

C.K. Prahalad's Bottom of Pyramid Business Model

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Abstract:

The Bottom of the Pyramid (BOP) refers to the poorest two-thirds of the global population which is over 4 billion people living on less than \$2 or \$5 a day. Popularized by C.K. Prahalad in 2004, it represents an untapped, high-volume market. Businesses target this segment with affordable, high-volume, low-margin products (e.g., small shampoo sachets) to ease poverty while generating profit. Roughly two-thirds of the population, or about 68%, live on less than \$5 per day. The global Bottom of the Pyramid (BoP) consists of approximately 4 billion people living in poverty, typically defined as those with incomes below \$2.50 to \$3.00 per day.

KEYWORDS: C.K. Prahalad, Bottom of the Pyramid, Micro-distribution, Voluminous, FMCG, Technology-Driven, Innovation, Sachets, Kiosks, Lowest Income Tier.

This segment represents the largest, yet poorest, socio-economic group, often characterized as a major market opportunity. Roughly 4 billion people, representing the bottom two-thirds of the economic pyramid. This segment is characterized by subsistence-level income, high levels of informality in labor, and low literacy rates. It's the lowest income tier (tier 3 and 4) of the global economic pyramid.

Market Opportunity:

The collective purchasing power of the poor is immense, its voluminous creating a "fortune" for companies that can design sustainable, scalable business models, such as small-packet shampoos, low-cost banking, or affordable health services. The market size is roughly 4 billion people, primarily in Asia, Africa, and South America. The BoP is highly price-sensitive, often with irregular income streams.

While offering immense growth potential as a battleground for corporate revenue, BoP markets present challenges like poor infrastructure, which makes distribution costly.

Micro-distribution:

Using local, community-based networks (e.g., selling through local women in rural areas) eg. Project Shakti of HUL. Even a kiosk (tapari) business is a high-traffic, low-overhead retail model located in busy streets, offering products or services through small, often self-service booths. It offers a cost-effective entry for entrepreneurs, with opportunities in food, retail, or tech, often allowing for flexible, mobile, or fixed setups. Key success factors include prime location, eye-catching design, and efficient inventory. Allowing consumers with daily income to purchase products they cannot afford in large, upfront quantities in sachets.

Kiosks allow utilizing technology to offer services like telecom or solar power in small, manageable increments. They act as local solutions leveraging local knowledge and resources to create sustainable local enterprise networks.

FMCG products are the top-selling category:

often sold in micro-packaging to reduce upfront costs for low-income consumers. Sachets, or single-use, small-unit packaging, are a foundation of marketing to the Bottom of the Pyramid (BoP) the largest but poorest socio-economic group. These products are designed for consumers with limited daily cash flow, allowing them to purchase branded goods in small quantities at affordable prices. Personal care products such as shampoos, soaps (e.g., Lifebuoy), toothpastes (e.g., Colgate), hair oils, and fairness creams. Detergents and cleaning soaps powder detergents (e.g., Nirma) and dishwashing soaps. And, edible items such as cooking oils, tea, spices, and sugar. To make the product accessible to BoP, Maggi introduced smaller packs at low, affordable price points, such as ₹5 (Chotu Maggi) and ₹10, allowing for impulse purchases. Companies such as Hindustan Unilever (HUL), Procter & Gamble (P&G), CavinKare, Dabur, Britannia, and Nestle use this approach to penetrate rural markets and, increasingly, to combat the rising cost of living in urban areas. Examples include small pouches for detergent (Surf Excel), shampoo sachets (Sunsilk), and small biscuits/snack packs (Good Day).

In many developing markets, small neighbourhood stores ("sari-sari" stores in the Philippines, kirana stores in India) are the primary source of goods, which perfectly suits the distribution of single-use sachets.

Functional and affordable technology:

BoP consumers are eager to adopt technologies that improve their quality of life or productivity. Low-Cost mobile handsets: Budget-friendly, feature-packed mobile phones, especially from brands like Micromax, Spice, and Nokia. Solar-Powered lights and devices like D. Light provide essential, sustainable, and portable lighting and phone charging capabilities. Low-Cost household appliances low-energy products like the "ChotuKool" refrigerator. Chotukool is an innovative approach to tackling the problem of food storage in India, a country in which around one-third of all food spoils and an estimated 80 percent of households do not have access to or use a refrigerator. Chotukool is the brainchild of Gopalan Sunderraman, Executive Vice President of Godrej & Boyce Manufacturing.

Success at the BoP often requires reinventing the business model, not just the product. The model emphasizes that innovations should be co-created with the BoP consumers, shifting from "selling to the poor" to "working with the poor". For example, Tata Nano, Tata Ace is re-engineering automobiles for affordability. Aravind Eye Care System is High-volume, low-cost eye surgeries. The strategy has made the eye-care hospital stand out as an ethical when it provides products that improve quality of life, such as basic health, hygiene, or connectivity solutions.

Sewage Pipe Home: Perala Manasa Reddy witnessed the issue of access to clean drinking water and sanitation facilities for the poor when she was a civil engineering student. This prompted her to study more about low-cost housing options when she came across Pod-style homes built from sewage pipes. She developed an Indian version of OPod which is a low-cost homemade from old sewage pipes that have bathrooms, a kitchen, and bedrooms attached. This solves housing problems among the poor.

Multi-harvester: Deepak Reddy is a mechanical engineer from Telangana who built a multi-harvester machine to help the farmers of his village start cultivation on land left barren for years. The land had large amounts of stone debris which is difficult to remove and requires huge expense. He also came to know there are acres of such land all over South India. Cost-effective equipment to do this task was necessary and he was successful in developing it. It can also be used to harvest crops.

Tupik Bed AC: Ever thought about why do we have to cool the entire bedroom using an air conditioner to just sleep comfortably? Ravi Patel innovated an energy-saving AC which cools only the bed. This 13 kg weighing small AC consumes 400-watt of electricity which is equal to using only three light bulbs. It can also be self-installed without the help of a technician just like a table fan.

Amphibious Bicycle: Desperation to meet his love made Bihar-native Muhammed Saidullah an inventor. So, he made an amphibious bicycle that can run on both land and water to reduce the waiting time to meet his wife. He rode his cycle in the Ganga to travel from Pahelaghat to Mahendrughat and even named the bicycle after his wife – Noor.

Mitti Cool: A traditional clay craftsman and inventor Mansukhbhai Prajapati is fond of making new things using clay. The 'coolest' of his inventions is a fridge made of clay which needs no electricity to preserve food items for many days. This Rajkot-native's invention has been featured at a conference organised by the Centre for India and Global Business, Judge Business School, University of Cambridge, the UK in May 2009.

Jaipur Foot: Bhagwan Mahaveer Viklang Sahayata Samiti (BMVSS) is a Jaipur-based non-profit organisation founded by Devendra Raj Mehta which has given free artificial limbs to lakhs of needy people. Mehta, a former IAS officer, met with an accident in 1969 at Pokhran which almost took his life. Even though he didn't lose his limb, Mehta realised its expense which eventually led to the formation of the organisation. More than 18 lakh individuals have benefited from it to date.

Voice Box: Dr Vishal Rao came up with a device that costs just Rs 50 which can give throat cancer patients their voice back. This Bangalore-based oncologist's voice prosthesis is extremely cheap compared to other ones available in the market. 'Aum' is now available after receiving approvals from scientific and ethical committees. This is a life-saver for such patients and helps them eat and speak well.

Bottom of Pyramid Business Model is Huge:

Consisting of over 4 billion people, this market is not small; it constitutes most of the global population. BoP consumers are highly price-sensitive, yet value-conscious. They often require specialized products (e.g., smaller packaging) and yet are value-conscious. They exist in rural and informal urban economies. The market is estimated at around trillion annually, grows faster than the global GDP. It is considered a source of innovation, offering opportunities for companies to create shared value. Most of this population is concentrated in developing nations, with significant populations in China, India, Brazil, and Indonesia. Consumption at the BoP is often described as "frugal in size but voluminous in total," meaning products are sold in small quantities like sachets to a vast number of people, leading to high total sales revenue. The population at the bottom of the pyramid is projected to swell to more than 6 billion people over the next 40 years as global population growth remains concentrated in this segment.

Conclusion:

The "fortune" at the bottom of the pyramid, popularised by C.K. Prahalad, suggests that businesses can simultaneously drive profits and lessen poverty by treating this segment as consumers rather than merely as victims of poverty. Those in the private sector who commit their companies to a more inclusive capitalism can prosper and share their prosperity with those who are less fortunate. In a very real sense, the fortune at the bottom of the pyramid represents the loftiest of our global goals.

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