**Think Category Not Brand to Break through at the Bottom-of-the-Pyramid (BOP)**

**May Nagy[[1]](#footnote-1), Dag Bennett[[2]](#footnote-2), Charles Graham[[3]](#footnote-3)**

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**Abstract**

### As established markets mature, international marketers are turning their attention to the underserved BOP markets, defined as consumers earning less than $2/day. While there is much estimated market demand at the BOP, it is capped by low category penetration rates due to low consumer knowledge levels, weak infrastructure, informal distribution systems, etc. Approaches to market development are therefore necessary to drive category growth and tap into BOP market potential. This study investigates how market players drive category expansion and develop consumer markets in emerging economies to realise growth. Twelve executives of FMCG market-leading brands serving Egypt’s BOP markets were identified and invited to semi-structured interviews to discuss their approaches to BOP category growth. A model is presented proposing that marketing strategies should go beyond brand-building activities and should 1) trigger consumer interest by offering substitutes to the locally-made solutions that dominate BOP markets, 2) drive demand by re-setting value standards in favour of effectiveness and long-term saving, 3) raise category awareness in collaboration with the state and civil society, and 4) establish reach by investing in infrastructure and distribution channel members. Findings suggest that market development strategies at the BOP draw non-users into growing categories, leading to category and brand growth.

### 1.0 Background & Research Context

As markets mature, tackling price-sensitive consumer segments from growing emerging markets becomes necessary to maintain growth (Doyle & Stern, 2006). Marketers who assume that the poor have little purchasing power (Munir et al, 2010) have for long ignored Bottom-of-the-Pyramid (BOP) markets. However, the BOP proposition argues that there is much untapped market potential within the world’s poorest communities (London & Hart, 2004). BOP markets, defined as consumers earning less than $2 per day, are characterised as a vast, complex, fast-growing market segment, eager to adopt new foreign brands and innovations (Prahalad, 2014; Chikweche, 2013; Nakata & Weidner 2012). BOP markets constitute almost two-thirds of the world’s population and are present in countries with 5-10% growth rates, compared with growth rates close to zero in mature, established markets (Payaud, 2014). They are highly fragmented and, while their individual purchase power is low, they hold substantial aggregate purchase power due to the huge size of the market (Chikweche, 2013).

However, attempts at penetrating BOP markets are challenged by low consumer education levels (Jagtap et al, 2014), underdeveloped and informal distribution systems (Silvestre & Neto, 2014), poor infrastructure (Weissburg, 2008), low product and category knowledge (Anderson & Billou, 2007), imbalances between supply and demand (Sheth, 2011), and the prevalence of BOP “prosumers” who produce much of what they consume (Viswanathan & Sridharan, 2012). The BOP literature has extensively discussed these challenges, in addition to recommendations to address them, including market entry strategies (e.g., Schuster & Holtbrugge, 2012; Teagarden, 2010) product and promotional innovations (e.g., Ray & Ray, 2011; Berger & Nakata, 2013), and penetration strategies.

Unfortunately, returns from BOP growth strategies are often stymied by the low category penetration rates, and the challenges elaborated in the literature. Yet, the BOP, and the broader emerging markets literature, is mostly focused on marketing strategy with little on driving category growth to uncap the potential return from such strategies. Driving category growth requires efforts beyond the scope of the individual company, usually serving competition along the way, which suggests why it is not an approach adopted by many market players. Nor has it been a research topic explored in the BOP literature. In terms of the literature on market growth, around 80% of studies have been carried out in developed markets. Moreover recent research shows that when markets reach maturity, category expansion strategies are rare, with a fifty/fifty success rate at best (Nenycz-Thiel et al, 2018). In contrast, emerging markets, and BOP markets in particular, in their growth phase make category expansion critical to brand growth,

In this study, we aim to address this gap initially by taking an exploratory view of category expansion through the industry lens, to understand how market players are currently approaching this issue. We find that contrary to the established literature, managers are very well aware of the need for category expansion in order to grow their brands, and are in possession of a robust understanding of this objective. While the majority of BOP literature focuses on strategies at the brand level, this study will focus on investigating strategies that grow consumer goods categories through market development, which is crucial to tapping BOP market potential (Sheth, 2011).

### 2.0 Methodology

With a focus on creating and developing markets, this paper aims to identify marketing efforts that go beyond single brand-building strategies to drive category growth in dynamic, emerging economies. A qualitative research strategy is adopted to explore approaches to category growth taken by leading brands in Egypt’s BOP. Egypt was selected for this study as a typical example of a developing country with a big, underserved BOP segment (31% of total population) in an emerging market with strong forecasted growth potential (predicted at 6% by 2021).

Executives of fast-moving-consumer-goods (FMCG) market leading brands in Egypt’s BOP markets were identified and invited to semi-structured, in-depth interviews to discuss their strategies to develop BOP markets through category growth. Since this research stream is still in its infancy, most previous studies have been based on single case studies (Pels & Sheth, 2017). For this reason, this study takes a different approach by combining knowledge from a number of marketing practitioners operating across a spectrum of consumer goods categories. A selection matrix was developed to create a sample that includes experienced (i.e., present in Egyptian market for 15+ years) local, regional and global companies who are BOP market leaders within their respective categories. Executives of 12 companies, managing 79 brands in total, across 37 FMCG categories agreed to participate in the study. Responses from semi-structured interviews following a standardised discussion guide were subject to thematic analysis to interpret content and identify themes. Data was transcribed, coded and analysed, following Corbin and Strauss’ (2008) recommendation of a three-stage coding process: open, axial and selective coding.

### 3.0 Findings and Discussion

For brands to grow in dynamic, emerging markets, characterised by big pools of non-users, marketers must first develop the market to draw users into the category. Analysis of approaches taken by category leaders within Egypt’s BOP showed four main strategies to drive interest, demand, awareness and reach necessary to create and grow markets (Figure 1).



Figure 1- Proposed Strategies to drive Category Growth

#### 3.1 Create interest: Offer substitutes to locally-made solutions

BOP markets are characterised by the prevalence of “loose” or locally-made solutions from informal, underground BOP producers or from “prosumers” (Viswanathan & Sridharan, 2012). To drive category growth, product design should consider the unbranded, locally-made solutions as the main competitors, rather than other branded products in the market. As described, “*they are not like other consumers, they use traditional rather than branded products, and they are currently not present in many of the categories*” [Participant P05]*.*

Innovative thinking is useful to design products that act as efficient and effective alternatives to home-made solutions. Findings show that this begins with local market research usually in the form of in-home visits for insight on product usage, followed by product design at acceptable levels of quality. BOP products are used as a recruiter to the brand and category and so products should not be designed with a poor-quality, low-price mind-set. BOP consumers form strong first impressions in purchase experiences (one reason being that they cannot afford much market experimentation), and so they will quickly exit categories if one tried product does not deliver on quality, even if it delivers on affordability.

The transition from locally-made solutions to branded products takes place when consumers see value, usually in terms of improved quality at acceptable price points, “s*o we start with an educational message that anchors around consumer need to show that deodorants are much better than the current home-made alternative they use”* [Participant P11]*.* Against popular thought, findings showed that the poor are value-driven rather than price-driven. Media penetration of most BOP homes has also reflected in higher levels of brand-consciousness, where brands are perceived as a signal of quality, reducing their risk. Through the combined efforts of businesses over years, BOP markets are gradually shifting away from informal to formal products.

#### 3.2 Create demand: Set new value (cost vs. benefit) standards

To address low category penetration rates, analysis finds that it is up to businesses to set value standards by educating consumers on what they can receive for the prices they pay, *“when [company name] started here, job number 1 was to redefine the standards of cleaning. So, we needed to educate everyone that you want great cleaning, here is what you are getting and here is what you can get”* [Participant P10]. Contrary to common literature arguments, analysis has shown that value to BOP consumers is not restricted to functional or financial benefits, but also includes emotional benefits across the different categories. Findings confirm that the concept of products’ psychological value exceeding functional value (Mandel et al, 2017) extends to the BOP. Also, that buying decisions can be influenced by promises of beauty, confidence, affluence, appreciation from spouse, admiration from neighbours, etc. indicating that purchases are influenced by psychological and social factors.

Buyer willingness to see value and join categories is highly affected by buyer relationship with categories. As explained by Participant P04, “*within each category we have a different segmentation, different relationships with the categories. If I am a heavy coffee user, and a light user of pasta, my decision on how much I am willing to invest in each differs*.” To develop this relationship, findings show that referring to social members with authority can stimulate non-users to join categories. BOP consumers are highly influenced by local community members and local experts. Triggering word-of-mouth by working with local influencers (especially women) on the advantages of previously unfamiliar product categories (e.g., deodorants, cooking cream, etc.) was found to be a more effective technique compared with traditional communication techniques (e.g., TV advertising). Similarly, local experts such as medical doctors or shop owners, have influence on transferring buyers across categories (e.g., from the mixed cooking oil category to the healthier corn oil category), in addition to justifying higher spending of existing category users. However, outcomes of such efforts may vary, e.g. it was found that shifts to higher-spend categories are more common in socially visible categories.

BOP buyers may see value in joining certain categories, but may be constrained by their purchase ability. Designing a wide price pack architecture (PPA) offers the range of price points necessary to stimulate the different types of buyers (e.g., economic size savers vs. single-use sachet buyers; buyers with daily vs. weekly vs. monthly income realisation frequencies, etc.) to join the category. Additionally, a wide range of price points captures occasional buyers who account for the majority of any buyer base (Sharp, 2010).

#### 3.3 Create awareness: Raise category awareness through programs in partnership with the state and civil society

Findings show that competition in BOP markets is not only against other branded products and locally-made solutions, but also against irregular products that suddenly appear and disappear from markets (traders that enter markets for a “hit” then leave), certain cultural dispositions (e.g., deodorant is for men who have an active lifestyle only), indirect alternatives at the same price point (e.g., if I have 1 pound to treat myself, will I buy a chocolate bar or a hair cream sachet?), and government subsidized products (sometimes sold at below production costs). To create markets for branded products, communications should focus on establishing awareness at the category level (e.g., the importance of using shampoo for personal hygiene, milk for child nutrition, etc.). Communications should be centred around the importance of the category for well-being, rather than a focus on individual brand offerings. As described by Participant P05 *“[things are] starting to change through education by companies. We launch massive educational programmes because those consumers don’t know why should they brush their teeth […] We call those educational programmes market development and we have been doing that in the oral category for the past 20 years and the deodorant category for the past 8 years,”* indicating that communications to develop category awareness is an ongoing, long-term activity and not just as part of market entry strategies. To do so, findings reveal that communications should be developed in cooperation with higher-level entities, such as NGOs, ministries, or in cooperation with other publicly funded programmes, to offer credibility and scale.

Communications with an aspirational element were also found to be effective. BOP consumers look up to higher classes and aspire to belong to them, leading them to make purchases outside their income bracket (theory of compensatory consumption). Based on the same theory, category recruitment sometimes takes place as a spill-over effect from communications targeting higher socio-economic classes.

#### 3.4 Create reach: Develop market infrastructure and provide technical and non-technical support to channel members

Reaching consumers living in small, fragmented rural villages with weak infrastructure and an informal distribution system was identified as a critical challenge in BOP markets. Marketers can design BOP-relevant products but are left faced with distribution challenges in making their products available in villages that have no proper roads to informal retail outlets (e.g., shops within residences, street merchants, etc.). In spite of such challenges, research participants explained that market potential in BOP segments justifies making investments in infrastructure and distribution systems to create appropriate outlets to products. The extent and type of investments varied across the different research participants, perhaps depending on the degree of market commitment. In the discussion following, strategies used to promote individual company brands have been omitted to focus on strategies that develop the ecosystem as a whole, necessary to achieve reach.

Findings show that one way to develop the distribution ecosystem is by offering distributors and retailers technical and non-technical support to help grow their business. Support can take the form of offering training on small business management, renovation of shops in poor building condition, paying part of rent, providing retailers with fridges and distributors with tricycles. The relationship with channel members takes the form of a partnership; business and personal. Developing emotional ties by offering support to their business in tough times is appreciated and reciprocated by channel members. Developing the distribution system also takes the form of generating new distribution arms in previously unreachable areas by partnering with local villagers to become entrepreneurs after providing them with tricycles or trucks to distribute products, which takes the form of a small business to them. BOP entrepreneurs have drive and are well-connected to local networks. On a higher degree of market commitment, some companies invest in agricultural development by offering high quality seeds, training farmers on efficient and sustainable agricultural techniques, etc. The repercussions of developing the starting point of production systems result in developing markets as a whole.

### 4.0 Theoretical and Managerial Implications

 We already know that there is untapped potential at the BOP, and that emerging markets are the new sources of growth for most global market players. We also know that the BOP consumer market comes with different challenges to those found in established markets, resulting in lower number of buyers in formal categories. We did not know whether practitioners understood this about BOP markets, and whether they played a role to tackle it. If they did, we did not know how. This study sheds light on those issues showing that big market players understand that their brand growth is reliant on more buyers joining formal categories, and have designed long-term, (in many cases) high-cost marketing strategies to accelerate this consumer shift. Findings presented in this study contribute to international marketing knowledge by providing a new higher-level dimension for market penetration strategies in the BOP. Category growth strategies develop markets by creating an ecosystem that allows brands to become effective market players. This lends evidence to the argument that brands grow by increasing the number of buyers, rather than increasing frequency of purchase by existing buyers. It also lends evidence against arguments that undermine the market potential hiding at the BOP (e.g., Karnani, 2007; Linna, 2012). This strategic decision follows an understanding that BOP markets offer market growth potential, but this potential is stifled by the low level of market development. Investments in market development, that benefit big, profit-driven companies, their competitors and any future market players, are justified by the potential that will be unlocked.

For practitioners, the study shows that market expansion strategies to BOP markets should consider that competition is not only against formal branded products, but also against informal solutions that leave BOP buyers outside many formal categories. With this mindset, it is recommended that market penetration strategies consider factors beyond the scope of the company, by addressing the barriers facing BOP buyers from becoming category users. This research provides indicative results from experienced market practitioners showing that creating interest, demand, awareness and reach for the category is the result (and thereby the responsibility) of big market players. Smaller market players find that they do not need to engage in such higher-level, long-term activities by, instead, riding on the category expansion coat tails of bigger players by matching their brands to the new category standards, resting on the fact that normal buyer switching behaviour will lead to brand growth (Anesbury, Graham & Bennett, 2018). However, they must consider that if they want their brands to maintain share in a growing market, they must consistently draw new category users in line with category growth rates (Romaniuk & Sharp, 2016).

### 5.0 Conclusion

To establish growth, marketers are required to address BOP market challenges to make their brands physically and mentally available (Sharp, 2010). Only in emerging markets this takes place at the category level, not only the brand level as is typical in mature markets. BOP markets present vast opportunities, but such opportunities can be capped by low category penetration rates that arise from low consumer knowledge, weak infrastructure and an informal distribution system. The paper discusses that market development is necessary to drive category growth to tap onto BOP market potential, leading to social and financial inclusion of the poor in the modern economy. To do so, we propose that marketing strategies should focus on triggering consumer interest by offering substitutes to locally-made solutions prevalent in BOP markets, driving demand by re-setting value standards in favour of effectiveness and long-term saving, raising category awareness in collaboration with the state and civil society, and finally creating reach by investing in infrastructure and distribution channel members. Such strategies require heavy investments and long-term commitment to BOP markets, and hence are perhaps only appropriate in countries with promising economic indicators.

Despite the limitation of this study being conducted in a single-country (Egypt), findings being collected from a sample of experienced local, regional and global market players all with some degree of international market presence, can make findings generalisable across other BOP segments in emerging markets. Future research directions can propose mechanisms to test the effectiveness of category growth strategies, and whether any collaborative efforts by (competing) market players to grow categories is germane, in addition to evaluating changes in buyer behaviour patterns due to marketing development efforts.

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1. British University of Egypt, May.Nagy@BUE.edu.eg [↑](#footnote-ref-1)
2. London South Bank University, bennetd@lsbu.ac.uk [↑](#footnote-ref-2)
3. London South Bank University, grahamca@lsbu.ac.uk [↑](#footnote-ref-3)