ASSIGNMENT 1st SEMESTER : INTERNATIONAL MARKETING (M3)

STUDY UNITS COVERED : CHAPTERS 8, 9 AND 10

DUE DATE : 3.00 p.m. 16 March 2010

TOTAL MARKS : 100

INSTRUCTIONS TO CANDIDATES FOR COMPLETING AND SUBMITTING ASSIGNMENTS

The complete 'Instructions to Students for Completing and Submitting Assignments' must be collected from any IMM GSM office, the relevant Student Support Centre or can be downloaded from the IMM GSM website. It is essential that the complete instructions be studied prior to commencing your assignment. The following points highlight only a few important notes.

1) You are required to submit ONE assignment per subject.

2) The assignment will contribute 20% towards the final examination mark, and the other 80% will be made up from the examination, however, the examination papers will count out of 100%.

3) Although your assignment will contribute towards your final examination mark, you do not have to earn credits for admission to the examinations; you are automatically accepted on registering for the exam.

4) Number all the pages of your assignment (e.g. page 1 of 4) and write your name and surname, student number and subject at the top of each page.

5) The IMM GSM requires assignments to be presented in a typed format, on plain A4 paper. Unless otherwise specified, this assignment must be completed within a limit of 1500 words, excluding the bibliography.

6) A separate assignment cover, which is provided by the IMM GSM, must be attached to the front of each assignment.

7) Retain a copy of each assignment before submitting, in case the original does not reach the IMM GSM.

8) The assignment due date refers to the day up to which assignments will be accepted for marking purposes. The deadline is 3:00 p.m. on 16 March 2010. Late assignments will be accepted, but 25 marks will be deducted from the maximum mark, if received after 3:00 p.m. on 16 March 2010 and up to 5:00 p.m. the following day, after which no assignments will be accepted.

9) If you fail to follow these instructions carefully, the IMM Graduate School of Marketing cannot accept responsibility for the return of the assignment. It may even result in your assignment not being marked.

Results will be available on the IMM GSM website: www.imm.co.za on Friday, 7 May 2010.
CASE STUDY: ‘MARKETING TO THE BOTTOM OF THE PYRAMID’

Professor C.K. Prahalad’s seminal publication, *The Fortune at the Bottom of the Pyramid*, suggests an enormous market exists at the ‘bottom of the pyramid’ (BOP) – a group of some 4-billion people who subsist on less than $2 a day. By some estimates, these ‘aspirational poor’, who make up three-fourths of the world’s population, represent $14-trillion in purchasing power, more than Germany, the United Kingdom, Italy, France, and Japan put together. Demographically it is young and growing at 6 percent a year or more.

Traditionally, the poor have not been considered an important market segment. “The poor can’t afford most products”… “They will not accept new technologies”, and “except for the most basic products, they have little or no use for most products sold to higher income market segments” – these are some of the assumptions that have, until recently, caused most multinational firms to pay little or no attention to those at the bottom of the pyramid. Typical market analysis is limited to urban areas, thereby ignoring rural villages where, in markets like India, the majority of the population lives. However, as major markets become more competitive and in some cases saturated – with the resulting ever-thinning profit margins – marketing to the bottom of the pyramid may have real potential and be worthy of exploration.

One researcher suggested that American and European businesses should go back and look at their own roots. Sears, Roebuck was created to serve the lower-income, sparsely settled rural market. Singer sewing machines fashioned a scheme to make consumption possible by allowing customers to pay $5 a month instead of $100 at once. The world’s largest company today, Wal-Mart, was created to serve the lower-income market. These are a few examples of multinational company efforts to overcome the challenges in marketing to the BOP.

Designing products for the BOP is not about making cheap stuff, but about making technologically advanced products affordable. For example, one company was
inspired to invent the Freeplay, a windup self-power generating radio, when it learned that isolated, impoverished people in South Africa were not getting information about AIDS because they had no electricity for radios and could not afford replacement batteries.

**BOP marketing requires advanced technology**

The BOP market has a need for advanced technology, but to be usable, infrastructure support must often accompany the technology. For example, ITC, a $2.6-billion a year Indian conglomerate, decided to create a network of PC kiosks in villages. For years, ITC conducted its business with farmers through a maze of intermediaries, from brokers to traders. The company wanted farmers to be able to connect directly to information sources to check ITC’s offer price for produce, as well as prices in the closest village market, in the state capital, and on the Chicago commodities exchange. With direct access to information, farmers got the best price for the product, hordes of intermediaries were bypassed, and ITC gained a direct contact with the farmers, thus improving the efficiency of ITC’s soybean acquisition. To achieve this goal, it had to do much more than just distribute PCs. It had to provide equipment for managing power outages, solar panels for extra electricity and a satellite-based telephone hook-up, and it had to train farmers to use the PCs. Without these steps, the PCs would never have worked. The complex solution serves ITC very well. Now more than 10 000 villages and more than 1-million farmers are covered by its system. ITC is able to pay more to farmers and at the same time to cut its costs because it has dramatically reduced the inefficiencies in logistics.

The vast market for cell phones among those at the BOP is not for phones costing $200 or even $100 but for phones costing less than $50. Such a phone cannot simply be a cut-down version of an existing handset. It must be very reliable and have lots of battery capacity, as it will be used by people who do not have reliable access to electricity. Motorola went through four redesigns to develop a low cost cell phone with battery life as long as 500 hours, for villagers without regular electricity, and an extra-loud volume for use in noisy markets. Motorola’s low-cost phone, a no-frills cell phone priced at $40, has a standby time of two weeks and conforms to local languages and customs. The cell phone manufacturer says it expects to sell 6-million cell phones in six months in markets including China, India and Turkey.

**BOP marketing requires creative financing**

There is also demand for personal computers, but again at very low prices. To meet the needs of this market, Advanced Micro Devices markets a $185 Personal Internet communicator – a basic computer for developing countries – and a Taiwan Company offers a similar device costing just $100.

For most products, demand is contingent on the customer having sufficient purchasing power. Companies have to devise creative ways to assist those at the BOP to finance larger purchases. For example, Cemex, the world’s third-largest cement company recognised an opportunity for profit by enabling lower-income Mexicans to build their own homes. The company’s Patrimonio Hoy Programme, a combination builder’s ‘club’ and financing plan that targets homeowners who make less than $5 a day, markets building kits using its premium-grade cement. It recruited 510 promoters to persuade new customers to commit to building additions to their homes. The customers paid Cemex $11.50 a week and received building materials...
every 10 weeks until the room was finished (about 70 weeks – customers were on their own for the actual building). Although poor, 99.6 percent of the 150 000 Patrimonio Hoy participants have paid their bills in full. Patrimonio Hoy attracted 42 000 new customers and was expected to turn a $1.5-million profit in 2005.

One customer, Diega Chavero, thought the scheme was a scam when she first heard of it, but after eight years of being unable to save enough to expand the one-room home where her family of six lived, she was willing to try anything. Four years later, she has five bedrooms. “Now I have a palace.”

Another deterrent to the development of small enterprises at the BOP is available sources of adequate financing for micro distributors and budding entrepreneurs. For years, those at the bottom of the pyramid needing loans in India had to depend on local moneylenders, at interest rates up to 500 percent a year. ICICI Bank, the second largest banking institution in India saw these people as a potential market and critical to its future. To convert them into customers in a cost-effective way, ICICI turned to village self-help groups.

ICICI Bank met with microfinance-aid groups working with the poor and decided to give them capital to start making small loans to the poor – at rates that run from 10 percent to 30 percent. This sounds usurious, but it is lower than the 10 percent daily rate that some Indian loan sharks charge. Each group was composed of 20 women who were taught about saving, borrowing, investing, and so on. Each woman contributes to a joint savings account with the other members, and based on the self-help group’s track record of savings, the bank lends money to the group, which in turn lends money to its individual members. ICICI has developed 10 000 of these groups, reaching 200 000 women. ICICI’s money has helped 1-million households get loans that average $120 to $140. The bank’s executive directory says the venture has been “very profitable.” ICICI is working with local communities and NGOs to enlarge its reach.

**BOP marketing requires effective distribution**

When Unilever saw that dozens of agencies were lending micro-credit loans funds to poor women all over India, it thought that these would-be micro entrepreneurs needed businesses to run. Unilever realised it could not sell to the bottom of the pyramid unless it found low-cost ways to distribute its product, so it created a network of hundreds of thousands of Shakti Amma (‘empowered mothers’) who sell Lever’s products in their villages through an Indian version of Tupperware parties. Start-up loans enabled the women to buy stocks of goods to sell to local villages. In one case, a woman who received a small loan was able to repay her start-up loan and has not needed to take another one. She now sells regularly to about 50 homes and even serves as a mini-wholesaler, stocking tiny shops in outlying villages a short bus ride from her own. She sells about 10 000 rupees ($230) of goods each month, keeps about $26 profit, and ploughs the rest back into new stock. While the $26 a month she earns is less than the average $40 monthly income in the area, she now has an income, whereas before she had nothing.

Today about 1 300 poor women are selling Unilever’s products in 50 000 villages in 12 states in India and account for about 15 percent of the company’s rural sales in
those states. Overall, the markets account for about 30 percent of the company's revenue.

In another example, Nguyen Van Hon operates a floating sundries distributorship along the Ke Sat River in Vietnam’s Mekong Delta – a maze of rivers and canals dotted with villages. His boat is filled with boxes containing small bars of Lifebuoy soap and single-use sachets of Sunsilk shampoo and Omo laundry detergent, which he sells to riverside shopkeepers for as little as 2.5 cents each. At the first stop he makes deliveries to half a dozen small shops. He sells hundred of thousands of soap and shampoo packets a month, enough to earn about $125 – five times his previous monthly salary as a junior Communist party official. “It's a hard life, but its getting better.” Now, he has enough to pay his daughter’s school fees and soon will have saved enough to buy a bigger boat, “so I can sell to more villages.” Because of aggressive efforts to reach remote parts of the country through an extensive network of more than 100 000 independent sales representatives such as Hon, the Vietnam subsidiary of Unilever realised a 23% increase in sales in 2004 to more than $300-million.

**BOP marketing requires affordable packaging**

As one observer noted, “the poor cannot be Wal-Martised.” Consumers in rich nations use money to stockpile convenience. We go to Sam’s Club, Costco, K-Mart, and so on, to get bargain prices and the convenience of buying shampoos and paper towels by the case. Selling to the poor requires just the opposite approach. They do not have the cash to stockpile convenience, and they do not mind frequent trips to the village store. Products have to be made available locally and in affordable units; fully 60 percent of the value of all shampoo sold in India is in single-serve packets.

Nestlé is targeting China with a blitz of 29 new ice cream brands, many selling for as little as 12 cents with take-home and multipack products ranging from 72 cents to $2.30. It also features products specially designed for local tastes and preferences of Chinese consumers, such as Nestlé Snow Moji, a rice pastry filled with vanilla ice cream that resembles dim sum, and other ice cream flavours like red bean and green tea. The ice cream products are distributed through a group of small independent saleswomen, which the company aims to expand to 4 000 women by 2006. The project is expected to account for as much as 24 percent of the company’s total rural sales within the next few years.

**BOP marketing creates health benefits**

Albeit a promotion to sell products, marketing to BOP does help improve personal hygiene. The World Health Organization (WHO) estimates that diarrhea-related diseases kill 1.8-million people a year and noted that better hand-washing habits – using soap – is one way to prevent their spread. In response to WHO's urging, Hindustan Lever Company introduced a campaign called 'Swasthya Cheina' or 'Glowing Health', which argues that even clean-looking hands may carry dangerous germs, so use more soap. It began a concentrated effort to take this message into the tens of thousands of villages where the rural poor reside, often with little access to media.

Lifebuoy teams visit each village several times, using a 'Glo Germ' kit to show schoolchildren that soap-washed hands are cleaner. This programme has reached
around 80-million rural folk, and sales of Lifebuoy in small affordable sizes have risen sharply. The small bar has become the brand’s top seller.

Sources:

**QUESTION 1**

As a junior member of your company’s committee to explore new markets, you have received a memo from the chairperson telling you to be prepared at the next meeting, to discuss key questions that need to be addressed if the company decides to look further into the possibility of marketing to the BOP segment. The ultimate goal of this meeting will be to establish a set of guidelines to use in developing a market strategy for any one of the company’s products to be marketed to the ‘aspirational poor’. The company, its product and the country considered to be a potential BOP market can be of your choice. Think of the guidelines as a form of check-list – a series of questions that a company could use as a start in evaluating the potential of a specific BOP market segment for one or more of the company’s products.

Prepare your guidelines/check-list for the committee meeting.
QUESTION 2

In establishing your set of guidelines, or questions to be asked for the company and product of your choice, you should provide brief evidence that your response has been influenced by the contents of three of the references listed above, which can also be found at the bottom of p. 656 in Cateora & Graham, 2009 or p. 652 in Cateora & Graham, 2007.

QUESTION 3

Remember too, that marketing to the BOP raises a number of issues revolving around the social responsibility of marketing efforts. For example, is it considered exploitation for a company to profit from people with little disposable income? Can marketing loans to customers in these circumstances be justified?

PRESENTATION

ASSIGNMENT TOTAL: 100