The Bottom of the Pyramid

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U.S. president Franklin D. Roosevelt used the term ‘bottom of the pyramid’ in April 1932. He said, “These unhappy times call for the building of plans that rest upon the forgotten, the unorganized but the indispensable units of economic power - that build from the bottom up and not from the top down - that put their faith once more in the forgotten man at the bottom of the economic pyramid.”

Much later in 1998, Professor C.K. Prahalad referred to the billions of people living on less than $ 2 per day. The book, The Fortune at the Bottom of the Pyramid by Prahalad in 2004 expounded this theory and proposed that businesses, governments, and donor agencies must cease to think of the poor as victims, but start seeing them as resilient and innovative entrepreneurs, as well as value-demanding consumers. He explained that there are many benefits to entrepreneurs who choose to serve these markets by responding to their needs and wants.

He propounded the theory that the poor of today are the middle-class of tomorrow and that there are poverty reducing benefits provided multi-nationals are willing to work with civil society organizations and local governments to create new local business models. This noble theory did not go without resistance. Aneel Karnani, from the Ross School at the University of Michigan, argued in a 2007 paper that there is no fortune at the bottom of the pyramid, and that for most multinational companies, the market is actually very small. Karnani alternatively proposed that the only way to alleviate poverty is to focus on the poor as producers, rather than as a market of consumers. Prahalad later responded to Karnani's article.

One example of ‘bottom of the pyramid’ is the microcredit market in South Asia, in particular, Bangladesh. With technology being steadily cheaper and more ubiquitous, it is becoming economically efficient to ‘lend tiny amounts of money to people with even tinier assets’. An Indian banking report argues that the microfinance network in India helps the poor and allows banks to increase their business.

One of many examples of products that are designed with needs of the poor in mind is that of hair shampoo made available in small sachets as opposed to high cost bottled packs. This eliminated the barrier that prevented the poor segments to use shampoo, as the costs of the bottles were high and they couldn’t afford the upfront investment.

Velvette was the first to launch shampoos in sachets, even before market leader Hindustan Lever Limited (HLL) could. Velvette sachets were at affordable price points of Rs 1 and 50 paise. Later, Sachets were extended to other categories of the FMCG market, such as soaps, detergents, hair oils, food products, etc.

Another unique example is from Sri Lanka. This is a personal experience that I would like to share based on sustainable competitive advantage - an initiative I pioneered at the bottom of the pyramid. We focused on the strategic advantage of targeting a market segment at the bottom of the pyramid as well as retaining a cost leadership strategy. The latter often seen as one that is difficult to sustain, but since its launch in the late nineties is, until now, the market leader in the nutrition supplement category. But apple to apple there is no direct competition and is unparalleled in the FMCG sector. Only cigarettes are a monopoly in this country besides this value proposition.

THE STORY

Link Group of Companies, which commenced its business as a building contractor after its success in that industry, looked for conglomerate diversification. Its first success was their strategic business unit (SBU) to manufacture and market ayurvedic products, an extension to herbal pharmaceuticals and herbal personal care products on an ayurvedic platform. During this period, the Canadian International Development Agency had set up soybean products manufactory that had two specific SBUs, one to produce soybean based, wet products and other dry products.

The wet products SBU was successful where they innovated and had first entry advantage in producing and marketing soybean milk-based ice cream, tofu or bean-curd, and other soybean based food products. The dry products manufacturing SBU which was located in the hill capital of the country Kandy had a facility to produce extruded products from soybean using an extrusion machine. Using this machine, the company which was incorporated as Plenty Canada was able to produce partially defatted soybean flour with the intention of incorporating a percentage of it into various wheat and rice flour based food products. These were made in the country to enhance their protein content and other goodness of soybean. Protein content of soybean was known to be over 46% while meat and similar products were around 23%.

Though the company’s intension was soybean product sales, the market acceptance was negative. After a few years of having a continuous negative bottom-line, CIDA decided to divest and offered it to any entrepreneur who would be willing to turn around and continue the business of providing soybean based food products for local consumption. Link Group saw this as an opportunity and acquired this particular business unit and incorporated their new company as Plenty Foods (Private) Limited as a wholly owned subsidiary of Link Group. I was at that time employed as the Managing Director of Soy Foods (F & W) Limited a public quoted company producing Textured Soy Protein under the umbrella of Forbes Ceylon Limited, largely owned by Ondaatje Corporation based in Canada.

The Board of Directors of Link Group invited me to join the company and turn around its business. In just a few weeks after joining the company, on a matter of importance I had to meet the Hon. Minister of Health and while waiting in the lobby, I came upon an article authored by the WHO, stating that 85% of Sri Lankans in the low income sector suffer from protein under-nutrition, which is detrimental for growth and mental development of children in particular, and also affect lactating mothers and those pregnant. I immediately got a copy of this article and called my team in the Kandy factory and informed them that I would arrive for an emergency meeting immediately after the meeting with the Hon. Minister.

At our meeting, we deliberated many options and the following morning we set out to produce different options. After many trials conducted over a period of a few weeks, we selected our prototype. Subject to stringent market testing and an extensive study of potential customer insights on taste, benefits etc., we decided on our strategic direction.

Product
We used a combination of soybean, corn, red rice and green gram that went through a process of extrusion cooking and produced a course powder which then was enriched with essential vitamins. The end product was a protein supplement higher than meat, eggs and dhal, and had the pluses of essential vitamins.

Value Proposition
The product can be consumed easily and conveniently by adding a little fresh grated coconut freely available in any home and an imperative in Sri Lankan cooking. The taste can be enhanced by mixing a little sugar and turned out to be an unprecedented nutritious snack in the nutrition supplement category. The products in this category were all expensive and below the reach of the common man. Thus this was seen as real value for money sub-category.

Packaging and Labeling
We decided on a low cost packaging process of having 100g of the product in sachets as we were targeting the bottom of the pyramid. We paid much attention to pack graphics and nutritional information. The outer made of polyethylene had 25 sachets of the end product. It was easy to handle, exposed to less damage and had good visual impact. It was very modern in design, aesthetic and above all, low cost.

Branding and Positioning
The branding we decided must carry the unique positioning of the product, which was based on positioning the product as Balanced Nutrition and hence in vernacular as ‘Sama Posha’.

Pricing
We were targeting the low-end, hence our concentrated effort was to keep cost of production as low as possible and sell the product at the lowest possible price. We also knew very well that two large multi nationals who are here and had similar extrusion machines in their facilities would emulate, if the product was a success and destroy us

with their marketing fire power. Therefore, though we could have had better margins as a 1st entry advantage, we did not pursue that option and kept a low margin which by itself was an entry barrier for the MNCs. To date the MNCs have not opted to enter this industry and this product has no direct competition as referred earlier.

Summary and Conclusion

The distribution strategy and integrated marketing communications strategies were also unique though we failed initially. Its success not only delighted the market segment at the bottom of the pyramid and invaded upper segments of the socio-economic pyramid. The product is not just a leader, but a monopoly. No direct competition.

References:

http://en.wikipedia.org/wiki/Bottom_of_the_pyramid