

OPPORTUNITIES, CHALLENGES AND MARKETING STRATEGY FOR SERVING BOTTOM OF THE PYRAMID MARKET

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ABSTRACT

This article present insight into the nature and characteristics of BOP markets, the challenges that organization will encounter when venturing into them and the strategies to counter these challenges. In the recent past, there has been an interest in marketing to the Bottom of the Pyramid (BOP) market and several successful initiatives have shown that the poor can be served equitably and profitably by developing specific marketing strategy. The economic growth and technological advancement that India has witnessed in the past two centuries saw increase in the purchasing power and product consumption of large part of the population. However a large part of India's total population is at the bottom of pyramid with regard to economic development. The organizations need to thoroughly revamp their products and the marketing strategies to enter into this market. Innovations could improve the lives of millions of people and could greatly expand business in India. The marketing strategies followed by the companies in catering the premium segment will not be fruitful for this segment. The company needs to develop strategies with regard to its marketing mix.

Keywords: Bottom of the Pyramid Markets, Low Income Consumers, Multinationals, Marketing Mix, Strategy.

INTRODUCTION

The term BOP was first coined by C.K. Prahalad, in his book "The fortune at the bottom of the Pyramid market: Eradicating poverty through profits". According to him the various markets with their magnitude of business in the developing economies are huge. He has explained the distribution of wealth and the spending capacity of the world population in the form of an economic pyramid. According to C.K. Prahalad, "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up". C.K. Prahalad describes in comprehensive detail how "bottom-of-the-pyramid" thinking can lead to the creation of "an impossibly low-cost, high-quality new business model." Although the BOP population consists of both rural and urban poor people, the incidence of poverty is much higher in rural areas in India. According to the National Council of Applied Economic

Research (NCAER), in rural areas fifty five percent of households are in the “destitute and aspirant” category, with annual incomes under Rs 16,000 or between Rs 16,001 and 22,000, respectively; the corresponding figure for urban areas is 27 percent. Hence comparisons of rural vs. urban patterns also reveal broad patterns in the BOP and non-BOP populations. Prahalad and Stuart Hart argued in 2002 that multinational corporations (MNCs) have only targeted customers at the upper end of the economic pyramid and have ignored BOP customers, assuming them to be inaccessible and unprofitable. Prahalad and Hart argued further that MNCs should view BOP markets as an unexploited opportunity and be proactive in fulfilling the needs and wants of low-income consumers. 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) is at the bottom of the economic pyramid. By addressing the BOP, they say, MNCs can curtail poverty and improve the living conditions of the worlds poorest.

We also need to understand what has caused this paradigm shift that sees the huge potential of BOP markets? It is the acknowledgment of the fact that the poor too need products and services just like the middle and the high income segments of the market. They would be willing to buy them if they are attuned to their needs and made easily accessible at affordable prices. From the marketing perspective this realization implies making adaptations and innovations in product design, pricing or packaging and distribution or in any arrangement of these to leverage the extremely profitable low cost high volume business considering the huge BOP market. To reflect the very different economics of BOP the marketer needs to develop strategies like small unit packages, low margin per unit, high volume, etc. The reasons for such a large number of people still at the BOP might be myriad and intricate. What is effortlessly noticeable is the fact that their low incomes and the subsequent low purchasing power had until not long ago made it unattractive for markets to cater to their needs. Marketing to the BOP market is both an art and a science. It is a philosophy that corporate organizations need to cement into their scheme of things. While the top millions of population are really the haves, but there are millions at the lower level that don't really have and they are have-nots. The market is therefore right here with the have-nots. In India the size of these have-nots at the bottom is really, really big. It is really all about knitting the BOP into the mainstream. The most important fact that needs to be bought is that marketing in the future is all about inclusive approaches and not the old exclusive approaches.

Now the marketer considers it feasible to cater to the needs and wants of this segment of consumers. This paper attempts to highlight issues such as the business potential of the BOP market, the mapping of opportunities for targeting the product and services for the poor, pricing, promotion, low cost delivery mechanisms and effective communication.

Nature and Characteristics of the BOP Market

The characteristics of the BOP market are diverse and must be integrated into the approach towards serving it. The spending pattern of the poor is dissimilar as compared to the other segments of the market. The high end and medium range consumers generally buy big packs of consumables so that they need not shop frequently. However the BOP consumers do not have such disposable income and that's why they are unable to buy large volumes and store it

for future consumption. The BOP consumer do not spend their disposable income on fast food, mineral water and household luxuries like AC's, refrigerators, microwave ovens, but certainly spends his income on personal care products like soaps, talc, shampoos etc. The following section focuses on the characteristics of the bottom of the pyramid market:

Different Culture

Culture is one of the significant determinants of a person's behavior. As a child grows up he acquires a set of values, perception, preferences and behaviors through the family and other key association involved at each stage of his life. The time tested true behavior exhibited by a collective group is determined by culture. However the degree of impact that culture will have on behavior depends on the narrowness of a culture or its merger with other cultures. The BOP culture is quite different from other segments. Rituals, festivals, harvesting seasons and inhibition to buy new things are some of the key features of BOP consumers.

Low brand awareness

Awareness refers to the strength of a brand's presence in the consumer's mind. Awareness is measured in different ways in which consumers remember a brand ranging from recognition. (Have you been exposed to this brand before?) to recall (what brands of this product class can you recall?) to "top of the mind" (the first brand recalled) to dominant (the only brand recalled). Contrasting the more affluent segments the BOP consumers are not very much aware about the brand. The most essential concern for the marketers is to understand and perceive them as value conscious customers.

Different buying behavior

Consumer behavior is defined as the "decision process" and "physical activity" engaged in by individuals. The physical activity which we focus upon in the course of consumer behavior is that of making the purchase. But there are a number of influences affecting the purchase and a number of individuals may be involved in exerting these influences. So the purchase action that is visible to us is the result of interplay of a number of complex and hidden variables which may have influenced the ultimate purchase activity. The BOP customers will not opt for buying items in a bulk but will rather buy items for their immediate use, i.e these items will be in small packs.

Extreme Market Conditions

Many factors make it unrealistic for the private sector to participate in economic development in the BOP market due to tough market condition and environmental factors. Among them are inefficient regulation, widespread corruption, lack of basic infrastructure, extreme poverty, and the underdeveloped financial and banking structure. BOP segments are largely untapped by the corporate because it is hard to access these markets. But companies are trying to explore these vast markets on a profitable basis. The companies have understood that around 60% of developing countries GDP is generated in BOP areas. They have realized that the major barrier to serve BOP markets is access but not their purchasing power. Companies like Cavin Care, ICT, HUL, Dabur, Tata, Godrez, Nirma et al are looking to overcome these barriers and explore the fortune underlying these markets.

Strategy for the Marketing Mix

The marketing mix also known as 4P's-Product, Price, Place and Promotion are the key components of any marketer's strategy and the company needs to design the marketing mix to cater the bottom of the Pyramid market. The practicing manager needs to develop a framework to tap long-term value from BOP markets and capture profit in return. The framework involves selection of BOP markets—an amalgamation of products and geographies, which can best create long-term value for the company. This decision of investing in BOP markets is inherent to the core strategy of a company and is fundamentally steered by the company's long-term vision and strategic fit. The flooded high end markets and tough competition have consistently forced business organizations and management practitioner focus on the lower end of the strata. Conventionally BOP markets have often been deserted as prospective consumers by the companies for reasons like less purchasing power, lack of appropriate products, poor distribution network, and lack of awareness about products etc. Prahalad and Hart (2002, p.12) state: "For corporations that have distribution and brand presence throughout the developing world, such as Coca-Cola Company, the bottom of the pyramid offers a vast untapped market for such products as water and nutritional." Considering all these facts the marketers have to devise marketing mix strategies to fulfill the unmet needs and wants of the BOP consumers. The following section discusses the 4P's of marketing with regard to the BOP market.

Product

Globalization has affected each and every part of the country and the consumers have also been impacted with it. It would be wrong on the part of marketer to think that BOP consumers do not need clean drinking water, television, clothes, food, banking facility and so on. But it does not mean that marketers should offer these customers high technology television, double door refrigerators, laptops and smart phones, which may not have any value for consumers at the BOP. It is therefore important for the marketer to offer customised products for the BOP markets which satisfies their unmet needs and wants and yet it is affordable. The challenge for marketers is to leverage technology and the abundant knowledge resources to make product innovations such that they meet the usage needs of BOP consumers. Technology can be successfully exploited in designing and developing products for BOP markets. The BOP market usually defines value in terms of the functional attributes of the product or service—its durability, affordability, and suitable for multiple uses. Nokia translated this perspective into customized mobile phones for the market. Sold as a part of the "bundled offers" by different telecom providers, the phones are priced at less than INR2,000 and are feature rich, with multilingual keypads, a built-in flashlight and FM radio.

Price

It is the amount of money a consumer must pay to obtain the right to use a product (Hawkins, Best and Coney 2001). The right price influences the quantities of various products or services that the rural consumers will buy. Marketers often erroneously perceive price as their only bludgeon when targeting BOP consumers. In reality BOP consumers are driven by value for money and not price alone. The need to customize products, packaging, promotional events and distribution facilities in tapping the BOP consumers would cause additional costs to the marketer. The challenge is to provide products at the price affordable

to BOP consumers. The BOP market strategists generally address their customers' price perceptions in two ways: by offering lower unit priced products in the first place, with product line extensions at cheaper price; and by selling products as discrete units rather than in multiunit packs. Many FMCG companies, selling products ranging from biscuits to soaps, have introduced smaller pack sizes to increase category penetration. The BOP market experts may also practice value engineering by lowering the input costs by using alternative materials as raw materials or by making some changes in packaging. A successful example is Nirma which started merely as a local player in Gujarat but went on to become a major player in the detergent segment and constantly posed a threat to Hindustan Uniliver limited. Nirma sold its detergent at Rs.3.50 per kg, when Surf cost Rs 15 per kg and other least cost detergent was available at Rs.13.50 per kg. To reduce the cost of production Nirma made backward integration and established manufacturing facilities to produce Linear Alkyl Benzene (LAB) and soda ash, the two major raw materials for detergents. It also saved costs on packaging, by using very simple packaging material. Cavin care manufacturer of Chic shampoo set a successful example of tapping BOP consumers with effective pricing strategy. It came up with small sachets priced at Rs.0.50. Cavin care gained sufficient profits as volumes increased substantially. Similarly to attract the BOP customers HUL launched LUP (Low Unit Price) packs of its products like Surf Excel, Lux, Ponds, Fair & Lovely etc. Hence product price must be adjusted according to the disposable income of BOP consumers. Well, the manufacturer may face additional costs of packaging. For instance, food products may require packaging in small quantities as BOP consumers may lack facilities for preservation for longer periods. Most BOP consumers are economically weak and hence companies should attempt to either reduce the prices of goods they sell or try to create purchasing capacities among the BOP customers.

Place

Distribution is a key constituent of the marketer's strategy and just as in the case of other elements of the marketing mix; marketers need to be very innovative in shaping the distribution network for BOP markets. The distant places, lack of infrastructure and the incremental costs associated in reaching this segment of consumers often deter marketers in serving this market. The multi tiered distribution channel used for wider geographic coverage may not prove advantageous when imitated in BOP markets. Taking into account the purchase behavior of low income markets, where people generally purchase product on a daily basis in small quantities it remains a challenge for marketers to offer products in satisfactory quantity and quality. HUL with its Project Shakti set an example of tapping BOP consumers effectively and efficiently. The project involved distribution of HUL products to distant geographic locations with the help of Self Help groups (SHG) of poor women. SHG women, supported by the funds provided by microfinance institutions, engaged in door to door marketing to the distant consumers when the reach of conventional mode of distribution was either impossible or caused huge costs for the HUL. Marketers may not be well versed with the demographic and cultural factors of the BOP consumers. Community service organizations (CSOs) and Non Governmental Organizations (NGOs) prevalent in the local areas can provide marketers key insights on the needs of BOP markets, their culture, buying behavior etc. They should not be simply looked upon as distribution channels, but considered as a source of key information.

Promotion

Low literacy level, poor media reach and exposure and the huge and diverse BOP audience characterized by variations in language, culture and lifestyle poses multiple challenges for communicating with the BOP audience. For BOP consumers the message has to be simple and logical. The use of education with entertainment and slice of life appeals gets more acceptances. Dabur has used Bhojpuri film star Ravi kishan, to endorse its chyawanprash with consumers, dealers and stockiest in Bihar. Since the BOP consumers typically lack the product awareness like their urban counterparts, consumer education and generation of interest are compulsory first steps for market creation. Newspaper advertisements may prove to be ineffective; television advertisement to may not achieve the desired impact where penetration of television is low. Promotional means like celebrity endorsement may work if the celebrity has mass appeal. In such a situation the best promotional tool would be to use the local agencies like NGOs and SHGs(Self help Group) because of their close contacts with the community, they enjoy high trust levels with its members. Besides generating awareness about products and services these agencies could also serve as distributors. In case of various products besides promotion the marketer may need to demonstrate the product use to the potential consumers. For instance marketer can circulate vans carrying promotional messages and in addition provide a demonstration of using the particular product. The success of HUL's Lifebuoy soap rests in the unique manner of its promotion. HUL educated people and children on hygiene by conducting various seminars in schools and other public gatherings with the help of local representatives. Through the seminars the company emphasized the utility of toilet soaps after going to toilet, before having meals and so on. The Japanese electronic products major Panasonic Corporation, is planning to offer technologies oriented to the people at the bottom-of-the-pyramid.

Non-conventional and interactive media such as puppet shows, and live demonstrations in haats and BOP fairs have proven effective. Hindustan Unilever Limited ran a brand awareness exercise called "Operation Harvest" that used the audiovisual media and delivery vans to provide "mobile entertainment" in the form of songs and film sequences, interspersed with the company's ads. The company targeted 30,000 "high potential" villages with at least 2,000 people each and good road connections. The vans traveled to six villages a day, distributing free product samples. The goal was to promote product trials and identify key distribution and retail points based on audience interest.

Successful Cases

Two good models from Indian companies marketing point of view which have successfully developed its marketing mix strategy according to the needs and wants of the BOP market are Amul, and Shri Mahila Griha Udyog Lijjat Papad, which enable thousands of milk producers and low-income women to engage in decentralized production. Thus they contribute enormously to increase the income generation among the poor.

Amul, started in 1946, is one of the best examples of an organization transforming the lives of rural people. In a partnership between professional managers and milk farmers, Amul daily collects 6.5 million liters of milk from about 2.6 million farmers and converts it into value-added milk products. Gujarat Cooperative Milk Marketing Federation (GCMMF), which markets milk and milk products with Amul, is India's largest food products marketing

organization, and its affordable products fulfill the nutritional needs of millions of customers.

Shri Mahila Griha Udyog Lijjat Papad is organization manufacturing papad, as well as spices, wheat flour and detergents. This initiative by women, mostly from the lower strata of society, began in Mumbai in 1959. It gradually expanded to sixty seven branches in different states all across India. Membership has grown from seven founding women to more than forty thousand women. Following the concept of collective ownership, the organization is run by member sisters. Today, membership is open to any woman who has faith in its basic philosophy. For its papad production, the organization has a completely decentralized model. Each morning, at each branch, kneaded dough is distributed among the women. The women take the dough to their homes, and make papad by rolling and then drying them, and return the dried papad after one or two days. The organization's total sales exceed Rs 3 billion with exports of more than Rs 120 million. The organization has enabled women to earn economic independence, and raise their families' living standards, all through engagement with dignified labor.

CONCLUSION

The Bottom of pyramid market is a enormous opportunity waiting to be tapped. The challenge is to recognize and accept the uniqueness of these markets and develop strategies to fulfill their needs. Understanding the BOP market and developing local insights is of utmost importance for succeeding in these markets. These consumers should be pressed higher up the value chain by a process of co-creation which would do well to both the company and the BOP consumers. One eventually comes to the conclusion that any sound strategy should be devised only in tune with the aspirations of the consumer. In the BOP market companies are adopting their own models in serving these segments. Research should be conducted to develop strategies applicable in the Indian context and the strategies Indian companies should adopt to face the challenges to serve BOP segments. Companies need to adopt long-drawn-out strategies to cater to this market profitably. Serving the BOP market is not the same as serving existing market. Companies must first develop a set of marketing mix strategies to cater the BOP segments profitably and effectively face the challenges that arise. The government is convinced that raising the standard of living of those at the bottom of pyramid will require essential innovation in technologies and business models. And any corporate that comes forward to help the government in this direction will certainly be given precedence and encouragement. For companies to cater to newly identified segments effectively it requires reassessment of the whole set of marketing strategies and formulation of a new set of strategies. The BOP market presents a new managerial challenge which requires a new viewpoint at the whole activity and an innovative approach to marketing. Having realized the fact, the corporate worldwide are seriously taking steps to work towards exploring this newly discovered market. Consumer motivation techniques need to be customized to the BOP segment. The managers should create capacity to consume among the BOP consumers to afford, try and buy their products. The marketers should identify various barriers like cultural, awareness levels, social and access barriers and should devise ways of overcoming those barriers.

We also need organized research to understand the ways that BOP initiatives can actually help the poor to increase their earning power, and thus benefit them, directly or indirectly.

Theories and assumptions about serving BOP markets need to be tested. Research on success stories and failures will help to develop a framework for the private sector to engage in BOP markets in less uncertain and more fruitful ways and thereby creating win-win situations. At first the huge population of BOP customers would make any marketer greedy to tap them at the earliest. But once they initiate a venture into these markets, they may face many challenges. Companies need to prepare themselves mentally and make it clear to every stakeholder that it is interested to tap BOP markets for profit and not merely engage in corporate social responsibility. Such an effort would send a clear message to the employees and other stakeholders that they are working for profits and not for a cause. This overt assertion would make every individual aware that their goals have not changed. Developing and testing propositions can be the first step towards achieving this objective. Systematic research and debate can help us understand the problem well and close the gap in the existing BOP proposition. C.K Prahalad's work on the fortune at the bottom of the pyramid has become a dominant idea for discussion among practicing managers, academicians and policy makers. He argues that MNCs can do profitable business with the million customers at the bottom of the pyramid and by doing so it will help lift the poor out of poverty. He makes an important contribution by drawing the attention of large corporations to the often unnoticed and forgotten BOP consumers. However, taking into account the peril and risks involved, all stakeholders should proceed carefully, to avoid adding further woes to the marginalized BOP customers. Managers working in various organizations also need to be cautious in their BOP initiatives, to minimize possible impediment.

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