MARKETING TO BOTTOM OF THE PYRAMID AND SUBSISTENCE MARKETS – A RESEARCH AGENDA

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Received: December 17, 2010

Abstract

The concepts of Bottom of the Pyramid (BOP) and subsistence markets have attracted substantial academic and managerial attention in recent years. The BOP thesis states that there are opportunities for multinational companies to achieve significant revenues and profitability by designing and implementing marketing programs aimed at people who occupy the lowest tier in the world's economic pyramid. The number of people in this segment has been estimated to be between 2.7 billion and 4 billion. This paper reviews the academic literature on BOP and subsistence markets and identifies important issues related to marketing to these consumers. The review is based on journal articles that have appeared in peer-reviewed journals and on case studies published by reputed academic institutions. The literature review first identifies a number of business issues like size of BOP market, motivations for undertaking BOP initiatives, ethics and linkages. Then specific marketing issues related to the BOP segment such as consumer analysis, company analysis, collaborators, competition and context, segmentation and positioning and issues relating to marketing program design and implementation are analyzed. Based on this analysis, the paper develops a research agenda for future research on BOP and subsistence markets.

Since the publication of Prahalad and Hart's article in 2002, the concept of Bottom of the Pyramid (BOP) has attracted substantial attention of academics and senior managers in large multinational corporations. An allied concept termed as “subsistence markets” was introduced into the academic literature by Viswanathan and Rosa (2010). These concepts – BOP and subsistence markets are important because they are concerned with the living standards of more than 4 billion people who are in the world's lowest income category with incomes of less than $1500 per annum on a purchasing power parity basis. Individually, these people purchase and consume very little as compared to those in the higher income categories, but the sheer size of the total market and its potential for future growth provide many interesting possibilities for managerial action and academic research. The BOP concept is also interesting in the wider context of worldwide efforts to restrain poverty. For example, the European Commission announced 2010 as the “European Year for Combating Poverty and Social Exclusion”.

While most of the literature on BOP has originated from a business strategy research perspective and has focused on business issues, there are many marketing challenges and marketing issues involved in addressing business and profit opportunities in the BOP area. There is a need for synthesizing existing knowledge on marketing to the BOP and outlining opportunities for future research. The objective of this paper is to review the literature on BOP and subsistence markets and to develop a research agenda on marketing to the BOP.
METHODS

This paper is based on a literature review of peer-reviewed journal articles on BOP and subsistence markets. Some suggestions for future research on marketing to BOP have been made on the basis of the literature review. In preparing this article, the online databases EBSCO and ABI were accessed using search terms ‘bottom of pyramid’, base of pyramid and subsistence markets and articles that have appeared in English till September 2010 articles were downloaded and reviewed. This review does not include BOP-related work that has been published in other media such as conferences, working papers, etc. which were not available on the above databases.

RESULTS AND DISCUSSION

The concept of BOP was introduced by Prahalad and Hart (2002). Their thesis was that there were significant opportunities for MNCs to generate profits while simultaneously making a social contribution through marketing specially-designed products and services to the over 4 billion people who occupy the lowest tier in the world’s economic pyramid. The BOP market has been defined as persons who have an income of less than US$ 3000 per capita per annum on a PPP basis (Hammond et al., 2007). The size of the BOP market has been estimated at US$ 5 trillion and the major product/service categories comprising the total BOP market are estimated to be food, energy, housing, transportation and health. The concept of subsistence markets is closely allied to the BOP concept (Viswanathan and Rosa, 2010). Subsistence means a level of resources which is just sufficient for everyday living although subsistence consumers can have rich lives in family situations and community networks.

There are a variety of reasons for firms to undertake BOP and subsistence market initiatives. Martinez and Carbonella (2007) have proposed that “firms that are searching for new markets and business opportunities may find a means to commercial revitalization and ethical commitment by concentrating on the most disadvantaged”. Hahn (2009) has attempted to derive an ethical rationale for engaging with the poor through BOP initiatives. He links BOP initiatives to sustainable development and suggests that the concepts of inter-generational justice and intra-generational justice could serve as the ethical basis for engaging in BOP activities.

Business Issues in BOP Markets

A review of the BOP and subsistence market literature enabled the identification of the following business issues: These issues are important and need to be consciously addressed prior to starting a BOP initiative.

1. The definition of BOP segment is not very precise. Prahalad and Hart (2002) indicate that the BOP segment consists of 4 billion people who earn less than $1500 per annum. Hammond et al. (2007) consider BOP at income levels of less than $3000 per annum on a PPP basis. Prahalad (2004) indicates that there are 4 billion people who live on less than $2 per day. These varying estimates suggest that the BOP lies within an income range of $2 to $6 per day. More research is required to develop a more precise and widely accepted definition of BOP segment.

2. If firms need to engage with BOP, they need to be clear how will the BOP venture be viewed and evaluated within the firm? Several firms undertake welfare activities for consumers and citizens under the ambit of CSR (corporate social responsibility). These CSR activities do not have a profit motivation. Hence, when engaging in BOP initiatives, firms must ask the question – Is the venture going to be a for-profit activity or will it considered as a corporate social responsibility activity (CSR)? What are the motivations for undertaking this activity? Is the primary aim market expansion or is it part of strategic intent which aims to stretch the organization’s capabilities? (Elyadi and Harrison, 2010).

3. Ethical issues are important in BOP. Does the firm have an ethical checklist which will guide activities in the BOP? Are ethical compliance standards built into the business and operational processes? (Davidson, 2009; Hahn, 2009).

4. Firms will find it difficult to implement successful BOP initiatives on their own. Does the firm have a plan for establishing linkages with multiple institutions within the commercial, government and non-governmental sectors for implementing BOP initiatives? (Prahalad and Hart, 2002).

Marketing issues in BOP and Subsistence Markets

The extant literature on BOP and subsistence markets throws up a number of marketing issues that need to be addressed by firms undertaking BOP initiatives.

1. Consumer analysis: Understanding the needs, wants and current behavior of BOP consumers is indeed a challenge as these consumers may have unique needs and motivations. For example, Barki and Parente (2010) found that the BOP consumers desired products which help enhance and maintain self respect and dignity. Important questions that need to be asked in BOP consumer research are – What are the key consumer goals? Which product categories are appropriate for BOP? How much can consumers pay?

2. Company skills and resource analysis: BOP and subsistence market activities are often significantly different from conventional marketing activity the firm may have undertaken previously. It is important for firms to carry out a thorough analysis of the requirements and availability of technological, financial, knowledge and human resources before initiating BOP activities.

RESUL TS AND DISCUSSION

Business Issues in BOP Markets

A review of the BOP and subsistence market literature enabled the identification of the following business issues: These issues are important and need to be consciously addressed prior to starting a BOP initiative.

1. The definition of BOP segment is not very precise. Prahalad and Hart (2002) indicate that the BOP segment consists of 4 billion people who earn less
3. **Competition analysis:** BOP and subsistence consumers have limited options and often purchase fewer categories. They may substitute one category for another. Hence competition analysis in the BOP segment must cover not only competition at the product or brand level but also at the category level.

4. **Collaborator analysis:** Creative approaches are required to develop and implement channels of distribution for BOP and subsistence markets. In some locations particularly in BOP communities in urban agglomerations, it is possible to draw out the BOP consumers from their place of residence and attract them to modern stores situated nearby. In other locations especially widely dispersed rural areas, this will be difficult if not impossible and the channel must deliver the product or service at a place that is very close to the consumer's residence.

5. **Segments and targeting:** BOP and subsistence markets are not one amorphous group but can be segmented based on standard segmentation criteria. Ireland (2008) recommends that firms should focus on urban BOP consumers, particularly in markets which have high levels of urbanization. He believes that the urban BOP consumers can be segmented easily compared to rural BOP consumers.

6. **Positioning:** A typical option in positioning is to build an aura of exclusivity around the purchase and use of the product. In the case of BOP, a more effective option is to communicate the idea of inclusion, an idea which enables the BOP consumers to think that they can also aspire to middle class status by purchasing and using high quality brands that are normally targeted at the middle class and higher tiers of the income pyramid (Ireland, 2008; Pitta, Gueslaga and Marshall, 2008).

7. **Pricing:** The extant literature on BOP and subsistence markets emphasizes the importance of the pricing decision when marketing to BOP. Several studies point out that the poor pay more for the same products which are available at lower prices to consumers in other segments. While lower prices are certainly necessary to address affordability in the BOP segment, merely reducing pack size or serving size to offer lower prices is not the way to succeed (Karnani, 2007). It is necessary to find ways and means to help BOP consumers to increase their incomes, and create processes for offering credit and installment payment plans to BOP consumers.

8. **Products:** Prahalad and Hart (2002) call for the application of modern technology for creating suitable products and services for the BOP segment. It is not appropriate to market products based on old technology that has been phased out from developed countries. Rather, the products should be of high quality, meet the consumer needs, and contribute to sustainability. Given the purchasing constraints that most BOP consumers face, package size is often a critical issue. Many firms have tried developing small pack sizes of existing products.

9. **Distribution:** Setting up a distribution network that serves BOP and subsistence markets is possibly one of the most difficult tasks in marketing to BOP. The bulk of the BOP consumers in emerging markets live in widely dispersed villages and rural towns which have minimal distribution infrastructure like roads, transport and communication possibilities. The shops that exist in these villages are very small, and stock only a few items like foodgrains, cooking oil, and some packaged consumer goods. Creating a distribution system that delivers products to these rural consumers is a costly and difficult undertaking. However the BOP literature has documented a number of examples of firms in emerging markets that have created special distribution networks for serving BOP. Hindustan Unilever in India is one of the firms which have made great strides using a network of rural distributors, rural wholesalers and self help groups (Rangan, 2003; Prahalad, 2004). Many BOP and subsistence consumers live in the urban slums. Several firms have created networks that deliver products to small retail outlets operating in these slums. In addition to using existing retailers operating in these areas, some firms have created direct distribution networks for BOP markets that use multi-level marketing (Ireland, 2008). BOP and subsistence consumers have very limited disposable income and therefore require credit and payment flexibility at the retail level. Recent developments in microfinance distribution promise to make finance available to BOP producers at reasonable rates. This should help in addressing some of the financial constraints that these consumers face.

10. **Loyalty:** Brand loyalty can be expected to be high in BOP and subsistence markets. This is because poor consumers have very little margin for error and try to reduce risk by purchasing well-known brands which are viewed as less risky compared to cheaper local brands. The area of brand loyalty among poor consumers may be a good area for future research.
A Research Agenda for Marketing to BOP and subsistence markets

This section develops a research agenda for marketing to the BOP based on a review of BOP literature.

1. Brands and branding: Brands can be objects of desire even for poor consumers. Van Kempen (2004) found that the urban poor in Bolivia were willing to pay a premium for designer labels. Ireland (2008) also suggests that urban poor can view high quality brands that are normally purchased by middle class consumers as aspirational brands. Research by Barki and Parente (2010) suggests that the poor consumers may particularly value brands that help enhance their dignity and self esteem.

Future research in Marketing to BOP can explore the role of brands in this segment. Which brands are consumers currently patronizing? Are these local brands, global brands adapted for the local market or global brands? Which brands do consumers aspire to use? What kind of relationships do consumers have with their brands?

2. Marketing communication: BOP consumers may have high levels of functional illiteracy. Research in this area has indicated that functionally illiterate consumers face many constraints in the purchase process and hence develop unique coping strategies (Viswanathan, Rosa and Harris, 2005). It may be necessary to make extensive use of visual information on products, packaging and brand communication while addressing BOP markets. Companies dealing with BOP often choose easily recognizable, memorable brand names which have positive social connotations (Weidner et al., 2010). Future research could explore the role of visuals and brand names in brand choice and brand image, the effectiveness of various message and media strategies and the preferred media for these consumers.

3. Social networks: Social networks may be very important in BOP and subsistence markets. Consumers may rely on social networks for information and assistance in the purchase process. These networks may be useful for firms in communicating brand benefits and stimulating adoption and diffusion. Brands can also engender a sense of community. Solidarity networks have developed around the CEMEX Patrimonio Hoy brand because the brands link strongly with prominent social values (Weidner et al., 2010; Flores-Letelier, 2003).

Subsistence consumers face many challenges but they do have resources which help them cope. These resources primarily consist of social networks in which these consumers ask for, and receive advice and assistance from members of their social network during purchase decision making and consumption. Viswanathan, Sridharan and Ritchie (2010) surveyed subsistence consumers in India and found that social sources of information (groups of which they were members, family, and close friends) were relied upon more often than non-social sources of information (advertising, package labels and media). Future research could focus on the type of social networks that are most influential – family, friends, neighbours, co-workers and the role of social networks in the introduction of new products, in the promotion of existing products and in the choice of purchase outlets.

4. Research methods: A variety of research methods have been used in studying BOP and subsistence markets. Some of these methods may also be useful in carrying out research on branding in BOP contexts. Prahalad and Hart (2002), Prahalad (2004) and Karnani (2007) have used case studies and theoretical arguments to develop and analyze the BOP concepts. Subsequent authors like Elyadi and Harrison (2010), have also used case studies. Some writers have used extant case studies to derive generalizations (Weidner, Rosa and Viswanathan, 2010; Subramaniam and Gomez-Arias, 2010; London, Anupindi and Sheth, 2010). Qualitative in-depth interviews have been used by Viswanathan, Rosa and Harris, 2005; Chikweche and Fletcher, 2010; and Barki and Parente(2010). The study by Chikweche and Fletcher (2010) which investigates the behavior of subsistence customers in Zimbabwe used an interesting research design. The study employed qualitative consumer interviews, focus groups and ethnographic observations. The main researcher and a research assistant lived in the subsistence community and observed the consumers at close hand. Viswanathan, Sridharan and Ritchie (2010) have used a survey approach to study subsistence market consumers in Chennai, India. Their research assistants administered a questionnaire in the local language Tamil.

Research on brand personality typically uses academically validated scales such as those developed by Aaker (1997). In this approach, brands are rated on various traits using a five-point scale. Romanuik (2008) suggests that there is a simple but effective alternative method for measuring brand personality. This method is the free association method used in commercial advertising research. Romanuik (2008) found that the results obtained by using free association were similar to those obtained by using the trait scale method. This result is interesting since the free association method is easier and quicker to administer and may be more appropriate for BOP contexts.

Future research could be directed towards the development of more effective research methods using a combination of qualitative and quantitative methods and appropriate analytical techniques.
SUMMARY

BOP and subsistence market concepts have received substantial attention in recent years in academic and managerial circles. The objective of this paper was to review the literature on BOP and subsistence markets and develop a research agenda on marketing to the BOP. The paper is based on academic literature available on online databases such as EBSCO and ABI and does not include BOP-related work that has been published in other media such as conferences, working papers, etc. Some suggestions for future research have been made on the basis of the literature review.

The BOP thesis (Prahalad and Hart, 2002) states that there were significant opportunities for MNCs to generate profits while simultaneously making a social contribution through marketing specially designed products and services to the people who occupy the lowest tier in the world’s economic pyramid. The number of people in this segment has been estimated to be between 2.7 billion and 4 billion and the market value is estimated to be between $1.2 trillion and $5 trillion.

In this paper, the literature on BOP and subsistence markets has been reviewed and important business issues have been identified. These issues are – size of BOP market; motivations for undertaking BOP initiatives; ethics; and external linkages. Then specific marketing issues related to the BOP segment such as consumer analysis, company analysis, collaborators, competition and context, segmentation and positioning and issues relating to marketing program design and implementation are analyzed. Based on this analysis, the paper develops a research agenda for future research on BOP and subsistence markets.

The research agenda for marketing to the BOP is developed in four areas – brands and branding, marketing communication, social networks and research methods. With respect to branding interesting research questions are – which brands are consumers currently patronizing? Are these local brands, or global brands adapted for the local market, or global brands? Which brands do consumers aspire to use? What kind of relationships do consumers have with their brands? With respect to marketing communication it would be useful to find out the role of visuals and brand names in brand choice and brand image, the effectiveness of various message and media strategies and the preferred media for these consumers. Social networks appear to be important in BOP. Hence academic research could focus on the type of social networks that are most influential – family, friends, neighbors, coworkers and the role of social networks in the introduction of new products, in the promotion of existing products and in the choice of purchase outlets. Finally, research methods that are deployed in researching consumers in higher income tiers may not be appropriate for BOP. Therefore, future research could be directed towards the development of more effective research methods using a combination of qualitative and quantitative methods and appropriate analytical techniques.

REFERENCES


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