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Commentary:

An Inclusive Strategy for The Poor Finds Wider Applications

Venkatesh Ganapathy[1]

Introduction

After the present government in India came to power in 2014, financial inclusion has been one of their top agendas. There have been other schemes as well that were aimed at including the marginalized section in India as part of the mainstream. But way back in the 90's C K Prahlad and Stuart Hart came up with the concept of "Bottom of Pyramid" highlighting the opportunity in the market as a "fortune". Let us trace the genesis of this research.

When countries like China, India, Latin America and the former Soviet Union opened their markets for foreign participation, the decision was welcomed. However, this social and economic transformation did not yield great opportunities for multinational corporations who were eyeing the huge "middle class" pie. The Asian and Latin American financial crises during the 90's dimmed the marketing prospects in emerging countries.

This led to MNCs across the globe re-tuning their investment strategies post 9/11. Prahlad and Stuart believed that there was nothing wrong with the estimation of the market potential – identifying the correct segment was the issue. So, rather than looking only at the middle class, the time was ripe to look at the billions of aspiring poor who were joining the market economy for the first time then.

Countries that did not have the products to meet basic human needs were the ideal testing ground for developing environmentally sustainable technologies and products for the entire world. This strategy could also help in reducing the gap between haves and have-nots with the result that social decay and political chaos could be avoided.

To design products for the poorest people would need radical innovations in technology and business models. The price-performance equation had to be reworked within the same Product-Brand architecture. Capital had to be managed appropriately. Rather than gloat about the advantages of scaling up and economies of scale, it was vital to think about distributed small scale operations blended with world-scale capabilities.

[1] Associate Professor, Presidency Business School, Bangalore
venkateshganapathy@presidency.edu.in

The globalization strategies of MNCs needed revamping in terms of focusing on inclusive capitalism. For companies that had the competence and resources to compete at the bottom of the world economic pyramid, the rewards included growth, profits and intangible contributions to the improvement in the quality of life of the socially marginalized.

The inequity of wealth distribution resulted in a perception that poor people cannot afford to participate in the global market economy, despite the fact that their numbers were large. As the bulk of the world's population growth happens at the bottom of the pyramid, missing this segment meant missing a fantastic business opportunity.

Prahlad and Stuart questioned the assumptions made by MNCs that the poor cannot afford the products sold by them or that selling products to the marginalized sections could be anything but profitable. They also debunked the myth that the poor had no use for new technology. Today, two decades after this path-breaking research, mobile technology has reached every nook and corner of India. So, their words have become prophetic.

The main challenges for competing in the low-end markets involved combining low cost strategies with sustainability without losing the focus on quality and profitability.

The 4As and 5Ds Of Bop Strategy

The 4As that lead to success of BOP strategy are: Awareness, Accessibility, Affordability and Availability. Marketing should make consumers aware of the products and ensure access to those markets for selling the products. Products must be affordable and they must be available. Where no markets exist, companies must have capabilities to create markets.

The 5D approach was proposed by Niti Bhan from Emerging Futures Lab.

1. Develop a product that has a specific value proposition for the poorest poor.
2. Design the supply using innovative approaches.
3. Distribute products using new strategies like piggybacking.
4. Demand should be generated by carefully managing advertisement and communication.
5. Dignity is important for BOP consumers and it should not appear as if the product has been designed and produced for the poor.

BOP Markets Across the Globe

India, Nigeria, China, Indonesia and South Africa have been identified as the top five bottom of the pyramid (BOP) markets. Each of these markets is unique in terms of BOP consumer spending pattern, market potential and future forecast.

India's BOP is set to shrink from 379 million adults to 145 million adults in 2030. Indian BOP consumers saving and accumulate wealth often in the form of gold jewellery. Companies targeting the Indian BOP need a long-term strategy that focuses on building brand loyalty to retain BOP customers.

Nigerian BOP market is expected to remain stable; however there are challenges too. Almost 70% of household expenditure in Nigeria is devoted to food and non alcoholic beverages. Much of these goods are purchased at informal and open markets making the market unsuitable for high volume business models.

The poor in Nigeria do not have sufficient access to electricity and water supply and this can affect the demand in FMCG category products. If poor households have no access to electricity, it is unlikely that they will buy a refrigerator and so will not buy chilled products.

China is India's second largest BOP market in world. Interestingly, the purchasing power of Chinese BOP consumers is expected to rise significantly in the future. So the time is ripe to cultivate brand loyalty so that substantial rewards can be earned in the future.

Indonesia is also expected to experience a slump in the BOP population by 2030. Income inequality is expected to increase polarizing the market into a high income group and a large low-income segment with long term importance for consumer goods companies. The important categories in which the BOP population in Indonesia spends are: hotels, catering, transport and alcoholic beverages.

In South Africa, BOP population spends more on alcoholic beverages and tobacco than on housing.

HUL versus NIRMA

Hindustan Lever Ltd. (HUL) never anticipated the competition from a smaller player like Nirma Limited. Nirma began offering detergent products for poor consumers in rural areas. They deployed a low cost manufacturing process and extended their distribution network and a special package for daily purchasing. Nirma's strategies prompted HUL to alter its traditional business model and offer products for the bottom-of-the-pyramid market.

HUL introduced a new detergent called Wheel with a different formulation. Production, marketing and distribution of product were decentralized to leverage the potential of the rural market. Sales channels were created through the thousands of small outlets and mom-and-pop stores from where the bottom of the pyramid shops. Wheel was introduced at a lower price point to take on its arch- rival Nirma.

HUL also cut the amount of oil in the detergent to reduce the environmental harm to rivers where villagers washed their clothes.

It needs to be understood that profits in the Tier 4 bottom of pyramid markets are driven more by volume than value. Lower margins are evened out by extremely high unit sales. So, the bottom-of-the-pyramid marketing approach forced companies like HUL to focus on economic profit instead of merely looking at gross margins.

The beauty of HUL's changed strategy was that its parent company Unilever transported HUL's business principles to create a new detergent market among the poor in Brazil (the Ala brand was a resounding success). Unilever was now wise enough to adopt the bottom of the pyramid as a corporate strategic priority.

Success in the bottom of the pyramid market was thus a result of deploying best technology possible and use of a global resource base to address the needs of local markets. Prahlad and Stuart's work showed that meeting the needs of socially disadvantaged did not involve selling low cost low quality products. It involved a strategy to sell good quality products that were affordable to the poor and also did not dent the profitability of the business.

The Case of Grameen Bank

Involvement of local governmental authorities, NGOs and communities is essential in a successful bottom of the pyramid strategy. To create buying power among the poorest of poor, credit has to be made available to them at an interest rate that is not usurious.

Prof Muhammad Yunus in the Economics department at Chittagong University, Bangladesh mooted the idea of a lending service for the poor through the Grameen Bank. This model attracted global attention putting the spotlight on micro lending.

The bank's program is designed to address problems of extending credit to lowest-income customers – lack of collateral, high credit risk and contractual enforcement. Its customers are mostly women who are considered a better credit risk than men. Lending due diligence is devoid of arduous and arcane procedures that characterize lending procedures in the West. Bank's sale and service people maintain contacts with the women by scheduling regular visits. The bank has leveraged information technology to make the model profitable.

Women in rural Bangladesh were given loans by Grameen Bank so that they could buy wireless phone and rent it by the minute to villagers.

Sustainable product innovations initiated in bottom of pyramid segment and promoted through consumer education have the capability of influencing populations in other tiers as well. Thus, tier 4 provided the early market pull for disruptive innovations that were explored by the developing economies as well. The model of Grameen Bank could be easily replicated across.

Strategy of Arvind Mills

Distribution and last mile delivery play an important role in ensuring access of innovative products to the poorest of poor. An Indian company called Arvind Mills used an innovative strategy to propel the sales of the denim. Arvind introduced "Ruf and Tuf" jeans – a ready to make kit of jeans components priced low. Kits were distributed through a network of thousands of local tailors, many in small rural towns and villages. This strategy was a stupendous success.

Distribution of the products of Tier 4 in Tier 1 markets was now possible through partnerships. Thus developing an up-market product for a low-end market proved to be eventually rewarding.

AMUL'S Enduring Success

The sustained success of Khaira district milk co-operative that supplies "Amul" brand of milk and milk products has led to the co-operative business model becoming a role model for Western economies. Proper management of the value chain right from village-based milk production to the world-scale processing facilities is one of the reasons for the success of this enduring model. A decentralized collection strategy coupled with modern processing abilities and a robust distribution infrastructure has done the trick. Rural farmers were thus seamlessly integrated into the active market economy in milk production and distribution.

HAIER'S Success

China's Haier Group was near bankruptcy way back in 1985. But the company proved to be resilient as it has now become one of the largest manufacturers of household appliances. Haier understood the diversity at the low-end of the consumer durables market.

In the late 90's, Haier discovered that rural consumers in China used their washing machines to wash sweet potatoes. A dedicated R&D team then sprang into action to create a product with wider pipes that would not clog with soil and vegetable peels. For India, Haier has designed washing machines that work at nearly zero water pressure and can cope with frequent power outages. These innovations have helped Haier attain popularity in low-income segments of the population.

CEMEX'S Strategy To Succeed In Bop Market

CEMEX is a multinational cement maker. The company penetrated the Mexican BOP market by using self-help groups of women. The slum dwellers wished to make additions to their homes but their household income went to other priorities. The women had to make weekly payments to improve their credit rating and then get construction materials on credit.

Other Examples of Successful BOP Strategies

Dialog provides telecommunication services in Sri Lanka. Initially, the sales among rural poor were low despite accessibility of mobile phones and telephone cards through the network of 40000 small scale retailers. The company increased market penetration through creation of a network of trained women who coached villagers in the use of mobile phones.

The Danish-owned West African dairy company Fan Milk established a street-vendor model to make its frozen dairy and juice products available in rural areas where there are no cold-storage facilities. Vendors purchase Fan Milk bicycles and pay for products before they sell them. The company provides product training and free bike repair services. Fan Milk supports approximately 25,000 vendors in West African countries, including Ghana, Ivory Coast, Nigeria, and Burkina Faso.

Microsoft has partnered with local governments, organizations, educators and community leaders to implement software and hardware in employment areas so that quality of education can be improved. Information and communication technology (ICT) can assist with developing bottom of the pyramid (BOP) marketing goals.

In Defence of BOP Strategy

Companies like Unilever, Cemex and S.C. Johnson came up with innovative business models to tap the so-called BOP markets in places like India, Brazil and Kenya. Some of the most vocal critics, such as University of Michigan's Aneel Karnani, have accused the model for being 'exploitative' and 'imperialistic', and for viewing the poor only as consumers.

However, Hart one of the two proponents of the idea stands by the original concept. He suggests that the original model needs some amount of tweaking to involve local communities in co-creation so that innovative, relevant, sustainable products and solutions can be created.

The entire concept, according to Hart, was based on two basic tenets: corporations should not ignore two-thirds of humanity that they were ignoring in the past and that innovative solutions can be used to cater to the needs of the poorest of poor. HUL's sachet packaging was an example of reducing the quantity and cost so that poor could afford to buy sachets. This was an example of structural innovation wherein a lower cost version or single-serve version of current products was distributed to rural areas or slums with NGO partners.

However, the truth is that not all companies who adopted the above strategy were able to achieve success. Market-research based product strategies may work well for upper classes. For the BOP segment, the value proposition has to be cogent and convincing. This is why community involvement becomes essential. A compelling value proposition can be co-created through involvement of local communities.

The typical process carried out by companies is:

1. Collect the marketing research data

2. Study household expenditure patterns
3. Conduct focus group studies
4. Get an idea of price points
5. Come up with a product that hits the price point
6. Use sales force to sell the product with support from NGOs

This is the process that Godrej, a large business house in India, did to introduce a low-cost refrigerator in India's rural ecosystem. They called it – 'Chotukool' refrigerator but the strategy failed miserably.

Not one to give up, the company brought in some collaborators and went through a co-creation exercise. Some of the company executives joined the team and lived in the community for some time. They gathered potential partners, mostly rural women, instead of merely collecting data on household expenditures. The company was thus able to attract villagers who wanted to be entrepreneurs.

Replication of strategies used for 'Top of the Pyramid' on the BOP category failed. Chotukool doubles up as a work surface. It does not use a traditional compressor as the cooling agent. It can use solar energy or bio fuel. It can be moved inside the home. The women in the community were involved in the innovation so this kind of community engagement eventually resulted in success of Godrej's efforts.

SC JOHNSON'S Efforts to Succeed in BOP Strategy

SC Johnson is a household products company. The company sells brands like Glade, Windex and Ziploc. The company has operated in Kenya since the 1960s. The company wanted to improve the standard of living of residents who lived in the slums of Nairobi by developing a sustainable business model.

SC Johnson used an exploratory, co-creation approach by working with researchers at Cornell University. The BOP consumers wanted to rid their homes of insects and sanitize pit latrines. This led to a home-cleaning service that used company's products like cleaners, insecticides and air fresheners. For the company, this was like a vertical integration effort. But change management was an issue as the offer of a clean and healthy home did not find acceptance among the slum-dwellers.

The team shifted to providing the service to cleaning toilets in schools and housing developments. But recruiting slum dwellers for doing the service and training them was another challenge in itself. The financial objectives of the company could not be met. The company then converted the effort into an independent nonprofit.

Nevertheless, SC Johnson used the lessons learnt in Nairobi when they attempted a similar venture in Ghana. The strategy was to use insect-control products to prevent Malaria. Again there were challenges. Consumers did not understand the cause of

Malaria. Distribution channels were conspicuous by their absence. SC Johnson pitched the insecticide as a cleaning product but women did not want it.

In 2012, with the help of Erik Simanis, head of the Frontier markets initiative at Cornell University, the company created an effective marketing strategy. The company started 'WOW clubs' of seven women each in order to familiarize them with the product and to support distribution.

SC Johnson created a direct-sales model with coaches who provided hands-on product demonstrations in homes and community gatherings. Insect-control products were bundled with other products like air fresheners. Refillable containers were provided to buyers to save on packaging costs. Loyalty rewards and low pricing resulted in customers getting used to the new product routines. The WOW clubs acted as a social and instructional center. Here, the women gathered to discuss household problems, participated in promotional parties and received coaching.

The company's R&D personnel worked closely with the business unit to ensure that product formulations met margin requirements. A constant focus was maintained on financial viability of the project leading to modest success of the company's efforts in Ghana.

Failure of BOP Strategy: Examples

Multinational corporations that have not achieved much success with their BOP strategies have been unable to scale up their efforts. These businesses have reconstituted their ventures as break-even social investments that continue to remain small.

The impact of a BOP business can improve only when it makes reasonable profits. This will need companies to understand two challenges in low-income markets: changing consumers' behavior and changing the way products are made and delivered.

Low-income buyers need to be attracted into buying the products by reconfiguring value chains. Buyers may need lower price points that the company may be unable to meet. These consumers may not have access to retail outlets and may not respond to traditional marketing strategies.

The French eyeglasses company Essilor International provides an example of the challenges posed by the need to significantly alter value chains. The company initiated a pilot program to serve some of India's 6,000 rural villages, using vans set up as eye clinics. However, despite efforts to streamline sales operations and outsource production, the company has struggled to generate enough revenue to cover the costs of the vans ($50,000 each) and offset expenses such as optometrist training. Consequently, Essilor's plans for expanding the program have stalled.

Essilor International is French companying that manufactures eye glasses. The company initiated a pilot program to address the needs of India's 6000 rural villages. They used vans that doubled up as eye clinics. Efforts to streamline sales operations did not yield much result. Outsourcing of production met with limited success in terms of

generating revenue to meet the costs of the vans and cover the costs of optometrist training. The company's plans came unstuck.

In 2006, DuPont tried to sell soy powder and soy fortified snacks in India but the effort tanked. P&G attempted to sell a water-purifying powder but the effort proved to be a damp squib. Though the products were inexpensive and useful the companies couldn't make them cheaply enough or sell more volumes to generate a profit. These ventures became financially untenable.

HUL encouraged hand washing to prevent diarrhea; focus group discussions revealed that people were unaware about germs and associated clean only with the absence of dirt. TERI (The Energy & Resources Institute) promoted clean burning cooking stoves but rural Indian women were unmoved by the argument that smoke from burning wood or dried cow dung was harmful to environment. Their retort was that their ancestors had cooked on open fires and never experienced any issues. So the value proposition had to be changed by putting across the message that cooking on burning stoves would save their cooking time.

Strategies for Success in Bottom-Of-The-Pyramid Markets

Prahlad and Stuart had predicted that Internet would allow the formation of a single interconnected market integrating the world's rich and poor to achieve a truly sustainable economic development. Digital divide could be transformed into a digital dividend. We see that their foresight and acumen has now proved to be true. Technology has proved to be a great leveler.

The marriage of local capabilities and market knowledge with global best practices is the recommended approach for MNCs (a globalisation strategy with a polycentric outlook). The development principles however need to be consistent. New business models must not disrupt the cultures and lifestyles of the local communities. To put it simply, "Think global, act local".

Even though it may appear that local entrepreneurs are better placed to create innovative models to serve tier 4 customers, the truth is that they may lack the wherewithal and financial muscle that large sized MNCs possess. MNCs can be instrumental in transfer of knowledge globally. For NGOs, local governments and entrepreneurs, MNC involvement can act as a catalyst. Over the above, MNCs have the resources needed to extrapolate the innovations in Tier 4 markets to Tier 1 markets in developed economies.

Selling in the bottom of pyramid market needs a different skill set and is ideally a blend of analytical skill, intellectual stimulus and knowledge. The complexities of the market need to be understood as much as the subtleties. Managers need to develop intercultural skills to mingle with a wide range of organizations and people.

Vested political interests tried to scuttle Cargill India's rural interests in selling sunflower seeds. But the company persisted in its efforts and continued to focus on farmer education and training. They managed to become the friend of the farmer.

Building community support through a network of local authorities, village panchayats, community leaders and NGOs can reap rich dividends in the long run. Monsanto and General Electric achieved success with such strategies. The success of ITC-e-choupal is an outcome of such initiatives.

Enduring success in bottom of pyramid markets is stimulated by path breaking research work – for example – providing sanitation facilities, clean drinking water and meeting energy needs of the marginalized is crucial. Such attempts add to the brand appeal in unimaginable ways.

Western capitalists have propagated the myth that rich will be served by corporate while it is the duty of the governments and NGOs to serve the poor and the environment. Nothing can be farther from the truth. This historical categorization of roles is fallacious as it leads to unnecessary and uncalled for limitations. The poor and rich merging together in a seamless market focused on sustainable growth and development is what it takes to leapfrog into the future. The opportunities are aplenty.

The bottom of the pyramid (BOP) strategy thus threw the spotlight on:

1. Catering to a marginalized section of the population (the poorest of poor)
2. Devise/design products and services to meet their needs
3. Use of technology and innovative abilities
4. Transferring of the knowledge base to different regions across the globe
5. Opportunities for MNCs to develop good quality products to be sold in large volumes
6. Transfer of global best practices to local markets through appropriate adaptation.

The BOP is a concept that divides the world into an economic pyramid by keeping the privileged on top and underprivileged poor at the bottom (Subhan & Khattak, 2016). The main challenge is to make BOP ventures profitable besides meeting environmental and social needs of communities.

A few academicians have pointed out that it is near impossible to expect profit from a market where consumers are struggling to meet basic needs. The definition of BOP segment as one that earns $2 per day has also led to semantic chaos. Aravind Eye care hospital in Madurai experienced challenges in providing affordable eye care to the poorest of poor. In developed economies, BOP markets are served by a large number of international companies creating entry barriers. Added to it is the fact that developed economies have a strong social support system for the downtrodden. This is not so in case of developing countries and thus the market offers immense scope for penetration (Subhan & Khattak, 2016).

In some cases, organisations have used a strategy of piggybacking on an established network of a known brand to overcome distribution challenges resulting due to infrastructural bottlenecks. Educating the rural consumers is the most essential and challenging tasks in achieving success with BOP strategy (Pamela Black, 2017).

Steps by Indian Government to Give Greater Thrust To BOP Population

The Union Budget 2017-18 has identified the bottom of the pyramid as a distinct constituency.

To encourage empowerment of rural women and improve rural incomes, Mahila Shakti Kendra will be set up under the Anganwadi centres in rural areas. These centres will help rural women with skill development, employment and digital literacy. The government has allotted infrastructure status for affordable housing in rural areas. The National Housing Bank will refinance loans to affordable houses up to a total of Rs. 20000 crore.

Conclusion

The key bottom of the pyramid business strategy is to approach the market with "small unit packages, low margin per unit, high volume, and high return on capital employed." Radical innovation is must to modify products and make them affordable to poor people. Effective strategies must be in place to achieve success with bottom of pyramid strategy. These strategies may often need the support of local communities for successive implementation.

Building relationships with communities is essential for sustainability of BOP ventures. Bundling new products with existing products that already have a customer base is vital. The successes achieved in BOP opportunities point to a valuable lesson: the importance of focusing on profits. Companies often fall into the trap of underestimating the challenges involved in BOP ventures. Over ambition leads to failure as this overwhelms their capabilities. Realistic assessment of the challenges can make social ventures sustainable and profitable over the long term.

Kasturi Rangan, Michael Chu and Djordija Petkoski have presented a critique of the bottom of the pyramid strategy. If bottom of pyramid strategy is only focused on profits, it will face resistance from Government and civil society. But if the primary focus is doing social good, then it becomes another corporate social responsibility project. Success can be achieved only by scaling up from the beginning to create a cycle of economic development which drives demand for products and services.

Businesses must understand the target market and break the pyramid into smaller and more manageable segments based on income levels. Some of the populations can be made into supply chain partners with appropriate training and guidance.

Companies should not fall into the trap of thinking that their job is over once the product or service has been rolled out. Vodafone's M Pesa has involved local retailers and other community networks in distribution and marketing models. Sometimes,

public-private participation between government and NGOs are required to recover costs.

BOP firms entering a market can affect industry dynamics. In a manner similar to how Nirma gave HUL a run for their money by selling a low cost detergent powder through informal channels, arrival of BOP firms will make it essential for established companies to counter these strategies with agility. This will drive down top-end prices. For example, the success of Patanjali in India has prompted MNCs like HUL and Colgate to launch their own products under the category of ayurvedic products. Sustainability in emerging markets needs a polycentric strategy and a greater understanding of local market.

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