



The Bottom of the Pyramid Buys Too¹ *Ignored, Until Now*

**Ipsos Hong Kong
Thought Piece
2013**

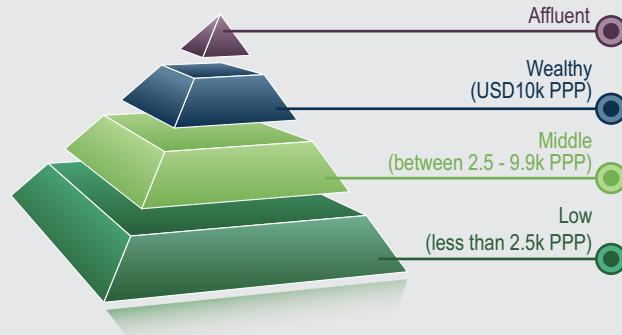
The rural poor will command US\$1.3 trillion in purchasing power by 2020 and constitutes one of the fastest growing segments in the market. Important needs including hygiene, sanitation and food represent a strong and growing market. Combined, the purchasing power of the bottom two classes is expected to increase by almost US\$1 trillion by 2020, roughly equivalent to the increase anticipated from the top two classes².

As C.K. Prahalad, the Paul and Ruth McCracken Distinguished University Professor of Corporate Strategy at the Stephen M. Ross School of Business in the University of Michigan, noted in his jointly authored book **The Fortune at the Bottom of the Pyramid**³ - although individual wallets may be slim, the sheer volume of consumers with tangible needs does represent growth potential. Traditionally ignored, these consumers offer enterprising organizations an effective way to expand market share and extend offerings, provided they can effectively message and

deliver to these consumers without negatively impacting their brand value.

Facing saturation and cutthroat competition in long-established markets, many multinational companies are seeking new markets, turning their attention to the estimated 5 billion low-income consumers. While low-income is commonly thought to be the very bottom tier, more than half of these individuals actually earn between

USD2500 and USD10,000. Such medium low income consumers are expected to grow demographically as people march up the income ladder.



The top two tiers represent less than 25% of the world's population, while the bottom two tiers represent over **75%** of the world's population⁴.

PPP = purchasing power parity
Source: World Resources Institute (World Bank)



HOW TO PROFITABLY MARKET TO THE MEDIUM LOW INCOME

Ipsos Hong Kong Media Atlas provides more detail on who the people are, at the bottom of the pyramid:

- By nature they're more risk adverse than higher income groups (only 12% are willing to take risks in the lowest quintile income group, compared to 27% for the richest quintile).
- Strong believers in money as being the most important yardstick for success measurement (32% in the lowest quintile compared to 25% in the highest quintile).

As Clare Lui, Executive Director Media CT Ipsos Hong Kong notes, "Media Atlas data shows that the medium poor are, as expected, lagging behind general population on technology adoption, however they enjoy the fun of shopping and embrace sports... just like everyone else (33% across income groups among Hong Kong general population). In terms of reaching them,

radio is not a bad choice as they're the biggest consumption group. However, TV is still king."

These medium low-income consumers are brand conscious; people with limited savings need good, reliable quality at a fair price. Well-known multinational brands are favored over domestic brands by 70 percent. These customers might not be able to afford a standard-sizes of shampoo or laundry detergent, but they do see the high price of such products as an

These medium low-income consumers are brand conscious; people with limited savings need good, reliable quality at a fair price.

indication of value. Given the right-sized (and priced) package size, they choose global brands when they can.

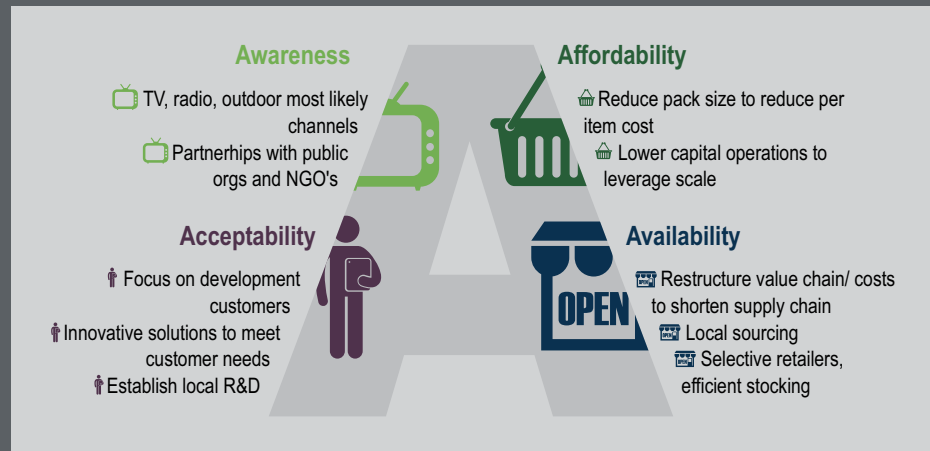
“Living on an extremely tight budget, our data shows this segment focus on stability and security albeit with a cautiously defiant opportunistic mindset. So, what are the implications for marketers? Products that fulfill the basic needs of life that focus on product utility and durability will succeed; as long as price is realistic since this is the most important factor when

purchasing for this group. Given their lower trust towards media, emotional attachments in advertising may not be as effective in communicating,” notes Craig Harvey, Insight Director, Universal McCann Hong Kong.

Nestle’s global strategy of understanding the consumer, providing nutrition and great taste without compromising quality or safety as well as providing good value spearheads their success in reaching out to the medium low income segment. Lower

income segment sales represent over 30% of all Nestle sales in Indonesia through a successful focus on addressing micronutrient deficiencies of iron and Vitamin A. The products are manufactured locally which also assists over 30,000 milk farmers who supply the factory with milk⁵.

A.T. Kearney provides a model for how to most efficiently address low-income consumers⁶.



Ensuring availability of products and services remains one of the key challenges in serving this market. Unlike for other segments, distribution channels for the medium low income tend to be fragmented or non-existent. After their launch of the world's first 100k rupee car, Nano, Tata tackles affordable drinking water. Swach from Tata delivers eco-friendly potable water supply system in a package of: strong product design, strictly consistent retail price and modules for flexibility in construction and usage. For distribution, Tata plugged into existing channels of mom & pop stores. Priced at half of its closest competitor (Unilever), it's set to see significant growth⁷.

When marketing to the base of the pyramid, successful companies have focused on the positive: aspirations versus price, quality of life versus avoiding hardships, social acceptability rather than product features. P&G says it has clearly seen the benefits of a positive approach with other products and programs. For example, the

company says that in the Philippines it developed a successful clean-hands campaign with Safeguard soap that combined a message about bacteria with upbeat commercials of healthy, happy children washing their hands and playing⁸.

So while the base of the pyramid may not be the easiest to reach or homogenous segment, they do still represent a significant opportunity for future growth. As organizations start to involve their customers more



in gaining deeper implementable insights, more products and services can be developed which meet the needs of the medium low income consumer.

REFERENCE

¹ http://en.wikipedia.org/wiki/Bottom_of_the_pyramid

² <http://www-304.ibm.com/easyaccess/fileservlet?contentid=231199>

³ <http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf>

⁴ http://pdf.wri.org/n4b_full_text_lowrez.pdf

⁵ http://www.wphna.org/downloadsdec2012/2011_Nestle_PPPs.pdf

⁶ <https://www.atkearney.com/documents/10192/343423c1-7053-45e8-8ab2-0d4b9cedb7a2>

⁷ http://www.core77.com/blog/business/emerging_markets_as_a_source_of_disruptive_innovation_5_case_studies_15843.asp

⁸ <http://online.wsj.com/article/SB10001424052970203946904574301802684947732.html>



Darlene Lee
Managing Director
Ipsos Hong Kong

darlene.lee
@ipsos.com

About Ipsos:

Ipsos is an independent market research company controlled and managed by research professionals. Founded in France in 1975, Ipsos has grown into a worldwide research group with a strong presence in all key markets. In October 2011 Ipsos completed the acquisition of Synovate. The combination forms the world's third largest market research company. With offices in 84 countries, Ipsos delivers insightful expertise across six research specializations: advertising, customer loyalty, marketing, media, public affairs research, and survey management.

website: www.ipsoshk.com

商界展關懷
caring **company** 2012
Awarded by The Hong Kong Council of Social Service
香港社會服務發展局頒發

