Serving the Low-Income Consumer: How to Tackle This Mostly Ignored Market

Facing saturation and cutthroat competition in long-established markets, many multinational companies are seeking new markets. Yet until recently, they have largely ignored the more than 5 billion low-income consumers, thinking these consumers have no money to spend or are impossible to reach. Now several companies are disproving these perceptions.

How many of the world’s 6.6 billion potential consumers does your company target? For most multinationals, it seems an odd question, because only 1.5 billion people worldwide exceed $10,000 in purchasing power parity for their personal expenditures.1 The other 5.1 billion people—78 percent of the global population—are low-income consumers. Conventional wisdom says to ignore this group, because “there isn’t any money there to earn,” and anyway “the poor are not brand conscious.”
Our research demonstrates that both perceptions are false. For the right companies, serving low-income consumers can lead to significant growth. Consider: Russian low-income consumers spend $104 billion annually—about 30 percent of the total personal expenditures in the country. Can you pass up an opportunity to address even a small fraction of this sum? Furthermore, low-income consumers are brand conscious; people with limited savings need good, reliable quality at a fair price. Well-known multinational brands are favored over domestic brands by 70 percent. These customers might not be able to afford a standard-sized bottle of Pantene shampoo or NIVEA hand cream, but they do see the high price of such products as an indication of value. Given the right-sized container, they’re happy to splurge.

Who Is the Low-Income Consumer?

To serve low-income consumers successfully, companies must first account for their lower purchasing power. Figure 1 illustrates a widely-used threshold for defining low-income consumers: $10,000 in purchasing power parity (adjusted for living costs in different countries). More than three-quarters of the global population is low income, and many of them have been historically beyond the reach of organized retail.1

The figure shows an additional threshold that we think doesn’t get enough attention. While many people associate low-income consumers with the bottom of the pyramid (incomes of less than $2,500), more than half of these individuals actually earn between $2,500 and $10,000. Such “medium low-income consumers” represent a great majority of consumers in Eastern Europe, the Middle East and Central Asia.

Furthermore, the pyramid is morphing. By 2020, the very low-income market is expected to shrink by 24 percent, while the medium-low market will change little and the wealthy will grow by 80 percent. What’s happening, of course, is that people are marching up the income ladder. Sooner or later, you’ll be targeting people who are low-income consumers today, and today is when they’re forming opinions and loyalties.

Before investing in this new market, companies should consider two questions: Is the market large enough—does it represent sufficient expenditure to justify market entry? Can these customers be served profitably? For the first question, the answer is yes, the

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1 A purchasing power parity exchange rate equalizes the purchasing power of different currencies in their home countries for a given basket of goods.
2 For more on improving the lives and living conditions of the world’s poor, see the white paper A New Plan for Rural Development at www.atkearney.com.
Can Low-Income Consumers Be Served Profitably?

To address the low-income consumer in these markets, our analysis builds on a concept called the 4 A’s (see figure 2).

**Affordability.** The most pressing issue in the low-income consumer sector is that people have little chance to save money for larger investments. Generally, companies can address affordability by reducing packaging size to single sachets. This offers several advantages. For one, low-income consumers tend to shop for daily needs since they are often paid by the day, which means larger packages are simply not an option. Sachets bring a high-priced product within reach while maintaining the perception that high price stands for high value. Also, small village or roadside shops have only limited stocking capacity, so smaller items allow them to provide a wider product range. Finally, to leverage scale effects, single sachets can be sold for promotional purposes and to hotels and airlines.

There are some potential drawbacks, however. In Western Europe and North America, firms generally sell smaller packages at a higher price. However, our discussions of market tailoring and value chain restructuring represent A.T. Kearney analysis.
Is the Market Large Enough?

In Eastern Europe, 56 percent of consumers, or 57 million people, are low income. Additionally, Russian and Ukrainian populations are 70 percent low income. Altogether, 190 million low-income consumers are geographically close to Western Europe—and Western European markets. Even larger is the market in the Middle East and Central Asia, where 90 percent of consumers are low income, with 315 million people (by comparison, the total EU15 population is approximately 382 million).4

Although there is a huge number of low-income consumers, is each individual’s expenditure large enough to make the market attractive? To calculate this, we multiply the number of low-income consumers by their dollar expenditures.5 In the Middle East and Central Asia, the result is $298 billion—a 56 percent share of personal expenditures. Eastern Europe, Russia and Ukraine amount to a $277 billion market (see figure).

Clearly, these markets are not the sole playing field of multinationals. Typically in countries dominated by low-income consumers, most food products are produced locally and sold at outdoor markets. Similar dynamics affect housing and household goods. Even in the personal care sector, homegrown competitors have a solid standing that makes it difficult for multinationals to compete. For example, the Russian-based cosmetics group Kalina, which has a distribution network touching more than 23,000 outlets, holds one-quarter of the Russian skin- and oral-care market. Its “32” brand toothpaste is preferred by 20 percent of Russian buyers. Likewise, Arko razor blades and complimentary products from Turkish personal care company Evyap hold more than 25 percent of the Turkish market for men’s shaving products.

Multinationals can address at best a 20 to 30 percent market share for low-income consumers. The health and communications sectors promise lots of market share (multinationals account for 60 percent of pharmaceuticals in Pakistan, for example), while the largest market of basic food products may be totally closed off. In the personal care sector, low-income consumers typically purchase inexpensive skin care and shampoo but branded, high-priced perfume. Therefore, fragrances (which comprise more than one-third of the Russian personal care market) are an especially promising market.

In light of this, the potential addressable market share in Eastern Europe, Russia, Ukraine, the Middle East and Central Asia is $129 billion. Thus in many sectors there will indeed be sufficient expenditures to justify market entry.

Calculating personal expenditure by region ($ billions)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Low income</th>
<th>Percent share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>$7,328</td>
<td>$681</td>
<td>9%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>$476</td>
<td>$134</td>
<td>28%</td>
</tr>
<tr>
<td>Russia and Ukraine</td>
<td>$414</td>
<td>$143</td>
<td>35%</td>
</tr>
<tr>
<td>Middle East and Central Asia</td>
<td>$534</td>
<td>$298</td>
<td>56%</td>
</tr>
</tbody>
</table>

Note: Low-income expenditures calculated using the Gini coefficient and income distributions published in the UN’s Human Development Report 2006. Sources: UN; World Bank; A.T. Kearney analysis

4 Countries surveyed: Egypt, Iran, Israel, Jordan, Kazakhstan, Pakistan and Turkey.

5 Many studies provide expenditures in purchasing power parity. However, companies must calculate their earnings in euros or U.S. dollars. For example, despite being rather similar markets in purchasing power parity (about $4,320 per capita), Turkey and Kazakhstan differ significantly in current dollar expenditures ($2,435 and $1,877, respectively).
unit price, extracting a premium for convenience. Reaching the low-income consumer in a developing country requires a lower relative price. You don’t want a premium, just a customer. The drawback is that middle- and upper-income consumers may eventually notice the lower price, switch their buying habits and start a price erosion.

Notwithstanding the drawbacks, India is a rich source of examples for tailoring affordable products. Roughly 45 percent of smaller 50-gram tea packs are sold in rural markets, and Hindustan Unilever Limited sells 5 billion pieces of penny candy a year, earning revenues of $50 million. Even computers are sold in smaller packages. Novatium, an India-based technology company, introduced the Nova netPC, a personal computer for the Indian market priced at roughly $100. The machines have no local storage or programming. Instead, users pay a small monthly subscription fee to connect to a network where a central server hosts applications and files.

Affordability is often achieved by restructuring the supply chain. Renault is planning an automobile priced at $3,000 for the Indian market, and Tata has announced one for $2,500. In each case the company will not strip down an existing model but instead develop a spacious vehicle especially for Indian buyers—using Indian labor, logistics and sales networks.

Companies that cannot disaggregate products into smaller units can aggregate consumers. Financing can often be secured by grouping several users together. For example, in Mexico, the international cement and construction company Cemex saw a market opportunity. Because of a housing shortfall and the inability to get a construction loan, many poor people were building their own homes. A typical home took five years to complete, had just one room and no access to sewage facilities. Today, Cemex provides families with access to credit for cement and architectural consulting, which has reduced construction time by one-third and costs by 20 percent. Three families are grouped together into communities with joint responsibility for weekly payments. In part because of peer pressure, Cemex says repayment rates reach 99 percent.

**The outlook:** Making products affordable for the customer means employing a low-margin, high-volume strategy, and leveraging scale effects to achieve low costs of goods sold. Return on capital—not on revenue—is the critical yardstick in low-income markets. Companies can achieve this goal and reduce risk by operating on zero (or nearly zero) working capital.

**Availability.** Many low-income consumers live in remote villages or urban communities that lack access to conventional retail markets. Reaching these consumers requires creative thinking and finding alternative means of transportation.
One way to replace the standard retail environment is to build on the entrepreneurial spirit of many low-income consumers. Recent media attention has heralded microfinance institutions that make small loans to help poor rural residents establish their own businesses. These microenterprises often sell products to other low-income consumers in the neighborhood, but need a way to reach out to remote villagers. Recently, Accion International developed an application called PortaCredit, which runs on a personal digital assistant and allows loan officers to meet clients in their homes, input data, process the application, and calculate loan payments, all on a PDA. The result is improved efficiency for the institution and a faster turnaround for the applicant.

In Africa, cellular leader Vodacom discovered budding entrepreneurs by tracking cell phones with an abnormally high number of calls. Believing the owners were renting out their phones, the company contacted them and offered them franchise opportunities to operate their own phone kiosks. Each kiosk is run by a franchisee who invested in the initial costs and receives one-third of the revenues. To date, Vodacom’s network includes about 5,000 kiosks. Also in Africa, the sale of prepaid phone cards has become big business as most low-income consumers cannot afford the mandatory two- or three-year mobile phone contracts. Today, farmers in Africa use their mobile phones to access weather forecasts and gauge market prices.

Where basic sales channels already exist, companies simply need to be more fastidious in their support. Procter & Gamble told the Wall Street Journal that it is targeting low-income consumers in Mexico through its “golden store” program. Golden stores are tiny mom-and-pop shops that carry 40 or more P&G products and display them together on the shelf rather than next to competing brands. In return, these merchants get regular visits from P&G reps who spruce up the displays.

Sometimes creating completely new ways to sell is the best path. Nestlé Brazil, for example, established a direct sales channel for women to sell yogurt and biscuits from their homes. Many customers are given two weeks (the interval between sales calls) to pay. Although credit is unsecured, peer pressure keeps default rates below 2 percent. Likewise, in Russia and Central Asia, door-to-door selling accounts for nearly 19 percent of the beauty market. China, too, has recently loosened restrictions on direct selling.

Meanwhile, in India, Hindustan Unilever provides personal care products such as soap and shampoo for women’s “Shakti” self-help groups to sell in their villages. The project could expand the company’s coverage and help more than 30,000 entrepreneurs earn a living by serving potentially up to 500,000 villages, each with fewer than 2,000 residents.

Such projects are less about helping entrepreneurs and more about expanding markets. These microenterprises represent a new logistics solution, shortening supply chains and lowering working capital while opening new markets.

**The outlook:** Although improving availability often requires labor-intensive distribution, low labor costs can be leveraged. For example, self-employed Shakti saleswomen in India earn $15 to $22 a month, about 8 percent of sales. Furthermore, the direct selling approach can quickly establish a sales network, bypass intermediaries and help address the final two A’s.

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*Source: Accion is a nonprofit organization. The microfinance sector continually shows how commercial enterprises can learn from innovations by nonprofits, and we expect to see this IT example replicated elsewhere.*
Acceptability. Many low-income consumers retain traditional roles, religious motivations and other unique cultural factors. When we think of designing products acceptable to these consumers, we often think of factors such as halal (Islamically permissible) foods in the Middle East and refrigeration in the tropics.

As with all consumers, understanding their daily lives and all related needs is most critical. For example, Danone sells calcium- and iron-enriched biscuits in China, where half of the population suffers from a lack of calcium. Likewise, illiteracy might suggest a product adaptation. How does one operate an ATM, for example, without reading? In India, ICICI Bank and Citibank developed biometric ATMs, featuring fingerprint authentication and voice-enabled navigation. This technological leapfrogging made the product more acceptable to low-income consumers. To improve affordability, the banks also did away with minimum account balances.

Sometimes adaptation comes from creative thinking about traditions. For example, Indian entrepreneurs are hoping to cut down on the waste of plastic forks, knives and spoons by marketing edible cutlery. It’s edible because it’s made from sorghum flour, a popular heat-and drought-tolerant and nutritious crop. In other countries—indeed, we must admit, even to ourselves—edible cutlery seems a bit farfetched. But the product is designed for India’s unique cultural factors, not ours.

The circumstances surrounding daily life should also be considered. Low-income consumers in Brazil typically have long commutes, leaving early and returning home late. They must often prepare meals over the weekend, so freezers and microwave ovens are more common than one would expect and acceptability for frozen or semiprepared meals is growing.

Finally, one of our favorite examples of tailoring product offerings for acceptability comes from China, where the appliance manufacturer Haier simply listened to its customers’ requirements. Called to service a clogged drainpipe in one of its clothes-washing machines, the company discovered an unusual cause: potatoes. Millions of people in the Sichuan region grew potatoes and used washing machines to rinse off the mud. But instead of blaming customers for misuse, Haier developed a machine with wider pipes that could wash potatoes and other vegetables in addition to clothes. (Later, Haier developed another washing machine to make cheese from goat’s milk.) The result was a strong increase in use of Haier’s products among low-income consumers—and market leadership in China.

The outlook: Acceptability comes from innovative thinking and a deep understanding of local needs of low-income consumers. Companies with local R&D and market research are more likely to develop a useful product.
**Awareness.** As with the absence of conventional retail outlets, the absence of conventional advertising in the lives of low-income consumers can be both a challenge and an opportunity. How will they know about your product? Can you learn enough about their lives to get your message across? In India, for example, Hindustan Unilever uses magicians and dancers to promote products. Additionally, partnerships with micro-enterprises (as discussed above) come with built-in “town crier” awareness opportunities.

TV, Internet and word of mouth play a big role, too, as information travels fast and across purchasing-power categories. As rural workers move into the cities for employment, they become more familiar with brand-oriented lifestyles, influencing product decisions back home where they often send money. In less media-saturated areas, companies can increase awareness by tapping into the power of social networks. For example, in rural India, Colgate-Palmolive took its marketing campaign on the road with video vans that show local movies and advertising for its personal care products. Open-air marketing at festivals and in village markets is another cost-effective approach, allowing companies to reach large numbers of consumers.

We’d like to close with one more creative approach for building awareness. When addressing health or nutrition issues, cooperation with non-governmental organizations can foster mutual success. One example is the Scojo Foundation, associated with the eyewear manufacturer Scojo Vision, which trains local entrepreneurs to give basic eye exams and sell low-cost reading glasses in their communities. There’s no doubt that inexpensive reading glasses improve the lives of low-income consumers—and they also open a new market for Scojo Vision.

Likewise, Procter & Gamble developed a water purifier for developing countries. In Uganda, the company partnered with Population Services International and the International Council of Nurses to increase low-income consumers’ awareness of the importance of safe water and the P&G product offering. In a country where only half the population had access to safe water, and where diarrhea was a major public health issue, the water treatment project reduced instances of disease by 30 to 50 percent. It’s a great example of a socially engaged company—yet P&G had undertaken it to grow revenues for its water purifier.

**The outlook:** Without downplaying the value and importance of doing good deeds, partnerships with philanthropic groups can be creative ways to increase awareness. It’s just one example of the compelling economic
reasons to serve the world’s poor—giving them a choice of products they can afford to purchase (rather than a handout of a product they can’t) and also increasing your revenues.

More Choices and Chances

The advantages of the low-income consumer market should be clear: It offers growth rates well above long-established markets and customers hungry for new choices. There is also a hidden bonus: Companies able to cope with the requirements of low-cost value chains can become more competitive in their home markets.

Your competitors may already be discovering the low-income consumer. You must act quickly to profit from first-mover advantage and establish your brand name among this consumer group as it climbs the income ladder. It’s the classic win-win situation of the free market: giving people more choices and chances while increasing a company’s revenues. ☞

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