

# Strategy for the base of the pyramid

Business



The 4 billion people comprising the base of the pyramid, they earn less than \$2, 000 each per year. The base of the pyramid is poorest but largest socio-economic group. In 2012, two billion to three billion people live in poverty worldwide. This huge base of the pyramid has an estimated \$5 trillion in purchasing power. While the developed markets are well saturated, the base of the pyramid become more attractive for many enterprises. The base of the pyramid may indeed provide strong growth engines, not only for emerging economies but also for developed markets.

Many companies are actively exploring this approach with a variety of goods meant to reach consumers with limited expendable income: this is called a “the base of the pyramid” strategy. There are lots of opportunities and potential profit . How to find the huge fortune form the base of the pyramid? To know what the are more attractive industries for the base of the pyramid , firms will need to pursue relationships with local delivery providers, social development players, entrepreneurs, government officials and potential customers.

Because the base of the pyramid has a very low income, so consumers will tend to choose compass consumer behavior. They will be spending money on necessary for living things. They haven't been conditioned to think that the products being offered are something one would even buy.

And they haven't adapted their behaviors and budgets to fit the products into their lives. A consumer market is nothing less than a lifestyle built around a product. Food dominates the base of pyramid household budgets.

As incomes rise, however, the share spent on food declines, while the share for housing remains relatively constant-and the shares for transportation and telecommunications grow rapidly. In all regions half of the base of the pyramid house hold spending on health goes to pharmaceuticals. And in all except Easter Europe the lower income segments of the base of the pyramid depend mainly on firewood as a cooking fuel, the higher segments on propane or other modern fuels.

In China, we have many people living in the “ Base of Pyramid” so many companies are continuously performing new approaches and ideas to make their products more competitive.

Nevertheless an important aspect which must be considered consist in the “ cultural” marks of people. For example, in China, some companies have took some traditional products home-made from generation to generation, and have decided to produce and sell them within the traditional commercial channels. In this way, people is replacing their traditions by cultural-based products made by those companies. Undoubtfully, this is a complex problem which involves ethics, growing, culture and some other modern problems. They don't only choose the cheap product, but low price and higher quality.

From a resource-based view, what determines firm performance in emerging economies? The Resource-based view is based on the work of Penrose who defined firms for the first time in 1959 as bundles of resources (Penrose, 1959). As market led competition intensifies in emerging economies, higher value addition and better firm performance may only become possible through development of market based resources and capabilities. Innovative

capability refers to a firm's ability to develop new products and/or markets through alignment of its orientation with innovative processes and behaviors (Wang and Ahmed 2004).

Firms have to invest in innovative resources, and put in place new product and process development structures, to be able to develop new products and processes in emerging economies. Capabilities on the other hand refer to firm's ability to exploit and combine resources through organizational routines in order to accomplish its targets (Amit and Schoemaker, 1993).

According to the resource-based view firms can generate competitive advantages if they possess strategic resources and exploit them.

However, these strategic resources need to fulfill specific characteristics: resources need to be valuable and rare to generate short-term competitive advantages, and they need to be inimitable and nonsubstitutable to create a sustainable competitive advantage (Barney, 1991). Therefore, if one is interested in understanding the competitiveness of domestic firms in the emerging markets during the advanced phase of institutional transformation, one has to follow the pattern of upgrading since the initial phase and investigate the path dependency of future capabilities on past and present competencies.

Emerging economy firms have to carry out various levels of upgrades and dynamically develop capabilities that not only match current requirements at any given point in time during the institutional transformation, but also create foundation for new capabilities that may be required in the near

future. And invent the firsthand knowledge, which can help firm develop a new strategy to sell its product to low-income consumer.

From an institution-based view, what are the crucial differences in formal and informal rules of the game between developed and emerging economies?

Because the feature of emerging economies is institutional change, characterized by “fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players” (Peng, 2003: 275), research on emerging economies could contribute to a deeper understanding of the dynamic interactions between institutions and organizations in large-scale institutional transitions (Hoskisson, Eden, Lau, ; Wright, 2000; Peng et al. , 2008; Wright, Filatotchev, Hoskisson, ; Peng, 2005).

However, focusing predominantly on multinationals from developed economies, mainly Europe, Japan, and the United States, the international management literature has not attached adequate importance to emerging economies (Hoskisson et al. , 2000). In developed economies, financial, legal and regulatory institutions reflect significant levels of development.

For example, in the US, access to financing of new enterprises is relatively easy, and during the last two decades such financial innovations as junk bonds has made this considerably easier than during previous eras (Rajan ; Zingales, 2003).

In the case of emerging economies, on the other hand, financial, legal and regulatory institutions are not well developed, and hence their influence on each of the factors mentioned above is varied. Some argue that aggressively investing in emerging economies is not only economically beneficial but also highly ethical, because it may potentially lift many people out of poverty. I agree with this opinion. First, many developing nations benefit when Western nations establish manufacturing in their countries to take advantage of cheap labour. These firms offer a broad range of job opportunities in emerging economies.

On the other hand, the cheap labour reduces the cost of production that makes even small firms more competitive, it will help developing economies to move ahead. Most emerging markets have young working age populations that can contribute to the economy and keep retirees from the poor house. Second, Emerging markets run the gambit on resources. Brazil is resource rich, while China remains a big importer of raw materials and on balance is resource poor. Overall, emerging market countries have a disproportional share of natural resource wealth although exceptions exist, such as Australia, Canada and Norway).

Countries rich in natural resources benefit as emerging markets industrialize, like China. Brazil benefits from Chinese demand for natural resources. Third, emerging economies have big spender. China has taken over Japan as the leading luxury market in the world. That doesn't just bode well for Lamborghini car sales, it is also good news for companies like Disney.

There are 1.4 billion people in China eager to spend on hot global brands, including silver plated Tinkerbell earrings.

Moreover, Chinese millionaires are younger than their American counterparts, and most of them got their wealth from private enterprise not Chinese state companies, according to Forbes surveys. Finally, Emerging markets are responsible for a growing proportion of the spending on environmental projects. Thomas says that a decade ago the environmental industry was very Europe-centric, whereas now it is global.

There has been a certain improvement in living conditions in emerging economies, such like medical conditions , education.