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# ERADICATING POVERTY THROUGH PROFITS: IMPROVING THE LIVES OF PEOPLE AT THE BOTTOM OF PYRAMID

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Purpose: Bottom of the Pyramid (BOP) – represent a very attractive market opportunity. The ‘BOP proposition’ argues that selling to the poor can simultaneously be profitable and help eradicate poverty. The purpose of this paper is to examine issues involved in alleviating poverty at the Base of the Pyramid (BOP). Findings of the study: One of way to alleviate poverty is to raise the real income of the poor. Eradicating, or at least alleviating, poverty is an urgent challenge. The study suggest that companies can play a key role in poverty alleviation by achieving economies of scale, microcredit, by viewing poor as producers, and emphasize buying from them, rather than selling to them, creating efficient markets and providing employment opportunities for the poor are the few steps which can be taken to serve the billions of people at bottom of pyramid. Practical implications – The study provides insight on potential procedures and strategies to deal with the challenges of bottom of pyramid and improving the lives of billions of people. Originality/Value: BOP is a relatively new area of study in the field of marketing. This expands knowledge in the area of challenges faced by companies to be profitable and help eradicate poverty.

**Keywords:** Bottom of the pyramid, Microcredit, Poverty alleviation, Economies of scale

## INTRODUCTION

The concept of the “Fortune at the Bottom of the Pyramid” was coined by C K Prahalad, Professor of Corporate Strategy and International Business at the University of Michigan, USA. The economic pyramid shown below illustrates the concept really well. According to this pyramid, more than 4 billion consumers constitute the BOP (Bottom of the Pyramid). This is indeed a massive, untapped opportunity. 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. 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.

Most companies trying to do business with the 4 billion people who make up the worlds poor follow a formula long touted by bottom-of-the-pyramid experts: Offer products at extremely low

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prices and margins, and hope to generate decent profits by selling enormous quantities of them. This “low price, low margin, and high volume” model has held sway for more than a decade, largely on the basis of Hindustan Unilever’s success in selling Wheel brand detergent to low-income consumers in India.

At the very top of the world economic pyramid are 75 to 100 million affluent Tier 1 consumers from around the world. This is a group composed of middle and upper-income people in developed countries and the few rich elites from the developing world. In the middle of the pyramid, in Tiers 2 and 3, are poor customers in developed nations and the rising middle classes in developing countries, the targets of MNCs’ past emerging-market strategies.

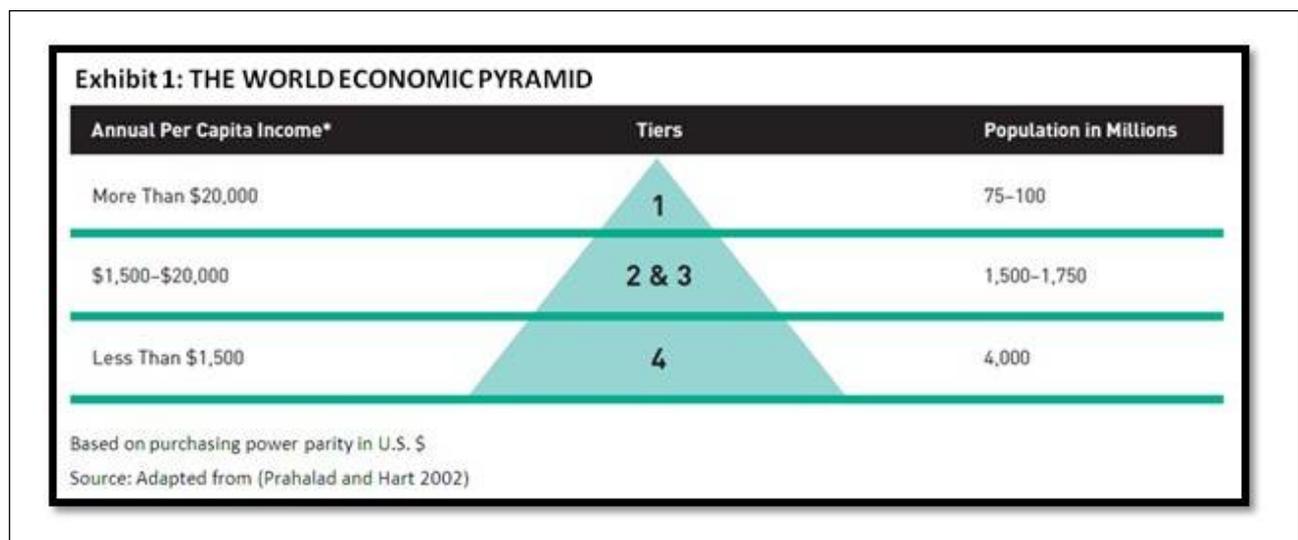
Now consider the 4 billion people in Tier 4, at the bottom of the pyramid. Their annual per capita income—based on purchasing power parity in US dollars—is less than \$1,500, the minimum considered necessary to sustain a decent life. For well over a billion people—roughly one-sixth of humanity—per capita income is less than \$1 per day.

## THE SUCCESS STORY OF HUL: BOTTOM OF PYRAMID

In the 1980s, FMCG major Hindustan Lever (now Hindustan Unilever) formulated a strategy to capitalise on the large rural opportunity—give consumers a variety of mass market products in small packs and sachets at discounted price. It clicked and the company witnessed exponential growth in the rural market. Sachet Strategy completely revolutionized the personal care products category. Cavin kare launched sachets of their chic shampoo which were priced as low as 50p and Rs. 1. It then slowly crossed over to other products with Marico introducing their coconut oil Parachute in mini-packs. With pepsodent tooth-paste available in sachets for Rs. 4 and 5 g Rexona deo-sticks priced Rs. 5.5. HUL therefore used Sachet marketing as a prominent strategy to tap the bottom of the pyramid by many companies.

## LARGER MNC FAILURES WITH THE BOP

MNCs have not been wildly successful in other aspects of their attempts to enter BOP markets. In some cases they have actively generated



trouble. Coca-Cola's Mehdiganj plant in Varanasi used to pump too much fresh water from the underground water table, a practice that has led to groundwater levels in the area dropping to critical levels. This infuriated local residents mostly employed in agriculture, who are suffering from scarce water resources. The plant has also been accused of discharging effluents, containing excessive levels of pollutants, thus damaging the environment. Finally, the bottling plant has been ordered to stop operation. Coca-Cola has encountered a similar problem in India before, at another bottling plant in Kerala, which was closed for a decade over the same accusation of depleting the local water table and dumping toxic effluent.

### Lower Prices

One way to alleviate poverty is to reduce the prices of the goods and services the poor buy (or would buy), thus increasing their effective income. There are only three ways to reduce prices: (1) reduce profits, (2) reduce costs without reducing quality, and (3) reduce costs by reducing quality. Therefore, the only realistic way to reduce price is to reduce cost. The BOP proposition is adamant that we should not reduce quality in this process. The only way to reduce cost without reducing quality will require a significant improvement in technology.

Wal-Mart has long had a reputation for pressing its suppliers to cut costs to help lower prices, in an effort to regain the mantle of low-price leader.

A cheap device that aims at creating a 'Digital India' is a novel plan, Ringing Bells took to answering media questions post the launch event and also explained how the company plans to achieve this low price point, and 'still' manage to sustain. Freedom 251. is priced around Rs. 250, is believed to gain from economies of scale.

A school dropout from a poor family in southern India has revolutionised menstrual health for rural women in developing countries by inventing a simple machine they can use to make cheap sanitary pads. He weighed it in his hand and wondered why 10 g (less than 0.5 g) of cotton, which at the time cost 10 paise (£0.001), should sell for 4 rupees (£0.04) - 40 times the price. He decided he could make them cheaper himself. It took him 18 months to build 250 machines. But slowly, village by village, there was cautious acceptance and over time the machines spread to 1,300 villages in 23 states.

### Cost-Quality Trade-offs

Nirma became a Rs. 17 billion company within three decades. The company had multi locational manufacturing facilities, and a broad product portfolio under an umbrella brand – Nirma. The company's mission to provide, "Better Products, Better Value, Better Living" contributed a great deal to its success. Nirma successfully countered competition from HLL and carved a niche for itself in the lower-end of the detergents and toilet soap market. Nirma is a perfect example of a win-win situation. The company has created a large market and made significant profits. The poor are better off now that they can buy an affordable detergent. In a real sense they are economically better off. We need more products like Nirma.

### The Poor as Producers

The BOP proposition focuses on the poor as consumers. To the contrary, we argue for the need to view the poor primarily as producers, not as consumers. Rather than emphasizing selling to the poor, we should emphasize buying from the poor. By far the best way to alleviate poverty is to raise the income of the poor. One striking example is of Shri Mahila Griha Udyog Lijjat

Papad. Lijjat is more than just a household name for 'papad' (India's most popular crispy bread). Started with a modest loan of Rs. 80, the cooperative now has annual sales exceeding Rs. 301 crore (Rs. 3.1 billion). It is an initiative started by low-income women to engage in decentralized production. Thus they contribute immensely to income generation among the poor.

### **Micro-finance**

The best example of helping to raise the income of the poor is the field of microfinance. This clearly creates better job opportunities for the poor; it often also has other beneficial effects such as increasing self-esteem, social cohesion, and empowering women. A pioneer in this field is the Grameen Bank in Bangladesh, founded by Muhammad Yunus in 1976. The central objective of the Grameen Bank has been to "reverse the age-old vicious circle of 'low income, low saving and low investment', into virtuous circle of 'low income, injection of credit, investment, more income, more savings, more investment, more income'" (Grameen Bank, 2005). 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".

Does microfinance at least help to alleviate poverty? The answer is probably yes, but the empirical evidence is mixed (see, for example, Khawari, 2004). A few studies have even found that micro-credit has a negative impact on poverty; poor households simply become poorer through the additional burden of debt.

### **Create Efficient Markets**

The poor often sell their products and services into inefficient markets and do not capture the full value of their output. Any attempt to improve the

efficiency of these markets will raise the income of the poor. Amul, a large dairy cooperative in India, is a great example of this approach. Amul collects milk from 12 million farmers twice a day from 100,000 villages. Amul started by selling milk, but has since forward integrated into more value added products such as butter, milk powder, cheese, ice cream, and pizza. More recently it has even entered direct retailing through franchising parlors. Amul is owned by the poor (it is a cooperative), and buys from the poor (the farmers, who are its members); however, its customers are mostly from the middle and upper income groups, and export markets.

Another example along similar lines is e-Choupal, an initiative of ITC in India (Prahalad, 2004). In June 2000, "e-Choupal" has already become the largest private sector initiative among all Internet-based interventions in rural India. e-Choupal services today reach out to more than 40 lakh farmers growing a range of crops- soyabean, Coffee, wheat, rice pulses, shrimp- in over 40,000 villages through 6450 kiosks across 8 states. Based on an innovative business model, e-Choupal has brought efficiency to the system for moving soybeans from the individual farmer to the oil processing plants markets thus making it more efficient so that the poor capture more of the value of their outputs.

### **Job Creation**

Ventures such as microfinance, Amul and e-Choupal are commendable because they improve the productivity of poor individual farmers and help create micro-enterprises. However, it is small and medium sized enterprises that provide most of the jobs and generate most of the new employment in the development process. In various sectors of the economy, large enterprises

are needed to exploit economies of scale. For significant alleviation of poverty, we need to facilitate the migration of people from (subsistence) agriculture to the industrial sector – this requires creation of a large number of low-skill jobs in the industrial sector.

### Venture Capital

Whereas Prahalad originally focused on corporations for developing BoP products and entering BoP markets, it is believed by many that Micro, Small and Medium Enterprises (MSME) might even play a bigger role. As the true Venture Capital (VC) funds are now emerging.

### Role of Government

Governments need to facilitate the creation and growth of private (small, medium and large) enterprises in labor intensive sectors of the economy, through appropriate policies (such as de-regulation), infrastructure (such as transportation), and institutions (such as capital markets).

## CONCLUSION

Companies should try to market to the poor. The best opportunities exist when the firm reduces price significantly by innovatively changing the price-quality trade-off in a manner acceptable to the poor. The companies can help alleviate poverty by focusing on the poor as producers. One way to do this is to make markets more efficient such that the poor capture more of the value of their outputs. One step that will help to eradicate poverty is to invest in upgrading the skills and productivity of the poor, and to help create more employment opportunities for them. This is the win-win solution; this is the real fortune at the bottom of the pyramid.

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