

# Marketing to the bop flashcard



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BUSTER**

Perdita Das MKT 650 International Marketing Prof. James Nicholas Date: 03/26/13 Case Study: Marketing to the Bottom of the Pyramid Summary The bottom of the pyramid (BOP) consists of over 4 billion people worldwide who survive on an income of \$2 per day. These “ aspirational poor” make up three-fourths of the world’s population, representing \$14 trillion in purchasing power. This is more than Germany, the United Kingdom, Italy, France, and Japan put together. Demographically, the BOP is young and growing at 6% a year or more.

Traditionally this particular group of people have been ignored by multinational corporations as it was assumed that “ the poor can’t afford most products”; “ they will not accept new technologies”; and “ except for the most basic products, they have little or no use for most products sold to higher income market segments. ” Typical market studies are limited to urban areas ignoring rural villages, which ignores a majority of the population that falls under the category of BOP. as major markets become more competitive and in some cases saturated—with the resulting ever-thinning profit margins—marketing to the bottom of the pyramid may have real potential and be worthy of exploration. Problem How can multinational companies market to the BOP without exploiting them? Alternatives 1.

Devise a creative marketing plan that uses advanced technology, financing, effective distribution and affordable packaging 2.

Only market certain products that are considered to be “ necessary” and not “ luxury” 3. Do not market to the BOP Explanation of the Alternatives

Alternative 1. It is important to understand that marketing to the BOP does not mean cutting corners or devising cheap products. This population has

little to no discretionary income and it should be set up in a way where these products are helping them provide sustenance for themselves and their families. For example, one company was inspired to invent the Freeplay, a hand-powered self-power-generating radio, when it learned that isolated, impoverished people in South Africa were not getting information about AIDS because they had no electricity for radios and could not afford replacement batteries. Companies need to focus on making the lives of these “poor people” better so that they can even think about spending money. Marketing to the BOP requires advanced technology but the company needs to provide infrastructure support along with it. For example, ITC, a \$2.6 billion a year Indian conglomerate, decided to create a network of PC kiosks in villages.

The company wanted farmers to be able to connect directly to information sources to check ITC’s offer price for produce. With direct access to information, farmers got the best price for their product, hordes of intermediaries were bypassed, and ITC gained a direct contact with the farmers, thus improving the efficiency of ITC’s soybean acquisition.

Companies also need come up with creative ways of financing because many of these BOP consumers does not have the adequate disposable income to be spending money on things that they need to.

Cemex, the world’s third-largest cement company, recognized an opportunity for profit by enabling lower-income Mexicans to build their own homes. The customers paid Cemex \$11.50 a week and received building materials every 10 weeks until the room was finished (about 70 weeks—customers were on their own for the actual building). Although poor, 99.6 percent of the 150,000 Patrimonio Hoy participants have paid their bills in

full. Patrimonio Hoy attracted 42, 000 new customers and is expected to turn a \$1. 5 million profit next year.

Marketing to BOP also requires effective distribution strategies, mostly utilizing the population themselves because most of the time they will not have money to pay for shipping or in most areas not own cars to go to stores. For example, Unilever realized it could not sell to the bottom of the pyramid unless it found low-cost ways to distribute its product, so it created a network of hundreds of thousands of Shakti Amma (“empowered mothers”) who sell Lever’s products in their villages through an Indian version of Tupperware parties.

Start-up loans enabled the women to buy stocks of goods to sell to local villagers. That it is cost effective for the company as well as discretionary income for the women. I also should be kept in mind that unlike the concept of Walmart or Costco here in the United States, BOP around the world do not have the means to be bulk buying and therefore more individually packaged goods should be created for them. Alternative 2. The BOP subsist on less than \$2 a day and just using them to gain profits will be exploiting them.

It is very important that companies prioritize what they are selling and how they are selling. Just because someone is poor does not necessarily mean that they do not need day to day needs but it should be things that need first such as education, food and healthcare before computers and bigger five bedroom homes. For example, marketing to BOP does help improve personal hygiene. The World Health Organization (WHO) estimates that diarrhea-

related diseases kill 1.8 million people a year and noted that better hand-washing habits—using soap—is one way to prevent their spread.

In response to WHO urging, Hindustan Lever Company introduced a campaign called “Swasthya Chetna” or “Glowing Health,” which argues that even clean-looking hands may carry dangerous germs, so use more soap. It began a concentrated effort to take this message into the tens of thousands of villages where the rural poor reside, often with little access to media. This program has reached “around 80 million rural folk,” and sales of Lifebuoy in small affordable sizes have risen sharply. The small bar has become the brand’s top seller.

It is okay to be profiting from such an endeavor because the end consumers are profiting as well. Nestle is targeting China with advanced pricing on ice cream but maybe instead of ice cream they can partner with local dairy farms in low income regions to provide milk for children. It is important that these companies are looking to making the consumers’ lives better first before encouraging them to buy computers. Financing companies can also look at different methods of self financing other than loans.

Even if they lower interest rates it is still money that the consumers have to pay back. For example when women in India self finance and self distribute, even though they only make \$26 versus the \$40, it is still better than having no income period. Designing products for the BOP is not about making cheap stuff but about making technologically advanced products affordable. For example, the vast market for cell phones among those at the BOP is not for phones costing \$200 or even \$100 but for phones costing less than \$50.

Such a phone cannot simply be a cut-down version of an existing handset. It must be very reliable and have lots of battery capacity, as it will be used by people who do not have reliable access to electricity. Motorola went through four redesigns to develop a low-cost cell phone with battery life as long as 500 hours for villagers without regular electricity and an extra-loud volume for use in noisy markets. Motorola's low-cost phone, a no-frills cell phone priced at \$40, has a standby time of two weeks and conforms to local languages and customs.

The cell-phone manufacturer says it expects to sell 6 million cell phones in six months in markets including China, India, and Turkey. Alternative 3.

Companies should avoid marketing to the BOP because trying to profit from selling soaps, shampoo, personal computers, and ice cream, and so on, to people with little disposable income may turn into a form of exploitation no matter what. Making loans to customers whose income is less than \$100 monthly at interest rates of 20 percent to purchase TVs, cell phones, and other consumer durables can sometimes not be justified.

Companies should not try to squeeze profits out of consumers with little disposable income and often not enough to eat. It is hard to avoid doing that if a company is marketing consumer goods to the BOP because that is the ultimate goal of a company, is to make profits. Therefore large multinational companies should avoid marketing to BOP altogether. Thus a do nothing approach may be the best alternative to avoid exploitation.

Recommendation I will recommend Alternative 2 to be the best alternative for this case analysis.

Alternative 2 is superior than Alternative 1 because it uses creative methods but it focuses on more important consumer goods and basic needs that the BOP may not have access to and therefore has a higher possibility of making profits in such a case. Alternative 2 is superior than Alternative 3 because as major markets become more competitive and in some cases saturated—with the resulting ever-thinning profit margins—marketing to the bottom of the pyramid may have real potential and be worthy of exploration.

It is important to market to the BOP because they ? of the world's population and that is too big a number to ignore. Alternative 2 therefore focuses on the BOP but identifies key issues and incurs profit on that. Implementation In order to implement Alternative 2 it is important for multinational companies to invest into heavy R&D projects to identify countries and products that are most needed in the BOP margin and develop and market those products effectively and creatively.