

# Bottom of Pyramid Marketing: What does the marketing faculty think about it?

Vishal Wadajkar<sup>1</sup>, Sheetal M. Darekar<sup>2</sup>, Sudhanshu Laddha<sup>2</sup>

<sup>1</sup>Deputy Director - Academics, <sup>2</sup>Assistant Professor and <sup>3</sup>Student,

<sup>1,2,3</sup>Dr. D. Y. Patil B-School, Pune, Maharashtra, India

---

## Abstract

**Objectives:** This is a descriptive cross-sectional study done in Pune, to understand the marketing faculty's opinion on the concept of "fortune at the bottom of the pyramid (BOP)". That means how the market is affected by the huge informal economy seen among the developing countries.

**Materials and Methods:** Descriptive hypotheses were set and studied based on primary data collected from 125 members of the Marketing Faculty of MBA colleges in Pune. Both propositions in support of and against the concept were measured on a 5-point Likert scale for responses to 10 items under each of the variables. Sample means were compared against the hypothesized population means of the scale mid-points of 2 and were tested for statistical significance at 95% confidence level.

**Results:** 82% agreement was found for the arguments in favor of the concept. This was matched by a disagreement of 84% for the arguments against the concept.

**Conclusion:** The results of the study have confirmed our conjecture, that respondents overwhelmingly accepted the ideas constituting the concept and at the same time also rejected the ideas against the concept.

**Keywords:** Bottom of Pyramid (BoP); Informal economy, Prahalad and Hart, Karnani

## Introduction

Prahalad and Hart (2002) came up with the notion that there is "wealth at the bottom of the pyramid" which meant that the large informal economy that accounts for forty to sixty percent of all economic activity in developing countries is a good market i.e. profitable venture for MNC (multi-national companies) to sell their products to the poor sections of the societies and this can help to remove poverty among the informal sector/ economy. But the idea was disregarded by Karnani (2007) as preposterous and that the informal sector (read: poor) should be empowered to become producers of better income for themselves to lift themselves out of poverty.

The informal economy is contained of the people who earn their living on operating small stalls selling sundry, food, etc. on the roadsides; daily wage laborers; household helpers; cobblers; mobile tailoring vans; scooters and cycle mechanics, etc. Most people in developing countries like India live in such an informal economy, which forms about ninety percent of the population of the country (ILO, 2015). There is very little information on the wealth generated by this sector as they do not come under any tax ambit and also lack access to social security and any safety legislation. In India, this unorganized or informal sector generates a net 60% of the GDP -with forty percent generated by trade and agriculture and 20% by road, transport, and manufacturing (Kulshreshta, 2011).

The problem is that it is difficult to estimate the income generated by small enterprises even by the NSSO as direct questions posed to them about their profits, wages, consumption of good warranted answers which underestimated 4.5 % value lower than the actual values (Joshi et al., 2011).

Therefore the motivation behind this research paper is to try and understand the concept of informal economy and whether the idea of eliminating poverty through profit is a sensible idea at all?? To do this a survey was done among the faculty members of MBA institutes of Pune (India), seeking their responses in the form of agreement/disagreement for the arguments for and against the concept.

### Literature Review

This review focuses on two main schools of thought i.e. mitigation of poverty by private investors (Prahalad and Hammond 2002) and a contradicting point of view presented by Karnani (2006) who believes in empowering producers of the economy (read- informal sector) to assuage poverty. Prahalad and Hammond (2002), hypothesized that private investments by MNC's and their entrepreneurial activities will help to create jobs and prosperity, which will, in turn, bring new consumers to the worldwide marketplace especially in developing economies like India, South Africa, Brazil, China, etc. and this will help to reduce poverty and promote global economic opulence. A befitting example is a low-cost wireless communication network that has helped to reduce hurdles in the informal sector and has helped in providing business even to the poor and rural sections of society. Such forays by multi-national telecom companies can help to tap the vast economic potential at the bottom of the pyramid. According to Prahalad and Hammond (2002), it is upto the individuals even if they are poor as to what they want to spend on e.g. In rural Bangladesh with a rural per capita income of about 200\$ per year and yet spend 7% of their income on telecommunication services benefitting low-cost village telecommunication services. Even in Mumbai's Dharavi slums, 21% have telephones. The reason for this according to Prahalad and Hammond (2002), maybe that in Mumbai people living in slums cannot buy a place of their own so most people at the BoP indulge in buying higher quality goods like televisions, pressure cookers, mixers, gas stoves to improve their quality of life as they have to forgo other amenities like running water, sanitation a better habitation, etc. It is deemed by Prahalad and Hammond (2002), that people living mostly in cities like Rio de Janeiro, Johannesburg, Mumbai with 600\$ per person purchasing power and served by informal economies, are potential customers for MNC's.

On the other hand, Karnani (2006) thinks of Prahalad and Hart (2002) ideologies as outrageous. His viewpoint is that it's better to empower the poor and turn them towards producers of real income rather than directing them to be consumers to alleviate their poverty. Poverty is a socio-political moral issue that has been the dilemma of many governments globally. The United Nations indicator of measuring poverty in low-income countries is "1\$ a day" and later converting to local currency PPP (purchasing power parity) of that country's exchange rates. For example, in India, the National Poverty Line indicator (1999) is 1.48\$ which is about 8.17 rupees or for the moderate poverty line, it is about 2\$. The World Bank on the other hand uses consumption measures as indicators. Indian government statistics for poverty line are 26% and World Bank statistics for India is 35% (1999). Overall World Bank has estimated about 2.7 billion people at 2\$ per day poverty line as compared to the BoP estimate of 4 billion which has a PPP of \$13trillion (Prahalad and Hammond (2002). The BoP argument by Prahalad and Hart (2002), & Prahalad (2004) has used per capita annual income as purchasing power as high as 1500\$ and 2000\$ respectively in their studies to define their poverty measures. They have counted 4 billion people at 1500\$/2000\$ and even 2\$ per day (Prahalad, 2004). This statistics is in itself confusing.

Therefore Prahalad's studies may have misleading figures and actually, the world's lowest 44% BOP purchasing power is in reality only 2.5% of the total PPP (Karnani, 2006). Another issue is that Prahalad and Hart (2002) have mentioned the purchasing power of the urban poor (Example: Casas Bahia) found in big cities and have not taken into account that the BoP population is very diverse culturally and is heterogeneous in composition (Karnani, 2006). Karnani (2006) is not in favor of the argument that FMCG's (Fast Moving Consumer Goods) for example shampoos sachets, salt, Coca-Cola, ice-creams like Amul can be sold to the BoP consumers at low cost and will help in alleviating poverty and turning them into consumers for the MNC, s- in return benefitting both the parties. Karnani (2006) prefers the idea that raising the income of the poor by schemes such as microfinance which will help to create better job opportunities; creating efficient markets (e.g. Amul Dairy Co-operative, e-Choupal an ITC efficient market initiative for helping farmers who grow soybeans and make it available for the production of soya bean oil to oil processing plants at an efficient price). Karnani (2006) has suggested that the Government should look into basic healthcare; sanitation; public health measures; education, etc. for low-skilled agriculturists working in industrial jobs. The government should also look into issues such as small, medium, and large enterprises with policies like deregulation, infrastructure (transportation), and capital markets especially in the labor-intensive economies and then all this will then translate into 'economic growth' and help to alleviate poverty at the end of the day. Another thing is that if MNC's want to help them they can in elevating the skills of the poor and giving them employment which will be better for the BoP and improve their quality of life.

### Methodology

1. A survey questionnaire was administered to 125 marketing faculty from MBA colleges from Pune.
2. The selection of the 125 faculty was based on the judgment of the writer of getting an adequate response in a reasonable time. Judgmental sampling was used.
3. The survey questionnaire was divided into two parts: Ten Item *propositions in support of the concept* (Private investment by MNC; Entrepreneurial activities; Job creation; New Consumers; Decrease in poverty - Gap between

rich and poor to reduce; Stabilize economy; Stimulate commerce and development at the BoP; Purchasing power; Better Quality of Life; Higher quality goods at low prices)(Prahalad and Hammond, 2002). And ten items *propositions against the concept* (Number of poor people; Measuring number of poor people is difficult; BoP instead of solving exaggerates poverty problem; Overestimation of buying power at the bottom; There is nothing like a fortune at BoP; Myth about Casas Bahia; Single-serve revolution - a fallacy; Reducing selling price - not practical; BoP behavior points out to an irrational poor customer; Role of MNCs) (Karnani, 2006)

4. 10 questions (items) each for the two sections were framed and responses were sought on Likert-scales.
5. Responses were obtained on a scale of 0-4: 0-Can't say, 1-Somewhat agree, 2-Strongly agree, 3-Somewhat disagree, 4-Strongly disagree
6. To distinguish the somewhat responses from the strong responses, a weight of 2 was assigned to each of the strong responses while doing the analysis.
7. T-test was used at 95% confidence level and the sample mean (higher of agreement or disagreement) was tested for statistical significance by comparing it with a hypothesized population mean taken at 50% agreement or disagreement connoting an event by chance.

**Statement of Hypotheses:**

H<sub>01</sub>: There is no difference between the agreement and disagreement on propositions in support of the concept

H<sub>a1</sub>: There is a difference between the agreement and disagreement on propositions in support of the concept

H<sub>02</sub>: There is no difference between the agreement and disagreement on propositions against the concept

H<sub>a2</sub>: There is a difference between the agreement and disagreement on propositions against the concept

The survey instrument returned a Cronbach's alpha of 0.847 that is better than 0.70 (the standard) and hence was considered as reliable.

**Results**

The sample constituted a marginally higher number of males (64) as compared to the female faculty (61). Most of them were professors (45), they had > 20 years of experience (45) and, were in the age group of > 50 years (45) (Table1).

**Table 1 : Descriptive analysis:**

<b>Gender</b>		No of Respondents(N=125)
1	Male	64
2	Female	61
<b>Age Groups</b>		
Group 1	< 40years	42
Group 2	40-50years	38
Group 3	>50 years	45
<b>Work Experience</b>		
Group 1	10-15 years	42
Group 2	15-20 years	38
Group 3	>20 years	45
<b>Designation</b>		
1	Assistant Professor	42
2	Associate Professor	38
3	Professor	45

**Inferential analysis:**

The null hypotheses were set as the sample mean ( $\bar{x}$ ) equals the hypothesized population mean ( $\mu$ ). Summary of theresponses for agreement to the arguments for the conceptis given in Table 2 below:

**Table 2: Summary of responses for agreement to the arguments for the concept**

Arguments for	1	2	3	4	5	6	7	8	9	10	Average
Agreement %	90%	93%	89%	81%	80%	75%	95%	81%	76%	89%	85%

Summary of the ratings for the disagreement to the arguments against the concept is given in Table 3 below:

**Table 3: Summary of responses for the disagreement to the arguments against the concept**

Arguments against	1	2	3	4	5	6	7	8	9	10	Total
Disagreement %	90%	89%	86%	88%	90%	88%	85%	88%	89%	85%	88%

Table 4 shows the testing of the two hypotheses at a 95% confidence level.

**Table 4: Testing of the hypotheses**

Parameter	H <sub>1</sub> value	H <sub>2</sub> value
Sample Mean ( $\bar{x}$ )	85%	88%
Hypothesized population mean ( $\mu$ )	50%	50%
SD of sample	0.93477	0.85733
n (sample size)	125	125
t-value= $\text{abs}((\bar{x} - \mu) / (s/\sqrt{n}))$	4.1658	4.9422
p-value = $\text{tdist}(t,(n-1),1)$	0.00003	0.00000
Decision	Reject Null	Reject Null

Both the null hypotheses were rejected in favor of the alternate that the sample means are significantly different from the hypothesized population mean ( $\mu$ ) @50% levels of agreement/disagreement connoting an event by chance.

### Discussion of Result

The average agreement to the 10 arguments in favor of the concept of BoP was 85%. The propositions put forward in justification of the concept by Prahalad and Hart (2002) like Private investment by MNC; Entrepreneurial activities; Job creation; New Consumers; Decrease in poverty - Gap between rich and poor to reduce; Stabilize economy; Stimulate commerce and development at the BoP; Purchasing power; Better Quality of Life; Higher quality goods at low prices were widely agreed by the faculty members. The average agreement to the 10 arguments in favor of the concept of BoP was 85%. The propositions put forward by Karnani (2007) pointing out the fallacies in the concept of BoP as put forward by Prahalad and Hart (2002) like Number of poor people; Measuring number of poor people is difficult; BoP instead of solving exaggerates poverty problem; Overestimation of buying power at the bottom; There is nothing like a fortune at BoP; Myth about Casas Bahia; Single-serve revolution - a fallacy; Reducing selling price - not practical; BoP behavior points out to an irrational poor customer; Role of MNCs were widely disagreed by the faculty members.

### Conclusion

The results of the study have confirmed our conjecture, that respondents overwhelmingly accepted the ideas constituting the concept and at the same time also rejected the ideas against the concept. At least faculties of marketing are confident of the theoretical propositions by Prahalad and Hart (2002) constituting the BoP. At the same time, they have clearly rejected the arguments against the proposition by Karnani (2007). Thus, two-way support to the concept of BoP comes from the Indian academia – strong agreement to the postulates along with equally strong disagreement for arguments against it.

### References

1. Blades, D., Ferreira, F.H.G., and Lugo, M.A., (2011). The Informal Economy in Developing Countries: An Introduction. Review of Income and Wealth, Series 57.

2. Joshi, K., Amoranto, G., and Hasan R., (2011). Informal Sector Enterprises: Some Measurement Issues. *Review of Income and Wealth*, 57:143-165. ILO (2015), "India Labor Market Update", [http://www.ilo.org/wcmsp5/groups/public/—asia/—ro-bangkok/—sro-new\\_delhi/documents/genericdocument/wcms\\_232565](http://www.ilo.org/wcmsp5/groups/public/—asia/—ro-bangkok/—sro-new_delhi/documents/genericdocument/wcms_232565).
3. Karnani, A (2006). *Mirage at the Bottom of the Pyramid How the private sector can help alleviate poverty*. William Davidson Institute Working Paper Number 835.
4. Kulshreshtha, A. C., (2011). Measuring the Unorganized Sector in India. *Review of Income and Wealth*, 57:123–.134.
5. Prahalad, C.K. (2004). *Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Wharton School Publishing.
6. Prahalad, C.K., and A. Hammond (2002). 'Serving the world's poor profitably.' *Harvard Business Review*, 2002.
7. Prahalad, C.K., and S.L. Hart., (2002). *The fortune at the bottom of the pyramid*. Strategy + Business.
8. Sharma, Alka and Gupta, Shelleka (2015), "Cause Related Marketing and Customer Value - A Relationship Analysis", *MERC Global's International Journal of Management*, Vol. 3, Issue 3, pp. 93-104.