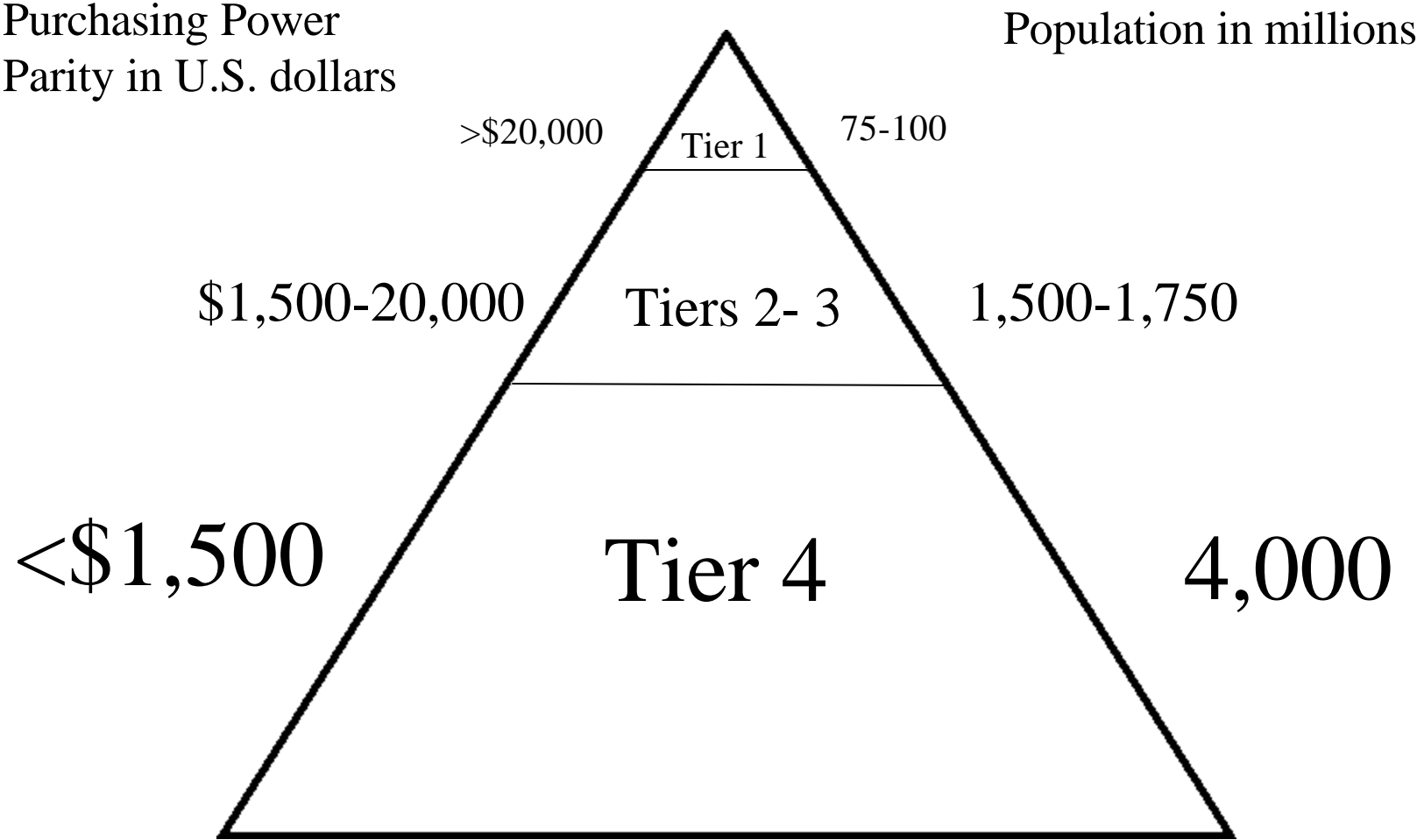


Strategies for the Bottom of the Pyramid: Creating Sustainable Development

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The Unrealized Opportunity at the Bottom



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

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

	<u>Nirma</u>	<u>HLL</u> (Wheel)	<u>HLL</u> (High End)
Sales (\$ Million)	150	100	180
Gross Margin (%)	18	18	25
ROCE (%)	121	93	22

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

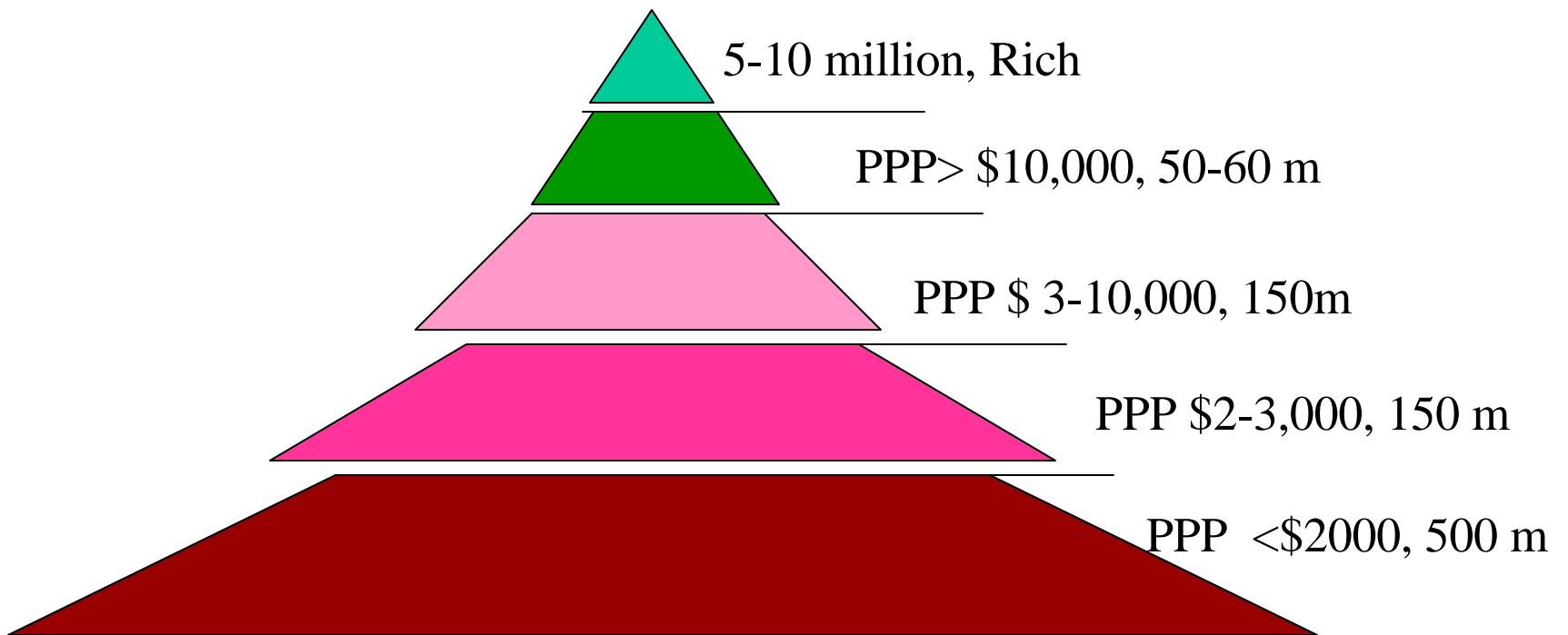
Source: John Ripley,
Senior Vice President,
Unilever plc

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

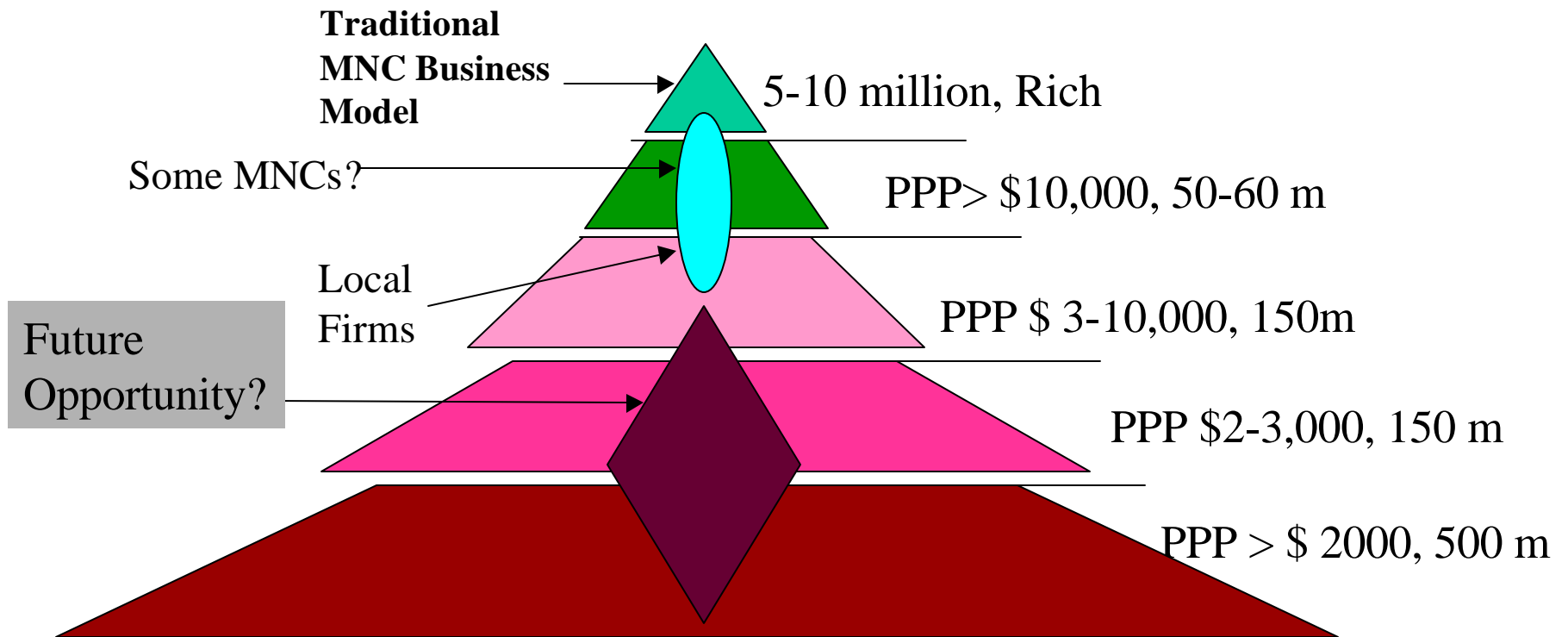
The Emerging Market: India

Traditional and Emerging Focus



The Emerging Market: India

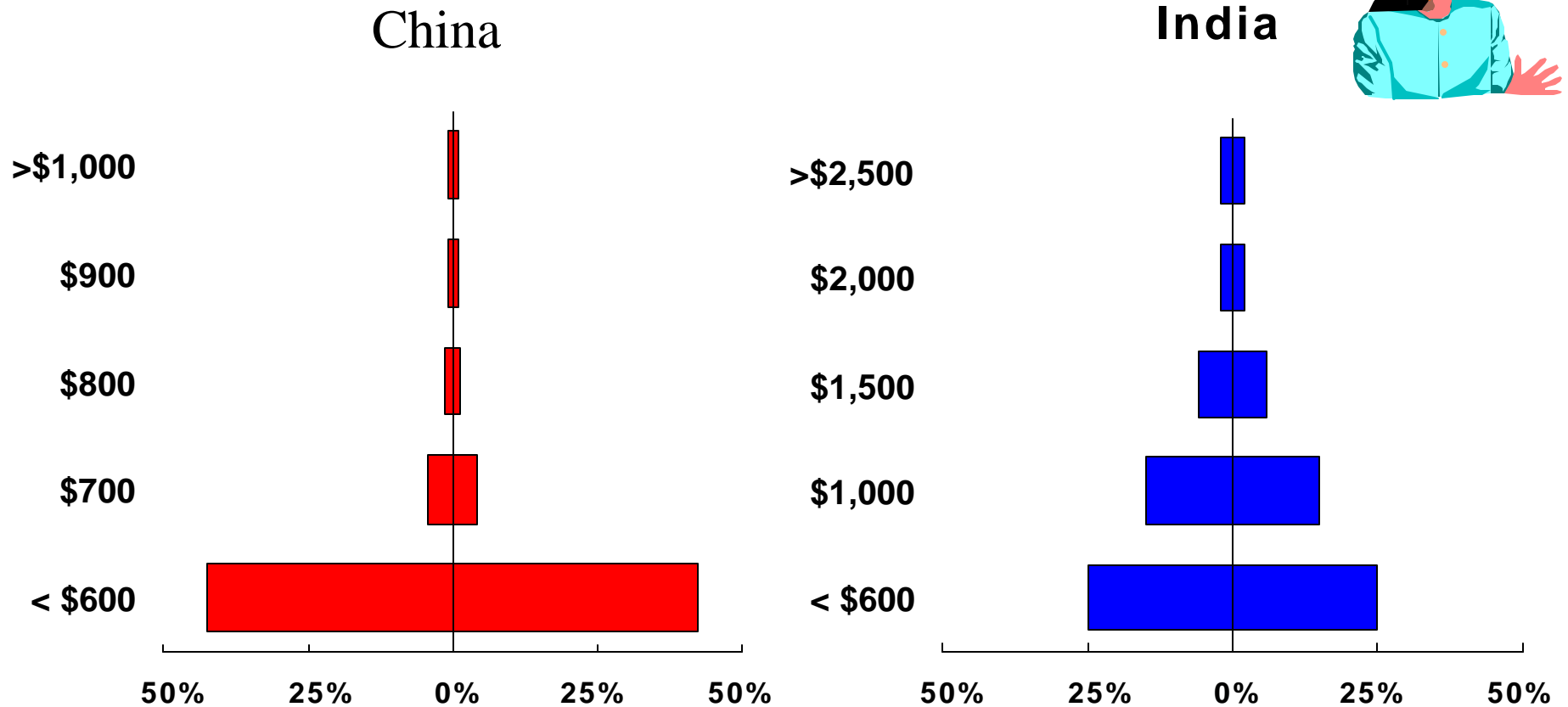
Traditional and Emerging Focus



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

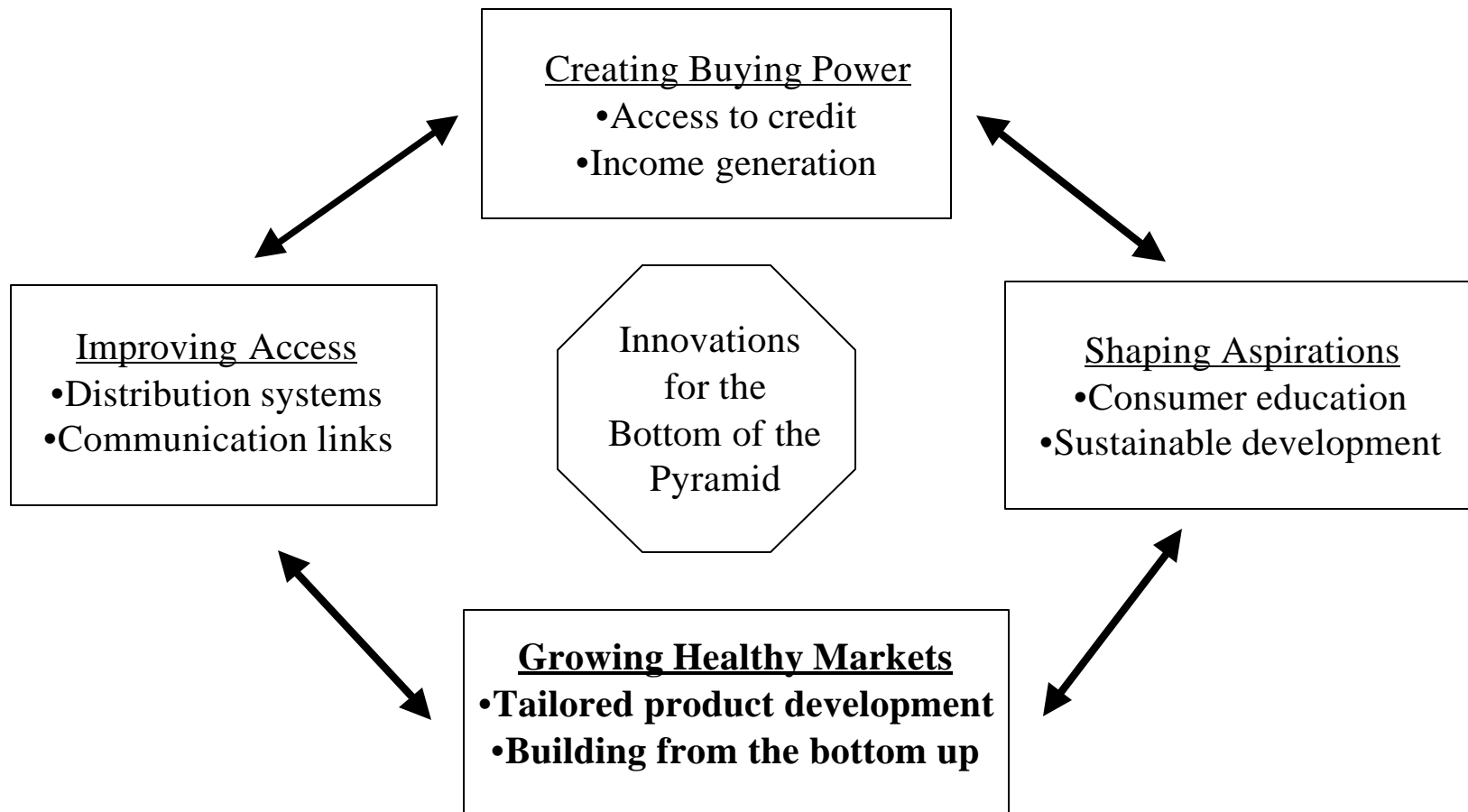
The Bottom: Not the Same Everywhere



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



Emerging Countries as the Test Bed of Innovation

Scale of Operations

New Price-Perf.
Levels



Sustainable
Development

Innovative High
Tech. Solutions

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

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