

The Base of the Pyramid Strategy and its Benefits to a Multi-national Firm

Sultan Gashgari

Abstract: The report identifies that bottom or the base of the pyramid strategy. There is explanation of the pyramid strategy and how it affects people in the world. It can be used to understand the number of people earning certain amount as their income especially in the developing nations where there is origin of some of the multi-national companies. The report explains more about the business venture at the base of the pyramid and its opportunities in handling poverty in the developing nations and focuses on making profit. It explains how the multinational enterprises base their pyramid market on their income level. The content can be used to identify the MNCs in the developed worlds and their position in the pyramid since the produced goods are aimed at meeting the interests of people in the developed markets and their concern is meeting the basic needs. It explains how MNCs employ the Bop strategy in the business and explores how some companies fail to understand the needs of the customers in the lower market. There are examples of the companies, such as the passenger car market in India and the global carmakers including Hyundai and Maruti. Another example is Fiat in the Indian market. The report is useful in understanding how companies are accountable to the price-value considerations of Bop market divisions.

The Base of the Pyramid Strategy

Bottom of the pyramid is a phrase that has commonly been used to refer to the billions of middle income earning and low income earning people in the world. The quantification for this definition is the people earning less than \$1500 per annum. More than four billion people around the world live of \$2 per day (Prahalad, 2006, p. 29). Mostly this group of people are found in developing nations. Since the pyramid is wider at the base and narrower at the tip, this suggests that the low income earning population in the world is much larger than

those earning more. Therefore, the bottom of the pyramid (Bop) business strategy is the emerging practice that focuses on services, products, and enterprises that serve the population represented at the bottom of the pyramid. Multinational companies serving this demography aim to do so in a growth oriented and profitable manner.

Although Bop business strategy by multinational companies is an opportunity to explore large markets, it is not always an advisable venture for such corporations. When it comes to business venture at the bottom of the pyramid, the hope is that these

ventures are an opportunity to contain poverty levels in developing countries (Prahalad & Hart, 2002, p. 1). However, commercial companies are not enthusiastic about expanding in such markets since NGOs and multilateral agencies have already taken up the role of poverty eradication in these markets. As commercial ventures, MNE's main goal is profitability (Dunning & Lundan, 2008, p. 756). The expansion into these markets is not enticing, as they do not promise the returns expected by the corporations.

Benefits to the Multi-national firms

Many multinational enterprises have in the past dismissed the bottom of the pyramid market based on their income level, which affects their purchasing power. Majority of the Top 200 MNC are based in the developed worlds, and this is because these corporations recognise that their products and services are more familiar with the consumers at the top of the pyramid. The

companies would not do well in developing countries because besides their weak purchasing power, their selection of goods and services does not favour the operations of the companies. Most of their outputs are meant to meet the needs of the developed countries' markets. Furthermore, the poor do not spend money on luxuries; they are more concerned with meeting basic needs. The goods sold in Bop markets are too cheap for MNC to be able to compete and make profitable returns (Reficco, 2013, p. 1). Since most MNC are more familiar with the top of the pyramid markets, employing the Bop strategy would require these firms to adjust significantly their systems of business.

Conclusion

The common misconception is companies simply do not understand the need of the customers at the bottom of the pyramid. This has proven to be wrong, as many multinational companies have made

an effort to research, introduced new products in these markets, and failed. An example is the passenger car market in India that has grown tremendously due to the massive demand by the middle class population, thus attracting many global carmakers. However, despite the success enjoyed by global carmakers such as Hyundai and Maruti, not many have achieved similar success in the Indian market. Another example is Fiat, which introduced its Palio and Uno that seemed just right for the Indian market. However, both models failed as they reported very poor sales (Mukerjee, 2009, p. 54). Therefore, it is necessary for companies to take into account the price-value considerations of Bop market segments.

References

Dunning, J. H., & Lundan, S. M. (2008). *Multinational enterprises*

and the global economy.

Cheltenham, UK: Edward Elgar.

Mukerjee, K. (2009). *Product Management: Texts and Cases.* New Delhi, IN: PHI Learning Private Limited.

Prahalad, C. K. (2006). *The fortune at the bottom of the pyramid.* Upper Saddle River, N.J: Wharton School Pub.

Prahalad, C. K., & Hart, S. L. (2002). *The fortune at the bottom of the pyramid.* Business+Strategy.

Retrieved from <http://www.strategy-business.com/article/11518?gko=9a4ba>

Reficco, E. (2013). *6 reasons companies fail to reach the bottom of the pyramid.*

Deveximpact. Retrieved from <https://www.devex.com/news/6-reasons-companies-fail-to-reach-the-bottom-of-the-pyramid-80719>