

***“The biggest market is in the smallest sales”***

- A paper for Quo Vadis 2005

<b>Team Member</b>	<b>E-Mail</b>	<b>Contact Number</b>
Parul Maini	icyqool@yahoo.com	09322868467
Avik Das	avikd@rediffmail.com	09892788137

Team members are students of MBA (Full Time) at  
**Narsee Monjee Institute of Management Studies (NMIMS), Mumbai**

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## **1. Executive Summary**

*Have you heard of brands like SMC-RAJA, SMC-PANTHER and SMC-SENSATION? In most probability, you haven't.*

*SMC is an international NGO that sells pills, condoms and injectables, mostly through private sector outlets in the Bangladesh contraceptive market. In a market till sometime back heavily dominated by public sector suppliers, SMC has captured 71 percent of the market share for condoms and 29 percent for the pill.*

*Unknown, the brand may be. But, SMC is a roaring business success story. And that too, its clients being the poorest of the poor in one of the world's poorest countries.*

The history of business engagement in global markets exhibits that the large and small corporations have so far focused on markets at the top of the global economic pyramid. The 'bottom' or 'base' of the pyramid (BOP), which includes the world's poorest five billion people, has historically been ignored or undermined by the forces of globalization. *This has resulted in isolated, inefficient, and largely informal markets that force the poor to pay higher prices for goods and services than their more affluent compatriots.*

To eliminate the poverty penalty, informal markets must be mainstreamed. The private sector has both a moral obligation and financial incentives to speed this process.

Businesses are finding that competition for existing markets is often very intense. While some expand through acquisition, others are pursuing market opportunities at the BOP. Research confirms that the poor are receptive to the private sector, and readily accept new technology. They are also well-organized and natural entrepreneurs. In contrast to prevalent myths, consumers at the BOP are very sophisticated. They make remarkably informed decisions about their well being through their purchasing habits. And this is the market that businesses can no longer neglect. *In India alone, there are over 26 crore people living below the poverty line in the country with more than 19 crore of them in rural areas alone. Most of these people are improving their living standards gradually, which makes them active consumers in their own right.*

The team has investigated the subject through secondary research in the form of a *telephonic interview of an Indian NGO*, supported with Internet research from miscellaneous sources. Using the same, the team has identified the articulated and unarticulated needs of the poorest of the poor. Consumption patterns and Consumer Influencing Mediums most apt for the poor were also identified.

Research inferences led to the discovery of the prevalent need gap at the base of the pyramid. The team then identified various sectors where businesses could innovate in terms of offering-design so as to bridge the need gap, thereby creating a profitable business venture out of it.

As to how businesses can go about doing this, has been illustrated with a proposition-concept model covering strategic planning, business-model design, implementation and monitoring activities. Some successfully implemented examples have been cited to further validate the introduced concept.

## 2. An Introduction

SMC is an international NGO that sells pills, condoms and injectables, mostly through private sector outlets in the Bangladesh contraceptive market.

Affordable Household Expenditure Taka		86	146	185	223	531	639	778	972	1337	3806	
Taka Cost per CYP	Household Income Deciles Products (%)	10	20	30	40	50	60	70	80	90	100	
		Poorest									Least Poor	
12	GOB condom											
30	NGO condoms											
60	SMC Raja											
150	SMC Panther											
400	SMC Sensation											
132	GOB condoms with Taka 5 unofficial fee per visit											
252	GOB condoms with Taka 20 unofficial fee per visit											
40	GOB pills with Taka 5 unofficial fee per visit											
80	GOB pills with Taka 20 unofficial fee per visit											
60	NGO pills											
60	SMC Minicon											
60	SMC Ferricon											
234	SMC Nordette											
Key: Inability to pay:			Ability to pay									

Source: Bangladesh Contraceptive Market Segmentation, CMS Analysis

The above graphic shows how carefully SMC has designed its business offerings for the Bangladeshi poor. It has segmented the market in terms of paying capability of its target offering and has matched different affordable price points with brands in its bouquet. Therefore, it's little surprise that in a market till sometime back heavily dominated by public sector suppliers, SMC has captured 71 percent of the market share for condoms and 29 percent for the pill.

The way SMC has made a profitable business out of the poor is worth a closer look. Businesses need to learn how to identify business opportunities at the base of the consumer pyramid. They must also know how to convert those opportunities into successful businesses using a systematic, planned process. The paper looks into these areas.

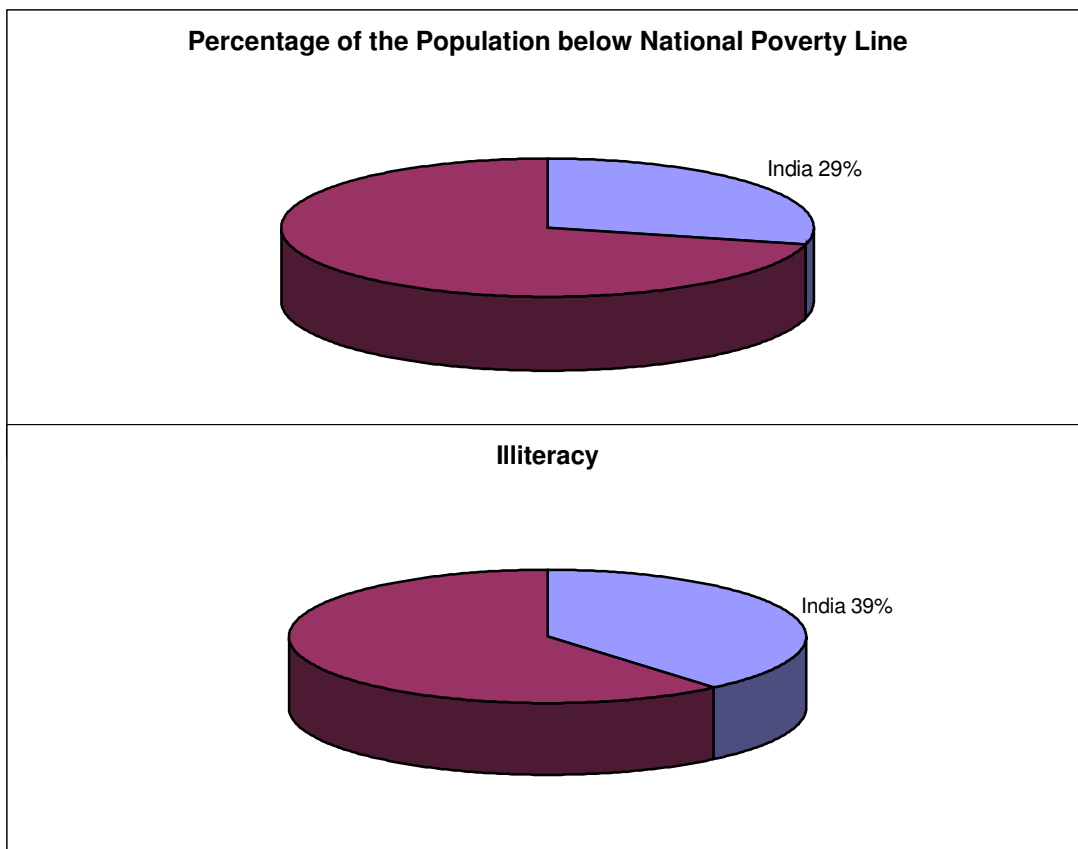
### 3. Secondary Research

- *Constraint:* To grasp a better understanding of the subject, the team decided to set research-focus on the Indian Below Poverty Line market, instead of a wide global view. Within the Indian scene, the team has paid more attention to the rural segment.

This arrangement helps us relate better to the sensitivities involved. The team believes that the inferences derived could then be expanded for global scope.

- *Method of Data Collection: Telephonic Interview with Mr. S. Gupta, coordinator of the activities of Goonj, substantiated with Internet research from miscellaneous sources.* Goonj is a Delhi-based NGO, which channelises resources to the poorest in the remote corners of our country. It aims to fulfill some basic needs of the poor so as to free up their meager resources for other more pressing needs.

- *Poverty indicators*



- *Needs*

<b>Needs</b>	
<b>Articulated</b>	<b>Unarticulated</b>
Food	Communication
Clean Water	Access to Finance
Healthcare	Reliable Sources of Irrigation
Housing Security	Hygiene
Employment	Cheaper Fuels
	Transportation
	Uplifting Standard of Living

- *Consumption Patterns*

Consumption levels depend on level of income and the kind of population whose income has increased. At the subsistence level, people usually consume primary goods such as cereals, milk, food, fuel, wood etc. With a rise in income, secondary goods such as petroleum products, cement, fertilizers, etc. enter the consumption basket. Finally tertiary goods such as transport vehicles, consumer goods and appliances and services are used in large quantities.

In India, it has been observed that the consumption patterns have changed over the years, as a larger share of income is being spent on transport and communication.

The data below illustrates Consumption Expenditure in India by Object

(In Rupees Crore)

*(Values in parentheses are percentage of the total consumption)*

<b>ITEM</b>	<b>Late 90s</b>	<b>2000-</b>
<b>Food, Beverages and Tobacco</b>	414078	388298
	(52.95)	(47.87)
<b>Gross Rent, Fuel and Power</b>	85656	88705
	(10.95)	(10.94)
<b>Transport and Communication</b>	90595	113051
	(11.58)	(13.94)
<b>Population (in Crores)</b>	99.8	101.6
<b>Per Capita Consumption (in Rupees)</b>	7836	7984

- *Consumer Access*

This segment is most influenced by ‘commune approaches’ for communication and distribution. In terms of media, audio/audio-visual/print mediums in local verbiage are most effective. Community ‘melas/mandis/haats’ can act as an important communication/distribution channel. Personal selling using local people can be more effective than the conventional static-retail model.



#### **4. Research Inferences**

##### **a) Need Gap**

Despite their lack of income, the world's poor represent a vast untapped market for profit-making business. Although their individual incomes may be low, the aggregate buying power of poor communities is actually quite large, representing a substantial market for goods and services. Besides:

- *The poor have untapped purchasing power:* Although family incomes are low, poor people must still buy everything from food to transport services. High population densities produce lots of spending money even in villages.
- *Prices are too high in poor areas:* Comparing some areas of India with a Miami suburb leads to the conclusion that loans are 53 times more expensive in India, and water 37 times more costly. Hence, competition from efficient multinational corporations could drive down prices while still providing handsome profits.
- *Costs can be lower in poor regions:* Though building supply networks can be quite costly in the developing world, labor costs much less.
- *Opportunities for innovation abound:* Low household incomes force companies to introduce ever-cheaper products. Unusual languages, geographies, and cultures can lead to innovations and management discipline that can later be utilized for wealthy customers as well.

In other words, by stimulating commerce and development at the bottom of the economic pyramid, organizations could radically improve the lives of billions of people. Achieving this goal does not require them to spearhead global social-development initiatives for charitable purposes. They need only act in their own self-interest. Based on the needs of the poor, the companies or entrepreneurs could realize significant profits by working harder to serve those with very low incomes.

**b) Favorable Areas of Investment/Offering Design**

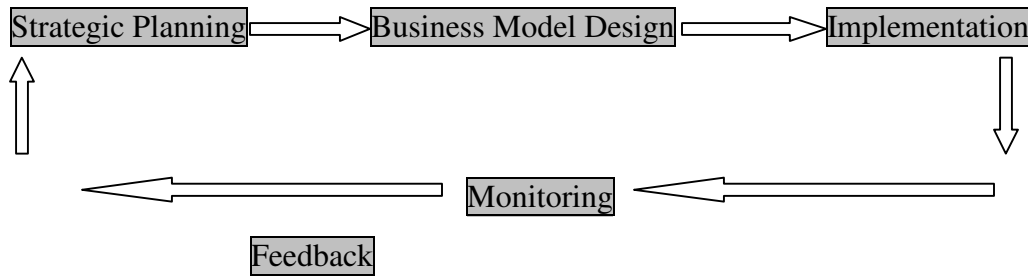
Based on our analysis, the following areas of investment show promise in the future in India:

- *The Food Industry:* Both the packaged and the unpackaged food segments seem promising. The packaged food segment could include largely instant, filling and nutritious food items. The unpackaged food industry could comprise cooked items. A good example of this is the ‘*Jumbo Vada Pao*’ chain of outlets in Maharashtra. The team has identified this seemingly simple concept of peddling ‘Vada Pao’ (Rs. 5 Price-Point), a local food-item, as a bright area for extending out to a large untapped Below Poverty Line market in rural as well as urban markets.
- *Irrigation:* Treadle pumps are an efficient and reliable source of irrigation in the dry season. It is an employment intensive product and is far more superior to the other manual lift systems used for irrigation. Its initial investment is approximately US \$25 and on an average this cost is recovered in the first season.
- *Micro financing:* While most poor people lack access to banks and other formal financial institutions, micro finance institutions (MFIs) have emerged over the years to provide financial services to them. Some of them have developed new credit techniques, such as instead of requiring collateral, they reduce risk through group guarantees, appraisal of household cash flow, and small initial loans to test clients. Experience has shown that the poor can be served profitably, on a long-term basis, and in some cases on a large scale. Indeed, well-run MFIs can outperform mainstream commercial banks in portfolio quality. *Grameen Bank* is a classic example here.
- *Sourcing Of Human Resources’ Talent:* There’s no dearth of talent and skill among the poor. Investments could look at providing employment to the rural artisans by focusing the handicraft and the agri-produce industries. Such a venture guarantees employment to the poverty-stricken people and at the same

time acts as a source of revenue for the investing firm as products like handicrafts have a vast export potential too. Such an alternative also attaches to it an emotional appeal as it fulfils a vital need- financial independence.

- *Insurance:* Due to the lack of modern technologies in poorer areas, the produce as well as other assets like houses of the poor people is risk-prone. Thus the insurance sector has an opportunity in the form of services like crop insurance, house insurance, etc.
- *Loans:* Banks and other institutions can offer various services like housing, agricultural, farming equipment and other short and long-term loan facilities at lucrative rates, which are expected to find a ready market as the need for cheap financing is omnipresent.
- *Healthcare:* Organizations like *Apollo Hospital* are looking into telemedicine. It enables treatment to be carried out in rural areas by local doctors with advice from renowned specialists through a tele/video-conferencing arrangement.
- *Fuel: Bio-Diesel* has emerged as a feasible alternative to conventional fuel. It uses *Jatropha* plantations as input to produce fuel. In the process, gains in form of employment and utilization of rural wastelands could be reaped.
- *Mobile Communication:* Poor people are starting to look at affordable telephony options to further their occupational needs
- *Transportation:* Products like bicycles and carts, which involve low cost of operation, are runaway hits in among the poor.
- *Water purification:* Companies investing in products like water purifiers can find markets even in the villages as different arrangements can be worked out, such as a fixed number of water purifiers can be installed at a certain number of locations which can be collectively used by the villagers. The cost in such a case would also work out to be low and it would also ensure that everyone has an access to potable water. Alternatively, water purification tablets are a useful product for the poor and show a lot of promise in terms of the revenues.

## 5. Introducing the Proposition-Concept Model



### I. Strategic Planning

#### a) *Identifying Business Objectives:*

- Business Objectives would have to stem from a critical analysis of an enterprise's strengths and weakness. The objectives must also be aligned to the long-term vision of the enterprise
- Approaching the base of the consumer pyramid may sometimes be a gradual process in which you do not reach the base, but you do attain consumers with a lower-income level than you were reaching before

b) *Market Research:* This assumes even more importance if one wants to do business at the base of the consumer pyramid. The base has been largely neglected by businesses on account of a combination of myths and truths about the segment not being 'viable'. Therefore a thorough validation is warranted to ascertain correctly the needs, wants and desires of the consumers thereby ensuring profitability for the venture. *Market Research should also bring to the table crucial insights on the Buying Behavior of the poor*

c) *Segmentation – Targeting – Positioning:* Enterprises must recognize that 'the poor' cannot be perceived as a single homogenous group. Segmentation and Targeting will enable one to pinpoint one's target market at the base of the pyramid whose needs the enterprise can most aptly meet. Positioning will give

one that unique space in the poor consumer's perceptual space that will attract them towards the offerings. This value proposition has to be carefully designed keeping in mind the importance of the offering, the consumers' paying capability and the kind of offering.

*d) Marketing Mix: This will lead the enterprise to design and make available offerings customized to the identified target market. While there's a tendency in companies to standardize products for developing markets, the poor often need offerings that are unique.*

<b>Business View</b>	<b>Customer's View</b>
Product	Customer Solution
Price	Customer Cost
Place	Convenience
Promotion	Communication

## **II. Business Model Design**

*a) Ideally, Business Models should:*

- Align with Business Interest
- Be Business-Led, not CSR Led
- Involve Senior Management Commitment
- Use Full-Time Personnel
- Obtain limited corporate assistance
- Use existing business processes
- Obtain input from local sources
- Find appropriate outside assistance
- Develop a broad-set of champions
- Consider Scaling as an asset and an obstacle.
- Become socially-embedded
- Talk in business-relevant terms

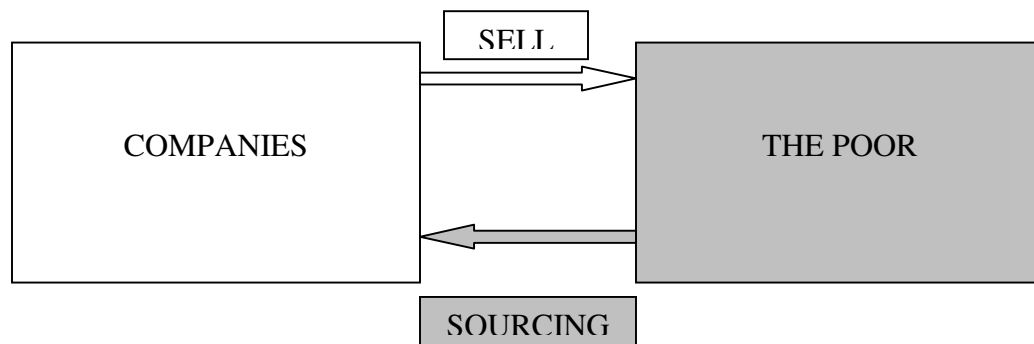
*b) Mutual value creation can be produced through an iterative process:*

- *Opening-Up:* This requires an understanding of the poor through immersion, two-way dialogues, respect and humility.
- *Building an Eco-System:* Building on this understanding, networks can be created that allow the enterprise and locals to work together constructively.
- *Enterprise Creation:* Finally, business models should be field-tested, evaluated and scaled-out in such a way that they become valuable to everybody involved.

*A "4 P's" framework - people, partners, performance and place - applied to each of the three stages will help identify criteria for engagement.*

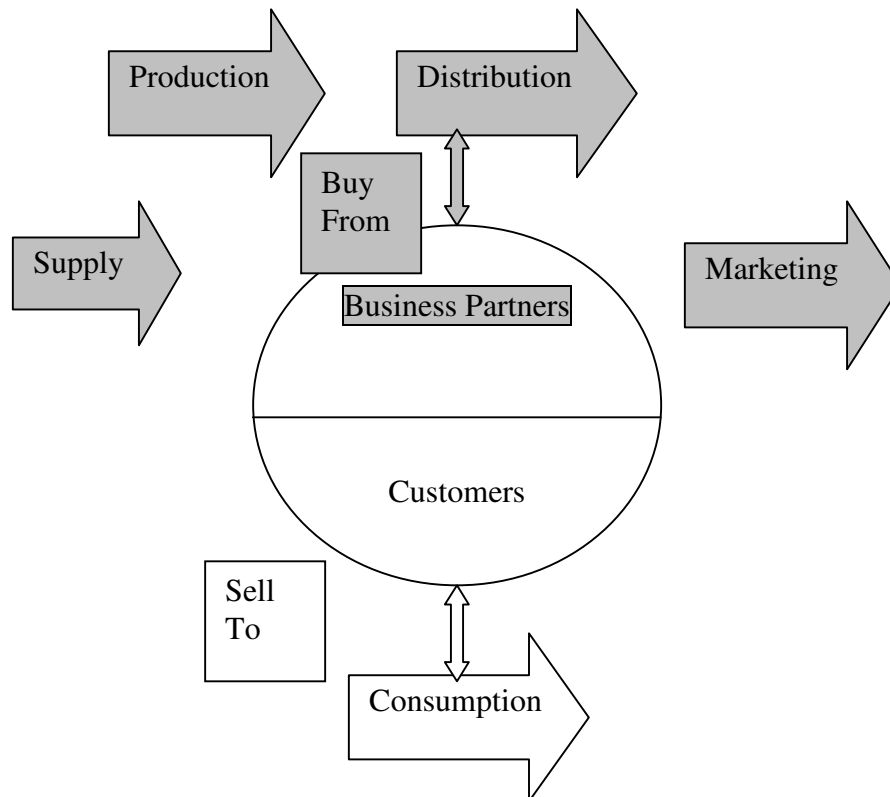
*c) Combining Selling and Sourcing*

The poor should not be looked upon as a 'sitting duck' that needs to be converted to purchase. A business model that combines sourcing and selling is more likely to strike a chord. This arrangement will involve them emotionally with the business, at the same time creating an alternate revenue stream for the business. Sourcing could be in the form of products like handicrafts, agri-produce or services like labor, distribution network. Therefore the poor will be customers for the business in some areas, whereas partners/suppliers/employees/distributors in some other areas.



*d) Integrating the Poor to the Business Value Chain*

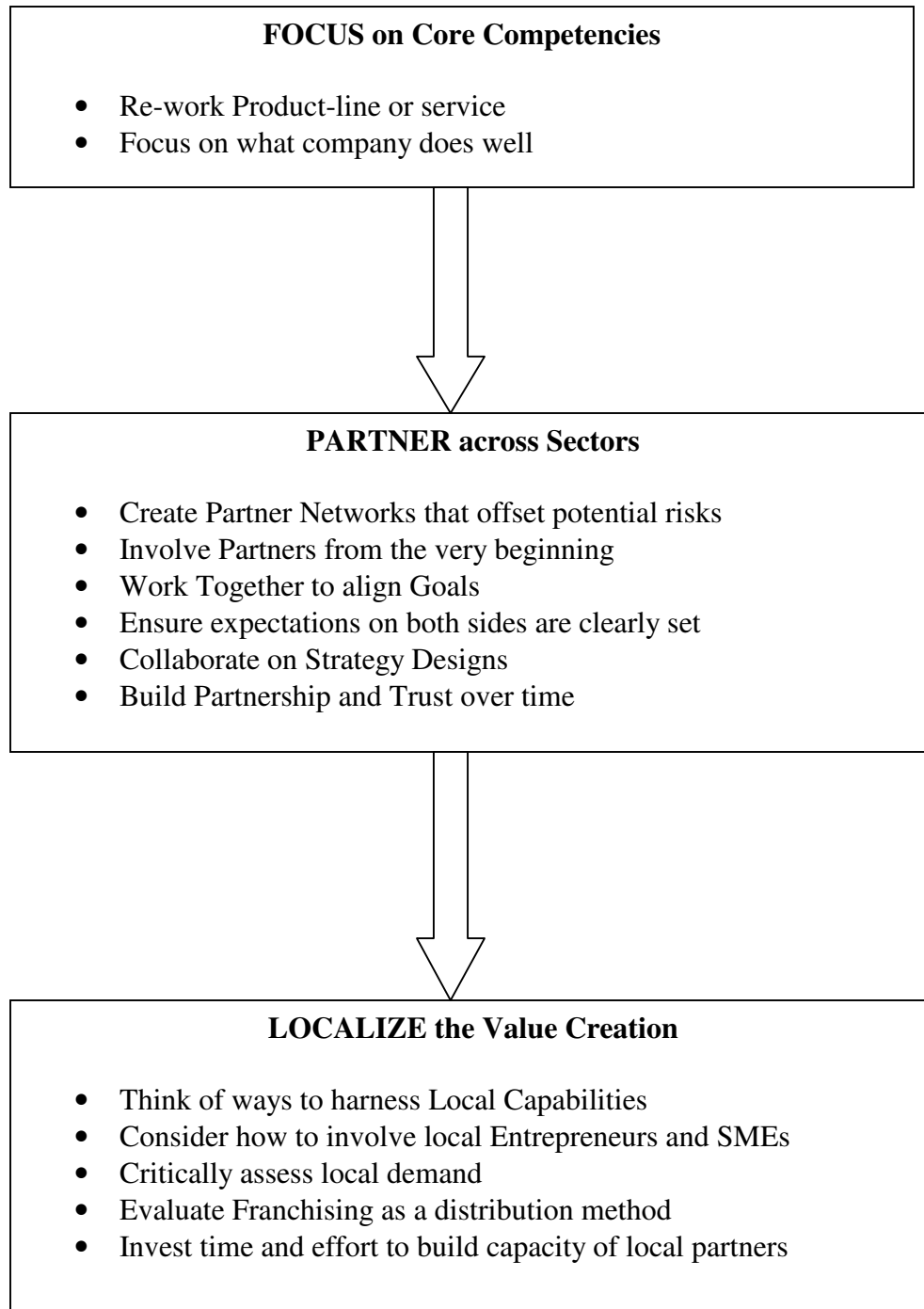
The idea is not so much about ‘targeting’ the poor, as customers or as cheaper labor, but learning to see the poor as business partners who may be important throughout the corporate value chain.





### **III. Implementation**

The following building-block method could be utilized:



**IV. Monitoring**

*Market Based Scorecard Analysis:*

Illustrated below is a general checklist that businesses targeting the poor should follow in their continuing self-introspection process. The inferences from the same should be fed in iteratively to the entire business model formulation process.

In this checklist, businesses can evaluate performance based on the pillars of their business model, namely focus, partner and localize.

<b>Self-Introspection Checklist</b>	<b>Focus</b>	<b>Partner</b>	<b>Localize</b>	<b>Other</b>
1. What are our drivers and motivations?				
2. How do we shift mindset?				
3. Do we understand the real needs of the markets?				
4. Do we have the right product/service to offer?				
5. How do we finance the investment?				
6. How do we ensure that there is demand for our product/service?				
7. How do we ensure that our customers can afford it?				
8. How do we reach our customers?				
9. How do we collect revenues?				
10. How can we improve our supply chain?				
11. How can we stimulate related economic activities downstream?				
12. How do we scale up or replicate?				
13. How do we measure success?				

## **6. A Few Examples**

### *a) P&G*

In 1999, Procter & Gamble (P&G) had made a strategic commitment to sustainable development, to develop products and services that improve the lives of consumers in both developed and developing countries.

UNICEF and Cornell University brought to P&G's attention the syndrome in poor countries known as the 'hidden hunger'. Essential micronutrients like iodine and iron, required for the physical and intellectual growth are mainly found in expensive foods, such as meat.

P&G came up with a product called NutriStar, a low-cost, powdered drink mix that contained all the vital micronutrients and also tasted good. NutriDelight was launched in the Philippines. P&G also spent time educating people on the benefits of micronutrients. The results were disappointing but provided an important learning experience. P&G had spent on education, but not enough on demand creation; so people knew more about micro-malnutrition, than NutriDelight.

P&G re-branded NutriDelight as NutriStar and launched it in Venezuela, and did things differently. It began to look for new partners, and built a network of partnerships with NGOs, and associations to make people aware of the need for the product. The educational campaigns helped to raise awareness of the problem of 'hidden hunger' and create demand for the product.

Despite its rough ride with NutriStar, P&G continues to seek successful sustainable livelihoods business models. Its latest product, called PuR, is a sachet of powder that causes bacteria, viruses, dirt, and other impurities in water to coagulate and settle, making the water safe to drink.

*b) Vodafone*

The Vodacom Community Services program in South Africa shows how a technology company can learn to operate profitably in a lower income market segment. The business model adjustments took time to implement, but the business is now a success. Vodacom, a joint venture between Vodafone and Telkom SA, has developed a shared service model for providing telecommunication services to poor communities in South Africa. This began with a government mandate, but turned into an opportunity for future profitable growth.

Their phone shop strategy to market it involved identifying local entrepreneurs to run the phone kiosks, and hiring and training them to manage the mobile kiosks. Vodacom used a franchise model to promote local entrepreneurship and reduce startup capital requirements. Vodacom hence saw the value of partnering to develop its community services business, and tapped into local knowledge and expertise through its franchise model, in which local entrepreneurs are managers and sales people. Vodacom found that each mobile phone shop spawned five new jobs and unquantifiable spin-off economic gains. Benefits to the community include allowing families with a migrant worker to keep in touch and manage family affairs, helping people conduct their businesses more effectively, and allowing delivery drivers to keep in touch with headquarters.

The cost of setting up a phone shop is equivalent to about \$7,400. The franchisee's total investment is approximately \$3,450. There are now more than 23,000 phone lines at approximately 5,000 sites. Total revenue (to Vodacom) in 2003 was \$129.5 million. Vodacom is paid two-thirds of total revenue while the phone shop owner keeps the other one-third, so each shop brings in an average of \$38,800 per year, thus enhancing profitability. There are opportunities to expand the number of sites in South Africa, to introduce new services, and to replicate the approach in other countries.

## **7. Conclusion**

**“ Companies need to go through a learning process to move down the pyramid from their conventional markets (top 11% income bracket) and adapt to the next market segment.”**

George Carpenter, Procter & Gamble, Director, Corporate Sustainable Development.

Learning Process indeed it has to be. Businesses need to re-look at their present offerings' portfolio. They should segment the BOP and target the segment that they can cater to most aptly. A change of mindset is warranted here. The poor must be looked at as partners and not as mere consumers. Therefore the poor should be involved closely with the enterprise value-chain. Mutual value creation can be created through core-competency focus, partnering and localizing.

Businesses can no longer afford to stay cocooned within their existing markets. A huge market begs to be serviced at the base of the consumer pyramid. It is a sensitive segment and therefore all it demands is a slightly modified and focused approach towards their needs.

For those businesses that manage this successfully, they stand to add to their revenues. And for businesses that choose to stay passive, their competitors surely will not. It's a decision that businesses have to take quickly. After all, the stakes involved are high!

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