

SUMMARY

MARKETING TO THE BOTTOM OF THE PYRAMID - THE CASE OF SANITATION IN PERU

The fortune at the "Bottom of the Pyramid"

What do you have in mind when you hear the city names of Jakarta, Mumbai, Accra, Lima or La Paz? Maybe you just imagined a congested road, an urban slum settlement or a corrupt civil servant. Correct! But have you also thought that the mentioned metropolises might be the flourishing business capitals of tomorrow? C. K. Prahalad and Stuart L. Hart answer with "yes" in their groundbreaking paper "The Fortune at the Bottom of the Pyramid". They argue that past mainstream business activities have blindly focused on the two billion customers in the high-income markets of North America, Europe or Japan at the top of the pyramid. In doing so they ignored a tremendous business opportunity at the bottom of the pyramid: Four billion low-income customers, mainly residing in the developing world, are full of ambitious wishes and wait to be served by the private market. They might be poor compared to "top of the pyramid"- standards but it is a general misconception to believe that low-income individuals do not have any money to spend. In fact televisions, mobile phones and Coca Cola sell very well among these income segments. Researchers have calculated that customers with an income lower than US\$3000/year constitute a worldwide five trillion dollar market. The business opportunities of tomorrow will therefore not be found in the saturated markets of New York, London or Tokyo but among the emerging customer segments in Lima, Mumbai or Jakarta.

Sanitation in Peru - A promising business opportunity

A country full of opportunities is Peru. After having experienced in the 1980s and 1990s two decades characterized by macroeconomic instability, a bloody, internal conflict and a shocking corruption scandal, Peru looks in 2009 back on a decade marked by an economic upswing and relative political stability. Thanks to a rise in exports and the increase of world prices for minerals and metals, the national economy rose from 2006 to 2008 by 7.5%-9%/year. However not everyone has benefited from the new wealth and 21 out of 27 million inhabitants still live with less than US\$2000/year.

A particular problem for the Peruvian "Bottom of the Pyramid" is the lack of sanitation services. Could you imagine leaving the house to search for a hidden tree every time you feel the need to relieve yourself? If not, than figure that this situation corresponds to a widespread reality in the developing world. 43% of all Peruvians and 70% of the rural population do not have a toilet of minimal hygienic standard! As a consequence 10% of all children's deaths in the country are associated to diarrheal diseases. How would you feel now if you were offered to buy as one of these non-users economical sanitation equipment that all of sudden brings you a fantastic toilet experience to your own house? I guess very relieved and ambitious to seek this equipment.

The key idea at this point is to sell customized sanitation products directed to an enormous customer segment of 11.5 million Peruvians who currently lack sanitation. Success stories from Bangladesh, Ethiopia and Senegal prove that this idea can be more than a quixotic chimera. Millions of low-income customers in these countries have showed that they are willing to value sanitation products with a price. A similar approach might now be adapted now to Peru.

Research design

This paper is meant to design a business concept for firms with an intention to engage in a sanitation market for Peruvian "BoP"-customers. I travelled for this purpose in June 2008 to Peru and accompanied during three months a market initiative for sanitation of the Water and Sanitation Program of the World Bank. I conducted numerous field visits to slum settlements in Lima, in Iquitos and to an impoverished rural zone nearby the city of Cajamarca. Over the course of my stay I was able to get in contact with managers from sanitation firms and micro credit banks, with NGO leaders, with sanitation experts and above all with the BoP-population itself. The goal of this study was less to deliver a paper of statistic accuracy but to compose based on the experience of my field visits piece by piece a business model for sanitation that copes foremost with the local needs and particularities.

Results

How has it become possible that televisions and cell phones have proliferated in this country faster than basic sanitation products? It has a lot to do with social status and poverty. Televisions and cell phones represent to low-income customers objects of desirability and modernity whereas poor-quality latrines stand in Peru for contamination and second class citizenship. A promising business model must therefore deal with both the financial restrictions and the low profile of sanitation products among the Peruvian poor.

This paper promotes therefore an integrated business concept for sanitation based on value-creating and attractive technological solutions, on a new promotion and distribution strategy and on the combination of sales with flexible finance schemes. The sanitation solutions offered to different target groups might thereby vary in accordance with the diversity of cultures and biospheres in Peru. Slum dwellers around the city of Lima expect to be connected to the municipal water and sewage network over the next years. Therefore they would spend their money only on a toilet that can be upgraded at a later stage along with the development of the city infrastructure. A farmer in the Andean midlands might show an interest in an "ecological toilet" to reuse human dung for the fertilization of his fields. The resident who lives on the riverside in the rainforest in contrast demands a technology that copes with the floating architecture of his shelter.

But as 12 million Peruvians without access to sophisticated sanitation items will hardly begin to change all of sudden their hygiene habits, they have to be sensitized to the new products with a revolutionary promotion and distribution strategy. This publication therefore proposes a marketing

campaign that establishes toilets as an item of social pride and status in the people's minds. "With a new throne at home, you will feel like a king", an exemplary slogan is presented. In addition local promoters are supposed to directly acquire new customers in the intimate atmosphere of their "barrios" instead of waiting that the poor themselves find a way to an existing sales point in one of the wealthier areas of the country. The already existing model of micro credit banks who successfully operate in the mentioned zones provides a good point of reference for sanitation firms with the intention to tackle this emerging market segment.

Author: Christian A. Vouvouras

Referees: Urs Heierli, Ph.D. / Prof. Simon J. Evenett, Ph.D.