Strategies for the Bottom of the Pyramid: Creating Sustainable Development

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The Unrealized Opportunity at the Bottom

Purchasing Power Parity in U.S. dollars

Tier 1

$>20,000

Tier 2-3

$1,500-20,000

Tier 4

$<1,500

Population in millions

Tier 1

75-100

Tiers 2-3

1,500-1,750

Tier 4

4,000

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In a Nut Shell

• The Bottom of the Pyramid: A counterintuitive new opportunity for MNCs in the new millenium
• A transformative challenge-- as powerful as the Internet and e-business
• Pursuing the “bottom” forces us to rethink our conventional wisdom about:
  – Technology and business models
  – Scale and profitability
  – Price-performance relationships
  – Productivity and capital efficiency
  – Sustainable development

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Example: Hindustan Lever

• Traditional focus: the top of the pyramid
• A local firm (Nirma) challenged HLL in its detergent business, with a new formulation, process, packaging, distribution and pricing focused on the poor
• As Nirma grew rapidly, HLL realized its vulnerability
• HLL responded with its own offering targeted at the bottom of the pyramid
Sustainable Development

• Soap Formulations
  – lower fat to water ratio
  – indigenous oils
  – novel processing

• Local Company
  – research with local talent
  – local employment and awareness
  – commitment to the bottom
## Results: Detergent Business

<table>
<thead>
<tr>
<th></th>
<th>Nirma</th>
<th>HLL (Wheel)</th>
<th>HLL (High End)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales ($ Million)</td>
<td>150</td>
<td>100</td>
<td>180</td>
</tr>
<tr>
<td>Gross Margin (%)</td>
<td>18</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td>ROCE (%)</td>
<td>121</td>
<td>93</td>
<td>22</td>
</tr>
</tbody>
</table>

- The bottom can be very profitable
- Low margins/high unit sales
- Game is about volume and capital efficiency
- Economic profit vs. Gross margins

Source: John Ripley, Senior Vice President, Unilever plc

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The Upshot

• Today, Nirma is the largest branded detergent maker in the world

• Experience at the bottom of the pyramid has allowed HLL to radically change its business model

• During the past 5 years, HLL has grown:
  – revenues by 20% per year
  – profits by 25% per year
  – market capitalization by 40% per year

• Unilever plc has adopted the bottom of the pyramid as a strategic priority at the corporate level
The Emerging Market: India
Traditional and Emerging Focus

- 5-10 million, Rich
- PPP > $10,000, 50-60 m
- PPP $3-10,000, 150m
- PPP $2-3,000, 150 m
- PPP < $2000, 500 m
The Emerging Market: India
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PPP > $ 2000, 500 m

Future Opportunity?

Some MNCs?

Local Firms

Traditional MNC Business Model
Tier 4: A Brief Description

• 3-4 billion with per capita income less than $1,500 (PPP) per year
• Could swell to 6-8 billion due to rapid population growth
• Most live in rural villages or urban slums and shanty towns
• Education levels are low to non-existent
• Markets are hard to reach, unorganized, and local in character
The Bottom: Not the Same Everywhere

China

India

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The Challenge

• The bottom of the pyramid poses a fundamentally new question:
  – How do we marry low cost, good quality, sustainability, and profitability at the same time?

• Must visualize an active market when all that currently exists is abject poverty
  – The primary task is to create a consumer market out of the poor, albeit one that is conceived of and structured very differently from the Tier 1 market
Commercial Infrastructure for the Bottom of the Pyramid

Creating Buying Power
- Access to credit
- Income generation

Improving Access
- Distribution systems
- Communication links

Innovations for the Bottom of the Pyramid

Shaping Aspirations
- Consumer education
- Sustainable development

Growing Healthy Markets
- Tailored product development
- Building from the bottom up

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Emerging Countries as the Test Bed of Innovation

Scale of Operations

New Price-Perf. Levels

Sustainable Development

3500 million Consumers

Innovative High Tech. Solutions

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Why MNCs?

- **Resources.** Few local entrepreneurs, NGOs, or governments have the managerial or technological resources to create this infrastructure.
- **Leverage.** MNCs can bring together a global knowledge base that is unique and not accessible to local entrepreneurs.
- **Bridging.** MNCs have the clout to bring together the range of actors required to develop the Tier 4 market.
- **Transfer.** Innovations from the bottom can be adapted for use in the resource- and energy-intensive markets of the developed world.
How must MNCs Change to Capture this Market?
New Business Model: The Bottom

Price-Performance
Robust Products (e.g. transport, dust, heat, shelf life, …)
Capital Efficiency
Labor Intensity
New Alliances
SG&A, O/H structure
Volumes, Logistics
Packaging (e.g. Single Serve)
Sustainability

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Senior managers who commit their companies to strategies for the bottom of the pyramid are creating sustainable development