Towards a Better Understanding of Bottom of the Pyramid Consumers in Pakistan

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Abstract

Recognizing the potential of the Bottom of the Pyramid (BOP) market, business firms all over the world are modifying their strategies to include the 'poor' as their potential customers. This phenomenon has also found ground in Pakistan; a number of firms are looking for ways to cater to the Pakistani BOP consumer needs. This research is an attempt to uncover some of the factors that influence buying decisions of the poor. Specifically, areas of study included awareness of brands through traditional media and loyalty towards brand in use. Tea, consumed widely by every section of the Pakistani population, was chosen as a product of investigation.

The study was conducted through 201 interviewer-administered questionnaires from low income groups, living in the sub-urban areas of Karachi. According to the results of this study, more than 50% of the BOP consumers drink branded tea and buy larger SKUs. Furthermore, positive word of mouth from family, friends and retailer is a major influence in making brand choices and TV advertisements seldom convince BOP consumers to try a particular brand. The findings of the study clearly indicate that BOP markets, especially located in the suburbs, consist of highly aware consumers. Price is therefore not the only criteria in mind while making purchase decisions. Hence, marketers of consumer goods targeting this segment can derive value from this research.

***Key words*:** Bottom of the Pyramid consumers, Pakistan, Brand Loyalty, Brand Awareness.

Introduction

One-sixth of the world's population comprises of consumers at the bottom of the economic pyramid (Anderson & Billou, 2007) although their individual purchases do not mean significance, put together they are a huge market to ignore. According to Pitta et al. (2008), the largest BOP population is found in Asia with an overwhelming 72.2% of the total world's BOP population; although it may seem that catering to the BOP is not a worthwhile opportunity, the value of the BOP market is approximately $1.3 trillion. Subrahmanyan and Arias (2008) estimate the purchasing power of the BOP markets to be equal to $5 trillion. C.K Prahalad's (2005) in his book, *The Fortune at the Bottom of the Pyramid*, stressed on the great opportunity that the

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bottom of the pyramid consumers projected, calling them aspirational poor earning $2000 per annum. This proves to be an immense opportunity for companies who manufacture consumer goods that can be tailored to BOP population requirements.

Multinational corporations (MNCs) have so far been myopic in only targeting customers at top of the economic pyramid, assuming that serving the BOP markets was not only difficult but also unprofitable (Prahalad and Hart, 2002). Companies often incorrectly assume that the poor have very limited incomes to think about products or services; they are most worried about fulfilling their basic needs (Prahalad and Hammond, 2002). In his book, *Fortune at the Bottom of the Pyramid,* C. K. Prahalad states that, it is incorrectly assumed that BOP consumers are not brand conscious. He cites the examples of large consumer durable retailers (selling refrigerators, washing machines and radios) in Brazil and Mexico and says that the BOP markets consist of brand conscious customers and this phenomenon is universal.

The BOP data from Pakistan is in line with the World Bank's report titled 'The Next Four Billion' (The Daily News, 2007). The article for The Daily News (2007) further states that on average the annual food spending per BOP household in Pakistan stands at $2,643. The current study has been conducted in the suburbs of Karachi, the largest metropolitan city of Pakistan. There is internal migration from the rural to the urban localities within Pakistan in search for better economic opportunities and benefits (Khan & Lubna, 2000) Being the business hub for Pakistan, Karachi, in the past few years has had a huge influx of migrants from rural areas, seeking better employment opportunities. These migrants essentially work in organizations as non management employees or in urban households as domestic staff. This inflow of people from rural areas has added to the size of the BOP market in the city, making the city suburbs and slums an ideal place to conduct the present research. The recent financial crisis and the soaring inflation have severely hit the lower classes. Their basic necessities: food, clothing and shelter are not even close to being fulfilled. Despite the crisis and high income-inequality prevailing in the city, local and multinational firms have started targeting this lower income bracket market by introducing 'sachets' and 'ticky packs' that are easily affordable by the poor.

As such, this paper will:

- Explain the scope of this study
- Describe the research methodology used
- Briefly overview the BOP literature, highlighting those parts that are most relevant to the topic of this paper.
- Discuss findings of the empirical research conducted to explore facts in agreement or disagreement with literature.
- Discuss marketing implication based on conclusions
- Explain limitations

1. Scope of the Study

For the sake of this research, we define BOP consumers as follows; part-time or daily wage earners, with very little to no savings at all and often a relatively large family size (according to the economic survey 2009-2010, average size of Pakistani household is six), with household income between Rs. 7000 – Rs. 10,000 (approx. $83 - $118) per month . They live on bare minimum with limited to no access to the basic necessities of life, like food, clean water, shelter, clothing, or sanitation.

Due to time and labour constraints, this study was contained to the city limits of Karachi. Our focus area in Karachi mainly included the suburbs and slums found within the city.

2. Research Methodology

The methodology included a questionnaire based survey of 201 respondents. Before conducting the actual research, an exploratory study based on focus group was conducted to identify factors that play a role in making purchase decisions. Based on the literature review, we decided to explore the BOP brand preferences and media exposure in the food segment. Specifically, *Tea* was selected as an object of survey since it is widely consumed by all sections of the Pakistani society. The insights gathered from the focus group were used in developing the questionnaire.

The sampling technique was largely convenience based. On reaching a sub-urban locality, male respondents were randomly picked from the neighborhood. Population typically included low-income earners such as factory workers, guards and servants. Owing to the conservative nature of the society, approaching respondents through a door-to-door activity was completely avoided. Since 40% of the respondents were illiterate, the questionnaires were designed in Urdu and filled out by the interviewers based on the responses received from interviewees.

A small pretest of the questionnaires with 20 respondents was carried out, which helped in restructuring the research instrument. The final questionnaire consisted of eight questions on brand consumption and loyalty and nine questions on brand awareness through traditional media. All questions consisted of fixed alternatives so that consistency and ease of data collection could be maintained. Finally, data analysis was done through SPSS.

3. Literature Review

While BOP markets have mostly been the domain of government and not for profit organizations, many for profit organizations are also turning towards them (Subrahmanyan & Arias 2008). C. K. Prahald propels the idea that operating in this unserved market; companies would not only make profits but at the same time help alleviate poverty. However, some others like Aiyar (2006) and Karnani (2007) argue that the BOP proposition is too good to be true, calling it a mirage. Martinez and Carbonell (2007) also believe that the idea that BOP principles may do more harm than good.

People at the BOP have needs and desires for products and services just like any other person in the world (Pijpers et al., 2009), however, there is more diversity among their needs and problems (Chambers, 1995 in Pijpers et al., 2009). Moore, 2006 in Pijpers, et al., 2009, further points out that these BOP consumers have aspirations of a better life and are extremely value conscious. In some instances, the otherwise financially constraint poor are seen consuming luxury items; in Romania the BOP consumers preferred buying imported candy and liquor over necessities like flour during the Christmas season (Belk 2001 in Subrahmanyan & Gomez-Arias, 2008).

BOP consumers represent a larger and lucrative market with much untapped purchasing power (Karnani 2009, Mitchell 2007). These markets are however, not homogenous; the BOP markets in Asia & Africa are primarily rural and concentrated in the lower segments of the economic pyramid, while the same markets in Latin America & Eastern Europe are

predominantly urban and in the top tiers of the Bottom of the Pyramid. (Hammond, et al. 2007). Asia is the region with the greatest purchasing power, relative to Africa, Eastern Europe, and Latin America and Caribbean; the consumption revolves around food, housing, and household goods (Rodrigo & Pablo, 2008). Even though the poor invariably curb their needs, their spending amounts to $ 5 trillion (Subrahmanyan & Gomez-Arias, 2008). According to Hammond et al. (2007), expenditure on food constitutes 58 percent of the total spending by the BOP consumers. Subrahmanyan and Arias (2008) have made 15 categories of BOP needs and Innovation; they have classified food as a basic need.

According to Prahalad, BOP consumers inspite of their unstable low income are fairly discerning consumers. Hence, he advocates that if companies devote resources to understanding the needs and mindsets of these consumers, they can overcome the barriers to consumption. Pitta et al. (2008) further support the view and state that companies wishing to do business in the BOP markets need to rethink their business model. Knowing the BOP consumers intimately is important; marketers need to know the spending patterns across the three income segments within the BOP market – "under $2 per day", "$4 per day", and "$6 per day." In defining the elements of BOP marketing mix, Subrahmanyan and Arias have worked along the traditional 4Ps i.e product, price, place and promotion. Specially designing product offerings keeping in mind the specific needs of the BOP market such as energy efficient stoves and packaging products in smaller denomination packs in order to make the offer affordable are some of the techniques recommended by the researchers for commercial organizations. Bahn & Tait (2008) also endorse this suggestion by saying that market offerings must resonate with the lifestyles and self-perceptions of the BOP consumers. Anderson & Billou, (2007) supporting this view cite Fast Moving Consumer Goods companies like Unilever and Proctor and Gamble to explain successful BOP market offerings. These firms have developed *low priced micro packs* for everyday items like shampoos, soaps and food. Moore (2006) asserts that a common thread identified in all of successful BOP operations is *innovation*. Companies cannot take their existing offering to the BOP segments, they must reinvent solutions to deliver unparallel value (Moore, 2006).

Affordability is at the heart of serving the BOP consumers (Pitta et al.2008). Subrahmanyan and Arias in their study further explain that although BOP consumers are highly price conscious, they are willing to pay more for certain quality products that are relevant to them. Some other researchers however, argue that it becomes necessary for commercial organizations to reduce quality in order to control costs and ultimately make the offer affordable to BOP markets (Karnani, 2007). Still other researchers believe that the poor are value buyers and therefore understand the trade off between short term savings over long term costs of buying a product inferior in quality (Bahn & Tait, 2008). Whatever the view may be, it becomes evident that price is a single most important factor influencing purchase decisions; this is because many of the BOP consumers are daily wage earners (Bahn & Tait, 2008 and Subrahmanyan & Gomez-Arias, 2008).

Word of mouth can be described as the most effective tool for promotion (Subrahmanyan & Gomez-Arias, 2008 and Bahn & Tait, 2008).In Africa, theatre has proven to be very effective in spreading health messages in both the urban and the rural settings (Mbizwo, 2006). BOP consumers are aware of branded products and view them as quality items; while they may be consuming certain brands, their loyalties are fickle and therefore they switch between certain familiar brands (D'Andrea, et al., 2004, Moore, 2006) .

BOP consumers frequent their neighborhood stores to make their everyday routine purchases especially those related to food such as staple grains, salt, spices, cooking oil,

vegetables and dairy (Subrahmanyan & Gomez-Arias, 2008). Hence, BOP marketers must ditribute their products through stores that are both geographically and affectively close to the consumers (Pitta, Guesalaga, & Marshall, 2008). Personal relationship with store keepers has a positive effect on consumers' self-respect and well-being (D'Andrea, Stengel, & and Goebel-Krstelj, 2004).

Davis (2006) quotes United Nations and states that more than one billion people are currently living in the slums of cities. While BOP segments are found both in the rural and urban settings, it makes better business sense for large firms to target the urban BOP consumers, due to density of wealth, proximity to business centers, modernity and homogenity (Ireland, 2008) .

4. Analysis & Findings

The research findings were related to the following hypothesis:

Hypothesis #1:

H_0: 50% of the BOP consumers drink branded tea.

H_a: more than 50% of the BOP consumers drink branded tea.

Table 1: Branded vs Unbranded tea consumption

	Frequency	Percent
Branded	163	81.1
Unbranded	38	18.9
TOTAL	**201**	**100**

Using the right tailed test, at a significance level of 5%, the z-test value is equal to 8.818 which is higher than the critical value (1.645). Hence, the null hypothesis is rejected. Therefore with the confidence level of 95%, we assert that the more than 50% of the BOP consumers buy branded tea.

This finding is in line with the literature review supporting the view that BOP consumers buy brands (D'Andrea et al. 2004; Prahalad, 2009; Moore, 2006). Further investigation to understand the reasons behind branded tea consumption highlighted *quality* as the most dominant factor. Quality in terms of tea was defined as strong taste, aroma and colour of tea. Figure 1a explains the reasons behind choosing tea brands and Figure 1b explains respondents definition of quality

Figure 1a

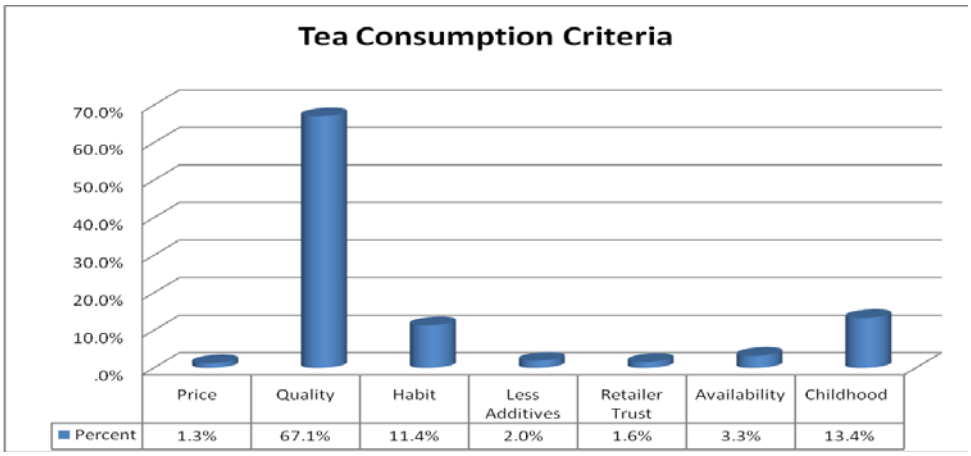

Figure 1b

The above figures negate the popular assumption that BOP consumers are attracted to only low cost items. Quality is a critical attribute in these people's eyes which is irreplaceable.

Hypothesis #2:

H_0: 80% of the BOP consumers buy smaller Stock Keeping Units (SKUs) when purchasing branded tea.

H_a: 80% of the BOP consumers do not buy smaller SKUs when purchasing branded tea.

Table 2a: Type of SKU Purchased

	Frequency	Percent
500gm	138	85
100gm	15	9
40gm	10	6
TOTAL	**163**	**100**

Table 2b

	Frequency	Expected Probability	Expected Frequency	$(O_i - E_i)$
500gm	138	0.10	16.3	121.7
100gm	15	0.80	130.4	-115.4
40gm	10	0.10	16.3	-6.3
TOTAL	**163**	**1.0**	**163**	**0**

Based on the research from Subrahmanyan & Gomez-Arias (2008), it was gathered that food purchases are made on a daily basis by the BOP consumers and hence, an expected probability of 0.8 was assigned to the 40 gm packs, whereas the larger SKUs were assigned 0.1 each.

Since the observed values are not comparable to the expected values – with a 95% confidence level, we assert that the BOP consumers prefer to buy the larger SKUs 80% of the times, because 1013.2 lies far beyond 5.991(critical value) – in the rejection region. It is important to note here, that the prices of tea brands have risen with increasing inflation. However, this increase has not affected the size of SKU bought by consumers,

Hypothesis #3:

H_0: There is no relationship between the level of education and the SKU purchase preference of branded tea.

H_a: There is a relationship between the level of education and the SKU purchase preference of branded tea.

Table 3a: Cross Tabulation between education and SKU purchased

Count							
SKU size	**Education**						Total
	Illiterate	No-formal Education	Primary	Secondary	Intermediate	Graduate	
500gm	19	3	20	44	31	21	138
100gm	2	2	2	5	2	2	15
40gm	1	0	1	6	2	0	10
Total	**22**	**5**	**23**	**55**	**35**	**23**	**163**

Table 3b

Chi-Square Tests				
Type		Value	df	Asymp. Sig. (2-sided)
Branded	Pearson Chi-Square	10.317*	10	0.413
	Likelihood Ratio	9.427	10	0.492
	Linear-by-Linear Association	0.351	1	0.554
	Number of Valid Cases	163		
*12 cells (66.7%) have expected count less than 5. The minimum expected count is 0.31.				

The reason for including this hypothesis was to understand if the more educated customers are able to calculate the value behind bigger packs or not.

We accept the null hypothesis with a 95% confidence level, and assert that there is in fact, no relationship between the level of education and the SKU purchase preference of branded tea. The chi-square test statistic lies within the acceptance region defined by the critical value, 18.307.

Hypothesis #4:

H_0: 'word-of-mouth' (from family, friends and retailer) influences the tea brand choice among BOP consumers, 75% of the times.

H_a: 'word-of-mouth' (from family, friends and retailer) influences the tea brand choice among BOP consumers, less than 75% of the times.

Table 4: Factors influencing brand choice

	Frequency	%
Word of mouth	147	73
Other than word of mouth*	54	27
TOTAL	201	100

*Factors other than word of mouth include TV, radio, magazine and newspaper

We reject the null hypothesis, with a 95% confidence level that the observed values from our sample are not comparable to the expected values and assert that the BOP consumers do actually consider 'word-of-mouth' (family, friends and retailer) as a source of information for purchasing tea.

This finding supports the views presented in BOP literature by Subrahmanyan & Gomez-Arias, (2008) and Bahn & Tait, (2008).

5. Conclusion & Implications for Marketers

Through the literature review, analysis of findings, it can be concluded that the BOP market in Pakistan presents a great opportunity for both local and international brands. As mentioned in literature, BOP consumers universally are value conscious and prefer to buy brands that they are familiar with. Specifically, some recommendations for BOP marketers are as follows:

1. Since consumers are fairly loyal to their tea brands, it is important for companies to ensure distribution to these markets.
2. In order to make the brand affordable, a large number of successful BOP marketers have introduced lower unit packs. These packs are however not popular in the tea segment.

Quality is the single most important factor for consumers to believe in their brand. Hence, product formula must not be tampered with at any cost to make the product more affordable for the BOP consumers.

3. Word of mouth plays a significant role in influencing brand choices. Companies must focus on engaging brand with consumers through on ground activities like free sampling and neighborhood activities. Returns from investing in mainstream media campaigns may not be as promising.
4. Moving beyond profit making objectives, if firms contribute to social progress of the BOP segments, they will be better received.

6. Limitations

The research was confined to the limits of Karachi. A research study conducted at a larger scale would be more representative. Secondly, due to the conservative Pakistani culture, all respondents were male. This study explored the dimensions of consumer behavior along a basic need i.e. food. Future researches could study the BOP consumer behavior along products that relate to higer order needs i.e. social or esteem needs.

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