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## Extending the Marketing Dialog on Poverty

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# Markets, Globalization & Development Review



## Extending the Marketing Dialog on Poverty

Criticism is “the lifeblood of all rational thought,” said the eminent philosopher of science Karl Popper, father of the modern falsificationist school. Criticism is especially important in scrutinizing initiatives directed to helping the poor because of their vulnerability. We appreciate Professor Aneel Karnani’s contributions to the marketing dialog on poverty and our article “Marketing’s Lost Frontier: The Poor” (Achrol and Kotler 2016). We do not necessarily disagree with some of his criticisms but rather see them as an opportunity for expanding the discussion of marketing’s role in reducing world poverty.

For example, we concur with the position he has long argued that the Bottom-of-the-pyramid or “BOP proposition” (i.e., the Multinational Corporation or MNC model advanced by the late C. K. Prahalad 2005) is based on flawed assumptions. It is not surprising that much of the initial enthusiasm behind this model has faded (Hart 2015). Nevertheless, Prahalad’s work served as a powerful consciousness raiser in influential corporate and policy circles. And even if some companies may have lost their enthusiasm, others who have carefully reexamined the BOP and their assumptions, and revised and adapted their strategies accordingly, have been quite successful. There is an encouragingly large number of social entrepreneurs and startups like Kiva and Kickstart that have been attracted to the field. There are also convincing cases of companies – like Nirma in India and Celtel<sup>1</sup> in Africa – that grew into industry giants, having started from small origins targeting low-income consumers.

Then there is the future. After decades of struggling with the problems of persistent and growing poverty in the World, there are tangible signs that the tide has been turned and that the United Nations goal of eradicating poverty by 2030 (which once seemed fanciful) may indeed be within reach. That will lead to vast new markets. The poor may not have much experience or information about brands and products to base their preferences and decisions upon, but studies show that when they do come to trust a brand, for whatever reasons, they tend to be brand loyal and brands get entrenched and “sticky” in the market (Kashyap and Raut 2005). Thus, as a word of caution, those MNCs that choose to ignore the BOP today do so at their own peril.

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<sup>1</sup> Celtel (now a subsidiary of Bharti Airtel) was founded by a Sudanese expat to serve the poorest, politically volatile, corrupt and often war-torn countries of Africa. Founder Dr. Mo Ibrahim swore that Celtel would never pay a single dollar in bribes. Celtel offered only prepaid services in small units. 98 percent of its staff were Africans. By 2005 it had 24 million customers in 14 African counties (Hammond et al. 2007).

One of the primary purposes of the Achrol and Kotler (2016) article was to make the case that the standard MNC model may be far more successful if it is reoriented from a conventional profit-orientated business model to one guided by the principles of Social Marketing and the newly proposed Distributed Production-Consumption framework. Then it is probable that we may see many more successful companies contributing to and benefiting from the development of the vast BOP. We return to these topics later in this paper.

### **The Measurement Issue**

We generally agree with Karnani's comments about the problems of defining and measuring poverty with the daily income thresholds such as \$1, \$1.25, \$1.90, \$2, \$10 per day PPP (purchasing power parity) that have been widely used and discussed over the years. In criticizing the income measures Karnani is in distinguished company including Nobel laureate Angus Deaton of Princeton and Lant Pritchett of Harvard. The limitations of the measures notwithstanding, they serve a useful role and continue to be used by a wide cross section of organizations working in the field. Although the income numbers may seem simplistic and arbitrary, they are in fact based on defined rationales, and have been the subject of much analysis. For example, we know the \$-per-day income measures of extreme poverty are derived from what it takes to pay for necessities such as food, clothing, shelter and safe drinking water. These are adjusted for regional prices and pegged to a base year for comparative analysis. Organizations like the World Bank, tasked with tackling global poverty naturally find such measures useful for their purposes. But the World Bank also uses more nuanced measures such as the poverty gap at \$3.10 per day (2011 PPP) which is the mean shortfall in income or consumption from the poverty line (counting the non-poor as having a zero shortfall). Likewise, the poverty threshold of \$10 per day is often cited for developed countries (for a recent view on intense felt deprivation, even at such BOP levels, see Yurdakul, Atik and Dholakia 2017). The U.S. Census Bureau uses a more flexible measure to study poverty. It uses a threshold set at three times the cost of a minimum food diet in 1963, updated annually for inflation with the Consumer Price Index (CPI). In 2015, the poverty threshold was \$24,257, which included 43.1 million people or 13.5 percent of the U.S. population.

Alongside such income-based economic measures of poverty are socially motivated indices which include access to information, education, health care, basic amenities like clean water and sanitation, and empowerment. In 2010 the Oxford Poverty & Human Development

Initiative and the United Nations Development Programme developed the Global Multidimensional Poverty Index (MPI) to replace the prior United Nations (UN) Human Development Index (HDI). Whereas the HDI used a single indicator each to measure health, education and standard of living, the MPI uses 10 items to measure the same three dimensions. Economists such as Ratan Lal Basu criticized the MPI for not taking moral, emotional and spiritual dimensions of poverty into consideration and proposed the “Global Happiness Index”.

The above measurement protocols are well known and have been refined over time. As carefully crafted as the World Bank and UN indices are, however, they are macro measures designed to measure aggregate phenomena. They are reminiscent of the industry data used by companies in the pre-marketing era. Those were times when companies thought of markets simply as industries. Companies developed products they believed would appeal to a wide cross-section of the market, and mass marketed them. Current poverty programs have a similar mass-solution and mass-delivery design.

We made the argument that – to marketers – it is self-evident that the creation and delivery of commercial or social solutions is predicated on understanding the *differences* in needs, means, subcultures, motivations, literacy, life cycles, social class, benefits, and so on, of target populations. Even the poor have distinct “existence styles,” which are shaped by differences in terrain, climate, culture, social structure and the resources that support principal livelihoods in their communities. The information needs of the organizations serving the BOP vary greatly. Nonprofits are, or should be, primarily interested in profiling segments of high social deprivation (broken families, low education, poor health, addiction, crime). On the other hand, the commercial sector is advised to focus on a social marketing model rather than the standard market model. In particular, it should focus on the trade and livelihood segments of the BOP that are in a ‘likelihood stage’ to move out of poverty.

Both nonprofit and for-profit firms will find that certain psychographic and behavioral measures are useful in designing social marketing strategies. Psychographic studies that measure the structure of reference groups and social networks would be invaluable for framing and targeting communications. In communities of the poor, individuality is suppressed, and social influence is transmitted through authority and position as opposed to persuasion (Chakravarthy 2006). Group dynamics, role models, opinion leaders and gatekeepers of information play key roles in shaping preferences and adopting new behaviors. Behavioral studies could segment BOP markets in terms of the ‘readiness to change’ or

'readiness to act' of different groups so that resources can be targeted for maximum impact, using frameworks like the (i) triage model, and (ii) the stages-of-change model (Kotler and Lee 2009, p. 111). The triage model is aimed at identifying 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 the probability that the subjects will *stay out of poverty*. The stages-of-change model 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 Prochaska and Velicer 1997).

What is lacking is the systematic collection and organization of psychographic and behavioral data on electronic media readily available to interested companies, NGOs and charities. It is unlikely that private enterprise can or will devote the resources to carry out these kinds of in-depth analyses when they expect to be operating on shoestring budgets to deliver least cost solutions. The responsibility to gather and disseminate the data must necessarily fall on governments. Instead of legions of statisticians, however, government data collection agencies will need people trained in the behavioral sciences and in marketing research. Marketing research is about defining problems and their solutions from the viewpoint of the *subject* rather than the principal. 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 private firms and NGOs need to evaluate customer needs and behaviors and how the customers can be served.

So where do we stand on the measurement problem? Is there an ideal measure of poverty? Is one necessary? Most assuredly not. We do not mean to trivialize the importance of measurement. The essence of modern management is information — the more accurate, real time and nomologically robust the metrics, the superior the management outcomes. But, just like consumer satisfaction measures should be tailored to particular research contexts, so should useful poverty measures reflect the specific research problem being studied. Robust measures have nomological frameworks from which they are derived and tested, but the research problem determines the indicators chosen. Needless to say, poverty is a complicated phenomenon embedded in multi-tiered economic, social, cultural, regional and geographic factors. Single-item reference points like daily wages serve a purpose, especially for tracking and comparative analysis. Multi-item scales like the Oxford multifactor index and Happiness Indices are more suited to the study of social interventions and progress. And then there are all the custom designed measures that

we argue should be developed that are aligned with the goals and characteristics of specific development programs and projects. In fact, there are indications that research in the field is headed in that direction. The increase in “targeting strategies” by Social Funds and Community Driven Development programs is causing the data used and monitoring of results to follow the principles and methods long used in marketing (Van Domelen 2007). Equally important is the increase in “impact investing” by UK Aid, social funds and investors such as Acumen Grassroots, Root Capital, etc. (see Ashley and Shamash 2015), that apply some modern business practices to define their goals, targets, expected outcomes, and returns.

Finally it is necessary to recognize the limitations of the project-based marketing research approach in the literature on poverty. The popular income-based approaches focus on a narrow reality and correspondingly narrow solutions. The marketing answer is that one should use employ a measure of poverty that is best suited to the research purpose on hand. Customized marketing approaches, however, have potential downsides. They risk swamping out critical issues by spreading scarce attention, solutions and resources too broadly on a variety of problems. That risks failing to generate enough critical mass of resources and solutions directed at critical points of the poverty spectrum to create enough leverage to effectively move the poor through poverty traps. Second, data that are rich in measurement methods also undermine comparability. Third, data collection is very difficult and expensive in a resource-constrained environment, contributing to the paucity of reliable and timely data. This led to our plea that governments have to step up, collect, disseminate, and create electronic data banks. Not just the macro data that is useful to institutions like the UN and World Bank that primarily channels aid money, but also micro data is needed. Commercial firms, NGOs and social workers can benefit from micro data that fits their unique purposes. Data on consumer demographics, livelihood, consumption styles, literacy; and where consumers stand on behavioral frameworks like Maslow’s Need Hierarchy, the Triad model, and the Transtheoretic model; could be of great value.

## **Microfinance**

We agree with Karnani that the microfinance model pioneered by Nobel laureate Muhammad Yunus, has had its ups-and-downs, but we submit the ups have been more consistent than the downs and we are inclined to a more favorable assessment of its overall health, and, by implication, its contribution to reducing poverty. Microfinance has been a remarkable

success story over 25 years. It grew rapidly through the 1990s and explosively in the early 2000s. There was a dip to 6.8% growth during the global financial crisis of 2008 but even the slowdown was a lot less than that in the traditional banking sectors of developed economies, and it rebounded convincingly in a few years. The loan portfolios of Micro Finance Vehicles (MFVs are the intermediaries connecting private and public capital to Micro Finance Institutions MFIs) grew at rates of 11-17% year-over-year during 2009-2011. MFI grew at an average rate of 28% over the period (MicroRate 2013). Over the next 5 years 2011-2015 the global microfinance sector grew by 16 percent annually with the highest growth of 30% continuing to be in Asia-Pacific (responsAbility 2016). In India, which experienced a severe crisis in microfinance in 2010, the industry rebounded swiftly and grew at the compounded annual growth rate of 44 percent during 2011-2015. Recent data indicate growth rates above 60 percent in the fiscal years 2014-15 and 2015-16 (Microfinance Institutions Network 2016) sparking concerns that the market is superheated.

Other performance metrics also point to a healthy industry. For example, in 2012, for MFIs the 30 day Performance-at-Risk or PAR ratio varied from a high of 4.5% for Latin America, Eastern Europe and Central Asia to a low of 0.7% for South Asia. This compares with the Non Performing Loans or NPL ratio used in the west which stood at 3% in the U.S. in 2013. In the go-go years MFI showed exciting Return on Equity (ROE) of 40-50% but in a mature market in 2012 that has dropped to a more realistic but still impressive level of 13.4%. Comparatively, ROE in 2013 for U.S. traditional banking in the U.S. for 2013 was 8.8% (performance metrics from MicroRate 2014).

Karnani cites some of the above data but is skeptical about the impact: microfinance “is a very profitable industry indeed, but it is not helping reduce poverty”. “What explains this incongruity between the rapid growth of the microcredit sector, especially in India, and the lack of its effectiveness in reducing poverty? It is likely that the growth is being driven by high profits of the sector, rather than achievement of some larger societal objective”.

This perplexing conclusion has to be considered against the backdrop of macro economic data that suggest microfinance may provide a support base in economies where it plays a significant role. The Microfinance Market Outlook 2016 (responsAbility 2016) forecasts that the 15 developing economies with the largest microfinance markets will see relatively robust GDP growth of 4 percent in 2016, contrasted with 2.2 percent expected for advanced economies. “In addition, the developing



economies with the bleakest economic outlooks – Venezuela, Brazil and Russia – do not have large microfinance markets”. Granted this is all correlational inference and that many factors drive economic growth, nevertheless the pattern is consistent enough that it should not be dismissed summarily. Even though this has a slight promotional ring, it is not unreasonable for responsibility to claim that “microfinance contributes to the development of a functioning financial sector. Access to financing enables microfinance customers to expand their businesses, which, in turn, contributes to economic growth, a larger product and services offering and job creation”.

Karnani reminds us of the ills associated with microfinance, notably the very steep interest rates, and concerns about utilization for consumption and debt refinancing vs. growing businesses. Critics of microfinance have been around since its heyday in the mid-2000s. Concerns have centered around debt traps, poor decision making, serial borrowing, high interest rates, some defaults crises like in Andhra Pradesh, India, and reported cases of debt driven suicide. Of special importance is the question whether the funds are having transformative effects and flowing to help reduce poverty, the avowed motivation behind microfinance.

As broad based as the purported problems have been, it is far from clear whether they are any different or even as severe as they are in any other financial market. It is noteworthy that the important study by Banerjee, Karlan and Zinman (2015) – that integrated diligently the findings of multiple field experiments in microfinance – cautions right up front: “just as there is little support for microcredit’s strongest claims, there is little support for microcredit’s harshest critics”. Further, “these studies do suggest hints of segmented transformative effects — good for some, bad for others.”<sup>2</sup>

The interest rate criticism is of course concerning. Globally the average interest rate is said be about 37% (as high as 70% in some markets). This is indeed exorbitant from a social perspective. But rates are high even from a business perspective. MFIs enjoy access to low cost of capital and historically low single digit default rates. The repayment rates

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<sup>2</sup> On the one hand, a limitation of the six studies is treatment specific low loan utilization rates of 17-31 percent. On the other, targeted populations in the Bosnia study that targeted marginal applicants showed a 100 percent take-up rate, and 50-57 percent take-up in the Mongolia study targeting women. Presumably these two setting are more relevant to assessing effects on the poorest and on micro entrepreneurship. Hence when we consider the Banerjee, Karlan, and Zinman (2015) studies’ findings, it is noteworthy that the Bosnia and Mongolia (and India) studies were the ones that found significant effects vis-a-vis the key outcome family of *microentrepreneurial activity*.

of 95% that are commonly reported and rates as high as 98% in 2016, are almost unbelievable and have always been the best in the financial industry. The principal explanation given for the high interest rates are the high transaction costs of working in the BOP (although there are significant variations in transaction costs across countries and type of loan).

Critics who see financial resources diverted to consumption as a flaw in the microfinance model miss a number of important considerations. The view is often expressed that BOP consumers are irrational shoppers, and spend large portions of scarce resources on non-necessities like alcohol, skin-lightening creams, and festivals. No doubt there are potentially undesirable aspects to consumption in the BOP, but we are of the opinion that there can be much harm in painting consumption with a broad accusatory brush. First, alleviating poverty is not just about increasing incomes. As many authors have noted poverty involves multidimensional deprivation, and they advocate multifactor indexes to monitor progress in its alleviation. Consumption is an important catalyst of human wellbeing. The inhabitants of the BOP who progress from cooking on wood fires to gas stoves, from bicycles to motorcycles, from boredom and alcoholism to television, from open defecation to toilets, from low self-esteem to self-confidence even if via lipstick and skin lightening creams, etc., are no doubt progressing on multifactor and happiness indices of deprivation.

Second, the stimuli that drive consumption drive employment opportunities in local markets and create ripple tides that lift all boats. If microcredit is supporting consumption and employment at financially sustainable levels, it cannot be but a good thing in the long run. If microcredit is being widely misused it would show up quickly in high default rates which we know is not the case. To the contrary, loan repayment rates in microcredit are exceptionally high. If there is a danger side to the consumption-employment synergy it is when local consumption is supporting mass production at distant locations (the traditional MNC model), resulting in development traps and persistent poverty.

Third, the concern with consumption and marketing models of growth is reminiscent of the debate between supply side (savings and investment driven growth) and demand side (consumption driven growth) development policies. The former tend to favor capital formation policies and investments in heavy industry and infrastructure projects like dams, roads, electricity. The latter favor policies and stimuli that promote market driven durable and nondurable consumer goods. The savings/investment (production) led capital-formation growth models have been the hallmark

of traditional development theory. In many instances, this model has delivered inferior growth and prosperity outcomes compared to the consumption led model. In any case, production and consumption are not antithetical and, in the right measures, are synergistic. We argue that the approach to the BOP has to be radically different from the orthodox production- vs. consumption-oriented thinking. We agree with Karnani that employment and income are the driving edge of effective poverty alleviation strategy, but these have to be matched with a healthy consumption environment to lift the BOP in a self-sustaining manner. The task is to forge the two into a self-sustaining upward cycle. The critical difference in applying supply-side and demand-side ideologies of development to the BOP is that in the BOP consumption and production cannot be divorced in time or space. If they are not aligned closely – at local market levels – the risk of exacerbating structural barriers and development traps become greater and the effect on reducing poverty diminishes greatly.

We are steadfast in our belief that the marketing model has much to offer the drive for poverty alleviation. In this microfinance is playing a crucial role. The data discussed above point to a healthy and prospering industry. To us it seems that the concerns and possible side effects of microcredit are no different from credit in any setting. If anything, key indicators tell a remarkable success story for microcredit and that negative numbers are significantly less than in finance markets in general. MicroRate, which monitors and publishes a comprehensive list of performance indicators for global microfinance institutions, observes, “Leading microfinance institutions typically outperform their commercial bank peers in many countries”.

Whereas by no means does it follow that a healthy and prospering microfinance sector is a primary factor in reducing poverty, it is hard to escape a presumption that it must be a significant catalyst in that direction. Notwithstanding the mixed findings of important studies like Banerjee, Karlan, and Zinman (2015), it seems to us both plausible and probable that even if microfinance is not directly empowering and enabling the poorest, it is surely fueling local consumption and entrepreneurship at micro-business levels in the micro-economies of under-developed markets. It seems to us plausible and probable that there are inevitable spin-off benefits for the poor. A significant corollary is that the bulk of global microfinance money is flowing to countries with historically severe levels of poverty – 33% to Sub-Saharan Africa and 36 % to Latin America and the Caribbean (MicroRate 2013). To conclude with a wry metaphor,

where there is so much smoke there must be some warm fire glowing in the otherwise bleak and cold landscape of poverty.

### **Marketing Models and Livelihood**

We are in complete agreement with Karnani that the best way to reduce poverty is raising the incomes of the poor by creating employment opportunities for them. We emphasized the argument that even for commercial firms, 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. We do not, however, see the contradiction implied in Karnani's caveat that the focus should be "on raising the productive capacity – not the consumption capacity – of the poor". Production and consumption are self-reinforcing forces in a virtuous cycle, a tide that raises all boats. There is a synergy between production-consumption at *local market* levels that is essential to our way of thinking, and represents the heart of the distributed production-consumption model advanced in our 2016 paper. Models that propose to stimulate consumption in the markets of the poor served by mass production from distant locations are not sustainable; they lack the dimension of local production-employment-income to sustain consumption.

The Achrol and Kotler (2016) paper was partly a review paper that covered a lot of ground from development economics to social anthropology to the newer approaches for tackling poverty emerging from the thought traditions of Business Schools. The analysis of previous approaches was meant to show that the literatures (including new developmental theory and social economics) were dovetailing toward more micro approaches focusing on the behaviors of individuals in the BOP. For example, the dominant new development paradigm is "New Growth Theory" (Romer 1990, Snooks 1998). Whereas previous growth theories focused on macroeconomic processes and trickle down effects, new growth theory focuses on microeconomic processes, including staple concepts such as utility maximization by households and profit maximization by firms. At its core, 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 possible that the broad scope of the Achrol and Kotler (2016) paper overshadowed the core contributions of that paper. The review part of the paper dovetailed into offering two new marketing models, both of which share Karnani's argument that boosting employment and income

are fundamental to reducing poverty. First, it sought to make the case that the principles of Social Marketing provide a framework for re-orienting and adapting the MNC model into a more relevant approach to marketing. The standard precepts of social marketing, however, would need to be adapted in major ways to be effective in reducing poverty. Second, it offered a new framework termed the 'Distributed Production-Consumption model' which emphasized even more clearly the employment-income generation dimension. It may be worth reiterating and reinforcing these contributions here.

### **The Social Marketing Model for the BOP**

Social marketing has a successful history dating back to the 1970s. Although it shares its philosophical roots with marketing in general, it is clearly at a tangent to it. Rather than the primary purpose being "profit through customer satisfaction", social marketing seeks to motivate socially desired behaviors in a target audience. There are indeed unique tangents that emerge when we apply social marketing to the peculiar vicissitudes of the BOP. We explicated these in a 7-point framework for the analysis, planning and implementation of social marketing programs for the poor (Achrol and Kotler 2016). We extend some of that discussion below.

The poor consume products low in value and variety, in fractional quantities. They spend 78% of their income on food and 12% on energy, leaving a meagre 10% to juggle sparingly on other necessities (Hammond et al. 2007). It may sharpen their discrimination and "street smarts" at survival levels but dulls their ability beyond that. They show a protracted deliberateness over what we might consider trivial decisions but act impulsively over major choices. Appeals to rationality (either benefit based or fear based) about health, nutrition, sanitation, addictions, etc., are likely to bounce off pernicious mental barriers built by fatalism and "learned helplessness" (Chakravarty 2006). Reference group influences, peer pressure, word-of-mouth, trickle-down, and social networks play a major role in influencing purchases beyond daily necessities, but we really do not know how exactly these processes are structured and how they play out.

Understanding consumption behavior in conditions of deprivation will not be easily forthcoming. Researchers need to utilize methodologies like those used by anthropologists – learn by doing, observation, immersion – and pursue an idiographic science that uses "grounded" or constructed theory and ethnographic methodologies (see, e.g., Yurdakul, Atik and Dholakia 2017).

**“Ground-up” Products and Solutions.** Initially a common misconception in marketing to the poor was the belief that the only important thing is to make the product cheap. Affordability is important of course but not at an obvious sacrifice of quality or function. Today we emphasize engineering products “ground up”, not stripped down. 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. The philosophy should be, as someone neatly phrased it, “75 percent of the functionality at 50 percent of the cost”. Also pertinent is the “Gandhian Engineering” design philosophy behind the Tata Nano: sacrificing quality was not an option, rather the challenge was to “do more with less.”

We discussed a number of examples of products designed specifically for the BOP. Reformulation and repackaging stories of marketers of detergents and other consumer products are well known. Similarly adding multi-application features – such as radio and flashlight and mobile banking to cell phones – enhances use value for the money paid. Leading cell phone manufacturers are working to market solar powered cell phones recharging systems. Others have leapfrogged this and developed solar powered lights and lanterns into which cell phones can be plugged to recharge them. One of the earliest such innovations was d.light developed by Stanford students for a class “Entrepreneurial Design for Extreme Affordability”. The company was headquartered in San Francisco, manufactured the lamps in China, and located its sales offices in New Delhi, India and Nairobi, Kenya. This is precisely the model of locating key value added activities far from the BOP that we argue against. The market for solar powered individual light units has since greatly expanded. New entrepreneurs are fielding new business models that use franchising and rental/leasing systems (IFC/World Bank 2010) involving greater engagement with BOP.

Equally important to product affordability is usage affordability. The prepaid phone card was a major innovation behind the spread of mobile phones in the BOP, and now it is the dominant service plan worldwide. Bell South learned that \$4 phone cards were far more successful in Venezuela than the \$10 and \$20 phone cards it markets in the U.S. Likewise the “shared economy” has proved to be a major success in marketing mobile phone services and promoting entrepreneurship.

Eventually it is not the way that the product is designed but what is done to *enable it* (e.g., software, use conveniences, use apps), and how the product aligns with the consumption process and consumption experience, that drives market success. Sometimes designing new

products for the poor may not be the best alternative. Used and refurbished products offer a significant but underused opportunity in BOP marketing. Shipping them to the markets and refurbishing them locally creates employment along with consumption opportunity.

There are many signs that organizations are waking up to the challenges of creating ground-up innovations for the BOP. In 2010, the United States Agency for International Development (USAID) launched its quarterly grant program named Development Innovation Ventures using a venture capital model to focus on funding scalable and entrepreneurial solutions to poverty alleviation. In 2012 the World Bank, UNICEF and the Inter-American Development Bank also launched their own “Innovation Labs”. And there are a number of success stories of dedicated entrepreneurs developing products targeted to BOP markets.

**Pricing.** Pricing and affordability are the first things that come to mind in thinking about marketing to the poor. We argued that nowhere is the Value-Based Pricing (VBP) model more important than in marketing to the BOP. The VBP 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 target returns. But there is an even bigger challenge to VBP for the BOP, i.e., the philosophy to deliver 75% core functionality at 50% the cost.

Pricing, however, is more than a sticker price. More often “affordability” is the crucial factor. The cases of companies marketing in fractional units such as low value phone cards and personal products in single-use “sachets” are well known. Affordability is even more important for durables that cannot be consumed in fractions. Kickstart offers Rent-to-own and Mobile Layaway plans to increase affordability of its sought-after, inexpensive water pumps. ‘Mobile Layaway’ allows customers to hold a product and deposit micro savings by phone towards its price. Customers are able to save the price as soon as a couple of months compared to a couple of years if they save on their own. The Brazilian retail chain Casas Bahia uses a payment model that works like the VBP. First, the amount a customer can afford to pay monthly is determined, and then the cost of merchandise plus interest is divided by the monthly payment to calculate the time over which the customer will make the payments.

An especially instructive case is the off-grid distributed-generation energy sector. The sector is being touted as the next big opportunity in the BOP with the potential to follow the trajectory of mobile phones. An estimated 1.6 billion people in the world have no access to electricity at all, while another 1 billion have no electricity for much of the day. Local

entrepreneurial startups in Africa like RVE.SOL, BoP SHOP, M-KOPA Solar and Off-Grid Electric are forging ahead to develop this market in Africa (Davies 2015). Distributed solar energy systems face the challenge that traditional sources of energy such as kerosene, firewood, charcoal and batteries allow fractional consumption. They are 99 percent operating costs, whereas solar is zero operating cost but a hefty investment that is 99 percent capital cost. A customer making \$10 to \$50 per month can afford to purchase small quantities of kerosene but often cannot afford a \$100 solar system. Cellphone based pay-as-you-go plans are equalizing the affordability divide (Davies 2015). But these entrepreneurs are doing much more than meeting the energy needs of the BOP, they are training their customers in modern ways that can transform lives. RVE.SOL's CEO Vendeirinho believes the really exciting thing is the impact on credit. His customers not only get to enjoy affordable energy supplies but the payment system establishes their credit worthiness. "The first question I get when I go out to these communities to explain the technology is, 'Will it power a fridge?' Very few of the people I talk to can afford the upfront payment for a fridge, and virtually none of them have any kind of credit history that would persuade someone to lease them a fridge," says Vendeirinho (Davies 2015). Further down the line, RVE.SOL's customers, with an established credit history, will soon be able buy a refrigerator, a TV, a motorcycle, or even obtain a loan for their business. These are invaluable learning experiences for a population that has been conditioned by years of deprivation to focus on rudimentary survival skills of a subsistence lifestyle and who have practically no capability to navigate the complex world of modern commerce and consumption.

**Logistics and Distribution Channels.** Ultimately, affordable pricing is going to succeed or fail on low cost distribution. This is a logistics nightmare with small volume consumers in far-flung markets served by very poor road and rail services. Some authors have been led to argue that what the BOP needs are the benefits and value delivered by modern discount retailers like Walmart and the sophisticated automated distribution centers and computerized vendor managed inventory and logistics systems that they have developed. We argue that modern discount retailing is a nonstarter in the BOP. Its sacred mantra is: high-volume, low-margins. There are no high volumes in the BOP. There are no low-margins either, because no one operates at lower margins than the rudimentary mom-and-pop retail stalls with minimal overheads, outlets that serve the villages. Large-scale discount retailing also poses a social problem. It violates a cardinal rule of marketing in the BOP — viz., generating employment and income. Discounts stores are "centrally"



located and, where successful, they drive out mom-and-pop retailers from miles around. Where local retailers 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 distributions 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. We argue that rather than large-scale discount retailing the more appropriate models for BOP markets are the Thrift Shops, “Resale” Shops, Flea Markets, Farmer’s Markets, and Neighborhood “Garage Sales” that sell overstocks, overruns, and refurbished, slightly damaged, last season, and second hand goods. The *multi-level network-marketing* models of Amway Corp. and Avon are well suited to the BOP and both companies have major operations in Brazil and India.

The potential for a truly revolutionary impact on distribution in rural markets, however, is held out by the distributed production-consumption model, discussed a little later, which eliminates the bulk of the inventory and logistics inefficiencies of serving scattered markets and fractional consumption.

**Advertising and Promotion.** Communication is vital to all social marketing programs. There have been big strides in communication technology in the historically media-dark markets of the BOP. Indeed, with these rapid advances have come rapid downsides. Early studies showed that poor families watch a lot more TV, which correlates with low incomes and tendencies for overconsumption. It also leads to high aspirations for manufactured goods and urban lifestyles that the poor simply cannot afford (Oliveira 1991). No doubt, there will be unavoidable adjustment pains as the values and ways of the developed world intersect with the ways of the developing world. There is a heavy burden on marketers to the poor to advertise responsibly, promote responsible consumption (like in the alcohol and cigarette markets of the West) and come up with schemes that promote responsible saving and payment plans for purchasing durable goods.

Modern communication is essential and inevitable if the poor are to be lifted from the clutches of poverty. A number of traditional media and channels, with some adaptation, can be quite effective in reaching the poor, including billboards, wall posters, promotional carts, the village “herald”, village theater and pantomime. We also emphasized that advertising is also an opportunity to frame commercial messages in ways that builds positive self-concepts — confidence, pride, and achievement orientation, which are lacking in poor communities (Achrol and Kotler

2016). What are the dreams or fantasies of the poor? What are the fairytales and folklore of the local culture? 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 aspirations of the poor.

The importance of visual communication extends to visual interactions with the product or service. Financial services firm Prodem FFP in Bolivia is an excellent example of applying the new graphic technologies. Its automated tellers recognize fingerprints, use color-coded touch screen displays, and communicate via text-to-speech technology in three different dialects. But the modern digital media are only just penetrating BOP markets and the scope for innovative applications is vast. Mobile phones may have shown a spectacular penetration but they will not represent the full scope of the digital revolution without affordable Internet capability. Innovative companies are bringing capabilities such as information on weather and commodity prices to rural communities, but access is limited. Of much greater impact is interactivity and participation. True that education is a huge barrier to participation, but graphic and voice recognition technologies have the potential to remove some of that. Social media has swamped Western markets and some of it (Facebook and Twitter) is leapfrogging into certain sectors of the BOP, but its scope for development into something that is native to less privileged communities and can become a positive force for their emancipation, has not even been scratched.

### **The Distributed Production-Consumption Model**

The Achrol and Kotler paper also briefly introduced a new marketing model termed the Distributed Production-Consumption (DPC) model. It takes the Social Marketing model many strides forward in creating a synergy between consumption and the means of creating consumption (production). The DPC argues that whereas there have been many articles and success stories about reengineered products and packaging for the poor, the game-changing innovation on the horizon will be reengineering *production* itself. The DPC is the opposite of the mass production factories of the 20<sup>th</sup> Century. Flooding the markets of the poor with products manufactured in modern plants in distant cities and countries is not a sustainable answer to poverty. More of value added must be located near value consumption.

Automated small-scale production, distributed as close to the consuming populations as possible, is the solution. Such a distributed production model is becoming increasingly feasible as the technologies of production rapidly approach a new revolutionary discontinuity in industrial

organization. Leading the technology is the rapid advances in sophisticated 3D printing technologies that can now virtually produce anything with great precision very economically in small quantities on demand. The technologies are awaiting the innovative firm with the vision to integrate the technologies into a network of micro-manufacturing plants, integrated with the software systems and a centralized computer control system and support services (marketing, training and supplies). Such systems would take the just-in-time philosophy, from production all the way to consumption, and eliminate much of the costs of logistics and distribution, which constitute the largest chunk of the delivered price of many consumer goods.

We discussed examples of firms like Amul and Nestle in India that for years have heavily committed to developing the rural markets on which they depend. But these firms have significant space to grow as distributed network organizations. The DPC would have them develop small, automated processing plants that can produce many of the value-added milk products locally under tightly controlled condition. Likewise firms like ITC – that are working closely with farmers to meet the company's procurement needs of grains, tobacco and other raw materials – can do much to move value added functions to the field. For example, oilseeds could be pressed and processed into edible oils and other products in small local plants. The added benefits of that is a significant improvement in logistics efficiency, from moving semi-fished rather than raw materials, and better utilization of side products. For example, the residual “oil-cake” from pressing oil seeds is a high value feed for dairy farmers, who are of course, right there in the local communities. Other grassroots based organizations that focus on distributing value added work and employment to local communities are Nirma in India and KickStart in Africa.

What these pioneers have started is now poised to leapfrog into another dimension altogether. Under the ‘pricing’ discussion, we mentioned above the start-up RVE.SOL. This firm is a prototype of the distributed energy firms of the future that promise to energize the villages and economies of the BOP. RVE.SOL's visionary entrepreneur Vivian Vendeirinho plans to provide off-grid households in Mozambique with not only light and power, but also with water and cooking gas – all paid for via cellphone. RVE.SOL has combined those core utility services into village hubs that house solar panels, a battery, water purification equipment, and a biogas converter. The hubs will service 75 to 150 households through a mini-grid (Davies 2015). Distributed micro manufacturing hubs or retail franchises with 3D printers can produce virtually any durable and

nondurable consumer good except the most complex. The BOP will become mainstream and never be the “base” or “bottom” no more.

### **Concluding Observations**

In closing we would like to acknowledge developments that have become salient since when the Achrol and Kotler (2016) paper was first written, in a longer draft, around 2010. The long and frustrating battle against global poverty enjoined by numerous world agencies and informed by numerous theories and scholarly analyses over a century with bafflingly modest results, has recently taken a dramatic turn towards success. At the start of the millennium the U.N. set a very ambitious goal of eradicating world poverty by 2030. In 2013 the World Bank quantified this into a target to have no more than 3 percent of the world's population living on \$1.25 a day by 2030. It may not be premature now to imagine that this goal is realizable. With 14 years still remaining, the USAID says that extreme poverty has been cut in half over the past 30 years. World Bank statistics are even more impressive. From 1990-2015 the number of people living on less than \$1.90 a day declined by 74.1 percent from 1.9 billion (37.1 percent of global population) to 702 million (9.6 percent) (Qui 2016).

While the momentum is shifting, there is a long way to go. There is serious risk that the forces that brought us thus far may plateau in the absence of continuing and new initiatives. It is also important to keep in mind criticisms like Professor Lant Pritchett's that simply eliminating destitution (number living below \$1.25) is not enough, rather the goal should be about achieving global standards for human well-being. There are also dark clouds over the global economic environment (Brexit, U.S. protectionism and unravelling of global free trade regimes) that could roll back some of the gains that came from global economic growth, if indeed free trade was a prime mover behind what we are witnessing.

Social Marketing for the BOP and Distributed Production-Consumption (DPC) have the potential not only to eradicate abject poverty but to change the face of rural economies by taking to them the kind of prosperity and opportunity enjoyed by urban dwellers following the industrial revolution. These new marketing models are focused on distributing economic opportunity, income and standards of life to local communities. They can substantially displace the giant centralized manufacturing systems and urban based services economy, and usher in a new and highly-dispersed industrial era.

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