

BASE-OF-THE-PYRAMID GLOBAL STRATEGY

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Abstract: *Global strategies for MNCs should focus on customers in emerging and developing markets instead of customers in developed economies. The “base-of-the-pyramid segment” comprises 4 billion people in the world. In order to be successful, companies will be required to form unconventional partnerships- with entities ranging from local governments to non-profit organizations - to gain the community’s trust and understand the environmental, infrastructure and political issues that may affect business. Being able to provide affordable, high-quality products and services in this market segment often means new approaches to marketing- new packaging and pricing structures, and using unfamiliar distribution structures.*

Key words: *partnerships, emerging economies, base-of-the-pyramid, strategy.*

1. Introduction

The base-of-the-pyramid market consists of four billion low income consumers, and small scale producers in key emerging markets such as India, China, Brazil, Mexico and Vietnam and it represents a strategic necessity for multinational companies because of the market size and the innovation potential.

The global market can be compared with a pyramid where, at the top, there is a small fraction of rich customers and, at the bottom, there are 3-4 billion people with a per capita income lower than 1500 \$ per year (fig 1).

Multinational companies are being driven towards the BOP market because of the overcapacity in the top markets and the intense rivalry in the middle markets.

2. Objectives

Regarding the idea that the BOP market represents a business opportunity for MNC, there are two views. One view is represented by the work of Prahalad and Hart and promotes the idea that MNCs would try to create strategies that deliver social and environmental benefits, and commercial and economic growth. The second view is more critical and argues the limitations of business solutions to poverty, the governments being responsible for solving the problems of the poor.

The most important objective of this study is to find the best strategy for approaching the BOP market.

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3. Methods

Following a secondary research approach, the following ideas will identify

a third view where MNCs, governments and local firms should form alliances that could offer the best solutions for solving the poverty problem.

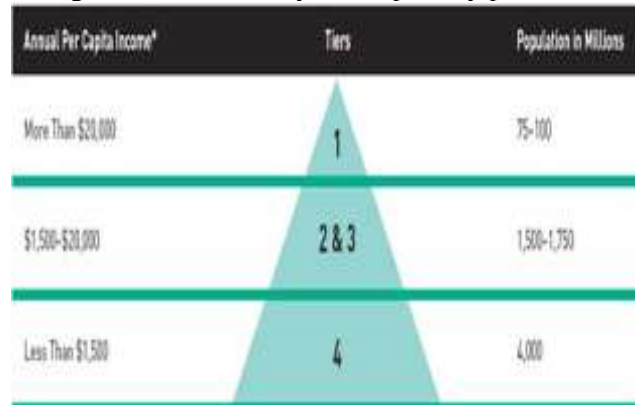


Fig. 1. *The Fortune at the Bottom of the Pyramid* by CK Prahalad and Stuart L. Hart, *strategy+business*, issue 26, first quarter 2002

4. Results and Discussions

4.1. Innovation and Changing Product Strategies

Poor markets are an important source for global innovation and for sustainable ideas, business models and technologies that can work across developed and developing markets. In the banking, computers and mobile phones fields, we can find many examples of business models that address the needs of BOP customers, representing innovation in their industries. The mobile phone producers have tried to develop cheap, simple handsets, more affordable in poorer markets. Motorola has won the bid for a contract to supply 6 million handsets at less than 40 dollars each. The products have been adapted to the needs of the customers, being robust and having big battery storage because of the low access to electricity.

In order to target this market segment, multinational companies are trying to reduce costs. Developing low-priced products for poor segments of the market

exerts pressure on existing manufacturers to reduce prices and provide a more basic format, which might be attractive to many rich-country customers. A good example could be the strategy followed by Renault for its model Logan, which was developed for the low-income countries, but was successful even in the rich countries.

Hyper competition will speed the declining growth and fast commodization of high-income segments, thus putting an additional pressure on companies to expand their markets in developing countries. Furthermore, pressure on companies to create jobs and do business with low-income groups will increase. Long-term global prosperity and stability need to be supported by expanding growth, especially among the low-income segments. For example, because severe competition with local companies in India has resulted in reduced profit margins at the high income segment, Unilever felt pressure to cultivate low-income groups. The company has adapted the products to the lower purchasing power, offering products in single-use packaging, like

sachets of shampoo and mini-size soaps. The distribution network has been extended to rural areas through sales agents travelling on bicycles.

In India, LG has focused on customizing parts of its product lines to address local needs. Taking into account that there are millions of cricket fanatics in the country, the company has launched a cricket television set with a built-in cricket video game. The technology used in television sets has been designed to automatically sense the levels of ambient lighting and adjust picture brightness and contrast. This has proved to be an important feature in the local market, especially given the periodic variation in lighting intensity resulting from power supply imbalances. All home appliances have been equipped with circuits that could weather dramatic voltage fluctuations that are very common in India.

LG has formulated a strategy to address the rural markets and they have decided not to drop prices on existing lines but to build new versions of products with a more compact set of features and cost-efficient materials so that they could be manufactured at lower cost. For example, LG has introduced a television set with a smaller screen size and a scaled-down sound system, resulting in a price reduction of roughly 40% in entry-level models. Similar efforts have produced rural versions of washing machines and air conditioners, placing these traditional luxury products within the reach of India's rural majority. LG has differentiated from competitors by adapting the menus in local languages for television sets. As a result, one third of the company's revenues have been generated from the rural segment.

Mobile device manufacturers are also tailoring their products to this market. Nokia had earlier launched a basic handset with a torch (large parts of rural India do

not have electricity) and an alarm clock. In December 2008, it went one step further with the launch of Nokia Life Tools. Nokia Life Tools is a range of agriculture, education and entertainment services designed especially for the consumers in small towns and rural areas of emerging markets, aimed at providing timely and relevant information customized to the user's location and personal preferences directly on their mobile devices. The mobile phone is a new-age product; but Indian consumers still buy a lot of gold. According to World Gold Council figures, 60% of India's US\$15 billion annual consumption of gold and gold jewellery is from rural and semi-urban areas. The Tatas have launched a mass-market jewellery brand - GoldPlus. The Tatas train unemployed youth and send them to the villages as brand ambassadors. The problem with gold in India is that it is often adulterated. In rural areas, gold jewellery is not for ornamentation; it is a safety net for emergency situations.

Companies can serve the BOP market, developing the products and services required, in a culturally sensitive environment, protecting the environment and increasing the profits. Producing, rather than extracting wealth will be the guiding principle. Key to achieving this end will be tailoring product developments to meet local needs.

4.2. Distribution Strategies

Distribution and promotional channels also need to be different for rural markets

In distribution and customer service, LG has adopted a differentiation strategy. The company has launched a fleet of repair vans, outfitted with power generators that could reach remote areas that were inaccessible in a short time. This concept was called "walking-after sales service".

The distribution network included 4000 access points and the distribution strategy was complemented by an online channel which offered extensive product information and the ability to accept online orders from individual buyers.

The corporate responsibility strategy included the setting up of medical clinics at its manufacturing facilities, offering subsidized primary school education and books for children and the construction of a village school close to its manufacturing facilities.

Businesses entering the low-income markets should aim to create wealth, providing access to jobs, healthcare, education and vocational training. Businesses that have provided jobs and income to low-income people have been the most successful.

For example, Unilever has employed women from India to promote and distribute products to the village community, as well as to small local retailers. The margin earned for the sale to the retailers was between 11% and 13% and the margin earned at trade sales was 3%. The Shakti programme which means “strength” and “empowerment” in many of the local Indian languages provided Unilever the opportunity to participate in the social and economic development of rural areas. The model leads to a greater richness without having to build an expensive distribution chain. It also creates goodwill and awareness for the company and its products by using local gifted people to act as spokespersons in areas which cannot be reached by traditional advertising media. In this environment, word of mouth is an effective source of influence and persuasion. A person is appointed by Unilever to travel from village to village, spreading information about products at gatherings such as village events, local schools and self-help

group meetings. An important component of the local social impact of Shakti comes from its focus on women entrepreneurs. Unilever believed that improving the condition of women could positively impact their status in the family and in the community. Gaining control over some portion of household income can empower women and help alleviate some of the gender inequality that exists in families in rural India. By the end of 2006, Shakti has reached 100000 villages and 30000 entrepreneurs and currently, similar models are being implemented in Unilever Bangladesh and Unilever Sri Lanka. This model could become a source of sustainable competitive advantage for Unilever, transforming the base-of –the pyramid markets in a key source of future profitability.

4.3. Pricing Strategies

The companies entering the BOP markets will have to re-examine the price-performance relationship for products and services. They can set up lower prices because they can earn from selling in high volumes. The rethinking of product development, manufacturing and distribution processes could reduce the costs. The companies should not think about cheap and low quality products, but about using the best technology and resources in an environmentally friendly way, to address local opportunities. The Chik shampoo sachets sells for 2 cents, the Parle G Tikki biscuit packs at 4 cents and the Coca-Cola 200 ml glass bottle for 10 cents. Successes in rural areas can be transplanted to urban areas as well. The shampoo in sachets created a new product segment and all shampoo manufacturers today retail in sachets, and the demand from urban India for this category is very strong.

4.4. Promotion Strategies

Because half of India's population is illiterate, companies are trying to use symbols and logos which could be easily recognized. So, communicating the value of the brand by using visual symbols is essential. Another strategy used by companies is the change of brands, creating a rural image.

Education is the key to creating an appropriate consumer orientation among the BOP market consumers. For example, Colgate Palmolive uses a van with a video player and screen for advertising tooth paste in rural India. The use of the product and its benefits are demonstrated with accompanying music and dance.

India has recently adopted a liberal policy towards the Internet, allowing a wide range of service providers, including cable operators, to provide Internet connections. Internet kiosks are spreading all around the urban and rural areas in the southern part of India. Creative use of IT will emerge in these markets as a means to lower the costs associated with access, distribution and credit. One of the most important drivers of the BOP market growth is the access to information which has created the desire to increase their consumption and improve their standards of living.

Example of BOP strategies in Romania

In Romania, the rural market covers 45% of the number of households, including more than 9 million people. In order to offer a better access to communications to the isolated rural areas, Nokia Siemens Networks has proposed a solution, called Village Connection. Using this solution, the local public administration of any rural area from Romania, can form a partnership with a local operator and can finance or co-finance the investment in order to offer communication services to its inhabitants.

The joint financing of such a project can be made by using European structural funds for the development of telecommunications infrastructure.

Very good Internet access can reduce isolation and can increase rural firms' competitiveness, offering access at international markets and more efficient ways of doing business. The Internet could help rural firms to plan the production, to sell the products, to have information about the weather, to compare prices in international markets and to establish cooperation agreements with other market players.

The project called "The economy based on knowledge" has been implemented in 200 rural areas of Romania, the main objective of this project being the creation of an IT infrastructure for local schools, headquarters of public administration, public libraries. The service offered by this project will cover almost 2 million people. The total cost of the project is 70 million dollars, 60 million dollars being financed by a loan from the World Bank, payable in 15 years and 10 million dollars from the local budgets.

The traditional four marketing P's have been replaced by a different framework for analysis. A number of companies have worked on various elements of the marketing mix to improve the four A's -- affordability, awareness, availability and acceptability -- for rural markets. In Romania, companies like Vodafone have entered rural markets offering services at lower prices, affordable for the low-income segments. Awareness could be created by employing people from villages to promote these services. Educating people from these areas will make them accept and demand the new products. Products and services will be available with the help of foreign multinationals, local authorities and local people, involved

in distribution. This could be a win-win solution for all parties involved.

5. Conclusions

New business designs are unlikely to succeed without a broader strategy, which includes creating buying power through increased access to credit and income generation; shaping orientations through consumer education and sustainable development, tailoring to local solutions and improving access through novel approaches to creating distribution systems and enhancing communication links. The buying power could be created by an easy access to credit. An example could be Grameen Bank in Bangladesh which has focused exclusively on women, obtaining 99% repayment rate. Access to credit without building corresponding income generation potential will not create a sustainable market opportunity.

Consumers from the BOP market should be educated on the proper use of the products. Recycling is important and the companies should reduce the need for limited natural resources such as water and energy.

The BOP markets represent a massive opportunity for high-tech businesses such as financial services, cellular phones and low-end computers, for many emerging technologies proving to be the most attractive early market. Companies should develop a commercial infrastructure involving local authorities, non governmental organizations, local communities, financial institutions and infrastructure builders. Multinational companies will access the local culture and

knowledge by forming alliances with local firms and governments. The best strategy for entering BOP markets for MNCs is not the export, but the production of goods in BOP markets, involving local firms, local labour and local governments. The most important advantage for the MNC to be involved in BOP markets is the opportunity to transfer knowledge and innovations from one market to the other.

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