

The Distribution of Income and the Marketing in the Bottom of the Pyramid

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Abstract The world's distribution of income, was been an ongoing concern for economists and scholars worldwide. Global income inequalities have also increased. Income inequalities exist for many reasons. Nowadays exist the big gap between the rich and the poor people. What is the definition of poverty? How many people in the world live in poverty? How poverty rates have changed over the last few decades? What is the situation of the poverty in Albania? Because of the global crises the number of the people that live with less than 2\$ in days is growing faster than before. The population that are living with the less than 2 \$ in day are identify as the bottom of the pyramid. The company cannot ignore the segment of the people that live with the less than 2 \$ in day. This segment is becoming to be day by day bigger and to grow fast. For many international companies is important to adapt their strategies and their products to that segment. There are many businesses that do not truly understand the concept of the bottom of the pyramid. Though this market is mistakenly overlooked by many companies, the BOP segment is one that holds great potential for expansion and profits. How companies can be successful in the bottom of the pyramid? The purpose of this paper is to review the existing literature on the BOP and put forth a set of principles that distinguish the BOP perspective from other poverty alleviation approaches.

Key words: distribution of income, poverty, BOP, marketing

1. Introduction

In marketing, it is very difficult for a single organization to satisfy the needs of all consumers, and hence the organization has to resort to market segmentation. Through market segmentation, the organization fulfills the needs of all consumers belonging to a particular niche instead of trying to fulfill the needs of the entire market which is virtually impossible. Market segmentation is basically the division of market into smaller segments in order to make marketing easier and avoid wastage of resources. The market is divided using one of the four segmentation strategies: geographic segmentation, demographic segmentation, psychographic segmentation and product-related segmentation (Boone and Kurtz 2004). Market segmentation will help companies to identify their consumers and access them easily. It will basically help companies to tap the given resources, to satisfy the needs of a particular section of the market they cater to. The marketing segmentation term is referring to the aggregating of prospective buyers into groups (segments) that have common needs and will respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another. Generally three criteria can be used to identify different market segments (Boone and Kurtz 2004):

- 1) Homogeneity (common needs within segment)
- 2) Distinction (unique from other groups)
- 3) Reaction (similar response to market)

Market segmentation, correctly applied, is about understanding the needs of customers and, therefore, how they decide between one offer and another. This insight is used to form groups of customers who share the same or very similar value criteria. A company is then able to determine which groups of customers it is best suited to serve and which product and service offers will both meet the needs of its selected segments and outperform the competition. The primary objective of segmentation, therefore, must be how to win and retain the customers you want to serve.

The purpose of this paper is to explain importance of market segmentation using incomes as criteria for segmentation. Through literature review we will show the factors that influence the inequality in the distribution of income. In the end of this paper we will explain why the segment of population with the 2\$ in day income is one segment that need to be in consideration from companies. The global crises have many consequences, but what is visible for all is that the segment considered as BOP, is becoming to be bigger than years ago. The population of the countries that are ranged as poor that means the percentage of poor population in the word is the highest is growing faster. In front of everyone is the question: This poor population segment need to be ignored? Is one segment that can be profitable for the companies that

will choose to offer the products and services in this segment? We will try to give the answer of this question and to give also the strategies that companies need to use in the BOP.

2. Demographic Segmentation

Demographic segmentation is basically market segmentation executed by taking various demographic factors, such as age, gender, social class, income etc., into consideration. This approach is also sometimes called socioeconomic segmentation (Boone and Kurtz 2004). This helps the organization to divide the market into several groups, each having a common variable, and target each of these groups to enhance the performance of the organization. The word demographic is derived from the word demography, meaning study of population. This market segmentation strategy aims at understanding the prospective market, and taking necessary steps to ensure that the consumer needs of a targeted group is fulfilled.

One of the most popular method of market segmentation, demographic segmentation has some benefits which make it the first choice in the marketing strategies of various organizations. These advantages of demographic segmentation are:

- The organization can easily categorize the wants of the consumers on the basis of demographic factors such as age, gender etc.
- Demographic segmentation variables are much easier to obtain and measure compared to the variables of other segmentation strategies.

Demographic segmentation helps the organization in understanding the customers and satisfying their needs. In a market driven by intense competition, market segmentation analysis can be of great help indeed. This segmentation is basically based on the simple fact that you can't please all consumers with a single product you will have to identify the potential market, divide it into various segments and cater to the needs of each segment in order to become a successful business entity.

2.1. Income

Income is one popular basis for demographic segmentation. Many companies target affluent consumers with luxury good and convenience services. By contrast, many companies focus on marketing products that appeal directly to consumers with relatively low incomes.

Although it is widely agreed that poverty is a state of being with many more dimensions than strictly the income dimension (which classical literature emphasizes the most), it is difficult to measure the non-income aspects of poverty. Therefore, the most widely used measurement of poverty is income-poverty. Income poverty is defined as the lack of sufficient income to meet minimum consumption needs. This minimum level of income is usually called the "poverty line". Every country has a National Poverty Line, which is derived by the Purchasing Power Parity (PPP).

Absolute poverty lines are anchored in some absolute standard of what households should be able to count on in order to meet their basic needs. From the report of World Bank the absolute poverty line in Albania is set at 4891 Albanian Lek/month (about 47USD).

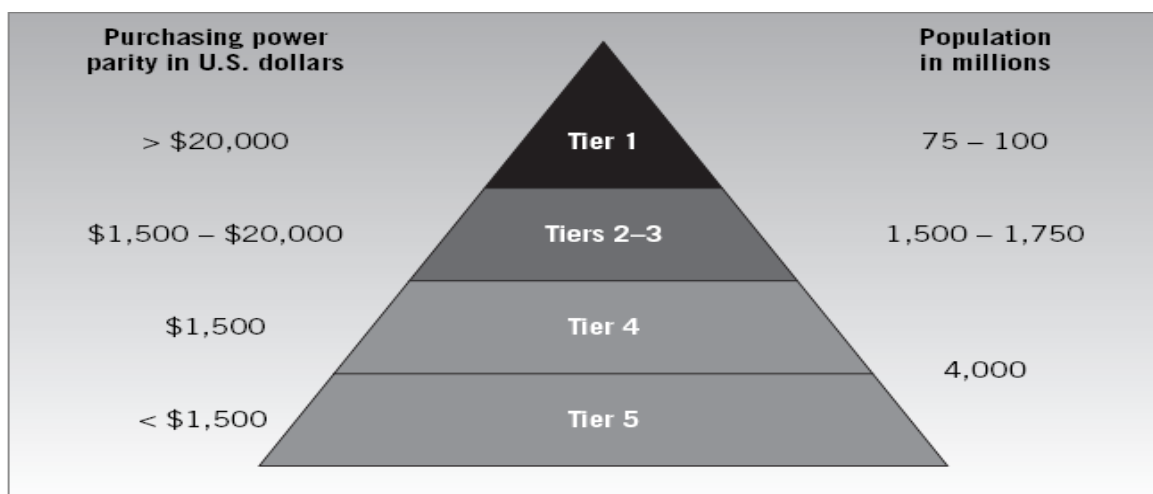


Fig.1 The World Income Pyramid, Source: Prahalad and Hammond (2002)

This figure shows that potential customers whose annual purchasing power parity is less than US\$1500 per year amount to 4 billion people (estimated to be 6 billion by 2045). This group at the bottom of the pyramid (BOP), accounts for 65% of the world's population and it is amongst this group that future growth prospects are greatest. The aggregate purchasing power in 9 developing countries where most of the BOP exists (3 billion people, representing 70% of the developing world population) : China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa, and Thailand –in terms of Purchasing Power Parity, they represent a GDP of \$12.5 trillion. This is not a market to be ignored.

According to C.K. Prahalad, "If we stop thinking of the poor as victims or as a burden and start to recognize them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up". There are huge potential profits to be made from serving approximately 4 billion people as economic opportunity he values globally at \$13 trillion a year. There are many businesses that do not truly understand the concept of the bottom of the pyramid. Though this market is mistakenly overlooked by many companies, the BOP segment is one that holds great potential for expansion and profits. This group of approximately 4 billion people makes up nearly three-fourths of the world's population and has a combined purchasing power of about \$14 trillion (Cateora 2007). Prahalad (2004) in his book "The Fortune at the Bottom of the Pyramid" (BOP), cites cases of multinational firms such as Hindustan Lever Limited, who have been successful in tapping this group by totally revamping one or more elements of the marketing mix. London and Hart (2004) observe that tapping the BOP usually involves a new product, targeted at a new set of customers and distributed via an innovative distribution channel.

Businesses can make profits in BOP markets and help the poor in satisfying their unmet or under-served needs (Prahalad & Hart, 2002; Prahalad, 2004). Over the past several years, the design and development of products and services (i.e. interventions) for the BOP has been investigated by several authors from different disciplines (Prahalad, 2004; Whitney & Kelkar, 2004; Kandachar & Halme, 2008; UNDP, 2008; Jagtap & Kandachar, 2009a; Eaton et al., 2009; London et al., 2009; Viswanathan et al., 2009; Rivera-Santos & Rufin, 2009).

Global poverty is seen as both an unacceptable outcome of the current economic system and a threat to commerce and security in the wealthier nations. Indeed, globalization benefits have been lopsided; there have been clear winners and losers (Soros, 2002). The gap between the rich and poor continues to grow, sowing the seeds of discontent and frustration in both the developed and the developing world (Hammond, 1998; Stiglitz, 2002).

3. Factors contributing to income inequality

For many reasons the persons have the different incomes and the factors that contribute to income inequality are:

Innate abilities and attributes. Individuals are not all born with the same innate abilities and attributes. People vary in the degree of intelligence, good looks, and creativity they possess. Some individuals have more marketable innate abilities and attributes than others; for example, the man or woman born with exceptionally good looks, or the person who is musically gifted or mathematically adept is more likely to earn a higher income than someone with lesser abilities or attributes.

Work or leisure. There is a tradeoff between work and leisure: More work means less leisure, less work means more leisure. Some individuals choose to work more hours or to have one second job and thus have less leisure. This choice will be reflected in their labor income. They will earn a larger income than those persons who choose not to work more, *ceteris paribus*.

Education and other training. Economists usually refer to schooling and other types of training as an "investment in human capital". In order to buy a capital good, or invest in one, a person has to give up present consumption. A person does so in the hope that the capital good, will increase his or her future consumption. In general, human capital refers to education, the development of skills, and anything else that is particular to the individual and increases his or her productivity. Contrast a person who has obtained an education with a person who has not. The educated person is likely to have certain skills, abilities, and knowledge that the uneducated person lacks. Most college students know this: it is part of the reason they are college students.

Risk taking. Individuals have different attitudes toward risk. Some individuals are more willing to take on risk than others are. Some of the individuals who are willing to take on risk will do well and rise to the top of the income distribution, and some fall to the bottom. Those individuals who prefer to play it safe aren't as likely to reach the top of the income distribution or to hit the bottom.

Luck. When individuals can't explain why something has happened to them, they often say it was the result of good or bad luck. At times, the good or bad luck explanation makes sense; at other times, it is more a rationalization than an explanation. Good or bad luck may influence incomes but it is not likely to have a large or long-run effect on incomes. The person who experiences good luck today, and whose income reflects this fact, isn't likely to experience luck-boosting

income increases time after time. In the long run, such factors as innate ability and attributes, education, and personal decision (how much work, how much leisure?) are more likely to have a larger, more sustained effect on income than good and bad luck.

Wage discrimination. Wage discrimination exists when individuals of equal ability and productivity, as measured by their marginal revenue products, are paid different wage rates by the same employer. Many cases of wage discrimination exist between man and women, black and white person etc.

4. Why BOP is effective market?

As we know segmentation doesn't automatically guarantee success in the marketing arena but it is a tool for marketers to use. Effectiveness of market segmentation depends:

- The market segment must present measurable purchasing power and size
- Marketers must find way to promote effectively and to serve the market segment
- Marketers must identify segments large enough for profit potential
- The company can target a number of segments that match its marketing capabilities and the people inside of that segment have the same wants, desires or have the same consumer behavior.

For the analogy as Prahalad mentioned (Prahalad 2006), BOP is effective market because:

- There is money in the BOP, this means that many time the poor people pay much more money for the products or the services compared with the rich people. The poor also spend their earnings in ways that reflect a different set of priorities. For example, they might not spend disposable income on sanitation, clean running water, and better homes, but will spend it on items traditionally considered luxuries. Without legal title to land, these residents are unlikely to invest in improving their living quarters, much less the public facilities surrounding their homes

- Worldwide, the cost of reach per consumer can vary significantly across countries.

Access to distribution in rural markets continues to be problematic but a wide variety of experiments are underway in these markets to find efficient methods of distributing goods and services. Most of the rural markets are also inaccessible to audio and television signals and are often designated as "media dark." Therefore, the rural poor are not only denied access to products and services, but also to knowledge about what is available and how to use it. The spread of wireless connectivity among the poor might help reduce this problem. The ability to download movie and audio clips on wireless devices might allow firms to access traditionally "media dark" areas and provide consumers in these locations with newfound access to information about products and services. Telecommunications providers have made it easier for BOP consumers to purchase handsets and service through prepaid cards. The spread of wireless devices, PC kiosks, and personal digital assistants (PDAs) at the BOP has surprised many a manager and researcher

- The BOP market is large market and cannot be ignored. The most important fact is that this market because of global crises is becoming to be more big. The number of people that loose the job or that are living with less than 2\$ in day is more and more. We cannot ignore 4 billion people that are part of BOP market.

- The BOP, as a market, will challenge the dominant logic of MNC managers (the beliefs and values that managers serving the developed markets have been socialized with). For example, the basic economics of the BOP market are based on small unit packages, low margin per unit, high volume, and high return on capital employed. This is different from large unit packs, high margin per unit, high volume, and reasonable return on capital employed. This shift in business economics is the first surprise to most managers.

5. 4 Ps of Marketing in the BoP

We are using the well-known 4 Ps of marketing as an analytical tool.(Heierli; Polak 2000)

Product: what is the product or service exactly?

We must learn that people, and especially poor people, have aspirations and feelings which we should take seriously. When the director of a samba school in Rio de Janeiro was asked: "why do (poor) people spend so much money on these costumes for the Carnival? " he replied : " you know, you rich people may adore poverty, but we poor people, we love luxury ! ".

Price: how much does it cost?

Pricing is an art and needs a lot of intuition. The price can be too high = no sales; The price can be too low = no profit.

For the poor, products are extremely price elastic this means relatively low price increase can have a considerable impact on the reduction of sales. This sensitivity to prices means that quality (connected to higher prices) is not a universal criteria for purchase by the poor.

With respect to the market of the poor, another intricacy is the "**entry-price**" which needs to be low. For poor people, cash is such a precious good that they often buy in very small quantities, although they pay more in the long run. The art of marketing to the poor is to pack the goods in very small units: a rural retail shop will sell cigarettes by the piece, shampoo by the "sachet" and beer by the glass.

Place: where can I buy it?

Even professional marketers sometimes ask themselves why intermediaries are needed. An intermediary is a cost factor and needs a profit margin or a commission. However, sales through a local dealer or representative are often more effective and even more cost-effective than direct sales. Distributors and dealers are closer to the clients than the manufacturer, and their marketing costs may be lower. A strong supply channel is one of the best assets, a company can have, and investing in the loyalty of dealers is a very crucial task of marketing. Additionally, many people involved in development co-operation have an ideological problem with intermediaries, since many initiatives are targeting middlemen as potential sources of exploitation. The role of dealers and agents needs to be revised, especially under the criteria of effectiveness and justice. A good supply channel needs profit margins to sustain itself and be effective. Quite often, a dealer provides additional services to the customer such as after sales service, stocking of spare parts, etc. Sometimes, dealers also provide credit to their customers because they know the people in the village.

Promotion: how do I make the product known?

Promotion is more than advertising, it implies a two-way communication with the customers. Mass media play an important role in promotion. Rural customers, especially, need to see what they want to buy. They never buy anything which they have not seen in operation, or – even better – which their neighbour has not yet already bought. They want to touch it, feel it, try it. For this reason, demonstrations represent the most important tool for promotion.

Early adopters belong to the village elite and the poor are late followers, since they want to avoid all risks. Often, the poor are late buyers, because they are short of cash and must have more time to collect enough funds. Promotion is very difficult in rural areas: on the one hand, attending farmers may reach ten thousand farmers at the same time, on the other hand, geographical distance and lower population density may make it a costly affair. One issue is how to sustain promotion. Development co-operation can and should support good promotional efforts with mass media, films, posters, etc. It is difficult to sustain it, but promotion that is not continuously repeated fades out. Another intricacy is the difficulty to include promotional costs in the price of investment goods; it seems easier to promote consumer goods. To add a few cents for promotion on each bottle or each sachet is less visible than adding a hefty amount to the cost of an investment good. If the price of an investment good were to become much higher than its cost, the incentive to copy would be increased. Moreover, the nature of investment goods does not allow for repeat sales.

In order to finance promotion on a sustainable basis, development co-operation should seek links to the corporate sector and tie up the products to their supply channel. These companies may have a long-term interest in promotion if they can sell preferably small amounts on a regular basis to new customers (like cement companies with roofing tiles, agro-input companies with micro-irrigation, etc).

6. The strategies in the BOP

Throughout the world, there are fundamentally two ways that people can escape from poverty. One is by earning their way out of poverty. The other is by receiving socially-provided goods and services that lift them out of poverty. Even with multilateral and bilateral assistance, low-income countries are too poor to be able to make a significant dent in poverty by the social services route alone. This means that creating more and better earning opportunities for the poor is the only other option available.

World Bank and the United Nations have recognized that the poor must be participants in the design of a more inclusive process of economic development. The World Bank has emphasized the importance of making markets work for the poor and the need for those in poverty to actively contribute in this process (Narayan, Patel, Schafft, Rademacher, & Koch-Schulte, 2000; The World Bank, 2001). Similarly, a high-power commission convened by the United Nations recognized that top-down, grant-based poverty alleviation approaches were not sufficient. The Commission on the Private Sector and Development (2004) recommended that future development programs should place greater emphasis on market-based approaches, particularly those that incorporate multiple viewpoints in their design.

In addition to growing pressure on the aid industry to explore new approaches, a second trend is also leading to a greater focus on the role of markets in addressing poverty. The poor are not well served by the private sector; they are often

ignored and lack access to many goods and services. Furthermore, even when their needs are met, they tend to pay more for the same products than the rich. This applies both to the poor in developed countries (Fellowes, 2006) and in the developing world, where the poor may pay ten to fifty times more for water, medicine or credit than their geographically-proximate wealthier counterparts (Prahalad & Hammond, 2002).

These market failures, however, are also potential business opportunities. Indeed, this is a core assumption in the BOP perspective. Private sector and non-profit initiatives, though, may approach these market opportunities in different ways.

In the Article Innovation Sandbox, C K Prahalad (2006) says the process for designing breakthrough innovations starts with the identification of the following four conditions — all of which are difficult to realize, even when taken one at a time:

1. The innovation must achieve a significant price reduction — at least 90 percent off the cost of a comparable product or service in the West.
2. The innovation must be scalable: It must be able to be produced, marketed, and used in many locales and circumstances.
3. The innovation must be affordable at the bottom of the economic pyramid, reaching people with the lowest levels of income in any given society.
4. The innovation must result in a product or service of world-class quality.

It appears necessary for managers wishing to do business in BOP markets to develop separate marketing strategies for these markets. To successfully access such markets will require approaches tailored to such markets rather than a global approach because the BOP markets have not had the exposure to 'western' influences as they do not have the same media exposure as the upper and middle income groups in developing countries. Appeals to those at the BOP will need to be tailored to their cultural differences and take into account local conditions. Offerings to the BOP segment will require a deep understanding of the local environment and involve a 'bottom-up' approach resulting from identifying, leveraging and shoring up the existing social infrastructure. Strategies need to be culturally sensitive and relationship based. They might include:

- Creation of a unique business model tailored to the local market that is both culturally sensitive and economically feasible;
- Identification of the real needs of the consumer and product adaptation to meet these needs in a way that creates opportunity for local participation;
- Development of tactics to overcome the infrastructure problems faced by BOP consumers;
- Detailed research into the BOP market, its needs and characteristics;
- Collaboration with non-traditional partners in the market so as to gain expert knowledge of the existing social infrastructure, and conscious and publicised plan to develop local talent.

7. Conclusions

Poverty and inequality of income are the most important problems in an economy and these problems should be overcome for economic stability. Poverty is lack of income which holds out to encounter basic physical needs such as food, drinks, clothing, sheltering which are necessary for continuation of human being. That is, people are under a life standart that can be accepted as normal. Distribution of income, is a shape of distribution of national income among people, social groups and production factors. The more the percentage of household places in low income groups, the inequal it is, distribution of income in that society.

The businesses and their representatives are directly responsible for the patterns of purchases (in the long run) of each of their customers. How they (the customers) will react within certain situations is largely due to the education and supplying the customer with enough data and tools to proficiently inform them of what is to be completed and within what context and timeframe. Understanding the customer and their reactions to the environment will prolong the life of the relationship between businesses and their customers.

The Bottom of pyramid market is a huge opportunity waiting to be tapped. The challenge is to identify and accept the uniqueness of these markets and develop strategies to suit their needs. Understanding these local markets and developing local insights is of utmost importance for succeeding in these markets.

These consumers should be pushed higher up the value chain by a process of co-creation which would benefit both the company as well as the BOP community. One ultimately comes to the conclusion that any sound strategy should be devised only in tune with the "aspirations of the consumer".

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