



Opportunities of Base of the Pyramid from the Perspective of Resources and Capabilities

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ABSTRACT

This paper addresses the issue of the Base of the pyramid (BOP) from the perspective of resources and capabilities, analyzing the best strategies to enter the market, making appropriate use of internal resources, which is the main determinant of innovation and organizational capabilities with which have good results, and success stories of Mexican companies were analyzed.

Keywords: Base of the Pyramid, strategy, resources and capabilities

JEL: M119, M220 RESUMEN

En este trabajo abordo el tema de la Base de Pirámide (BOP) desde la perspectiva de recursos y capacidades, analizando las mejores estrategias para entrar al mercado, haciendo el uso adecuado de los recursos internos, donde el principal determinante es la innovación y las capacidades organizativas con los cuales se tienen buenos resultados, además se analizaron casos de éxito de empresas mexicanas.

Palabras clave: Base de la pirámide, estrategia, recursos y capacidades.

1. Introduction

The market for base of the pyramid (BOP) is a market with business needs that companies can develop through strategies by making use of the resources and capabilities approach. Toro (2006) mentions that the resources that businesses have, their unique capabilities and core competencies should help them create their differentiation strategies into programs, projects and the products or services that business provide to society.

For all these reasons it is important to look at this market, where one of the most viable ways to enter is to focus the resources and capabilities in order to have better performance and succeed in it. This will be analyzed is the market base of the pyramid, strategies or guidelines that recommend the authors to be used. Also, it is the focus of the diversification of the company that has been approached from the perspective of resources and capabilities aimed at BOP. Finally, it will be analyzed companies that have entered the market in the BOP.

2. Background to the Problem.

The base of the pyramid consists of more than four billion people (Prahalad, 2005), and according to World Bank data within the next 40 years will have grown exponentially. The base of the pyramid will be the markets of the future, since the higher population growth occurs here. It is expected that by 2050, about 85% of the world population, about 9 billion people will be in developing countries (Mutis and Ricart, 2008).

This segment of the population has incomes below \$ 3,000 in local purchasing power. The BOP makes up 72% of the 5,575,000 people registered in national household surveys worldwide and an overwhelming

majority of the population in developing countries of Africa, Asia, Eastern Europe, Latin America and the Caribbean, regions of residence most of the BOP (Hammond, Kramer, Katz, Tran, Walker, 2007).

This huge segment of humanity faces significant unmet needs and lives in relative poverty: In current American dollars, its income is less than \$ 3.35 a day in Brazil, \$ 2.11 in China, \$ 1.89 in Ghana, and \$ 1.56 in India. However, together represent a substantial purchasing power: the BOP constitutes a consumer market of \$ 5 billion globally (Hammond et al. 2007). As shown in the following figure of the economic pyramid, Prahalad located where the BOP segment in the last part of it, this is where is best displayed the segment of the same author emphasized several investigations (Figure 1).

In Latin America, the BOP market of \$ 509 billion, including 360 million people representing 70% of the population in the 21 countries surveyed. It also represents 28% of total household income in the region, a lower percentage than in other developing regions. In Brazil and Mexico the BOP constitutes 75% of the population and represents total revenue of \$ 172 billion and \$ 105 billion respectively (Hammond et al. 2007).

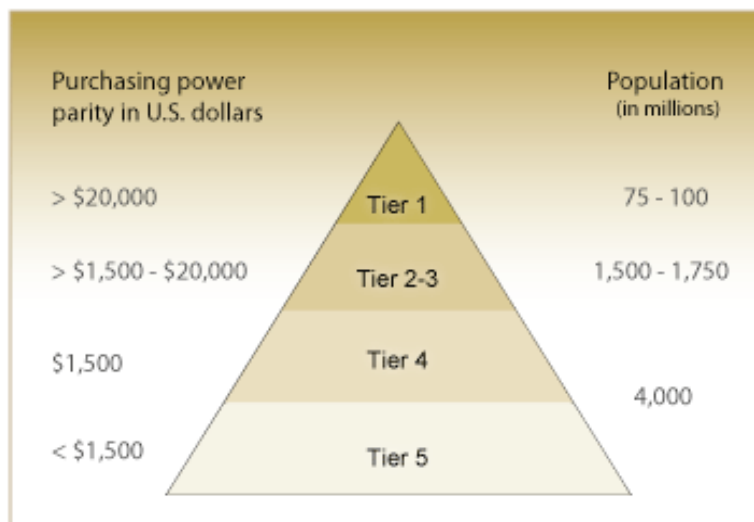


Figure 1. The economic pyramid.

Source: C.K. Prahalad (2005).

Sector markets of the 4 billion BOP consumers vary greatly in size. Some are relatively small, such as water (\$ 20 billion) and the information and communications technology, or ICT (\$ 51 billion, although it has probably doubled due to rapid growth). Some are medium, such as health (\$ 158 billion), transportation (\$ 179 billion), housing (\$ 332 billion) and energy (\$ 433 billion). And some are really large such as the food market (\$ 2.895 billion). BOP markets in Asia (including the Middle East) are the largest, reflecting the total weight of the population in that region (Hammond et al. 2007).

3. Determination of the Problem

Companies face certain challenges when entering the market base of the pyramid that can be overcome by implementing strategies through targeting their resources and capabilities to generate good results. Therefore, the question to answer is what are the determining resources and capabilities to generate a strategy that will lead to success the company at the base of the pyramid?

4. Justification

During the past decade, many MNCs have approached the base of the pyramid with an existing portfolio of products and services. Given that these portfolios have their prices and have been developed for Western markets, they often are out of reach of potential consumers of the markets at the bottom of the pyramid.

More importantly, the feature-function set is often inadequate. As a result, the promise of emerging markets at the bottom of the pyramid has been largely illusory. At the same time, development agencies have also tried to reproduce models of developed countries at the base of the pyramid, with equally unsatisfactory results (Prahalad, 2005).

The idea of stimulating trade and development in the BOP through responsible business activities as a way to reduce poverty arises. Business believe that their models at the BOP have great potential for learning and

growth due to the size of the population to which these markets are directed (Mutis and Ricart, 2008). This is reflected in the number of leading companies conducting pilot programs, launching new businesses or product lines and extending their current business to serve BOP markets (Hammond et al., 2007). Therefore it is important to mention what are the best strategies for entering this market, indicating which are crucial resources and capabilities to be successful.

5. Hypothesis.

The strategies that are successful in the base of the pyramid is that the value chain should be directed towards Customer innovation in sourcing, technology development, human resources, enterprise infrastructure, internal and external logistics, operations, marketing sales and services, i.e. the resources and capabilities of a company must properly target the goal.

6. Objective.

Determine the resources and capabilities of firms that generate good results in the generation and design of strategies aimed at the base of the pyramid (BOP).

7. Theoretical Conceptual Framework.

A. Strategies or Suggested Approach to The Market for the Base of the Pyramid.

According to Mutis and Ricart (2008) the base of the pyramid market should be addressed through strategies that take into count the following characteristics:

- 1) The use of appropriate technologies.
- 2) Transform its scale conception of "the higher the better "a strategy of small-scale operations widely distributed, combined with global capabilities and R & D.
- 3) Basing the model on the efficient use of capital and labor intensive, rather than the traditional model based on an intensive use of capital and labor efficiency.
- 4) It's important to build nontraditional relationships with local governments, SMEs and Civil Social Organizations.
- 5) Relations with the local context and social capital needed to overcome the absence of formal institutions that protect intellectual property and ensure compliance with laws.
- 6) Local production, a logical question of cost reduction and greater adaptability of product characteristics and local needs. They also propose activities of co-creation and development of networks of experiences that involve innovation. Innovation at the BOP can anticipate trends in developed markets, such as renewable energy, telemedicine and banking services via mobile phone (Drucker 1985 Mutis and Ricart 2008).

Silva (2009) argues that there are four requirements to bring the BOP market:

- 1) Create purchasing power, primarily through credit such as microfinance of Yunus or increase the revenue potential of this population.
- 2) Shaping aspirations through education and technologies that save energy consumption.
- 3) improving physical and economic access of these people to some extent by improving distribution, but especially by enhancing communication and access to information through ICTs
- 4) Adjust local solutions, combining advanced technology with specific conditions.

Nevertheless, Prahalad (2005) meanwhile recommends developing a philosophy based on the following twelve principles of innovation for markets BOP:

- 1) The focus should be on the performance of the prices of products and services.
- 2) Innovation requires hybrid solutions.
- 3) Given the magnitude of the markets at the bottom of the pyramid, the solutions to be developed should be able to increase their scale and transport between countries, cultures and languages.
- 4) Developed markets are used to the waste of resources.
- 5) Product development must start with a thorough understanding of the functionality and not only of the form.

- 6) Process innovations are as crucial as product innovations in the markets of the base of the pyramid.
- 7) The job training is crucial.
- 8) Educating customers on the use of the products is essential.
- 9) Products must operate in environments hostiles.
- 10) Research on interfaces is critical given the nature of the consumer population.
- 11) Innovations must reach the consumer.
- 12) Paradoxically, the evolution of the features and functions in the markets of the base of the pyramid can be very rapid. But the author says that not all principles can be used in a business model.

Other strategies proposed by Prahalad are to develop the ability to consume and use based on three simple principles that can properly be described as "AAD":

- 1) **Affordability:** Whether a single-serve package or purchase a new plan. The key is that products are affordable without sacrificing quality and effectiveness.
- 2) **Access:** Patterns of product and services distribution must take into account the place of residence of the poor and their working patterns.
- 3) **Availability:** For consumers at the bottom of the pyramid the purchase decision is usually based on the cash they have on hand at any given time (Prahalad, 2005).

The World Bank indicates that it is possible to locate these efforts in four broad strategies that apparently are critical to their success as is the:

- 1) Focusing on the BOP with unique products or appropriate and unique technologies to meet the needs of this segment.
- 2) Location of value creation through franchising or through strategies with representatives who involve the creation of local ecosystems vendors or suppliers.
- 3) To facilitate access to goods and services.
- 4) Unconventional associations with governments, NGOs and other stakeholders to provide skills or critical skills (Hammond et al. 2007).

Also, Voveryte, (2011) indicates that the first success factor is the ability of a company to offer a unique and personalized experience of products and processes in their solution. A custom product not only improves the success in financial terms, but also through greater social impact; generally successful strategy is one that has an innovative approach to adapt to the market conditions at the base of the pyramid, by adjusting its supply chain, production methods. This requires companies to acquire new skills. Every aspect can vary on each different market.

Meanwhile Karnani (2006) and Voveryte (2011) mentioned or defended the idea of considering the BOP not as consumers that is the idea of Prahalad, but as producers and employees, establishing links with employers that may be included in the supply chain of large companies and achieved through the inclusion of the scale. On the other part, Obe and Barham (2009) indicate in their book "The role for business at the bottom of pyramid" that to reach to the base of the pyramid market there are three approaches: the provider model (basic needs), model of power (empowerment or participation) and the model of equal partnership.

The provider model delineates where companies seek to match community needs with their products in order to find a new market, high quality products at affordable prices. The power model is where the company tries to listen a little more in order to create products and services tailored to the needs and particular conditions of community services. The model of equal partnership is where the company seeks to share the initiative with the community and is no strangers to their perceptions which imagine and create the future, which is a joint exercise that leverages the capabilities, resources and creativity. This model is very little used. Most models are developed on the model one or two, as this requires interaction with the community, and the author indicates that the first two approaches fail because they do not listen to their market.

It can be said as Obe and Barham (2009) that the third model considers the poor rich communities in skills, resources and expertise that when combined with the resources and capabilities of firms can result in opportunities for entirely new businesses that serve the community.

B. Resources and Capabilities used in Diversification.

Before continuing it is necessary to clarify that the focus of the resource-based theory seeks to explain the reasons why companies, which operate in the same competitive environment and that would be subject to the same conditions of success in the industry, obtained different levels of profitability (Huerta, Navas and Almodovar, 2004). This will define the resource as Wernerfelt (1984: 172) in Huerta, Navas and Almodovar (2004) defines them as those (tangible and intangible) assets which are tied to the company's semi-permanently as trademarks, own technological knowledge, the use of personal skills, business contacts, efficient procedures, capital, etc.

Capabilities, skills or organizational skills allow the company to adequately develop an activity from the combination and coordination of individual resources (Navas and Wars, 2002: 189) in Huerta, Navas and Almodovar (2004). It is mentioned that for a company to follow a diversification strategy should be that there is some kind of imperfection in the market that makes the exchange entails a very high transaction costs, outweigh the costs of exploiting that resource internally (Suarez, 1993: 146). Firms diversify in response to excess production factors (Montgomery, 1994: 167) or resources that cannot be transferred through the boundaries of the firm without incurring in high transaction cost (Dewan, Michael and Min, 1998: 221) i.e. firms are subject to market imperfections (Montgomery and Wernerfelt, 1988: 623).

The authors state that diversification exists when there are excessive physical, financial, intangible resources, and this is so that these resources are not idle. However, Cardona (2011) indicates that the theory of resources and capabilities states that organizations can gain competitive advantages and benefits steadily as long as resources are available only according to the criteria used to evaluate them, their relationship with key success factors and the strategy to be implemented, as well as looking for ways to protect themselves to prevent their spread to other firms in the sector.

8. Cases of Companies that have been Successful at the Base of the Pyramid.

Various Mexican companies have shifted their resources to look to the Bop market as it is Bimbo group. About two years ago, Bimbo and Fincomún began collaborating with the vision of providing financial services possibly 600,000 small shops that are part of the system Bimbo distribution. The collaboration started with the drivers of Bimbo delivery trucks distributing information about these small business credit products Fincomún (S / A., 2007). Currently, loan officers Fincomún accompany the truck drivers Bimbo to sell and process micro loans. Femsa if supported by businesses such as OXXO to employ families by paying a salary and commissions based on volume of sales. It has also created a foundation to help grow future businesses (S / A., 2007).

Cemex under his program, Patrimonio Hoy has supported the creation or expansion of more than 90,000 homes belonging to low-income families. Currently, CEMEX testing changes in delivery model and pricing system so that it can provide services to 2 million low-income households, and thereby justify the investment of \$ 100 million. Recently, CEMEX has developed another initiative Construrama that provides opportunities in the economy at the base of the pyramid. Construrama is a franchise of small and medium-sized hardware stores that sell cement and a wide range of building materials and tools CEMEX and other companies (S / A., 2007).

In another case, Gruma decided to develop a program to modernize the tortilla-shops (tortillerías) through a franchise approach, under a common brand, in-store improvements, broader product offering and support for the promotion and management skills. To date, at 160 tortillerías in which the model was implemented, sales have increased by over 50%, with an increase in profits for tortilla and Gruma. It is in the process of extending the model to many of the 20,000 tortilla (S / A., 2007).

Comex supports business training for more than 25,000 young people each year and is involved in affordable housing. Perhaps its larger projects are those designed to encourage the progress of less developed states of Mexico, through the private sector-led solutions. Comex has supported business feasibility studies and promotion of new projects in Guerrero and other states, working in collaboration with other major private companies (S / A., 2007).

Ignia Group meanwhile is working to establish a venture capital fund to encourage social enterprises for profit in Mexico led to the BOP. One of his successful companies is Compartamos Banco. Proeza (Prowess) is a company of one billion dollars in annual sales, committed to the production of automobile parts, machinery and agricultural products, exports orange coming from producers located in marginal states. Nestle works with small dairy farmers to produce their products; the company is also interested in BOP however it is studying some strategies. Banco Azteca provides financing services to the families of the Bop supported by its experience in the care of this sector long ago (S / A., 2007).

8. Method Research

This study is conducted from literature review addressing the issue from the perspective of resources and capabilities with reference to authors who have discussed this subject.

9. Analysis of Results.

The resources and capabilities are part of the firms that make them to vary between each other. When entering the market base of the pyramid (BOP) the company must set well the target, i.e. align its resources and capabilities to establish the best strategy. As seen, it is nothing but a process of diversification. This process requires challenges as the market base of the pyramid it is great but it must align these resources, particularly regardless that it has excess of resources, to do that these resources are therefore this unique strategy as the most appropriate.

Specifically the most decisive resource in this process is innovation, mentioned by several authors. Since this may be in the production process, in the way they relate to business or creating unique products, this is important because as seen in the various cases each company creates its strategies, but these are well thought out and appropriate to the market where they will focus.

It was found that there are three ways to approach the base of the pyramid with the provider model (basic needs), model of power (empowerment or participation) and the model of equal partnership. These three forms, regardless of how it is decided to approach the market, it can be said that the organizational capacity of business leaders is crucial to success because if it is not properly organized it has the resources, there will be no alignment of resources and capabilities, i.e. the chain value of the company should be well oriented grabbing the goal

10. Conclusions and Recommendations.

For a company to succeed in the market base of the pyramid (BOP) should direct resources and capabilities to develop a strategy that enables the company to innovate, since it is the main factor in this market followed by the organizational capacity. The best way to approach the market is to understand the needs and interacting with people since it is no longer appropriate to view only the market base of the pyramid just as a consumer, but do see the BOP as an employee or producer roles. If capacities are united and resources of population and companies, there will be better results in which both would be making profits and above all a better place to live would be generated.

Finally, it is recommend that beginning from this approach based on resources and capabilities, to review and focus on the industry-based and the institutionalism approaches. It is also important to analyze the environment in times when the market base of the pyramid is addressed since the supporting governments. For the approach to this analysis, it has just been forwarded the resources and capabilities

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