INNOVATIONS FOR LOW INCOME MARKETS

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The concept of serving the Bottom of the Pyramid (BOP) people has now gained importance among academicians and business entrepreneurs owing to its effect on billions of the poor across the world. Considerable opportunities are available for MNCs to generate profits & simultaneously making a social contribution & social innovation through serving 4 billion people occupying the lowest tier in the world's economic pyramid (Prahlad and Hart, 2002). In fact BOP segment has a great potential for expansion and growth of companies. This requires a lot of innovation efforts resulting in Affordability, Acceptability, Availability and Awareness for the low income consumers. This article emphasizes on major challenges faced by multinationals and private entrepreneurs to invest in emerging markets. Multinationals may have tremendous opportunities to invest in low income markets; basically they have to focus on serving profitably to the poor section of the society.

A big opportunity in the low-income markets for global companies was discovered and discussed by Prahalad and Hart who used the idiom the 'Bottom of the Pyramid' in 2002 , This gave an opening for a debatable discussion amongst academics, corporate and the media regarding the probability of entering in the low-income markets. Prahalad and Hart (2002) defined the bottom of the pyramid - later taken as the 'base of the pyramid' - as the 4 billion people across the world that live on less that $1500 per year, in purchasing power parity terms. Prahalad in 2005 described the 'bottom of the pyramid' as those living on less than $2 per day (PPP). A study by the IFC, the private sector arm of the World Bank Group, and World Resources Institute (WRI), of low-income markets in 110 countries (Hammond, Kramer, Katz, Tran, Walker, 2007) broadened the definition of the base of the pyramid as those with annual incomes below $3,000 in local purchasing power.

Opportunities in Iow Income Markets

'Base of the Pyramid' (Bop) researchers emphasized on the notion that multinationals have a good opportunity to enter in low income markets. (Prahalad, 2005; Prahalad & Hammond, 2002; Prahalad & Hart, 2002). Now the debate is, how to serve low income consumers successfully, while initially it was focused on whether it is profitable to enter in low income markets or not. (Prahalad, 2010). It is important to understand that what factors motivates multinationals and private entrepreneurs to invest in low income markets.

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I. **Potential Growth Markets**

One of the most dominant drivers to enter low-income markets cited in the literature is simply that the Bop represents a major opportunity to enter new markets by converting consumer purchasing power into profit (Pitta, Guesalaga & Marshall, 2008). Prahalad (2005) emphasizes that while individual consumers in low-income markets may have limited buying power; their collective purchasing power is significant due to the large volume of consumers, which provides a motivation to use economies of scale. Prahalad said in 2005 that the Bop market constituted 4-5 billion people worth an annual $13 trillion at PPP. The figure given by prahalad generated a debate among researchers, with one of Prahalad's main detractors, Karnani, arguing that the bottom of the pyramid market is worth only $1.2 trillion at 2002 PPP (Karnani, 2007). Further, the IFC and WRI study found that four billion people across the world who live in relative poverty have purchasing power representing a $5 trillion market at 2005 PPP (Hammond, Kramer, Katz, Tran, Walker, 2007) and emphasized that consumers in low-income markets offer significant commercial opportunity, and would benefit from a market-oriented approach from the private sector (Hammond et al, 2007).

II. **Poverty Alleviation**

Prahalad and Hart (2002) emphasized on the idea that by engaging the poor as consumers, companies can not only tap new markets, but also contribute significantly to poverty alleviation. Karnani further discussed the concept, arguing that companies wishing to tackle poverty through business should rather focus on demand side as well as on supply side. While companies entering the Bop are generally focused on converting purchasing power to profit, they may also be driven by a desire to bring prosperity to the poor, alleviating poverty and ultimately birthing the markets of the future (Pitta et al, 2008; Vachani and Smith, 2008). Mendoza and Thelen (2008) examined how companies can make markets more inclusive for the poor, whilst Simansis and Hart (2008) call for interdependence between company and community where both are committed to each other's long term well-being and success.

Low-Income Markets: Challenges and Constraints

I. **Poor Infrastructure**

Infrastructure provides a base for the development in the economy. Several researchers discussed infrastructure as a constraint for firms attempting to do business in low-income markets (Vachani and Smith, 2008; Prahalad, 2005; Hammond and Prahalad, 2004, Anderson and Billou, 2007).

Lack of infrastructure is a key challenge for companies operating in low income markets, but may also result sometimes in to trigger innovation. A cellular company in the Philippines developed an innovative over-the-air payment system which ultimately proved to be economical and more efficient than a traditional first-world system (Anderson and Billlou, 2007).

II. **Limited Customer Purchasing Power**

The customers who belong to low income markets have a limited purchasing power in their hands. The challenge of building a profitable business model in a market where customers live on just $2 per day is really seems to be a miracle (Karnani, 2007). Hammond and Prahalad argue that while purchasing power of BOP customers is less but being the largest segment of the market, they can create profit for the multinationals because of economies of scale (Hammond and Prahalad, 2004). So companies need to redefine their cost structures as the poor cannot afford the goods in the format they offer (Prahalad, 2005). They need to reformulate their value propositions around new price-performance metrics, requiring creative and innovative thinking (Prahalad and Hart, 2002). Affordability is listed as a key element in the Four As model (Anderson and Billou, 2007), while 'wealth' is assumed as a barrier to consumption that must be removed if companies are to make their offerings accessible to the poor (Anthony, Johnson, Sinfield, and Altman, 2008). Clearly limited buying power is a challenge or constraint as stated in the literature also but could be turned into an innovation trigger.

III. **Illiteracy and Corruption**

Corruption and Illiteracy can also be considered as a constraint for companies operating in low-income markets (Prahalad, 2005; Hammond and Prahalad 2004; Anderson and Billou, 2007; Mendoza and Thelen, 2008; Vachani and Smith, 2008), however these issues are unpacked in less detail. These factors will also be considered as potential triggers for innovation.

Disruptive Innovation: A Framework for Innovation in low-Income Markets.

Having gone through the literature on what drives companies to enter low-income markets, and what are the challenges to be faced by companies to enter in these markets, this paper will now focus on how companies should innovate in low-income markets. To compete in global market, Clayton's Christensen theory of disruptive innovation can be as a framework for innovation.

In the following section, different elements of disruptive innovation are to be discussed.

I. **Affordability**

Christensen repeatedly stated that disruptive technologies or products are likely to be cheaper than established offerings (Christensen, 1997). Disruptive technology should aim at that Customers get the products at the cheaper cost than established products (Christensen, 1997; Anthony et al, 2008). The focus on affordability is also a common theme in the literature on low-income markets (Pitta et al, 2008). Prahalad instructs companies to completely re-conceptualize their 'price-performance envelope', making quantum jumps in price reduction of 30-100 times (Prahalad, 2010), while Prahalad and Mashelkar (2010) cite 'value for money' as a critical element of offerings targeting low income markets.

II. **Different Dimensions of Performance**

Disruptive innovation is about altering the configuration of a product or service to meet the needs of new customers. This alters the basis of competition by "changing the performance metrics along which firms compete" (Danneels, 2004). Disruptive innovations sometimes underperform established products along existing parameters, but instead offer value along different dimensions (Christensen, 1997). This is consistent with the literature on low-income markets, which stresses that offerings designed for low-income markets must be based on an acute understanding of the customer's needs and on the performance parameters they value (Simansis and Hart, 2009; Markides & Oyon, 2010). The Bop must not be seen as an extension of existing markets, which can be offered stripped down or modified versions of existing products, but rather as a distinct set of customers looking for a different set of value attributes (Markides & Oyon, 2010; Sull et al, 2003; Sehgal et al, 2010). Once a company truly understands a group of customers, it must redesign products from scratch, emphasizing different dimensions of value and changing the performance metrics along which firms compete (Danneels, 2004; Pitta et al, 2008).

III. **Simplicity**

Disruptive products are simpler than established versions (Christensen, 1997). They remove the 'skills' barrier to reach new customers, and should be aimed at customers who want a product that is easy to use (Christensen, 1997). Simplicity may mean fewer features and functions, and may translate into smaller products (Christensen, 1997). The literature on low-income markets underscores the importance of simplified offerings from both the perspective of affordability and literacy. Simpler products, it is argued, are cheaper to produce and can therefore be priced accordingly (Pitta, et al, 2008; Hart, 2005). Functionality should be stressed over form when designing Bop offerings (Prahalad, 2010). Higher rates of illiteracy and a lower skills base may also necessitate simpler products than those designed for middle or higher income segments, particularly in sectors with more complex offerings, such as financial services (Mendoza and

Thelen, 2008).

IV. **Convenience**

A key element of disruptive innovation is convenience. An idea only has disruptive potential if the product or service can be delivered in a location that is convenient to the customer (Christensen, 1997). The service or product must also be easy to use and efficient. The innovation must help the customer do a job she is already trying to do more "easily and effectively" (Christensen, Johnson and Rigby, 2002 Convenience may require creative and innovative thinking around distribution channels in order to secure access for low-income customers (Anderson and Billou, 2007). This might involve new applications of technology, or redesigning business processes (Vachani and Smith, 2008). Hindustan Unilever in India and Avon Products in Brazil have adopted innovative approaches to convenience, developing vast direct-distribution networks into rural and remote areas to bring products to new groups of customers (Hammond and Prahalad, 2004).

V. **New Business Models, New Cost Structures, Lower Margins**

In order to sell more, companies should rely on low cost structure, even if profit margins are low. (Christensen, Johnson and Barragree, 2000). Low cost structures and reduced margins generally involve a change in business model, in order to improve efficiency and effectiveness. (Prahalad 2005; Kaplinksy et al, 2009). Disruptive business model innovation can be adopted by a firm to enter in a new market where the current business model is inappropriate (Markides, 2006). Prahalad and Mashelkar (2010).

Conclusion

This article is a modest attempt to understand that what the key characteristics of low income markets are. To serve this market is a major step towards the economic growth of the nation & poverty alleviation. The major challenges faced by entrepreneurs are, poor infrastructure, limited purchasing power, illiteracy & corruption. So basically to serve this kind of a market, a strategic approach is required. Disruptive innovation can be used as a framework to invest in these kind of economies. The different elements of Disruptive innovation are, affordability, simplicity, convenience, different Dimensions of Performance &new business models, new cost structures, lower margins.