopting new behaviors.

The triage model is adapted from the medical model of the same name. It characterizes segments in terms of (1) the number and percentage of people in a population who are poor, (2) the number and percentage of people in a population who are likely to escape the cycle of poverty in the *shortest period of time* and *requiring the fewest resources*, and (3) the probability that the subjects will *stay out of poverty*. The stages-of-change model (Prochaska, Norcross and DiClemente 1994) identifies segments based on where the subjects are in the stages of *precontemplation*, *contemplation*, *preparation/action*, and *maintenance* vis-à-vis some desired behavior (see Kotler and Lee 2009, p. 111).

A concluding word of caution – one should not forget that just like in conventional marketing, segmenting consumers or subjects into groups is expensive. Unless the resulting groups point to unique locations, solutions, communications or channels, a segmented strategy is ill advised because the costs will outweigh the benefits. Indeed, it is likely that "mass market" approaches will suffice when needs are rudimentary (undifferentiated), and low price/high volume are necessary for economic viability. Of course, to the extent Governments step up, collect and disseminate the necessary data for segmentation analyses, then the costs of targeted marketing strategies will become much more economical.

"Ground-up" Products and Solutions

One of the common misconceptions in marketing to the poor is the belief that the most important thing is to make the product cheap. Firms take successful products or solutions from mainstream markets and strip them down for marketing to the BOP. It is said that Phillips failed in Brazil because it tried to introduce inferior products at cheaper prices. Affordability is key of course but there are a number of ways to make things affordable without sacrificing quality.

The commercially successful story of cellphones for the poor did not come about by transplanting a stripped-down marketing model from developed markets. Yes, companies have redesigned simpler phones and are driving the price down to under $30. In January 2010 Vodafone announced it is launching the lowest-cost mobile phone on Earth, below $15, to be sold initially in India, Turkey and eight African countries including Lesotho, Kenya and Ghana. But equally important to affordability is usage affordability. The prepaid phone card was a major innovation behind the spread of cellphones in the BOP, and it now is the dominant service plan worldwide. But initially MNCs had difficulty shedding their middle class market mentality. U.S. based Bell South entered the Venezuela market in 1995 selling $10 and $20 phone cards. Today it sells enormously popular $4 cards at more than 30,000 retail outlets, reaching a far larger market, including even Venezuela's poorest citizens. Another way to enhance affordability is to facilitate shared usage. The Filipino wireless carrier Smart developed the Smart Buddy System that allows customers to resell their unused credits and earn money. It turned its customers into entrepreneurs and a free salesforce for its services. Likewise Bangladesh's leading wireless phone company GrameenPhone sells its phones to its "phone ladies" in small villages at a special low package price package. The phone ladies share their cellphones with other villagers at very nominal prices per call.

Serving the markets of the poor does require product modification and simplification, but also new service models. BOP consumers may not be able to afford the product bells and whistles that go with affluent markets, but they are brand and status conscious nevertheless. What is important is engineering products "ground up" not stripped down. The design team that developed the Tata Nano states that sacrificing quality was not an option, rather they used "Gandhian Engineering" principles to challenge conventional engineering – i.e., do more with less. For example, combining a radio or flash light in the cellphone adds two features that have high value to rural consumers, because they do not have to buy 3 different products, and because the supply of electricity is erratic if available at all. An estimated 1.6 billion people have no access to electricity at all, while another 1 billion people have no electricity for much of the day. Of course that means charging a cellphone poses a barrier. Nokia, Samsung and ZTE are working to market solar-powered cellphones recharging systems.

One lesson from developed markets that should not be lost in adapting to rural markets is that it is not the product you design but what you do to *enable it* (e.g., software, use conveniences, use apps) that drives market success. It is where the product aligns with the consumption process and customer experience, and what you do to facilitate it, that matters most. Bharti Airtel of India not only integrated the "mobile" phone with radio and flashlight, but also offered applications that enable music downloads, money transfers, and access to information on microfinance opportunities. Bharti's mobile phones help farmers to get crop price and fishermen to sell fish.

Used and refurbished products offer a significant opportunity in BOP marketing. It should not be considered condescending to divert the large amounts of perfectly serviceable products that are discarded each year in developed markets. These can be shipped to BOP markets and refurbished locally creating employment along with opportunity. China offers some interesting data: 40 percent of the 62 million new cellphone accounts in 2003 came from people using second-hand phones (according to the research firm Gartner). 10 to 15 percent of all cellphones sold in China that year were second-hand, and it was expected to top out at as much as 30 percent of unit sales. But – characteristic of a myopic view of the BOP – manufacturers hope to *combat* second-hand sales by building up their selection of cheap phones that can sell for as little as 800 *yuan* (*permalink*, March 31, 2004). MNCs need to believe that building up the consumption capacity and spillover effects among the poor is more important than building up their sales, at least initially.

Product adaptation calls for a thorough understanding of the life situations of the poor. Hindustan Unilever reformulated its detergent for the BOP so that it does not require warm water. It also lowered the oil content because rural consumers do not own washing machines but wash clothes by hand in rivers and lakes. The parent company Unilever adopted the same strategy in Brazil. To sum up, product design for the BOP involves thinking in what may seem rather rustic customs and uses, mini-sizes, leasing, and reselling. It involves a back-to-basics mentality.

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Pricing

Do the poor pay more, a so called "ghetto tax"? Tragically, yes. This is one area with a large research literature going back to Goodman (1968). A study by Talukdar (2008) shows the poor in the U.S. pay 10-15% more on basic needs like groceries. Naturally pricing and affordability are the first things that come to mind in thinking about marketing to the poor. Poor consumers suffer higher prices due to market imperfections, logistics and immobility. But as companies begin to focus serious attention on marketing to the BOP, attacking prices becomes a priority. In developing its detergent for the rural markets of India, Nirma did not include scents and ingredients for optical whiteness and making it gentler on hands and fabrics, and used cheaper and simpler packaging. There are numerous examples of innovators working hard to develop low cost versions of popular consumer goods. Innovators in India are working on low cost bicycles, a $100 computer, on low cost surgery (e.g., cataract operations), and low cost appliances. But there have also been charges that some companies simply dump outdated models and environmentally unsustainable products in the BOP mass market.

As argued in the previous section, pricing is more than a sticker price. Affordability can be created by other avenues which are equally important to the poor. Discount marketing strategies in the West emphasize volume and turnover, and often that translates into bulk packages sold at large centralized stores like Costco. But the poor cannot afford bulk purchases, and lack safe storage and transport capabilities. The BOP model requires aggregating volume through small unit sales. For example, in India, Unilever sells its Sunsilk and Lux shampoos in single-use packets ("sachets") priced at 2 to 4 cents, and its Rexona deodorant in 16-cent sticks. Sachets have been successful in rural markets but did not work for P&G with the urban poor in Venezuela (Ireland 2008).

Nowhere is the Value-Based Pricing (VBP) model more important than in marketing to the BOP. Traditional cost-based pricing models start with product design and engineering, followed by costing, and then determine a margin and price that meet ROI targets. The value-based approach, developed initially by Japanese firms, starts with a target price determined by the target market's ability to pay, and works backwards to design and engineer products that can be manufactured and delivered at costs that deliver the target price and returns.

Needless to say, an important aspect of affordability is the terms of payment. The Brazilian retail chain Casas Bahia has figured prominently as an example of successful marketing to the poor. Their success is based on a number of factors not the least of which are their installment purchase plans. Much like the VBP model, Casas Bahia's payment plan is individually tailored to the customer. The monthly payments are not determined based on standard fixed periods like 2 years or 5, and corresponding interest charges. Rather the first task is to determine the amount a customer can afford to pay monthly, and then the cost of merchandise plus interest is divided by the monthly payment to set the span of time over which the customer will make the payments. Casas Bahia has also taken extraordinary steps to alleviate customer hardship. In 2002 it forgave the debt of customers who had defaulted on payments prior to 1997. It alleviated some hardship, brought thousands of customers back into their potential market base, and earned itself a tax break. The company also created unemployment insurance for appliance purchases; it would forgo 6 installment payments should a customer lose his/her job (Foguel and Wilson 2003). Casas Bahia is a leading practitioner of the BOP marketing *mantra* – do some good, make some profit.

In far-flung markets with small volume consumers, affordable pricing is going to succeed or fail on low cost distribution. Further, for many products and services marketed to the BOP, the consumer does not pay all or any of the real price. The activities of NGOs and charitable organizations are heavily subsidized by individual donors and trusts. These entities figure in the larger network of relationships called the channel of distribution.

Channels of Distribution

Distribution is a critical problem in social marketing to the poor. The poor are not mobile and often live in remote areas without good road or rail services. Even the environment of the urban poor has not been conducive to attracting modern distribution services. In contrast, better off consumers have enjoyed the benefits and value delivered by modern discount retailers and the channel systems they developed to deliver them.

Modern Discount Stores like Lechmere in Boston and Polk Brothers in Chicago work on the principle of lower margins but higher volumes to make profit at discounted prices. Walmart is of course the king of discount retailing and – in addition to the low margin/high volume principle – it has taken cost savings from bulk purchasing power, and superior logistics and vendor-managed inventory to the most sophisticated levels. However large-scale discount retailing may not be economically feasible or socially desirable in small rural markets. It requires market features that poor communities do not have. The "high volume" criterion is an obvious problem. Poor consumers do not have the resources to buy in large quantities. They may be large in number but the numbers are dispersed so that volume cannot be easily aggregated. To generate adequate volume

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large discount stores use fewer locations. But the poor are not mobile. Hence it is not surprising that even communities of the urban poor are served by small mom-and-pop stores.

The social problem comes from the competitive effects of such a powerful retailing enterprise as the modern discount retailer. The Walmart model cannot be sustained in the social marketing model for the poor, at least during the initial years of market development. In the U.S., despite the protection of Fair Trade laws, mom-and-pop stores in the small towns of America withered in the face of competition from modern retail chains. The poor do not have the resilience of more developed social systems in which the displaced can adapt or migrate to new operating environments. The social marketing goal is to maximize the local productivity of solutions. India is indeed a nation of shopkeepers. The little stores sprout up almost instantly along any new road passing through even a small village. Someone described small store retailing as India's "safety net."

Indeed it is likely that Walmart cannot come close to some aspects of the overhead cost structure of India's small store retailers. They are owner staffed, have minimal labor costs, and minimal building and real estate costs. Where they are lacking is in the costs of purchasing, inventory management and logistics. The challenge is to marshal the legions of mom-and-pop stores into a modern distribution system trained in the principles and techniques of discount retailing, and equipped with computers with simple inventory control software and connected to a central logistics network. This kind of cooperation for mutual benefit is exemplified by corporations who *buy* from rural sellers. ITC, a $2.6-billion-a-year India conglomerate, helps farmers to use computers to make better decisions on planting and selling their soybean crop. It created a network of PC kiosks in villages for the farmers' use. It provided not only the computers but equipment for managing power outages, solar panels for extra electricity, a satellite-based telephone hookup, and more. This undertaking helped farmers check fair market prices for their crops and time their selling directly to ITC for about $6 more per ton than by using local auction markets. Using this network, farmers could buy seeds, fertilizers, and other materials at considerable savings, as well as purchase soil-testing services. Now more than 10,000 villages and more than a 1.8 million farmers are covered by ITC's system.

Compared to the large-scale discount retailing model, more appropriate to BOP markets are the principles of *Thrift Shop* and *Resale or Second-Hand Shops*. Thrift shops are a discount version of traditional variety stores that sell common everyday products. For example, Dollar Stores are a chain of thrift shops that operate in poorer neighborhoods, carry smaller sizes of well-known brands, feature overruns, and usually have minimal fixtures. They locate in areas reachable by public transportation.

Resale shops like those of the Salvation Army, sell secondhand clothing, furniture, and other items at greatly reduced prices. They are usually sponsored by charitable or religious organizations, are staffed largely by volunteers. Given that the goods are usually donated to the stores, and the location and business costs are low, the charity usually earns a surplus that supports their other causes.

Finally, there is scope for modern retailers to organize *Flea Markets, Farmer's Markets,* and *Neighborhood "Garage Sales"* in poorer localities. All of these are city versions of the old village market and can be reenergized to serve the poor with better organization, logistics, sources of supply, marketing and promotion. The typical market is filled with vendors or traders who bring new and used goods for sale. These markets may be outdoors in a field, under a tent, in a gymnasium-like large hall, or a large warehouse. The vendors may be first timers who rent a table to sell a few unwanted household items or committed vendors who buy cheap goods and make a living by reselling them.

It is our conviction that much can be done in collecting used, refurbished and after-market goods (clothing, appliances and furniture, but especially goods that improve the productivity of the poor at work or in household chores), displaying them better, and making them more available to persons living in poor communities. Tying the concepts of *Thrift Shop* retailing to *Resale or Second-Hand* retailing and creating a network of mom-and-pop thrift shops tied to overstocks, remarketed, slightly flawed, last season, and used products, could generate a radical new channel concept.

In-store retailing is only part of the intricate distribution structure of rural markets. The distribution structure is what is known as "intensive distribution." It requires high levels of diffusion at the retail, bulk breaking in the smallest quantities, and a "long" (multi-level) channel structure – all of which are antithetical to the large-scale discount retailing model. Years ago, retailers in India sold one cigarette at a time to persons who could not afford to buy a package of twenty, let alone a carton. As mentioned earlier, shampoos, toothpaste and skincare products are sold in single serve sachets. Person-to-person and door-to-door selling still flourish in low income markets. Indeed, in some cases it may be the dominant form of distribution. This is where the *multi-level network-marketing* models of Amway and Avon are in perfect harmony and both companies have major operations in Brazil and India in the beauty products market. Amway fields a salesforce of about 600,000 self-employed individual distributors in India. Hindustan Unilever has a similar direct-distribution system for personal-care products, and expects to sign on more than 500,000 self-employed distributors within five years (Hammond and Prahalad 2004). Bharti Airtel uses "mobile vans" to promote as well as to sell cellphones in rural India. It is still common to see pavement vendors and "street hawkers" selling vegetables and small consumer goods from pushcarts and bicycles, loudly announcing their passing as they go from street to street.

To many trained in modern marketing theory, the methods and modes of distribution in rural communities may appear inefficient and arcane, but they operate at the lowest cost and on razor thin margins, delivering the smallest of quantities to the most inaccessible consumers. We believe the challenge in the short term is not to replace them, but to support them with more efficient and modern logistics systems. Enhancing local livelihoods and income distribution have to be the driving forces of the marketing model for the BOP.

Advertising and Promotion

The markets of the BOP pose unique challenges in reaching far-flung, media-dark and communication-challenged consumers. Yet communication is vital to most social marketing programs, especially those whose goal it is to change social behaviors. There are two broad aspects to the communication problem: (1) reaching the subjects, and (2) determining effective messages and themes. There is much good news on the first count. If there is an area in which we see massive technology leapfrogging, it is in the area of communications. From the time of the advent of the "transistor radio," poor consumers have revealed a visceral need to be "connected." A bicycle and a transistor radio were the must-have dream products of every village resident no matter how poor. Those desires evolved to TVs, and now cellphones and motorcycles. This is not necessarily "good news" to many social workers who believe that with modern communication media come modern vices and the sellers of urban lifestyles of materialism and overconsumption. An early study conducted in Belo Horizonte, Brazil, illustrates this problem. It found that the lower the family income, the more family members watched television and listened to radio. TV watching correlated with a preference for manufactured goods. The study observed that, unfortunately, heavy viewers who have the highest desire to consume have the least possibility of realizing their wishes (Oliveira 1991).

We pass no judgment in what is lost and what is gained as the ways of the developed world intersect with the ways of the developing world. What we do believe is that modern communication is essential and inevitable if the poor are to be lifted from the clutches of poverty, and if marketing is to be put in service of their aspirations. Thus the boon in modern media opens valuable channels for marketing messages to an audience which is a heavy media user. Taking the example of Nirma again, it developed a true grassroots strategy, but when it came to communications, it was a major advertiser on TV. In 1984 it ranked as the 5th largest, spending Rs. 5.37 million on TV compared to Rs.13.33 million by the top-ranked Hindustan Unilever which has a much more diversified portfolio of products, a large number of which are targeted to the urban markets (data reported in James 2000, p. 115). But modern media carry modern media prices and increase the cost of marketing. Commercial and social organizations may get better long term exposure and find it more cost effective to use traditional media. Widely used media include billboards, wall posters, promotional carts (complete with raucous music systems), the village “herald”, village theater and pantomime. Simple pleasures, amusements and escapes, represent an important part of the social psychology of poor communities. Live performances offer a powerful medium of communication.

The second important aspect of BOP communication is about themes and messages. One simple assumption is that communications to the poor should be more visual than verbal. It is also likely they respond better to “practical” arguments compared to the more stylized kinds of imagery and emotional appeals used in developed markets. BOP consumers, particularly rural ones, are simple folks but curious. With a limited repertoire of experiences, they may not relate to stylized or abstract stimuli. Here we are not so much concerned with the actual construction of messages to be delivered but with the settings in which the messages are framed. Advertising offers the opportunity to sell products and affect behaviors, but it is also an opportunity to frame them in a way that builds positive self-concepts – confidence, pride, achievement orientation, etc. – in the kinds of narratives and themes used in the ads. In India everything is promoted via big movie stars and cricket stars, but they probably appeal more to the middle and higher classes than to the poor, many of whom rarely see a movie or a game of cricket. Are there effective alternatives? What other dreams or fantasies do the poor have? What are the fairytales and folklore of the local culture? They may be even childish themes, Cinderella type, the Prince-and-the-poor-maiden like stories. There is a burden on advertisers in the BOP to go the extra mile and study local themes that can be used to bolster the self-concept, hopes and aspiration of the poor.

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The importance of visual communication extends to visual interactions with the product or service. In India, n-Logue markets wireless Internet services. It found that its rural customers were slow to take to written e-mail but quick to take to sharing photos by e-mail and video-conferencing. One can imagine how useful the new types of visual interfaces introduced by Apple in its iPhone and iPad will be for less educated consumers once they have become more affordable. In Bolivia, Prodem FFP targets its financial and banking services to low-income consumers. It has installed automated tellers that recognize fingerprints, use color-coded touchscreen displays, and communicate via text-to-speech technology in three different dialects.

Word-of-mouth (WOM) plays a very important role in poor communities in attitude formation, learning processes and development of behaviors. As mentioned earlier, persuasive communications are less effective compared to social authority and position as mechanisms of influence. Group dynamics, opinion leaders and gatekeepers of information play key roles in shaping preferences and adopting new behaviors. In China a global pharmaceutical company approached the market with a standard mass marketing strategy. It had some success but sales peeked after nine months and started to decline. On studying the market more closely it learned that successful firms marketed block-by-block and street-by-street, targeting the residential communities called *Hutongs*. The *Hutongs* are close knit communities built round shared courtyards, where word-of-mouth plays a vital role in the social life of the residents and in shaping consumer preferences. When the company adopted a WOM-based marketing approach, its sales quadrupled in one year (Fairbanks 2000).

Finally, the consumer's media habits and behavior patterns are paramount but not insular. Marketing has to understand and address the views and interest of all stakeholders in the social marketing enterprise. This is especially important in the case of social causes and the strategies of nonprofit organizations because the economic viability of the enterprise does not rest on the consumers alone. Typically the financial resources supporting social programs come from concerned individuals, charities, foundations, and Governments. Thus, to be successful in marketing social causes, the firm must first be successful in marketing its solutions to donors and philanthropists.

The Specter of Sustainability

It would be remiss to talk about bringing marketing to the 4 billion under-consuming poor of the world to lift them out of poverty and into the mainstream of a modern consumer society, without acknowledging the tenuous ecological thread on which that society is hanging. A model of dealing with poverty is irresponsible if it does not incorporate solutions for global sustainability. It is encouraging that some MNCs that are engaged in rural initiatives include environmental friendly practices as integral parts of their programs. The erstwhile arch villain of development activists, Nestle, claims to have a positive rural development story in its "Milk Districts" with a full program of sustainability safeguards built into it. In 2006 its Moga and Semalka factories in Punjab-Haryana (India) engaged a network of 98,000 dairy farmers in a rural area of 14,000 sq. kms. The company trains and audits the dairy farms, and supports them with veterinary staff in the field, pedigree bulls for artificial insemination, subsidized milking machines, and quality seed for fodder. Among its ecology initiatives it teaches silage making, bio-gas generation and vermiculture composting techniques; as well as water harvesting, conservation and management. It has installed solar generators at its milk collection centers, and many of its factories have zero waste discharge, with treated wastewater used for irrigation.

The Nestle model represents an active rural involvement in ensuring and improving its supply chain relationships, but the overall operating model is still an extension of the large-scale manufacturing model of the 20th century corporation. It is a positive step, but an intermediate one, toward the evolution of 21st century business networks (Achrol and Kotler 1999). In the next phase of network evolution, we predict that production will move closer to the consumer and consumption, toward a *distributed production-consumption* model (Achrol 2010). This has huge implications for business organization in general, but especially for the structure of marketing and the amelioration of the BOP. Clearly the ecological imperatives also become acute in such a model. But it does have the advantage of Schumpeter's "small is beautiful" concept. Ecological solutions to smaller scale operations should be relatively easy to create and implement. Consequently we believe that not only is the distributed production consumption model superior for maximizing the diffusion of wealth and opportunity among all peoples of the world, but that it is also superior in minimizing the ecological impact of this outcome.

The Distributed Production-Consumption Model

Many articles have emphasized the need to reengineer products and packaging for the poor markets, and we have cited a number of examples in the preceding discussions. But the game-changing innovation may be reengineering *production* itself. Flooding the markets of the poor with products manufactured in modern plants in distant cities and countries is not a self-sustaining solution. Poverty has a local face. The poor do not know much about the world beyond their village boundaries or their urban slum. Production, distribution and consumption must have a local face. More of value added must be located near value consumption. The marketing model for serving the poor will need to rely on concepts of decentralization and distributed networks. Automated small-scale production, distributed as close to the consuming populations as possible, is the solution. Only then can the needs-means hierarchy become self-generating and self-sustaining. Such a distributed production model is becoming increasing feasible as the technologies of production rapidly approach a new revolutionary discontinuity. To sketch such a model we start with the venerable Maslow Hierarchy of Needs.

The Needs-Means Hierarchy

We know Maslow's Hierarchy well – a person's motivations progress from satisfying physiological needs, to safety needs, to the social need for love and belonging, to the need to be recognized and esteemed among society, and ultimately to the need to actualize oneself. Once a need level is satisfied it ceases to be a motivating factor, and the person switches to pursuing the next higher order need. The interpretation of each need is likely to be different for people raising themselves out of abject poverty. Most important, the need hierarchy of the poor has to be understood in the context of a critical parallel hierarchy – a *Hierarchy of Means*. One needs to develop instrumental measures for segmenting the poor, and targeting and positioning *need-solutions* and *means* to them.

A comprehensive poverty alleviation campaign needs to integrate two parallel worlds of the poor. On the one hand it should design intervention strategies that match the subjects' movement along the need hierarchy. On the other it must create the wherewithal and pathways for the subjects to navigate themselves along an opportunity hierarchy such that their means-motivations match their needs-motivations. It is about satisfying individual needs in a narrow sense but also about satisfying social needs in a broader sense.

The Model

Distributed production is the opposite of the mass production factories of the 20th century, it is the anti-Flextronics. It would be terribly cost ineffective if it was not for the revolution in automated, computerized manufacturing. It is becoming conceivable to develop village level automated micro-production systems linked to the parent company via the Internet and programmed to assemble modern quality products in small quantities on demand. Such systems would take just-in-time concepts, from production all the way to consumption, and eliminate much of the costs of marketing, logistics and distribution that constitute the largest chunk of the delivered price of many consumer goods.

The managerial model for distributed networks is the franchising model. The company that tries to set up its own distributed production and distribution network will not be localized enough to adapt to the structure and culture of poverty as it exists locally. It will not transfer enough of the value and wealth creation process to impact the means creation process locally. It will not distribute enough motivational and reinforcing forces among the populations to make the model self-sustaining.

Distributed production-consumption networks must be organized around the need and resource structure of poor communities, not around downsized need structures of the middle classes. The evolution of the need structure and its satisfaction should be gradual and not driven by visions of leapfrogging. No doubt there are areas – such as communications, entertainment and utilities – where leapfrogging is inevitable, but pushing consumption across a broad spectrum can cause market fractures and is likely to be unsustainable. Promoting markets for the shared use of cellphones and TVs, cheap gas and electricity, is one thing; marketing videogames, skin-lightening cosmetics, athletic shoes is leapfrogging the means-hierarchy and likely to atrophy it.

The product-market composition of distributed networks is a function of the natural resources and livelihood characterizing a particular community. Developing these ideas would take another article length paper and is beyond the scope of this summary discussion. Suffice it say that sustainable production-consumption networks are those that directly engage the predominant indigenous sources of livelihood in a community.

In the previous section we mentioned how Nestle helps India's dairy farmers in its Milk Districts to practice modern dairy farming and improve their livelihood. But even more connected to the economic wellbeing of its rural constituents is the farmer-owned dairy cooperative Amul, which was established in Anand, Gujarat, in 1946. It has come to be known as the "Amul Model". The Amul model is a 3-tier network starting with Dairy Cooperative Societies at the village level. The societies are comprised of the primary dairy farmers and are responsible for milk collection and implementing dairy extension programs. The societies are members of Milk Unions at the district level. The Unions are responsible for procurement from villages, chilling, transport and processing, training farmers in animal husbandry, veterinary and artificial insemination services, and supplying cattle feed and seeds. In turn the Unions which are affiliated with Milk Federations at the state level, responsible for marketing the milk and milk products of the Unions by creating distribution networks, transporting to markets, branding and brand management, bulk purchasing for farmers, and arranging financing, training, conflict resolution for the Unions. By 2008 Amul in India comprised a network of 176 unions, 125,000 societies, and 13 million farmers. The World Bank invested $20 billion over 20 years in the project, and it has generated a return of $400 billion annually, easily the most successful World Bank project anywhere in the World. Amul model spread rapidly throughout Gujarat and from there to all over India in the late 1960s under the National Dairy Development Board and its Operation Flood. Amul has exported its model to Mauritius, UAE, Bangladesh, Australia, China, Singapore, Hong Kong and even the USA.

In many situations homegrown businesses that spawned from rural grassroots, or nonprofit minded NGOs, are better suited to developing distributed production-consumption systems than the large scale factory oriented MNCs. Nirma in India and KickStart in Africa are outstanding examples. We have mentioned a number of marketing innovations that lie behind the Nirma rural marketing story. Equally important is its distributed production model. Its detergents are produced not in a mass production modern factory, but by a large chain workshops in which workers mix the ingredients by hand without using even electric power. The small scale units not only diffuse incomes around in the BOP, but also qualify for a range of government benefits such as subsidies, excise tax breaks and reduced rates for utilities.

The second example is the NGO KickStart (formerly ApproTEC, see Rangan 2004). The NGO's approach is to develop rudimentary mechanical products that are directly connected to improving the productivity and income of rural populations in impoverished areas of Kenya, Tanzania and Mali, with plans to extend to West Africa, India, Haiti and Kyrgyzstan. It sees its mission in the spirit of the Chinese proverb "Give a man a fish and he will eat for a day. Teach a man to fish and he will eat for the rest of his life." KickStart developed a leg-powered irrigation pump that allowed poor farmers to move from subsistence farming to growing cash crops like fruits and vegetables. It developed a hand-press for processing oil seeds into higher value products like cooking oil and oilseed cake for farm animals. It developed a technology for making cheap building blocks for constructing homes. It produces the products locally and markets them through rural channels, maximizing as much downstream employment and profits as it can. The NGO claims to have created 88,600 enterprises generating $88.7 million in profits and wages annually, and to have moved 439,000 people out of poverty forever at a cost of $60 per person.

Concluding Comments

Understanding how the marketing model can be adapted and applied to raising the consumption capacity and quality of life of the world's 4 billion consumers in the BOP is vital to the future of globalization and world prosperity. The Marketing discipline must take a prominent position in fashioning this understanding. The fundamental barriers to a robust BOP literature are access, time and resources. Can we use the concept of networks and clusters to create a global network of academic talent to circumvent the barriers? Perhaps the American Marketing Association (AMA) can organize an electronic forum where interests, proposals and resources can be aired and paired. Universities with influential doctoral programs will play a leading role in shaping the intellectual parameters of the discipline's future.

Without a body of knowledge that can address the macro-social-marketing problems of the World, marketing will surely lack the philosophical direction and stature it needs heading into a future rife with global, economic, social and individual opportunities as well as conflicts of interest. It is time for the best minds in the field to devote their intellectual energy to uplifting the base of the global pyramid and reinvent the meaning of marketing – evolving it from the delivery of a standard of living to the haves to the delivery of a *sustainable quality of life for all*.

The overwhelming number of people who continue to live in poverty in an era of incredible wealth, conveniences, luxuries and privileges enjoyed by those in economically successful nations, is a matter of shame. Many dedicated intellectuals have developed the marketing principles and frameworks that have made the modern consumer society possible. But partly out of guilt and partly out of having nowhere else to go in saturated markets, it is time to develop a new worldview and conceptualization of *marketing for the 3rd Millennium*. It is interesting, but probably not coincidental, that some of the most intriguing new ideas are emerging from the thought traditions of business school faculty. Business needs a way out of the current economic stalemate to justify its socioeconomic purpose, and the poor need a way out of their misery. The time may have arrived when business corporations, politics, intellectuals, and the interest of the haves and have-nots are coming to a mutual convergence. It may turn out that it will not be a Marxian revolution but a self-preservation capitalism that brings the two into dialectic equilibrium.

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