

Bottom of the Pyramid – A working paper to understand whether globalization is bad for the poor

Mishra, Ganesh Prasad¹ & Mishra, Kusum Lata²

¹Professor Birla Institute of Technology Mesra Ranchi Off campus Jaipur, India

²Associate Lecturer Birla Institute of Technology Mesra Ranchi Off campus Jaipur, India

Abstract: There is great interest to understand whether “Bottom of the Pyramid” (BOP) approach is good or bad for poverty alleviation. The area lying at the bottom of the “Bottom of the pyramid” epitomizes those populations that make transaction in the market that are informal and unstructured. This area has become the pivot of attraction as maximum of the corporate want to target this area for marketing their products. Maximum authors have also started doing a lot of research in this area. There is a growing debate in this area whether BOP has been able to eradicate poverty from the region or not. The purpose of this paper to show case those feature that makes it different from other methods of uprooting poor and the poverty.

Keywords- Bottom of the pyramid, poor, poverty.

I. INTRODUCTION

Prahalad (2014) suggest a radical ideal to aid in the current efforts to eradicate the world’s issue of poverty. By marshalling in a new army of entrepreneurs whose marketing focus has shifted from promoting their services and goods to those traditionally on top half of the pyramid, to level of bottom tier, certain advantages have been afforded them from onset. First, Prahalad (2014) surmises that volume of the Bottom of the Pyramid (BOP) is so significant that it begs for innovative solutions to manifest the new challenges presented by this often forgotten market. Subsequently, the practitioners like former Microsoft chairman, Bill Gates are starting to embrace the double bottom-line of profit along with social responsibility. The proper term that is being promoted by those who embrace this type of philosophy is social entrepreneurship (Simanis, 2012).

Another benefit, which is being touted by the disciples of Prahalad (2014), is that this experiment is a less expensive and less outcome, with a more-quantity approach which will allow the private sector to garner the necessary profits to enable them to continually return to this emerging market for more opportunities to promote goods and services. Nevertheless, there are some problems with the approach. First, experience suggest that an impractical number of 30% penetration rate will need to occur for an business to maintain the low-price and low margin strategy, while simultaneously, if a corporation desires to expand beyond the village to capitalize on their prior success, infrastructure limitations may impede reaching those who are on the outskirts of the village. Thus, it seems that a long-term strategy of investing in the local infrastructure may have to be deployed to realize the margins to sustain such a market strategy.

Objective of the study

The objective of this study is to find whether globalization is bad for the poor. Our second objective is to explore the social values created by the BoP and whether it proves boon for the lower level income group of our society. Some of the other objectives are exploring whether BoP is able to develop the capacity and capability building of the poor.

The research problem

In spite of the development and fruition in the area of the bottom of the pyramid homily the research problem is that we do not have adequate and appropriate thoughtful and considerate knowledge about the bottom of the pyramid concept (Arora and Romijn, 2022). Researchers are yet to find the different studies associated with the bottom of the pyramid approach and correlate it with the poor people (Kolk et al., 2022).

II. RESEARCH METHODOLOGY

Sampling size

Our survey comprised of 575 respondents for which the research were conducted. Out of them their income level and other social capabilities were seen and identified. Their life style was also one of the major areas that we took care of. We could match poor respondents through this mechanism. Even after using this mechanism we still found a 16% mismatch among the poor respondents. The respondents were mostly in the lower category belonging to three countries i.e. Srilanka, Bangladesh and Pakistan.

III. FINDINGS

BOP market distribution

We found that although there is no one solution to distribution in the BOP market (Prahalad, 2014), when thinking about market expansion, reaching those on the outskirts of the village, and the difficulties with building out infrastructure for considering the make-up of the BOP and market trends. According to Prahalad, although there are widely held assumptions about difficulties with distribution access at the BOP, the reality is that many urban areas are drawing members of the BOP into very dense areas which allows more reach than easily achievable in other non-BOP markets (Prahalad, 2014). According to Prahalad, by 2015, Africa will have more than 225 urban cities, so will Latin America and Asia will have roughly 903 and 30 to 40 percent of these

people will be part of the BOP (2014). There will be more than 368 of these cities in developing countries with over 1 million people per city or 2 billion people (Prahald, 2014). With roughly “15,000 people per hectare”, rather than focusing on small villages or rural areas in the BOP, businesses should highly consider the urban cities because of its density and market access (Prahald, 2014).

This solution may not resolve all market access issues at the BOP but it presents a large and viable market for businesses interested in the BOP. According to Hammond the secret is for “businesses and governments [to] think more creatively” about solutions for the untapped BOP market (2007). The below figure-1 is extracted from the concept of C.K. Prahalad.



It is important to remember Prahalad (2014) reasons for how the BOP embraces this consumer related attention, in that it positively influences areas of self-esteem, confidence and value. Members of the BOP are able to purchase items for necessity but also in brands that are recognizable. Brands are important for many reasons to the BOP in relation to product sales (Prahald, 2014). Goyal, Sergi and Jaiswal (2015) further suggest that in order to effectively benefit from the BOP consumer base, social and cultural trends must be considered. In addition, there must be collaboration from private sector, government, and cultural entities to allow for businesses to be long-standing. Businesses that have the BOP as their main consumer base, is the same for any other business or corporate structure, it is necessary to identify the characteristics of the consumer and customize products and/or a business model that reflects the lifestyle of the target demographic (Prahald, 2014; Goyal, Sergi & Jaiswal, 2015). I would personally add, that the role of business with a department dedicated to corporate responsibility, must also create products and/or a business model that reflects the lifestyle of the target demographic as well as provides room for the improvement of societal issues and challenges.

Multiple National Corporation (MNC) managers who desire to market to the BOP are becoming increasingly aware of the creative attitude and new approach they must maintain to garner success from this segment of the global market. For example, Prahalad (2012) argues that organizations who desire to play within this sandbox will need to understand the necessity of working within ecosystems to provide the type of integrated support to the target market.

BOP and the investment concept

Second, an investment in the local infrastructure is paramount because experimental cases have suggested that while the bottom tier maybe willing to purchase such products like cell phones, often it is nearly impossible to difficult to reach the individual if they live outside of the city limits. Third, new approaches to the price, profits and cost will need to be reworked so that service or products are aggressively positioned to benefit both the recipient as well as the micro-firms or MNC businesses. Finally, private firms as well as NGO’s will need to invest in developing new entrepreneurs, through training and exposure to the define new ecosystem that will be in place (Prahald, 2014).

Poor people have needs – just like any other group of people; however their needs are at the very basic levels. Someone may want filtered water because it tastes better than what comes from the faucet, but those who are at the lower level need a method to filter water to avoid disease, other health complications, and even death. Just because an individual is the poorest of the poor, these needs can be met through entrepreneurially and socially conscious businesses. The BoP refers to those 5 billion poor people and it is in the strength of those numbers that a multi trillion-dollar market exists. Katz (2008) states that with the new projections made by World Bank within the next forty years more than six billion population would grow at the bottom of the pyramid.

Benefits are both short and long term. Just because the BoP refers to poor, there are products and services that they need. In order to appeal to this demographic of the BoP, companies must design products and services that are useful and affordable; life-saving technologies such as water filters or mosquito nets are examples. The short term benefit of either of these products is evident – safe drinking water free of bacteria and protection from disease carrying mosquitos. The long term effect is population stability. No one wants to have to make a decision between paying for medicine or a roof over their head. When populations settle and have a safe and secure environment, the population as a whole begins to grow and flourish --- even the most poor. Like other demographic groups, they need to buy these very basic products and services and as long as the businesses are ethical and address basic requirements of usefulness and affordability. Value creation for these consumers is most important (Katz, 2005).

The advantage to selling to the poor is volume. As long as the product or service follows the ethical parameters such as life-saving, useful and affordable, then there are no easily identified ethical issues. These are foundational for socially conscious companies.

Nevertheless, when firms enter a certain market, there driving aim is for profit beyond any moral obligation to eradicate poverty. But for the sake of argument lets presume that Prahalad’s (2014) analysis of the BoP’s daily income of 2 dollars per day is a legitimate average salary for individual within the BoP. Is it plausible to presume that individuals within this category can afford services and products? Karnani

(2011) suggested that it is a myth to believe the poor in this segment, while desiring higher quality products will ever have the resources to afford such valuables. For example, he utilizes Casas Bahia, marketing within Brazil to illustrate this concept, by showing that their average customer's income is \$6.66 per day, well above the \$2-dollar average of those within the BoP network. Thus, while Casas Bahia, has found the ability to sell electronics, such as Sony, Toshiba, and JVC in this market, their consumer has daily average higher than what Prahalad's believes is possible. Once again, I'm not quite convinced even if Casas Bahia were to innovate and find ways to sell at this price point, that it would still meet the moral imperative that I believe we may owe the poor.

There are more than 4 billion persons that account for over 72% of the populations through the developing Asian, African, Carribean, Latin American and Eastern European continent, according to the International Finance Corporation (IFC), a United Nations system (Solutions, 2017). Therefore innovative marketers are required to use unorthodox or "out of the box" strategies that can make it work across these continents (Klasa, 2017).

Once a company identifies a BoP-like demographic, it needs to shift its mentality around a new approach – one in which they will look to grow the demographic aggressively as long as it is able to see growth at no expense (no pun intended) to the rest of the company.

Macro and micro level of BOP

Prahalad (2014) addressed all people as being consumers, whether on a macro or micro level. This is especially true of the BOP, who have demonstrated their interest in and purchasing power behind such products as cell phones and electrocardiogram devices (Jarosławski & Saberwal, 2013; Prahalad, 2014). As such, entrepreneurs and large-scale corporations must dissipate their assumptions that have hindered their engagement with the lucrative, yet latent and underserved BOP market (Prahalad, 2014). Relevant to the discussion on ethics behind selling to the BOP, Prahalad (2014) posed the pertinent question, "Is globalization good or bad for the poor?" (p. 20). As he discussed the difference between not-for-profit organizations focused on charity work and for-profit organizations investing in the infrastructure and networks (i.e. communication, entrepreneurial, social, supply chain, etc.) in BOP regions, the old adage of giving a fish versus teaching to fish came to mind. Addressing Corporate Social Responsibility (CSR) through the lens of market development, Singh et al. (2014) concluded that integration must occur between producer organizations and BOP communities such that the "last mile of the supply chain" (p. 370) is supported and stabilized through community effort. This form of empowerment is suggested to result in sustainability of both the producer and consumer as it requires a presence in the community by the organization, along with creation of local jobs, education, entrepreneurial development, and some means of government support (Garcia-DeLeone & Taj, 2015; Prahalad, 2014; Singh et al., 2014). The benefits of

community development and organizational sustainability align with a for-profit model, as ethical investments (both financial and otherwise) in BOP communities will provide these populations of people with opportunities to sustain themselves in the long-run and not continually rely on the availability of charity. Focusing on the creation of products to uplifts the conditions of the BOP incorporates business practices that positively influence social or societal issues. Singh, Bakshi and Mishra (2015) purport through their qualitative study that corporate social responsibility impacts the ability for future markets to develop, and influences the integration of additional markets to be made available to the BOP.

Government and NGO's development programs

Many governments and non-profit organizations have worked on development programs to try to alleviate the burden with no significant and sustainable progress but few for-profit businesses have been involved (Waibel, 2012). Looking at the development programs instituted by governments and non-profit organizations, some researchers contend that the progress is typically short-lived because the key to alleviating poverty is by creating sustainable markets with the involvement of small, medium and large businesses locally (Prahalad; Helmsing, 2001). Prahalad suggests that the market's ability to engage the poor and businesses in a way that provides new or repackaged products and services to the poor will produce better (Prahalad, 2014). From a business perspective, the poor represent a significant portion of the market and represent significant untapped purchasing power, their co-location in high density areas affords businesses easy reach, and the untapped nature of the market make the poor more open to new products and technologies (Prahalad, 2014).

The Bottom of the Pyramid contains individuals that are impoverished. Prahalad (2006) suggest that successful companies view members of the BOP as valuable members of their consumer base, and by including this population of people into the marketing and product distribution, those companies will provide benefit to not just the bottom line and revenue, but can also benefit the BOP. Short-term benefits for the BOP include, the ability to afford and purchase necessity items of quality. The example the text provided was a company that sold shampoo, by making the product into smaller portions, of single servings. Long-term benefits for the consumer would be a reliable, affordable product that addresses immediate needs. Having the ability to provide basic needs and to pay for a quality product, provides the individuals within the BOP a sense of self-worth and confidence.

Smaller products cost more to make, and the unit price is much higher than of a regular sized container. Although the company invests more to produce the smaller merchandise, the company makes more money off the smaller products created specifically for the BOP. The long-term benefits is much more lucrative for the company, and in addition, has developed a strong base of consumers for its products. Just as

the company and the development of instant noodles. Errington, Fujikura, and Gewertz (2012) purport that the instant noodle company has seen great benefits for the individual packaging and prices per unit, not just for the BOP but also for other consumers. This company has tackled a concept of hunger, while making it affordable for many within the BOP to eat. It is possible that the long-term benefits of helping assist a systemic challenge within society that plagues the BOP through product distribution and affordability.

Strategies to improve BOP market

To succeed in any market, companies must “notice and understand their customers requirements and try to find the solutions” (Chandra & Neelankavil, 2008). This is no different at the different levels of the pyramid and it holds true in both developing and developed countries (Pralhad, 2006). This being said, your post brings to light the fact that there are some products that as they are, without customization, span the different levels of the pyramid.

The instant noodles are a relevant product in both poor and wealthy markets. According to Errington, Fujikura, and Gewertz 92 million packets of instant noodles were sold across different markets in 1992; they were eaten by all classes of people (2012).

Although there are differences in needs across various markets and various levels within the pyramid, Maslow’s hierarchy of needs theory suggests that humans have certain basic needs (Maslow, 1943). Air, food, water, clothing and sleep are necessities across the board (Maslow, 1943). To this end, in order to create production efficiencies and address some of the issues with entering the BOP with new innovative products, companies should consider products that span across all markets using Maslow’s hierarchy of needs to identify the best products.

Garcia-DeLeone and Taj (2015) provided several examples of large-scale organizations that innovatively redesigned their existing products so as to introduce them to the BOP market. One of these organizations was GE, who identified India and its BOP market as a base for research and development (R&D) (Garcia-DeLeone & Taj, 2015; Jarosławski & Saberwal, 2013). GE realized the need for low-cost cardiovascular equipment in low income and poverty stricken parts of the world, and produced a smaller version of their highly effective electrocardiogram (ECG) device, the MACi, which was designed specifically for markets in India (Jarosławski & Saberwal, 2013). In comparison to the original product, the MACi consisted of a reduced number of non-essential components, which offset production costs by 60% while reducing the cost to BOP consumers by 400-2,000% (ECG priced between \$2-10k compared with MACi cost of \$500.00) (Jarosławski & Saberwal, 2013; Singh, 2011).

The GE example is one of many that exist where organizations practiced innovation from a ‘think inside the box’ standpoint. Prahalad (2014) affectionately called this practice the “innovation sandbox” (p. 12), whereby innovation

occurs within the boundaries of defined constraints such as identifying and meeting consumer cost, producer scalability, quality standards, and technology requirements. The takeaway for me is that many, if not most, BOP needs and wants are similar to those in the developed world. As such, producers must approach product development with the same core functionality in mind, while innovating the delivery and sophistication of these products to be realistic within the scope of BOP environmental constraints. Ultimately, in developing new generations of products for BOP markets that accomplish the same core functions and objectives as original designs, companies create sustainability – and perhaps even competitive advantage – for themselves while exercising social responsibility toward the world’s most underserved population.

IV. CONCLUSION

The Bottom of the Pyramid (BOP) is representative of between four and five billion people (Pralhad, 2014). While the enormity of this population and emergent market has long been enticing to globalized organizations, the mindset and resultant assumptions toward the BOP has focused more on the degree of poverty and lack of purchasing power rather than innovative and lucrative opportunity. To change this mindset and address advantages of selling to the BOP, Prahalad (2014) reminds us that all people are “consumers, producers, investors, innovators, and entrepreneurs” (p. 21) no matter their station on the financial pyramid. The advantage discussion begins with the introduction of entrepreneurial and technological innovation, management expertise, operational scope, and scale as organized firms integrate with the BOP market (Pralhad, 2014). Financially speaking, Prahalad (2014) noted the core advantage to producer organizations is access to a latent market worth trillions of dollars from a purchasing power parity (PPP) perspective. Furthermore, organizations benefit from their own innovations, which are required to reduce product/service and operations costs but result in long-term cost savings and profits, as well as organizational growth and sustainability (Angeli & Jaiswal, 2016; Garcia-DeLeone & Taj, 2015). On the other side of the coin, the primary long-term benefit to BOP consumers is dissipation of the “poverty premium” (Pralhad, 2014, p. 36) that exists in many poverty-stricken nations. This is coupled with the opportunity for BOP consumers to have increased access to quality goods and services (Pralhad, 2014; Singh, Bakshi, & Mishra, 2014). From an entrepreneurial standpoint, Prahalad (2014) emphasized how empowered BOP consumers have increased their “capacity to consume” (p. 38) as a result of entrepreneurial and educational endeavors. In the long-run, increased consumer capacity brings the potential to shift the world’s economic shape from a pyramid to diamond structure with higher emphasis on middle class income and PPP tiers (Pralhad, 2014).

V. RECOMMENDATIONS AND LIMITATIONS

As far as the recommendation is concerned, we recommend focussing at the bottom of the pyramid for the poor people in order to achieve better revenue. For achieving better outcome from the globalization process, we also recommend conducting a meeting of the lower income group level with staff and subordinates on daily/monthly/fortnightly basis at units and sub-unit levels in which strategic and operative level agendas are required to be discussed based on organizations clear vision and targets related to explorative and exploitative activities.

As regards limitations, we were not able to find whether performance by the multinational firms could still be achieved in the absence of globalization and that too without focussing on the poor. In light of the above statements, an alternative explanation cannot be ruled out that outcome can still be achieved or not without incorporating globalization into picture.

Future direction

We conducted research only on lower level category of the group; future research could be conducted on contextual, sequential, and innovative ideas of the poor people. Research on Prestige/status/ ranking can further be explored. This might give a new direction to research. Due to organization structural constraints or for other certain reasons, the study of heterogeneously mixed-gender could be explored for further research. Further exploration considering “gender” as a variable in the bottom of the pyramid could give different results taking into consideration the local population and foreigners working in the same organization with differing levels of income levels.

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