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Business Opportunities at the “Bottom of the Pyramid”

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With the increasing liberalization of markets in developing countries, billions of aspiring poor are joining the global economy for the first time. This presents both tremendous opportunities and daunting challenges for firms. Pioneering firms are transforming traditional business models to sell to customers at the “bottom of the pyramid,” despite conventional wisdom to the contrary. In the process, they are scoring impressive successes in terms of profitability, as well as social and environmental impact. Columbia Business School students are playing an active role in this exciting trend by helping innovative firms—such as Mi Farmacita, a pharmacy chain that sells low-cost drugs and medical attention to the poor—replicate this success.

The Fortune at the Bottom of the Pyramid

Approximately 100 million affluent consumers enjoy an annual per capita income in excess of \$20,000, at the apex of the world economic pyramid. These people are mainly middle- and upper-income people in developed countries and rich elites in developing countries. At the bottom of that pyramid, approximately four billion people, the poor in developing countries, survive on less than \$1,500 per year. This vast income gap is widening, not narrowing. In 1960, the world’s richest 20 percent accounted for about 70 percent of total income, and the poorest for only 2.3 percent. By 2000, the share of the rich rose to 85 percent, and that of the poor fell to 1.1 percent.

This sharp and growing disparity in purchasing power contributes to the common view that the bottom of the pyramid simply is not a viable market for global firms. It is assumed that the world’s poor can neither afford, nor have any use for, the sorts of products that are sold in developed markets. It is further assumed that firms from developed markets cannot compete successfully in selling to the poor, given firms’ current cost structures. As a result, most firms focus on marketing their products to only a relatively small group of wealthy consumers at the top of the pyramid and ignore those at the bottom.

In 2002, University of Michigan Business School professor C. K. Prahalad articulated a compelling, and now famous, argument to the contrary. In his groundbreaking book *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, Prahalad counters that the bottom of the pyramid represents the majority of the world’s population and a multitrillion-dollar market due to its vast size. He also reminds us that this market is expanding rapidly, as today’s four billion poor people are expected to swell to more than six billion over the next 40 years, representing the lion’s share of global population growth.

Prahalad argues persuasively that the real source of market promise in the globalizing economy is not the wealthy few or even the emerging middle class in

developing countries but rather the billions of “aspiring poor.” In addition, he underscores the positive impact that “inclusive capitalism” will have on the poor themselves, as well as the strong role that cultural sensitivity and environmental sustainability must play in any successful bottom-of-the-pyramid business strategy. “In short,” Prahalad states, “the poorest populations raise a prodigious new managerial challenge for the world’s wealthiest companies: selling to the poor and helping them improve their lives by producing and distributing products and services in culturally sensitive, environmentally sustainable, and economically profitable ways.”

Hindustan Lever

By the time Prahalad expressed these views, a number of innovative firms had already proven the conventional wisdom wrong, generating strong profits and rapid growth by selling products to some of the poorest people in the world. Perhaps the best-known example is Hindustan Lever, the Indian subsidiary of Great Britain’s Unilever plc, which and shifted its focus in 1995 from Western-style products and the elite urban market to the opportunity presented by poor consumers in rural markets. It reformulated its laundry detergent product, adopted a low-cost manufacturing process, created a wide distribution network, developed special packaging for daily purchasing and selected a low price point. The experiment proved successful. Stimulated by the response to this product, Hindustan Lever registered 20 percent growth in annual revenue and 25 percent growth in annual profit from 1995 to 2000. Unilever was so impressed by this experience that it transported Hindustan Lever’s business principles to Brazil, where a similar detergent has become successful, and adopted the bottom-of-the-pyramid market as a corporate priority.

Mi Farmacita

Columbia Business School students are playing an active role in this exciting trend. With support from the Social Enterprise Program and International Development Club, groups of students have served over the past five years as consultants to a number of different bottom-of-the-pyramid businesses around the world. These consulting engagements are sponsored by the Washington, D.C.–based World Resources Institute, a nongovernmental organization based that endeavors to catalyze sustainable economic growth by identifying business models that meet the needs of underserved communities in emerging economies. The findings of the consulting teams are published as case studies through the organization’s “What Works” series, which seeks to scale up or replicate in other parts of the world profitable enterprises with a positive social impact.

Indicative of today's most innovative bottom-of-the-pyramid businesses and the impact that Columbia Business School students are having on them is a current engagement with Mi Farmacita in Mexico. Established in 2004, Mi Farmacita—literally, “my little pharmacy”—is a hybrid of a retail pharmacy and a healthcare services provider. It provides medical consultations and sells inexpensive generic drugs, often prescribed by in-house doctors, to low-income customers. Mi Farmacita's stores are conveniently in the neighborhoods where customers live and work. They offer immediate attention and turnkey solutions for everyday medical concerns. And, they charge low prices. A typical consultation, for example, costs only 25 pesos (\$2.50).

In this way, Mi Farmacita compensates for the shortcomings of the national health plan. While comprehensive and affordable, the state health services simply lack the infrastructure to satisfy demand. As a result, patients must typically travel to a regional hospital and understocked public-sector pharmacies on multiple occasions over the course of weeks to receive basic consultations and medicine. For poor workers, the cost of medical attention—in the form of transportation and forgone wages—often seems to outweigh the benefits.

Capitalizing on the convenience and value it offers, Mi Farmacita has proven very successful. Through a relatively affordable franchise arrangement with local entrepreneurs, the company has expanded rapidly across the country. It is also profitable, despite the fact that it is a rapidly growing start-up targeting the poor. Perhaps most important, however, it is creating a positive social impact. Poor customers, on the one hand, are gaining access to low-cost, high-quality generic drugs and healthcare services. Local entrepreneurs, on the other hand, are gaining the opportunity to become financially independent and generate jobs in their communities.

Those doubting the potential of Mi Farmacita need look no further than its chief competitor, Farmacias Similares, another highly successful business. Established in 1997 by Dr. Victor González Torres—known popularly as Dr. Simi—Similares was the first franchise pharmacy to offer low-cost generic drugs to the poor. Under the bold motto “The Same But Cheaper!” and a promise to defend the health of “those who have the least,” it has rapidly expanded to 4,500 locations and serves 1.5 million patients per year. Like Mi Farmacita, Similares branches are primarily in poor neighborhoods and offer clinics staffed largely by recently graduated doctors who charge approximately 20 pesos (\$2.00) per consultation. Similares has even gone so far as to offer a health insurance plan—the Sistema Similar de Seguros, also known as “el Simi Seguro”—under which patients pay approximately 50–60 pesos (\$5.00–6.00) per month in exchange for free medical treatment and half-price medicines.

Dr. González Torres seems to epitomize the inextricably linked social and commercial aspects of bottom-of-the-pyramid business opportunities. He has become a sort of folk hero among the poor for offering more affordable, convenient and higher-quality healthcare services than the state itself. He demonstrates a strong social conscience, regularly making charitable food donations to the poor and even running for president in the 2006 elections on a populist platform. He is also now the third-richest man in Mexico, thanks to his highly profitable business. Indeed, González Torres perhaps best captures the dual nature of doing business at the bottom of the pyramid with his self-description: "I'm Che Guevara in a Mercedes!"

Resources

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