

**PLAYING AT THE LOWER END MARKET:
MOTIVATIONS, IMPEDIMENTS AND SUCCESS
FACTORS**

Godwin Ehigiamusoe PhD

Founder, LAPO

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QUOTE

“Democratization of commerce is based on everyone having the right to exercise their roles as micro-consumers, micro-producers, micro entrepreneurs, micro investors and micro innovators”

– Prof Prahalad

INTRODUCTION

- Market is to businesses as air to the human. Businesses of what nature and size meet the need of the people to survive.
- A prosperous business is one with an enormous market which it explores and exploits to its benefit. Businesses therefore seek for market.

INTRODUCTION...

- Market or the society is usually segmented along certain characteristics namely; gender, geography, age, education, and socio-economic status.
- For the purpose of this discussion, the market shall be stratified along socio-economic status.

My Task :

- ❑ Examination of the various segments of the market, their characteristics or peculiarities with special attention to the *lower end of the market*;
 - ❑ Paradigm shift with attention to the *bottom of the Pyramid*;
 - ❑ Challenges and opportunities in the segment.
 - ❑ Success imperatives at the *lower end of the market*
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Market Stratification

- ❖ Traditionally, businesses segment and target market for their products and services.
- ❖ On socio-economic scale, market is broadly stratified into upper and lower segments.
- ❖ Conventionally, members of the upper segment for many years have attracted the attention of the producers of goods and services.

Dominant Marketing Paradigm

- I. The poor at the bottom of the pyramid are **problem** and not business opportunity; *therefore leave them to aid agencies and government*
- II. The poor are the ‘wards’ of the government and aid agencies not for businesses .The people at the lower segment cannot afford products and services; For instance, the poor do not have collateral to secure loans, so, they are **unbankable**

Dominant Marketing Paradigm

III. People at the bottom of the pyramid scarcely have any use of products and services produced by large firms; ***so, do not target them with insurance and leasing services***

IV. People at the bottom of the pyramid do not present opportunity for long term growth, the market is simply a distraction; ***simply forget them***

Implications of the Mindset

- ❖ The poor who are indeed needy were left out of the good things of life;
- ❖ They were deprived of access to products and services which would have improved the conditions of members of their households.

Implications of the Mindset

- ❖ Also, they were deprived of the opportunity to make contributions to national economic development.
- ❖ On the other hand, businesses failed to benefit from the enormous opportunities in that segment

Paradigm Shift: Fortune at the Bottom of the Pyramid

- It was only towards the end of the twentieth century that inadequacies of this mono-segment approach became obvious.
- This realization led to the attention to the concept of the *bottom of the pyramid (BoP)* made popular by the late Prof. C. K. Prahalad in his seminal book “*Fortune at the Bottom of the Pyramid*”.

Concept of Bottom of the Pyramid

- The *Bottom of the Pyramid* as a concept refers to segmentation of the society or market into an economic pyramid with the the privileged on the top and unprivileged poor at the bottom.
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Central Message of the BoP

The central message is that:

“private sector should stop to think of the *poor as victims or as a burden* and to start to recognize them as resilient and creative entrepreneurs and value-conscious consumers.”

Doing so, according to Prahalad and associates would open up a whole world of opportunity for businesses.

Main Assumptions of the Business at the *Bottom End of the Market* are :

- ❖ There is money or prosperity for private businesses at the bottom of the pyramid: **it is viable and Profitable!** ;
 - ❖ With unconventional and innovative approaches, access to the bottom of the pyramid could be made easy;
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Main Assumptions of the Business at the *Bottom End of the Market* are :

- ❖ The poor at the bottom of the pyramid as brand conscious as their counterparts at the *peak of the pyramid*
- ❖ The bottom of the pyramid market provides new growth opportunity and platform for innovations for businesses.

Lower End of the Market: Number

- A selling point of the base of the socio-economic pyramid is its large population .
- Prof. Prahalad estimated that globally the base of the pyramid consists of over 3.7 billion people . Here lies the economic and business opportunities Prahalad appropriately termed *The Fortune at the Bottom of the Pyramid*

Structure of the Market

- ❖ *Upper class with the highest income of **USD108.73** per day and population size of **1.069 billion**;*
- ❖ *Upper middle class with **USD22** per day; and population of **.949 billion**;*
- ❖ *Lower middle class with **USD 5.68** and population of **3.7 million***
- ❖ *The poorest of the poor with an income of **US1.45** per day and with population of **.976 billion***

Structure of the Market...

- ❖ The third class that is, **Lower Middle Class** in reality constitute what could be considered as the economically viable *Bottom of the Pyramid*;
- ❖ The poorest of the poor are most unlikely of being profitable for most private enterprises.

Opportunities and Motivations

Volume and profits

- ❖ Market is about people and their needs. The prime motivation of any business enterprise, is profit or returns on investment or assets applied. In almost all economic sectors, there is a huge unmet need at the *base of the pyramid*.
- ❖ The poor needs finance, they need leasing services, they have education and health needs to meet.

Opportunities and Motivations

- ❖ For instance, the microcredit need was estimated as about USD250billion as at the end of 2006. This is estimated to grow by USD634million in the next few years.
- ❖ On the average, institutions in the LAPO system deliver N15billion monthly.
- ❖ In the first quarter of 2019, our micro-leasing arm has leased assets worth N2. 8billion. With adequate resources, it could do more.

Opportunities and Motivations

Human development

- Perhaps the most important motivation for mainstreaming actors at the base of the pyramid into the mainstream economic space is the goal of empowerment of the poor.
- Private businesses serving the poor is critical to addressing endemic poverty. The long-held view that poverty alleviation is the sole responsibility of the government and aid agencies has not yielded the desired result.

Opportunities and Motivations

- Business at the bottom of the pyramid assists the poor to improve their nutritional status, send and retain their children at school and be able to address the challenge of vulnerability.
- A poor woman provided with opportunity to lease cassava grating machine or a restaurant owner who leased a refrigerator is set on the path of sustainable income. Access to sanitation products enhances the health status of the poor.

Opportunities and Motivations

- *Inclusive growth*
- Also, targeting the lower end of the market promotes inclusive growth and development. It empowers the poor to transit from the *fringes* of the economic to becoming main factor and active participants in the national economic development.
- They make contributions to national development while they benefit as well. For instance, by the means of their livelihood, the mass at the *bottom of the Pyramid* are active on the environment; access to renewable energy products can transform them in a large army of environmental conservators.

Accessing Lower End of the Market: Impediments

Cost of operations

Servicing the lower end of the market is could be expensive. Cost raisers are :

-little units of services

- Low absorptive capacity of each of the members of the lower end of the market results in providing micro units of products and services. Thus we have micro-leass micro-insurance , micro-credit and micro-pension.

Accessing Lower End of the Market: Impediments

- Delivery of these bits of services could be expensive. For instance, a single big ticket lease transaction could involve an asset worth N200million. With a micro-leasing company, 400 leasing transactions will be required for the same amount.
- This means 400 persons or entities to be marketed; engaged and managed. So, it is for microfinance, micro insurance etc.

Accessing Lower End of the Market: Impediments

Cost of distribution

- A large size of members of the persons at the lower end of the market reside in rural communities.;
- Even those in the urban slums are below the radar with minimal access to information and market promotion;
- Poor road and communication infrastructures present huge challenge of higher cost of product distribution and delivery.

Accessing Lower End of the Market: Impediments

Low purchasing power

- ❖ Persons in the *lower end of the market* have relative lower purchasing power than the traditional market of most enterprises.
 - ❖ This has implications for volume. Pushing for volume will require some form of investment.
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Accessing Lower End of the Market: Impediments

❖ *Low level of formal education and awareness*

The lower end of the market consists of consumers with low level of education and awareness. Traditional communication and marketing strategies will be ineffective.

❖ *Informal business*

Most enterprises at the bottom of the pyramid are hardly formalized. Structures and documentation required for smooth engagement are absent. In most cases, there are not governing board, management structures and processes are weak; record keeping is rudimentary.

Accessing Lower End of the Market: Impediments

Psychological conditioning

- Relationship with persons at the bottom of the pyramid is usually emotive. Over the years, they have been related with as persons who only need aids and subsidies. They have been conditioned to expect subsidized products and services. This could be challenging for private sector actors. For instance, they do not see why they should pay commercial rates for services and products.

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Accessing Lower End of the Market: SUCCESS IMPERATIVES

For many companies the motivation to target the segment **over-rides** the challenges. For success, they focus on the so-called Four As of creating :

- **Awareness,**
- **Access,**
- **And making products and services:**
- **Available and,**
- **Affordable ,**

Accessing Lower End of the Market: **SUCCESS IMPERATIVES**

Innovations

- Business models for conventional businesses are not appropriate for markets at the bottom of the pyramid.;
- The modifications are to be responsive to the peculiar features of persons at the lower end of the market. Innovations will be required in product development, distribution channels, and pricing.
- For instance, to deal with the challenge of information asymmetry and cost of operations; micro-credit operators adopt *group methodology* an approach unknown to the conventional banks for many years;

Accessing Lower End of the Market: **SUCCESS IMPERATIVES**

Awareness creation

- Awareness and general education are required to penetrate the lower end of the market. Consumers in the segment do not have access to product information through **conventional channels**.
- In some cases, low income people do not feel that certain products and services are meant for them. Many poor people believe that insurance policies only for the rich. For many years before the rise of microfinance, *institutional credit* was considered by the poor as for only the rich.

Accessing Lower End of the Market: **SUCCESS IMPERATIVES**

Awareness creation

- For the poor, borrowers of loans were considered as *debtors*. Many people at the bottom of the pyramid are not aware of leasing and its numerous benefits;
- Early microfinance institutions incorporated *motivation of potential clients* into the operational procedures

Accessing Lower End of the Market: **SUCCESS IMPERATIVES**

Need for extra services/support

- People at the lower end of the market require some form of support to be able to become active participants in the private sector space.
- They are to be empowered to make use of provided goods and services. Companies are known to support access to micro loans for their ultimate customers.

Accessing Lower End of the Market: **SUCCESS IMPERATIVES**

- *Ensuring access*

- Most persons at the lower end of the market are isolated in rural communities. To reach them firms must adopt innovative channels to reach them.
- For instance, LAPO Microfinance Bank rolls out an agent network to reach persons in remote rural communities.

Accessing Lower End of the Market: **SUCCESS IMPERATIVES**

Partnership

- Partnership is essential in reaching persons at the lower end of the market. Local or community based institutions such as non-governmental organizations have flexible structures and processes with which they are able to reach remote communities.
- They also understand local customs and traditions.

Accessing Lower End of the Market: **SUCCESS IMPERATIVES**

Partnership

- Firms which desire to reach the lower end of the market can partner with these local institutions. Major insurance companies partners with LAPO Microfinance Bank to reach poor women with a range of insurance policies.

- THANK YOU!
