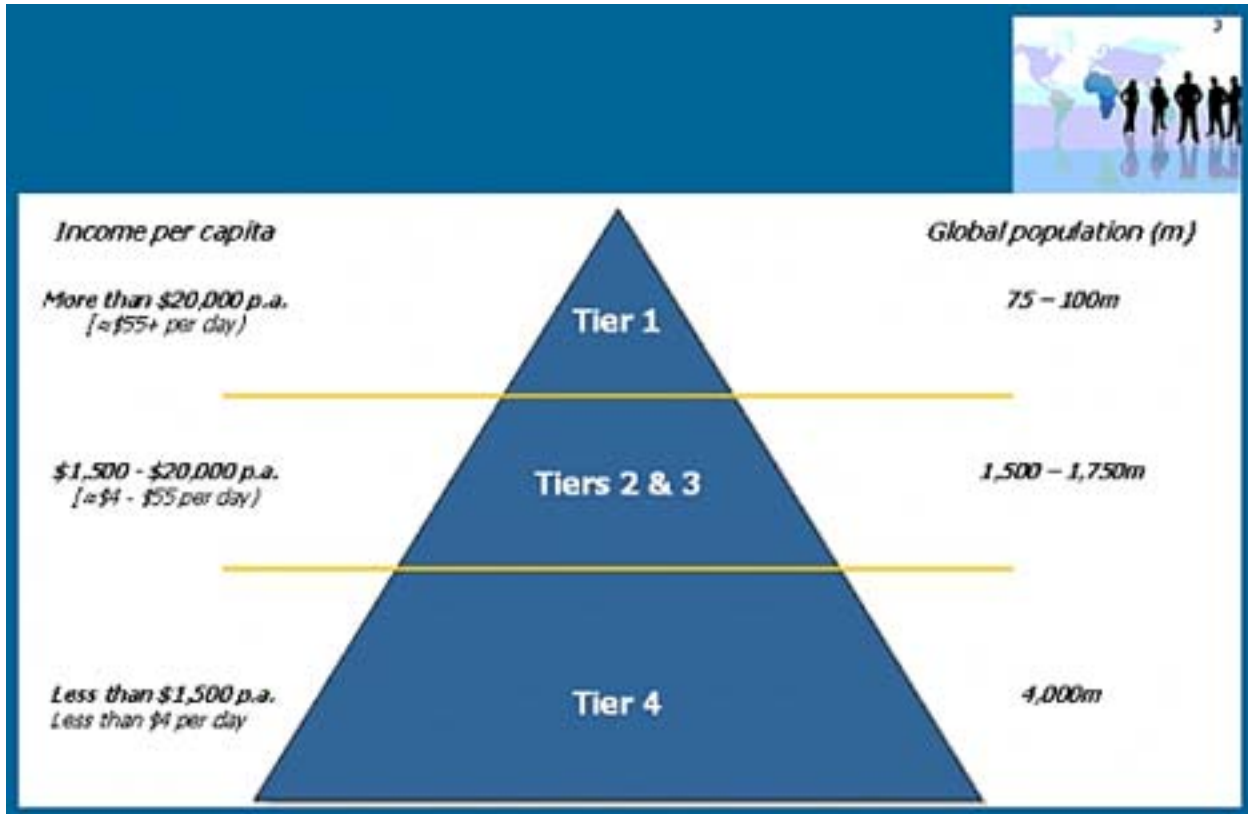


# Bottom of the Pyramid



## Marketing Ethics

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# Bottom of the Pyramid Marketing

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## Ethical issues and solutions

I think that **not** marketing to the bottom of the pyramid (BOP) raises ethical issues. I believe that it would be unethical to deny products and services to people at the BOP just because the profit margins in this segment would be much slimmer than margins of products and services targeted to the middle class or to the top of the pyramid. That being said, I believe ethical issues can arise at the BOP depending on the strategy employed in the marketing efforts.

To be judged ethical, any marketing effort must be aimed at serving the needs of the BOP segment in a way that is beneficial to them. The strategy of Hindustan Lever in India illustrates this principle. Hindustan Lever altered its products and distribution methods to meet the needs of its target audience. Hindustan Lever decentralized production, marketing and distribution. While this took advantage of India's abundant and inexpensive labor pool, it also provided jobs. Products were packaged in smaller sizes, and prices were reduced. Lower profit margins were offset by higher volumes.<sup>1</sup>

Other examples include Bristol-Meyers Squibb selling AIDS medications in Africa for below market prices; companies developing new food products to help combat malnutrition in developing countries; and Shell Solar developing a way to bring affordable solar power to poor areas.<sup>2</sup>

These companies develop products and services for the BOP market that will deliver better nutrition, better hygiene, availability to clean drinking water, availability to cheap energy, etc. However, development and distribution is not enough. It is important for these companies to explain to the consumers how to get the most benefit from the products that they are purchasing. Ethically these companies have a responsibility to this segment to ensure that they get the most benefit from their extremely limited resources.

The examples above depict an ethical strategy to marketing to the BOP. The products and services being provided improve the lives of the target audience. The companies are not involved in price gouging and are accepting lower profit margins. Let us not delude ourselves here. The BOP does represent a huge market (almost 2/3 of the world's population). Small profit margins with huge unit sales still produce a lot of profit; therefore, companies are also positioning themselves to have a foothold in the market. As these markets develop, more people move up to the middle class where profit margins are greater. This can be considered a symbiotic relationship. Both the company and the consumer are benefiting from the relationship.

Ethical issues arise when the products or services offered are marketed in a way that preys on people's fears or prejudices. Fair and Lovely skin whitening cream is a prime example of this. It is targeted at females, and the advertising relays the message that lightening your skin will improve your life. This may be an existing prejudice in some parts of the world; however, I feel that it is unethical for any company to use this type of prejudice, at any level of the pyramid, to make a profit. The question must be asked, will feeding this prejudice truly improve the lives of people at the BOP? I think not.

### Notes:

1. Hasegawa, Harukiyo, and Carlos Norohna. *Asian Business & Management*. London: Palgrave Macmillan, 2009. 49-50. Print.
2. *ibid*

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Other types of products would also raise ethical issues. An extreme example would be an Xbox. Even if the game were extremely cheap, I believe it would raise ethical issues to sell this type of product to this segment. How would this product improve the life of someone at the BOP? In fact, it could be argued that quality of life would be lowered by the availability of this product. While it may provide some entertainment value, prolonged sitting without physical activity is not good for anyone. People have entertained themselves for millennia without video games. People at the BOP do not need to spend money on this type of product.

Local governments are involved with helping companies achieve low prices for the BOP market. This help can come in the form of favorable tariffs, reduced tax rates or quicker regulatory approvals.<sup>3</sup> Therefore, local governments can have a huge effect on the types of products that are offered to the BOP. This can be accomplished by granting or withholding favorable treatment. If companies cannot police themselves, then it is up to the local governments to set the proper policies. Unfortunately, not all local governments have the best interests of their citizens in mind when setting policy. However, that ethical dilemma is beyond the scope of this paper.

To summarize, selling to the BOP can be a very ethical business practice. Ethical issues arise when companies push products on this segment that do not improve their lives, or prey on their fears and prejudices. Companies need to provide products that improve living conditions and ensure that the target consumers fully understand how to get the most benefit from their very limited resources. Finally, governments need to align their policies to ensure that favorable treatment is given only to companies and products that will truly benefit the poorest of the poor.

## **The pros and cons in social and economic terms of the activities and strategies of companies attempting to develop BOP markets.**

There are a number of benefits of the activities and strategies of companies doing business at the BOP. In the case of Hindustan Lever, people were employed due to decentralized production, marketing and distribution. As the model developed by Hindustan Lever was replicated by Unilever and Proctor & Gamble in Southeast Asia in the 1990s, it fulfilled both social and economic goals.<sup>4</sup>

One of the key objectives for the UN is to empower women in the developing world. Distribution of the products for the BOP markets in Southeast Asia was carried out by tens of thousands of women who were trained for this task by these companies. This resulted in extra income for these women and their families. It encouraged an entrepreneurial spirit in these women. They developed managerial skills that could be disseminated to others. By being successful “business leaders”, they have the opportunity to begin to change some of the preconceived notions that their societies may have about women.<sup>5</sup>

### Notes:

3. ibid
4. ibid
5. ibid

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As these women become “empowered”, it brings social and economic benefit to their communities. The increased spending power of these women and their families will boost the local economy. The success that these women enjoy should also help to break down some of the social and work barriers that women face in these markets.<sup>6</sup> I believe that it is safe to say that the social change will be slower than the economic change. However, I also believe that the economic status that these women achieve can be the spark that starts the social change.

The positive effects are not limited to women or multi-national firms. Grameen Bank was started in Bangladesh to offer mini-loans to entrepreneurs who would not qualify for a traditional collateral backed loan. As of 2007, over seven million people have received loans with a very high level of repayment.<sup>7</sup> The availability of these loans has created economic activity in one of the poorest countries on earth.

Another innovation with positive effects for the BOP market is PlayPumps. Water pumps are operated by the energy generated by children playing on a merry-go-round. Advertising is sold on the storage tanks to cover maintenance.<sup>8</sup>

The biggest negative in the strategies of companies developing the BOP markets is the effect it will have on existing local businesses. Multinational firms will be much more efficient than local companies, and thus, they will be able to provide superior products at lower prices. This will cause displacement and loss of jobs for people in these markets that are employed by the local firms. The question becomes, does the gain outweigh the pain?

More times than not, I believe that answer will be yes. Labor intensive jobs have left the U.S. for lower cost markets. Overall, the citizens of the U.S. have benefited from increased buying power due to the lower price for these products. The people that lost their jobs saw their buying power decrease sharply until they could find re-employment. Some may never have found another job that paid as well as the job they lost or found another job at all. However, the society as a whole saw a benefit.

Another example is Walmart’s expansion in small towns in the U.S. Many local businesses were displaced when Walmart opened. They could not compete with Walmart’s selection or prices. Family retail stores, which may have been in the family for generations, had to close. The people involved with these businesses suffered when Walmart entered the market. However, the entire market as a whole benefited from availability to products that had never before been in the market. They also experienced an increase in buying power from the lower prices. These benefits did come with another cost. Walmart could never offer the personal service of the local family run business. It is not their business model. However, people all over the country voted with their dollars that the selection and prices Walmart offered were more valuable than the personal service of the family store.

The same types of forces are at work in a BOP market. People in local companies that lose their jobs to more efficient, lower cost competition are not better off unless they can find employment elsewhere; however, the society as a whole will benefit from a larger selection of better products at lower prices. After a period of readjustment, this should lead to an upward spiral in the local economy and more opportunities for all.

## Notes:

6. *ibid*

7. Goldbach, Justin. "Bottom of the Pyramid." *Beyond Gray Pinstripes*. The Aspen Institute, July 2007. Web. 5 Apr. 2010. <http://www.beyondgreypinstripes.org/pdf/BOP.pdf>.

8. *ibid*

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Socially and economically there are many benefits to the development of the BOP market. However, they do come at a cost. There will be economic and social displacement for people who lose their traditional livelihoods to more efficient competition. The displaced will be forced to adapt to a new market reality.

## **Consumerism's impact on society as a whole in the BOP market**

Criticism of any major change is a given. Some will criticize that the change in and of itself is bad, while other will criticize that the change does not go far enough. In the case of BOP marketing, the criticism is that people are being offered products that they don't need. This forces them to divert the limited resources that they have from necessities to non-necessities. The implication here is that since people at the BOP do not have enough resources for the basics of life, any diversion of money is bad. Companies pursuing a BOP strategy may also be viewed as taking advantage of a poor, uneducated population in the quest for greater profits.

Make no mistake about it. Companies pursuing a BOP strategy are looking for extra profits. Many times, profit is equated with "consumerism." This is especially true in the developed world where a significant amount of profit is generated from products that could be considered as non-necessities. However, profit is not a four-letter word. Profits are necessary to keep the business going and to keep people employed. The effects of the recent global recession are proof enough that lack of profits leads to lack of employment.

The important thing to remember is that profit can be obtained without exploiting the target market. The companies discussed here have provided a real and tangible benefit to the markets they are trying to serve. Children have better nourishment which allows them to perform better at school. Sanitary conditions have improved due to the use of soaps and shampoos. Access to solar power has improved living conditions in the small villages of developing countries. If companies could not make profit, these positive effects would not be possible.

As stated before, the key to this discussion is, do the products and services improve the life and living standards for the people at the bottom of the pyramid? If the answer to this question is yes, then the activities of these companies should be encouraged and spread to other BOP markets. If the answer is no, then criticism is warranted.

When marketing to the poorest of the poor, it is incumbent upon companies to ensure that their products and services fulfill a need for these people. Their limited resources cannot be wasted on frivolous products. It is also important for companies to ensure that the people understand the proper use of the product so they can get the most benefit for the money that they spend. If the products are able to achieve these high standards in a market, then it becomes a moral obligation of the company to develop a similar approach for other BOP markets.

Products and service that can improve living conditions for the BOP market should be disseminated throughout the underdeveloped world. It is hard to argue with improving living conditions for the world's most disadvantaged people. Profits will accrue to the companies that follow this strategy. These profits are necessary for the dissemination of the benefits to continue, and for the development of new products and services that can have the same effect.