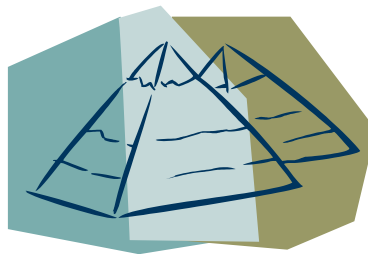




The Bottom of the Pyramid: Fortune or Mirage?



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Abstract

One of the topics that should be in the center of interest for academics and marketing practitioners is that “poor people should no longer be considered as victims or as a burden, but as possible and probable value-conscious consumers” (Prahalad 2005, p.1). Companies too often tend to assume that people that have low income do not represent a viable market and ignore them. This market that represents the largest group of consumers in developing countries could be an interesting target for multinational companies, according to Prahalad. He argues that bottom of the pyramid (BOP) consumers could make a positive difference in a company’s profits and will also be the case for local companies.

This thesis will focus on the positive and negative aspects of the “Bottom of the Pyramid” theory, and analyze whether the theory needs to be revised. Pertaining observations from a case study undertaken in Bolivia, a BOP country of South America, will be included.

Preface

After months of hard work and a lot of experiences with this thesis I am completing the Bachelor of Science in International Business at Tilburg University. The work with the thesis gave me the opportunity to broaden my research skills. My associate internship position with the “Fino Company” in Bolivia confirmed that my analytical abilities, high energy, relationship development skills and work ethic are well suited to the complex situations and intense pace that marketing professionals encounter.

This could not have been possible without the help and support of the Development Research Institute of Tilburg University (IVO) and the Faculty of Economic and Business Administration.

Above all, I would like to thank my thesis supervisor Dr. Cédric Stalpers for his guidance and input throughout this entire process.

Second of all, I would like to thank Drs. Alejandro Zegarra, who supervised my research process while I was in Bolivia and Dr. Luuk van Kempen, who made my research in a company of a developing country possible. As well as for his always useful comments and guidance, even though he was in Rwanda and I was in Bolivia.

I would also like to thank Ing. Jorge Rada, Marketing Manager of the Fino Company for giving me the unique opportunity of doing my research in his company, and providing me with all the information, resources and suggestions to obtain good results. As well as the Brand Managers and team with whom I worked with for five months for integrating me in their work atmosphere and giving me constant tips about the company in general.

The comments and suggestions of my colleagues Jan de Leeuw and Camiel Rietbergen have also been of great value.

I want to give a *special* thanks to my parents, for all their support throughout these years I have been away from home. Without them the conclusion of this step in my life would not have been possible. I am very grateful with my father, who has been my guide, for his comments, and suggestions and for proof reading my thesis.

Last but not least, I would like to thank to Coimbatore Krishnarao Prahalad for providing his theory as a source of inspiration to my thesis.

Denise Mendizábal

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Chapter 1: Introduction

In this Chapter, the problem background will be presented followed by the problem statement and research questions. The academic and managerial relevance of this thesis will also be discussed.

This thesis is about Prahalad's Bottom of the Pyramid (BOP) theory, taking into consideration its strong and weak points, and analyzing if some of the premises could be or are applied in a specific under-developed country.

1.1 Introduction

C. K. Prahalad (deceased April 16, 2010 in San Diego, California) was a well known economist, professor at the University of Michigan and an influential thinker on business strategies. He has developed a proposition "The Fortune at the Bottom of the Pyramid – Eradicating Poverty through Profits" that has raised worldwide interest in the Business, Educational as well as the Development sectors.

On November 16, 2006, Tilburg University awarded Prahalad with a *Doctorate Honoris Causa*. The Honorary Doctorate was presented by Dr. Phillippe Naert, Dean (at the time) of TiasNimbas Business School, who in his presentation speech, referred to some of his contributions, among them "The Bottom of the Pyramid", and in the final part of the presentation he said: "*We want to honor professor Prahalad for continuously pushing back the frontiers of knowledge in the field of strategy and for encouraging generations of young researchers to free themselves of the straightjackets of established thinking. We also want to honor him for his innovative vision on how to fight poverty and for stressing the role that business and industry can play in creating the conditions and mechanisms necessary for economic emancipation of underprivileged communities in society.*"¹

¹ www.tilburguniversity.nl/university/doctorates/2006/prahalad/laudatio.html

The Bottom of the Pyramid refers to the bottom of the economic pyramid, where the moderate and extreme poverty population is located.

Prahalad's concern to begin working on his theory was, that: "Half of the world lives with less than \$2 per day, this is equivalent to nearly four billion of people."² For more than 50 years these extreme levels of poverty have worried the World Bank, various governments that have donated resources, several aid agencies, and also civil society organizations that have propitiated many programs to eradicate poverty with varying degrees of success, but without resolving the problem (Prahalad, 2005, p.3).

His analysis concluded in what he calls a *simple proposition*: "*If we stop thinking of the poor as victims or as burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up. Four billion poor can be the engine of the next round of global trade and prosperity. It can be a source of innovations. Serving the BOP consumers will demand innovations in technology, products, services and business models. More importantly, it will require large firms to work collaboratively with social organizations and local governments. Market development at the BOP will also create millions of new entrepreneurs at the grass roots level from women working as distributors and entrepreneurs to village-level micro enterprises. These micro enterprises will be an integral part of the market-based ecosystem. It will require organizational and governance innovations as well*" (Prahalad, 2005, p.1,2).

Prahalad's basic idea is that the "bottom of the pyramid" constitutes a lucrative market for mass consumption items that multinational companies should not ignore, because of its vast size. Prahalad considers that multinationals need to adapt their products and/or their strategies

² <http://www.globalissues.org/TradeRelated/Facts.asp#fact1> (Accessed February 10, 2010)

if they want to conquer those low-income markets, because their actual products were designed and developed for higher income markets and the BOP requires low cost, good quality products. Their business models based on high gross margins are not applicable for the BOP market, he claims.

Prahalad reasons that, when private companies sell to the poor and give them choices with good quality products, that they could/or may choose to consume, it helps them to be part of the global market economy. This will push down prices due to the increased competition operating in the market. As a consequence, there will be an increase in their disposable income for other products, thus helping to alleviate poverty.

The BOP theory emphasizes that emerging economies, in which most of the people in poverty levels live, should make a transition to market based economies as a way to create the conditions for economic development and poverty alleviation. (Prahalad, as opposed to advocates of state or government controlled economies, is a believer that market based economies are the only way to create those conditions). In a market based economy, prices of goods and services are determined by supply and demand and self regulation is by market forces. This type of economy encourages private initiatives, competition and wealth accumulation but can produce market inequalities that may require government regulation. Regulation to control inequalities does not change the nature of market based economy, since a totally free market economy does not exist in practice. Prahalad considers that with policies as outlined in his proposition, the private sector, government and non-government organizations, and the poor working together toward economic development and social transformation, poverty could be eradicated in less time than with the Millennium Development Goals, as adopted by the United Nations (Sachs, 2005). Prahalad's theory has generated much debate in the popular press, but this debate is strongly ideological and hardly based on compelling empirical material. Consequently, more research is required.

Is Prahalad right in asserting that major worldwide companies may find interesting markets in underdeveloped countries that are populated and hungry for novelties, provided that they adequate themselves, their products, pricing and selling strategies?

With an opposite point of view Professor Aneel Karnani, also from the University of Michigan, has published a paper "The Mirage of Marketing at the Bottom of the Pyramid: How the private sector can help alleviate poverty" (Karnani, 2007, p.90-111).

Karnani states that "The BOP proposition is indeed too good to be true. It is seductively appealing, but it is riddled with fallacies. There is little glory or fortune at the bottom of the pyramid-unfortunately, it is (almost) all a mirage" (Karnani, 2007, p.91).

Karnani argues that the size of the BOP market is small, that there is no fortune there, specially for large companies, that the cost of serving the market can be very high, that the poor may often make wrong choices that are not in their own self interest, that the price reductions called for in the BOP proposition without reducing the quality are impossible to achieve, that by far the best way to alleviate poverty is to raise the income of the poor, and to emphasize buying from the poor rather than selling to them. Karnani insists that the poor should be considered as producers rather than consumers.

Karnani questions the effect of microcredit in helping eradicate poverty, and the profitability of microcredit in itself at the BOP market, but praises creating opportunities for steady employment at reasonable wages as the best way to eradicate poverty.

Having briefly described both, the BOP proposition and Karnani's opposition, and without the benefit of empirical research to substantiate the validity of one or the other point of view, we come to formulate the Problem Statement:

1.2 Problem Statement

What are the arguments for and against Prahalad's Bottom of the Pyramid theory, and does the theory need to be revised?

1.3 Research Questions

- 1) What is Prahalad's theory? (Ch.2)
- 2) What are the strengths of the theory? (Ch. 2)
- 3) What are the arguments against this theory? (Ch.3)
- 4) Does recent empirical research point against or in favor of this theory? (Ch. 4)

1.4 Demarcation

This paper will take into consideration five main elements. The first part of this demarcation focuses on Prahalad's "Bottom of the Pyramid" theory described in chapter two. The second element focuses on the weak points and criticism of the BOP theory, related to: Karnani's critique and it is presented in chapter three. The third element is the strong aspects of the BOP theory as perceived by the author, also presented in chapter two. The fourth element is the empirical data and it will be presented in chapter four. The fifth element is the confrontation of both points of view against each other and also the point of view of the author, presented in

chapter five.

1.5 Relevance

1.5.1 Academic Relevance:

Prahalad's BOP theory has been considered an important enough proposition to be included in the classrooms of many universities and business schools around the world. However, in his paper Aneel Karnani (2007) objects to most of its ideas, and raises doubts about its validity. Although there are many economists that have dealt with the matter, there is little empirical data to sustain one position or another.

This paper will attempt to explain the debate between Prahalad's BOP theory and Karnani's objections, and to offer a better understanding of the matter.

1.5.2 Managerial Relevance:

This paper will address the possible benefits to the Marketing and Sales departments of some companies, if Prahalad's theory can be applied and their products and their business models can be modified or adapted to suit the potential new market. If the poor population turn out to be an interesting market, changes would have to be made to meet the needs of this sector the best way possible and the profits will mainly be from high volume, low margin sales.

On the contrary, if the theory is not applicable, or the results might not be as expected, this would prevent the companies from further effort and expenses.

1.6 Thesis Structure

This thesis is divided into five chapters, including the introductory chapter. Chapter two will present the Bottom of the Pyramid theory, and its strong points. This chapter will also include pertaining observations of some partial efforts of application of the BOP theory to an under-developed country of South America. In chapter three, the weakness of the BOP theory will be presented, specifically focused on Karnani's criticism. In chapter four empirical data will be presented. Chapter five will present conclusions, limitations, revisions and recommendations.

Chapter 2: The Bottom of the Pyramid Theory

In this chapter, Prahalad's Bottom of the Pyramid theory will be presented, emphasizing on Prahalad's point of view and on the positive aspects of the theory, as well as some field observations in an under-developed country of South America.

2.1 Introduction

The general concept is that the BOP is a very large market that has not been discovered as such, or that it has been underserved by businesses and industries as well. This is because they have concentrated their sales and marketing efforts on the richest people of the world, with products that have been designed to meet their needs, and with high gross profit business models, that could certainly be supported by those privileged markets. Meanwhile, they have ignored the market of the very poor, mainly because of miss conceptions, related to the purchasing power of the poor, the high costs associated with distribution in large geographical areas, since the poor are dispersed, and other difficulties.

The BOP theory asserts that when introducing market choices to the poor, they will be freed of local monopolists and a cycle of consumer access and improved product quality will be created. As more and more companies focus their attention on the BOP market, competition will drive private sector innovations in products and services that comply with the needs of the poor. Market development will also create millions of small entrepreneurs at the level of micro enterprises, as a consequence of distribution difficulties in some isolated areas.

Private enterprise can achieve what non-governmental institutions and multi-lateral lenders such as the World Bank have not, and it is to pull billions of people out of poverty.

2.2 The Market at the Bottom of the Pyramid

The market as presented in the BOP proposition consists of about four billion people with income below \$2/day that presents the following characteristics: It is a market that does not have access to world class quality products, access to information on markets and prices as rich people, and credit on reasonable terms. Represents a potential market for goods and services and provides growth opportunities for the private sector, but requires product, marketing and business models innovations. Quality products designed and manufactured with low gross profit margin business models and with marketing based on the poor needs, are required.

Prahalad's proposition stresses the fact that the BOP market has peculiar characteristics that make it different. Some of the special characteristics are small individual disposable income,

geographical dispersion, different cultural backgrounds, and low level of education.

Due to their different cultural backgrounds and geographical location, the nature of its own unfulfilled necessities, is also different, and to approach this market we should not forget those characteristics.

2.2.1 The Nature of the BOP market

Market definition Parameters:

-There is money at the BOP

The main assumption is that the poor do not have purchasing power and hence are not a viable market.

The fact is that there is a lot of purchasing power in developing countries, and it is in those countries where most of the BOP market exists. Prahalad analyzes that, for example China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa and Thailand, those represent together a population of about three billion people, or 70% percent of the developing world population and a GPD of \$ 12, 5 trillion, which represents 90% of the developing world and a GPD larger than the one of Japan, Germany, France, The United Kingdom and Italy combined. (Prahalad 2005,p.10). This particular market represents a major opportunity that should not be ignored.

The BOP proposition recognizes that an individual from a developed nation has much bigger purchasing power than another one earning less than \$2 per day. However, considering the size of the BOP market, it constitutes a large amount of purchasing power (Prahalad 2005, p.11) that should be channelled for their own benefit as a development and poverty alleviation tool.

Analyzing from a market standpoint, disposable purchasing power is what one should be looking for, to avail the existence of money at the BOP. Hence, if the products the BOP consume become less expensive, their disposable income grows. This statement brings one to analyze that because of lack of infrastructure the poor pay much more for the same products as the urban rich, in the same economy. Paying more for example for water, electricity, credit, and other household items, is known as “poverty penalty”. To work in reducing the poverty penalty, means to work in increasing his disposable income for other purchases.

In Table 1 it can be observed that people in Dharavi (a poor town outside Mumbai. India), pay more for consumer goods, than people living in Warden Road (a richer neighborhood in Mumbai).

Table 1 The Poor and High-Cost Economic Ecosystems

Item	Dharavi	Warden Road	Poverty Premium
Credit (annual interest rate)	600-1000%	12-18%	53
Water (m3)	USD 1.12	USD 0.03	37
Phone call (per minute)	USD 0.05	USD 0.03	1.8
Medicines	USD 2.00	USD 0.02	10
Rice (per kg)	USD 0.28	USD 0.24	1.2

Source: Prahalad 2005, p.11

“The poverty penalty imposed at the BOP is the result of local monopolies or intermediaries, inadequate access to products, poor distribution, and lack of access to credit on reasonable terms. Those problems can be resolved if the organized sector would serve the BOP since this sector will bring the organization, the scale, the managerial know how and the resources to unlock this poverty penalty”, (Prahalad 2005, p.11-12), thereby increasing the disposable income of the poor.

A field observation in a case study that took place in Cochabamba, Bolivia, (a city in a BOP country of South America), confirms that the poor pay for water, fuel for cooking, and electricity a price about 10 to 15 times higher than the rich, both living at the same city, only in different neighbourhoods. In relation to credit, since it is not available at reasonable terms especially in the rural areas, the poor pay much higher rates to purchase household appliances or other items, through direct expensive credits from merchants.

-Access to BOP Markets

The BOP theory asserts that: “*The dominant assumption is that distribution access to the BOP markets is very difficult and therefore represents a major impediment for the participation of large firms and MNC's*” (Prahalad 2005, p.12).

The BOP theory differentiates two approaches to those markets. First, the urban areas, those according to their point of view are the cities that exist or that are being created around the world in all continents. Those cities will represent about one and a half to two billion people, out of which 35 to 40 percent will be BOP consumers. Those urban areas with a density of fifteen thousand people per hectare will require and facilitate an intense distribution opportunity.

The second approach to those markets has to do with the fact that rural BOP consumers are dispersed, sometimes in unreachable areas, where there are no roads, communications, and

sometimes not even audio or television signals. For those rural BOP consumers or potential consumers, the proposition suggests different approaches, already proven to succeed by some of the companies that are serving the poor in those markets and under those conditions.

The proposition refers to two different success stories, one of Hindustan Lever Ltd. (a daughter company from Unilever), that in order to reach those consumers, has created a distribution network with women from the villages, whom they have trained to become distributors, providing them with education, advice and access to products for their villages. Those women have become not only consumers but small entrepreneurs, while being at the same time access points for the rural BOP consumers in their communities. The other success story is that of Avon, one of the largest cosmetics operations in Brazil. Avon has created and operates for already many years a similar concept, having about eight hundred thousand Avon ladies as distributors, to cover the most remote parts of the Amazon region. (Prahalad 2005, p.13)

The proposition claims that the examples are only one way of approaching distribution in remote areas of the BOP market, but creativity will probably find many other ways of serving those markets.

-The BOP Market is connected

“Contrary to the popular view, BOP consumers are getting connected and networked. They are rapidly exploiting the benefits of information networks” (Prahalad 2005, p.14).

The proposition claims that, the spread of wireless devices among the poor is a proof that the BOP market exists, and goes on quantifying the number of cell phones that have been sold to the BOP consumers. Prahalad (2005) points out that China, India and Brazil alone represents a market of about four hundred million mobile phones. Considering the availability of computer PC's in kiosks and internet cafes all over the countries of the development world, Prahalad states that in those countries the BOP can get connected with other people in other countries, and anywhere else in the world, with very little cost, in relation to the advantages obtained by being connected. As a consequence it concludes that the BOP market is already connected to the world and has begun to take advantage of the opportunities that this offers to them with information, to enhance their ability to judge products in relation to prices, quality and options.

In relation to Bolivia, it can be observed everywhere in cities and rural village's profusion of internet cafes, where they rent PC's with internet connection to the poor for fractions of an

hour. It can also be seen, especially in the vicinity of popular markets, many small entrepreneurs selling phone calls by the minute to other poor people by means of mobile phones, so they can get connected with their relatives, friends, or some business contact.

-BOP Consumers Accept Advanced Technology Readily

“Contrary to popular belief, the BOP consumers accept advanced technology readily”(Prahalad 2005, p.15).

The BOP theory asserts that the advanced technology that is being offered to the BOP consumers by means of wireless phones, computers PC's in their village kiosks, etc., have changed their way of life and their way of doing business. Farmers in India due to the availability of internet connections at kiosks in their villages, get better prices for their crops, by informing themselves on the prices at the auction houses and at the international markets, allowing them to know when and how much to sell to get better results. Fishermen in Kerala, India after a day of work, call with their cellular phones to several potential buyers, to be able to get better prices for their catch of the day.

The availability of technology has changed completely their way of life and has improved their economical standing, so the conclusion is that the BOP has accepted the new technology and will be ready to accept other possibilities that will have impact on improving their lives.

2.2.2 The Market Development Imperative

“The task of converting the poor into consumers is one of market development. Market development involves both the consumer and the private-sector firms” (Prahalad 2005, p.16).

-Create the Capacity to Consume

“To convert the BOP into a consumer market, we have to create the capacity to consume. Cash poor and with a low level of income, the BOP consumer has to be accessed differently” (Prahalad 2005, p.16).

The BOP proposition states that the traditional approach of giving free samples does not create capacity to consume, on a scalable and sustainable fashion. Other approaches are more suited to the objective of converting the poor into consumers. The approach of offering small unit packages that are affordable, seem to be more far more effective to encourage consumption and choice at the BOP. If one considers that the BOP are normally short in cash that may depend in their daily income to make their purchases, the buying of such a small low priced product falls well within his possibilities. Therefore, single serve packaging, being

the product shampoo, ketchup, coffee, tea or some others, are right for this population.

Single serve packaging not only creates capacity to consume and choice for the BOP, but the market of the poor in those packages, for example in India, has turned into a very important one for the companies that are serving the market. Those companies in view of what that BOP requires, in order to continue having their share of that market, are incorporating the concept of single serve packages to many other products, including some others that were developed for richer markets, like the shampoo Pantene, produced by Procter & Gamble, which can be obtained in India as single serve package.

The BOP proposition points out, that there are other ways to create consumption such as purchasing on credit schemes, which has become a successful operation for many firms, like for example Casas Bahia in Brazil, where the poor consumers can buy quality televisions, furniture and other appliances on credit, that otherwise they would not be able to afford.

The BOP proposition states that Casas Bahia, serving the poor, has been able to become one of the largest suppliers of that kind in Brazil, with default rates in the order of 8 ½ percent, which are low if compared to the default rates of the competitors.

Prahalad presents the following three principles for creating the capacity to consume (known as the three A's) : (Prahalad 2005, p. 18)

1. *Affordability*. Whether it is a single-serve package or novel purchasing schemes, the key is affordability without sacrificing quality or efficacy.
2. *Access*. Distribution patterns for products and services must take into account where the poor live, as well as their work patterns. Most BOP consumers must work the full day before they can have enough cash to purchase the necessities for that day. Stores that close at 17:00 have no relevance to them, as their shopping begins after 19:00 hrs. Furthermore, BOP consumers cannot travel great distances. Stores must be easy to reach, often within a short walk. This calls for geographical *intensity of distribution*.
3. *Availability*. Often, the decision to buy for BOP consumers is based on the cash they have on hand at a given point in time. They cannot defer buying decisions. Availability (and therefore, *distribution efficiency*) is a critical factor in serving the BOP consumer.”

Prahalad concludes that it would be ideal to create the capacity to earn more, so the BOP consumers can afford to consume more, and refers that the mobile phones, the computer PC's with access to internet, meaning technology at the service of the poor, create their capacity to earn more.

In the case study in Bolivia, it has been observed that although there is no specific private business activity to serve the poor, due to market pressure, capacity to consume is being created by the offering in these market affordable quality products. Such as shampoo, coffee, tea, presented in single serve packaging as well as cooking oil, sold by fractions of a litre directly to the poor own recipient, or cigarettes and medicaments sold by the unit. The economic agent here is again the small entrepreneur on the streets or the little merchant from their small business place that many times is only a kiosk.

-The Need for New Goods and Services

“The involvement of the private sector at the BOP can provide opportunities for the development of new products and services.”(Prahalad 2005, p.19)

Prahalad gives some examples of the development of new products and services in underdeveloped countries:

- In India, Amul, a dairy cooperative, has introduced to the market an ice cream of good quality that costs less than \$0.05 per portion, and therefore is affordable for the BOP market. The ice cream is at the same time a source of nutrition, because of the milk content.
- In Bolivia, PRODEM FFP, a financial services company, has introduced smart automated teller machines (ATMs), that recognize fingerprints, use colour-coded touch screens, and speak in Quechua, Aymara and Spanish (the three most important local languages). A smart card captures and stores account information and biometric identification to provide savings accounts to low-income, illiterate customers in rural areas. Thanks to this technological innovation, even illiterate people can have access to financial services, 24 hours a day.
- In Nicaragua, Tecnosol provides access to clean energy from renewable sources like solar and wind power in the rural areas of this country. In the past, these consumers did not have access to electricity and had to use other sources like for example, kerosene and batteries, which are even more expensive.
- In Brazil, Casas Bahia offers the BOP consumers a good quality line of furniture, which is specifically meant for this market that has become a very fast growing business for the company.
- In India the case of Hindustan Lever with Anapurna Salt. Combining advanced technology and innovation, Hindustan Lever has developed a patented molecular encapsulation technology to stabilize the iodine content in salt lost in storage and

transportation, because of weather and humidity extreme conditions (Prahalad 2005, p.310).

- In India, ITC an Indian Division of British American Tobacco, in order to make the markets more efficient bypassing intermediaries, has established e-choupal which is a direct purchasing system of the farmers production by means of computers with internet connection located at their villages. The result has been better prices for the farmer's crop.

The given examples may be interpreted as proof of smart entrepreneurship, in fact they are, however they come from entrepreneurs that are working for a company, even if it's theirs, following the company objectives to develop and market products or services for the BOP. Hence, is the market that challenges their creativity to come up with products or services tailored to meet their needs.

The BOP theory identifies the immediate benefits of treating the poor as consumers, giving them the choices that they require, the quality products at reduced prices and the conditions they need to have to improve their quality of life, as well as the poverty alleviation process that will follow when businesses focus on the BOP, but what are the benefits for the private-sector?

2.3 Benefits to the Private Sector

Prahalad (2005) states, the private-sector will benefit from the possible profits the huge BOP market potential offers: four to five billion underserved people with an economy of more than \$13 trillion PPP (purchasing power parity). To be able to go into that market means a tremendous growth opportunity that with the correct approach should have an equally important monetary benefit.

Another benefit for the private-sector is on a way of acquired accomplishments, being able to meet the challenges of innovation on products, services, and business models, will give them as a result, a more efficient organization, prepared to go after those markets and profits, while alleviating poverty.

2.4 The strengths of the BOP Theory

This section refers to some of the strengths of the BOP theory from the point of view of the author, without taking into consideration the validity of the theory in itself.

- a) Deals with one of the most difficult problems of humanity in our time, poverty, and offers solutions and strategies for entering into the markets of emerging countries, where most of the poor are. The theory, while presenting a market based approach to

the problem, challenges big private enterprises to avoid traditional thinking and to develop innovative products and services that could result in giving better living conditions and quality of life to the poor.

- b) The theory has raised awareness at the business community as well as with development organizations, on the BOP as a neglected market, on poverty as a major obstacle to a better quality of life for them, and on possible ways to approach the resolution of those problems with our actual capabilities, and resources.
- c) In line with the above two paragraphs related to the growing interest the theory has raised in the business community and in the development organizations, one can say in relation to the first, that there are many large companies already serving the market. As a way of examples can be mentioned Unilever and Procter & Gamble, as two of the most visible in the area of consumer products, both are marketing on a great number of BOP countries products in single serve packaging sizes with remarkable success. In the area of financial services besides ICICI Bank of India, mention has to be made about some banks that were traditionally microcredit banks, such as Cooperative Bank of Kenya, Bank Rakyat of Indonesia (BRI), both of them profitable now on a full commercial basis. Information and Communications is probably the sector with more growth and most profits, possibly because of their offering good quality products at very low prices to the poor. The result has been, apart from the obvious benefits to the BOP, exponential growth with financial success for the companies involved.

In relation to development organizations, it is interesting to point out that Inter-American Development Bank, an international organization created to support Latin America and the Caribbean economic and social development, adopted Prahalad's theory in June 2006 as their development strategy. Their paper is "Marketing of the Majority, the BOP opportunity for Latin America and the Caribbean".

2.5 Synthesis of most important issues of BOP theory

The theory considers that over 80% of the world's population is not considered as a market by the private sector, mainly due to misconceptions about their size and nature. This population lives in extreme poverty because it has no access to world products and services or to regional and global markets for their products. Reducing the poverty penalty as a way of increasing their disposable income and providing them with choice of quality products at prices they can afford will generate a consumption cycle leading to economic growth and poverty alleviation.

Chapter 3: Weaknesses of the BOP Theory

In this chapter Professor Aneel Karnani's point of view in relation to the BOP theory will be presented, emphasizing the weaknesses aspects of the theory.

3.1 Introduction

Karnani's paper, 'The Mirage of Marketing to the Bottom of the Pyramid: How the private sector can help alleviate Poverty', argues that "the BOP proposition is too good to be true, that there is little glory or fortune at the bottom of the pyramid, that all, or almost all, is a mirage" (Karnani 2007, p.91).

Karnani, questions all aspects of the BOP theory, arguing that:

- The market is not large enough to be interesting for big companies or multinationals to invest **(3.2.a)**.
- There is not enough purchasing power so there cannot be profits **(3.2.a)**.
- The proposition is full of inconsistencies in relation to measuring poverty and market size **(3.2.a)**.
- The affordability aspect of the theory is a fallacy **(3.2.b)**.
- The microcredit does not solve poverty problems; it only allows them instant gratification **(3.2.c)**.
- To lower the prices of the articles that would be sold to the poor in the percentage suggested by the BOP proposition, without reducing quality, is not possible **(3.2.d)**.
- The poor should be considered producers and not consumers, and the way to alleviate poverty is to increase their income not to make them spend their little money on things that perhaps they do not need **(3.2.e)**.

3.2 The Negative Aspects of the BOP theory (According to Karnani)

a) Target Market (Size, Purchasing power, Fortune/No Fortune)

Karnani disagrees with the BOP proposition in relation to market size and purchasing power of the BOP market.

The BOP theory states that there are more than 4 billion people with an income per capita below US\$ 2/day at PPP exchange rates. (PPP – purchasing power parity exchange rates are used because they take into account the local prices of goods and services not traded internationally. \$PPP has the same value as far as purchasing power anywhere in the world).

Karnani disagrees using data from the World Bank (2001) that estimated 2,7 billion people, and also refers to other researchers for example (Virmani, 2006; Sala-I-Martin, 2006) who states that the World Bank already over-estimates the number of poor people, with some researchers estimating the poor at 600 million (Karnani 2007, p 91). As to the purchasing power of the BOP, Karnani states: “The poor spend about 80% of their meager income on food, clothing and fuel alone. This clearly does not leave much room for luxuries.” (Karnani 2007, p. 92)

The BOP proposition calculates potential market as high as \$13 trillion PPP. Karnani, considering financial market exchange rates, not PPP exchange rates, arrives to a global BOP market of less than \$ 0 , 3 trillion and concludes that the market is a difficult place to look for a fortune.

To additionally support his point of view that there is no fortune at the BOP, he asserts:

- “The costs of serving those markets can be very high because the poor are geographically dispersed (except for the urban poor concentrated in slums), which increases marketing and distribution costs, and difficult to exploit economies of scale.
- Weak infrastructure (transportation, communication, media and legal) increases the cost of doing business.
- Another factor that increases cost is the small size of transactions” (Karnani 2007)

b) Affordability

The BOP proposition states that one of the ways to encourage consumption and choice at the poor is to make small unit packages, therefore affordable. Karnani contest the “affordability” premise stating that it “ is a fallacy” (Karnani 2007, p.95), since most of the companies that sell their products in small sizes to the poor, more often get the same or higher unit price, as when the product is sold in their standard packages. Karnani agrees that the option of selling in small packages, besides being a convenience and a way to help them manage their cash flow, creates value for the poor and can lead to increase consumption, but does not increase affordability. He asserts that “the only way to increase real affordability is to reduce the price per use” (Karnani 2007, p. 95).

c) Financing

The BOP proposition argues that access to credit is one of the requirements for the poor to be able to improve their income, and achieve a better economical situation. The BOP proposition states that, commercial credit historically has been unavailable to the poor, even to those having access to a bank, because the required collaterals from the traditional banking system made it difficult if not impossible to get credit from them.

Karnan (2007) disagrees with credit improving the income of the poor and helping eradicate poverty. He concludes that credit does create some value for the poor, like instant gratification, self-esteem and social cohesion and empowering women. It also helps the poor smooth consumption over periods of cyclical or unexpected crisis. Karnani questions the financing scheme that provides as value for the poor, instant gratification, stating that for the privilege of instant gratification, the consumer pays an interest rate of over 4% a month.

d) Lower Prices or raise income

The BOP proposition argues that “To alleviate poverty, the price of products or services that the poor buy, or would buy, should be reduced significantly, to, say about 10% of what they are today, and with the prevailing approaches to product development, production and logistics, such price reduction cannot be achieved, consequently, new cost structures should be reinvented with the business model focusing on functionality of the total commercial value chain not on the product in itself” (Prahalad and Hart 2002, p.13).

Karnani (2007) argues that to alleviate poverty, either you reduce the prices of the products or services that the poor buys or you raise the income that the poor earn. To reduce prices by 90% it is almost impossible, especially if the quality is to be maintained as the BOP proposition calls for. Furthermore, Karnani, points out that there are only three ways to reduce prices: reduce profits, reduce costs without reducing quality, and reduce cost by reducing quality. To reduce prices by reducing profits, Karnani states, is only possible within the limits of the profit margin, provided that the market is efficient and monopoly profits have been reduced. However, he stresses, the only realistic way to reduce prices to the consumer is to reduce costs to the producer. Karnani argues that to reduce costs without reducing quality is not

possible, since business process redesign will not reduce the cost by over 50% without reducing quality, unless a significant improvement in technology takes place. Good examples are the areas of computers, communications and various electronic products. In contradiction with the BOP theory, Karnani, points out, that quality being a subjective notion, it is possible to reduce prices by reducing quality, and still come up with a quality product, and emphasizes that the challenge is to do this in such a way that the cost-quality trade-off is acceptable to poor consumers (Karnani 2007, p. 101). Karnani concludes, that at times the BOP proposition, exaggerates the price reductions achieved by some of the organizations cited as examples in their literature, by making inappropriate comparisons to sustain the achievement (Karnani 2007, p.100). He refers specifically to Aravind Eye Care System, an organization in India. He states, Aravind is an accomplishment, since it has been able to lower the cost of cataracts surgery to a BOP affordable level, but the price reductions achieved should be compared to other Indian hospitals rather than to the United States of America.

3.2.1 The poor as Producers

The BOP proposition offers examples of production; such is ITC, an Indian division of British American Tobacco, with the e-Choupal system to bypass the intermediaries by means of PCs installed in villages and connected to internet to buy directly from the farmers their production, Amul in India, a dairy cooperative owned by the same producers, and others in different sectors of the economy. However the theory stresses on consumption as being the tool for poverty alleviation. Prahalad, as a free market advocate, also stresses that economic growth will reduce poverty, and consumption leads to economic growth.

Karnani (2007) agrees, economic growth does reduces poverty, however it may take too long or the poverty reduction could be too little, he claims. Programs specially targeted to reduce poverty are required rather than to wait for economic growth to solve the problem.

Karnani states: “I argue for the need to view the poor primarily as producers, not as consumers. By far the best way to alleviate poverty is to raise the income of the poor and to emphasize buying from the poor rather than selling to the poor” (Karnani 2007, p. 102). Karnani considers that creating stable employment at reasonable wages is also a better way to fight poverty, and that this employment should be in labor-

intensive low skill sectors of the economy, like light manufacturing, garments production, or tourism. With increased productivity, wages will rise to pull the employee above the poverty line. Karnani refers that India has achieved a reasonable economic growth due to emphasis on capital intensive sectors, such as heavy manufacturing and skill intensive sectors such as information technology, but very little in job creation and poverty alleviation. Economic growth will alleviate poverty, but the effect might take too long or be too small. Hence, India to alleviate poverty should redirect its emphasis to creating employment in labor intensive low skilled sectors of the economy.

3.2.2 Regulatory systems or company's restraints

Karnani (2007) refers to Hindustan Lever Ltd. from India, a subsidiary of Great Britain's Unilever PLC, in relation to their advertisement campaigns for their product "Fair & Lovely", a skin-lightening cream. The advertisements suggested that the girls could not get a better job or get married because of the dark skin. The girl then uses the cream, becomes fairer, gets a better paid job as air hostess and everybody is happy. The All India Democratic Women's Association campaigned against this advertisement as being racist, discriminatory, and an affront to women's dignity. Finally the advertisements were banned by the Indian Government. In this particular case the restraints came from social market control.

Rost and Ydren (2006) reports that in Procter & Gamble in Mexico all advertisement campaigns must go previously to the legal department, which could be interpreted as some sort of company's restrain. However at the same time the report indicates that in some products like their Pringles chips the company did not see a dilemma to leave it to the consumer's choice what they want to spend their money on. Oxfam GB, in their report included in Rost and Ydren, expressed a certain concern about companies like Unilever in Indonesia, creating rather than meeting the needs of the BOP, by means of through advertising turning luxury items, as ice-cream into a necessity over time.

Corporate social responsibility (CSR), integrated into business models as a form of self-regulation would function to include their responsibility for the impact of its activities on the environment, on the consumers, the communities and on public interest. The concern on public interest will eliminate voluntarily practices that would harm people, even if those are legal. This would be the case of some of the

mentioned advertisements. It cannot be questioned that women have the right to buy those products and the company to make profits selling them. The issue point to the need of company's self restrains or government regulation to protect consumers.

3.3 Synthesis of most relevant issues of Karnani

Karnani, argues that the profit opportunities for private companies are modest at best, since the poor do not have purchasing power. For large companies that require scale economics are even worse, because the poor are geographically dispersed and have weak infrastructure. The private sector can help alleviate poverty by focusing on the poor as producers, making the markets more efficient so the poor can get more value for their products. The private firms should help in poverty eradication, investing in upgrading the skills and productivity of the poor, and creating opportunities for steady employment at reasonable wages.

Chapter 4: The Bottom of the Pyramid Theory: Empirical Data

In this chapter, empirical data on the Bottom of the Pyramid theory will be presented, obtained from available sources, reports and from conclusions on case studies of BOP countries.

4.1 Introduction

The empirical data included in this chapter is presented with the purpose of validating or invalidating some of the main issues presented in the BOP theory and in Karnani's point of view.

4.2 Empirical Data on BOP Population and Income

SOURCE	WORLD BANK	WORLD RESOURCES INSTITUTE & INTERNATIONAL FINANCE CORPORATION (IFC PART OF WORLD BANK GROUP)
YEAR	2000/2001	2006
REPORT	(World Development Report 2000/2001 p.275)	(WRI-IFC 2006)
BOP POPULATION	2,4 billion	4 billion
BOP INCOME	Less than \$ 755/year (1999)	Less than 3260 \$PPP 2005/year (\$ 458)
BOP MARKET	987,6 billion \$PPP 1999	5 trillion \$PPP 2002 (based on income)
BOP HOUSEHOLD MARKET EXPENDITURES	Consumption based on statistical methods to construct aggregate summary measures per country when data is available, or by assuming they follow the trend of reporting countries.	Based on household expenditure specific research. Considerably higher than 5 trillion due to informality and remittances (ILO 2002), Schneider (2005), (World Bank 2006a).
POVERTY TABLES AND INFORMATION ON TABLES	(WDR 2000/2001 p.280/281) Does not have all BOP countries and some are with information from 1983/1985	Income information on 110 countries and detail household expenditures on 36 countries.
CALCULATION METHODOLOGY	Statistical	On income by Dr. Branko Milanovic, lead economist World's Bank Research Department. On household consumption survey 2003-06 International Comparison overseen by World's Bank Development data group.
RESEARCH AIM	To provide economic information and policy advise to its low and middle income members.	To identify how many BOP people exist per country, what is their income and what are their expenditures leading to generate information on spending patterns of the poor.
RESEARCH FUNDING	World Bank	International Finance Corporation, part of World Bank Group.

The analysis of the above information makes one conclude that the sources are very much related, their different findings are mostly due to time span and perhaps to the specific aim and depth of their research, in the case of the most recent one. Consequently to validate or invalidate the issues presented by the BOP theory or Karnani's point of view, the most recent empirical research data will be utilized.

Table 2 presented below is a summary extracted from the research conducted by The World Resources Institute (WRI) and the International Finance Corporation (IFC). The data shows the population living with less than \$ 2/day to be four billion, with an income of five trillion \$PPP.

Table 2: BOP World Population and Income Summary

BOP WORLD POPULATION AND INCOME SUMMARY
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	POPULATION (MILLIONS)	BOP %	BOP INCOME PPP (MILLIONS)	BOP % SHARE TOTAL INCOME
AFRICA	486	95,1	429000	70,5
ASIA	2858	83,4	3470000	41,7
EASTERN EUROPE	254	63,8	458000	36
LATIN AMERICA & CARIBBEAN	360	69,9	509000	28,2
TOTALS	3958	BILLIONS	4866000	TRILLIONS

Table 2

Complete data on population and income by country in the report from WRI & IFC.

Appendix 2, extracted from the WRI & IFC report.

-BOP Market Expenditures

The data on market household expenditures is part of the research conducted by WRI and IFC, and present the results of total market expenditures by country and sector.

In appendix 3 is presented a summary of BOP market expenditures per country, based on the information of WRI. One important aspect that justify the self compilation of the summary lies in the facility it offers to compare the total household expenditure of any one of the 36 countries with the data on population and income from the same source (WRI) for the same country. This analysis will take the reader to conclude that the ratios income/household expenditures. India 8%, Russia 12%, Indonesia 12%, while in the area of Latin America & the Caribbean the relation goes up to around 80% are a demonstration of the existence of unrecorded income. (This income is probably due to informality and in minor extent to remittances from poor people to their relatives in their countries of origin.)

In appendix 4 the detail of household expenditures per sector from the BOP of Indonesia is presented as an example of the information contained for each of the 36 countries. The data as presented by sector and country, besides the information on BOP household expenses, at the same time shows the potential market by sector and country. As the first detailed BOP economic information of this nature, it may help with possible future marketing approaches.

Complete information can be found in “The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid” from World Resources Institute and International Finance Corporation.

Informality and remittances

The issue of unrecorded income of the poor in the BOP countries as a factor for increasing their total purchasing power established by empirical data at five trillion \$PPP, is supported by a report from The International Labor Organization (ILO 2002) that estimates that more than 70% of the workers in development countries operate in the informal economy. Also data of a study by economist Friedrich Schneider (2005) estimates that informal economy averages: 30% of official GDP in Asia. 40% in Eastern Europe and 43% both in Africa and Latin America & the Caribbean.

In relation to the remittances of poor people to their relatives in their countries of origin, the World Bank (World Bank 2006a) estimates remittances to be in the order of \$350 billions/year.

4.3 Single serve packaging of products (Procter and Gamble in Mexico Unilever Indonesia)

Rost and Ydren (2006) in his findings about a multinational company, Procter and Gamble (P&G), in the BOP market, states that the company although established in Mexico since 1948 started in 2003 their BOP strategy, developing soap bars in small sizes and shampoo in sachets. Although the cost of packaging increased the unit price, the strategy was successful because the consumers could afford it. To the time their report was written Procter & Gamble sales of those items were 40% of their total sales in Mexico. In relation to Unilever Indonesia Rost and Ydren include in their work a report from Oxfam GB (Oxfam GB,2005) an international organization dedicated to find lasting solutions to poverty around the world. The objective of this particular Oxfam research was to “deepen the understanding about a multinational company’s impact in an emerging country”, according to Barbara Stocking, the

director of Oxfam GB. Their report in relation to the BOP of Indonesia (99.1 % of the population according to WRI) confirm the widespread use of single serve packaging products among their poor population, claiming that because of the price, the quality and nature of branded product it contains, has become affordable to the poor and constitutes for the company a major source of revenues.

In a report from Unilever called “Sustainable Development Overview 2009- Creating a Better Future Every Day” the company analyzes their position in many BOP countries. Their already wide and strong presence in some of the BOP most populated countries such as Brazil, India and Indonesia where their leading position in those markets, accounted for around 50% of their total sales. The report indicates that they market many products at low cost per unit, to enable people with uncertain incomes to purchase their products. For example their Sunsilk shampoo in single serve packaging (sachet). The report also refers to their commitment of continuing with heavy investments in the fast growing BOP markets including China and Russia. The company reports that in all their Asia, Africa, Central and Eastern Europe they have achieved strong growth and margin improvements.³

4.4 Employment generation by Companies in BOP markets

Rost and Ydren (2006) report that Procter & Gamble in Mexico, where they have six manufacturing plants, employs 5000 persons besides all the employment created by their outsourcing non-core activities such as the logistic, that give jobs to independent logistic entrepreneurs.

Oxfam GB, in their report included in Rost and Ydren (2006), states that Unilever Indonesia has a workforce estimated at 5000 people where 60% are employees and 40% are contract workers, however the same Oxfam report that it is estimated that about three hundred thousand people make a living from Unilever’s value chain. The Oxfam report indicates that value created is the gross margin along Unilever’s value chain which totals USD 633 million. From this money Unilever makes USD 212 million, and the rest is spread out between all the other actors of the value chain.

³http://www.unilever.com/images/sd_UnileverSDReport170310_amended_tcm13-212972.pdf (Accessed June 8, 2010)

4.5 Telecom Market at BOP

Guller and Ruthman (2009) “Telecom Companies Reach Out to Base of The Pyramid”⁴ report the telecom industry’s success in the BOP markets stating that, with strategies tailored to reach the poor market such as the offering of low denomination phone cards, lowering the price of handsets and promoting shared usage models: In just the five years between 2002 and 2007, the number of mobile subscribers in developing countries grew by around 700 per cent to nearly 2.5 billion subscribers. And despite the world's deepest recession in 70 years, in the last year alone, emerging market telecom companies like MTN, Orascom Telecom and others together added more than 570 million new subscribers, bringing the total number of emerging market phone subscribers to 3.7 billion in 2009. Looking ahead, it is expected total emerging market subscribers to exceed 5 billion by 2014, which represents 1.3 billion extra subscribers from today's levels.

4.6 Conclusion

The empirical data presented in this chapter will serve to analyze in the following chapter the validity of the main points of the theory and the opposing point of view sustained by Karnani.

⁴ [http:// emagazine.credit-suisse.com](http://emagazine.credit-suisse.com) (accessed May 08, 2010)

Chapter 5: Conclusions, Recommendations, Limitations

In this chapter, answers will be given to the problem statement “What are the arguments for and against Prahalad’s Bottom of the Pyramid theory, and does the theory need to be revised?”

The answers come from the analysis of the main controversy points between Prahalad’s theory and the point of view of Karnani and existing empirical data. Recommendations for revisions to the theory, marketing recommendations and further research requirements, as well as limitations will also be included.

5.1 Introduction

A Synthesis table has been created with the main objective of answering the problem statement. The author’s point of view, recommendations for revisions to the theory, marketing recommendations and further research requirements have been incorporated to the same synthesis table and are part of this document as **5.2** on pages 27-30.

5.3 Limitations

This paper is based on a literature review, no specific empirical research has been conducted to prove or reject the validity of the BOP theory. The conclusions are based on previous empirical findings which are limited. Different reports from institutions like the World Bank, the Inter-American Development Bank, and the World Resources Institute present data on population, income and household expenditures. However, there is no empirical data on profit margins of companies operating in the BOP market to measure the benefits that may obtain from their operations, or on the real impact of the theory application to alleviate poverty.

SUBJECT	ARGUMENTS PRO BOP THEORY PROVED	ARGUMENTS AGAINST BOP THEORY PROVED	AUTHOR'S POINT OF VIEW OR MARKETING RECOMMENDATIONS	RECOMMENDATIONS FOR FURTHER RESEARCH
<p>MARKET SIZE</p> <p>PURCHASING POWER</p>	<p>Empirical research established 4 billion people with an income of 5 trillion \$PPP.</p> <p>BOP theory calculates the market potential at 13 trillion \$PPP. Empirical research data at 5 trillion. However by incorporating unrecorded income due to informality and remittances, it will be much higher than 5 trillion. (Please refer to chapter 4 p.22/23)</p>		<p>Empirical data proves market size and purchasing power. Private sector should consider targeting on this market future growth. Market research must analyze the needs of the poor, the existing facilities in the area of communication and distribution. The sizes, packaging and price of the product.. A quality product at low price that meets the BOP needs should be offered.</p>	
<p>NO FORTUNE AT THE BOP</p>	<p>The theory offers examples of large companies that are successful at the BOP market, such as Procter & Gamble, Hindustan Lever, ITC an Indian Division of British American Tobacco, among others. The Telecom Industry as being the most successful sector. In reference to this sector please refer to chapter 4.5</p>		<p>The inference is that there is purchasing power at the BOP and private initiative should recognize the opportunity. For instance, rural market is much larger than urban, and has less access to quality products, as such rural marketing strategies should be developed bearing in mind difficulties due to infrastructure and requirements of potential consumers that due to their limited income expect more value. Small and medium sized products are considered value. Promotions by TV ads should be considered, because all poor have TV's or access to one.</p>	<p>The success information of companies at the BOP comes mostly from reports. For some sectors such as the Telecom Industry those reports may be easily proved. While for other sectors may be difficult. Consequently further research is indicated to establish the relationship between the theory and the success of companies in this market by measuring profit margins, market penetration, acceptance of their products and other indicators.</p>
<p>REDUCING PRICES WITHOUT REDUCING QUALITY</p>	<p>Private sector can produce high quality products at low prices for the poor. Attracting more competition to the market will lower the prices due to competition and technological improvements will drive the prices down on products.</p>		<p>Competition will lower prices to some extent, and technological improvements not only in the area of computers but in other areas will also lower them. In the food producing sector new pest resistant seeds, soil nutrients, motorized equipment will improve efficiency of the land and drive the prices down. In the fuel sector, new technologies like solar</p>	

			power will make the BOP less dependent on more expensive sources. In the clothes manufacturing industry prices have decreased by trade liberalization.	
SUBJECT	ARGUMENTS PRO BOP THEORY PROVED	ARGUMENTS AGAINST BOP THEORY PROVED	AUTHOR'S POINT OF VIEW OR RECOMENDATIONS	RECOMMENDATIONS FOR REVISION TO THE THEORY
BOP AS CONSUMER OR PRODUCER		<p>The BOP theory emphasizes the role of the poor as consumer based on the premise that consumption leads to economic growth and economic growth reduces poverty. The poverty reduction effect might be to slow or too little. As such specific programs to reduce poverty should be created. One approach is to create employment at reasonable wages in labor intensive low skilled sectors of the economy, such as light manufacturing, garment production, etc. India has achieved a reasonable economic growth with limited effect on poverty reduction, and on employment creation due to a misplaced emphasis on capital intensive sectors like heavy manufacturing and skill intensive sectors such as information technology.</p>	<p>The poor, in the theory's conception, are or will be producers as a consequence of the existence of manufacturing or other activities created to satisfy their consumption needs. The author agrees on this issue with Karnani's point of view that economic growth may be too little or too slow and that specific programs to decrease poverty are necessary, such as employment creation in labour intensive sectors of the economy. At the same time, the markets should be made more efficient so the poor can get better prices for their products.</p>	<p>The theory leaves to market forces the solution to all problems including poverty alleviation. In view of the poor results of India in job creation and poverty alleviation despite their moderate economic growth, the theory should incorporate guidelines that combine the positive aspects of a market based economy with the need of achieving faster results in poverty reduction by incorporating specific programs in employment creation in areas that are labor intensive.</p>
CREDIT AS A WAY TO MAKE	The theory states that purchasing a		The author agrees with the BOP theory in this respect.	

<p>PRODUCTS AFFORDABLE AND IMPROVE INCOME</p>	<p>cooking stove or a washing machine on credit make household activities more efficient and allows them more time for other productive activities. Having access to credit at twenty percent rather than three or six hundred percent improves their income, and that poverty alleviation is a process of improving the disposable income of families by reducing the cost of services and allowing them more time to do productive work.</p>			
<p>SUBJECT</p>	<p>ARGUMENTS PRO BOP THEORY PROVED</p>	<p>ARGUMENTS AGAINST BOP THEORY PROVED</p>	<p>AUTHOR'S POINT OF VIEW OR MARKETING RECOMMENDATIONS</p>	<p>RECOMMENDATIONS FOR REVISIONS TO THE THEORY</p>
<p>SINGLE SERVE PACKAGING AS A WAY TO INCREASE CONSUMPTION AND AFFORDABILITY</p>	<p>Empirical research shows that single serve packaging of products increases consumption by favoring impulse buying and the prices at which the products are sold makes them affordable, despite some higher unit cost in some markets. (Please refer to chapter 4 p 23)</p>		<p>The author agrees that this type of packaging increases consumption despite some higher unit prices due to packaging, but sees an environmental problem caused by the disposal of the used non biodegradable material. Solved the problem of the contaminating material it will be a size and packaging choice to consider for the BOP market.</p>	
<p>REGULATORY SYSTEMS OR COMPANY'S RESTRAINS</p>		<p>The theory relies on social market control of company's behavior in relation to respecting the rights of the poor, which in some cases might work as is the case of the women's movement in India against Hindustan Lever. Those women called the</p>	<p>The author agrees with Karnani's point of view in this matter. There is a need to create regulatory systems to protect the rights of the poor that because of its own circumstances are uneducated and lack reference points as to what is good or not for them. As such they could be the subject of abuse or misinformation by the companies. The regulatory systems should also clarify the</p>	<p>The theory should be revised to recommend corporate social responsibility (CSR) integrated into business models as a form of self regulation that would include responsibility for the impact of their activities on the environment, the consumers, the communities and on public interest. The concern on public interest will voluntarily eliminate practices that would harm</p>

		advertisement of their product “Fair & Lovely” racist, discriminatory and an affront to women’s dignity. The advertisement campaign was finally banned by the Indian government. Other reports indicate that companies make sure that their ads, conform to what is legal, not necessary what is right, and others that through massive advertisement, companies might create needs rather than serve the needs of the poor.	rights of companies within the country and market. The author believes that to create and establish a regulatory system may take long time and the problems are today. Hence companies for the time being should apply self restraints incorporated in their core policies and live with them. It should also be noted that Corporate Social Responsibility is mentioned by some companies as part of their presentation without living up to their CSR responsibility. That being the case, in practice, very little can be done to correct the problem if there is one, except hope that the market will punish their misbehavior.	people, even if those are legal.
SUBJECT	ARGUMENTS PRO BOP THEORY PROVED	ARGUMENTS AGAINST BOP THEORY PROVED	AUTHOR’S POINT OF VIEW OR RECOMMENDATIONS	RECOMMENDATIONS FOR FURTHER RESEARCH
EMPLOYMENT GENERATION BY COMPANIES IN BOP MARKETS	Research empirical data points out that companies operating in the BOP market do generate employment with decent wages, such is the case of Procter & Gamble in Mexico and Unilever Indonesia and those companies give economical benefits by providing income not only to their direct employees but to thousands more related to their value chain. (Please refer to sub-paragraph 4.4)		It is the author’s opinion that to criticize the theory, the critics sometimes look only at the commercial part of the activity, forgetting the manufacturing side that creates stable employment, hopefully at decent wages. This is employment generation as a result of BOP consumption not as a planned effort to create employment in low labor intensive sector of the economy.	
BOP THEORY A GUIDE FOR ERADICATING POVERTY			One of the theory objectives is poverty alleviation as a process of a marketing approach to the poor. Consumption leads to economic growth and	BOP theory claims to be a tool for eradicating poverty through profits. There is no empirical data from research that supports the claim of the model

			<p>reduces poverty. Reducing poverty penalty lowers BOP costs for basic services and credit increasing their disposable income and contributing to their well being. Technology at their disposal increases their awareness on quality of products, and on prices of goods and services for their purchases. As well as for selling their products at better prices.</p> <p>All the above plus other recommended actions, point in the correct direction. The negative side is already analyzed in relation to economic growth being “the way to eliminate poverty”, since it may take long time, and the size of the reduction could be small. Consequently, it is the author’s point of view that further research is required.</p>	<p>alleviating or eradicating poverty. Consequently further research is required to evaluate in the long term the effects of the theory application related to the improvement of the poor’s quality of life and on decreasing their poverty level.</p>
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
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Appendix 1: Authorization for use of Proprietary Empirical Data from WRI

Studenten Webmail: S163205

Page 1 of 2

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Re: RE: Request Authorization for Use of Data

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From: D. Mendizabal <S163205@stumail.uvt.nl>
To: FNoguera@wri.org
Cc:
Bcc: D. Mendizabal
Received: 09/06/2010 04:07 PM
Subject: Re: RE: Request Authorization for Use of Data
Attachments:

Dear Mr. Noguera,

I appreciate very much your prompt response with the authorization. Certainly, I was planning to include citation to establish the origin of all the information and the proprietary nature of the data.

Kind Regards,

Denise Mendizábal

-----Original Message-----

From: "Francisco Noguera" <FNoguera@wri.org>
To: "D. Mendizabal" <D.Mendizabal@uvt.nl>
Date: Wed, 9 Jun 2010 08:53:29 -0400
Subject: RE: Request Authorization for Use of Data

Dear Denise,

You may absolutely use the data. Just make sure to include all appropriate citations.

Best,

Francisco

-----Original Message-----

From: D. Mendizabal [<mailto:D.Mendizabal@uvt.nl>]
Sent: Wed 09/06/2010 05:51
To: Francisco Noguera
Subject: Request Authorization for Use of Data

Dear Mr. Noguera,

I am currently writing my Bachelor thesis at the Faculty of Economics and Business Administration of Tilburg University in The Netherlands. The topic of my thesis is related to Prahalad's "Bottom of the Pyramid" theory. The Next 4 Billion report has been of great value for me to present empirical proof in order to validate Prahalad's theory. Therefore, I would like to request authorization from the World Resources Institute to present some of the empirical data contained in the report, mainly in Appendix A and Appendix B for my thesis.

Kind Regards,

Denise Mendizábal
Student Bsc. International Business
Tilburg University
The Netherlands

<https://stumail.uvt.nl:1011/w?.BQ.DGI.Zm1bws.EBeEw.Cma4PT.BI.J>

9/06/2010

Appendix 2: BOP Population and Income

Table A.2

BOP population and income

	BOP population (millions)	BOP share of total population (%)	BOP income (millions)		BOP share of total income (%)
			PPP	US\$	
Africa	486	95.1	429,000	120,000	70.5
Cameroon	14.7	95.0	15,354.1	4,710.1	75.6
Côte d'Ivoire	15.6	95.0	14,242.9	6,536.1	75.9
Ethiopia	65.6	95.0	83,544.1	10,151.1	85.8
Mali	12.6	100.0	9,202.7	2,769.2	100.0
Mozambique	17.6	95.0	12,917.6	2,408.3	71.1
Nigeria	121.0	100.0	74,419.2	27,572.1	100.0
Senegal	9.3	95.0	9,303.8	2,942.6	72.6
South Africa	33.6	75.0	43,511.1	10,072.7	30.9
Tanzania	36.2	100.0	11,318.0	5,408.2	100.0
Uganda	23.8	95.0	22,303.5	3,696.5	76.8
Zambia	18.5	100.0	9,315.3	4,008.3	100.0
Asia	2858	83.4	3,470,000	742,000	41.7
Bangladesh	144.0	100.0	142,293.9	29,187.9	100.0
China	1,046.2	80.8	161,127.6	32,986.1	55.2
India	1,033.9	98.6	93,710.1	16,962.1	92.7
Indonesia	213	97.8	24,035.8	6,177.1	92.2
Malaysia	19.2	80.0	38,072.3	16,274.6	43.0
Nepal	23.4	95.0	22,981.7	3,736.0	74.2
Philippines	23.6	30.0	56,023.7	13,096.4	10.8
Sri Lanka	17.1	90.0	21,788.9	5,325.2	67.3
Thailand	46.6	75.0	79,632.7	23,383.6	46.7
Vietnam	76.2	95.0	84,582.8	16,003.3	82.9
Eastern Europe	254	63.8	458,000	135,000	36.0
Georgia	4.9	95.0	5,546.6	1,613.4	82.6
Kazakhstan	13.1	85.0	23,933.6	6,720.7	69.1
Poland	17.4	45.0	37,423.4	17,489.1	22.6
Romania	20.2	90.0	34,471.8	10,741.8	78.3
Russia	86.4	60.0	16,423.0	4,741.6	33.4
Ukraine	29.4	60.0	65,818.4	11,673.0	41.5
Uzbekistan	23.9	95.0	22,936.9	5,273.9	82.9
Latin America & Caribbean	360	69.9	509,000	229,000	28.2
Argentina (urban)	17.1	45.0	28,990.7	7,318.4	13.4
Bolivia	7.7	90.0	7,473.0	2,700.9	56.0
Brazil	114.5	65.0	171,585.3	58,272.0	22.6
Chile	8.6	55.0	15,927.1	7,019.0	20.1
Colombia	30.5	70.0	41,979.7	12,061.2	28.2
Costa Rica	2.4	60.0	4,086.7	2,394.3	27.1
Dominican Republic	5.6	65.0	9,746.0	3,666.2	28.6
Ecuador	11.5	90.0	12,558.6	6,740.4	61.0
El Salvador	4.5	70.0	5,928.2	2,679.0	25.8
Guatemala	10.2	85.0	13,472.0	6,395.4	54.9
Haiti	7.8	95.0	4,260.6	958.2	62.9
Honduras	5.8	85.0	7,435.4	2,768.8	50.3
Jamaica	2.2	85.0	2,304.6	1,879.0	46.9
Mexico	76.5	75.0	105,075.0	75,052.0	39.8
Nicaragua	4.3	80.0	5,647.9	1,319.6	36.7
Panama	2.2	70.0	2,988.2	1,972.5	28.3
Paraguay	3.8	65.0	5,552.6	1,223.8	25.4
Peru	21.4	80.0	33,797.2	14,243.7	54.1
Suriname	0.3	85.0	360.6	108.2	50.4
Uruguay (urban)	1.4	45.0	2,705.6	1,271.9	16.4
Venezuela	21.4	85.0	26,741.4	18,784.6	57.9

Note: Regional totals include selected countries detailed in table A.1a.

Source: "The Next 4Billion: Market Size and Business Strategy at the Base of the Pyramid" (2007)
Prepared by the World Resources Institute and the International Finance Corporation-World Bank Group,
Table A.1a p. 111

Appendix 3: Summary BOP Market Household Expenditures by Country

	Country	Population (In Millions)	BOP Population (In Millions)	BOP Population	Total Household Market Expenditures (In Millions \$PPP)	Total BOP expenditures (In Millions \$PPP)
1	Bangladesh	126	125.4	99.6%	108,611.10	105,289.70
2	Belarus	10.2	8.9	87.3%	15,636	11,960.90
3	Bolivia	8.5	7.1	82.7%	19,429.50	8,863.70
4	Brazil	176	124.5	70.7%	527,873.50	181,944.90
5	Burkina Faso	11.4	11.3	98.8%	7,094.50	6,530.60
6	Burundi	6	5.9	97.90%	5,159.50	4,458.50
7	Cambodia	13	12.2	93.8%	17,006.10	13,116.20
8	Cameroon	15.5	14.9	96%	17,873.50	14,603.40
9	Colombia	43.7	25.2	57.6%	170,092.60	43,975.40
10	Cote d'Ivoire	17.1	16.8	98.2%	14,167.60	12,702.30
11	Djibouti	0.26	0.25	96.6%	374.40	346.70
12	Gabon	1.3	1.2	88.7%	2,190.00	1,473.20
13	Guatemala	11.4	9.7	85.2%	23,549.00	13,766.30
14	Honduras	7.1	6.2	87.9%	12,057.60	7,102.90
15	India	973	924.1	95%	1,421,921.70	1,205,668.50
16	Indonesia	208.6	206.8	99.1%	214,912.10	204,639.40
17	Jamaica	2.6	2.4	91.7%	4,930.10	2,875.80
18	Kazakhstan	15.4	14.2	91.8%	28,447.80	23,356.20
19	Fyr Macedonia	2	1.2	58.2%	6,903.70	2,290.40
20	Malawi	12.2	12	98.6%	7,560.00	6,777.40
21	Mexico	104	72.4	69.6%	318,603.80	128,510.40
22	Nepal	23.6	23	97.3%	21,915.90	18,712.20
23	Nigeria	126	126.1	100.1%	72,373.00	71,857.00
24	Pakistan	129	129.1	100%	98,997.80	97,862.10
25	Paraguay	5.8	3.7	63.7%	19,301.60	6,018.00
26	Peru	27.3	24.7	90.4%	45,365.00	33,096.60
27	Russia	117	71.9	61.4%	349,168.90	134,285.30
28	Rwanda	8	7.7	96.5%	6,961.20	5,077.70
29	Sierra Leone	5.1	5	98.8%	4,940.40	4,671.80
30	South Africa	42.6	31.7	74.4%	135,825.80	40,334.90
31	Sri Lanka	16.9	16.1	95.5%	23,519.90	20,241.80
32	Tajikistan	6.7	6.7	99.7%	7,569.90	7,482.60
33	Thailand	57.4	43.3	75.4%	163,832.50	78,999.30
34	Uganda	26.1	25.3	97.1%	28,475.40	24,508.70
35	Ukraine	46.2	27.9	60.5%	151,346.10	63,687.50
36	Uzbekistan	23.8	23.7	99.5%	23,150.90	22,383.40
	TOTAL	2426.76	2168.55		4,097,138.40	2,629,471.70

Source: "The Next 4Billion: Market Size and Business Strategy at the Base of the Pyramid" (2007) Prepared by the World Resources Institute and the International Finance Corporation-World Bank Group, Appendix B, p. 114-149

Appendix 4: Indonesian Household Expenditures

INDONESIA

Total national household market \$214,912.1 million

Population 208.6 million

Households 52.1 million

BOP segment	Population			Annual expenditure		
	Total (millions)	Share (% of national)	Urban (% of segment)	Total (\$ millions)	Share (% of national)	Urban (% of segment)
BOP3000	2.1	1.0	98.3	8,256.1	3.8	100.0
BOP2500	5.0	2.4	96.2	14,000.5	6.5	98.7
BOP2000	12.8	6.1	86.8	26,213.5	12.2	93.9
BOP1500	35.6	17.1	70.0	49,854.1	23.2	80.1
BOP1000	108.3	51.9	39.5	86,833.7	40.4	57.8
BOP500	42.9	20.6	17.4	19,481.6	9.1	32.8
BOP total	206.8	99.1	45.1	204,639.4	95.2	53.8

BOP expenditure by sector

\$ (Boldface numbers are millions)	Total BOP	BOP 500	BOP 1000	BOP 1500	BOP 2000	BOP 2500	BOP 3000	Urban / rural (% of BOP)
Food	107,515.5	12,355.1	49,255.3	25,286.9	11,985.0	5,735.9	2,897.2	53/47
Per capita	520	288	455	710	937	1141	1351	
Per household	2064	1353	1803	2575	3226	3879	4586	
Housing	20,082.6	1,194.7	6,628.2	4,984.2	3,281.5	2,197.1	1,797.0	73/27
Per capita	97	28	61	140	257	437	838	
Per household	386	131	243	508	883	1486	2844	
Water	739.4	13.2	182.8	225.0	155.6	98.7	64.0	90/10
Per capita	4	0	2	6	12	20	30	
Per household	14	1	7	23	42	67	101	
Energy	12,683.0	1,244.4	5,427.0	3,015.4	1,586.7	872.0	537.5	57/43
Per capita	61	29	50	85	124	173	251	
Per household	243	136	199	307	427	590	851	
Household goods	15,722.0	1,470.0	6,735.3	3,768.0	2,030.8	1,075.9	642.0	55/45
Per capita	76	34	62	106	159	214	299	
Per household	302	161	247	384	547	728	1016	
Health	4,074.8	294.4	1,612.4	1,044.5	578.7	364.5	180.2	62/38
Per capita	20	7	15	29	45	72	84	
Per household	78	32	59	106	156	247	285	
Transportation	8,395.7	252.8	2,685.8	2,577.8	1,563.8	833.1	482.3	67/33
Per capita	41	6	25	72	122	166	225	
Per household	161	28	98	263	421	563	763	
ICT	2,139.2	4.5	173.7	491.2	598.8	497.4	373.6	93/7
Per capita	10	0	2	14	47	99	174	
Per household	41	0	6	50	161	336	591	
Education	3,740.3	207.6	1,184.1	1,014.4	678.9	406.5	248.8	79/21
Per capita	18	5	11	28	53	81	116	
Per household	72	23	43	103	183	275	394	
Other	29,547.2	2,444.8	12,949.1	7,446.6	3,753.7	1,919.4	1,033.5	55/45
Per capita	143	57	120	209	293	382	482	
Per household	567	268	474	758	1010	1298	1636	
Total	204,639.4	19,481.6	86,833.7	49,854.1	26,213.5	14,000.5	8,256.1	58/42

Note: All dollar amounts in 2005 PPP

Household expenditure by sector

	National (\$ millions)	BOP (%)
Food	110,619.9	97.2
Housing	22,410.6	89.6
Water	813.1	90.9
Energy	13,391.9	94.7
Household goods	16,688.3	94.2
Health	4,330.1	94.1
Transportation	8,924.0	94.1
ICT	2,711.5	78.9
Education	4,065.3	92.0
Other	30,957.4	95.4
Total	214,912.1	95.2

Sector shares of household expenditure (%)

	National (%)	BOP (%)
Food	51.5	52.5
Housing	10.4	9.8
Water	0.4	0.4
Energy	6.2	6.2
Household goods	7.8	7.7
Health	2.0	2.0
Transportation	4.2	4.1
ICT	1.3	1.0
Education	1.9	1.8
Other	14.4	14.4
Total	100.0	100.0

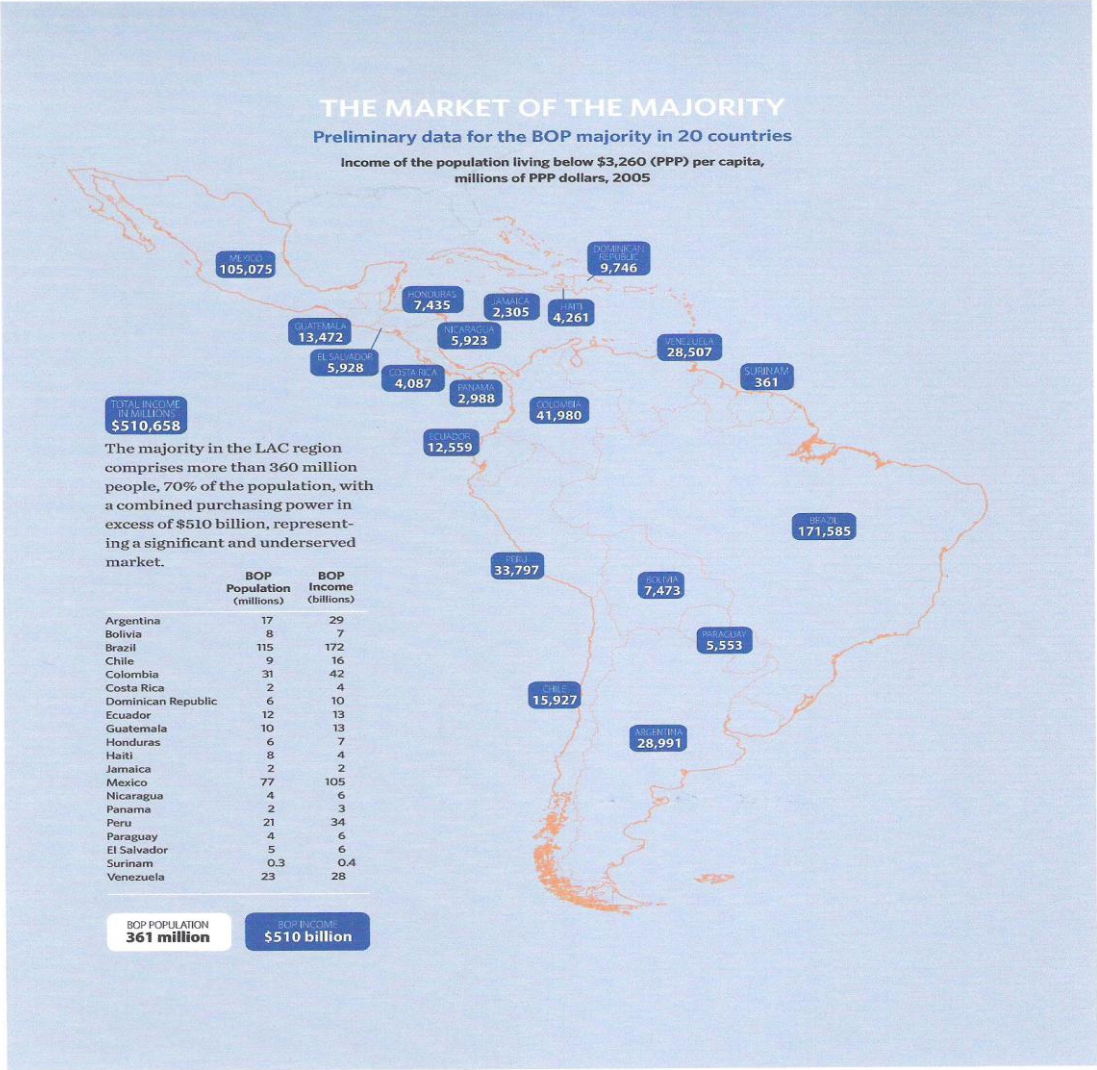
COUNTRY DATA TABLES | THE NEXT 4 BILLION

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Source: "The Next 4Billion: Market Size and Business Strategy at the Base of the Pyramid" (2007)
Prepared by the World Resources Institute and the International Finance Corporation-World Bank Group,
Appendix B, p. 129

Appendix 5: The BOP Opportunity Map for Latin America and the Caribbean

The majority in the Latin America and the Caribbean region comprises more than 360 million people, 70% of the population, with a combined purchasing power in excess of \$510 billion, representing a significant and underserved market.



Source: “The Market of the Majority: The BOP Opportunity Map for Latin America and the Caribbean” (2006)
 Prepared by the World Resources Institute for Inter-American Development Bank, p.2

Appendix 6: Case Study in Bolivia

In this chapter, the field research undertaken in Bolivia will be presented to illustrate and analyze whether Prahalad's theory is being applied and can be applied in a particular developing country in Latin America.

Introduction

Since little empirical data is available to proof the applicability of Prahalad's theory, a field research has been conducted in the second poorest country of Latin America, namely Bolivia. The data obtained by the National Statistics Bureau of Bolivia (INE), is as follows: "According to the information of the Census 2001, 58.6% of the Bolivian population is *poor*, this percentage is equal to 4,695,464 inhabitants living in houses that do not meet the appropriate conditions, lack of water service, inadequate use of fuel, have low level of education, and/or have bad health attention. The *non poor* population represents 41.4% of the inhabitants which are equal to 3,318,916 people."

Graph 1

According to the data obtained from INE, 36.55 per cent of the *poor* population lives in extreme poverty and 64.27 per cent live in moderate poverty

If we divide the extreme and moderate poverty into urban and rural areas, we obtain the following percentages:

Table 1

Graph 5

The extreme and moderate poverty will be measured according to the following characteristics:

Table 2

Characteristics	Extreme Poverty	Moderate Poverty
Access to Electricity	No	Yes
Access to clean water	No	Yes
Own Productive Animals	No	Yes
Type of roof of the house	Thatched Roof	Corrugated Iron

When one speaks about a poor country, such as Bolivia, one tends to assume that the poor consumers lack the economic resources that are needed to make a company prosper, except for a small top segment, the reason why companies tend to focus only in this segment. They believe that the bulk of the consumers cannot afford their high-cost products.

The poor spend their income in a different way. For example, it is possible that they do not spend on reparation, or in improving their housing, but they do spend on products considered traditionally a luxury. In Bolivia, 48 % of the people who live in moderate poverty and 23 % of those who live in extreme poverty have a color television with remote control. Another clear example, which is a reality in the country, is that many poor Bolivians of indigenous origin spend heavily on jewelry and cover their teeth with gold. This strongly suggests that the poor are not only interested in basic necessities, but in luxury and status consumption.

To say that the poor are not conscious of the brand of the products that they are going to consume is a mistake, according to Prahalad. Many multinational companies sell durable goods like televisions, radios, and mobile phones to people situated in the base of the pyramid. The brand of the product is very important, since they associate this with quality,

which goes hand in hand with the duration of the product that they are going to acquire. The aspiration to a new and better quality of life is a dream that everybody has, including *poor* people.

Prahalad has recognized direct benefits for the private sector, if they consider people with low income as clients and consumers. The world's poor makes up a market of 4 billion people, with purchasing power parity of more than 13 \$ billion. According to Prahalad, the benefits for the poor will be not only economical but also psychological. *“When the poor are converted into consumers, they get more than the access to the products and services. They acquire the dignity of the attention and choices from the private sector that were previously reserved for the middle-class and rich.”*⁵

The fact that the poor have few economic resources does not necessarily mean that their purchase decision is exclusively based on price, disregarding quality.

The outcome of the field research will try to proof if Prahalad's theory can be applied in this Country, specifically for the two products involved in the research, but also will analyze the involvement of other companies from the private-sector in the BOP market. This does not mean that we can generalize this pattern to all products that are required by the global BOP market, nor to all countries of the development world. Nevertheless, it will illustrate with examples on these specific case study and analyze if what Prahalad's states, relates to the BOP consumers responses in this country,.

The BOP Cases in Bolivia

After undertaking a field research in the sectors of moderate poverty and extreme poverty in Cochabamba, Bolivia, the following information will illustrate different examples of the buying intentions and attitudes of BOP consumers in the above mentioned country. The examples will take into consideration the marketing mix as well as the country's culture and traditions. This research was based on two main products: cooking oil, and laundry soap, which are produced by the FINO Company.

⁵ Prahalad, C.K. (2005). “The Fortune at the Bottom of the Pyramid, Eradicating Poverty through Profits” Wharton School Publishing (pg. 20)

The FINO Company

FINO is recognized as a serious company in the national market, it provides good quality products and is constantly innovating, achieving as a company, a solid position. The company produces oil for cooking and for salads, butters and soaps. Apart from this, represents in Bolivia worldwide famous brands like Gillette razors, tuna fish Van Camps, SPA soaps, amongst others (see Appendix 1).

The products taken into consideration in this research were Fino Oil (Yellow Can and Pet Bottle), Fino Light, La Patrona Oil, Oso soap (all products of FINO) and Bolivar soap (manufactured in Peru but represented by FINO).

Sample Determination

To determine the sample, the population distribution in social economic levels of Cochabamba, the data provided by the INE, according to the 2000 census, will be used. Only the social economic levels D and E and the number of families will be taken into consideration.

Population Distribution in Social Economic Levels (NSE)

Cochabamba
(Estimate 2000)

Formula:

The following formula will be used to obtain the size of the sample:

$$n = \frac{Z^2 * P * Q * N}{e^2 * (N-1) + Z^2 * P}$$

The size of the sample for Cochabamba is 381 people, to whom questionnaires will be handed out to for the field research.

Market for Cooking Oil Products***Product:***

In the particular case of cooking oil, it was possible to observe that the consumer is very demanding so much in the quality of the product, as in its package. This is given especially in the rural areas, where major poverty exists but, the use that they can give later to the package is a competitive advantage. The oil most purchased by the people of this economic sector is the Yellow Can of Fino, a product that is of good quality and comes in a sturdy plastic package. Fino produces a much more modern package (Pet Bottle), with the same oil but the package facilitates the use of the oil.

Nevertheless, the above mentioned can (pet bottle) is made out of a plastic relatively softer than the other one, (the Yellow Can Fino), and this characteristic of lesser sturdiness prevents the later use of the packaging by the poor. The people of Bolivia are very much inclined to support the traditions of their ancestors and this cultural belief influences the consumer sufficiently at the moment of the purchase, to makes his choice. The fact that previous generations from the family have consumed the Yellow Can of Fino Oil, means to them that the oil is of good quality, and that way it is positioned in the mind of the consumer.

Price:

Another interesting observation in the Fino Company comes when comparing Fino Light and La Patrona Oil. Fino Light has been produced and entered in the Bolivian Oil Market as the first oil with dietetic characteristics. The market for this oil was the medium and upper economic class. The Fino Company was convinced that only this segment would consume it, because they assumed that people with less income will look at the price and not at the quality of the product. Fino Light is available in Super Markets and Markets in the Northern part of Cochabamba, where most of the middle-class and higher income people lives and shops. In contrast, La Patrona Oil was produced and introduced into the market to fight against cooking oil of unknown quality that was being smuggled into the market, from other countries and as a consequence was less expensive. This means that La Patrona has been produced and introduced in the market, for the lower economic sectors of moderate and extreme poverty. This oil is only available in distribution channels where people of low income live and shop. Before starting with this research, one would assume that the poor would not consume Fino Light Oil at all, and would consume La Patrona Oil, in a bigger proportion than the traditional Fino Oil in either one of their packaging's, because of the price. However the results of this research, would confirm the validity of Prahalad's Theory in relation to some of its aspects.

Packaging:

The following information was obtained in visits to the industrial plant with the Marketing Manager of the Fino Company:

The Pet Bottle is a much more modern package. It has a "flip top" lid, a grasper to facilitate its use, and is transparent, which allows the consumer to see the product that is being bought.

Fino has done many attempts to eliminate the Yellow Can from the market, since the man hours needed in its manufacturing process makes it more expensive, while the other one (Pet Bottle) is produced and stored automatically and needs only limited workers' supervision of the process. Nevertheless, the consumers do not want to stop consuming the Yellow Can because of the use they give to the package after the oil was consumed, and for the tradition of the can.

This would also indicate that Fino is combining the sales of a good quality product, to this economic segment, absorbing in its cost structure the higher manufacturing cost of the Yellow Can, in order to keep satisfying the needs of these specific consumers. This reflects that Fino adequate its products to the necessities of this market.

Market for Laundry Soap

The case of soap is also very interesting to analyze. The Fino Company produces the “Oso” soap and represents the “Bolivar” soap, which is imported from Peru.

Producing soap is not the main function of the Fino Company, but it has the raw material as a residue from oil production, so they produce soap in order not to waste this material.

Housewives prefer the Bolivar soap to the Oso soap. The price of soap Bolivar is nearly four times that of the Oso Soap. However, this is not a barrier to the consumer, whom decides to buy a product with higher price, but also higher quality and longer life cycle.

In a field observation at a market in the country-side, the Oso soap was available in only one of the stands. Whereas Bolivar soap was present in all selling stands. One of the vendors pointed out that all her customers were unsatisfied with the product quality of the Oso soap. Another comment received was that Oso should have a packaging, since it gets moistened easily, and this causes the soap to dissolve after very few times of use.

In the rural areas, the people of this market segment wash their clothes in the river, and prefer to wash with detergent rather than a soap bar, since it facilitates the washing procedure. This market of people, living in extreme poverty, is also very demanding with quality. The Multinational Company Unilever produces detergents with the following brand names; OMO, ACE, ABC, and Surf. In terms of prices, OMO is the most expensive, and the cheapest is ABC. Despite this price difference, OMO is the most purchased amongst BOP consumers.

“The starting assumption must be that serving the BOP involves bringing together the best of technology and a global resource base to address local market conditions. Cheap and low quality products are not the goal” (Prahalad and Hart 2002).

Prahalad’s theory asserts that creating innovative products and services for the BOP consumers, since they are such a big market, will be rewarding for companies that include them as their target. In the laundry soap case, the suggestion is that companies should design small packages, for single use, this way the price will be very low, and therefore accessible for the BOP market.

Products marketed by FINO in the Bolivian market

Products	Oils	Butters	Soaps	Representations
				
				
				
				
				

Taken from:

http://www.fino.com.bo/webs/index.php?option=com_content&task=view&id=178&Itemid=167

Cooking Oil and Laundry Soap

Name:

Address:

Oil Sector

1. Do you use cooking oil?

- Yes No

If your answer is yes, what brand do you use?

If your answer is no, continue with the next sector of the questionnaire.

2. Why do you use the brand mentioned above?

- Price
 Quality
 Publicity
 Re usable package
 Other, specify:

3. Do you know the oil brand Fino?

- Yes No

4. Have you ever consumed Fino Oil?

- Yes No

If your answer was yes what did you think of the quality of the oil?

- Very Good
 Good
 Regular
 Bad
 Very Bad

If your answer was no, what characteristics would Fino Oil need to have so that you would consume it?

- Lower Price
 Better Quality
 Re usable package
 Other, specify:

Soap Sector

1. Do you consume soap to wash your clothes?

- Yes No

If your answer is yes, what brand do you use?

If your answer is no, continue with the next sector of the questionnaire.

2. Why do you use the brand mentioned above?

- Price
- Quality
- Publicity
- Re usable package
- Other, specify:

3. Do you know the soap brand Oso?

- Yes
- No

4. Have you ever consumed Oso soap?

- Yes
- No

If your answer was yes what did you think of the quality of the soap?

- Very Good
- Good
- Regular
- Bad
- Very Bad

If your answer was no, what characteristics would Oso Soap need to have, so that you would consume it?

- Lower Price
- Better Quality
- Re usable package
- Other, specify:

Thank you very much for your time in answering this questionnaire.