

# BEING ON TOP OF YOUR GAME AT THE BOTTOM OF THE PYRAMID

*Pravina D. Oodith\**, *Sanjana Brijball Parumasur\*\**

## Abstract

This paper analysed the viability of Prahalad's Bottom of the Pyramid (BOP) proposition within the South Africa context as a mechanism to eradicate/minimize poverty by ensuring a joint collaborative effort by government, NGOs, large domestic firms, multinational corporations (MNCs) as well as the poverty stricken citizens themselves. It conceptualized the BOP proposition and, having reviewed statistics on the extent of poverty globally and in South African in particular, confirmed that the BOP is a lucrative market in the South African context. From the paper, it is evident that the BOP proposition, if effectively implemented, has the potential to reduce poverty in South Africa and increase the profits of MNCs. It then reviewed Prahalad's twelve Principles of Innovation and strategically divided these into six differentiation and six low-cost strategies. The paper concludes by articulating creative strategies (based on Prahalad's 12 principles of innovation) for active participation and competitive advantage at the bottom of the pyramid, which are vividly presented in a model for strategic partners especially multinational corporations (MNCs) to adopt when expanding their scale of operations to incorporate the BOP market.

**Keywords:** Bottom of the Pyramid, Global Poverty, Poverty in South Africa, Differentiation Strategies, Low-Cost Strategies

*\*School of Management, IT and Governance, Faculty of Management Studies, University of KwaZulu-Natal (Westville campus), Private Bag X54001, Durban, 4000*

*Tel.: +27 31 260 7340*

*E-mail: [Oodithdp@ukzn.ac.za](mailto:Oodithdp@ukzn.ac.za)*

*\*\* Room M1-306, M-Block, School of Management, IT and Governance, College of Law and Management, University of KwaZulu-Natal (Westville campus), Private Bag X54001, Durban, 4000*

*Tel.: +27 31 260 7176*

*E-mail: [brijballs@ukzn.ac.za](mailto:brijballs@ukzn.ac.za)*

## 1. Introduction

In the year 2000, 192 member countries of the United Nations committed themselves to achieving 8 United Nations Millennium Development Goals, the first of which is the eradication of extreme poverty and hunger. This millennium declaration was an unprecedented expression of solidarity in which 192 countries (both rich and poor) pledged to make every plausible endeavour to promote human development and halve poverty by 2015. This mammoth task had raised the question about whether or not the efforts of government, non-governmental organisations (NGOs), aid agencies and the Corporate Social Responsibility (CSR) initiatives of organisations in the private sector were going to be commensurate in ameliorating the plight of approximately 4 billion people who are economically at the bottom of the pyramid (BOP) (Prahalad, 2005).

Prahalad, an internationally acclaimed business philosopher and strategist, promulgated in his book entitled, *The Fortune at the Bottom of the Pyramid:*

*Eradicating Poverty through Profits*, an alternative approach to poverty reduction which involves a joint collaborative effort by government, NGOs, large domestic firms, multinational corporations (MNCs) as well as the poverty stricken citizens themselves in order to alleviate poverty and generate profits for the businesses that serve the needs of BOP consumers.

Prahalad and Hart (2002) advocated that MNCs have the necessary financial and physical resources, infrastructure, knowledge, expertise, experience and capabilities to:

- ❖ redesign their existing business models to suit the BOP markets;
- ❖ create innovative and low-cost product and service offerings that will improve lifestyles, nutrition and well-being of BOP consumers and
- ❖ articulate business strategies that will not only be conducive to reaping profits but also form the basis for establishing a competitive advantage and growing market share at the bottom of the pyramid.

Like any unorthodox proposition, Prahalad's BOP perspective has morphed into a contentious issue in which its merits and effective implementation have been supported or questioned by business strategists, academics and sagacious scholars. An insight into the criticisms of the BOP proposition falls outside the jurisdiction of this paper. Recent literature and success stories pertaining to the BOP proposition does however suggest that this market can be harnessed by profit-seeking organisations in order to generate profits for themselves by establishing a relationship of trust with BOP consumers and shifting the focus from the highest possible profit margins to the highest possible volume of sales (Anderson & Billou, 2007; Pitta, Guesalaga & Marshall, 2008; Prahalad & Hart, 2002; Sridharan & Viswanathan, 2008; Subrahmanyam & Gomez-Arias, 2008; Tripathi & De, 2007). The underlying rationale in servicing the needs of the BOP consumers is for MNCs to reduce the per-unit cost of products through the effects of economies of scale, set modest profit margins in order to render their products affordable and industriously increase their volume of sales by tapping into previously 'unreachable' markets by employing creative market development and distribution strategies.

## 2. The Purpose of the Article

This article purports to analyse the viability of Prahalad's BOP proposition within the South Africa context, assess how prevailing strategies need to be altered in order for MNCs to profitably serve the needs of the BOP consumers in South Africa and to articulate creative strategies (based on Prahalad's 12 principles of innovation) to form a model for active participation and competitive advantage at the bottom of the pyramid.

Before delving into the theoretical framework of the BOP proposition, an understanding of what and who constitutes the BOP market is necessary together with a background into the current state of poverty in both, the international as well as South African arenas.

## 3. Global Poverty

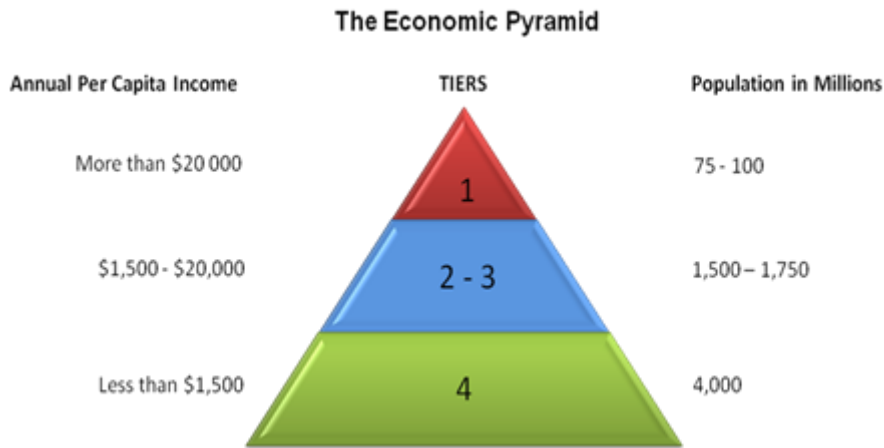
An elementary definition of poverty is that, it is a state in which there is a lack of adequate resources to meet a specified quantum of basic requirements for survival. It is often defined as material or multidimensional (such as, income, health, education, security) deprivation. However, such a simplistic conceptualisation of poverty runs the risk of the poor being perceived as victims of unfortunate circumstances instead of conscious actors struggling to improve their conditions (Engberg-Persen & Ravnborg, 2010).

There are three basic approaches to estimating poverty lines, namely, an absolute, a relative and a subjective approach, each of which views poverty and

the appropriate quantification thereof, differently. According to Statistics South Africa (2007), an absolute poverty line is calculated with reference to a fixed basket of goods and this fixed monetary value is only updated to take into account inflation and does not take cognisance of shifts in the average standard of living in society. It is the minimum standard, under which an individual would not be able to 'make ends meet' and is the absolute minimum income or expense necessary to meet basic needs (Araar, Bibi, Duclos & Younger, 2010). Oosthuizen (2007) defines a relative poverty line as the one that takes society's characteristics into consideration and endeavors to identify those individuals whose standards of living are unacceptably low relative to the rest of society. Such a poverty line begins to measure the ability of the households or individuals to engage adequately in their society and is defined as a proportion of the mean or median income of that society, and is thus, defined in relation to a social norm (Araar et al., 2010). The subjective approach to measuring poverty relies on the individuals' opinions of what constitutes the minimum income that is required by the household in order to sustain itself. A tremendous amount of controversy exists on whether the absolute, relative or subjective approach is the best estimate for a poverty threshold (International Development Research Centre, undated) and very often the choice is not clear-cut (Oosthuizen, 2007).

Prahalad and Hart (2002) used a four-tiered world economic pyramid to represent the global distribution of wealth and the capacity to generate income (Figure 1).

As depicted in the pyramid (Figure 1), Tier 1 comprises the wealthy, affluent middle- and upper-income consumers from developed countries and a small proportion of rich elite consumers from the developing world who have substantial opportunities to generate high levels of income. Tiers 2 and 3 comprises individuals whose annual per capita income (based on purchasing power parity in American dollars) is between \$1 500 and \$20 000. Jaiswal (2007, p. 6) defines purchasing power parity (PPP) as the 'concept that is used to equalize the purchasing power of different currencies in their respective countries for a given amount of goods and services'. According to London (2007), purchasing power parity is a measure that equates the price of a basket of identically traded products and services across countries, thereby providing a standardised comparison of real prices. Tier 4 represents the largest proportion of approximately 4 billion people in the pyramid who earn less than \$1 500 per annum, based on purchasing power parity in American dollars and this tier has been identified as the bottom of the pyramid.



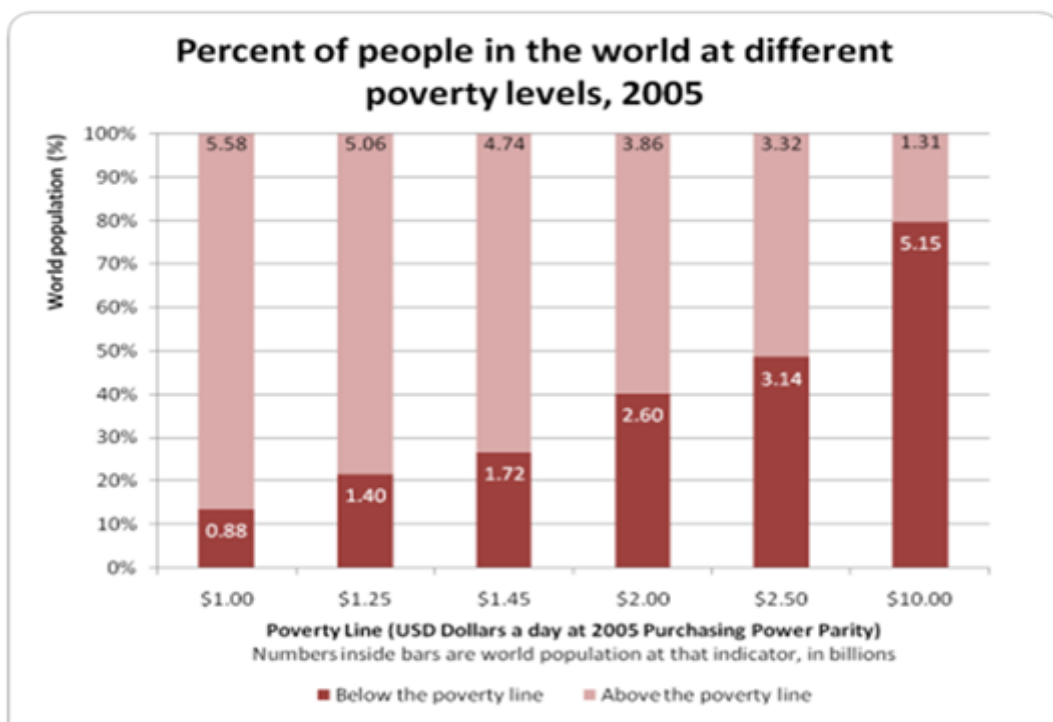
**Figure 1.** The Economic Pyramid

Prahalad, C.K. & Hart, L.H., (2002), 'The Fortune at the Bottom of the Pyramid', *Strategy+Business*, Available at <http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf> p. 4.

London (2007) uses the term 'base of the pyramid' as opposed to 'bottom of the pyramid' to describe the consumers in Tier 4 but albeit a slight variation in the term, this tier is representative of the poor at the base of the global socio-economic ladder who transact primarily in an informal market economy. In a collaborative global study by the World Resources Institute (WRI) and the International Finance Corporation (IFC), it was found that the highest prevalence of BOP consumers reside in rural villages, urban slums and shanty towns across

Africa, Asia, Eastern Europe, Latin America and the Caribbean (London, 2007). These BOP markets are challenging to reach from a distribution, credit provision and communication point of view and educational levels of these consumers are low to non-existent (Prahalad and Hart, 2002).

In August 2008, the World Bank had revised its estimates of global poverty to what it believes to be a more accurate reflection of poverty today (Figure 2).



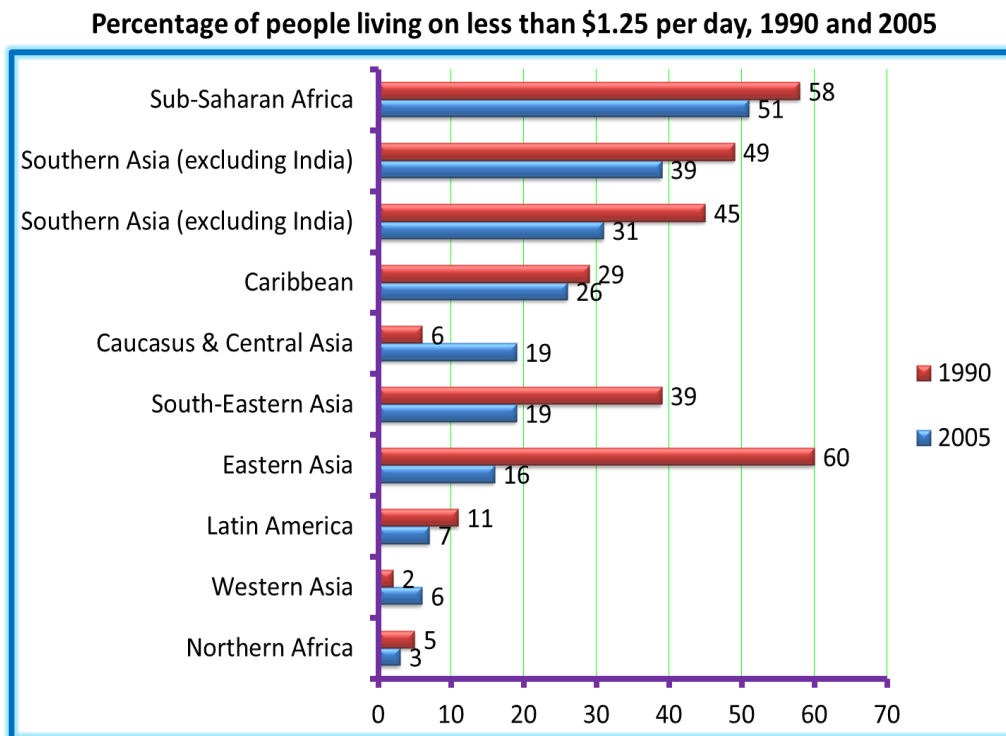
**Figure 2.** Percent of People in the World at Different Poverty Levels, 2005

World Bank Development Indicators, (2008), 'Percentage of people in the world at different poverty levels, 2005', Available at <http://www.globalissues.org/article/4/poverty-around-the-world#WorldBanksPovertyEstimatesRevised> p. 6.

Using a new threshold for extreme poverty of \$1.25 per day, the World Bank concluded that there were 1.4 billion people (approximately 22 percent), out of the global population of 6.46 billion people, living in extreme poverty in 2005 (Figure 2) (World Bank Development Indicators, 2008). Many developing countries today have poverty lines at \$2 and \$2.50. Statistics from Figure 2 reveal that 2.6 billion people (approximately 40 percent) live below \$2 per day and almost half of the global population

(3.14 billion people) survives on less than \$2.50 per day (World Bank Development Indicators, 2008).

According to the United Nations Millennium Development Goals Report (2011), the proportion of people living on less than \$1.25 per day has decreased from 1990 to 2005 in most of the developing regions with the highest prevalence of BOP consumers (Figure 3).



**Figure 3.** Percentage of People living on less than \$1,25 per day, 1990 and 2005

Adapted from United Nations Millennium Development Goals Report, (2011), 'Proportion of people living on less than \$1.25 a day, 1990 and 2005 (Percentage)', Available at - [http://www.un.org/millenniumgoals/pdf/\(2011\\_E\)%20MDG%20Report%202011\\_Book%20LR.pdf](http://www.un.org/millenniumgoals/pdf/(2011_E)%20MDG%20Report%202011_Book%20LR.pdf) p. 6.

From Figure 3 it is evident that the sharpest reduction in poverty between 1990 and 2005 was found in Eastern Asia (from 60 percent in 1990 to 16 percent in 2005). The Caucasus & Central & Western Asian regions however recorded increases in the proportion of people living on less than \$1.25 per day. Developing countries on aggregate have experienced a reduction in the number of people living on less than \$1.25 daily from approximately 1.8 billion in 1990 to 1.4 billion in 2005 and the World Bank's new poverty projection for 2015 expects a further decrease to approximately 900 million people (United Nations Millennium Development Goals Report, 2011).

#### 4. The Current Extent of Poverty in South Africa

South Africa was one of the signatories to the United Nations Millennium Declaration but a commitment to reducing poverty in the country started well before the international millennium targets were set in the form of the Reconstruction and Development Programme which set out to meet the basic needs that were incorporated into the formulation of the democratic government's policy framework from 1994 (Statistics South Africa, 2007). The South African Institute of Race Relations Survey (2010/2011) reveals statistics which indicate that progress is being made towards poverty reduction in South Africa, but at a straggler's pace (Figure 4).



**Figure 4.** Percentage of South Africans Living in Relative Poverty, 1996-2010

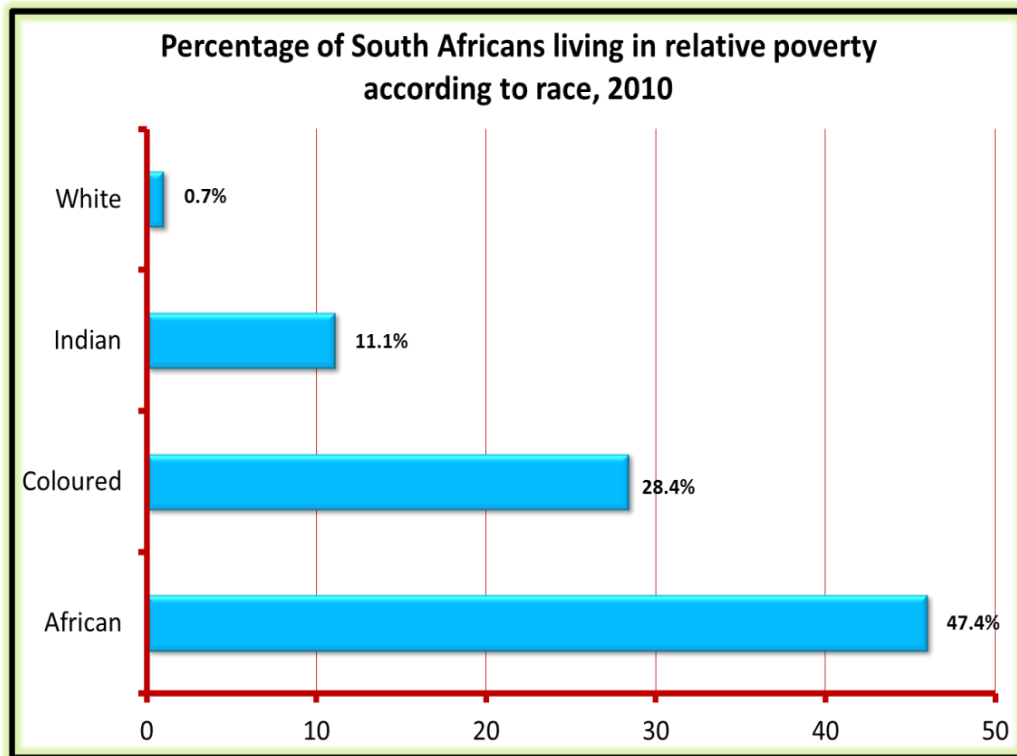
*Adapted from IHS Global Insight Southern Africa, Regional eXplorer ver 566, 2011 cited in the South African Institute of Race Relations: South Africa Survey (2010/2011), 'Proportion of people living in relative poverty by race, 1996-2010', Available at <http://www.sairr.org.za/services/publications/south-africa-survey/south-africa-survey-online-2010-2011/downloads/pp209-312.Employ.20Jan12.pdf> p. 310.*

Figure 4 outlines the trend in the rate of relative poverty in South Africa from 1996 to 2010. IHS Global Insight Southern Africa, Regional eXplorer ver 566 (2011, cited in The South African Institute of Race Relations Survey, 2010/2011, p. 307) defines people living in relative poverty as 'those living in households with incomes less than the poverty income which varies according to household size and changes every year – the larger the household, the larger the income required to keep its members out of poverty'. Poverty income levels in South Africa ranged from R443 per month for one individual to R1 770 for a household of eight members or more in 1996, and from R1 315 to R4 729 likewise in 2010. In 2007, National Treasury and Statistics South Africa (StatsSA) proposed that the official poverty line should be determined as a measure of the money income needed to attain a basic minimal standard of living. According to Statistics South Africa and National Treasury (2007), the last constructed

national poverty line in 2007 was R431 per person based on 2006 prices.

From Figure 4 it is evident that the proportion of South Africans living in relative poverty has decreased by only 0.7 percent over a period of 14 years (from 40.6 percent in 1996 to 39.9 percent in 2010). This very negligible decrease in relative poverty was primarily due to the steady increase in relative poverty from 1996 (40.6 percent) to 2002 where it peaked at 49.1 percent. The relative poverty line then showed a downward trend up until 2007 (42 percent) and thereafter rose by 0.9 percent in 2008 (42.9) due to setbacks as a result of the global economic recession which was exacerbated by the food and energy crisis (United Nations Millennium Development Goals Report, 2011).

A closer look at how the relative poverty figure of 39.9 percent for 2010 is spread across the racial divide is imperative.



**Figure 5.** Percentage of South Africans Living in Relative Poverty According to Race, 2010

Adapted from IHS Global Insight Southern Africa, Regional eXplorer ver 566, 2011 cited in the South African Institute of Race Relations: South Africa Survey (2010/2011), 'Proportion of people living in relative poverty by race, 1996-2010', Available at <http://www.sairr.org.za/services/publications/south-africa-survey/south-africa-survey-online-2010-2011/downloads/pp209-312.Employ.20Jan12.pdf> p. 310.

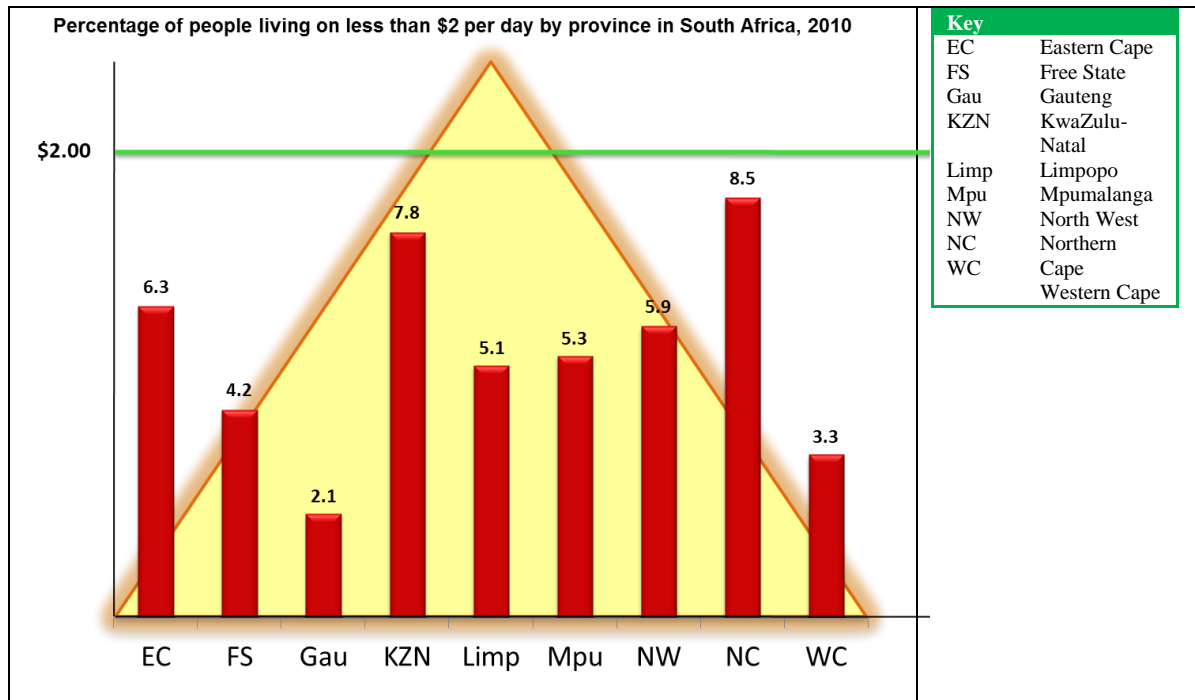
As evident in Figure 5, the African race group has the largest proportion (47.4 percent) of South Africans living in relative poverty. 28.4 percent of the Coloured and 11.1 percent of the Indian race groups are also living in relative poverty. The proportion of the White population (0.7 percent) living in relative poverty is substantially lower than the proportions of the other race groups.

Another measure used to determine the rate of South African poverty is the proportion of people living on less than \$2 per day (Figure 6). This is an internationally recognised measure which sets an absolute level of poverty and allows for easy and meaningful comparison between different countries (South African Institute of Race Relations Survey, 2010/2011).

Based on this \$2 per day poverty line which defines the basis for the BOP market, the South African provincial statistics in Figure 6 reveal that:

- ❖ Northern Cape (8.5 percent) has the highest concentration of people living below the \$2 per day poverty line.
- ❖ KwaZulu-Natal, Eastern Cape and the North West also have relatively high proportions of people living below the \$2 per day poverty line.
- ❖ Gauteng (2.1 percent) and Western Cape (3.3 percent) have significantly lower proportions of poor people who survive on less than \$2 per day than all of the other provinces.

The current foreboding state of poverty in South Africa clearly warrants urgent action to be taken in order to reduce the country's level of poverty. Is this a possible feat for just the government, aid agencies and NGOs? Or will a collective effort by government, NGOs, large domestic firms, multinational corporations (MNCs) as well as the poverty stricken citizens themselves be a solution to poverty reduction in South Africa?



**Figure 6.** Percentage of People Living On Less Than \$2 per Day by Province in South Africa, 2010

Adapted from IHS Global Insight Southern Africa, *Regional eXplorer ver 566, 2011* cited in the South African Institute of Race Relations: *South Africa Survey (2010/2011)*, 'Proportion of people living on less than \$2 a day by province, 1996-2010'; Available at <http://www.sairr.org.za/services/publications/south-africa-survey/south-africa-survey-online-2010-2011/downloads/pp209-312.Employ.20Jan12.pdf> p. 311.

## 5. Prahalad's Bottom of the Pyramid (BOP) proposition

Prahalad (2005, p. 3) believes that the poor must be viewed as 'resilient entrepreneurs and value-conscious consumers' as opposed to the conventional perception of them being helpless victims of ill-fated circumstances. He believes that society and the private sector need to alter their ideology that the poor represent a burden to society and should simply remain the wards of the state. His approach to poverty alleviation is one that involves a joint collaborative effort by government, NGOs, large domestic firms, MNCs and the poor themselves to innovate and achieve propitious situations in which the poor are actively participating in economic activities that enable them to create sustainable livelihoods for themselves whilst simultaneously offering businesses the opportunity to earn profits from selling to them (Prahalad, 2005).

Prahalad and Hart (2002) summarise the BOP proposition as follows:

- ❖ There is enormous untapped purchasing power at the bottom of the economic pyramid which accounts for approximately two thirds of the world's population.

- ❖ Businesses engaging this market can make significant profits by selling products and services to the poor with the focus being on low profit margins and a large volume of sales.

- ❖ Selling to the poor enables companies to bring dignity, empowerment and prosperity to them by creating employment opportunities, thus helping to eradicate poverty.

- ❖ Large MNCs are best suited to lead the commercialisation of this multitrillion dollar market by utilizing their resources, capabilities and infrastructure to redesign business models to suit the needs of BOP consumers and provide them with products and services that enhance lifestyles and wellbeing.

Prahalad (2005, p. xii) affirms that the BOP proposition is not merely about 'philanthropy and notions of corporate social responsibility' but has the potential to convert the problem of poverty into a lucrative business opportunity that will benefit all the constituents involved. Corporate social responsibility, according to Nickels, McHugh and McHugh (2010), is the concern that an organisation has, not just for its owners, but for society as well. It is a commitment towards furthering the interests and wellbeing of society and making certain that businesses always maintain integrity, fairness and respect in dealing with their stakeholders and society as well.

Prahalad (2005) estimated the size of the BOP market to be \$13 trillion and indicated that the enormous untapped purchasing power at the bottom of the pyramid presents the potential for MNCs to yield abundant profits and reduce the poverty penalty which BOP consumers are subjected to. The poverty

penalty arises when BOP consumers pay a premium on purchases from local businesses as a result of not having alternative sources of supplies available to them. Prahalad (2005) believes that MNCs have the ability to reduce the poverty penalty by offering BOP consumers a variety of good quality and affordable products and services to choose from.

By redesigning distribution systems and partnering with local businesses and poor citizens to serve as distributors, Prahalad and Hart (2002) are confident that MNCs can overcome the problem of inaccessibility of BOP markets which serves as the foremost deterrent to penetrating these markets. Prahalad (2005) cites the success story of Hindustan Lever Limited's Project Shakti, in which women from the BOP market in rural areas of India were trained to become distributors in these markets and provided consumers with access to the product, advice and health education on the importance of washing hands with soap in order to combat the diarrheal pandemic whilst earning an income for themselves.

Subrahmanyam and Gomez-Arias (2008) support Prahalad's notion that poor people often buy luxury and non-essential items (also known as occasional and festival purchases) in order to satisfy customary traditions and in a bid to keep up with society (Banerjee, Deaton & Duflo, 2004; Banerjee & Duflo, 2007). Casas Bahia, a large retailer in Brazil, for instance, sells top-quality brands like Sony, Toshiba, JVC and Brastemp (Whirlpool) on credit to BOP consumers with small and unsteady income flows, thereby supporting the conception that BOP consumers are indeed brand-conscious (Pralhad, 2005).

Pralhad (2005) believes that BOP consumers readily accept advanced technology and are getting connected and networked and have a growing need for wireless technology and cellphones. In South Africa, for instance, Vodacom and the Nedbank Group launched their joint initiative called M-PESA with the aim of creating a fast, reliable and safe way of transferring money from one person to the next, anywhere in the country, using mobile phone technology. Money can be uploaded onto a Vodacom cell phone at registered M-PESA outlets (retail stores, spazas, community service containers and all Nedbank branches) and then transferred to the cellphone of a recipient anywhere in the country. The receiver, who need not have a bank account, will receive a text message containing a unique transaction pin number that will enable him/her to redeem the cash at any M-PESA outlet or Nedbank ATM (fin24, 2010).

The researchers of this article are of the belief that the BOP proposition, if correctly implemented, will prove highly successful in the South Africa market and will most definitely reduce the level of poverty in the country.

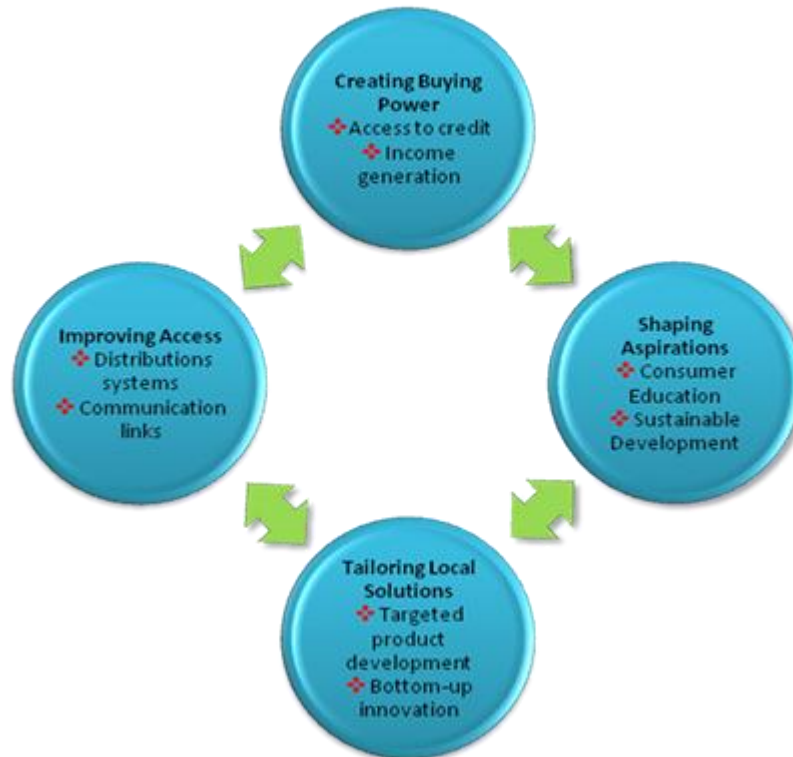
## **6. Implementation of the BOP proposition in South Africa**

Businesses embarking on BOP initiatives need to firstly develop a thorough understanding of consumers in the BOP markets as these consumers differ significantly from those in developed markets in terms of their income, spending patterns and savings potential. Companies serving BOP markets need to drastically redesign their current business models with the core focus being on offering low-cost, good-quality and innovative products and services that are aimed at improving the lifestyles and health of BOP consumers whilst simultaneously reaping profits for the companies. MNCs also need to collaborate with local entrepreneurs and be able to create new sources of competitive advantage and wealth. George and Jones (2011) define competitive advantage as the ability that one organisation has to outperform other organisations by producing desired products and services more efficiently and effectively than its competitors can. According to Porter (1980 cited in George and Jones, 2011), managers must choose between 2 basic ways of increasing the value of the organisation's products: differentiating the product to enhance its value to customers and lowering the cost of producing the product (low-cost strategy). A differentiation strategy involves distinguishing an organisation's product from that of competitors in terms of design, quality and after-sales services and a low-cost strategy involves driving the organisation's costs down below that of industry rivals (George and Jones, 2011).

Pralhad and Hart (2002) state that managers need to develop a commercial infrastructure that is tailored to the needs and adversities of the BOP markets. Such an infrastructure should be viewed as an investment rather than a philanthropic or social responsibility obligation. In developing this commercial infrastructure, four elements (creating buying power, shaping aspirations, improving access and tailoring local solutions) need to be taken into account and each of these elements requires innovation in technology and management processes (Figure 7).



## The Commercial Infrastructure at the Bottom of the Pyramid



**Figure 7.** The Commercial Infrastructure at the Bottom of the Pyramid

Prahalad, C.K. & Hart, L.H.,(2002), 'The Fortune at the Bottom of the Pyramid', *Strategy+Business*, Available at <http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf> p. 8.

The four elements of the commercial infrastructure (Figure 7) are essential for ensuring a favourable outcome for all constituents involved in serving the BOP market.

### **Creating buying power**

Prahalad and Hart (2002) acknowledge that the major constraint on the purchasing power of the poor is the fact that they are underemployed and unable to support themselves and their families. Providing BOP consumers with access to credit and increasing their potential for larger earnings are two interventions that are instrumental in increasing their buying power. Partnering with BOP consumers has the advantages of extending 'reach' within the BOP markets, utilising local knowledge and established networks to distribute products and creating employment opportunities for the poor thereby improving their standard of living.

### **Shaping aspirations**

MNCs need to utilise marketing initiatives that educate consumers about the life-enhancing benefits and the correct usage of products. Understanding the benefits of consuming these products will have a

positive influence on the product choices of BOP consumers (Prahalad and Hart, 2002).

### **Improving access**

Prahalad and Hart (2002) suggest that partnering with local businesses, NGOs and training and empowering BOP consumers to serve as distributors are part of a workable solution to improving access to this market. Utilising internet kiosks, wireless technology and mobile phones promises a means for MNC's to stay connected to this market and be better able to service their needs.

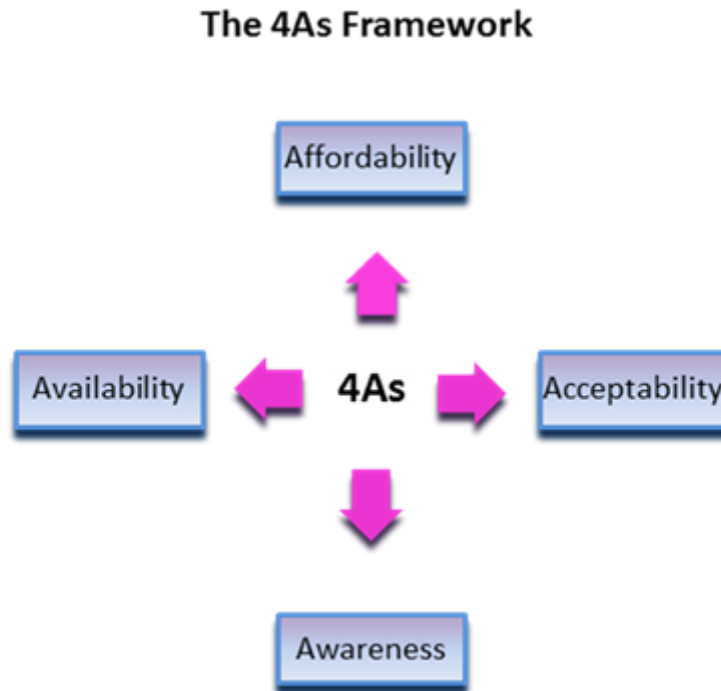
### **Tailoring local solutions**

Providing innovative, high-quality products in affordable single-serve packages, is a strong recommendation made by Prahalad and Hart (2002) as a way of promoting the dignity, pride, health and self-esteem of BOP consumers. MNCs must be able to design innovative and user-friendly products that specifically cater for the needs of BOP consumers, taking into account their purchasing habits, income, lifestyles and surroundings.

In order to successfully penetrate the South African BOP market, MNCs need to modify their current business practices and marketing strategies.

Sridharan and Viswanathan (2008) share Prahalad's (2005) sentiments that the traditional 4Ps (product, price, place and promotion) Framework is deemed inadequate when marketing to BOP consumers because it is too focused on the management of the internal resources of the organisation and is not cultivated around the needs of BOP consumers. Anderson and Billou (2007) postulate that in addition

to creating a commercial infrastructure (Figure 7), MNCs also need to embrace the 4As (availability, affordability, acceptability and awareness) Framework (Figure 8) so that they will be successful in reaching the approximately 4 billion people at the bottom of the economic pyramid.



**Figure 8.** The 4As Framework

*Availability*

According to Prahalad (2005), one of the primary impediments of serving BOP markets is the fact that these markets are largely fragmented and create major challenges in terms of distribution of goods and services. Sridharan and Viswanathan (2008) agree with Prahalad and Hart (2002) that local businesses and entrepreneurs enjoy the trust and patronage of BOP consumers and should therefore be used as business partners in the distribution of goods and services. Tripathi and De (2007) further suggest that MNCs need to enlist the cooperation of BOP citizens themselves in order to gain access to previously untapped BOP markets whilst affording these citizens an opportunity to generate an income.

*Affordability*

To enhance affordability of products, MNCs need to focus on reducing production costs and provide flexible payment schemes to impoverished consumers who have very low disposable incomes and survive on a daily wage (Pitta *et al.*, 2008). Prahalad's (2005) suggestions to improving affordability include that

companies sell on credit to BOP consumers, financial institutions to offer microcredit to BOP consumers and for MNCs to reduce the packaging sizes of their products to single-serve sachets.

*Acceptability*

Products must be creatively designed to cater for the specific needs and climatic conditions of BOP markets and deliver both tangible (value for money) and intangible (high self-esteem and financial independence) benefits to consumers (Tripathi and De, 2007). Danone took the nutritional deficiencies and living conditions of children from low-income households in South Africa into account when it developed and marketed Danimal yoghurt, which is rich in Vitamin A, iron and zinc and can be stored for up to a month without refrigeration, to children in Soweto (Thieme, 2010).

*Awareness*

Due to the low literacy rates of BOP consumers and their inaccessibility to traditional advertising media, Subrahmanyam and Gomez-Arias (2008) proposed

that MNCs use billboards and word-of-mouth campaigns to create awareness of their products and Tripathi and De (2007) suggested that credible sources of information like village doctors, well-respected elders and school principals should be utilised in these word-of-mouth initiatives.

In addition to altering conventional marketing strategies in the South African BOP market, MNCs need to concentrate on creative innovations (i.e. better-quality, low-priced products and services) that will form the basis for their success and competitive advantage and in doing so, MNCs need to exploit Prahalad's 12 Principles of Innovation in planning their BOP initiatives.

## **7. Prahalad's 12 Principles of Innovation for BOP markets**

Prahalad (2005) encourages MNCs to challenge their core beliefs in the basics of economics and states that the basic economics of emerging markets are based on small unit packages, low profit margins per unit, high volumes of sales and a high return on capital employed.

With this philosophy in mind, Prahalad (2005) has identified 12 principles that constitute the building blocks of innovation for BOP markets.

### **1) Focus on price performance of products and services**

Prahalad (2005) advocates that serving the BOP markets is not simply about lowering prices but is also about product performance in terms of quality and usage. According to the World Economic Forum (2009b), BOP consumers are value-conscious consumers who do not necessarily have a preference for 'cheaper or stripped-down versions' of more expensive offerings, but desire high-quality products that they can trust and understand how to use, even if acquiring the products at a slightly higher price results in them having to ration their use thereof.

Procter and Gamble realised that due to cash constraints, their BOP consumers in Mexico did not purchase fabric softener for their clothes because they could not afford to buy both washing powder and fabric softener (Rost and Ydrén, 2006). As a response to this, Procter and Gamble created a formula using their Ariel brand of washing powder together with their Downy brand of fabric softener to develop a new product called 'Ariel with a Touch of Downy' which evolved into a BOP market success since consumers were gaining a '2-in-1' deal for the price of one (Rost and Ydrén, 2006).

Another strategy that transforms this principle of innovation into workability for BOP markets is the concept of product bundling. Procter and Gamble collaborated with companies like Kelloggs and Danone in the creation of a breakfast product bundle which consists of a nutritional breakfast cereal

(provided by Kelloggs) with yoghurt (supplied by Danone) and a fibre drink, Metamucil (supplied by Procter and Gamble) (Rost and Ydrén, 2006).

### **2) Innovation requires hybrid solutions**

Innovations for serving the poor require scalable, price-performance-enhancing solutions in which new technology is creatively blended with the existing infrastructure of BOP markets (Prahalad, 2005). Mobile telephony and wireless networks that create greater ease in the transmission of information and communication, is now regarded as the key to successfully engaging with BOP consumers (United Nations Development Programme, 2008). Mobile banking or M-Banking offers financial services to millions of people, who previously lacked bank accounts, by using mobile telephones for retail purchases, payment of bills as well as quasi-deposits into accounts. M-Banking has freed consumers from infrastructural constraints such as the need for physical bank branches or access to a wired network in order to transact and this phenomenon is spreading across most developing countries (United Nations Development Programme, 2008).

In South Africa simple identification systems based on the use of smart cards (which contain microprocessors that hold important data) are facilitating payment processes, for both vendors and consumers. The Amanz'abantu smart card system allows rural villagers in the Eastern Cape to access up to 25 litres of free, clean water per day from shared taps by using smart cards. Any extra water required can then be obtained for a low cost by uploading money onto the smart cards using card readers in village shops (United Nations Development Programme, 2008).

Utilising internet kiosks has enabled farmers in India to improve their bargaining power as well as eliminate the need for middlemen. Information and Communication Technology's (ITC's) e-Choupal initiative allowed Indian farmers to access information on computers via the e-Choupal networks in order to assist them in deciding when and how much of their products to sell, thereby helping them improve profit margins (Prahalad, 2005).

### **3) Scale of operations**

Since the scale of operations is imperative for achieving profitability, an innovation must be transferable across countries, cultures and languages (Rost and Ydrén, 2006). Expanding scale of operations requires a decentralised and localised approach in which successful ways of doing business are adapted and transferred from one region to another using a new set of partners and collaborators, and a strong local focus must be maintained as this is crucial for success (World Economic Forum, 2009a).

Training by MNCs becomes inherent in extending scale of operations in BOP markets. In Indonesia, for instance, Unilever (with the assistance of a local university and certain researchers) was able to find a group of farmers who agreed to produce black soybeans in exchange for a secure market for the product, access to credit as well as technical assistance with regard to producing good quality soybeans. This arrangement created a win-win situation for both Unilever and the farmers in that the profits were shared between the parties, middlemen were eliminated and a better return on investment and labour was achieved (Rost and Ydrén, 2006). Training the poor to be trainers also has positive spin-offs in that, the benefit of instruction extends far beyond the initial circle of trainees and local trainers are trusted by the community and are therefore better able to channel the messages across as they are able to speak the local language. Farmer-to-farmer training in the agricultural sector has proven effective as business practices are adapted to local conditions and farmers take their trained peers' advice seriously.

Prahalad (2005) advises MNCs to form collaborative business arrangements with local entrepreneurs and empower them with the knowledge and skills that will harness the full profit potential of their business ideas. In Ghana, traditional money collectors, known as Susu collectors, teamed up with Barclays Bank and were given network training on financial credit and risk management and delinquency management in order to offer low-income consumers a wider range of safer savings and loan options (World Economic Forum, 2009a).

#### **4) Sustainable Development: Eco-Friendly**

Innovations must be sustainable, ecologically-friendly and be able to reduce resource wastage (Prahalad, 2005). Companies can lessen their costs, establish a socially responsible reputation in BOP markets and protect future raw material sources by introducing strategies that minimise the detrimental impact on the environment. Grameen Danone Foods in Bangladesh designed a factory to use harvested rainwater, solar power and biogas to manufacture their yoghurt, Shakti Doi ('energy yoghurt'). This yoghurt has sufficient nutrients to meet up to 3 percent of a child's daily nutritional requirements and is packaged in biodegradable cups made from cornstarch (World Economic Forum, 2009a).

Companies are encouraged to utilise renewable energy technologies in order to do business in a more environmentally sustainable way. Sadia, a food processing company in Brazil, has integrated environmental sustainability into its revenue design with its eco-friendly Sustainable Swine Production Programme. More than 3500 swine producers were provided with biogesters which use bacteria to ferment swine waste in closed reservoirs in order to

convert the resultant methane gas into carbon dioxide, thereby reducing greenhouse gas emissions. These producers earn carbon points under the Kyoto Protocol Clean Development Mechanism which can be traded with other companies. The gases produced in this process can be used as a source of energy thereby lowering the operating costs of producers and the by-product of the fermentation process can be utilised as crop fertilizer and a food source for fish breeding (United Nations Development Programme, 2008).

Being able to curb pollution is of paramount importance when designing innovations. With this objective in mind, BK Environmental Innovations, an organisation based in Hyderabad, India, has created edible cutlery called 'bakeys'. The cutlery is environmentally-friendly and will be able to disintegrate within a day if consumers choose not to eat them after use. Plastic utensils which contributed to the problem of pollution, as a result of being discarded after a single use, had spawned the idea of creating edible cutlery. The company employs impoverished individuals to assist with production, thereby providing them with a means to earning an income. In order to enhance aesthetical appeal of the product, the pulp from different vegetables is added during production, so as to create an array of attractive colours (Shah, 2009).

#### **5) Focus on a deep understanding of functionality and not just form**

Prahalad and Hart (2002) believe that it is not possible to simply take products that were developed for non-BOP markets and sell them at lower prices to BOP consumers in emerging markets. Businesses need to take cognisance of the nature and functioning of BOP markets in order to design practical products that will enhance welfare.

Due to nutritional deficiencies, fortified foods in the form of staples that are enriched with micronutrients such as iron and Vitamin A are being developed for BOP consumers to help them overcome health problems (World Economic Forum, 2009a). Britannia, an Indian food manufacturer that produces iron-fortified biscuits called Banana Biscuits, was able to position itself as a food company with a nutritional focus after working in a joint effort with the Naandi Foundation (a public trust that focuses on children's rights to nutrition) and the Global Alliance for Improved Nutrition (GAIN) to gain valuable insight into the needs of the BOP market. Britannia is currently using this insight to explore the development of additional product lines of fortified foods for low-income, as well as their affluent consumers (World Economic Forum, 2009). GAIN was also involved in another collaborative initiative with China's Centre for Disease Control (CDC) and Zhenji (a soy manufacturer) to combat iron deficiency by introducing an affordable soy sauce that is fortified

in iron. The product was priced at just 1 cent above that of traditional soy sauce products and is a much cheaper alternative to iron-deficiency anaemia (IDA) medicinal treatments (World Economic Forum, 2009a).

A deep understanding of how BOP consumers use products can lead to innovative creations in which businesses design multi-purpose products that are highly differentiated from competing products. Haier, an appliance manufacturer based in China, redesigned washing machines in order to accommodate washing potatoes and other vegetables after realising that rural consumers, who grew potatoes in the Sichuan region in China, were using their washing machines for rinsing the mud off potatoes in addition to doing laundry. Haier's engineers modified the washing machines by installing wider pipes in order to prevent clogging by vegetable peels and potatoes and affixed instructions onto the newly-developed washing machines pertaining to the cleaning of potatoes and other vegetables. The company later developed another washing machine that makes cheese from goats' milk (Anderson & Billou, 2007).

The BOP proposition advocates the use of smaller-unit packages in order to create affordability, encourage consumption and offer greater variety of choice to BOP consumers. D'Andrea (2004 cited in Pitta *et al.*, 2008) supports the use of sachet packaging and found that BOP consumers have a preference for purchasing products in smaller quantities as opposed to large packages purely because of income and household space constraints.

## 6) Process Innovations

In a market where formal infrastructure is non-existent, innovations must focus on creating a logistics infrastructure and a manufacturing concern that take cognisance of prevailing market conditions (Prahalad, 2005). It is imperative for businesses that serve BOP consumers to reconfigure product supply chains. Sourcing resources and raw materials from local producers is fast becoming the norm with companies targeting BOP markets. This approach boasts the advantages of reducing costs of reaching BOP consumers, providing customised products that match local preferences, providing income to local producers by expanding their supply base and creating trust and credibility of the company and its brands (World Economic Forum, 2009).

Commercialising local raw materials proved fruitful for brewer, SABMiller in Uganda and Zambia where the company redesigned its supply chain to accommodate the availability of local supply of sorghum from small-scale farmers in the production of its Eagle Lager brand (World Economic Forum, 2009a). The company sources sorghum from about 8 000 small-scale farmers in Uganda and about 2 500 in Zambia by working through cooperatives, commodities brokers and NGOs who assist the

company in transferring agricultural knowledge and business skills to BOP producers (United Nations Development Programme, 2008).

Establishing cooperatives enables MNCs to bridge the gap between their companies and BOP producers thereby creating economies of scale that will not be available to individual producers (World Economic Forum, 2009a). Amul, a large dairy in India assisted local farmers by centralising its high-tech milk processing facilities so that it is easily accessible to farmers who previously incurred losses due to travelling long distances, only to have their milk spoil due to inappropriate and non-refrigerated storage whilst in transit. Amul collects milk twice a day from villagers (who are paid daily) at its collection centre and was responsible for establishing a viable market for these farmers' milk supplies (Prahalad, 2005).

Educating and training new recruits from BOP markets is crucial to maximising output of MNCs as well as capitalising on lower labour costs. Training poor people can help deliver high-quality products, as was the case with Denmore Garment Manufacturers in Guyana, where illiterate women from poor backgrounds were employed and trained in order to equip them with the necessary skills to carry out production activities within the firm (United Nations Development Programme, 2008).

## 7) Deskilling of work

In most BOP markets there is a lack of talents and skills and it is therefore vital for MNCs to deskill work in order for it to be easily understood by employees from these markets. Denmore produces textiles predominantly for exports to the United States and teaches illiterate women how to read and write their names, count and read labels and garment specifications. Multi-skilled training allows these employees to learn the simple, easy-to-understand steps involved in the entire manufacturing process in order to help them respond quickly and efficiently to tight deadlines and schedules (United Nations Development Programme, 2008).

## 8) Education of customers

According to Prahalad (2005), innovation in BOP markets requires MNCs to educate consumers on the benefits and correct usage of the products and he advises that more creative approaches to customer education and advertising need to be adopted in 'media-dark' areas of the BOP markets. Since many BOP consumers are unfamiliar with commercial products, they will be reluctant to use them without the advice or recommendations of trusted reference groups such as family and friends. A useful marketing tool to overcome this constraint is to use peer marketing in which the benefits of using the products

are communicated to BOP consumers by individuals from their own villages.

Another useful tool in creating awareness of products whilst simultaneously educating consumers on its merits, is the use of demonstrations which allows the BOP consumers to witness the effects of the products instead of relying on hearsay. This strategy was adopted by Hindustan Lever Limited in its Lifebuoy Swasthya Chetna (Lifebuoy Glowing Health) Programme which was aimed at teaching BOP consumers in India that a 'visual clean is NOT a safe clean' and demonstrated the benefits of washing their hands with the company's brand of Lifebuoy soap (Pralhad, 2005, p. 227). This health education programme was estimated to have benefited about 70 million people living in rural areas in India (United Nations Development Programme, 2008).

Businesses must have the interests of BOP consumers at heart and marketing efforts need to be carried out responsibly, taking cognisance of their prevailing living conditions and lifestyles. Nestlé faced world-wide criticism in the late 1970s for marketing its infant formula to poor mothers in emerging markets who had neither the income nor the understanding of how to utilise the product correctly. Nestlé generously distributed free samples to these consumers without first ensuring that clean water was accessible to them in order to mix the powdered formula. Nestlé did not warn these mothers that their own milk containing essential antigens would dry up after a few days of using only the formula to feed their babies and also overlooked the issue of whether or not these mothers could afford the formula once their free samples were finished. Slogans such as 'Nestlé Kills Babies' were published by critics and this eventually led to the development of a code of conduct which eliminated conspicuously bad marketing tactics (Davidson, 2009).

### **9) Designing products for hostile infrastructure**

Pralhad (2005) advises that products must be designed with the hostile environment within which it will be used in mind. In addition to being able to withstand dust, noise and unsanitary conditions, products must also be able to accommodate the low quality of infrastructure in terms of electricity (blackouts) and water (bacterial and viral pollution). Banga and Mahajan (2005 cited in Rost and Ydrén, 2006) used the example of the Oral B Brush Up, which is a disposable textured teeth wiper that is worn on a person's finger and allows him/her to clean his/her teeth, as a useful innovation for the BOP markets. Such a concept was developed for non-BOP markets as a quick way of freshening up but this concept can be adopted in BOP markets as an alternative way of dental care to the conventional brushing of teeth which requires access to clean water which is not always readily available in these markets.

Hindustan Lever Limited developed a low-cost washing powder that worked well with less water after realising that a lack of water was a serious problem that plagued many BOP consumers in certain regions (Subrahmanyam & Gomez-Arias, 2008).

MIT Media Labs (2005 cited in Rost and Ydrén, 2006) took the inaccessibility of electricity and living conditions in poor countries into account when it developed the '\$100 laptop' which was designed to use an innovative power supply in the form of a wind-up crank in a bid to help educate school children in these markets.

Hindustan Lever Limited realised that Iodine Deficiency Disorder (IDD), which is the principal cause of mental disorders and diseases such as goiter, can be overcome if people in developing countries gained their required daily dose of iodine which was added to salt. However, through the harsh conditions of transportation, storage and cooking, the salt often lost its iodine content. The company then developed a relatively inexpensive process called microencapsulation in the production of its Annapurna brand of salt. This process ensures that the salt content does not dissolve during transportation and storage and is only released once the salt has been ingested. After educating BOP consumers about the detrimental effects of iodine deficiency and the benefits of consuming Annapurna iodated salt, the company was quite successful in selling its product to the Indian BOP market (Pralhad, 2005).

### **10) Customer interfaces**

According to Pralhad (2005), the design of the customer interface must be carefully planned after significant research has been conducted into the consumers' language preferences, cultural influences and receptiveness to using new technology. Elekra, a Mexican retailer uses fingerprint recognition that enables customers to utilise in-store ATMs so that they need not have the daunting task of remembering their nine-digit ID codes (Pralhad, 2005).

### **11) Distribution: Accessing the customer**

One of the main challenges to commercial enterprise in BOP markets is reaching consumers. Poor infrastructure in terms of roads and warehousing creates impediments with regard to distribution and raises costs. Businesses need to utilise existing informal distribution channels in order to broaden their reach and reduce costs of serving BOP markets. Hindustan Lever Limited outsources the 'last mile' of its distribution network to women from the BOP markets (Shakti Ammas) who receive company products through the mail and then sell them throughout their own neighbourhoods (World Economic Forum, 2009a).

Establishing local service providers enables companies to reduce costs in areas with inadequate physical infrastructure and logistics networks, thereby enabling them to respond quickly to customers' needs. As opposed to setting up clinics in rural areas, Pésinet Health Care in Mali innovated a cost-effective way to deliver health care in which it trained qualified local representatives to perform basic check-ups and communicate this information electronically to doctors in the cities. The services provided were more affordable to patients and assisted in reducing the infant mortality rate in the country (World Economic Forum, 2009b).

Innovative distribution channels must not only reduce costs but enhance value as well. Arvind Mills in India introduced 'Ruf and Tuf' ready-to-make kits of denim jeans components (denim, zippers, rivets and patch) which were priced at around \$6 after realising that BOP consumers in India could not afford the ready-made denim jeans which were priced between \$24 and \$40 a pair. These kits were distributed through a network of about 4 000 tailors who marketed the kits extensively in small rural towns and villages (Prahalad, 2005).

### **12) Focus on the broad architecture**

Prahalad (2005) believes that MNCs need to challenge the conventional wisdom of doing business in order to pioneer innovative ways of gaining economies of scale, speed, tremendously high quality and extraordinarily low costs of serving BOP markets. Accessing these markets creatively and designing affordable products for them will thwart the long-held assumption that BOP markets are not viable. Providing micro-credit and easy payment systems will enhance affordability of products and services. Micro-financing through group lending schemes boasts the advantage of a low default rate as the defaulting borrowers in the group not only prevent themselves from obtaining future loans but other members of the group as well. Since the failure to repay the loans results in shame and social exclusion, the incentive to repay is quite high (United Nations Development Programme, 2008).

### **Recommendations and Conclusion**

The researchers of this article have categorised Prahalad's 12 Principles of Innovation into Differentiation and Low-Cost Strategies which can be utilised by businesses that serve BOP consumers to establish a competitive edge over their competitors in these emerging markets. The researchers have suggested workable strategies for each of the 12 principles of innovation and businesses embarking on BOP initiatives can adopt any combination of different strategies, if not all (Figure 9).

### **Strategies for success in BOP markets based on the 12 Principles of Innovation**

#### **Differentiation Strategies:**

Innovation requires hybrid solutions

❖ **Develop technology to enhance infrastructure:** This strategy focuses on developing practical, easy-to-use technology as well as utilising mobile and wireless technology to overcome infrastructural constraints like the need for physical infrastructure and logistics networks in order to reach consumers.

❖ **Develop biometric and smart card systems:** This strategy allows businesses to exercise transparency, accuracy and precision when transacting with BOP consumers and the user-friendly software which enhances knowledge and understanding of the system, will assist MNCs in building relationships of trust with the BOP consumers that they serve.

Scale of operations

❖ **Empower entrepreneurs to build local capacity:** This strategy can be adopted by MNCs to expand business opportunities by providing local entrepreneurs with financial aid, technical assistance and basic business skills needed to serve BOP markets in which the local businesses enjoy the trust and respect of the community.

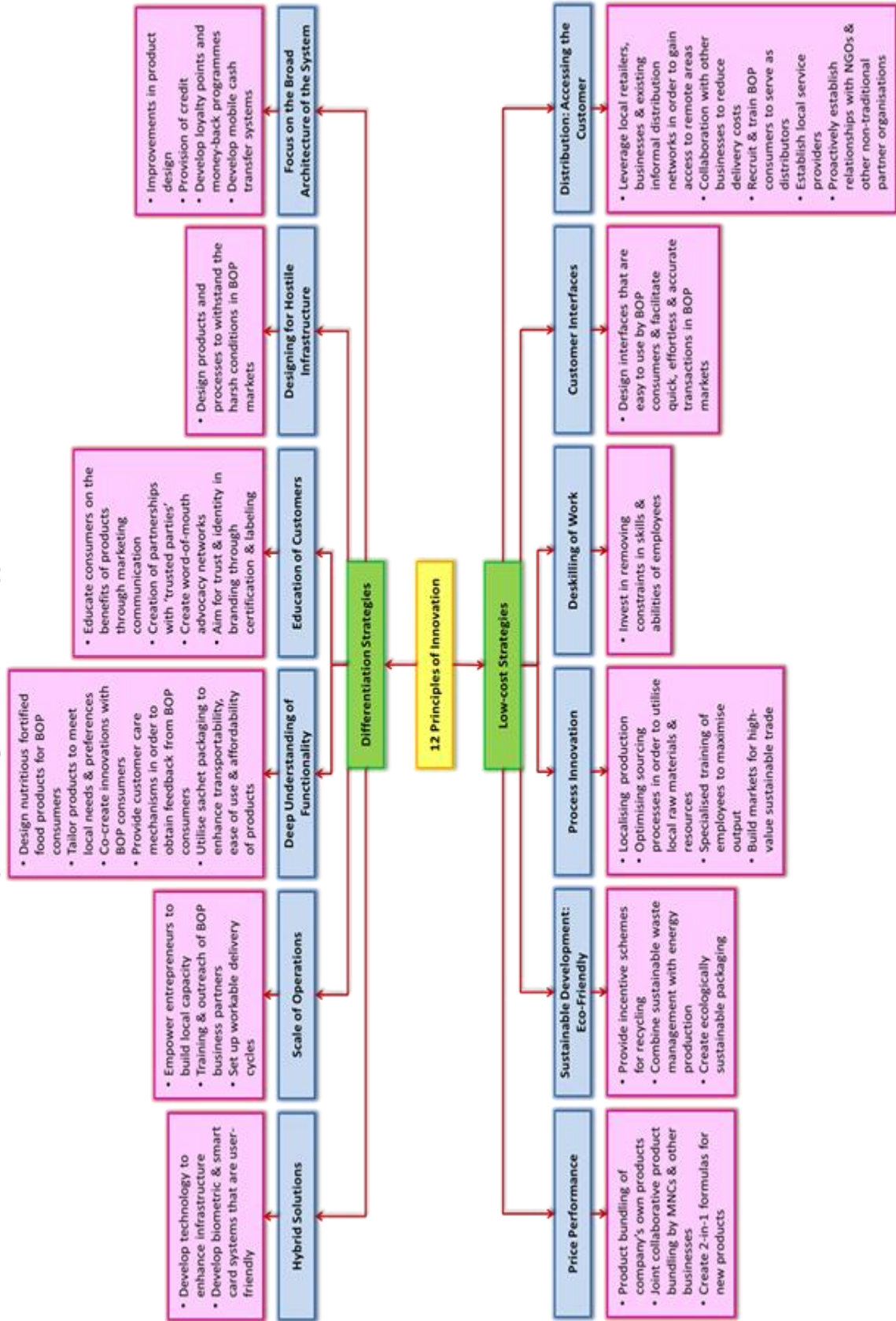
❖ **Training and outreach of local BOP partners:** Companies can benefit by providing retail management skills to local retailers in order to secure them as dealers in educating target consumers on the benefits of utilising their products. Setting up training consortiums with government agencies, NGOs and other businesses in the same industries will enhance proficiency in BOP partners.

❖ **Set up workable delivery cycles:** This strategy ensures that there is a regular routine supply of products and services to BOP consumers. Focus on a deep understanding of functionality and not just form

❖ **Design nutritious fortified food products for BOP consumers:** This strategy will allow MNCs to team up with health organisations and NGOs and utilise their established infrastructures in order to reach BOP markets. A company pursuing this strategy must invest in effective and inexpensive products, be able to establish a centralised local processing capacity and adopt well-designed and thought-out marketing campaigns. Such a company can position itself as a food company with a nutritional focus which builds brand loyalty and share of heart (a series of positive emotional connections between an individual and a product).

❖ **Tailor products to meet local need and preferences:** Businesses need to focus on features that will have the greatest impact on the improvement of lifestyles of the target consumers.

Figure 9: Proposed model of underlying strategies for active participation and competitive advantage at the bottom of the pyramid





❖ **Co-create innovations with BOP consumers:** Utilising this strategy requires MNCs to develop a meaningful understanding of the characteristics of the BOP markets and the manner in which they utilise products in order to design innovative multi-functional products that are practical and affordable.

❖ **Provide customer care mechanisms in order to obtain feedback from BOP consumers:** This strategy focuses on creating an avenue for customer complaints, after-sales services and suggestions on product improvements from BOP customers. Distributors of the product could also be trained as customer-liaison officers who are able to deal with customer questions and complaints. Call centres with toll-free customer care lines would also be beneficial in this regard and allows BOP customers with mobile telephones to easily utilise the services at no cost to them.

❖ **Utilise sachet packaging:** This strategy enhances affordability and allows for easy transportation and use of products. In order to leverage scale effects for these companies, they could opt for increasing their market base for single-serve sachets by selling them for promotional purposes to retailers serving the non-BOP market as well as hotels, hospitals and airlines who require smaller quantities of consumer products. It is imperative for businesses to utilise biodegradable and environmentally-friendly sachet packages when pursuing this strategy.

**Education of customers**

❖ **Educate consumers on the benefits of products through marketing communication:** Investing in consumer knowledge and skills is a strategy that can be used for stimulating market demand and enhancing the company's reputation by establishing trust in its brands through providing consumers with detailed information on exactly how beneficial the product will be to them and how to use it correctly. Free product trials and demonstrations are useful marketing tools when using this strategy.

❖ **Creation of partnerships with 'trusted parties':** This strategy involves collaborating with trusted NGOs and highly-acclaimed expert bodies in order to benefit from the trust and respect that these parties enjoy from BOP consumers in a bid to gain acceptance of the company's products.

❖ **Create word-of-mouth advocacy networks:** This strategy involves leveraging informal communication networks in BOP markets as well as key opinion leaders to create brand awareness and an increase in sales. Word-of-mouth initiatives will overcome linguistic barriers to effective marketing communication.

❖ **Aim for trust and identity in branding through certification and labeling:** Certified products can assist companies in differentiating their offerings from that of competitors and increase consumer trust because a certified product is representative of a product that meets acceptable standards of quality. Once a company has established trust and strong

brand recognition in these BOP markets, it can launch additional products and brand extensions.

**Designing products for hostile infrastructure**

❖ **Design products and processes to withstand the harsh conditions in BOP markets:** This strategy entails a careful understanding of the living conditions and infrastructure of BOP markets in order to design smart products that are best suited for these markets and will enable a company to differentiate its product from those of competitors.

**Focus on the broad architecture**

❖ **Improvement in product design:** This strategy requires MNCs to add new features to existing products once they have established the trust and loyalty of BOP consumers. Enjoying the patronage of BOP consumers will enable MNCs to offer a variety of good-quality; low-cost products that fully satisfy consumers' needs and enable these companies to secure long-term profitability and growth in market share.

❖ **Provision of credit:** Companies providing micro-finance services to BOP consumers will create an opportunity for expanding their customer base, especially when competitors do not offer credit sales to BOP consumers. Provision of credit will make goods and services affordable to BOP consumers.

❖ **Develop loyalty points and money-back programmes:** This strategy will enable businesses to build brand loyalty and will increase the costs of switching brands for consumers in BOP markets. Loyalty points are earned through each purchase and the associated rewards or cash refunds will provide incentives for BOP consumers to engage in repeat purchases.

❖ **Develop mobile cash transfer systems:** This strategy allows for flexibility in payment of purchases for BOP consumers especially in the instances where they do not have access to bank ATMs and are reluctant to carry hard-earned cash around with them.

### **Low-cost Strategies**

**Focus on price performance of products and services**

❖ **Product bundling of MNC's own products:** This strategy will enable MNCs to make the overall price of the product bundle cheaper than the buying each of the products individually and also allows MNCs to build consumer trust in their multiple products and build a reputation as a company that offers good quality products at a low price.

❖ **Joint collaborative product bundling by the MNC with other businesses:** With this strategy a product bundle is created with the company's own products together with that of other business partners in order to provide consumers with a low-priced, value-enhanced offering of a variety of products that will promote their health and well-being.

❖ **The creation of '2-in'1' formulas for products:** This strategy incorporates the constituents of two or more complementary products in the

creation of a new unique product that boasts the individual benefits of all the products but is marketed at the price equivalent to that of one of the original products. This creates value and enhances affordability for BOP consumers.

Sustainable Development: Eco-Friendly

❖ Provide incentive schemes for recycling: A workable strategy that encourages BOP consumers to recycle would be to offer a free product to those who collect a specified amount of used containers or packages and return them to the company. Depending on the nature and design of the packaging it can either be re-used or recycled by the company. Cash-back schemes would also provide additional income to BOP consumers for recycling used packages.

❖ Combine sustainable waste management with energy production: This strategy provides much needed energy at a low cost to BOP consumers whilst affording the company an opportunity to reduce its waste management costs.

❖ Create ecologically sustainable packaging: This strategy will require MNCs to use biodegradable and recyclable materials in their packaging in order to reduce pollution. These innovations can be transferred to the developed markets for a global decrease in resource use and pollution.

Process Innovations

❖ Localising production: Starting up manufacturing facilities in BOP markets and localizing production presents the advantages of increasing the livelihood of BOP consumers, creating awareness of the company and its products, reducing the company's transportation costs and developing crucial distribution networks within the BOP markets.

❖ Optimising sourcing processes in order to utilise local raw materials and resources: This strategy involves sourcing local raw materials to produce good quality, low-cost products and services for BOP consumers and developing cooperatives with local suppliers in order to create a steady demand for their raw materials.

❖ Specialised training of employees to maximize output: Investing in training and education of employees is fundamental for ensuring that they are equipped with the relevant proficiencies that will enhance the quality of output and lower the costs associated with wastage of resources. Cross-training and job rotation will allow employees to gain multiple skills and be able to effectively perform activities throughout the entire production process.

❖ Build markets for high-value sustainable trade: Sourcing local inputs and raw materials provides MNCs with the opportunity to reap economies of scale and create a market for these raw materials in the production of products and services for developed markets. This strategy ensures that the excess supplies of raw materials from local cooperatives are exported for production to developed markets.

Deskilling of work

❖ Invest in removing constraints in skills and abilities of employees: This strategy involves investing in training of employees and simplifying the work for them which will create intangible long-term value through increasing employee morale and loyalty that will enable the company to strengthen its competitiveness. Making processes less complicated and easy to execute can diminish the mistakes made by employees and the costs associated with rectifying them.

Customer interfaces

❖ Design interfaces that are easy to use by BOP consumers and facilitate quick, effortless and accurate transactions in BOP markets: This strategy involves designing graphic, iconic and colour-coded interfaces for easy recognition and use, as well as biometric-based interfaces (voice-activation, fingerprint and iris recognition) that will reduce the paperwork and administrative costs involved in transacting with BOP consumers.

Distribution: Accessing the customer

❖ Leverage local retailers, businesses and existing informal distribution networks in order to gain access to remote areas: This strategy will enable MNCs to market their products extensively through trusted local retailers and businesses thereby optimising reach, increasing sales and reducing distribution costs.

❖ Collaboration with other businesses to reduce delivery costs: This strategy requires collaboration with other companies in the distribution of products to BOP markets thereby reducing distribution costs for all involved, diversifying inventory, sharing warehousing costs and expanding distribution networks.

❖ Recruit and train BOP consumers to serve as distributors: This strategy of engaging poor people will help MNCs to sell and distribute products to previously inaccessible BOP markets that these individuals are familiar with, whilst simultaneously creating a source of income for these people.

❖ Establish local service providers: This strategy will enable service providers to train local individuals to respond quickly and cost-effectively to customers' needs thereby making services more affordable and reliable.

❖ Proactively establish relationships with NGOs and other non-traditional partner organisations: This strategy requires MNCs to assess their own capabilities, assets and intellectual capacity and then collaborate with partners based on the resources that they require, in order to effectively serve the needs of BOP markets. Such partnerships will be instrumental in building a mutually beneficial infrastructure, developing valuable skills and generating long-term profits.

The study confirms that the national BOP market can be targeted to reduce poverty through profits by successfully implementing Prahalad's Bottom of the Pyramid (BOP) proposition in South Africa. Careful consideration must be given to understanding the

nature and living conditions of BOP markets in order to present a market offering that enhances the health and lifestyles of consumers. It is vital for businesses to act quickly in servicing the needs of the BOP markets in order to capitalise on the first-mover advantage and then work towards creating brand loyalty amongst these consumers.

This study adopts a theoretical research approach and is part of a larger quantitative research project that will investigate the viability of the BOP proposition within the South African context.

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