

# Bottom of pyramid market business essay



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This paper traces the development of concepts related to the Bottom of the Pyramid which are described as a poverty alleviation perspective. The BOP thesis states that multinational companies (MNCs) can reach profitability and help to eradicate poverty, at the same time, by designing and implementing sustainable solutions for the BOP consumers.

At the same time, numerous academics and business managers have suggested that rather than focusing on the poor as consumers, MNCs have to view the poor as producers, and started by increasing their income to reduce poverty. The number of people who occupying the lowest tier in the world's economic pyramid has been estimated to be between 3 and 4.5 billion.

However, multinational companies are currently unfamiliar with the BOP market and the tendency is that MNCs ignore the BOP market and prefers to focus on markets already developed. This gives an indication of the existence of a weakness that can potentially disrupt innovations in the BOP market.

Hence, the main objective of this paper is to identify the particular challenges that companies found in the BOP market and in what forms innovation thrives in BOP markets. The literature review of this paper is mainly based on journal articles published in peer-reviewed journals related to innovations at the BOP and on case studies of companies which have implemented BOP projects.

Keywords: Bottom Of Pyramid Market – Innovations at Bottom Of Pyramid – Sustainable Product Design

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## **Declaration**

‘ I declare that I have personally prepared this article and that it has not in whole or in part been submitted for any other degree or qualification. Nor has it appeared in whole or in part in any textbook, journal or any other document previously published or produced for any purpose. The work described here is my own, carried out personally unless otherwise stated. All sources of information, including quotations are acknowledged by means of reference.’

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## **Introduction (700 words)**

General Area

This paper explores the theological roots of the BOP market theory and the current trends in multinational company to venture into these markets.

Influenced by some ideas drawn from the work of Prahalad on Bottom of Pyramid, the author has tried to put in perspective the issue of innovation in developing countries.

Since the mists of time many people have reflected and worked on the issue of poverty, Mandela (2005, p. 3) argues that ‘ like slavery and apartheid, poverty is not natural. It is manmade and it can be overcome and eradicated by the actions of human beings.’ Even earlier it has been argued (Ghandi 1940) that poverty was the worst form of violence. But the sentence ‘

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Bottom of the Pyramid' (BoP) was first introduced by Roosevelt, on the 7th of April 1932 in his radio address: The forgotten Man. Later, in the late 1990s Prahalad and Hart from the University of Michigan have suggested that multinational corporation companies (MNCs) can help to reduce the poverty. They defend the idea that if multinational companies create suitable and affordable product for the low-income people, they can both help reduce poverty and generate new benefits. Then, they have introduced the concept of " Bottom of the Pyramid" (BOP), which refers to the 4 billion people living on an income of 3 US \$ or less per day in purchasing power parity (PPP) (Prahalad, 2004). However, although this concept has generated a strong interest in the corporate world and in lot of academia, the reality of this idea remains controversial (Karnani, 2007). During the last twenty years, the economic debate on solutions to the problem of poverty in developing countries has left an increasingly important role for the private initiatives (like NGOs, microfinance or social entrepreneurship for example). But poverty stays at an unacceptable level across the globe with over 1. 4 billion people living below the poverty line of 1. 25 dollars per day in purchasing power parity (PPP) (Chen & Ravallion, 2008) and it exists a big contrast with the approximately 500 million people who live at the top of the Economic Pyramid with an average purchasing power of more than US\$ 10, 000 per year (see Rocchi 2006).

### Specific Area

Nowadays, the context in which the MNCs operate experiences very important changes and the idea of the BoP as virgin market, easy to conquer by the company, has disappeared. Issues related to environmental

sustainability or social responsibility of companies is more and more ubiquitous (Diamond 2005). Whether through consumer pressure or through government regulation, companies can no longer ignore these trends.

In this context of questioning of the conventional business models, ideas of Prahalad and Hart around the wealth at the base of the pyramid have interested many multinational companies, and we have seen a proliferation of initiatives of these ones to attempt to penetrate this market set aside. These initiatives have as the main objective to obtain knowledge of the market and generate long-term benefits, but they are also part of the issue of corporate social responsibility (CSR), because they incorporate social aspects to developing countries.

Thus, in most cases the BoP initiatives use a social partner. However, we can separate the social businesses and the projects managed as usual projects of the company.

On one side, in Bangladesh, the Grameen Danone Food and Limited (GFDL) project aims to reduce poverty by providing access to healthy food, an innovative business model that relies on the creation of “ health yogurt ” micro-factories. The company Veolia have also created a project which consists in the selling of clean water in Bangladesh, where the water is naturally enriched in arsenic. Both projects are focused on the reputation of the business in question, and are directly related to consumers (B2C). They are defined as social businesses and they have received the support of Yunus, Nobel Prize for Peace in 2006 and known for having founded the first microcredit institution: the Grameen Bank.

On the other hand, some companies have developed new business models with local contractors. These projects are slightly more discreet, because companies are addressed to an intermediary and ask him to go out of his usual scope of action (B2B). In India, in 2004, the optical firm Essilor has established partnerships with local hospitals by financing other ophthalmic test series in landlocked regions, the company also offer eyeglasses for less than 5 euros in this area. In 2009, Schneider Electric, the world specialist in energy, has developed the BipBop Program (Business, Innovation & People at the Base of the Pyramid). This program aims to provide access to green energy to billions of people who use kerosene lamps, in developing more local and more individualized solutions.

#### Research question

However, as they still know little about the BOP market, large companies are few to engage in this type of large-scale projects and must continually learn to succeed in developing appropriate solutions. This subject of innovation at the bottom of the pyramid will be the focus of this journal article.

The starting point is the paradox which can be observed at the BOP between the real creation of suitable products and the return to more basic products. Thus, on the one hand, Schneider Electric has succeeded in developing a new LED lamp: In-Diya, for poor people who have little access to electricity in India, an innovative lighting solution which is reliable and affordable. But on the other hand, the Grameen Danone production unit in Bangladesh is based on plans that are no longer used since a long time in developed countries, therefore a solution that was not designed exclusively for the BOP market.

The company Essilor doing the same thing because it also reserves its most basic eyewear models for the projects in India.

The reality is more complex than this first observation. However it highlights the issue of the place and the form of innovation in the BOP strategies, topic that will be studied here.

To investigate this question, the author begins with some background by describing the key concepts of the base of the pyramid market and its main characteristics. The specific challenges that companies face which approach this market will lead the author to consider what forms of innovation are developed in this market. Having consider this, and to demonstrate that innovation is possible in these parts of the world, the author will draw on case studies of multinational companies, such as Danone or Schneider Electric which have implemented BOP projects. To put in perspective the issue of innovation in developing countries, the link between innovation in developed and developing countries will be addressed.

Having shown this interplay between innovation in developing countries and developed countries the author will explain in a conclusion the issue of innovation in the global economy of the world.