

TAPPING INTO THE BOTTOM OF THE PYRAMID (BOP) MARKET IN SOUTH AFRICA: POSSIBLE? AND HOW?

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Abstract

Prahalad (2005) believes that the bottom of the pyramid (BOP) proposition can fulfill both the social goals of poverty eradication and the business goals of profits. The current ominous state of poverty in South Africa together with South Africa's commitment to the United Nations Millennium Declaration to halve poverty by 2015 has motivated the researchers to consider Prahalad's proposition of collaborating with the various constituencies including the multinational corporations (MNCs) to address the needs of the BOP market. This paper aims to evaluate the feasibility of implementing Prahalad's Bottom of the Pyramid (BOP) proposition in the South African market and to conceptualize alternative approaches to developing marketing strategies for the South African BOP consumers. The study adopts a theoretical research study. It reviews statistics on the extent of poverty in South Africa. Arguments for and against the BOP proposition are examined and the researchers assess how the BOP proposition may work in the South African context. The secondary data indicates that the BOP is a lucrative market in the South African context. The authors conclude that the BOP proposition, if effectively implemented, has the potential to reduce poverty in South Africa and increase the profits of multinational corporations (MNCs). The researchers recognize the importance of MNC's buying into the BOP proposition from the standpoint of corporate social responsibility (CSR). They also propose a 6As Framework for the implementation of the BOP philosophy and a model for eradicating/minimizing poverty through profits.

Keywords: Bottom of the Pyramid (BOP), Poverty, Affordability, Appeal, Active Absorption, Advertising, Adaptability of Existing Products, Accessibility

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1 Introduction

In the year 2000, South Africa became a signatory to the United Nations Millennium Declaration, thereby committing itself to working with other countries in a bid to halving poverty by 2015. The immensity of the task at hand turned the spotlight onto conceptualizing and implementing viable measures in order to ameliorate the plight of approximately 4 billion people who are economically at the bottom of the pyramid (BOP) (Prahalad, 2005).

This market is traditionally considered the domain of governments, aid agencies, non-profit organizations, non-governmental organizations (NGOs) and other philanthropic institutions. However, recent literature pertaining to the BOP market suggests that this market can be harnessed by for-profit organizations in order to generate greater profits (Pitta, Guesalaga & Marshall, 2008; Prahalad & Hart, 2002; Subrahmanyam & Gomez-Arias, 2008).

Can a joint collaborative 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?

Prahalad, an internationally recognized specialist in corporate strategy and the prolific author of the book entitled, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, believes that this idea will most definitely work and this alternative approach to poverty reduction will reap favourable rewards for all constituents involved, especially the BOP consumers themselves.

Prahalad's contentious perspective to poverty alleviation has sparked debates amongst omniscient scholars, academics and business strategists as to whether there is in fact fortune at the bottom of the pyramid or is it simply just a mirage.

2 Purpose of the article

This paper aims to evaluate the feasibility of implementing Prahalad's Bottom of the Pyramid (BOP) proposition in the South African market and to conceptualize alternative approaches to developing marketing strategies for the South African BOP consumers.

3 Background

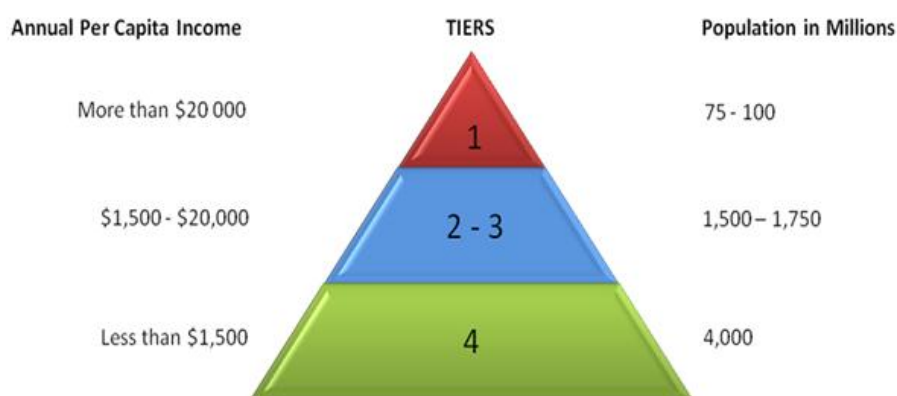
A rudimentary definition of poverty is that, it is a state in which there is a lack of sufficient resources to meet a specified quantum of basic requirements for survival. It is often defined as material or multidimensional (such as, income, health, education, security) deprivation. However, such a simplistic conceptualization of poverty runs the risk of the poor being perceived as victims of unfortunate circumstances instead of as 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 cognizance 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 clearcut (Oosthuizen, 2007).

According to Prahalad and Hart (2002), a four-tiered economic pyramid can be used to represent the global distribution of wealth and the capacity to generate income (Figure 1). At the top of the pyramid are the wealthy individuals, with plentiful opportunities to generate high levels of income (Tier 1). Tiers 2 and 3 comprise of individuals whose annual per capita income is between \$1,500 and \$20,000, which when converted to the South African rand as at the average rand-dollar (1 US\$ = 7.5561 ZAR) conversion for September 2011 is between R11 334.15 – R151 122. More than 4 billion people live at the bottom of the pyramid on less than \$2 or R15.11 per day (conversion as per average rand-dollar conversion for September 2011).

Figure 1. The Economic Pyramid



Source: Prahalad, C. K. & Hart, L. H. (2002). *The Fortune at the Bottom of the Pyramid. Strategy+Business*, [Online]. 26. Retrieved December 2, 2010, from the World Wide Web: <http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf> p. 4.

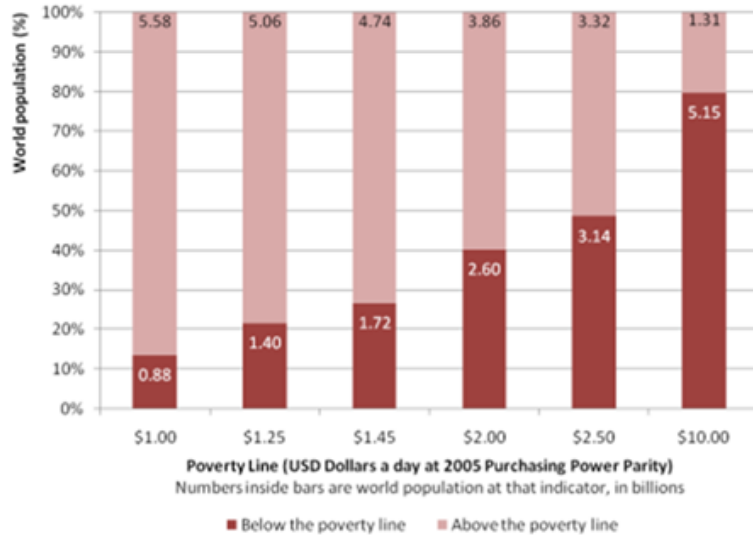
Figure 1 provides a graphical depiction of the World Economic Pyramid with the four consumer tiers. The BOP market, in Tier 4, represents the largest proportion of consumers in that pyramid who earn less than \$1 500 per annum, based on purchasing power

parity in American dollars. Jaiswal (2007, p. 6) explains 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".

Subrahmanyam and Gomez-Arias (2008) have ascertained that the BOP markets are predominantly rural with the majority living in Africa, South Asia, Eastern Europe, Latin America and the Caribbean.

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



Source: World Bank Development Indicators (2008). Percentage of people in the world at different poverty levels, 2005. *Internet*. Retrieved August 11, 2010, from the World Wide Web: <http://www.globalissues.org/article/4/poverty-around-the-world#WorldBanksPovertyEstimatesRevised>

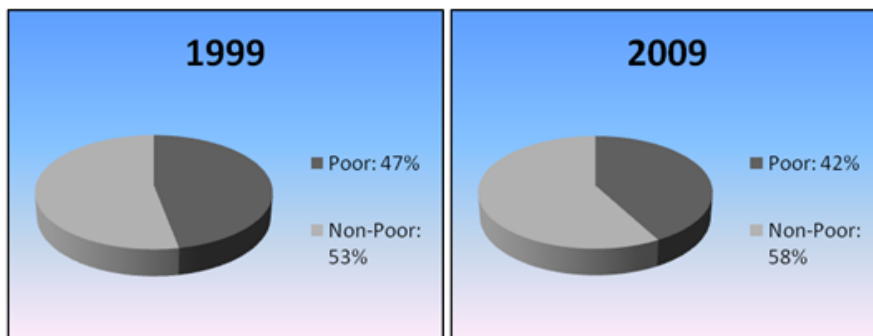
From Figure 2, it is evident that 1.4 billion people (approximately 22%) out of the global population of 6.46 billion people live below the global poverty line of \$1.25 per day. Many developing countries today have poverty lines at \$2 and \$2.50. Based on this, it is evident from the statistics that 2.6 billion people (approximately 40%) live below \$2 per day and almost half of the global population (3.14 billion people) survives on less than \$2.50 per day.

targets were set and was the focal area 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 (2009/2010a) reveals statistics which indicate that progress is being made towards poverty reduction in South Africa, but at a laggard’s pace (Figure 3).

4 Poverty in South Africa

South Africa’s poverty reduction commitment was articulated well before the international millennium

Figure 3. Proportion of people living in relative poverty, 1999 and 2009



Source: South African Institute of Race Relations: South Africa Survey (2009/2010). Number of people living in relative poverty by race, 1996-2009. *Internet*. Retrieved December 2, 2010, from the World Wide Web: <http://www.sairr.org.za/services/publications/south-africa-survey/south-africa-survey-online-2009-2010/employment-incomes> p. 100.

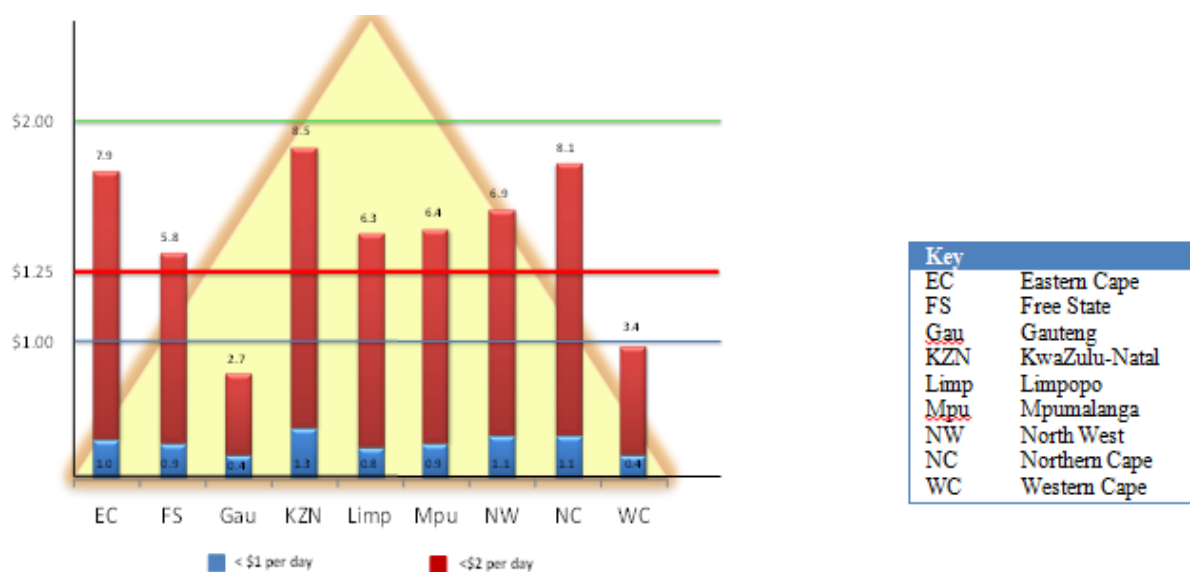
From the comparative diagrams in Figure 3, it is apparent that the proportion of people living in relative poverty has decreased by only 5% (from 47% in 1999 to 42% in 2009) in a decade.

Global Insight Southern Africa, Regional eXplorer (2010, cited in The South African Institute of Race Relations Survey, 2009/2010b, p. 99) defines people living in poverty as “those living in households with an income less than the poverty income which varies according to the household size and ranges from R1 259 per month for one individual to R4 544 for a household of eight members or more in 2009”.

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 African and National Treasury (2007), the last constructed national poverty line in 2007 was R431 per person based on 2006 prices.

A closer look at the provincial poverty levels in South Africa is imperative (Figure 4).

Figure 4. Percentage of people living on less than 1\$ and 2\$ per day in province in South Africa, 2009



Source: Adapted from Global Insight Southern Africa, Regional eXplorer, 2010 cited in the South African Institute of Race Relations: South Africa Survey (2009/2010c and d). Proportion of people living on less than \$2 a day by province, 1996-2009. *Internet*. Retrieved December 2, 2010, from the World Wide Web: <http://www.sairr.org.za/services/publications/south-africa-survey/south-africa-survey-online-2009-2010/employment-incomes.p.101-102>.

The World Bank had previously used the poverty line of \$1 per day to measure the extent of global poverty. Based on this poverty line, as well as the \$2 per day poverty line which defines the basis for the BOP market, the South African provincial statistics in Figure 4 reveal that:

- ❖ KwaZulu-Natal has the highest concentration of people living below the \$1 and \$2 per day poverty lines. With an increase of just \$1 more in the poverty line (from \$1 to \$2 per day) the proportion of the population living in poverty in this province increases by 7.2% (from 1.3% to 8.5%).

- ❖ Eastern Cape, Northern Cape and the North West also have relatively high proportions of people living below both the \$1 and \$2 per day poverty lines.

- ❖ Gauteng and Western Cape have significantly lower proportions (0.4% each) of poor people who survive on less than \$1 per day than all of the other provinces.

The current ominous state of poverty in South Africa warrants urgent attention and provides the main

impetus for change from more constituents than just the government, aid agencies and NGOs. Can Prahalad's proposition, that MNCs need to play a crucial role in poverty reduction, assist in the bid to halving poverty by 2015?

5 Prahalad's Bottom of the Pyramid Proposition

Harjula (2005 cited in Pitta *et al.*, 2008) views Prahalad's BOP proposition as the underpinning for double the potential at the bottom line, where social goals are combined with the business objective of profit.

Prahalad (2005, p. 3) believes that there needs to be a change in the ideology of the poor being a burden to society and helpless victims of unfortunate circumstances to thinking of them as “resilient entrepreneurs and value-conscious consumers”. He believes that in unison poor people have a tremendous amount of entrepreneurial potential and purchasing

power. He, therefore, advocates that a better approach to helping the poor would involve partnering with them to innovate and attain sustainable and propitious scenarios in which the poor are actively engaged and, at the same time, bringing profits to the companies providing products and services to them.

Prahalad (2005, p. xii) believes that the BOP proposition essentially is not about “philanthropy and notions of corporate social responsibility”. Nickels, McHugh and McHugh (2010) define corporate social responsibility as the concern that organizations have, not just for its owners, but for society as well. It is a commitment towards furthering the welfare of society and ensuring that businesses always maintain integrity, fairness and respect in dealing with their various stakeholders as well as society. Corporate social responsibility involves building sustainable livelihoods and contributing to a better society whilst simultaneously integrating social and environmental concerns into business operations. Instead of corporate social responsibility, Prahalad (2005) advises that businesses, when serving BOP consumers, need to use creative and novel approaches in order to convert the problem of poverty into a lucrative business opportunity that benefits all constituents involved.

Prahalad (2005) proposed that poverty alleviation is possible through the joint collaborative

effort by government, NGOs, large domestic firms, MNCs as well as the poverty stricken citizens themselves. Prahalad and Hart (2002) summarize the BOP proposition as follows:

- ❖ There exists prodigious untapped purchasing power at the bottom of the economic pyramid.

- ❖ Companies engaging this market can make significant profits by selling products and services to the poor.

- ❖ By selling to the poor, companies are able to bring prosperity to them and create employment opportunities, thus helping to eradicate poverty.

- ❖ Large multinational companies (MNCs) are best suited to lead the commercialization of this multitrillion dollar market segment that has a population of approximately 4 billion potential consumers, that is, approximately two thirds of the global population.

It is argued that MNCs have only targeted the top and middle of the economic pyramid consumers and have written off the BOP market as being inaccessible and unprofitable and MNCs have the misconception that, although this market has a substantial number of people, the rewards from servicing them will be exiguous (Table 1) (Prahalad & Hart, 2002).

Table 1. The dominant logic of MNCs as it relates to BOP

Assumption	Implication
The poor are not our target customers; they cannot afford our products or services.	Our cost structure is a given; with our cost structure, we cannot serve the BOP market.
The poor do not have use for products sold in developed countries.	We are committed to a form over functionality. The poor might need sanitation, but cannot afford detergents in formats we offer. Therefore, there is no market in the BOP.
Only developed countries appreciate and pay for technological innovations.	The BOP does not need advanced technology solutions; they will not pay for them. Therefore, the BOP market cannot be a source of innovations.
The BOP market is not critical for long-term growth and vitality of MNCs.	BOP markets are at best an attractive distraction.
Intellectual excitement is in developed markets; it is very hard to recruit managers for BOP markets.	We cannot assign our best people to work on market development in BOP markets.

Source: Prahalad, C.K. (2005). *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. New Dehli: Pearson Education/Wharton School Publishing.

According to Prahalad (2005), as evident in Table 1, the reluctance on the part of MNCs to target the BOP market is based on certain assumptions that most MNCs make, that is, the poor cannot afford the products and services sold by MNCs, the BOP market has a high cost structure and, therefore, cannot be profitable and only developed markets value innovation and will pay for new technology.

Prahalad (2005) believes that MNCs have the resources and capabilities to effectively target the BOP market and that it is imperative for MNCs to create new business models and strategies for

marketing products to the BOP market so as to simultaneously be profitable and eradicate poverty, thereby delivering dignity, empowerment and selection to the BOP market and not just products. He emphasizes that the world’s dynamic, rapidly swelling and lucrative new market surprisingly lies at the BOP and it makes business sense to develop this market.

Why then, has this very appealing proposition morphed into such a contentious debate where its authenticity has been eminently criticized?

The critical questions are whether or not there is a fortune at the bottom of the pyramid and whether we can eradicate or minimize poverty through profits.

6 What is known about the consumption behavior of BOP consumers?

Since BOP consumers have never been a part of the global consumer culture, it is becoming increasingly clear that any attempts to address the needs of this market necessitates an understanding of their consumption patterns.

BOP consumers have similar desires to middle or upper class consumers and are equally demanding but due to their limited capital, they spend differently (TWORKUE, 2008). Despite their income and resource limitations, BOP consumers are not just motivated by survival and lower-order (physiological) needs but also seek to satisfy higher level needs. They are sophisticated and creative consumers (Subrahmanyam, 2008), who aspire to buy better products. For example, they would rather invest in gas stoves than biomass cookstoves and would select multiple use electricity services to operate televisions and charge cell phones than to purchase single-use products such as solar lanterns (Lall, 2011).

Bhan and Tait (2011) observed the BOP consumer's lifestyle and buying behavior in Africa and concluded that their product choices and decision-making criteria are based on an entirely different array of values than those that determine the design of most consumer products in the market. Their mindsets and purchasing patterns are largely influenced by their local culture, history and the day-to-day experience of survival in the face of adversity. Low-income consumers prefer premium product brands, not because they are particularly brand conscious but desire value for money; since BOP consumers cannot afford to try the 'new and improved', they prefer to choose the 'tried and tested' or products with positive word-of-mouth in order to reduce risk.

BOP consumers, similar to most consumers, prefer to pay smaller amounts over time, rather than a substantial, upfront payment (Lall, 2011). In addition to not having sufficient funds, this would ensure that they are able to purchase a greater variety rather than to use available resources for a few products and services.

It was found that African BOP consumers are similar to Indian BOP consumers (TWORKUE, 2008). Variawa (2010) reflected that BOP households in SA spend 35% of their household expenditure on food, 11% on housing, water and electricity, 10% each on clothing and transport, 9% on furniture, 6% on recreation, entertainment, personal care and culture, 4% on social protection and other services (such as, funeral costs), 3% each on communication, financial services, transfers to others, 2% each on education and health and 1% on alcohol and tobacco. In terms of

monthly rand value, BOP consumers spend R132 per person on food (Variawa, 2010).

Low-income consumers appreciate product packaging as they often re-use it once the produce is consumed. For example, they buy Energade or Powerade drink that is generally above their budget to keep the packaging bottle and creative cap for carrying drinking tap water for later use. They also prefer creatively repackaged products that ensure smaller quantities as it increases the range of products that they are able to afford and store.

Evidently, BOP consumers are rational consumers who have shallow budgets. This does not mean that their needs can be easily addressed by removing features or services to make them cheaper as this may compromise quality and other valued attributes such as product life. Instead, firms need to use price as a primary driver to design and ensure that they need to understand the BOP consumer culture and tailor-make relevant and adaptable products to suit the needs of the BOP market effectively.

7 Arguments for and against the bottom of the pyramid being a lucrative market

Prahalad (2005) states that there are more than 4 billion people with a per capita income of less than \$2 per day at purchasing power parity (PPP) rates and estimates that the BOP market size is enormous at \$13 trillion.

Karnani (2007) and other researchers (Gollith Business News, 2005), however, contradicts Prahalad's estimates, saying that it is simply an excessive overestimation and concedes that, although the BOP market is indeed colossal in terms of number of consumers, it is relatively small monetarily. According to Karnani's (2007) calculations, the BOP market size is merely \$1.2 trillion after having used the World Bank's estimate of \$1.25 per day as the average consumption of its estimated 2.7 billion globally poor people.

One of the dominant assumptions (Table 1) that Prahalad and Hart (2002) believe that MNCs make regarding BOP markets is that, distribution access to this market is difficult and this serves as a paramount deterrent to servicing the needs of BOP consumers. Karnani (2007) agrees with this assumption and believes that the costs of selling to the BOP markets can be exorbitant and that it will prove formidable for MNCs to exploit economies of scale in this market.

Prahalad and Hart (2002) are confident that the problem of MNCs accessing the BOP market can be overcome through designing their distribution systems to cater for the needs of the rural poor consumers and by partnering with local people and village enterprises in order to improve distribution.

Prahalad (2005), in his book entitled, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, cites the success story of Hindustan Lever Limited (Unilever's Indian

subsidiary) in achieving a greater penetration of the BOP market in rural areas of India by using a direct distribution network in trying to combat the diarrheal pandemic through creative and unorthodox methods of marketing a soap formulated to cater for the needs of this market. This led to the introduction of Project Shakti, in which women from the BOP markets were trained to become distributors in these markets and went out to villages to provide consumers with advice and health education as well as access to the product whilst earning an income for themselves.

Prahalad (2005) believes that BOP consumers readily accept advanced technology and are getting connected and networked. The example that he cites is that of Information and Communication Technology's (ITC's) e-Choupal initiative which allowed Indian farmers to access information on computers via the e-Choupal networks in order to aid them in deciding when and how much of their products to sell, thereby helping them improve profit margins.

The BOP proposition indicates that there is substantial untapped purchasing power at the bottom of the pyramid and that there is potential for BOP markets to yield soaring profit margins for MNCs. By not servicing the poor, MNCs are disadvantaging these consumers because they are then subjected to the poverty penalty (that is, paying a premium on purchases from local monopolies in the BOP market as a result of having no other options available to them). Prahalad (2005) argues that the poverty penalty can be eliminated if MNCs, with their large scale and scope of operations as well as management expertise, target BOP markets by offering these consumers a variety of products and services to choose from.

Karnani (2007) and other researchers (Goliath Business News, 2005), however, disagree with this viewpoint and perceive the BOP market as being highly unprofitable owing to the price sensitivity of its consumers and argue that the cost of serving these people will be immense because of their geographical spread and cultural heterogeneity, thereby increasing distribution and marketing costs. Furthermore, Karnani (2007) believes that profitability will be affected by poor infrastructure in these markets and small-size transactions, which Jaiswal (2007) also does not regard as being workable or as making economic sense, elucidating that it is by selling bigger packages that companies can reduce their processing and transaction costs and not by doing the converse.

Prahalad (2005) believes that poor people often buy items that would be considered a luxury to them. This notion is supported by Subrahmanyam and Gomez-Arias (2008) who have found that BOP consumers purchase luxury and non-essential items (also known as occasional and festival purchases) in order to satisfy traditional customs 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 low and volatile income streams, thereby affirming that BOP consumers are indeed brand-conscious.

Karnani (2007) supports this aspect of the BOP proposition that poor people desire quality products, lack self-control and give in to temptation (Banerjee & Duflo, 2007; Fafchamps & Shilpi, 2008; Luttmer, 2005). However, Gangopadhyay and Wadhwa (2004) state that the problem lies in the fact that they cannot afford to purchase such products as the poor spend about 80% of their meagre income on food, clothing and fuel. Making provision to purchase these luxury items would mean sacrificing the purchase of essential items that are crucial to their well-being. Karnani (2007) believes that providing credit to BOP consumers does not change the affordability of a product, even though it does provide some value to them in the form of increased self-esteem.

It is imperative, when serving the BOP market, for companies to reduce prices without reducing quality. It is believed that the poor have a right to determine how to spend their limited income on products in a way that will maximize their utility and selling low-quality products to them is extremely disrespectful (Prahalad, 2005). However, researchers consider this BOP proposition to be too ambitious claiming that the only realistic way to reduce the price to the consumer is by reducing the cost to the producer and business process redesign will seldom reduce cost by over 50% without reducing quality (Goliath Business News, 2005).

Furthermore, Karnani (2007) opposes Prahalad's conviction by stating that, improvements in technology can reduce prices without reducing quality in products like computers and in the telecommunications sector but this is not the case for most other product categories and that there has to be a cost-quality trade-off that is acceptable to the poor. He cites the example of Nirma, (a cheap detergent powder that contained no whitener, perfume or softener and one that was very harsh on the skin) as being more successful in the Indian BOP market than Hindustan Lever Limited's Surf, purely because it was the cheaper alternative and he strongly believes that poor people do like inexpensive, low-quality products.

It is argued that the BOP proposition will ultimately lead to the exploitation of the poor because they are vulnerable by virtue of a lack of education and are, therefore, susceptible to spending money on unnecessary products like shampoo and televisions instead of spending on high-priority products that will enhance their nutrition, health and education (Karnani, 2007).

The BOP proposition advocates the use of smaller-unit packages, in order to encourage consumption, create affordability and offer a greater choice to BOP consumers. D'Andrea (2004 cited in Pitta *et al.*, 2008) found that low income consumers actually prefer buying products in small sizes,

irrespective of the per-unit cost being higher, simply because of their income and space constraints.

Researchers (Goliath Business News, 2005) believe this claim of increased affordability to be a fallacy and Karnani (2007) articulates that although small packages increase convenience and assists the poor in managing cash flows, it does not increase affordability and he asserts that the only way to do so is to reduce the price per use which he believes is not achievable by using sachet packaging. Further to this, he points out that smaller unit packaging places additional burden on the environment with regard to pollution. In addition, Hawken (cited in Katz, 2006) argues that what the poor want are rights and not foil packaging.

Creative initiatives can be developed and implemented in order to reduce pollution. With this goal in mind, BK Environmental Innovations, an organization based in Hyderabad, has created edible cutlery called "bakeys". The spoons are environmentally friendly and are able to disintegrate within a day if consumers choose not to eat them after use. The idea behind creating edible cutlery is to avoid the use of plastic utensils that are discarded after a single use thereby contributing to pollution. The company hires 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).

Jaiswal (2007) believes that BOP consumers should be viewed as producers rather than consumers and that the best way to alleviate poverty is to raise their income by emphasizing buying from them as opposed to selling to them. He cited the example of Amul, a large dairy in India which assisted local farmers by centralizing 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.

Davidson (2009) argues that Prahalad incorrectly distances his concept of BOP from corporate social responsibility when he should in fact disassociate the concept from charity. In fact, Davidson (2009) believes that engagement with the BOP can be successful only if the core elements of corporate social responsibility are understood and included into the BOP strategy from its inception.

Against the backdrop of the arguments presented on whether or not the BOP proposition is viable, the researchers believe that it does present a practicable approach to poverty reduction and improvement in lifestyles of the poor, whilst simultaneously yielding profits for MNCs that target the BOP market. The researchers are of the belief that, based on the prevailing level of poverty, that is, 42% of the South African population living in relative poverty (Figure

3), the BOP proposition will prove highly successful in the South Africa market if correctly implemented.

8 How can the BOP proposition work in South Africa?

Businesses targeting the South African BOP consumers need to acknowledge that their existing business models and marketing strategies that were designed to serve the non-BOP market will not hold much substance when serving the BOP market because BOP consumers in South Africa earn differently (daily or weekly), save differently, have different spending patterns and are driven by different motivators when engaging in the buyer decision-making process, than the non-BOP market. Marketing to the BOP market requires organizations to radically redesign their business models, focus on their cost structures, innovate smart yet practical products, reengineer their packaging and rethink their distribution networks.

Prahalad and Hart (2002) suggest that the BOP market necessitates a combination of low-cost and good quality products and that it is imperative for profit-seeking businesses to develop an understanding of the needs of the BOP market in order to adapt their marketing approach to meet the characteristics of the consumers at the bottom of the pyramid.

Prahalad and Hart (2002) advocate that businesses need to develop a commercial infrastructure suited to the needs and challenges of the BOP market. 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 (Figure 5).

The four elements as depicted in Figure 5 are fundamental to ensuring a successful win-win engagement for all constituents involved in serving the BOP market:

8.1 Creating buying power

Underemployment is a primary constraint on purchasing power of poor people. Prahalad and Hart (2002) advocate that increasing the buying power of the poor, through providing access to credit and increasing their potential for greater earnings, can help the BOP consumers improve their lifestyles and better support themselves and their families. In this regard, Rao (2007) has suggested creative innovations in financing for low-price markets so as to meet the needs at the bottom of the pyramid.

8.2 Shaping aspirations

It is imperative for MNCs to provide extensive product awareness, knowledge of correct product

usage and create an understanding of the benefits of consuming these products to BOP consumers, as this is deemed to have a positive influence on the choices of products that these consumers make in a bid to improving their wellbeing (Prahalad & Hart, 2002).

8.3 Improving access

Prahalad and Hart (2002) advise businesses to develop distribution and communication links to cater for the needs of the BOP consumers. Partnering with local

companies and involving and empowering BOP consumers, so as to provide opportunities for them to earn an income, are part of a workable solution to penetrating this market. Introducing the BOP consumers to technology such as the internet and mobile phones promises a means for MNC's to stay connected to this market and be better able to service their needs.

Figure 5. The Commercial Infrastructure at the Bottom of the Pyramid



Source: Prahalad, C. K. & Hart, L. H. (2002). The Fortune at the Bottom of the Pyramid. *Strategy+Business*, [Online]. 26. Retrieved December 2, 2010, from the World Wide Web: <http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf> p. 8.

8.4 Tailoring local solutions

BOP markets need to be nurtured in a way that promotes their wellbeing, whilst simultaneously generating wealth for MNCs. Providing good quality products to these consumers in affordable single-serve packages, is a strong recommendation made by Prahalad and Hart (2002) as a way of ensuring dignity,

pride, and an increase in 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.

How then should MNCs modify and revamp existing business practices and marketing strategies in

order to be successful in the South African BOP market?

Sridharan and Viswanathan (2008) state that conventionally, marketing strategies in organizations were fostered around the dominant 4Ps (product, price, place and promotion) Framework but argue that this framework is deemed inadequate when marketing to BOP consumers because it is too focused on the management of the internal resources of the organization and is not cultivated around the needs of BOP consumers.

Anderson and Billou (2007) believe that if businesses want to reach the 4 billion consumers at the bottom of the economic pyramid and prove successful in their endeavors, they need to focus on the 4As (availability, affordability, acceptability and awareness) Framework as included in Figure 6. The researchers are of the opinion that there are 2 further As, hence, 6As, that are imperative for the BOP market as reflected in Figure 6 and explained thereafter.

Figure 6. The 6As Framework



Availability refers to the extent to which consumers are readily able to purchase and utilise products and services. As mentioned previously (Table 1), one of the major deterrents to serving the BOP consumers is the fact that these markets are highly fragmented and place insurmountable obstacles in terms of distribution and the task of getting the products to people can be rather challenging. The researchers of the current study believe that availability largely refers to the degree of *accessibility* of products and services by BOP consumers.

Sridharan and Viswanathan (2008) state that small, local businesses and entrepreneurs in BOP markets enjoy the trust and patronage of local consumers and by establishing partnerships with these local businesses and entrepreneurs, MNCs can gain access to traditionally neglected markets. For example, Vodacom identified aspiring entrepreneurs in Africa after tracking cell phones with an unusually high number of calls, believing that the owners were renting out their phones in order to generate income. The company offered these individuals an opportunity to operate their own franchised phone kiosks and receive one third of the revenues. This scheme proved very lucrative for Vodacom whose network now has 5 000 kiosks (Pfeiffer & Massen, 2010).

Affordability refers to the degree to which an organization's products and services are affordable to BOP consumers. Many impoverished consumers survive on daily wages and have low disposable incomes, therefore making it imperative for companies to deliver offerings at prices that will enable consumption by the poorest of consumers. Hence, the researchers of the present study best describe *affordability* in terms of how *achievable* the products and services are to BOP consumers.

Pitta et al. (2008) believe that in order to achieve affordability, organizations must reduce their costs of production, simplify their products and provide flexibility in payment. Selling products on credit to BOP consumers worked well for Casas Bahia. The company sold high-quality appliances to the BOP market in Brazil and reported a default rate of 8.5% compared to the over 15% of its competitor organizations. Grameen Bank in Bangladesh pioneered the move to provide microcredit to BOP consumers and this is deemed crucial in reducing poverty and improving the standard of living of BOP consumers (Pralhad, 2005).

Danone's Danimal yogurt is marketed with a price printed on the package and does not have a barcode, thus prohibiting its sale in retail outlets. It

was specially designed for distribution in townships in South Africa to promote good nutrition at affordable prices (Thieme, 2010).

In making products affordable to BOP consumers, companies need to employ a low-margin, high-volume strategy in order to successfully lower prices and still be profitable. Since most low-income consumers are paid daily, purchasing larger packages will not be a viable option to them. Companies can address the issue of affordability by reducing the packaging size to single-serve sachets. 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.

Acceptability refers to the extent to which consumers and others in the value chain are willing to consume, distribute or sell a product or service. The researchers of the current study believe that such willingness will only prevail if the goods and services *appeal* to the BOP market in terms of their needs, whereby they can readily recognize its advantages.

Tripathi and De (2007) outlined that innovative products designed for BOP markets must become value-oriented from the consumers' perspective and be able to deliver both tangible (value for money) and intangible (high self-esteem and financial independence) benefits. Products with multiple uses will be very well received by BOP consumers who are constantly seeking value for money.

Hindustan Lever Limited developed a low-cost washing powder that worked well with less water after realizing that a lack of water was a serious problem that plagued many BOP consumers in certain regions (Subrahmanyam & Gomez-Arias, 2008). The company also realized 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 (Prahald, 2005).

New products should preferably be less complex and easy to use. High levels of illiteracy in India resulted in ICICI Bank and Citibank developing biometric ATMs which featured fingerprint authentication as well as voice-enabled navigation which was easy to use by BOP consumers. These

banks also scrapped the minimum account balances in order to encourage poor consumers to open up bank accounts for savings purposes (Pfeiffer & Massen, 2010).

The Vodacom Group and Nedbank Group launched their joint initiative, M-PESA, in South Africa, with the aim of creating a quick, safe and easy way of transferring money from one person to the next, anywhere in the country, using mobile phone technology. Money can be loaded 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 cell phone of a recipient anywhere in the country. The receiver can then redeem the cash at any M-PESA outlet or Nedbank ATM (fin24, 2010).

Awareness refers to the extent to which consumers are aware of the existence of certain products and services. The researchers of the current study believe that Anderson and Billou (2007) are essentially referring to the *advertising* of the products and services. Subrahmanyam and Gomez-Arias (2008) stated that the main challenges in the communication to consumers in the BOP markets are the low literacy rates, the cultural and linguistic barriers as well as the inaccessibility of conventional advertising media. These researchers believe that billboards and word-of-mouth will be the best forms of promotion in this market.

Tripathi and De (2007) believe that businesses need to utilise prominent and well-respected people in the BOP markets like village elders, principals of schools and community doctors, in order to promote awareness of the products as these people will be deemed as credible sources of information. Hindustan Lever Limited, in an attempt to build brand awareness, made use of magicians, dancers and actors to promote their products like toothpaste and soap. Under the company's Project Bharat, vans were deployed to villages in order to sell small packs consisting of various toiletries to BOP consumers. Videos featuring correct usage of the products and the benefits thereof were shown to these consumers (Tripathi & De, 2007).

Anderson and Billou (2007) advise that businesses serving BOP markets need to utilize the aforementioned comprehensive 4As Framework in order to achieve growth and profitability, whilst providing low-income consumers with lifestyle-enhancing products and services that are tailored to meet their specific needs. In addition to Anderson and Billou's (2007) 4As Framework, the authors of the present study are of the opinion that two additional As that are worthy of identification in their own right should be included, namely, adaptability and active absorption although Anderson and Billou (2007) include them under acceptability and availability respectively.

Adaptability of existing products is important in order to ensure appeal, that is, that the goods and

services satisfy the needs of the BOP market. It is critical to develop an understanding of BOP consumers' needs and take cognizance of their product knowledge and level of education when developing products for them.

Appliance manufacturer, Haier, based in China, for example, redesigned washing machines in order to accommodate washing potatoes and other vegetables after realizing 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).

Another success story of innovative products developed for the BOP market is that of Danimal Yogurt by Danone. This yoghurt, which is rich in vitamin A, zinc and iron, was developed in order to meet the nutritional needs of low-income children in South Africa. In addition to taking cognizance of the nutritional deficiencies of children in this market, the company also took into consideration the living conditions in townships and, therefore, developed a yoghurt that can be stored without refrigeration for up to a month (Thieme, 2010).

Active absorption refers to actively involving BOP entrepreneurs into the process as this has the potential to reduce advertising costs as BOP consumers will trust their fellow citizens and will enhance appeal. Similarly, Tripathi and De (2007) suggest that a beneficial option in distributing products within BOP markets is for companies to enlist the assistance of the BOP citizens and empower them to carry out the distribution of the products and services, thereby enabling them to earn an income. The idea behind this is to alter the standard retail environment by building an entrepreneurial spirit within the BOP market.

This concept worked well for the Danone Group in the distribution of their Danimal Yoghurt in and around Soweto, by using micro-entrepreneurs who were dubbed "Dani Ladies", to distribute the yoghurt to targeted consumers (Thieme, 2010). These micro-entrepreneurs benefit by gaining a sense of empowerment and from creating a livelihood to sustain themselves and their families.

Pfeiffer and Massen (2010) suggest that it is imperative for businesses to act quickly in servicing the needs of the BOP markets in order to capitalize on the first-mover advantage and to create brand loyalty amongst these consumers.

9 Recommendations

In order for businesses to be successful in servicing the needs of the BOP consumers and simultaneously be profitable, the researchers recommend that MNCs:

- ❖ Conduct extensive research in order to gain in-depth knowledge of the BOP market, taking cognizance of their various cultures, earnings, lifestyles, needs and spending patterns when redesigning business strategies and models in order to target them successfully.

- ❖ Creatively innovate products and provide services that are going to enhance the health, nutrition, physical and emotional wellbeing of BOP consumers as well as lead to an improvement in their standards of living.

- ❖ Place paramount focus on Customer Relationship Management in order to build trust, support and loyalty on the part BOP consumers thereby enabling MNCs to offer a service that will cater specifically for their unique needs.

- ❖ Dramatically reduce costs and provide microcredit payment policies so that products and services become more affordable. Where possible, MNCs need to repackage products into smaller, single-serve packages so as to ensure convenience and affordability amongst BOP consumers.

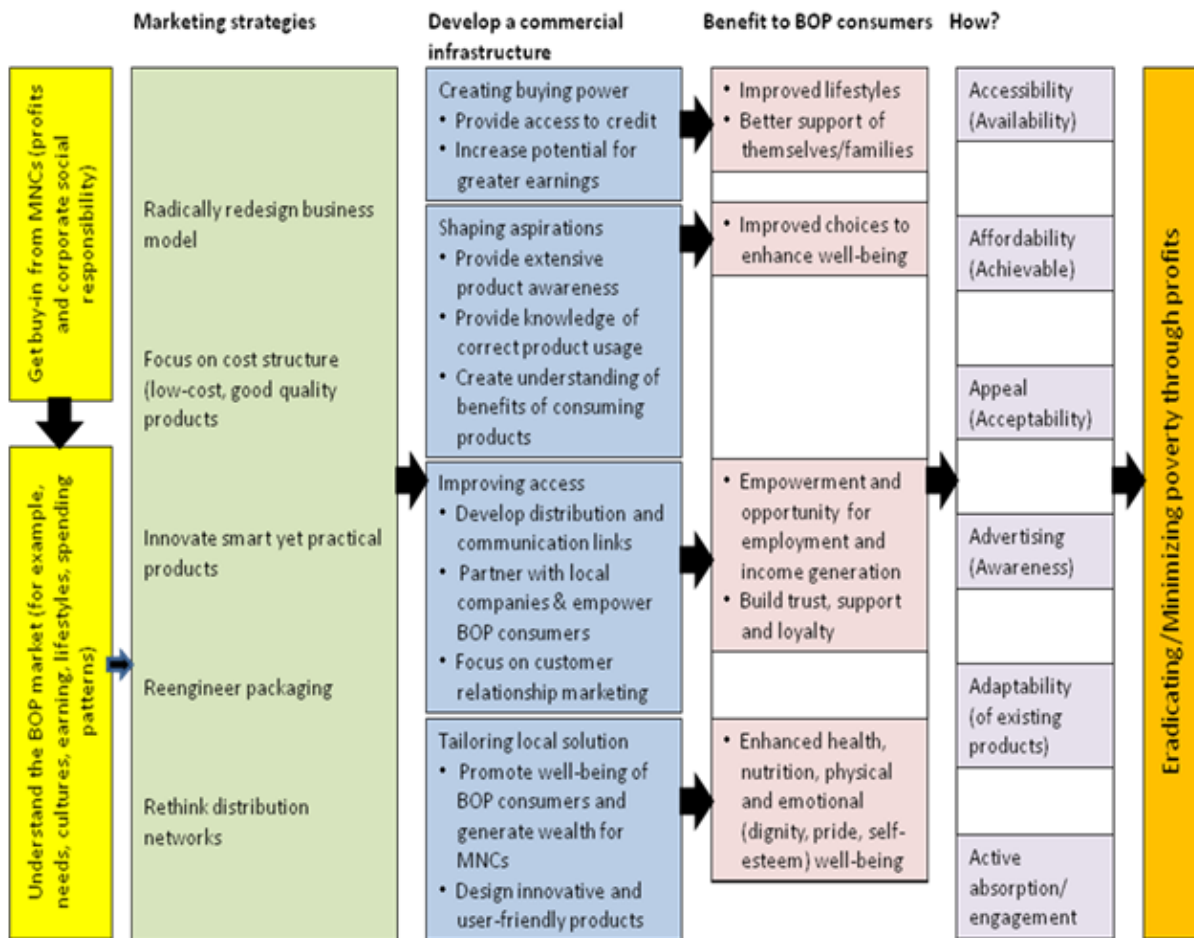
- ❖ Undertake a long-term focus and investment in serving BOP consumers with the understanding that it will take a little longer for ventures to reap soaring profits than when targeting non-BOP consumers.

- ❖ Acknowledge that in order to be truly effective, joint collaboration with NGOs and government and forming alliances with local BOP enterprises is imperative. All constituents need to play their part in helping to eradicate poverty.

- ❖ Should not view addressing and servicing the BOP markets as charity but as part of their corporate social responsibility. Although this view runs contrary to that of Prahalad's, the researchers of the current study are of the opinion that that MNCs must incorporate the critical ingredients of corporate social responsibility with its planning and implementation of BOP markets in order for it to be successful.

In addition, the conceptualization of how to eradicate/minimize poverty through profits is presented in a model in Figure 7, which will assist in implementation and goal accomplishment.

Figure 7. Proposed model for eradicating/minimizing poverty through profits



10 Conclusion

Businesses need to alter their perceptions of the poor as being helpless invalids who should not be targeted simply because they represent an unprofitable and inaccessible market and, therefore, should continue being the wards of the state. Instead, BOP consumers must be treated with dignity and respect and should have access to affordable and good quality products that enhance self-esteem and physical wellbeing. Assumptions need to stop being made about the poor and they should be afforded the right to choose good quality products that will best satisfy their needs as opposed to limiting their access to cheaper and inferior quality products.

Joint collaboration by MNCs, NGOs, aid agencies, government as well as BOP consumers themselves is fundamental to improving their standards of living and eradicating poverty in South Africa without minimizing the role of the state in poverty reduction. Cognizance should be given to the factors considered to be critical for the effective implementation of marketing strategies that assist in eradicating/minimizing poverty through profits as presented by the researchers in the proposed model (Figure 7).

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