

MODULE 5: BOTTOM OF PYRAMID

Structure

- 5.1 Definition of Bottom of Pyramid
- 5.2 What is the actual shape of the wealth pyramid?
- 5.3 How low is the bottom?
- 5.4 Good business sense and the BoP markets
- 5.5 BoP from MNCs' perspective
- 5.6 BoP economic potential
- 5.7 Marketing strategies adopted for the bottom of the pyramid segment
- 5.8 Bottom of the pyramid characteristics
- 5.9 Is there sufficient opportunity at the 'bottom of the pyramid'?
- 5.10 The innovation Pyramid
- 5.11 Product and services of BOP
- 5.12 Innovative models to serve the BOP
- 5.13 Summary
- 5.14 Self- Assessment Questions

Learning objectives

After reading this module, the learner will be able to

- (1) Understand concepts related to BOP.

Introduction

The Bottom of the Pyramid (BOP) is the largest and poorest socio-economic group in the society. There are more than four billion people who live their lives on less than \$2 per day. India's rural majority today accounts for more than US\$100 billion in consumer spending, making them by far the biggest buyers in the country and contributing significantly to India's gross domestic product.

To tap the vast markets at the BOP, MNCs must specially design and develop quality products and services, or they must select some to alter and make available at lower cost. Serving BOP customers is a profitable opportunity for corporations. It is also a social imperative, given that two-thirds of the human population (about four billion people) are at the bottom of the economic pyramid. By addressing the BOP, MNCs can curtail poverty and improve the living conditions of the world's poorest.

5.1 Definition of Bottom of Pyramid

An economic term referring to the largest but the poorest socio-economic group constituting more than 2.5 billion people that live on less than \$2.50 a day. **Bottom of the pyramid (BOP)**, also called **base of the pyramid**, term in [economics](#) that refers to the poorest two-thirds of the economic human pyramid, a group of more than four billion people living in [abject poverty](#). More broadly, BOP refers to a [market](#)-based model of economic development that promises to simultaneously [alleviate](#) widespread poverty while providing growth and [profits](#) for [multinational corporations](#) (MNCs).

This concept has been increasingly adopted by firms in different industries (e.g., household goods, energy). [Alleviating](#) global poverty was identified as a top priority in the [United Nations](#) Millennium Development Goals. Unlike traditional aid-based models of [economic development](#), BOP approaches recast poverty as an economic opportunity for MNCs. The basic argument has three premises: (1) the world's poor [constitute](#) massive growth opportunities and profit potential for MNCs, (2) MNCs should play a leading [role](#) in unlocking the economic potential of such difficult-to-access markets, and (3) bringing the poor into the global economy will simultaneously generate fortunes for MNCs while solving the problem of global poverty.

Critics of BOP approaches note two crucial challenges, governance and [sustainability](#); neither challenge is currently well addressed. Effective governance mechanisms and bodies are needed to regulate, monitor, and oversee the development of markets and effective competition (as well as police corruption), and like MNCs, they must [transcend](#) national [sovereignities](#). Raising the [consumption](#) levels of the world's poor dramatically requires radically new business models and technologies to avoid disastrous impacts on Earth's [ecosystems](#); governance mechanisms are needed to enforce the adoption of radical resource [efficiency](#) measures and clean [technologies](#) across a multinational playing field. Some researchers have suggested, however, that the effects of [pollution](#) and other environmental problems worldwide could be lessened by using such underdeveloped countries as inexpensive testing arenas for environmentally sustainable technologies.

Four billion poor people constitute a staggering market opportunity, but without buying power (income) and transaction capacity ([credit](#), [infrastructure](#), distribution systems, and other institutional frameworks), the poor are locked into poverty. BOP approaches contend that MNCs in particular have the incentive (growth opportunities), the financial resources, and the capabilities (low-cost [mass production](#), marketing expertise, international experience) to produce and distribute appropriate affordable products at high volumes and razor-thin profit margins. Research suggests that successful BOP endeavours are characterized by [communities](#) that benefit by obtaining basic services or growing more [affluent](#), which precipitates a cycle in which their purchasing power expands while allowing the businesses that underlie the basic services to keep growing.

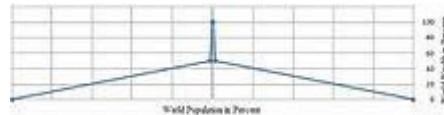
The Bottom of the Pyramid (BOP) is a socio-economic concept that allows us to group that vast segment - in excess of about four billion - of the world's poorest citizens constituting an invisible and unserved market blocked by challenging barriers that prevent them from realising their human potential for their own benefit, those of their families, and that of society's at large.

Technically, a member of the BOP is part of the largest but poorest groups of the world's population, who live with less than \$2.50 a day and are excluded from the modernity of our globalised civilised societies, including consumption and choice as well as access to organised financial services. Some estimates based on the broadest segment of the BOP put its demand as consumers at about \$5 trillion in Purchasing Power Parity terms, making it a desirable objective for creative and leading visionary

businesses throughout the world. One of the undeniable successes in this process is the explosion of the Microfinance industry witnessed in many parts of the world.

The first person to really focus on BOP was C.K. Prahalad (1941-2010), who in the process has inspired influential leaders and countless ordinary citizens sharing his vision, to joint efforts for the unleashing of their creative and productive potential as part of an inclusive capitalist system, free of paternalism toward the poor.

5.2 What is the actual shape of the wealth pyramid?



The pyramid is a graphical depiction of inverse relationship between two variables as one increases the other decreases. We find that the percent of world wealth and the percent of world population controlling it are related with each other in an inverse relation. If we plot the world wealth in percent terms along the vertical axis of a graph and the corresponding percent population having control on it on the horizontal axis of a graph and add the mirror image of this graph on the left side of the vertical axis we get a wealth pyramid and can see that as we move to higher and higher wealth brackets we find that fewer and fewer people have access to it, thus the figure has a wide bottom and a lean top similar to the pyramids of Egypt.

It has been reported that the gap between the ToP and BoP is widening over time in such a way that only 1% of the world population controls 50% of the wealth today, and the other 99% is having access to the remaining 50% only.^{[13][14]} On the basis of this report the wealth pyramid would look like the one shown in the illustration.

5.3 How low is the bottom?

The standards and benchmarks developed – for example less than \$2.5 a day – always tell us about the upper limit of what we call the BoP, and not actually about its *base or bottom*. The fact is that the bottom or the base is much much lower. Even going by the official definition, for example in India the Rangarajan Committee after re-examining the issue of poverty defined the poverty line in 2011-12 at INR 47.00 (\$0.69) per capita per day for urban areas and INR 32.00 (\$0.47) per capita per day in rural areas (June, 2016 conversion rate),^[15] obviously much less than the \$2.5 per day benchmark. This again is the *upper layer* of the poor as defined by the Rangarajan Committee. Where is the actual bottom? and how low? This can perhaps only be visualised by observing the slums right in the hearts of the cities in the developing countries.

5.4 Good business sense and the BoP markets

KashRangan, John Quelch, and other faculty members at the Global Poverty Project at [Harvard Business School](#) "believe that in pursuing its own self-interest in opening and expanding the BoP market, business can make a profit while serving the poorest of consumers and contributing to development."^[16] According to Rangan, "For business, the bulk of emerging markets worldwide is at the bottom of the pyramid so

it makes good business sense – not a sense of do-gooding – to go after it."^[16] But in the view of Friedman "the social responsibility of business is to increase its profits only, thus, it needs to be examined whether business in BoP markets is capable of achieving the dual objective of making a profit while serving the poorest of consumers and contributing to development?"

Erik Simanis has reported that the model has a fatal flaw. According to Simanis, "Despite achieving healthy penetration rates of 5% to 10% in four test markets, for instance, Procter & Gamble couldn't generate a competitive return on its Pur water-purification powder after launching the product on a large scale in 2001...DuPont ran into similar problems with a venture piloted from 2006 to 2008 in Andhra Pradesh, India, by its subsidiary Solae, a global manufacturer of soy protein ... Because the high costs of doing business among the very poor demand a high contribution per transaction, companies must embrace the reality that high margins and price points aren't just a top-of-the-pyramid phenomenon; they're also a necessity for ensuring sustainable businesses at the bottom of the pyramid."^[18] Marc Gunther states that, "The bottom-of-the-pyramid (BOP) market leader, arguably, is Unilever ... Its signature BOP product is Pureit, a countertop water-purification system sold in India, Africa and Latin America. It's saving lives, but it's not making money for shareholders."^[19] Several consulting companies have modeled the profitability of accessing the bottom of pyramid by utilizing economies of scale

Examples of BoP business

Microcredit

One example of "bottom of the pyramid" is the growing [microcredit](#) market in South Asia, particularly in [Bangladesh](#). With technology being steadily cheaper and more ubiquitous, it is becoming economically efficient to "lend tiny amounts of money to people with even tinier assets". An Indian banking report argues that the microfinance network (called "Sa-Dhan" in India) "helps the poor" and "allows banks to 'increase their business'".^[21] However, formal lenders must avoid the phenomenon of informal intermediation: Some entrepreneurial borrowers become informal intermediaries between microfinance initiatives and poorer micro-entrepreneurs. Those who more easily qualify for microfinance split loans into smaller credit to even poorer borrowers. Informal intermediation ranges from casual intermediaries at the good or benign end of the spectrum to 'loan sharks' at the professional and sometimes criminal end of the spectrum.

Market-specific products

One of many examples of products that are designed with needs of the very poor in mind is that of a shampoo that works best with cold water and is sold in small packets to reduce barriers of upfront costs for the poor. Such a product is marketed by Hindustan Unilever.

Innovation

There is a traditional view that BOP consumers do not want to adopt innovation easily. However, [C. K. Prahalad](#) (2005) claimed against this traditional view, positing that the BOP market is very eager to adopt innovations. For instance, BOP consumers are using PC kiosks, Mobile phone, Mobile banking etc. Relative advantage and Complexity attributes of an innovation suggested by [Everett Rogers](#) (2004) significantly influence the adoption of an innovation in the Bottom of pyramid market

(Rahman, Hasan, and Floyd, 2013). Therefore, innovation developed for this market should focus on these two attributes (Relative advantage and Complexity).

Venture capital

Whereas Prahalad originally focused on corporations for developing BoP products and entering BoP markets, it is believed by many that Small to Medium Enterprises (SME) might even play a bigger role. For Limited Partners (LPs), this offers an opportunity to enter new venture capital markets. Although several [social venture funds](#) are already active, true Venture Capital (VC) funds are now emerging.

Brand

There is a traditional view that BOP consumers are not brand conscious (Pralhad, 2005). However, [C. K. Prahalad](#) (2005) claimed against this traditional view, positing that the BOP market is brand conscious. For instance, brand influences the new product adoption in the bottom of pyramid market (Rahman, Hasan, and Floyd, 2013). Rahman et al. (2013) mentioned that brand may positively influence the relative advantage of an innovation and it leads to adoption of innovation in the BOP. In point of traditional view BOP market, people were not aware about brand concept. SopanKumbhar (2013)

Business and community partnerships

As *Fortune* reported on November 15, 2006, since 2005 the [SC Johnson Company](#) has been partnering with youth groups in the [Kibera](#) slum of [Nairobi, Kenya](#). Together SC Johnson and the groups have created a community-based waste management and cleaning company, providing home-cleaning, insect treatment, and waste disposal services for residents of the slum. SC Johnson's project was the first implementation of the "Base of the Pyramid Protocol".

5.5 BoP from MNCs' perspective

BoP economic potential may be underestimated because of four main misperceptions of poverty :

1/ Income is too low, the poor can't buy MNCs' products.

The buying power of individual BoP customers is low but as a group, the aggregate buying power allows communities to buy goods like computers or cellular phones. The large number of poor communities in Asia, Africa and South America represent an enormous economic potential when products are bought collectively.

2/ Goods sold in developing markets are so cheap that MNCs can't make reasonable profit.

The costs of essentials are much higher for the poor than for their middle-class counterparts. In a *Harvard Business Review* article called « Serving the world's Poor Profitability » (2002), C.K Prahalad and A. Hammond show the difference in costs of essentials between poor and middle-class in Mumbai, India. The annual charge interest for credit is more than 50 times higher for the poor. Municipal grade water is more than 30 times more expensive for the poor (infrastructures for running water are underdeveloped in slums) than for the middle-class and upper-class communities. This double penalty –poor living conditions and higher prices– also applies to food, medication and many other products.

3/The poor don't waste money on luxury products, they only fulfill basic needs.

Buying a house or installing running water may not be a viable option: people who live in slums can't reasonably obtain a credit to own their own house, but it doesn't mean they can't buy anything. The poor often buy luxury items like televisions, gas stoves or domestic electrical appliances. These more affordable products -considered as luxury products- are a much more realistic investment and they improve the quality of life right now, not in a hypothetical future.

4/The poor don't have the required skills for the use of advanced technology.

In poor rural areas of India or Bangladesh, cell phones were dispatched a few years ago. Despite never before using such equipment, people have had no difficulty using GSM cell phones. Also with computers, there are many examples showing that in a few weeks, people are able to understand how technological products work. The poor are willing to buy and use new technologies especially when it can improve their living condition.

5.6 BoP economic potential

In the light of the four misconceptions of BoP markets and because MNCs' actual markets are nearly saturated, companies should consider the huge potential of BoP economy which is still in its infancy. Due to the large number of countries involved, economic expansion can be extremely fast and lasting. However, MNCs will have to show some audacity and creativity to have a low enough cost to be profitable: innovation, new business methods and a great understanding of BoP customers are the key to success.

1/Innovation

Some traditional services used in developed countries cannot be sold to BoP consumers at a low-enough cost to be affordable and profitable. High speed internet protocol or fast data access on cell phones cannot be massively deployed now whereas GSM infrastructures are almost inexistent today. However, thanks to alternative technologies and to innovations, MNCs should find a way to make profit while offering affordable products and services. For example, there are some experiences in South America with a smart credit card system. MODEM, a microfinance organization, created a credit card shared by different users. Each user has a personal secret code and transactions are made separately from one user to another. This innovative system significantly reduced the cost of the service and the amount of potential customers became widely enlarged.

2/Margin versus volume

Traditional business in developed countries is mostly based on high gross margins. The low buying power of BoP consumers makes this approach inappropriate. MNCs will have to develop a very tight and effective lean management in order to optimize their supply chain. Cost-savings management will become a key to performance and success in these huge new low-cost markets.

3/Target aggregated customers

MNCs will have to consider a "pay-per-use" system. Like a laundry system in developed countries, refrigerators, computers or even cars could be collective. There are some experimental systems of individual customization of public computers.

Individuals have a special thumb drive and when they plug it in on a computer, the thumb drive takes control of the computer. Consequently, the computer's appearance remains the same for the owner of the thumb drive, no matters which computer he uses. Software brands or, more broadly, companies powerful enough to invest in BoP market, must start to consider the growing potential of BoP markets.

As developed markets become saturated with goods and as population growth there stagnates, MNCs have the potential to achieve revenue growth and improve the lives of millions by learning how to serve the Bottom of the Pyramid.

5.7 Marketing strategies adopted for the bottom of the pyramid segment

The term 'Bottom of the Pyramid' was coined by C.K. Prahalad in 2005 in his work, *The Fortune at the Bottom of the Pyramid*. It refers to the concept of influencing the lives of poor population of the world through the managerial initiatives and business practices of multinational companies. This concept has gained wide range acceptability.

Need for bottom of the pyramid segment marketing

So far, the multinational companies have designed their offerings and marketing strategies for upper sections of the economic pyramid. They have simply disregarded the bottom of the pyramid consumers, taking them to be unreachable and not beneficial. It was in 2002 that C.K. Prahalad and Stuart Hart started reasoning that multinational companies must shift their focus towards bottom of the pyramid markets. They are unexplored with ample opportunities. Companies must adopt a preemptive approach towards meeting the needs and wants of the lowest strata of the economic hierarchy. To suit this market segment they need to design special offerings and strategies. These strategies should help them sell their products available at affordable prices. Serving bottom of the pyramid customers can prove to be a game changer for the companies as:

- It is profitable.

- It serves the corporate social responsibility requirements.

 - Nearly 75 per cent of the world population falls into the bottom of the pyramid category.

By serving the bottom of the pyramid customers, multinational companies can curb poverty and also enhance the standard of the living for the poor (Jaiswal, 2007). This concept holds water in the Indian context as well. Bottom of the pyramid segment needs to be catered through extremely low-cost and high-quality business model. In India the bottom of the pyramid population comprise of both the rural as well the urban population. Companies must learn to amend their marketing approaches. This can be achieved by modifying their product design, pricing, packaging and distribution mixes to tap the low-cost customers. This low margin customer base result to large volume business(Karnani, 2009). Companies need to formulate marketing strategies like small unit packages, low margin per unit and high sales volume etc.

5.8 Bottom of the pyramid characteristics

Bottom of the pyramid market has unique characteristics. Consumers buy in small quantities due to low disposable income. They spend more on fundamental needs and personal care products. Culture plays a major role as this market is governed by rituals, festivals, harvest seasons etc. Consumers have very poor brand awareness and thus showcase different buying behavior. India has emerged as one of the largest consumer markets not only for middle class but also for the bottom of the pyramid segment. Many fast moving consumer goods companies like HUL, Cavin Care, ICT, Dabur, Tata, Godrej and Nirma have attempted suitable and successful marketing strategies. Companies are modifying their marketing mix to suit the expectancy and pockets of the bottom of the pyramid consumers. As per the four P's (Jha, 2013):

Product

Companies are striving to leverage technological advancement and innovation. They have come up with products which are capable of meeting the untapped demands of the bottom of the pyramid consumers with an affordable price. Coca-Cola came up with "Chota Coke" to make soft drink affordable. Micromax and Spice have captured the bottom of the pyramid market with low-priced but high featured mobile handsets.

Price

By now we all know that the bottom of the pyramid is a price sensitive segment. It's difficult to offer smaller packaging at lower prices due to the additional cost. Many fast moving consumer goods are being sold in smaller quantities at low prices to reach out to the consumers of this segment. However some companies went beyond it. Nirma, from being a local player emerged as a major detergent brand preferred by this segment. It adopted backward integration and produced its raw material as well. It also used simple and cheaper packaging material. Likewise, Chic shampoo sachets were available at 50p initially and now at Re. 1. This pioneered the sachet packaging fiasco. Hindustan Unilever Ltd. (HUL) followed the bill with its fast moving consumer goods like Surf, Fair n Lovely etc.

Place

Urban bottom of the pyramid consumers have access to retail outlets. But in rural areas companies like HUL have come up with concepts like using self-help groups to distribute and market its products. ITC launched e-chaupal and attempted to capture the rural bottom of the pyramid segment.

Promotion

The consumers of this segment are not native English speakers or they hardly know the language. Companies promote their products in regional dialects to make it easier for the local people. In southern Indian states, advertisements are made in regional languages with local movie stars as endorsers so that people can relate with them easily (Jha, 2013).

India is a big market for the bottom of the pyramid segment. Local and multinational companies cannot afford to ignore it. More and more companies are coming up with unique marketing ideas and product offerings to target the bottom of the

pyramid consumers. This gave many companies opportunities to leverage through recessionary times with ease.

5.9 IS THERE SUFFICIENT OPPURTUNITY AT THE ‘BOTTOM OF THE PYRAMID’?

70% of the Indian population lives in rural areas. This segment, which is commonly referred to as the ‘bottom of the pyramid’, presents a huge opportunity for companies. To expand the market by tapping the countryside, more and more MNCs are foraying into India’s rural markets. Among those that have made some headway are Hindustan Lever, Coca-Cola, LG Electronics, Britannia, Standard Life, Philips, Colgate Palmolive, Amul and many foreign-invested telecom companies.

The Opportunity

In earlier times rural consumer had to go to a nearby town or city to buy a branded product. The growing power of the rural consumer is now forcing big companies to flock to rural markets. At the same time, they also throw up major challenges for marketers. Servicing rural markets involves ensuring availability of products through a sound distribution network, overcoming prevalent attitudes and habits of rural customers and creating brand awareness. Price-sensitivity is another key issue. Rural income levels are largely dependent on the vagaries of monsoon, and demand is not easy to predict. The Indian rural market currently contributes to 50% of the annual consumption of FMCG goods and is increasing year on year. As a result it is becoming an important market place for fast moving consumer goods as well as consumer durables.

The Necessity

The rural market is certainly tempting since it comprises 70 % of the country’s population, 41 per cent of its middle class, 58 per cent of its disposable income and a large consuming class. Today, real growth is taking place in the rural-urban markets, or in the 13,113 villages with a population of more than 5,000. In order to efficiently and cost-effectively target the rural markets, companies cover many independent retailers since in these areas, the retailer influences purchase decisions and stock a single brand in a product category.

Most of the companies have started tinkering with pack sizes and creating new price points in order to reach out to rural consumers. Thus, sachets and miniature packs, as in the case of shampoo sachets priced at Re 1 and Rs 2 or toothpaste at Rs 10, have become the order of the day and help improve market penetration. Yet, driving consumption of goods in rural areas is not just about lowering prices and increasing volumes but also about product innovation and developing indigenous products to cater to their demands. For example, soap makers use advanced technology to coat one side of the soap bar with plastic to prevent it from wearing out quickly.

Impact of globalisation

The impact of globalisation is felt in rural India as much as in urban. It will have its impact on target groups like farmers, youth and women. Farmers, today ‘keep in touch’ with the latest information and maximise both ends. They keep their cell phones constantly connected to global markets. Surely, price movements and

products' availability in the international market place seem to drive their local business strategies. On youth its impact is on knowledge and information and while on women it still depends on the socio-economic aspect.

The marketers who understand the rural consumer and fine tune their strategy are sure to reap benefits in the coming years. In fact, the leadership in any product or service is linked to leadership in the rural India except for few lifestyle-based products, which depend on urban India mainly.

Coca-Cola India

In 2001, Coca-Cola India attempted to gain leadership in the Indian market and capitalize on the rural markets. In rural markets, soft drinks category was undeveloped. Coca-Cola India believed that the first brand to offer communication targeted to the smaller towns would own the rural market and went after that objective with a comprehensive strategy. The rural segment's primary need was out-of-home thirst-quenching and the soft drink category was undifferentiated in the minds of rural consumers. Additionally, with an average Coke costing Rs. 10 and an average day's wages around Rs. 100, Coke was perceived as a luxury that few could afford.

In an effort to make the price point of Coke within reach of this high-potential market, Coca-Cola launched the Accessibility Campaign, introducing a new 200ml bottle, smaller than the traditional 300ml bottle found in urban markets, and concurrently cutting the price in half, to Rs. 5. This pricing strategy closed the gap between Coke and basic refreshments like lemonade and tea, making soft drinks truly accessible for the first time. At the same time, Coke invested in distribution infrastructure to effectively serve a disbursed population and increased the number of retail outlets in rural, increasing market penetration.

Coca-Cola's advertising and promotion strategy pulled the marketing plan together using local language and idiomatic expressions which even won them some campaign of the year award in the Advertising Market

Coca-Cola doubled its spend on Government Channels, increased price compliance from 30 per cent to 50 per cent in rural markets and reduced overall costs by 40 per cent. Result: the rural market accounts for 80 per cent of new Coke drinkers and 30 per cent of its volumes.

Innovation at the Bottom of Pyramid Market

Birkinshaw (2008) defines innovation both as a process of change but also as the final result. The concept of innovation involves novelty and creativity. However, we can make a distinction between the breaking innovations, that revolutionize the economy and change lifestyles, such as the invention of the car by Joseph Cugnot, and the cumulative innovations, which are updates from the existing. For example, we can say that all the innovations that have been made around the car since its invention, such as radio, GPS, Abs and other new features, are cumulative innovations.

Teece (1980), Kimberly (1981) and Damanpour et al. (2009) were the first to distinguish different categories within the concept of innovation. Thus, according to Hamel and Breen (2007) innovation may relate to processes and target the operational excellence, or concern a product or services, in other words, concern new offerings that will be introduced on the market. Innovation may also be strategic and reshape an economic model. Finally, managerial innovation represents the combination of skills and resources which are unique to the company

5.10 The innovation Pyramid

Sources: Hamel, G., (2006), The why, what and How of Management Innovation, Harvard Business Review, 84(2), pp. 72-84

Later, other categorizations have emerged. Prahalad and Mashelkar (2010) preserve the Process innovation and the Product innovations but added Price and Packaging innovations. Kaafarani and Stevenson (2011) identify different levels depending on the size of the innovation.

‘Transformation innovation’ is equivalent to a disruptive innovation as mentioned above, whereas innovation category will be done at the level of an industry. An ‘Operational innovation’, permit to do things faster and cheaper: Amazon, the American company, has gained in internal efficiency by reviewing its inventory management thanks to an operational innovation. Finally, a ‘Market innovation’ will involve a new use of an existing product: in France, the company Everytime Technologies has developed a new way of using its optimization system for the planning of medical teams.

Through these different theories it is clear that the concept of innovation is changing with time and with the new needs of consumers. In addition, some enterprises are not at all oriented to innovation it is why innovation is more or less easy to establish a company to another. Some classifications seems clearer and more appropriate for the BOP market, the author will therefore retain the classification of Hamel (2006) for the remainder of this report. The different types of innovation presented here allow a global view of the concept of innovation, but we will see that there are specific stakes concerning innovation at the base of the pyramid.

2. Innovation process, stakes and business specifications at the Bottom of Pyramid

Innovation has a very important role for MNCs in their strategic approach to BOP markets due to the specificities of these markets discussed above. As we have seen, MNCs need to develop their knowledge of the poor needs and on their strategies of production and distribution. They must be creative and change their business model, and it is difficult for large companies which have well-established procedures in developed markets. Companies like Schneider Electric, Danone, Essilor which have undertook initiatives in the BOP are confronted to these new features and need to redefine their key success factors in adapting to this new market.

Prahalad (2011) identifies the Bottom of the Pyramid market as a new source of radical innovation. Prahalad suggests that external constraints should be utilized to build innovative business models. The immersion in the environment of the BoP is the starting point of this thinking

Anderson and Billou (2007) and Anderson and Markides (2007) have explored the success factors of strategic innovations and have identified four key factors in developing markets. According to them, the strategic innovations should be: affordable, acceptable, available and consumers should be aware (see Figure 2.3).

Anderson and Markides (2007) believe that a special attention should be paid to prices because BOP consumers have little available money. Subsequently, the product must be adapted to the market, thus respecting the needs and culture of the targeted country.

It must also be available and easily accessible, thanks to new methods of distribution for example. Finally, the consumer should be aware of the existence of the product that is why companies must develop alternative means of communication which are appropriate for the BOP.

Other thinks that it is necessary to rethink the price-performance equation (Prahalad, 2005). Indeed, the BOP market consumers do not necessarily need the same level of performance than expected in developed markets. Thus they can be satisfied with a less sophisticated but also much cheaper product, the affordability factor being the most important. Prahalad and Hart (2002) give the example of the company Hindustan Lever, which is the Indian subsidiary of Unilever. The company has encountered difficulties in the 1995s because of a local competitor: Nirma Company, which sold a less sophisticated but also much cheaper product, which made it affordable for the BOP market in India.

Furthermore, the lack of education in developing countries should also be taken into account. Indeed, it is important to have appropriate means to inform users about products. Written materials have such little impact on an illiterate population. For example Hindustan Lever uses street artists or actors to promote their products in India (Anderson and Markides, 2007).

Finally, one of the most important aspects in innovation at the base of the pyramid is the corporate social responsibility (CSR) of enterprises which represents the business contribution to sustainable development of companies issues (Payaud and Martinet, 2010). In view of the environmental and development questions, enterprises are encouraged to implement strategies friendly resources to not replicate the consumption patterns of developed countries, which are not sustainable in the long term. A virtuous approach to innovation at the base of the pyramid would incorporate so many social and environmental factors, in addition to technological and commercial settings. Moreover, in view of the link between competitive advantage and corporate social responsibility the CSR could be a good solution to penetrate the market (see Porter, 2006).

According to the existing literature, innovation at the base of the pyramid incorporates many challenges that businesses face to successfully enter in this complex market. In the light of what has just been mentioned, in the first part of the findings, the author will return to the paradox mentioned in the introduction and will analyse the forms that innovation take in BoP market. Then, in the second part of the findings the author will try to demonstrate that it exist a link between innovation in emerging markets and innovation in developed countries.

12 principles for innovation for Bottom of Pyramid markets

A new way of collaborative working between big corporations and civil authorities is

needed to overcome poverty through the creation of millions of entrepreneurs and their consumers at the grass roots level.

His 12 principles for innovation in this market are:

1. Focus on quantum leaps in price performance
2. Hybrid solutions blending old and new technologies
3. Scalable and transportable operations across countries, cultures, and languages
4. Reduced resource intensity through eco-friendly products
5. Radical product redesign from the beginning as marginal changes to existing western products will not work
6. Creation of logistical and manufacturing infrastructure
7. Deskill services work
8. Educate semi-literate customers in product usage
9. Products must be able to work in difficult environments including, noise, dust, abuse, electricity blackouts, water pollution
10. Adaptable user interface to heterogeneous consumer base
11. Distribution methods designed to reach both highly dispersed rural markets and highly dense urban markets
12. Focus on broad architecture to enable quick and easy incorporation of new ideas

5.11 Products and services of BOP

As explained in the previous section, BOP business can be classified to be of three types. Type 1 involves the organisations which are involved in the business of identifying specific basic needs of the BOP and fulfilling them. 50% of the representative cases studied fall under this Type of BOP business model while 23% of the cases can be categorised as Type 2 and 27% as Type 3. This is representative of the readiness of the private sector to adapt strategies and engage effectively with the BOP market. Also, due to the unique characteristics of this market it might take companies longer time to understand and accept this market. Industry Wise Break-up

FMCG and Housing. The industry wise break-up of the representative cases taken, shows that around 23% of the companies fall under the fast moving consumer goods (FMCG) sector. This is in line with the WRI-IFC report cited earlier. The BOP sector is unorganised and the BOP customer pays a huge penalty for being a part of this market. The organisations providing value propositions of basic needs such as food and nutrition, clothing, energy, housing, water and sanitation constitute a major portion in this market. There are many successful examples in this sector such as HUL, Grameen Danone Foods, Yakult Honsha Co Ltd, CEMEX etc. Much of the housing market is informal in nature as most BOP consumers do not possess legal ownership titles. Hence, they have a very limited access to mortgage financing, even when there is great need. A successful case study is that of CEMEX's (a Mexico based and world's largest cement manufacturers) Patrimonio program. They offer consultation of design, encourage do-it-yourself building by providing material and guidance, help create a group of a few number of members who then take responsibility of making regular and timely payments.

Water and Sanitation. It is a constant struggle for the BOP to obtain regular access to clean drinking water. This sector comprises of only 10% of the BOP market in the representative cases studied. Private sector is often considered the last resort for this market (mostly due to lack of any). In Tegucigalpa, Honduras, several communities have created partnerships with utility companies. These communities together take responsibility for payments through micro-financing and monitoring individual usage. Many BOP areas are infected with water borne diseases and many private companies provide products to treat local water. For instance, WaterHealth International sells ultraviolet (UV) water disinfection systems in India. Firms such as Eureka Forbes and HLL that are currently catering to the upper end market have shown a lot of interest in adapting their products for the uniqueness of the BOP market. Sur'Eau produces cost effective diluted bleach, in Madagascar, that is used to instantly sanitize available water. Innovation has mostly been in building purification techniques, systems and efficient delivery in this sector. This is a huge market that can be tapped by the private sector.

Banking Services. Uncertain and informal jobs have helped in building access to the organised financial services sector which was earlier difficult for both savings and borrowing. Since, payments are mostly made in cash, theft and robbery is a common feature in this market. To get loans, BOP generally resorts to taking credit from local stores, local moneylenders at extraordinarily high interest rates and mortgaging their cattle and jewellery. Only 10% of the total cases studied fall under this category/industry. One of the most innovative and successful services in this category is micro financing, pioneered by Grameen Bank in Bangladesh. Their business model operates on giving small loans to groups of a few women who thereby take responsibility of repayment of the loan disbursed. This business model strategy has been extended and adopted by other firms.

Healthcare. The BOP has limited access to public health services. The poor often cannot afford healthcare facilities and hence the spending is low. The health clinics and hospitals tend to be at a far distance compounding the problem further especially for the rural BOP market. Aravind Eye Care in Madurai is an economically self-sustaining and successful model that has been frequently mentioned in the BOP literature. It uses a differential pricing system; so that wealthy customers are able to subsidize the services for the poor customers. They use economies of scale and assembly line principle to keep costs low. It uses information and communication technologies (ICT) and mobile vans to go into remote rural areas to conduct eye check-up with help of teleophthalmology. The private sector participation in this sector is low as around 14% of the cases taken fall under this category.

Information and Communication Technology. ICT is considered as one of the best performing sectors on the World Bank's industry portfolio in terms of returns on investment and developmental impact (www.worldbank.org). It enables the BOP market to connect with the global economy in the most cost effective way. The World Bank report also emphasizes that the percentage of people living below the poverty line fell from 29 percent in 1990 to 18 percent in 2004, primarily due to the technological progress. More than 13% of the cases studied fall under this category. In the BOP literature, ITC's e-Choupal has been often cited. The village meeting place

also called the Chaupal in Hindi is replaced electronically by kiosks. It enables an electronic meeting place where the BOP can get updated and expert global information on various subjects such as farming techniques, weather updates, commodity prices, etc. E-Choupals also help provide employment opportunities to entrepreneurs who operate these internet kiosks. This provides an immense opportunity and ability to provide empowerment to the BOP markets. Therefore, ICT has successfully included a great portion of BOP allowing them to connect and share information with the rest of the world.

Others. Innovations in the ICT and financial services section have provided or enabled employment opportunities. However, there are certain successful innovative examples from the era prior to the ICT era as well. For example, Amul Cooperative in India helped individual dairy farmers to sell their milk to them, an operation model that has worked fabulously in this industry. Similarly HLL's Kissan buys local farm produce and cooperatives like Lijjat Papad have helped small and weak communities to sell their manufactured food products to large food chains and stores at a national level. Even HLL's Shakti project of selling small packets and sachets was extremely successful as it provided employment opportunities to women of the local community. In all the above examples, the business model used by the companies aims at increasing margins to the farmers and artisans by removing a layer of middlemen. This also ultimately helps to increase the sustainability of marketing to the BOP.

5.12 Innovative models to serve the BOP

Nearly 3.2 billion people around the world (see Figure below), many of whom live on less than \$10 a day, have been excluded from formal markets. They are often referred to as the "base of the pyramid" (BOP). Yet, they defy simple homogeneous characterization. The lowest third of this group, in terms of income, focuses mainly on subsistence and will require support to rise above poverty. The top third, about a billion people, are beginning to generate significant discretionary income; still, they too are forced to resort to substandard, and often more expensive, formal markets. Together, they are brimming with productive and entrepreneurial potential, as well as latent demand for products and services. Nonetheless, they remain beneath the radar of most conventional business models, which view them as risky, costly, and unprofitable.

There are many reasons to address the needs of the BOP segment. Including them in formal markets will stabilize their incomes and improve access to essentials like education, healthcare and financial services. It will also trigger an economic multiplier, easing social tensions and addressing inequality.

Businesses stand to profit as well. Although individual incomes of the BOP are low, the aggregate market is large: in 2008, their income pool totaled slightly more than \$2.2 trillion (see Figure 2). Incomes for the BOP have been growing rapidly at around 8% per year. Should current growth rates continue, by 2015 the aggregate income pool of today's BOP could increase to over \$4 trillion (see Figure 3). This presents a tremendous opportunity for growth and competitive advantage.

Early movers will gain many advantages: they will be in a position to gain valuable insights, capture greater market share and attract loyalty of consumers and producers.

Furthermore, by creating lasting economic and social gain for all segments, they can further expand their own markets. In fact, the BOP market segment offers a very attractive meeting ground where corporate economic benefit and social impact can be realized together. To be sure, the BOP do present challenges. But companies can overcome them if they look beyond traditional business models. Business model innovation is creating completely new offers and delivery models that together redefine a company's basis for competition and create superior value.

To achieve business model innovation, organizations must first cultivate a more nuanced understanding of the BOP segment – how they live and what they need to advance. Second, organizations need to look at economic levers that limit operations in this market and do so in the light of current and evolving regulatory and policy environment. Indeed, some companies are already beginning to adopt new approaches to the benefit of their market share: they are developing technologies, products, and services that meet local needs. And they are partnering with each other, as well as with governments and civil society organizations (including both public and local community organizations), to implement new business models.

These “inclusive” interventions are beginning to kick-start significant improvement in the livelihoods of the poor, further spurring consumption and production. Although it is difficult to generalize about such a large group of people as the BOP segment, they share some characteristics that distinguish them from other groups and these are important to understand. These common characteristics include: (i) they must manage low and fluctuating incomes; (ii) they cope with domestic constraints and harsh living conditions; (iii) they are unfamiliar with many products and technologies; (iv) they are smart shoppers and investors; and (v) they look for trusted advice. Because of where they live, the BOP segment is often hard to reach and because they can only afford to buy in small amounts, they tend to be served by inefficient supply chains. That often results in their paying higher prices for inferior goods. This fact presents a tremendous opportunity for organizations and businesses that have gained insights into the BOP to offer them something better. But it will require relinquishing entrenched stereotypes and being open to new and innovative strategies to engage with this segment

STRATEGY 1: AFFORDING ACCESS RATHER THAN OWNERSHIP

In many cases, a person doesn't have to own a product in order to benefit from it; he or she just has to use it. Yet companies tend to measure a product's market potential in terms of the number of people who can afford to buy it. Given the relatively low incomes of the BOP, and their volatility, this mindset severely restricts the perceived potential of these markets.

To challenge conventional wisdom about product ownership, consider the following questions: How can our company change from a “selling” mode to one that “deploys” products for use without requiring ownership? How would this new approach affect our revenues?

STRATEGY 2: MONETIZING HIDDEN ASSETS

There is a wealth of potential capital residing with the BOP market, but these assets are often hidden from formal markets. The inability to monetize these hidden assets, which could account for a significant percentage of an emerging market's growth, is a constraint on economic activity. Indeed, the aggregate value of such capital is

potentially huge. Consider the money that Non-resident Bangladeshis earn in the Middle East and send back to families in Bangladesh through informal remittance channels. Companies should look beyond the official models and learn how local communities bring capital into the system “unofficially.”

In fact, the community is a good entry point for searching out hidden assets, since the BOP segments maintain strong community ties. For that reason, companies have helped local community entrepreneurs and integrated them into their value chains, in addition to serving them as customers. Not only does this broaden the customer base for these companies, it can also generate higher profits, remove market inefficiencies, and thus create an economic multiplier.

To challenge conventional wisdom about capital assets, consider the following questions: What hidden assets does the target community have, and how does the community leverage their value? How could the hidden capital that exists in informal arrangements be brought into formal systems?

STRATEGY 3: BRIDGING THE GAP IN PUBLIC GOOD THROUGH PRIVATE ENTERPRISE

At present, there are various gaps that developing nations like Bangladesh face in terms of infrastructure. Organizations that set out to engage low-income groups as customers or producers are often constrained by the lack of basic infrastructure they take for granted when serving current mass markets. This lack greatly increases the costs of reaching these consumers, designing products for them, and collaborating with them for the purposes of production and resourcing.

This infrastructure encompasses a broad set of enablers, often thought of as public goods, and considered the responsibility of the public sector (governments, or development agencies). Organizations that seek to do business with the BOP segments can break free from these constraints in two ways: they can form active partnerships with the public sector to improve the circumstance of the BOP, or they can find innovative ways, perhaps in collaboration with others, to bridge the gap in public goods.

Private intervention can support the creation of public goods in order to ensure long-term profitability in the low-income markets. Interventions in the public domain by many companies around the world have proved that they can add value for customers as well as producers.

To challenge conventional wisdom about investing in public goods, consider the following questions: Will investing in a public good that also benefits competitors actually improve near-term profits? Who will decide how much each partner will gain from opportunities and how much each could invest?

STRATEGY 4: SCALING OUT VERSUS SCALING UP

To serve customers efficiently, companies often try to reduce the unit costs of products and achieve economies of scale through centralized production in large factories. But this model has two problems when it comes to the low-income market. First, it increases the costs of serving and sourcing (warehousing and distribution) since producers and customers live far from central factories. Second, centralized factories often produce standardized products, which is often not what low-income consumers need or want. Their requirements for customized products can't be met

with standard low-cost production models. Companies need to rethink how they define scale for this market.

One of the problems with large-scale sourcing and production is that they are designed for high-density areas. The traditional concept of economies of scale fails when it comes to serving the low-income markets. Although demand and supply in this market is potentially huge in the aggregate, these consumers buy and sell locally because they live primarily in small, scattered groups. The alternative to scaling up is to scale out: create experiments that can be adapted and rolled out to increasing numbers of markets. That involves the low-income people as producers and distributors, as well as consumers, and it minimizes the overhead.

To challenge the conventional wisdom of economies of scale, consider the following question: How will the company adopt a decentralized system, encourage innovation, and still ensure product quality and effective management?

STRATEGY 5: GOVERNING THROUGH INFLUENCE RATHER THAN AUTHORITY

As organizations grow, the natural inclination is to exert more control on decision-making and tighten monitoring and audit systems. Yet in the BOP segment, information gathering and control has to happen through collaboration and with local partners. Therefore, given the wide dispersion of villages and communities in emerging markets, it is crucial to retain a high degree of flexibility and decentralization, in order to adapt to local changes as well as to control costs. To reduce the overall costs of monitoring when enlisting the BOP as consumers and co-producers, companies must first align the community's interests with the company's goals and then introduce local checkpoints. One of the reasons companies avoid partnering with local communities is that they are convinced they would incur huge monitoring costs to ensure strict quality standards. A better way to approach the problem is to reduce the need for monitoring by aligning the interests of the employees with those of the company so that employees are motivated to deliver better results, which can be achieved by developing shared aspirations and values. Such incentives might include turning salaried employees into business partners so that they benefit when the organization benefits.

5.13 Summary

The basic problem with brand marketing is its high cost. Local Markets do offer a cost-effective method of marketing. With the virtual Local Markets the cost saving is still better. Consider for example the case of marketing farm inputs like fertilisers, seeds and pesticides. In the brand marketing approach, the same information is provided by several marketers through different media and methods. In the virtual Markets, several people can join hands and provide best possible information in a most cost effective manner to the farmers.

The rural market grab has already begun. Once the rural consumers get attached to these new forms of virtual Local Markets they are going to procure most of their requirements from the same source and sell their produce in the same Markets.

This offers an interesting challenge for those companies that are selling in the rural market including the agri-input companies, farm equipment companies, FMCG and

consumer durable manufacturers. The bottom of the value-chain pyramid indeed represents a huge gambit of opportunities. Here lies a fortune that is waiting to be explored.

5.14 Self- Assessment Questions

- 1) Explain Bottom of pyramid
- 2) How low is the bottom?
- 3) Is there sufficient opportunity at the ‘bottom of the pyramid’?