



# Reaching Out to the Bottom of the Pyramid



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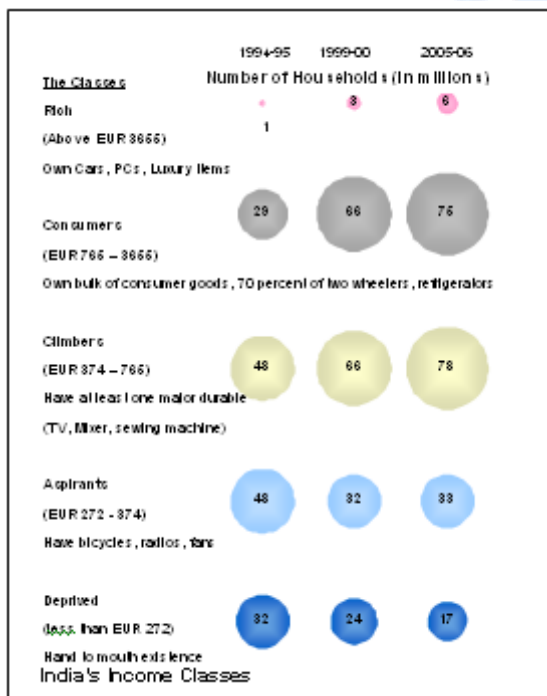
The concept of 'Bottom of the Pyramid' (BOP) was proposed by C.K Prahalad and Hammod in 2002. It refers to the approximate 4 billion people across the globe with a purchasing power of EUR 1000 per year or less.

The article attempts to provide insights into the Indian Bottom of the Pyramid market segment and the potential it could offer to a multinational company to expand its market and build a global base here.

The Indian economy is growing at an annual rate of 8 percent. This growth is considerable when compared to the growth of European countries, which is less than 2 percent on a 10-year average, and the growth of the American economy, which is approximately 3 percent.

Moreover, there has been significant reduction in poverty levels and increase in quality consciousness among the Indian rural and urban 'under-served' in the past 10 years. This changing scenario in the Indian economy could translate into an investment opportunity for many multinational companies.

Figure 1: Indian Income Classes 2003:2004



Source: National Council of Applied Economic Research (NCAER)

The NCAER analysis (fig 1) shows an increase of over 150 percent in the number of consumer class households in the last 10 years. Simultaneously, the 'deprived' have decreased from 32 million to 17 million. This emergence of the BOP segment could be defined as a new consumer market.

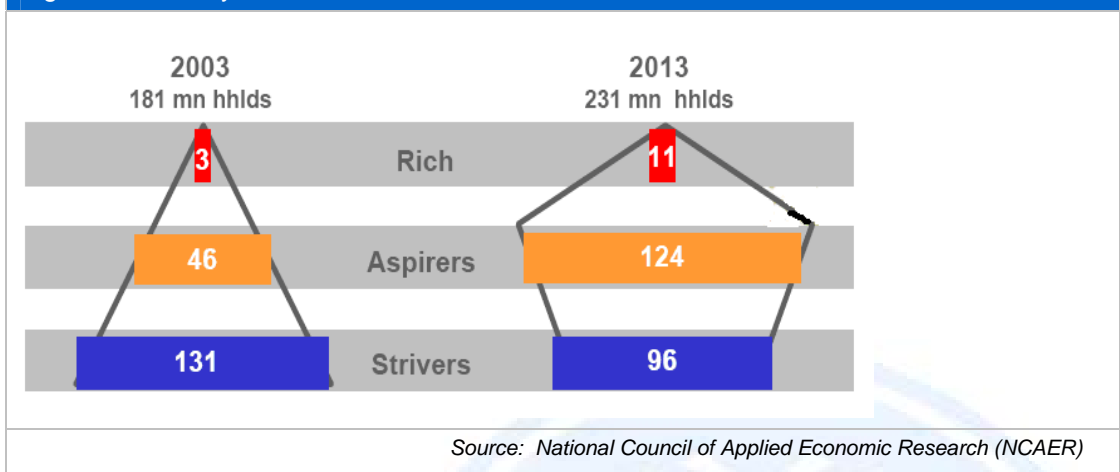
The BOP market in India comprises a population of 750 million (70 percent of the population) living in 600,000 villages (rural area). In addition, the 70 million people residing in urban cities constitute the urban poor market. This 'latent' market may enable MNCs to develop their global base and expand their market.

## From Pyramid to Diamond

The change in the structure of the consumer class as depicted in fig 2 signifies a substantial opportunity for marketers to capitalise on this fast-growing consumption class. In fact, it is imperative that marketers focus on developing innovative products to meet consumer needs. The rural market has been increasing steadily at a rate greater than the urban market. About 53 percent of FMCG and 59 percent of the consumer goods market reside in the rural sector. Therefore, rural markets are vital for the growth of most companies.



**Figure 2: From Pyramid to Diamond**



Unilever India (HLL) is the biggest market player in consumer goods. In 2005, rural markets contributed 35 percent to HLL’s sales whereas urban markets constituted 65 percent. This ratio is in favour of the rural market considering the low levels of penetration. HLL considers BOP consumers to be an important part of its consumer portfolio and has specific strategies and programmes to increase its reach in this segment.

*“With an increasing number of households falling under the climbers and consumers segments, the income distribution in India is changing in its structure from a pyramid to a diamond.”*

**HLL vs P&G: BOP Activity**

HLL’s market share (by volume) in the shampoo and detergent markets is 47.5 percent and 38.5 percent, respectively, as against P&G’s market share (by volume) of 23.2 percent and 12.4 percent. P&G’s target consumers mostly comprise the upper segment. When P&G entered the Indian market, it did so with an aim to make profits and not increase its market share. Hence, the company followed a ‘funnel market’ strategy catering to a niche audience. For example, the launch of P&G’s globally acclaimed shampoo brands, Pantene and Head & Shoulders, the shampoo market witnessed the creation of an altogether new premium segment. By following this marketing strategy, P&G was aiming to establish a healthy business with a healthy bottom line.

By focussing on margins instead of volumes, P&G succeeded in building its global brands in India. The company did this on the basis of its strong brand equity and consumer pull to target the upper segment of the urban consumer market.

Gradually, the industrial focus on the type of market segment in India began shifting from the upper and mid segments to the mid-lower segment. In the process, P&G Global realised that it was only present in the uppermost segment of the price pyramid, thus appealing to only 3.6 percent of Indian consumers. Therefore, the volume growth of the company was under pressure. As the company understood the benefits of being a player in the larger segment of the Indian market, it chose to become a volume player.

In 2004, P&G launched low-priced sachets of shampoo and detergent, which were specifically aimed at the low and mid-market segment. It also slashed the prices of premium products making them available to the average Indian consumer. However, despite these approaches, P&G unlike HLL has been unable to dominate the Indian consumer goods market. This could be attributed to the fact that it has not yet developed a focussed strategy to make its presence felt in the BOP market segment.

*“The growing Indian rural market, with increasing brand awareness, higher incomes and greater purchasing power, is marked by a growing desire in the population to better its lifestyle. The Indian companies have already sensed this change and are on the path to make it a profitable business.”*

**Doing it the ‘Desi’ Way**

In fact, national/local companies have been more successful in tapping the BOP market effectively because of their ability to better understand rural consumers’ needs. For instance, Arvind Mills, the world’s fifth-largest denim manufacturer realised that denim jeans priced between EUR 31 to 46 were beyond the reach of the Indian masses.



This is what led the company to introduce Ruf and Tuf Jeans, a ready-to-make kit of jeans components priced at EUR 5. The jeans were distributed through a network of local tailors mainly in rural areas and towns. Ruf and Tuf jeans are now the largest-selling brand in India surpassing Levi's and other international brands.

The development of the Indian milk industry holds many significant lessons for MNCs. The Khaira District Milk Co-operative that initially began as a small milk processing plant set up in Gujarat grew to become Amul, one of the most well-known brands in India. The uniqueness of the Amul Co-operative lies in combining decentralised milk production with modern processing facilities. As a result, previously marginalised farmers are earning steady incomes and being transformed into active market participants.

Though 20 years ago, milk was in short supply in India, today, India is the world's largest milk producer with milk production registering a 4.7 percent per year increase since 1974. The country's dairy co-operative network now claims to have 10.7 million individual farmer members, covers 96,000 village level societies and operates in more than 285 districts.

*"MNCs should focus on creating buying power with the consumers. Unless they don't have money at their disposal they won't be initiated to buy irrespective of how good or useful a product is."*

### **ICICI Revolution**

ICICI was responsible for initiating microfinance accessibility in India's rural population. The company entered the BOP market with three strategic goals:

- ▣ To increase banking penetration in rural areas,
- ▣ To prepare rather than react to the increasingly important rural market and
- ▣ To support the rural and urban poor.

It was the first bank to introduce e-banking. ICICI collaborated with a rural banking institution, Bank of Madura, to target growth in the rural segment in southern India. Bank of Madura's main focus was on small- and medium-sized corporate banking, with a significant presence in the southern states (77 branches in the rural area of Tamil Nadu). ICICI has set up additional partnerships with EID Parry, n-Logue, ITC e-Choupal and BASIX to take advantage of the rural kiosk network established by each of them. ICICI has made profitable inroads for serving the BOP. It has increased the number of Self Help Groups (SHGs) from approximately 1,500 to more than 8,000 within the two years since it has acquired Bank of Madura.

Venture Capital (VC) institutions have also begun to realise BOP opportunities in India. The past one year has witnessed the setting up of many VCs dedicated to microfinance in the country. As this sector holds immense growth potential for companies, it is a financially viable strategy for MNCs to enter this sector through joint ventures. International Finance Corporation (IFC), along with the Andhra Pradesh Industrial Corporation (APIDC) venture fund, set up a EUR 3.5-million microfinance fund earlier this year. Redmond-based Unitus Private Equity, along with the Michael & Susan Dell Foundation, has invested in the Bangalore-based microfinance fund Ujjivan Financial Services.

### **MNCs Need to See beyond the Challenges**

Most MNCs are present in developed countries therefore, their perceptions and marketing strategies are targeted at the top of the pyramid consumers. The companies should consider volume-driven profits and capital efficiency in priority to high margins.

MNCs wary of the impediments continue to mainly cater to only the middle and upper segments. Their business model is a low-risk one, initially sustained through imports and requiring a limited distribution network. Although businesses of this kind are profitable, they do not have high sales volumes since they only cater to the narrow top of the pyramid (1.2 million affluent households) and the middle segment of the pyramid (110 million households). They end up losing out on the sizeable market potential of the rural and low-end urban segments. In addition, the distribution network poses an impediment for the companies not well versed with the difficult terrain of the villages and rural areas. Depending on the local distribution channels may greatly increase the distribution costs. The companies need to overcome this challenge to ensure the reach of their product in every nook and corner of the country.





## Bringing Multinationals to India

The NCAER forecasts that the number of consumers driving growth will grow from 46 million households in 2003 to 124 million households in 2012. There is scope for growth of the 'organised' sector as it accounts for only 2 to 4 percent of the total retail market. India is one of world's largest food producers and also the world's largest food and beverages market. According to forecasts, food and beverage retailing will grow at 9.2 percent as against a GDP growth rate of 7 percent. The bottom of the pyramid comprising an approximate population of 750 million and a per capita income of less than EUR 1.5 per day translates into a multimillion dollar market.

*"BOP segment does not want to be just restricted to businesses filling basic needs. They are waiting for high-tech businesses such as financial services, cellular telecommunications and low end computers. In fact for many emerging technologies (fuel cells, solar cells etc.) BOP will prove to be the most attractive early market."*

## The Rural Get Techno Savvy

Perhaps no country in the world can equal India's potential to use information technology innovatively for enabling development. People and Practices Research, together with Intel's Desktop Product Group and Intel India, are actively involved in delivering new models of computing in India. This rapid advance in technology is due to the willingness of the rural population to adopt new technology. This helps them to better understand new product innovations along with placing them on a global platform.

## ITCs E-Choupal

ITC's e-Choupal is yet another BOP success story. The company has expanded its Fast Moving Consumer Goods (FMCG) portfolio to include simple products of daily consumption in the rural market. This is in line with its strategy of creating multiple growth drivers in the FMCG business. It also aims to provide large and sustainable business in the agricultural sector. ITC has tied up with various government agencies and NGOs to carry forward its strategy. The benefits are two fold. First, it is educating rural farmers on agriculture, enabling them to obtain sufficient market exposure. Second, ITC has received several tax benefits from the government. E-Choupal not only provides farmers with a unique trading platform to sell their produce but also gives them direct access to the market. E-Choupal provides information about market prices and customised knowledge such as weather forecasts, crop conditions, grading standards and the best farming practices. This enables farmers to respond effectively to the forces of demand and supply. ITC has also been able to make this a profitable venture by charging a commission on each produce sold by the farmer through e-Choupal. Since 2000, ITC has installed 5,372 e-Choupals, covering 31,000 villages across the country.

- ITC engineers had to additionally provide uninterruptible power supply to their installations. They also chose to depend on the satellite network for communication as they were aware of the hostile infrastructure in the rural areas.

### E-Choupal Economics

With an ITC e-Choupal, it costs the company about EUR 1600 per kiosk installation. The company saves about EUR 5 per tonne on the acquisition of soyabeans. The recovery of that investment requires an acquisition target of about 4,000 to 5,000 tonnes from a single kiosk. Additional services, such as selling seeds, fertilizers and crop insurance, can enhance the profitability of the system.

## Being India Specific

Hybrid solutions need to be implemented to combine latest technology with existing infrastructure. For example, the MIT media lab has introduced laptops worth EUR 78 for poor schoolchildren in an effort towards enabling them to understand technology. They have used wireless broadband to cope with the lack of proper electricity supply.

There is increased usage of computers and mobile phones due to the introduction of low-cost models such as the EUR 120 computer model by HCL Infosystems and the EUR 15 handset by Motorola.

## Building Distribution Networks

The company needs to focus on the distribution network and make it accessible to the poor. The products should be easily available and in single serve packages. Important distribution channels are Mandis, Haats and Melas. Building a good distribution system will also enable the company to cut large distribution costs faced by local enterprises in rural inaccessible areas.



Mandis are agricultural markets that serve as a good connection for brand promotion as farmers can be directly contacted. Companies can set up 'brand' stalls and carry out promotional activities there. The haats and melas are also major rural market systems in India. Companies need to reach out to these places to make their presence felt.

**Basic Facts**

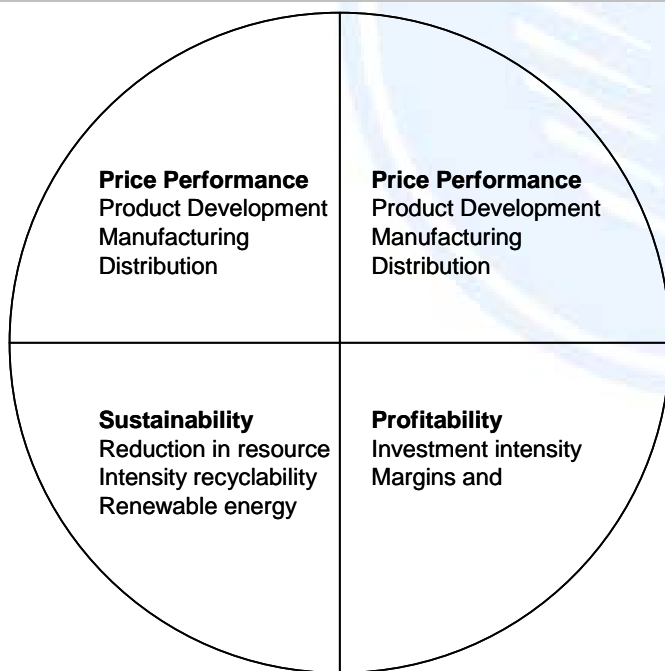
- ▣ Total mandis: 6,800
- ▣ Average population catered to by each mandi: 0.136 million
- ▣ Number of sales outlets/haats: 300+
- ▣ Number of visitors/haats: 4,500+
- ▣ Average sales per outlet: EUR 15
- ▣ Average sales per mela: EUR 2.4 million

**The 'Touch Feel' Experience is Important**

To enhance the company's brand image, some of the company executives should directly communicate with the rural population, building up a personal rapport with it. Companies also need to take part in local problems and discussions to break free of their 'videshi' image. Coca Cola undertook a project on these lines in Jaipur, Rajasthan in 2004. Called 'Rain water harvesting', it helped the company create a positive image in the minds of the local population. The resultant effect was an improvement in sales and increased brand visibility in the region.

*"Foreign companies need to understand the Indian mindset and for this they need to partner with local firms or NGOs. These localised firms can give them deep insights about the consumer needs and their problems."*

Figure 3: New strategies for the Bottom of the



Source: National Council of Applied Economic Research (NCAER)

**Why MNCs need to be involved?**

- ▣ MNCs bring in large FDI. Significant amounts of capital are needed to ensure the sustainability of companies entering the BOP segment, with the initial cost set ups being high.
- ▣ They bring enormous technical capabilities and skills that benefit the poor.



## Energizing the Bottom of the Pyramid

Shell has entered the BOP market in India with a long-term perspective of creating a market for its renewable/alternative energy products by increasing the accessibility to affordable energy.

### Shell Foundation

Shell Solar collaborates with banks, such as the Nyasa Bank, the Syndicate Bank, the Nethravathi Grameen Bank and other rural banks, to provide finance options to its rural customers. It is also active in the Indian rural and semi-urban market for solar equipment and panels. It is also involved in many pilot projects with NGOs.

Shell has an initiative called Breathing Space to provide market-based commercialised and scaleable biomass solutions for indoor air pollution caused by stoves. In Maharashtra, the initiative is managed by an NGO, Appropriate Rural Technology Institute (ARTI).

## Innovation is the Key to Success

A pertinent example of an organisation that has introduced innovations in the BOP segment is the Development of Humane Foundation (DHAN). It works in a decentralised manner, promoting new ideas on different development themes in microfinance, dry land agriculture, small scale irrigation and panchayat-related activities. The themes developed by DHAN for the BOP segment include the Kalanjiam Banking Community's banking programme, the Vayalagam Tankfed Agriculture Development Programme, the Tata-Dhan Academy, Rainfed Farming and ICT.

Another example of such an organisation is Unilever, which tackled the problem of the lack of practical, low-energy-consuming refrigeration in India. Unilever developed a radically different approach to refrigeration, which allows ice cream to be transported across the country.

## It's a Win-win Situation

Bottom of Pyramid represents one of the biggest potential market opportunities in the history of commerce. Private companies stand to benefit from 'inclusive capitalism', which can be observed through the numerous examples given.

Multinationals stand to benefit from tapping the rapidly-growing rural and urban poor market in more ways than one way, which include:

- The investments in BOP benefit the companies through tax exemptions and relaxation of stringent government rules.
- Many local innovations can be leveraged across BOP markets, creating a global opportunity for the former.
- Some innovations from the BOP markets will find applications in the developed markets.

### HLL's success story

HLL's marketing initiatives began in 1995 when it launched "wheel" for the rural and lower income urban consumer. This was in competition the 'Nirma' which had created a new business strategy. This was new product formulation, low-cost manufacturing process, wide distribution network, special packaging for daily purchasing, and value pricing.

HLL started with direct marketing in 1999 with the launch of personal care and consumer products. The following was the marketing strategy followed by HLL to make Brooke Bond a household name amongst the rural.

#### Target segment:

Brooke Bond Taaza is HLL's mass tea brand, targeting rural and low income consumers. For BOP consumers HLL has targeted local tea vendors by providing them tea powder for a day on a 24-hour credit.

Promotions:

Brooke Bond associates itself with local festivals in-order to cement its relationship with consumers across all strata. Sachets and trial packs are widely distributed in the rural households to encourage trial

HLL took various initiatives to overcome rural bottlenecks and increase product reach.

- It had its own distribution network in place by launching Operation Streamline. Rural sub-stockists were appointed to act as intermediary to ensure product availability across rural retailers.





- HLL launched Operation Shakti to encourage rural women to become local HLL distributors. It was initiated in 2001 to cover 70 percent of the Indian rural populations. HLL created 25,000 Shakti entrepreneurs covering 100,000 villages by the year 2005.

HLL's parent company, Unilever, was benefited from its subsidiary's experience in India. Unilever transported HLL's business principles (not the product or the brand) to create a new detergent market among the poor in Brazil, where the Ala brand has been a big success. More important, Unilever has adopted the bottom of the pyramid as a corporate strategic priority.







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