BOTTOM
OF THE
PYRAMID
LOGIC OF MNCs AS IT RELATES TO BOP

Assumption 1:
The poor are not our target customers; they cannot afford our products or services

Implication:
Our cost structure is a given; with our structure, we cannot serve the BOP market

Assumption 2:
The poor do not have use of products sold in developed countries

Implication:
We are committed to a form over functionality. The poor might need sanitation, but can’t afford detergents in formats we offer. Therefore, there is no market in the BOP
Assumption 3: 
**Only developed countries appreciate and pay for technological innovations**

Implication:
The BOP does not need advanced technology solutions; they will not pay for them.
Therefore, the BOP cannot be a source of innovation

Assumption 4:
**The BOP market is not critical for long-term growth and vitality of MNCs**

Implication:
BOP markets are at best an attractive distraction
Assumption 5:
**Intellectual excitement is in developed markets; it is very hard to recruit managers for BOP markets, i.e. nobody wants to go ‘there’**

Implication:
We cannot assign our best people to work on market development in BOP markets,
REALITY: THE NATURE OF BOP MARKETS

1. THERE IS MONEY AT THE BOP

Assumption: the poor have no purchasing power and therefore do not represent a viable market

At the aggregated level:
China: 1.2 B people @ US$1000/capita GDP → total: $1.2 Trillion
   in PPP → $5 Trillion economy
India → $3 Trillion

9 countries: China, India, Brazil, Russia, Indonesia, Turkey, South Africa, Thailand → $12.5 Trillion

Can you ignore a market this big?
Poverty penalty: poor pays much more

Why? Inefficiencies in access to distribution and role of local intermediaries

Cost of everyday items: 5 → 25X rich pays

Credit: local moneylenders:
Interest rate: 600% to 1000%

Bank interest of 25% = rip-off? From BOP view: 25% better than 600%

MNCs can bring market efficiency and lower costs to BOP
2. ACCESS TO BOP MARKETS

Assumption: *distribution access to the BOP markets is very difficult and therefore represents a major impediment for the participation of large firms and MNCs.*

Urban areas attract poor

2015 estimates: cities > 1 million
Africa: 225
Asia: 903
Latin America: 225
3rd World: 23 cities > 10 million
Total: 2 billion → 40% are BOP

Urban concentration → intensive distribution opportunities

Rural poor: problematic
Inaccessible to audio/TV signals
Denied access to products/services

Spread of wireless connectivity helps
3. BOP MARKETS BRAND CONSCIOUS

Assumption: the poor are not brand-conscious. On the contrary, the poor are very brand-conscious. They are also extremely value conscious by necessity.

Experience in Brazil and Mexico confirms that BOP consumers are very brand-conscious.

WHY? Aspiration to high quality of life.

BOP are value buyers – expect great quality at prices they can afford – durables: TVs, washing machines, etc.

Challenge to marketers: make aspirational products affordable to BOP consumers → pressure on costs of development, manufacturing, and distribution.
4. BOP MARKET IS CONNECTED

Contrary to the popular view, BOP consumers are getting connected and networked. They are rapidly exploiting the benefits of information networks.

China: 2003: 250 m cell phones
India: 30 m with 1.5 m/month →
100 m by 2005
Brazil: 40 m cell phones

Unit of customers: village vs person

With connectivity → access to instant market information
5. BOP CONSUMERS ACCEPT ADVANCED TECHNOLOGY READILY

Contrary to popular belief, the BOP consumers accept advanced technology readily

Spread of wireless devices, PC kiosks, and PDAs

India’s ITC e-Choupal
Farmers check price of soy in local as well as the Chicago Board

Fishermen sell their day’s catch to highest bidders among several possible landing sites
CASE FOR ENTERING BOP MARKETS
THREE ADVANTAGES

TOP-LINE GROWTH

USA markets saturated → BOP offers unlimited growth in the near future

Strategy: LOW PRICE – HIGH QUALITY

Product: Unilever’s new candy → 1 penny
High quality – real sugar and fruit

Detergent/shampoo → single use pack

Services:
Citibank: $25 min deposit → 150K in 1 city

Alternative technology:
Bolivia – smart cards for ATMs; voice command & touch screen for illiterates
Aggregates: the community (village) and not the individual – the network customer

Shared access concept: Internet kiosks – serves entrepreneurs, provides govt education; 1 kiosk → 25 villages; local network serves 600 villages (600K)

**REDUCED COSTS**

Outsourcing for cost management
China: manufacturing
India: software

High speed digital networks – locate labor intensive service functions as Call-centers, marketing services, back-office transaction processing
India and Philippines = 1/10\textsuperscript{th} USA/OZ costs
Think holistically → growth of jobs in 3rd world → grow markets for US products

Productivity gains in overseas markets transferred back to USA

Formula:
• low margin
• capital efficiency → ZERO WC
• large volume

shared access – even in Europe – Internet cafes all over

INNOVATIONS

Localized phone networks – 60 m radius

n-Logue in India:
Franchise central nodes of networks – private sector completes last leg
Each node → 30K to 50K customers
Cost down to $1/customer = SS
STRATEGIES FOR SERVING BOP

Paradigm shift → change attitudes and practices of executives

Think outside the box

Structural changes:

**Human resources:**
First hand experience at BOP
Peace Corps alumni = hot

Executives: Field experience in BOP → intimate knowledge of BOP consumers

**R&D in BOP markets**
→ focus on local opportunities
HP Labs in India: oversubscribed

**Venture groups – internal investment** → seed money for market development

**Skunkworks** – shags dogmas
**Strategic partners:** why?
- lowers risks vis cost sharing
- synergies

- Joint ventures with local entrepreneurs
- Partner with NGOs (80% on tech edge)
- Women entrepreneurs – Grameen Bank

**MACRO PROBLEMS – serious impediments**

- poor infrastructure
- inadequate connectivity
- corrupt intermediaries
- corrupt govt employees & politicians

**IS IT WORTH THE EFFORT?  YES!!**

MNCs can set a new standard for accountability of performance and resources
Augment efforts by international development agencies and national governments