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A STUDY ON FORTUNE AT THE BOTTOM OF THE PYRAMID IN INDIAN SCENERIO

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Abstract

Bottom of the Pyramid otherwise termed as base of the pyramid is refers to the poorest two third of the economic human pyramid, a group of more than four billion people living are in abject poverty. As far as in Indian situation, we have a clear picture of the Bottom of the Pyramid. Apart from one of the wealthiest nation during 1600s, India now suffers poverty and lack of financial freedom for majority of the citizen. They can be categorised into the Bottom of the Pyramid. In this study we analyse the scope of Bottom of the Pyramid which can be utilised for the development of the nation and raising standard of living of the people. We have also analysed “Apple” Company (Top brand in electronics) and their relative failure in Indian economy, which shows the weaker purchasing power of Indian people. This paper gives a clear picture of the fortune at the Bottom of the Pyramid in Indian situation. For the study the researcher has gathered secondary data from various journals, financial reports, internet websites, books etc.

Key words: Bottom of the Pyramid, Apple Company, economy.

INTRODUCTION

Bottom of the pyramid is the largest but the poorest socio – economic group of people. The concept was introduced by US President Franklin D Roosevelt in 1932, while talking about the poor people who are often forgotten because they live at the bottom of the economic pyramid. It is also called as base of the pyramid. It is a phrase used in economics which refers to the poorest two-third of the economic human pyramid. The idea was popularised by CK Prahalad as a demographic segment as a profitable consumer base in his 2004 book “The Fortune at the Bottom of the Pyramid” co-authored by Stuart Hart. He expressed some useful insights about the consumer needs in poor societies and opportunities for the private sector to serve important public purpose while enhancing its own bottom line.

OBJECTIVES OF THE STUDY

1. To study the scope of bottom of the pyramid in India.

RESEARCH METHODOLOGY

➤ **Design:-**

Descriptive research studies are those studies which are concerned with describing the characteristics of a particular group of situations. Descriptive research includes different kinds of fact-finding inquiries and surveys. The main objective of this research is describing the state of conditions as it exists at the present moment. For these types of researches we often use the term ex-post-facto research method, the main characteristics of which is that the researcher has no control over the variables, he can only report what has happened or what is happening.

➤ **Data collection:-**

Secondary data

The secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. It is collected from the books reputed journal, RBI website and internet.

POVERTY IN INDIA

Two-third of the people in India lives in poverty. About 68% of the Indian population lives on less than \$2 a day. About 30% even have less than \$1.25 per day and they are considered extremely poor. This makes the Indian subcontinent one of the poorest countries in the world. The most suffered one is the women and children, the weakest members of Indian society.

India is the second most populated country after China with 1.2 billion people and is the seventh largest country in the world. The highly contrasted country has enjoyed growth rate of up to 10% over many years and is one of the largest economies in the world, with a gross domestic product of 1,644 billion US dollars. But only a small percentage of the population has benefited from this impressive economic boom as the majority of the India is still living in an absolute poverty.

More than 800 million people in India are poor. Most of them are living in countryside with odd jobs for survival. The lack of employment which provides a liveable wage in rural areas is driving many Indians into rapidly growing metropolitan areas such as Bombay, Delhi, Bangalore or Calcutta. Most of the slum areas suffer from problems like lack of sufficient drinking water supply, lack of garbage disposal and in many cases without even electricity. The poor hygiene conditions are the cause of diseases such as cholera, typhus and dysentery, in which especially children suffer and die

FOUR TIRES OF CONSUMERS

Four tires of consumers: At the top of the pyramid there are about 75-100 million affluent consumers. They include people who are middle and upper-income people in developed countries and rich emerging from the developing nations. And in the middle of the pyramid, two tires are there viz tire two and tire three. These two tires consist of poor customers in the developed nation and the rising middle class in the developing countries. People in the last two tires are targeted by the MNCs. They create strategies to capture the fortune at the bottom of the pyramid. At the bottom of the pyramid, tire four consists of people who earn \$2 or less per day.

Exhibit 1: The World Economic Pyramid



* Based on purchasing power parity in U.S.\$
Source: U.N. World Development Reports

There is an extreme inequality in the distribution of wealth among these different tiers. This led the poor thinking that they cannot participate in the global economy, even though they constitute the largest number. Tier four is a multi-trillion dollar market. According to the World Bank's projections, the population at the bottom of the pyramid could swell to more than 6 billion people over the coming 40 years due to the bulk of the world's population growth.

The opportunities hidden under the bottom the pyramid is huge. The tier four markets are open for the technological innovation. The only challenge is to recognise and accept the uniqueness of these markets and develop strategies so they there needs are accomplished. In the bottom of the pyramid many companies are coming forward with their own strategies and modals for serving these segment peoples. India in particular, two-third of the billion plus people represents rural population, which can be illustrated as follows

- 45% of the soft drinks are sold in rural market.
- 50% of all motorcycles are sold in rural areas.
- 60% of all cigarettes are consumed by rural consumers.
- 55% of FMCG products are sold in rural market (pen, pencil, notebook)
- 50% of the national income is raised from rural areas.
- 41 million-cum-debit cards have been issued as against 22 million credit-cum-debit cards in urban areas.
- 50% of LIC policies are sold to rural consumers and, interestingly, 60% Rediffmail users are from smaller towns.

Only few marketers ignore these poor class people without knowing their potential of buying power. For these poor people, buying luxury product such as house or installing running water is a luxury. But it doesn't mean that they are unable to buy anything. They are capable of buying more comfort items like TV, gas stoves, domestic electrical appliances.

Traditional business in the developed nations mostly based on high gross margins. The low buying power of the bottom of the pyramid consumers makes this approach appropriate. The companies need to develop an effective and efficient management to optimise to supply chain. The cost saving management can become a key to performance and success in these huge low-cost markets.

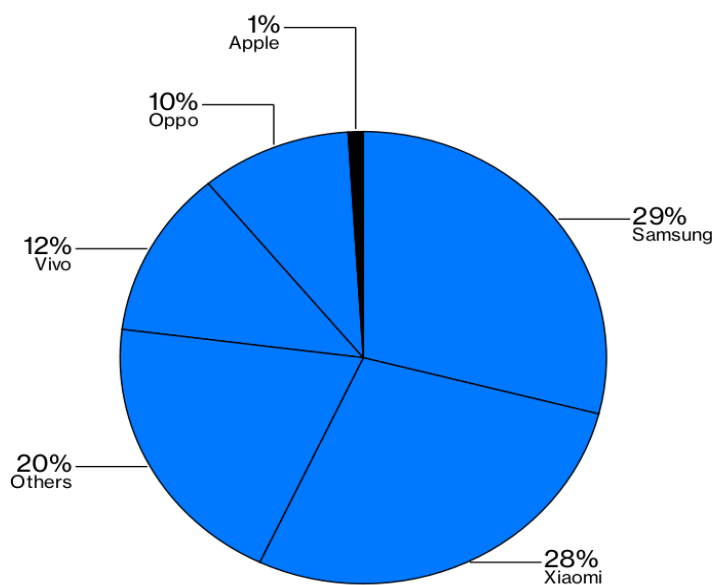
In India, the customers from the bottom of the pyramid go for low-price sachets of shampoo, fairness creams, toothpastes and hair oil. Much of what Unilever is replicating in the developed world has been initiated in India. HUL also sells brands like close-up, pepsodents, sunsilk, pond's, vasline etc so that they can increase product penetration at the bottom of the pyramid. A relatively small player, CavinKare from south India, is credited and has a huge role to play in ushering the sachet revolution as a strategy for low-end buyers. There are other companies like Parle, PepsiCo and Dabur started selling products in smaller packs and hence proving the saying "big things come in small packages". These smaller stock keeping units contribute to over 40% of

sales in the fast moving customer goods category. Thus, MNCs in India are credited for the frugal innovation low cost products and services.

APPLE (case study)

As mentioned above in India the people always look for the phone which is in their budget. As an underdeveloped nation or developing nation, the people are unable to have high budgeted phones. For instance, Apple is one of the top five mobile companies in the world, but the share of Apple Company in Indian market is comparatively low. On the other side other companies including oppo, vivo, Samsung, xiaomi acquires a huge share in the market. The main reason Apple lost the share in Indian market is the price. While other companies provide the same product specifications with the budgeted amount.

Smartphone Market Share in India
2Q 2018



Data: Counterpoint Research

From the above instance it is clearly evident that the fortune at the bottom of the pyramid is actually tapped by the various companies. They produce product which are capable of attracting the Indian customers.

Major Features and key challenges at the Bottom of the Pyramid Market

The major speciality of the BoP market is the fact that the targeted population have almost little money available. So it is difficult to speak of only one market at the Bottom of the Pyramid. The definition of the poverty is not obvious. Some areas are in strict survival, when others manage to have a little rest for living once that the core expenses have been covered. The poor people are not homogeneous in their income, in their culture or in their languages and they cannot be considered as a single market.

The poor people in the developing nations are majority present in the rural areas. There is no bigger unified market at the bottom of the pyramid but rather a multitude of micro local markets and this includes a wide geographical dispersion, which poses a problem of access and distribution. Lack of infrastructure is another hinder faced by the major companies, which are not accustomed to address these issues. All this, raises the question of strategies and business models from one county to another.

The major problem is that the multinationals usually think in terms of costs, but their traditional models cannot operate at the bottom of the pyramid because of the lack of infrastructure and disparity. Another important factor in the BoP market is the wide spread of informal economy. The weight of this economy was estimated between 40% & 60% of the total economic activity in developing countries. As we all know that the poor

depend completely from the informal economy to find products and employment. The problem is for the multinational companies who want to reach this population because they can only operate within the legal framework based on contracts. This is one of the key reasons why companies often create partnerships with local businesses and organisations.

Conclusion

India is one of the countries that move ahead towards development. The implementation of LPG Policy accelerated towards achieving this goal by foreign investments and many other ways. As India is a underdeveloped country, the people have no enough money to purchase high priced products and services. The companies provide the people with low cost products maintaining a good quality. Majority of the people are belonging to the lowest tire of the pyramid. So a company can earn a great amount of profit by providing good quality products with reasonable price to the tire three and four population. This can be achieved with the help of technical advancements, government policies and other facilities.

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