CASE 3–4 Marketing to the Bottom of the Pyramid

Professor C. K. Prahalad's seminal publication, "The Fortune at the Bottom of the Pyramid,"[1] suggests there is an enormous market at the "bottom of the pyramid" (BOP)—that group of some 4 billion people who subsist on less than $2 a day. By some estimates, these "aspirational poor," who make up three-fourths of the world's population, represent $14 trillion in purchasing power, more than Germany, the United Kingdom, Italy, France, and Japan put together. Demographically, it's young and growing at 6 percent a year or more.

Traditionally, the poor are not considered an important market segment. "The poor can't afford most products"; "they will not accept new technologies"; and "except for the most basic products, they have little or no use for most products sold to higher income market segments"—these are some of the assumptions that have, until recently, caused most multinational firms to pay little or no attention to those at the bottom of the pyramid. Typical market analysis is limited to urban areas, thereby ignoring rural villages where, in markets like India, the majority of the population lives. However, as major markets become more competitive and in some cases saturated with resulting ever-thinning profit margins, marketing to the bottom of the pyramid is seen by some as having potential worthy of exploration.

One researcher suggested that American and European businesses have to go back and look at their own roots. Sears, Roebuck was created to serve the lower-income, sparsely settled rural market. Singer sewing machines fashioned a scheme to make consumption possible by allowing customers to pay $5 a month instead of $100 at once. The world's largest company today, Wal-Mart, was created to serve the lower-income market. A few examples of multinational company efforts to overcome the challenges in marketing to the BOP follow.

Designing products for the BOP is not about making cheap stuff but about making technologically advanced products affordable. For example, one company was inspired to invent the Freeplay, a windup self-power-generating radio, when it was learned that isolated, impoverished people in South Africa weren't getting information about AIDS because they had no electricity for radios and couldn't afford replacement batteries.

If a product requires the support of an advanced infrastructure, then the product has to be redesigned or the marketing program has to include infrastructure support. For example, Hindustan Lever, a subsidiary of Unilever, markets an inexpensive, reusable heat shield that can keep ice cream cold for 24 hours—permitting the use of vending machines in areas without affordable electricity. And Electrolux Kelvinator, another Indian subsidiary of a Western company, sells refrigerators that can keep contents frozen through six-hour blackouts.

Observers note that such innovations yield marketable products for middle-class consumers, too. For example, the Freeplay radio is now sold in wealthy nations as a standby radio for emergencies.

[1] C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Philadelphia: Wharton School Publishing, 2004).

A Chinese appliance maker has captured a third of the world microwave oven market with designs originally intended for the tight spaces of Chinese kitchens.

The BOP market has a need for advanced technology, but to be usable, infrastructure support must often accompany the technology. For example, ITC, a $2.6 billion a year Indian conglomerate, decided to create a network of PC kiosks in villages. For years, ITC conducted its business with farmers through a maze of intermediaries, from brokers to traders. The company wanted farmers to be able to connect directly to information sources to check ITC's offer price for produce, as well as prices in the closest village market, in the state capital, and on the Chicago commodities exchange. With direct access to information, farmers would get the best price for their product, hordes of intermediaries were bypassed, and ITC gained a direct contact with the farmers, thus improving the efficiency of ITC's soybean acquisition. To achieve this goal, it had to do much more than just distribute PCs. It had to provide equipment for managing power outages, solar panels for extra electricity, and a satellite-based telephone hookup, and it had to train farmers to use the PCs. Without these steps the PCs would never have worked. The complex solution serves ITC very well. Now more than 10,000 villages and more than 1 million farmers are covered by its system. ITC is able to pay more to farmers and at the same time cut its costs because it has dramatically reduced the inefficiencies in logistics.

The vast market for cell phones among those at the BOP is not for phones costing $200 or even $100 but for phones costing less than $50. Such a phone cannot simply be a cut-down version of an existing handset. It must be very reliable and have lots of battery capacity, as it will be used by people who do not have reliable access to electricity Motorola went thorough four redesigns to develop a low-cost cell phone with battery life as long as 500 hours for villagers without regular electricity and an extra-loud volume for use in noisy markets. Motorola's low-cost phone, a no-frills cell phone priced at $40, has a standby time of two weeks and conforms to local languages and customs. The cell-phone manufacturer says it expects to sell 6 million cell phones in six months in markets including China, India, and Turkey.

There is also demand for personal computers but again, at very low prices. To meet the needs of this market, Advanced Micro Devices markets a $185 Personal Internet communicator—a basic computer for developing countries—and a Taiwan Company offers a similar device costing just $100.

For most products, demand is contingent on the customer having sufficient purchasing power. Companies have to devise creative ways to assist those at the BOP to finance larger purchases. For example, Cemex, the world's third-largest cement company, recognized an opportunity for profit by enabling lower-income Mexicans to build their own homes. The company's Patrimonio Hoy Programme, a combination builder's "club" and financing plan that targets homeowners who make less than $5 a day, markets building kits using its premium-grade cement. It recruited 510 promoters to persuade new customers to commit to building additions to their homes. The customers paid Cemex $11.50 a week and received building materials every 10 weeks until the room was finished (about 70 weeks—customers were on their own for the actual building). Though poor, 99.6 percent of the 150,000 Patrimonio Hoy participants have paid their bills in full. Patrimonio Hoy attracted 42,000 new customers and is expected to turn a $1.5 million profit in 2005.

One customer, Diega Chavero, thought the scheme was a scam when she first heard of it, but after eight years of being unable to save enough to expand the one-room home where her family of six lived, she was willing to try anything. Four years later, she has five bedrooms. "Now I have a palace."

Another deterrent to the development of small enterprises at the BOP is available sources of adequate financing for microdistributors and budding entrepreneurs. For years, those at the bottom of the pyramid needing loans in India had to depend on local moneylenders, at interest rates up to 500 percent a year. ICICI bank, the second-largest banking institution in India, saw these people as a potential market and critical to its future. To convert them into customers in a cost-effective way, ICICI turned to village self-help groups.

ICICI Bank met with microfinance-aid groups working with the poor and decided to give them capital to start making small loans to the poor—at rates that run from 10 percent to 30 percent. This sounds usurious, but it is lower than the 10 percent daily rate that some Indian loan sharks charge. Each group was composed of 20 women who were taught about saving, borrowing, investing, and so on. Each woman contributes to a joint savings account with the other members and, based on the self-help group track record of savings, the bank then lends money to the group, which in turn lends money to its individual members. ICICI has developed 10,000 of these groups reaching 200,000 women. ICICI's money has helped 1 million households get loans that average $120 to $140. The bank's executive directory says the venture has been "very profitable." ICICI is working with local communities and NGOs to enlarge its reach.

When Unilever saw that dozens of agencies were lending microcredit loans funds to poor women all over India, they thought that these would-be microentrepreneurs needed businesses to run. Unilever realized it couldn't sell to the bottom of the pyramid unless it found low-cost ways to distribute its product, so it created a network of hundreds of thousands of *Shakti Amma* ("empowered mothers") who sell Lever's products in their villages through an Indian version of Tupperware parties. Start-up loans enabled the women to buy stocks of goods to sell to local villagers. In one case, a woman who received a small loan was able to repay her start-up loan and has not needed to take another one. She now sells regularly to about 50 homes, and even serves as a miniwholesaler, stocking tiny shops in outlying villages a short bus ride from her own. She sells about 10,000 rupees ($230) of goods each month, keeps about $26 profit, and ploughs the rest back into new stock. While the $26 a month she earns is less than the average $40 monthly income in the area, she now has income, whereas before she had nothing.

Today about 1,300 poor women are selling Unilever's products in 50,000 villages in 12 states in India and account for about 15 percent of the company's rural sales in those states. Overall, rural markets account for about 30 percent of the company's revenue.

In another example, Nguyen Van Hon operates a floating sundries distributorship along the Ke Sat River in Vietnam's Mekong Delta—a maze of rivers and canals dotted with villages. His boat is filled with boxes containing small bars of Lifebuoy soap and single-use sachets of Sunsilk shampoo and Omo laundry detergent, which he sells to riverside shopkeepers for as little as 2.5 cents each. At his first stop he makes deliveries to a half dozen small shops. He sells hundred of thousands of soap and shampoo packets a month, enough to earn about $125—five times his previous monthly salary as a junior Communist party official. "It's a hard life, but its getting better." Now, he says, he "has enough to pay his daughter's schools fees and soon he will have saved enough to buy a bigger boat, so I can sell to more villages." Because of aggressive efforts to reach remote parts of the country through an extensive network of more than 100,000 independent sales representatives such as Hon, the Vietnam subsidiary of Unilever realized a 23 percent increase in sales in 2004 to more than $300 million.

As one observer noted, "the poor cannot be Wal-Martized." Consumers in rich nations use money to stockpile convenience. We go to Sam's Club, Costco, K-Mart, and so on, to get bargain prices and the convenience of buying shampoos and paper towels by the case. Selling to the poor requires just the opposite approach. They do not have the cash to stockpile convenience and they do not mind frequent trips to the village store. Products have to be made available locally and in affordable units; fully 60 percent of the value of all shampoo sold in India is in single-serve packets.

Nestlé is targeting China with a blitz of 29 new ice cream brands, many selling for as little as 12 cents with take-home and multipack products ranging from 72 cent to $2.30. It also features products specially designed for local tastes and preferences of Chinese consumers, such as Nestlé Snow Moji, a rice pastry filled with vanilla ice cream that resembles dim sum, and other ice cream flavors like red bean and green tea. The ice cream products are distributed through a group of small independent saleswomen, which the company aims to expand to 4,000 women by 2006. The project is expected to account for as much as 24 percent of the company's total rural sales within the next few years.

QUESTIONS

1. As a junior member of your company's committee to explore new markets, you have received a memo from the chairman telling you to be prepared at the next meeting to discuss key questions that need to be addressed if the company decides to look further into the possibility of marketing to the BOP segment. The ultimate goal of this meeting will be to establish a set of general guidelines to use in developing a market strategy for any one of the company's products to be marketed to the "aspirational poor." These guidelines need not be company or product specific at this time. In fact, think of the final guideline as a checklist—a series of questions that a company could use as a start in evaluating the potential of a specific BOP market segment for one of its products.
2. Marketing to the BOP raises a number of issues revolving around the social responsibility of marketing efforts. Write a position paper either pro or con on one of the following:
   a. Is it exploitation for a company to profit from selling soaps, shampoo, personal computers, and ice cream, and so on, to people with little disposable income?

b. Can making loans to customers whose income is less than $100 monthly at interest rates of 20 percent to purchase TVs, cell phones, and other consumer durables be justified?

c. One authority argues that squeezing profits from people with little disposable income—and often not enough to eat—isn't capitalist exploitation but rather that it stimulates economic growth.

Sources: C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Philadelphia: Wharton School Publishing, 2004); Stefan Stern, "How Serving the Poorest Can Bring Rich Rewards," *Management Today*, August 2004; Kay Johnson and Xa Nhon, "Selling to the Poor: There Is a Surprisingly Lucrative Market in Targeting Low-Income Consumers," *Time*, April 25, 2005; Cris Prystay, "India's Small Loans Yield Big Markets," *Asian Wall Street Journal*, May 25, 2005; C. K. Prahalad, "Why Selling to the Poor Makes for Good Business," *Fortune*, November 15, 2004; Alison Maitland, "A New Frontier in Responsibility," *Financial Times*, November 29, 2004; Normandy Madden, "Nestlé Hits Mainland with Cheap Ice Cream," *Advertising Age*, March 7, 2005; Ritesh Gupta, "Rural Consumers Get Closer to Established World Brands," *Ad Age Global*, June 2002; Alison Overholt, "A New Path to Profit," *Fast Company*, January 1, 2005; Patrick Whitney, "Designing for the Base of the Pyramid," *Design Management Review*, Fall 2004; C. K. Prahalad and Stuart Hart, "Fortune at the Bottom of the Pyramid," *Strategy & Business* 26 (2002); C. K. Prahalad and Allen Hammond, "Serving the World's Poor, Profitably," *Harvard Business Review*, September 2002; "The Invisible Market," *Across the Board*, September/October 2004; Anuradha Mittal and Lori Wallach, "Selling Out the Poor," *Foreign Policy*, September/October 2004; G. Pascal Zachary, "Poor Idea," *New Republic*, March 7, 2005; "Calling an End to Poverty," *The Economist*, July 9, 2005; Susanna Howard, "P&G, Unilever Court the World's Poor," *Wall Street Journal*, June 1, 2005; Rajiv Banerjee and N. Shatrujeet, "Shoot to the Heart," *Economic Times*, July 6, 2005; David Ignatius, "Pennies from the Poor Add Up to Fortune," *Korea Herald*, July 7, 2005; Rebecca Buckman, "Cell Phone Game Rings in New Niche: Ultra Cheap," *Wall Street Journal*, August 18, 2005, p. B4.