Research
BOP business in developing countries

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There are various definitions of what constitutes poverty. According to statistics published by the World Bank in 2010, roughly 25% of the world's population (approximately 6 billion people) are classed as poor (*1). There are large numbers of poor countries in Africa and Asia in particular, with the likes of Burundi and the Congo (formerly Zaire) in Africa and Myanmar and Nepal in Asia amongst the poorest countries in the world. There were 49 countries on the UN's list of the poorest countries in the world in 2005, with one third of the world's countries still struggling with poverty (*2).

In recent years however, we have started to see signs that income levels amongst the poor are gradually increasing in line with economic growth, particularly in emerging countries. According to the IMF, nominal GDP per capita in developing countries, including the world's poorest countries, has increased by an average of 7% over the last five years, a growth rate that is almost three times as high as the same figure for advanced countries (2.4%). Whereas significant economic growth is relatively unlikely in Japan and other advanced countries due to issues such as declining populations and aging societies, developing countries are still expected to experience strong economic growth as their populations increase. The tremendous potential offered by middle-income earners in such counties, the so-called "volume zone", is starting to attract a great deal of attention from all over the world.

Here at Hitachi Research Institute, we are conducting research into business strategies at the "base-of-pyramid" (BOP) level in particular, focusing on examples in various different countries.

*1 The definition of poverty varies depending on the organization in question. The World Bank defines poor people as those with an annual income of no more than $370 per person. The United Nations Development Programme (UNDP) meanwhile measures poverty based on a composite index that takes into account factors such as the mortality rate for people aged under 40, the percentage of people with access to medical services and safe water, the rate of underweight infants aged under five and the rate of adult illiteracy.
For the purpose of this study, countries for which the definition is unclear are referred to as "developing countries".

*2 The UN's definition of the poorest countries is as follows (as specified in 2003).
1. Countries with a per capita gross national income (GNI) of $750 or less based on a three-year average
2. Countries with a below-standard human assets index (HAI) (mortality, literacy, calorie intake, etc.)
3. Countries with a below-standard economic vulnerability index (EVI) (stability of agricultural production, stability of product and service exports, percentage of population affected by natural disasters, etc.)

1. What is BOP?

The The term BOP has actually been in use for a long time. President Roosevelt used it in a radio speech as far back as 1932, referring to the importance of those at the bottom end of the economy. The study that prompted many companies to show an interest in BOP was the 2002 book The Fortune at the Bottom of the Pyramid by Professor C. K. Prahalad from the University of Michigan, who argued that business rather than aid would be a more effective way of improving standards of living amongst low-income earners around the

world. Although BOP was originally short for "bottom of pyramid", it has largely been changed to "base of pyramid" in recent years due to the derogatory implications of the word "bottom".

There are a number of interpretations regarding the definition of BOP. According to the definition set out by the World Bank in The Next Billion, BOP refers to low-income earners with an annual income less than $3,000. The BOP population consists of over 4.4 billion people, around 72% of the world's population, concentrated primarily in China, India and other Asian countries. The scale of the BOP market is estimated to be somewhere in the region of $5 trillion, which is equivalent to the actual GDP of Japan. Evidently, it is a market with massive potential (Figure 1).
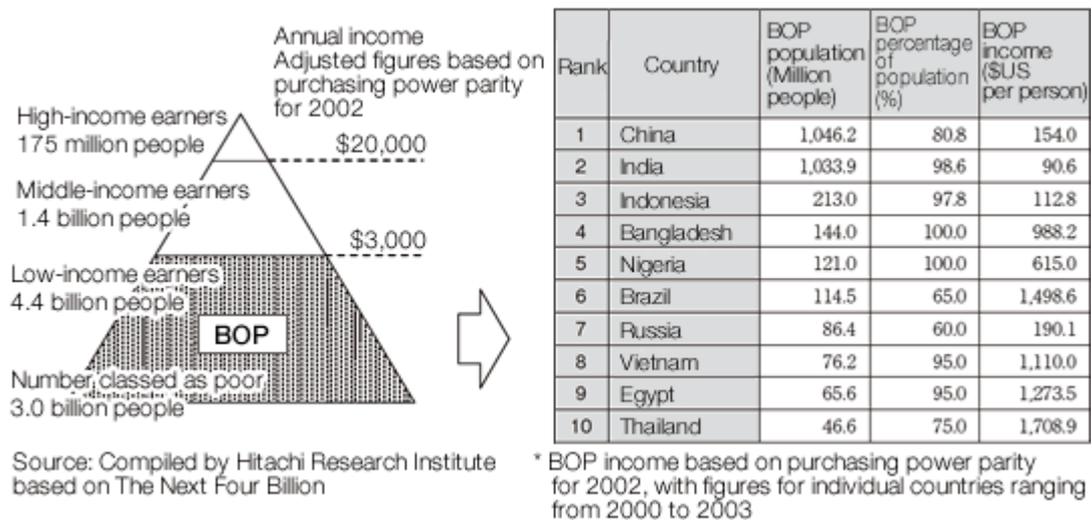
Annual income
Adjusted figures based on purchasing power parity for 2002

High-income earners 175 million people — $20,000
Middle-income earners 1.4 billion people
$3,000
Low-income earners 4.4 billion people
BOP
Number classed as poor 3.0 billion people

Source: Compiled by Hitachi Research Institute based on The Next Four Billion

Rank	Country	BOP population (Million people)	BOP percentage of population (%)	BOP income ($US per person)
1	China	1,046.2	80.8	154.0
2	India	1,033.9	98.6	90.6
3	Indonesia	213.0	97.8	112.8
4	Bangladesh	144.0	100.0	988.2
5	Nigeria	121.0	100.0	615.0
6	Brazil	114.5	65.0	1,498.6
7	Russia	86.4	60.0	190.1
8	Vietnam	76.2	95.0	1,110.0
9	Egypt	65.6	95.0	1,273.5
10	Thailand	46.6	75.0	1,708.9

* BOP income based on purchasing power parity for 2002, with figures for individual countries ranging from 2000 to 2003

Figure 1: Worldwide income brackets (left) and breakdown according to countries (right)

2. Companies' efforts to target BOP consumers

Efforts to combat poverty in developing countries have traditionally consisted of government measures to eradicate poverty, overseas ODA (official development assistance) or corporate CSR initiatives. Given the growing volume (population) and value (income) of the BOP market however, companies are starting to reassess BOP consumers as a serious business proposition, and are trying to come up with business models that strike a balance between social responsibility and business expansion.

Numerous companies in Europe and the US are trying to target businesses at the BOP market, working alongside government support. A prime example is Hindustan Unilever, a subsidiary of British company Unilever that has had great success selling shampoo in India at the ultra low-price of 1 rupee (2.5 yen). The same company is also seeing a steady increase in sales of single-use packets of soap and detergent, reduced-oil washing detergents designed to make it easier to wash clothes in the river and other low-price products in line with local people's needs. Another example is US company P&G, which has developed a powder that can purify ten liters of water with just one packet and is proving successful in areas such as Africa and Asia thanks to backing from international agencies and NGOs. In both cases, the companies have meticulously conducted market research and precisely identified details such as social structure, consumer attitudes and potential issues.

Other companies all over the world are developing a range of social contribution-led businesses all over the world, including Grameen Bank in Bangladesh, which was awarded the 2006 Nobel Peace (Table 1).

Companies' BOP businesses

Company (No particular order)	Country / Region	Business activities
Unilever (UK)	India	Selling low-price shampoo and detergent
P&G (USA)	Countries in Africa, Asia, Middle East, etc.	Selling water purification powder
Danone (France)	Bangladesh	Providing low-price yoghurts for children
Yamaha Motor (Japan)	Indonesia, etc.	Installing compact water purification systems
Nissin Foods India (Japan)	India	Selling instant foods in individual servings
Wal-Mart (USA)	Bangladesh	Establishing sewing plants and providing employment for women previously isolated in rural villages
Grameen Bank (Bangladesh)	Bangladesh	Offering micro credit services so as to enable lending to poor people
Galanz (China)	China	Selling compact microwaves
KickStart (Kenya)	Kenya	Selling low-price water supply pumps
Philips (Netherlands)	India	Selling smokeless stoves for rural villages

Source: Compiled by Hitachi Research Institute based on companies' websites

3. The need for business based on local needs and risks

To successfully target BOP consumers, companies need to have an understanding of social systems and consumer preferences in the relevant country as a bare minimum. They also need to (1) establish a value chain to efficiently target BOP consumers, (2) do their bit to help combat poverty, (3) make a profit, and (4) ensure sustainability. That is why countless ventures have failed, due to a lack of understanding of local needs for instance, or disputes with local people. Despite the risks involved in targeting business at BOP consumers and the fact that it isn't easy to secure a profit in the short term, there is no denying that BOP business represents a new frontier for companies in advanced countries, where there is unlikely to much in the way of economic growth in the future. As the process of globalization marches on, BOP business offers the potential to both resolve issues facing developing countries and expand business overseas. Companies, governments, NGOs and other organizations are going to have to innovate in order to get such businesses up and running.