

A Comparative Analysis of the Bottom-of-the-Pyramid Consumer in High-Income and in Low- and Middle-Income Countries

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Abstract. The emerging market marketplace is dominated by segments of subsistence, bottom-of-the-pyramid consumers. While much of the marketing literature has focused on subsistence consumers in high-income countries, few attempts were made to differentiate between subsistence consumers in high-income countries and those in developing economies. The present study proposes to offer a comparative analysis of subsistence consumers in high-income countries and in the developing economies of low- and middle-income countries.

Keywords: Subsistence Consumers; Bottom-of-the-Pyramid Consumers; Low-Income-Country Consumers; Middle-Income-Country Consumers.

1. Introduction

Most academic studies in marketing focus on consumers in advanced economies, with some attention paid to emerging-market economies, particularly those experiencing transition from a planned to a market economy. Little attention to date has been paid to subsistence, bottom-of-the-pyramid consumers; indeed, multinational corporations have ignored this market until recently, as they did not immediately realize the potential the bottom-of-the-pyramid consumer had to substantially contribute to the company's profits.

By ignoring the subsistence consumer, companies in fact ignored a large proportion of the target market, especially in low-income countries: whereas in high-income countries, subsistence consumers constitute a minority, in low- and middle-income countries, they constitute a substantial market segment, and, in some regions, a dominant market segment. The present study proposes to offer a comparative analysis of subsistence consumers in high-income countries and in the developing economies of low- and middle-income countries and to shed light on the factors that influence consumption in subsistence markets, such as physiological needs, uncertainty of product availability, personal influences, product traits, price, promotion, and convenience

2. Literature Review

2.1. Limited Focus on Subsistence Consumers in Low- and Middle-Income Countries

While a number of studies have focused on consumers in emerging markets, most of the consumer behavior research has focused on high-income countries. Until recently, only a few studies to date have addressed consumers in subsistence markets – i.e., De Soto (2000), Nwanko (2000), Pralahad (2002), Pralahad and Hart (2002), Mahajan and Banga (2006) Hammond et al. (2007), Viswanathan (2007), Sridharan and Viswanathan, (2008), Viswanathan et al. (2010), Viswanathan, Rosa, and Ruth (2010) and Viswanathan et al. (2012). Yet, despite the contributions of this body of research, there are still many questions that remain unanswered. In particular, there is still little agreement on what drives subsistence

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consumers in the process of consumption (Chikweche and Fletcher 2010) and on the optimal approaches that can be used to serve the subsistence market.

An important research stream – Viswanathan, 2007, Sridharan and Viswanathan, 2008, Viswanathan, Rosa, and Ruth, 2010, – attempted to gain a broad perspective of consumer behavior in subsistence markets, investigating the factors that influence purchase for subsistence consumers, such as physiological needs, uncertainty of product availability, personal influences (peer, family), product traits, price, promotion, and convenience (Chikweche and Fletcher 2010), among others.

2.2. Size of the Subsistence Segment

In comparison to high-income countries, where poverty is restricted to the underclass, in low- and many middle-income countries, poverty is pervasive, often encompassing large proportions of the population (Viswanathan et al. 2012). In high-income countries, the poor are, in fact, an often invisible minority. They are protected by welfare safety nets and are frequently employed in low-wage jobs. In low- and middle-income countries, on the other hand, the poor are often fully disenfranchised from the formal economy (Norton, Conway, and Foster 2001 and Viswanathan et al. 2012). Finally, in low-income countries, many are employed in microbusinesses that are embedded in the fabric of the local society, thus coping with an informal economy by leveraging their social network (Viswanathan, Rosa, and Ruth 2010). In the next section, we examine the traits of the subsistence segment while evaluating similarities and differences between high-income country subsistence consumers and low- and middle-income country subsistence consumers.

2.3. Traits of the Subsistence Segment

Research on the subsistence segment has concluded that the most obvious trait common to all subsistence segments is the lack of material resources. Affordability is one of the greatest challenges facing this segment. For this reason, many multinational firms have, for decades, fully ignored this market, especially in low- and medium-income countries. Only in the last decade, major consumer-product companies such as Unilever, Procter & Gamble, and Nestlé have made aggressive attempts to serve this segment, offering smaller versions of their multinational brands – using what is referred to as sachet marketing (Pralahad 2002) – and marketing the more affordable versions of mass-market services to them. Examples of such products are a 2000-dollar car, the Tata Nano, a 50-dollar cataract surgery by Aravind Eye Care System, less than \$0.01 per minute of cell phone time with Airtel, a modern and comfortable 20-dollar hotel room at Hotel Ginger, and a supercomputer (Eka) that costs less than \$40 million to develop (Pralahad, 2012). Companies have finally determined that the subsistence consumer segment is profitable.

As consumers, subsistence segments have a low level of literacy that has resulted in cognitive and social vulnerabilities in both high-income countries (Adkins and Ozanne 2005; Hill and Stephen 1997; Viswanathan et al. 2005) and in low- and middle-income countries (Viswanathan and Rosa 2007; Viswanathan, Gajendiran, Venkatesan 2008; Viswanathan, Sridharan, and Ritchie 2010). The subsistence, low-literate consumers were found to exhibit more concrete thinking and to reduce purchase decisions to single attributes such as price (Viswanathan, Gajendiran, and Venkatesan 2008; Viswanathan and Rosa, 2007; Viswanathan, Sridharan, and Ritchie 2010). They have been found to adopt more pictographic thinking, viewing brand names as objects in a scene and matching patterns in order to identify products accurately (Viswanathan, Sridharan, and Ritchie 2010).

Finally, low literacy deeply affects consumers' ability to interact in the marketplace. In fact, the stigma deriving from low literacy is thought likely to influence every aspect of subsistence consumers' marketplace interaction (Adkins and Ozanne 2005, Hill and Stephen 1997, Viswanathan et al., 2008a, Viswanathan and Rosa 2007 and Viswanathan, Gajendiran, and Venkatesan 2008). These consumers often lack the confidence or skills needed to make good decisions (Hill 2002; Viswanathan, Sridharan, and Ritchie 2010). Moreover, they are not aware of their rights as consumers (Thorelli 1981), precluding them from planning purchases, checking prices and other information to determine product quality, and shopping around for better deals (Viswanathan and Rosa 2007; Viswanathan, Sridharan, and Ritchie 2010).

Table 1 attempts to reconcile the various streams of literature on the subsistence segment. It presents the similarities between subsistence consumers in high-income countries and those in the developing economies of low- and middle-income countries with regard to material resources, literacy, and information processing.

Table 1: Similarities between High- and Low- and Middle Income Subsistence Markets

Lack of material resources	
Low literacy	
Concrete thinking, reducing decisions to single attributes, such as price	
Pictographic thinking	
Lack of decision-making confidence	
Lack of awareness of rights as consumers	
Less information seeking and comparison prior to purchase	
Sources:	
<u>High-Income Countries</u>	<u>Low- and Middle-Income Countries</u>
Adkins and Ozanne 2005	Viswanathan and Rosa 2007
Hill and Stephen 1997	Viswanathan, Gajendiran, and Venkatesan 2008
Viswanathan et al., 2005	Viswanathan, Sridharan, and Ritchie 2008
Thorelli 1981	

Following is Table 2, which provides an outline of the differences between subsistence consumers in high-income countries and in the developing economies of low- and middle-income countries in terms of segment size, influence, institutional reliance, trust basis, and market-place visibility.

Table 2: Differences between High- and Low- and Middle Income Subsistence Markets

	High-Income Countries	Low-/Middle-Income Countries
Segment Size	Small proportion of the population	Large proportion of the population
Influence	Market-supplied information (i.e., advertising)	Context (negotiated price, quantity)
Institutional Reliance to monitor sellers, products sold)	High (consumers rely on gov't protect consumer)	Low (no trust in government to protect consumer)
Trust Basis	Brand reputation	Endorsement by social network
Marketplace Visibility	Part of the formal economy	Invisible in the formal economy

Sources: Viswanathan 2007; Sridharan and Viswanathan 2008; Viswanathan, Rosa, and Ruth 2010; Chikweche and Fletcher 2010; Viswanathan, Sridharan, and Ritchie 2010; Viswanathan, Sridharan, Ritchie, Venugopal, and Jung 2012.

3. Conclusion

This study constitutes an attempt to reconcile the marketing literature on the bottom-of-the-pyramid, subsistence consumers in high-income countries and those in the developing economies of low- and middle-income countries. This comparison constitutes only a departure point in this comparative analysis. Future research on this topic will benefit from incorporating macro-level dimensions that are likely to influence

consumption, such as housing, infrastructure development, and local government policies as determinants of consumption, for example.

Studies could also compare consumers in the two country categories, at the micro-level, using dimensions such as interpersonal influences and aspirational consumption determinants. Specifically, such studies could potentially tackle dimensions such as social comparison and locus of control as mediators of consumption.

Previous research identified numerous factors that influence consumption in subsistence markets, such as physiological needs, uncertainty of product availability, personal influences (peer, family), product traits, price, promotion, and convenience (Chikweche and Fletcher 2010). These factors can also be compared across levels of economic development: how do subsistence consumers in low- and middle-income countries differ from those in high-income countries? Does a reliable welfare net have an influence on consumption for the subsistence consumer? Alternatively, does a reliable social network, such as those attributed to low- and middle-income countries influence consumption and consumption aspirations for bottom-of-the-pyramid consumers?

Finally, future research should take this comparison yet another step further and investigate these differences at the consumer level. For example, studies might engage in a comparative investigation of influences of literacy on consumer decision-making in high-income countries and those in the developing economies of low- and middle-income countries. Multinational companies dominate the emerging market landscape with billboards, pictorially appealing to subsistence consumers, whereas such billboards targeting subsistence consumers in high-income countries are not as prevalent. The academic literature does not offer any insights into this choice of strategy. Academic research could attempt to gain more insights from the different approaches of marketing practitioners by understanding the factors influencing consumption at the bottom of the pyramid at different levels of economic development and in different cultural environments.

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