Beyond Business Basics at the Base-of-the-Pyramid: the Perspectives of Multinational Corporations

Mee-Shew Cheung, Ph.D¹, and Megan Belden²

Abstract
This paper is a collaborative effort between the academia and industry practitioners serving in the Base-of-the-Pyramid (BOP) segment in emerging markets. It focuses on understanding the key success factors and challenges that multinational corporations (MNCs) face in their BOP ventures. Different from other work on BOP markets, this paper primarily focuses on in-depth understanding of MNCs' learning in the BOP field, and how MNCs are using the learning to further engage with the BOP consumers in order to generate greater success in their ventures. This paper aims to enhance further learning about BOP ventures both among the academia and industry practitioners.

Several themes emerged from the in-depth qualitative interviews with industrial experts in the BOP segments: (1) the need for quality consumer research, (2) the capability to standardize core technology, (3) understanding BOP brand value, (4) communicating brand value to BOP consumers, (5) leveraging technological leapfrogging capabilities at the BOP markets; (6) creating access and distribution capabilities and (7) assessing and minimizing environmental impact.

Key words: Base of the Pyramid, international marketing, cross-cultural research

INTRODUCTION
The recent development in globalization has seen multinational corporations (MNCs) recognizing and exploring the enormous opportunities in new and emerging markets when developed world markets are becoming increasingly saturated. Most global marketing strategies in emerging markets have been targeting mainly at the wealthy elite segment and the middle-income class. In the latest development, an increasing number of MNCs started to launch new initiatives to explore the opportunities in the underserved segment – the base of the economic pyramid (BOP), the largest and fastest growing segment of the world’s population. Our understanding of the BOP markets is going through a seismic shift in the last decade. Increasingly, the BOP consumers are recognized as highly resourceful entrepreneurs who possess valuable knowledge, resources and capabilities. As such, business development and enterprise creation driven by the poor has emerged as a powerful philosophy and tool for addressing poverty and marginality, bringing both social and economic value to the BOP markets. While the opportunities associated with BOP markets are becoming increasingly apparent to researchers and practitioners, there are crucial and unique challenges when MNCs attempt to balance firm’s profitability responsibility and social responsibility in their BOP ventures. The purpose of this paper is to (1) synthesize recent studies and present a review of the accumulative knowledge in this important topic area; (2) present qualitative data gathered from interviews with industrial experts on the consumption culture of the BOP and the challenges that MNCs face in BOP market development. Implications to practitioners and researchers are drawn, and further research directions and propositions are suggested.

LITERATURE REVIEW
Past research has attempted to solve the complexity of selling to the BOP markets by looking at how MNCs should approach the global low-income markets. Insights into how MNCs should approach the BOP have included applying the microfinance model to selling to the BOP (Akula 2008), ingraining Corporate Social Responsibility into the corporate strategy (Hahn 2008) (Viswanathan, Seth, Gau, and Chaturvedi 2009) (Davidson 2009) (Habib and Zurawicki 2010), approaching the subsistence markets

¹ Xavier University, Williams College of Business
E-mail: Cheungm@xavier.edu
² The Nielsen Company
E-mail: Megan.Belden@Nielsen.com

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Business Basics at the Base of the Pyramid argued that a successful strategy for MNCs looking to sell to the BOP should be to apply the Microfinance Model (Akula 2008). By standardizing products, training and processes as well as using technology to reduce costs and understanding the consumer needs, the author argues that the sheer volume response from the BOP will generate substantial profits (Akula 2008). These aspects have all been very crucial to the success of the microfinance industry. Selling to the BOP consumers requires more in depth understanding of consumer needs. The key is research, understanding the market in depth, and continuing to learn the consumer needs to optimize the high volume, small margin profits.

It has also been argued that in order to successfully sell to the BOP, corporate social responsibility (CSR) must be central to the strategy of a corporation attempting to do so. Ingraining Product-Relevant Social Good into Business Process in Subsistence Marketplaces proposes this theory be called sustainable market orientation, and argues that ingraining corporate social responsibility at the core of strategy will increase the likelihood of profitable success in subsistence markets (Viswanathan, Seth, Gau, and Chaturvedi 2009). CSR needs to go beyond the traditional public relations strategy and make it a part of the business model. The challenge with this aspect of selling to the BOP is ensuring that the cost benefits are still relevant.

Furthermore, past work has emphasized the need for success metrics in low-income markets to include not only economic and social good improvements, but also environmental impact (Davidson 2009). In particular, there is a need to find a way to provide products to BOP consumers that will not be difficult for them to dispose of after use. Environmental concerns have recently been raised by BOP researchers (Hahn 2008). We cannot assume that subsistence markets have the ability to recycle waste. The idea of creating ecologically sustainable packaging and products needs to go deeper by understanding the waste infrastructure in each region. Again, a region-specific method needs to be employed in order to reduce the waste impact.

Marketing to the BOP consumers can be very challenging for MNCs because it is extremely difficult to standardize the marketing mix for the wide variations of subsistence markets. Recent work has discovered that there are basic principles that can be standardized to the global BOP. First, products need to be kept simple in order to keep the costs low and to avoid selling unnecessary features to the BOP (Davidson 2009). If a MNC is maintaining CSR, the product should be appropriate in that it is meeting the basic need (D’Andrea, Marcotte, and Morrison 2010), but without the deluxe features that might drive up the cost (Habib and Zurawicki 2010). Second, products need to be priced below or at the level that the BOP consumer can afford, while maintaining the quality of the product (Davidson 2009). The quality of products being sold to the BOP has been debatable; however, the argument in this paper is that quality is of the utmost importance when selling to the BOP due to the sacrifices made by a consumer purchasing the product. The BOP consumer has much more to lose if they choose a low quality product, which is why it may be argued that brand is just as important to the BOP consumers as it is to the traditional markets.

METHODOLOGY
The purpose of this research was to discover and understand concepts of BOP consumption culture via the learning generated by industrial field experts. Thus, a theory-building, qualitative research design was adopted. It has been suggested that qualitative research methods are best suited to research substantive areas about which little are known (Stern 1980). Strengths of qualitative research include realism, significance, richness, high face validity, and potentially a more precise way to assess causality (Miles 1979).

The research team of this project approached 6 industrial experts working in consumer package goods industry and conducted in-depth one-on-one interviews to gather their insights on the BOP phenomenon. All respondents have more than 10 years of field and management working experience in the global BOP markets. The findings are rich verbal descriptions reported in the words of informants. The research team
then systematically analyzed these descriptions to generate the themes and provide important implications for practice and research.

The research design incorporated open-ended, discovery oriented depth interviews as the primary method of data collection. First, a protocol for interviews was developed. Colleagues in the academia familiar with the topic and methodology helped review the protocol before the research started. An interview guide was prepared with open-ended questions that started out broadly, and became more focused during the interview as concepts and relationships were discovered. This method allowed researchers to make comparisons, discover variations, and enrich categories.

The interviews were audio taped with the consent of the informants whom were invited to talk about their learning in working with BOP consumers in different emerging markets. An independent third party was engaged to transcribe the audiotapes so as to minimize researcher bias and ensure data quality and reliability. Following accepted grounded theory coding techniques (Strauss and Corbin 1998), each member of the research team coded the interviews independently. Thereafter the team came together and reconciled their code. Theoretical concepts emerged from the data after continuous questioning of the information obtained and comparisons among coded sets of data.

SUMMARY OF FINDINGS

Key Success Factors & Challenges in BOP Ventures

The need for quality consumer research

To be successful in serving and selling to the BOP, MNCs must understand the BOP consumers at a very granular level. The BOP spans a wide scope of nations, cultures, and languages, and it is imperative that a company has significant economies of scale in order to successfully sell to the BOP. One informant shared the challenge in reaching the BOP:

“The problem is we tend to club low income consumers as one lot. In actual fact, it’s not one lot. There are very big differences.”

MNCs need the dedication and resources to understand the BOP in a very meaningful way in order to see long-term results. The tremendous resources needed to conduct research, assess distribution, and establish a presence in the BOP markets remain a major challenge for MNCs due to the lack of infrastructure in BOP markets. One R&D informant shared the difficulties in conducting research in the BOP markets:

“The reason why we spend so much time there on the ground talking to consumers is because of the severe lack of infrastructure. In a developed world, we have standards of norms. Technically we can place a test without seeing a consumer, get the data back and we know pretty much what it means. Over there in the BOP world, you pretty much have to talk to each one of them just to get a feel for what the data meant.”

The costs of researching the wide spectrum of low-income urban and rural areas are enormous. MNCs need to develop stable portfolios to make that research investment in order to see a long-term return. That makes the issue of scale in research an extremely significant success factor in selling to the BOP. One managerial informant shared the experience from a MNC’s perspective:

“Similar to any business venture, we have a portfolio where a certain amount of our efforts are dedicated towards running current businesses; another portion of our resources for future business development; and a certain amount for really disruptive and innovative ventures. So, unless you are willing to really dedicate certain amounts for those ventures, you will not be able to see the longevity of those projects.”

This is a major challenge to understanding the BOP consumers at a granular level. The pure scope and size of the BOP is daunting and MNCs must appropriately prioritize not only about which countries to focus on, but also about specific segments within each country. MNCs need to develop a categorization system to optimize the level of standardization in order to enjoy the overall economies of scale in their long-term ventures.

The capability to standardize core technology

To achieve and maintain economies of scale at the global level, MNCs find it challenging to localize each product’s core technology along with packaging, pack count, advertising campaign and distribution method. Akula (2008) advocated for standardization of products and processes by encouraging MNCs to follow the microfinance technique that has been successful in many regions. Consistent to the lack of infrastructure that microfinance institutions faced, many BOP markets do not have the capabilities for
local manufacturing and it has been suggested that the most efficient way to produce for the BOP segment is to standardize the core technology for the product. Scale is a vital component for this capability. Since the margin on each individual good sold is very low, massive amounts must be produced and sold in order to see a return.

This is often a challenge for MNCs due to the differing needs across markets. One informant in R&D shared about the sentiment to find the balance between standardization and localization. “We always go to the various different regions to make sure that we understand what the consumer needs are. Our equipment is so expensive and you will have to have some level of standardization otherwise you wouldn’t be able to have the scale. So the goal would be to get all of the understanding up front about what the consumers really need and be able to design all of that into one product that can meet the needs of everyone.”

Although standardization of core technology is very important in selling to the BOP, many components regarding design, packaging, and advertising must be localized to fit the needs of each BOP market. As in traditional markets, brand message and translations are not often universal due to cultural differences. However, this tends to be an especially difficult component in selling to the BOP due to the cost of research in the BOP markets.

**Understanding BOP brand value**

MNCs that have already branched out into the BOP markets have learned that brand value functions differently with consumers in low-income markets. While it is very important to have an acceptable price point, high quality is still a key aspect for the BOP. This idea is consistent with recent research which maintains that socially responsible MNCs that sell to the BOP must practice fair pricing. This is the idea that the MNC must charge at or below what the BOP is willing and able to pay (Kirk 2009). Quality is not a component that can be sacrificed for low price. This principle is even more important in selling to the BOP because of the very limited individual buying power that each individual consumer has. The small amount of disposable income forces BOP consumers to make choices between categories in general, not products. The small amount of disposable income becomes a question of which category the consumer chooses to participate in and which will provide the most benefits. The interviews reflected this sentiment and one informant shared:

“They are investing in the category a disproportionate amount of income... the brand needs to reassure them that, that is a good investment both functionally and from an emotional, social validation standpoint.”

From this standpoint, brand value is much stronger to the BOP consumers because more is at stake if the product does not perform. BOP consumers are more skeptical and concerned with the brand of a product. One informant discussed this struggle in the research:

“How do you believe that the product actually delivers what it promises to deliver?”

This can be a challenge in communicating brand value and fostering trust with BOP consumers. In the case of baby care products, most parents want the best for their child and they are willing to spend large amounts on those products. For the BOP, this becomes an even greater struggle because of what the family must sacrifice to purchase the baby care products. The product needs to be well worth it to them while still being affordable. One informant discussed this struggle in the research:

“So you can imagine the choice that they’re trying to make here between this convenience and the cost of the diaper because the cost of our diaper would be the same price as three charcoal briquettes for the oven. These three charcoal briquettes would give the family heat for a night for the cost of one diaper for the child for a night. So it’s a real dilemma in terms of what you choose and what you have to give up.”

Socially responsible MNCs must recognize this important choice that BOP consumers make. This idea is closely related to the sustainable market orientation proposed by the researchers concerned with ingraining social good in the core strategy of MNCs. When approaching the BOP with low cost products, the core strategy of social responsibility to global consumers can be no different than in traditional markets in order to be sustainable in the long-term (Viswanathan, Seth, Gau, and Chaturvedi 2009). As a result, quality cannot be sacrificed for low price.

**Communicating brand value to BOP consumers**

Closely related to the importance of brand value to the BOP, marketing to the BOP also presents unique challenges to MNCs. A key theme in successful MNC marketing has been to convey the message about how the product will add value to the BOP consumer in a meaningful way. This is consistent to one recent research, which claims that for the BOP segment, the allure of status is not going to be sufficient.
enough to convince a BOP consumer to purchase a product. There needs to be an element of quality and value added in order to have a successful product launch (D'Andrea, Guillermo, David Marcotte, and Gwen Dixon Morrison 2010).

One informant shared:

“You cannot go stoop to their level because they do have greater aspiration in life. So you can’t portray their life the way it is now. That is one of the mistakes MNCs make when they simply focus on designing a message that is relevant to their current situation ... But the BOP consumers are aspiring to taking the next step up.... They don’t want to just think about staying at where they are in life right now.”

This may be particularly relevant in products targeted to parents and younger generations because they have the aspiration to move out of poverty. They need to feel that the product will help them achieve that. In addition to creating an inspirational message, the BOP consumers also need to find it to be within reach.

Additionally, the messages need to be localized to fit the needs of the differing cultures. This can be a challenge as well in traditional markets but can be particularly difficult for the BOP due to the resources required to conduct in-depth research prior to communicating the message. One informant shared:

“The subtle part comes in adopting this message to the particular market. You talk about it in completely different ways to a Chinese consumer than you do to an Indian consumer.”

Leveraging the technological leapfrogging capabilities at the BOP markets

MNCs looking to sell to the BOP must thoroughly understand how the BOP markets are interacting with technology. It is not the same evolutionary cycle that has happened in developed nations. It is a misconception to believe that the BOP markets are unable to adequately utilize advanced technology.

One informant shared:

“What you have to be careful of is that they will leapfrog a lot of things as far as technology is concerned. For example, mobile phone technology leapfrogged landlines completely. In fact, the best innovation in the mobile phone industry is happening in the poorest countries.”

This presents unique opportunities for MNCs attempting to access the BOP markets because the BOP segments have additional technologies that developed nations may not have had in the early stages of the product life cycle. One informant shared:

“Mobile phone penetration in some of these countries in Asia is even higher than in the US so marketing through mobile phone is one that is a very fast emerging trend.”

MNCs that are looking to sell to the BOP should keep this in consideration when developing a plan for a product. The traditional business model will not be sustainable in the BOP as a result of these differentiating factors.

Creating access and distribution capabilities

Access to the BOP and the lack of stable infrastructure is one of the most significant obstacles in selling to the BOP. As a result of this challenge, most successful MNCs must dedicate a significant amount of time and resources in researching and developing a distribution channel in order to reach the BOP. This is why it is vital for an MNC to have scale in order to be successful in selling to the BOP. One informant shared:

“Access is very important; if you can get access you will win distribution.”

“To get there is extremely expensive. The hard question is whether the return is worth it. But once you get access to the market, you typically will get the return.”

Assessing and minimizing environmental impact

Tied to the importance of a quality product and maintaining a sustainable market orientation (Viswanathan, Seth, Gau, and Chaturvedi 2009), socially responsible MNCs must consider the environmental impact of selling to the BOP in many areas with very poor waste disposal and management infrastructure. One informant shared how this should be approached in the long run:

“Making things smaller, more compact etc. is good for the environment in terms of reducing landfill. Even if you burn it off, it reduces emissions. It also makes the product less expensive over time.”

As is the commonality among the themes explored in this study, significant research must be done to have a sustainable market orientation with regard to the waste management of a product being sold to the BOP. This is very challenging to MNCs because a problem of waste infrastructure is often a governmental systemic issue that cannot be resolved easily. It can be quite expensive to create a sustainable way to dispose the products. One informant shared her perspective on this challenge:
“A lot of these developing markets do not have an established waste infrastructure system as developed markets do. There is no organized garbage collection system or recycling system. None of that exists... We have a responsibility to make sure that the products that we sell there actually have a sustainable profile so that we’re not adding to solid waste when they do not have a well established disposal system.”

MNCs must gain an in-depth understanding of the infrastructure in the market to see if a sustainable market orientation will be viable to achieve and maintain.

CONCLUSIONS
Several common themes emerged from this study via the literature review and the summary of in-depth interviews with expert practitioners in the BOP field. BOP ventures require significant rethinking of business basics (Prahalad and Hammond 2002). The lack of infrastructure and high costs to perform consumer research in many BOP markets are significant challenges. There is also a great cultural distance between MNCs and the BOP consumers. BOP ventures are clearly not for every corporation. MNCs will have to decide if the benefits will outweigh the costs for it to be a sustainable strategic decision. This will involve very intricate planning and a very strong level of dedication and commitment from the top management and its shareholders. MNCs should take a long-term view and be proactive in shaping aspirations by providing consumer education and investing in sustainable development.

REFERENCES