



Indian Institute of Management Calcutta

Working Paper 2787utta

**Consumption and Purchase Patterns among Bottom of Pyramid Consumers:
Propositions, and Implications for Public Policy**

Corresponding Author: Ramendra Singh, Associate Professor (Marketing);
K-303 New Academic Block;
Indian Institute of Management Calc

Consumption and Purchase Patterns among Bottom of Pyramid Consumers: Propositions, and Implications for Public Policy

Abstract

In this research, we analyze the peculiarities in the consumption and buying patterns at the bottom-of-the-pyramid (BOP), and provide public policy implications to shape policies for poor consumers. We conduct semi-structured in-depth interviews of 36 poor customers in two states in India. The data is analyzed for emerging themes, and emerging relationships between these themes. Based on the analysis, we suggest six propositions emphasizing on the peculiarity of BOP markets triggering specific parameters for shop and product selection, thereby lead peculiar consumption patterns among consumers at the BOP. Our paper may serve as a conceptual basis for the managers to formulate an effective policy mix in order to serve the base of the pyramid more effectively. We conclude the paper by positing consumer-based policy implications tailored for the financially poor consumers at the BOP.

Key words: *bottom-of-pyramid consumers, consumption, consumer behavior, low income, India.*

Paper Type: Empirical Paper

Although the micro-economic models are the pioneering attempts to understand the choice process, their bias towards the concept of utility maximization does not always hold true in all marketing contexts. In context of the Bottom-of-the-Pyramid (BOP), consumers generally strive for acceptable levels of satisfaction and not always utility maximization (March and Simon, 1958). Besides, consumers lack perfect knowledge regarding products, and they frequently manipulate each other's preferences in the prevailing socio-demographic setup with several non-action variables. BOP markets are characterized by compactly networked and close-knit communities (Viswanathan, Gajendran and Venkatesan, 2008) on which they depend to trounce their deficiency of purchasing ability, access, and skills (Viswanathan et al 2008). Therefore,

the present study concentrates on developing a more realistic model of buying and consumption behavior patterns in context of the BOP markets.

In the present study, based on several in-depth interviews with BOP customers, we conceptualize and propose a new model of consumption and purchase behavior among BOP consumers. Our study contributes in the following ways:

It attempts to draw inference on the consumption peculiarities at the BOP based on existing literature and exhaustive interviews.

It develops an integrated and constructive framework of purchase as well as consumption as a pioneering attempt by establishing linkage between the peculiarities of the product as well as shop selection parameters at the base of the pyramid. .

It identifies intra-familial behavioral disparities, interactions and influences as an integral part of household choice heuristics at the BOP.

The rest of the paper is structured as follows. We first provide the theoretical background of previous research on BOP consumers. This is followed by methodology, findings and discussion, and we finally conclude the paper with implications & concluding remarks.

Theoretical Background

According to Sheth, Newman and Gross (1991) choice decisions are based on five major values namely functional value, emotional value, social value, conditional value, and epistemic value. However, functional value is assumed the most important influencing variable of consumer choice. This assumption is derived from the Marshallian „utility theory (1890) and most often considers the customer as "rational economic man." However, as mentioned earlier that since 1980 s the researchers vehemently argued over the concept of rationality of the consumer actions (Erasmus, Boshoff et al. 2001). Quite often, the rational information processing approach of the model falls short to interpret the non-conscious behaviors of the customers (Bozinoff 1982, Erasmus, Boshoff et al. 2001); especially for the low-literate BOPs (Viswanathan, 2005).

In the BOP markets, although considerable debate has been generated on the imprecise definition of the BOP market i.e. whether it should be per capita income below \$300 in the local purchasing power (Hammond, 2007; Karnani 2007) or the per capita income below \$2 per day at Purchasing Power Parity (PPP) rates \$750 per year (Pralhad, 2002), yet, there is no doubt that the BOP consumers have to be treated as significantly different from that of the Top of the Pyramid „experiencers or „I-am-Mes (Pralhad, 2004). On the other hand, this diverseness of BOP customers both in terms of earning and ignorance might provoke them to skew their expenditure towards unnecessary and unhealthy habits (like tobacco or alcohol) instead of constructive and essential needs as child education (Pitta et al. 2008). Moreover, due to extreme poverty, they compromise with both qualities and adequate quantities of purchase and consumption (Chakravarti, 2006; Pitta, Guesalaga et al, 2008). Quite obviously, in such a poverty-situation, the poor spend 80% of their total income on food, clothing, and fuel with almost nothing left for other products (Karnani, 2007). According to some other sources, the BOP customers spend 50-75% of their income on food and basic consumer items (Andrea et al., 2004). That leads to their marginal propensity to consume for the food items at much higher

ratio than their TOP counterparts (Pitta et al., 2008). Therefore, though consumer's income, previous income (Friedman, 1957) or relative income (Duesenberry, 1949) are some of the important macro-economic criteria for buyer behaviour in general, but the social-demographic (e.g. literacy, gender) structure plays a major role to explain buyer behaviour in BOP context.

However, post globalization, the social structure in which the purchase and consumption decisions are taken, is shifting its paradigm. Nevertheless, the gender-biased familial privilege regarding the provision of basic education is still revealed by the lower literacy rate amongst the females (Kanter, 2002). Despite the wide prevalence of self help group activities (Ganguly and Scrase, 2003) which have catalyzed a sea change in the societal activities, the normative precincts on the role of females as a buyer in context of family purchase still prevails even in BOP communities (Hapke, 2001).

In harmony with such social practices, illiterate and ignorant consumers generally rely on a single information cue while making purchasing decisions (Viswanathan et al., 2005).

The consumer decision heuristics in terms of essential products and services are often restricted by the prevalence of unavailability (Prahlad, 2005), unaffordability (Karnani, 2007), lack of accessibility, awareness and appropriateness (Mukherjee, Bandopadhyay, Bhattacharya, 2007) in the subsistence market place. Chakravarti (2006) mentions that many economists argue that due to extreme poverty at BOP, well-being should be understood not in terms of basic needs or utility derived out of essential products and services, but rather as consumer's capability; that is the "value" derived by him from the commodity in the genuine state of freedom generates the sense of well-being (Amartya Sen, 1999). Nonetheless, even though the BOP customers are

functional/social „value“ (Newman et al, 1991) derived from the product is higher e.g. cell phones (Viswanathan, 2008). Thus, the perception of “value” seems to be more prominent issue than the notion of price as the only cue.

Therefore, in the BOP markets, the choice heuristics in terms of household consumables (rice, dal, sugar etc) sometimes do not follow the significative or symbolic cues as mentioned in the inclusive consumer behaviour model by Howard-Sheth (1969) and rational information-processing

schedule caste, OBC, and general category out of the total ration cardholders were 16%, 35%, and 47% respectively. These figures demonstrated a paradox given the higher percentage of poverty in rural India as compared to the urban India. (NSSO Report 2006-7, InfoChange News and Features, July 2007)

In congruence to this, it may be argued that ther

pages, and were then analyzed for emerging themes and the emerging relationships between these themes. Both researchers also made extensive notes during the interviews. On most occasions, the mother/wife or the father (head of the family, and may not be the only breadwinner in the family) served as the primary respondent.

The BOP interviewees had a daily income of less than US \$2 (~Rs 100 per day; \$1 is approximately equal to Rs 49.5), with education levels less than 12th grade, and with occupational profiles that included those of household help, migrant daily wage earners, rickshaw pullers, small shop owners, or street vendors. These classification criterion are consistent with literature (e.g. Prahalad and Hammond 2002), and with those included in the United Nations Human Development Index that suggests income and education to be important factors indicating poverty. Interview lengths varied from 25 minutes to more than 1 hour. Each began with a question asking the respondent(s) what they ate, which products they bought and consumed, how their family chose brands, how aware they were of the brands, and how they made decision on what to buy?

Findings & Discussion

Our analysis of primary data yielded insights that substantiated and characterized our propositions. Figure 1 shows the organizing framework for our findings. Examination and elaboration of our propositions using the findings shows how (1) specific features of the BOP markets can trigger distinctive parameters of point of purchase (shop selection), followed by unusual parameters of product selection (Propositions 1-2), (2) each of these two parameters can trigger selection/choice of purchase points, and choice of products(Propositions 3-4), and (3) choice of purchase point (shop) can also trigger choice of products(i.e. constrained exchange and consumption) (Proposition 5), and, (4) These features of BOP markets thus lead to certain consumption patterns at the BOP(Proposition 6). We now discuss our findings below.

-----Take in Figure 1-----

Features of the BOP Consumers and Purchase Decision Making

Consistent with the BOP literature, our data shows evidence that BOP consumers adopt different heuristics compared to rich customers in deciding the parameters for selection of retail outlet, as well as the product/service to be consumed.

Features of the BOP Consumers and Parameters for Shop Selection and Product Selection

The evidence from our interviews show that key peculiar features observed in the BOP markets consists of low incomes, low literacy levels, and low purchasing power. These features in combination strongly influence consumptions in terms of periodic and frequent purchase. It also brings a much higher levels of dependence on the social networks of the poor individuals who are dependent on their relatives and friends to take the bridge loan to overcome the continual and persistent gap between low purchasing power, and consumption triggered by basic needs, and emergency needs. We also found that although many poor customers are also covered under the federal government s subsidy program through below the poverty line (BPL) cards, yet most poor customers we interviewed preferred to go to the open market shops. These

Proposition 6: Peculiar features of BOP markets leads to peculiar consumption patterns by BOP consumers.

Implications and Concluding Remarks

If customer's competence, knowledge, and skill to properly comprehend and use the product are referred as „consumption ability“ then it seems that the BOP customers may have very limited ability to steer and adopt especially new brands (Elaydi and Harrison, 2010). Our study adds to the extant understanding of the purchase and consumption patterns of consumers at BOP, given the changes in the socio-economic background of the BOP market. Few scholars (e.g., Yang, Zhao et al. 2010) have appealed that it is worthy to explore the intrahousehold behavioral interaction as one of the key determinant of consumer purchase decision. We also pioneer in this direction in the context of BOP families. More importantly, we show in this study that poor customers cope with their low self efficacy due to low functional literacy levels, by leveraging their social networks to gather as well as interpret various significant symbolic cues in the market (Viswanathan et al, 2010). This is probably due to the distance between the psychological and peripheral attributes of choice which influences the poor consumer's „black box“. The more the distance the more the customers inclin] ref s rs ip th

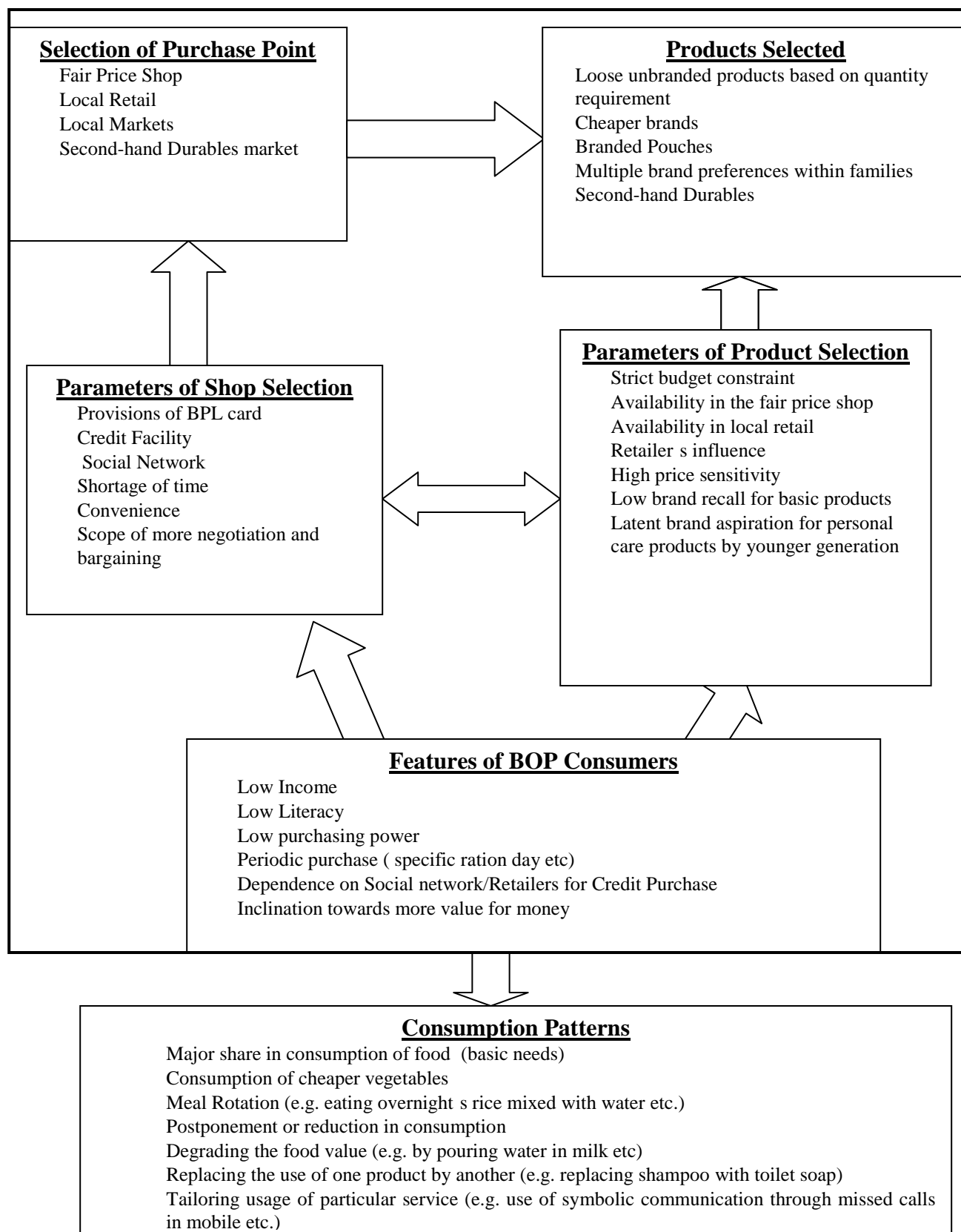


Figure 1: Framework analyzing triggers of shop selection and product selection for consumers at the BOP

Chiweche, T., and Fletcher R, 2010: Understanding factors that influence purchases in subsistence markets; *Journal of Business Research* ; 63; p.643-650

Indrakant, S (2000), "Food Security and Public Support: A study of Andhra Pradesh", *Krishnaji and Krishnan (eds)*.

InfoChange News and Features, July 2007.

Prahalad, C.K. and Hammond, A. (2002), "Serving the World's Poor Profitably", *Harvard Business Review*, Vol. 80; No. 9, p. 48-57.

Prahalad C.K and Hart S; "The Fortune at the Bottom of the Pyramid"; *Strategy+Business*; Vol 26; p.1-14.

Khera Reetika (2006), "Access to the Targeted Public Distribution System: A Case Study in Rajasthan"; Available at: <http://www.indiaenvironmentportal.org.in/files/Access%20to%20the%20Targeted%20Public%20Distribution%20System.pdf> accessed on 14.5.2011

Sen Amartya (1997), "Hunger in the Contemporary World", STICERD - *Development Economics Papers - From 2008 this series has been superseded by Economic Organization and Public Policy Discussion Papers 08, Suntory and Toyota International Centers for Economics*

