

Consumer behaviour in the bottom level of Pyramid markets with reference to Urban segments

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Abstract:

The ‘bottom of the pyramid’ approach, by C. K Prahalad, proposed that ‘marketing to the poor in increasing countries is the best way to instantaneously progress emergent economies and business profits’ (Prahalad, 2004). Firms are ideally well positioned to seek the fortune at the bottom of the pyramid due to their compensations in both scale and scope. As recent research in this area argues, the rural bottom of the pyramid (BOP) is dispersed, distant, extremely poor, heterogeneous and mostly illiterate. Operating in this segment is also physically, economically, and politically risky. A more realistic and sustainable alternative is to target the urban BOP. Although research in this area is relatively new, most of the work done is towards the supply side of the problem. The research done so far has largely remained silent on the demand or the consumption side of the BOP. The thesis elaborately explores the consumer or demand side of the Bottom of the Pyramid concept specifically focusing on the urban BOP. This importance of this study is twofold; firstly, it takes a more realistic approach towards the BOP by eliminating the dynamic barriers of the rural BOP. This will encourage broader business engagement. Secondly, this is one of the first few empirical studies that has been conducted with the motivation to understand the consumer behaviour of the urban BOP market especially with an Indian context.

Keywords:

Introduction

One of the fundamental worries of the United Nations Millennium Development Goals (MDG) of 2015, changed to lessen the number of human beings living beneath the poverty line by using 50% (UN, 2006). The research in previous years has proven that the development of useful resources in phrases of the growth of charity and donations will no longer have long time effects. It can even prove to be dangerous as the unfastened provision of products and offerings should inhibit the introduction of industries or have negative effects (Banae and Yandell, 2006). The United Nations Development Programme’s (UNDP’s) Growing Sustainable Business Initiative in the development of the MDG calls for marketplace primarily based enterprise answers.

These UN programs sell more than just a commercial enterprise case for philanthropy. They suggest that agencies have to locate win-win enterprise opportunities in developing markets that help to address unique improvement desires, at the same time fulfil industrial pastimes of the firm.

It has been mounted that markets offer numerous advantages to those who are able to benefit get the right of entry to and successfully participate in them. Markets can also act as an engine of universal financial boom, and additionally of human development and financial

empowerment, at the side of the important position played by means of the general public area in offering public items. However, the negative are regularly prevented from actively participating in the market as consumers and producers because of the numerous barriers that exist.

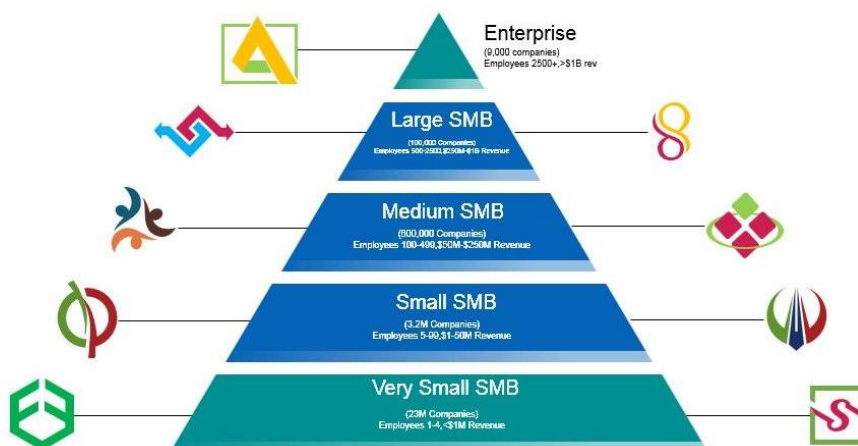
On the other hand, to face increasing competition, multinational companies are continuously exploring remote and nascent markets to position their global brands. This aspect of market expansion has attracted the attention of both industry and academia.

Bottom of the Pyramid (BOP) Approach

Building on this idea, C.K. Prahalad has popularized the phrases “Bottom of Pyramid” and “inclusive capitalism” through his e-book, “The Fortune on the Bottom of the Pyramid”. Prahalad and other scholars like Hammond and Lieberthal have advanced a “bottom of the pyramid advertising framework” in order to assist in expanding low earnings markets. The BOP framework conceptualized, places a sturdy emphasis on developing intake capability most of the bad.

There are greater than four billion people, nearly two-thirds of the sector population, which are incomes much less than \$2000 consistent with annum. Together they constitute more than \$5 trillion really worth of purchasing energy. If we have been to create an economic pyramid of the world, this segment might constitute the bottom of the pyramid. This back side of the pyramid market additionally consists of the 1.8 billion humans of the sector that live underneath the poverty line, in monetary terms it method humans earning underneath \$1.25 in line with day (World Bank Report, 2008). The globe’s four billion people living in poverty are not just a massive, however also a growing client institution and offer a “prodigious opportunity for the wealthiest businesses- to are searching for their fortunes and bring prosperity to the aspiring bad”.

Bottom of the pyramid markets are normally bodily positioned inside the least evolved countries (or LDCs) and the more rural regions of growing and emerging nations. These markets are also tremendous sources of entrepreneurial possibilities. These markets comprising of nearly 70% of the arena’s population, dwelling on less than \$2 consistent with day, frequently pay excessive costs, compared with the fees that consumers living in evolved markets pay for the same products.



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Characteristics of the BOP

One of the most complete studies that quantify spending and expenses some of the world's negative is performed by Hammond et al. (2007), a co-guide by means of the World Resources Institute (WRI) and the International Finance Corporation (IFC). According to this have a look at the BOP markets are predominantly rural with the general public of the BOP living in South Asia, Africa, Eastern Europe, Caribbean and Latin America. The observation pointed that the BOP is not a homogenous section and the incomes may also range throughout areas. While rural markets dominated most of BOP in Asia and Africa, urban regions have been dominant in Eastern Europe and Latin America. It turned into noticed that in Asia and Africa many people migrate from rural to city areas searching for task possibilities.

Challenges at the BOP

However, taking a more important situation toward the sales ability, a few writers see commercial enterprise chances and possible approaches of poverty discount in general within the subject of manufacturing or obtaining at the lowest of the pyramid (Karnani, 2007). The few demanding situations confronted with the aid of businesses catering to the BOP marketplace may be described as, acute poverty, unsure cash glide, extraordinarily low profits, problem in gauging demand, disaggregated vendors, income and distribution demanding situations, and undeveloped business ecosystems.

Objectives of the Study

This article has the following objectives:

- To characterise and understand the consumers in the bottom level of the Pyramid (BOP) market.
- To examine what motivates the consumer in the urban BOP market.
- To understand the buying behaviour process of the consumers in the urban BOP market.
- To find out the financial planning model of the consumers in the urban BOP market.

Consumer Motivation

The collective buying energy of the humans on the BOP turned into expected within the variety of \$five trillion (Hammond et al., 2007). In the Indian context, the urban BOP constitutes \$36 million of purchasing electricity out of a complete of \$1.2 billion. Although character earning may be low in this market, the mixture of shopping for power of terrible communities is appreciably high.

The BOP marketplace is the largest in Asia comprising of 86 billion people with aggregate profits of \$3.47 trillion. The BOP market in these international locations represents 83% of the area's population and 42% of its aggregate buying electricity. In rural areas, the BOP is the most people of the marketplace representing correctly one hundred percent of the mixture family profits in rural India.

With the sort of huge and nearly untapped amount of buying energy in addition to client populace on the city BOP its miles critical to realize what motivates intake at this section. This question is maximally suitable due to rising enterprise interest in this phase.

Buyer Purchase Behaviour

The sheer massiveness of the BOP marketplace, strangeness with its customers, and the dearth of geared-up manner to attain them have all assisted in guaranteeing that entrepreneurs endure to be ignorant of what drives them (Mehta, 1998). Moreover, the BOP marketplace isn't always a homogenous marketplace that corporations can simply import or manufacture merchandise for and try to promote without escalating the range and difficulty in their clients' desires, demanding situations, alternatives, and aspirations (Mahajan, 2008).

The appeal of this marketplace for groups increases as their purchaser's growth up the financial pyramid. Additionally, the pyramid is morphing and through 2020 the very low-

income marketplace is predicted to cut back via 24%. Today is whilst these consumers are starting their sentiments and devotions (Management Agenda, 2007).

Thus, it's far crucial to discover the buying behaviour of the customer on the city BOP. Belch and Belch (2007) define patron behaviour as “the procedure and activities humans engage in while looking for, deciding on, purchasing, the usage of, comparing, and eliminating services and products in an effort to fulfil their wishes and goals”.

A basic and popular model of consumer decision making, originally introduced by Lewin (1951), and later developed in detail by Kotler (1987), mentions buyer decision making process as given below. In their model of buyer behaviour, they describe the following five stages that consumers go through when purchasing a product or service. However, these steps are mostly used for high involvement products like consumer durables etc.

- ✓ Problem recognition
- ✓ Information search
- ✓ Evaluation of alternatives
- ✓ Purchase decision
- ✓ Post-purchase decision

Financial Planning

Key trouble in expertise BOP markets is the informality of the sector it operates in. The International Labour Organisation (ILO 2002) estimates that more than 70% of the personnel in growing international locations operate inside the casual or underground economy, suggesting that maximum of the city BOP livelihoods come from self-employment or from work in businesses that aren't legally prepared businesses. Also, most of these in the city BOP are poorly integrated into the formal economy, which limits their economic possibilities.

Thus a median urban BOP client is regularly cash trapped and debt-ridden. In such instances near tracking and planning of household budget seems important. However, there also are instances in which the negative have chosen a fairly costlier but higher provider such as finances private training for his or her youngsters in some Indian and African slums (Tooley, 2007).

The Certified Financial Planners (CFP) Board of Standards (2005) defines personal financial making plans because of the method of assembly your existence goals via proper control of your budget. The steps involved within the personal monetary planning system are as follows:

1. Determine current financial position.
2. Develop the financial goals.
3. Identify alternative course of action.
4. Evaluate alternatives.
5. Create and implement the financial action plan
6. Review and revise the financial plan

Urban BOP Framework

The four billion people at the BOP live in relative poverty. Even though their incomes are low, together they've significant purchasing energy. The BOP constitutes a \$5trillion worldwide client marketplace. Within that market are massive versions across regions, nations, and sectors in size and different traits. Asia (such as the Middle East) has by far the biggest BOP marketplace: 2.86 billion humans with an income of \$3.47 trillion. This BOP market represents 83% of the place's population and 42% of the buying strength, a vast share of Asia's unexpectedly developing patron marketplace.

Segmenting the Urban BOP

While the agricultural BOP is certainly segmented into small marketplaces via language, culture and geography, most researchers recommend placing all BOP customers into one massive rate touchy “rising market” segment. The urban BOP allows further division because it's miles noticeably homogenous in macro phrases consisting of language and subculture yet diverse in phrases of education and lifestyle. Moreover, on the grounds that urban citizens have a tendency to express the national language and flow approximately in huge towns, they're properly exposed to trendy advertising and marketing media, duties and style and generally tend to want equal goods as do the population of formal areas of the equal cities. Moreover, the approach of segmentation is operational in city regions because of the commonplace lifestyles of exceedingly unique media and programming. All these elements make it profitable to segment the city BOP via profession, education, values, circle of relativesconstruction, and arrogancesto manufacturers, as well as earnings levels and geographic region.

Consumption Behaviour of Urban BOP: Theoretical Foundations

In the beyond few years, numerous research has inspected the intake behavior of the poor from the attitude of transformative consumer studies (TCR). TCR motion requires research that could sooner or later make a contribution to enhance the best of lifestyles of consumers and, at a higher stage, assist each man or woman to realize their complete potential (Ozanne et al., 2011). The number one aim of TCR is “to improve properly-being, that's a kingdom of flourishing that includes health, happiness, and prosperity”

Successful Marketing Strategies in Urban BOP

Given the located changes among the urban and the rural BOPs, the advertising strategies that work in every segment are greatly extraordinary.

At the BOP, hitting merchandise is differentiated and luxurious. Rendering to syndicated panel information, all market-leading fast-moving patron items in Venezuela were extra high priced than the category average (Datos-IRI, 2004b). Cheaper merchandise has made inroads whilst price differences are superb. Consistent with the better-discovered costs of market leaders, the urban BOP's favourite produces had been distinguished. D'Andrea et al. (2007) located that there's an enormous perception in Latin America that less expensive merchandise is of low first-class. He concluded that “with less disposable profits, bad customers additionally have fewer margins for mistakes of their judgments”. As an end result, steady best over time is sufficient to distinguish merchandise.

Conclusion

It was revealed during the study that the urban bottom of the pyramid market largely remains untapped. Most companies are manufacturing products for the middle or upper income level consumers and simply using packaging strategies to cater to this market. Hence whatever success they are experiencing is owing to packaging strategies and distribution network. In order to fully utilise and exploit the potential of this market they will have to dwell into the unique environment of this market and understand the mindset of its customers. The study contributed in both these areas. It also helps organisations familiarise with and come closer to the poorest of the poor or the bottom of the pyramid. The study therefore gains importance as it provides the companies an overview of the unique, heterogeneous and complex market.

The insights gained during the research process have been summarised by generating a consumer behaviour model of urban BOP this has been adapted from the Engel- Kollat Blackwell Model.

The two critically important factors which influence decision making process are personal characteristics and environmental factors. Marketers struggle to decipher and understand

these independent variables and the success in any market largely lies on how well they understand the personal characteristics of the consumer base and the environmental factors affecting them.

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