Retailers and new product acceptance in India’s base of pyramid (BoP) markets
Propositions for research

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Abstract

Purpose – Retailers’ new product acceptance in base of pyramid (BoP) markets is crucial to marketers in this segment. This paper seeks to develop propositions for research on factors that affect retailers in new product introduction. The propositions also aim to make a distinction between urban and rural BoP markets.

Design/methodology/approach – The paper provides a broad description of India’s BoP market (one of the world’s largest BoP markets) to better understand context. It uses literature from developed country context to BoP markets to arrive at research propositions for further research.

Findings – The key research propositions derived relate to exogenous and endogenous factors. Exogenous factors relate to store trading area, competitive environment, shopper characteristics and product diversity. The endogenous factors include store atmosphere, assortment and shelf space allocation, price and promotion. The differences across rural and urban BoP markets are highlighted for each proposition.

Practical implications – Understanding differences between rural and urban BoP retailers can help make crucial new product introduction decisions. Considering endogenous and exogenous factors that influence retailer acceptance decisions will make product introduction decisions successful.

Originality/value – BoP literature has been replete with research on marketers and products but less on retailing. This paper addresses that gap. In addition, very few papers make the distinction between urban and rural BoP markets and mostly across countries but not within a country. This paper places the distinction within the country. Finally, explaining how various factors influencing retailing differ in urban and rural contexts and developing propositions is a major original contribution of this paper.

Keywords Base of pyramid, Rural areas, Urban areas, Retailing, New product acceptance, Pyramid selling, India

Paper type Conceptual paper

Introduction

Prahalad (2004) advocates that companies should recognise the significant economic potential of consumer needs in BoP markets. Developing new products for these markets would be one way of tapping into this potential. However, companies should
not overestimate their possibilities of opening these markets. Karnani (2007) mentions several factors that may hinder easy access into BoP markets. He indicates, among other factors, that most BoP consumers have very low purchasing power and consequently are very price sensitive. Karnani (2007) also indicates that these markets often have poor infrastructure. Moreover for manufacturers targeting these consumers, the small size of the transactions, results in high-cost operations. We can thus expect that in spite of the great need for products in these markets, new product introduction will not be easy. A key operational aspect of new product introduction is the knowledge of both shopping behaviour and the appropriate retailers to target.

New product introductions are made through retailers. Consequently, a central question for companies entering BoP markets is how successful new product introductions through retailers can be in this market. Literature on manufacturer-retailer interaction in new product introduction in BoP markets is scant. We could find only a few studies that discuss how retailers make decisions on new product introductions in this market. As the retailer plays a crucial role in new product success, this conceptual paper addresses the question of which factors BoP retailers consider when accepting new products to introduce. Thus, this study focuses on retailers’ role in new product introduction in BoP markets.

There are large differences in BoP markets. Broadly, we can distinguish two types of BoP markets: urban and rural. A majority of BoP consumers live in rural areas (Lanjouw and Murgai, 2009). Rural retailers serving BoP consumers are mostly small independent family-owned entities (Lenartowicz and Balasubramanian, 2009). They mostly sell groceries and to a small extent consumer durables. In comparison, urban retailers – including those targeting BoP consumers – are more organised. In many cases, their activities, assortment and decision-making resemble those of retailers in developed countries. Therefore, we can expect differences in retailer decision-making on new product introduction in these two markets (Dawar and Chattopadhyay, 2002; Reardon et al., 2003). A key question is which will yield greater success in new product introduction: targeting urban or rural retailers serving BoP markets. We need to know how the factors affecting retailers’ new product acceptance decisions differ across urban and rural BoP markets.

This conceptual paper argues that manufacturers need to consider differing retailing characteristics in urban and rural BoP markets. We examined factors affecting retailer acceptance decisions in developed country contexts to arrive at the research propositions. Our paper is structured as follows. The literature review following this section discusses India’s BoP market, examines differences between urban and rural BoP retailers, compares urban and rural BoP consumers, and sheds light on retailer and consumer factors affecting new product introduction. In the next section, based on these factors, the paper proposes research propositions that need testing. Knowledge gained through testing these propositions will help manufacturers to introduce new products more successfully in BoP markets. We end the paper with discussion of managerial implications and directions for further research.

**Literature review**

*India’s BoP market*

India is home to one of the world’s largest BoP markets. A company entering the Indian BoP market gains access to a huge consumer base of nearly 925 million people...
with USD 1.2 trillion in purchasing power parity (Katz, 2007). These consumers have a great number of specific product needs that have to date been only partly fulfilled, mainly due to lack of spending power. The products that BoP consumers need are either not available at all or not affordably priced. Thus, tremendous scope exists for product innovations to bridge this gap. New products to fill this gap can be an opportunity for manufacturers to succeed in this market.

The BoP market is not homogenous. Most Indian BoP consumers live in rural areas, in more than 600,000 villages. These BoP households have extremely low income (less than USD 2 on a PPP basis per day), and spend as much as 72 per cent of their income on food, about 7 per cent on clothing, and about 8 per cent on basic durables (NCAER, 2004). Rural areas typically depend economically on agriculture. In turn, agriculture is dependent on rain without alternate sources of irrigation (Palmer-Jones and Sen, 2006). Owing to changing climatic conditions and uncertain rainfall, rural BoP consumers’ income is highly unpredictable. The Indian monsoon failure in 2009 and its effect on agriculture, food prices and rural incomes is a good example of the result of such climate variances. In rural areas, transportation infrastructure is hardly developed and access to public transportation is minimal. Therefore, in addition to low consumer spending power, the rural BoP market is characterised by limited product access due to higher product distribution costs, vast geographical distances and lower population density. These situational factors together make it difficult for companies seeking success in new product introductions in rural areas. However, twenty years from now, the rural Indian market (in value terms) will be bigger than the total consumer market in countries such as South Korea or Canada. It is expected to grow almost four times from USD 577 billion, its size in 2007 (McKinsey & Co, 2007). Manufacturers and retailers cannot afford to ignore this market.

A smaller percentage of Indian BoP consumers live in urban areas. The Indian census defines an urban area as all larger cities with a Municipality, Corporation or Cantonment or Notified Town Area (Bhagat, 2005). In addition, the Indian census considers all cities that have a minimum population of 5,000, a non-agricultural male working population of at least 75 per cent and a density of population of at least 400 per sq. km. as urban areas. High population density and better public transport infrastructure characterise urban areas. Urban areas provide several forms of employment for unskilled and semi-skilled workers in industries like construction and the services sector. The urban income stream is relatively stable throughout the year compared to rural areas. Incomes are also higher than in rural areas, but still very low. Due to relatively regular employment opportunities, migration takes place from rural to urban areas (Ravallion et al., 2007). The urban BoP market accounts for 80 per cent of India’s Base of Pyramid (BoP) market, as assessed through household spending. The total BoP market is valued at around USD 450 billion (Dobal, 2006). Manufacturers and retailers consider these urban BoP markets as an additional market to serve in the otherwise lucrative urban non-BoP market.

Comparison between rural and urban BoP retailers
Rural BoP market retailers are, in most cases, sole independent small storeowners that have considerable local market power. Sridharan and Viswanathan (2008) in their paper mention that this power is due to the following characteristics. First, physical
retail store design (limited size) does not allow consumers to browse. Thus, consumers cannot readily compare different products and so their new product exposure is minimal. In addition, store displays that manufacturers often use to attract consumers’ attention to new products are difficult or even impossible to use. Second, the storeowner acts as the (single) sales person, interacting directly (and in most cases exclusively) with the consumer. This happens because the consumers have minimal access to other village outlets or product information sources like magazine ads and the internet. The rural BoP retailer is the single source of market information. For instance, when a rural consumer asks for washing soap, the retailer decides which brand to offer. Here, the storeowner’s recommendations carry weight, as he is the sole link to market developments. In addition to lack of independent market information, rural BoP consumers have lower expectations regarding products and services (Malhotra et al., 1994). Thus, consumers do not have strong motivation to look actively for new products or services. A third important characteristic that enhances rural retailer power is the intense (and often lasting) personal relationship between the storeowner and local consumers. An advantage of this direct relationship is that the storeowner understands an entire village’s needs and buying habits and monitors them closely. The disadvantage, however, is that the retailer has almost complete power over the fulfilment of consumer product needs. In addition to a personal relationship, a strong economic dependency relationship (Ireland, 2008) exists because the retailer extends personal credit to shoppers. A combination of these factors provides the rural BoP retailer with power in the market and in new product recommendations in particular.

Comparison of urban and rural BoP consumers
Urban BoP consumers (like consumers in developed markets) have retailer choice. Different retailers like national discount chains, regional or city-based discount chains and small independent stores that are not necessarily focused only on the BoP market operate in urban markets (D’Andrea et al., 2006). Moreover, for food grains, the government also has its own public distribution system outlets that cater to basic food requirements like cereals and pulses (Ray, 2007; Morton et al., 2008). Cooperatives that operate these outlets in some states also sell other fast-moving consumer goods. Companies seeking to introduce new products in the urban BoP market therefore have a choice on which retailers to collaborate with. Retail competition exists for new product introduction. Therefore, the situation greatly resembles developed markets. Hence, we expect that the typical factors affecting retailers’ new product acceptance will not be different from those affecting retail chains in developed countries. Social inhibitions and economic constraints can influence, however, BoP consumers to buy frequently from small independent stores that resemble rural retailers. New product introductions in the urban BoP market made through small independent retailers can probably succeed.

New product manufacturers cannot bypass retail chains in developed countries (Hultink et al., 1999). However in this paper we argue that they cannot bypass small independent retailers in BoP markets. It is likely that the retailers’ role is even more significant in the BoP market. Therefore, it is vital for manufacturers seeking success in the rural BoP market to co-operate with retailers that have the knowledge and motivation to bring new products to the market (Iyer et al., 2006). Thus, managing new
product introduction in BoP markets entails an understanding of factors that influence retailers’ new product inclusion decisions in their assortment (Wang et al., 2008).

**Retail and consumer factors affecting NPA**

Academic literature on new product introduction in BoP markets and especially about retailer’s decisions is scarce (Runyan and Droge, 2008). However, marketing literature deals with several factors that influence a retailer’s decisions in developed markets (Mantrala et al., 2009). We use this knowledge to develop our propositions.

Retailer influence in new product introduction and success has been studied in great detail in the context of organised retail chains in developed countries (Bronnenberg and Mela, 2004). The factors that a retailer considers for new product acceptance include, for example, judgments about product quality and uniqueness, expected profit contribution and margin, consumer demand and use as a traffic generator, marketing mix variables, competition and aspects like shelf space availability and current product assortment (Rao and Mahi, 2003).

We can divide retailers’ criteria for new product acceptance into external and internal factors. This simplification is intended to address differences in urban and rural BoP markets at a broad level. We define external factors as factors that are not under the direct control of the retailer. Examples are the store’s trading area and the competitive environment. Internal factors are factors under the retailer’s control, such as store atmosphere and pricing.

**Research propositions**

*Trading area of the store*

It is argued that the population density in the store’s trading area and consumer characteristics and shopping behaviour determine store performance (Palmer-Jones and Sen, 2006). In urban areas, population density is high and consumer shopping behaviour is heterogeneous. Retailers in rural markets operate in areas of low population density where consumer shopping behaviour is more homogeneous. Demographic factors such as shoppers’ income and age can vary across trading areas in urban areas, whereas in rural areas the variation may be very low. Heterogeneity provides opportunity for experimentation with retail assortment. Higher density of the trading area provides the opportunity to test market a new product with a larger population sample (Goswami et al., 2009). Thus, for new product introduction, companies will be more interested in urban rather than rural retailers. Most fast-moving consumer goods and consumer durable companies mainly have their manufacturing operations too just outside large urban areas. The distribution costs per unit of product are also lower due to distance and demand density in urban areas.

*P1a.* Urban trading area will encourage new product acceptance (NPA) among urban BoP retailers.

*P1b.* Rural trading area may discourage NPA among rural BoP retailers.

*Competitive environment*

In urban areas, different outlets compete for the same consumers with similar products and similar formats. These different outlets can belong to national discount chains or
city/regional discount chains, or they might be small local independent shops. These outlets differ in terms of all retailing elements like location, price promotion, store atmospherics, shopping process experience and the services provided by trained sales personnel (Rossiter and Donovan, 1982). In rural areas, many of these retailing elements do not have an influence on consumers, as there is little competition. Product assortment is a major urban store differentiator, especially in a competitive environment. We can expect that urban BoP retailers will be more interested in new product introduction compared to rural retailers. Without credible competition, the need for a new product to attract consumers is not high in rural areas.

P2a. High competition among retailers will motivate NPA among urban BoP retailers.

P2b. Low competition among retailers will hinder NPA among rural BoP retailers.

**Shopper characteristics**

Urban BoP consumers’ income is low but relatively stable and higher compared to rural BoP consumers. They also have greater employment opportunities because even an unskilled urban worker has a choice of several jobs. In rural areas, income is dependent on either farming or a relatively very low level of non-farm activities. Farm employment is to great extent disguised unemployment as farm worker numbers exceed the required number. Farm employment also depends to a great extent on climatic conditions (Tiwari et al., 2005). Without assured irrigation, agriculture is dependent on monsoon rain. Thus, drought and inadequate/untimely rain can affect agriculture and therefore agricultural jobs and income. Thus, urban occupations generate better income than jobs in rural areas. This helps the urban BoP consumer to experiment with buying new products on a regular basis within his/her limited income (Tellis, 1987). A good farm harvest and a short period of high disposable income may encourage a rural consumer to mainly save (Viswanathan et al., 2005).

P3a. Urban BoP consumers’ income will stimulate NPA among urban BoP retailers.

P3b. Rural BoP consumers’ income will hinder NPA among rural BoP retailers.

**Need for product diversity**

Rural BoP consumers often live in close communities in small and geographically isolated villages (Hu and Jasper, 2006). Market information is often lacking in these places. As a consequence, product consumption is relatively stable over long periods. Also, media and social influences on the need for product diversity are relatively limited (Grewal et al., 1999). This low need for product diversity will hinder rural retail outlets in their efforts to introduce new products. In urban areas, however, more diverse product information is available. Information is also available through different media. In addition, urban consumers come from diverse backgrounds due to migration. This in effect enhances the consumers’ need to try new products and the likelihood that they will do so (Walsh, 1995).
**P4a.** High product diversity needs will stimulate NPA among urban BoP retailers.

**P4b.** Low product diversity needs will hinder NPA among rural BoP retailers.

We now define four endogenous factors that we believe will influence retail new product introduction decisions.

**Store atmosphere**

The store atmosphere is defined as the physical in-store attributes that can stimulate cognitive responses (Oppewal and Timmermans, 1997). We can differentiate store atmosphere into ambient factors, design factors, social factors and crowding (Hu and Jasper, 2006). In urban areas, large discount stores and malls affect BoP consumers’ shopping behaviour. However, these consumers rarely buy food and consumer durables from large malls. Smaller, regional or city-based chains may provide an atmosphere that the BoP consumer is comfortable with, but still may not attract a large number of consumers (Oppewal and Timmermans, 1997). Urban BoP consumers patronize small independent corner stores because the storeowner extends credit for purchases and the consumers establish a close relationship with the owner (Arnold et al., 1996). Thus, small independent stores where shoppers have no product access are the predominant shopping mode. As urban BoP consumers earn enough income and are not dependent on credit for their purchases, small independent retailers face competition. Local/regional/national discount retail chains can now compete with small independent retailers on price. Here, an inviting store atmosphere can attract the BoP consumer too. At this stage companies introducing low-priced new products can create competition among different urban (BoP targeting) retailers. The store with a low price and best shopping atmosphere would attract the (BoP) shopper (Hu and Jasper, 2006). If companies targeting urban retailers need to introduce successfully new low-priced products, then their choice of store can depend on store atmosphere. In rural areas, there is hardly any store atmosphere or competition. Thus, store atmosphere will not affect new product introduction in rural areas.

**P5a.** Store atmosphere will facilitate NPA among urban BoP retailers.

**P5b.** Store atmosphere will not affect NPA among rural BoP retailers.

**Assortment and shelf space allocation**

In urban areas, assortment and shelf allocation depend on store size and shopper needs. Assortment could be a store-differentiating factor in the competition with other stores. A larger store from a national discount chain, for example, can allocate more shelf space to a long, wide and deep assortment catering to BoP consumer needs (Krishnan et al., 2002). These consumers could utilize this choice when their disposable income permits. A large number of new product introductions and retailers compete in urban areas, as they are large and lucrative markets. Shelf space allocation poses a problem in all urban stores (Bloom et al., 2000). In rural markets, assortments are limited. In addition, as these stores are small, shelf space allocation for a new product creates retailer constraints. Small independent stores that cater to urban BoP consumers also face the same assortment and shelf allocation issues as rural BoP retailers.

**P6.** Shelf space may hinder NPA among BoP retailers.
Price
A large urban retailer can employ various pricing strategies due to its large consumer base (McIntyre and Miller, 1999). Varied purchasing power among urban consumers also helps the retailer in using loss-leader pricing strategies to attract lower-income households. Thus, a price bundling offer can target BoP consumers, providing them with value for money. The retailer can use this strategy for new product introduction. This could also facilitate new product trial and repurchase. This is not the case with small independent retail shops. Competitive pricing and credit provision for BoP households limits such storeowners from using price as a promotional tool unless the manufacturer provides for it (Tellis, 1987). In rural areas, discounts and other allowances enjoyed by the retailer may not be (or be only partly) passed on to the consumer. Thus without credible competition it may only increase retailer profits.

P7a. Manufacturer’s pricing strategy may facilitate NPA among urban BoP retailers.

P7b. Manufacturer’s pricing strategy may not affect NPA among rural BoP retailers.

Promotion
Effective new product introduction requires use of multiple media to achieve an impact on trial and repurchase. Urban areas provide various promotional media to target BoP consumers like outdoor advertising, radio stations, television, in-store promotion and other advertising forms. Thus, in urban retail outlets, it is possible to effectively raise new product awareness and interest as well as remind consumers of the product. In rural areas, however, without media choice, point-of-purchase danglers mainly act as a major form of advertising. In addition, the retailer as a salesperson acts as the single most influential advertising medium (Churchill and Collins, 1975).

P8a. Mass media promotion may facilitate NPA among urban BoP retailers.

P8b. Personal selling may facilitate NPA among rural BoP retailers.

Directions for further research
This paper puts forth propositions on comparing new product introductions through retailers in urban and rural BoP contexts. Retailers serving BoP markets in urban and rural areas could perceive the level of channel power that they wield in influencing product introduction differently. Further research could work on understanding urban and rural retailers’ power perception while serving the BoP market. Another area of study could be specific product-based work on retailer acceptance behaviour of new products, because acceptance differs across different products. Sales representatives from the manufacturers interact with retailers during new product introduction. An empirical study on their approach and the impediments they face in new product introduction would help in understanding key dimensions that influence retailers in their interaction with sales representatives. One way to test empirically our propositions is to seek retailers’ opinions and simultaneously seek the sales representative’s response to statements derived for each proposition. Another way
could be to study past data on the breakdown of sales by urban and rural retailers over time in new product introductions in BoP markets.

Conclusion

According to Prahalad (2004), the BoP market has high economic potential. It is a market in which many consumers have high needs that manufacturers have still not fulfilled. Introduction of new (low-priced) products is one way to fulfil these needs (Sehrawet and Kundu, 2007). Due to BoP market characteristics, new product introduction is not easy. The retailer’s role in this process is crucial. Until now, there has been almost no knowledge of this field. In this paper, we formulated research propositions to stimulate research in this specific area. We are convinced that research into our newly formulated propositions will help companies to make more profound introduction decisions. This would help them to successfully target and launch new products in different BoP markets.

We based our propositions mainly on factors that influence a retailer’s new product decisions, such as assortment and shelf space. The paper makes a distinction between rural and urban BoP markets. India’s BoP market illustrates the case for splitting up the BoP market into these two large markets. While this division is broad and arguable, the differences between these markets are so huge that it is even less defensible to see them as one market. In practice, the BoP market needs to be segmented into a greater number of different markets. However, the present large division is adequate in formulating research propositions.

BoP manufacturers and manufacturers need to make a distinction between urban and rural markets when introducing new products. While urban BoP markets could be accessible, rural markets pose a big challenge in terms of access. Urban BoP retailers can better facilitate new product introduction compared to rural retailers. Availability of a range of media options in the urban BoP market enhances awareness of new product introduction. However, in rural areas, managers need to look for innovative media options to communicate with rural BoP consumers in order to increase awareness. New product acceptability will be higher in urban areas because of the heterogeneous population and relative affordability due to comparatively stable income. The unstable income and homogeneity of rural consumers affect new product acceptance. These issues have a bearing on retailers’ new product acceptance. In serving the BoP population, urban retailers face competition from different discount chains. However, competition is hardly a challenge in rural areas. New product introduction in the presence of challenges in the rural retail outlets is far tougher than in urban retail outlets. Syndicated marketing measures like joint product marketing and distribution, communicating product values and lower pricing through innovative products and the reduction of costs can make new product introduction acceptable to the retailer and the consumer.

Companies operating in BoP markets need to decide whether to serve the urban markets first or the rural markets. In addition, when dealing with retailers, companies need to assess the amenability of new product introduction through them. Our research provides broad clues for influencing the retailer. Retailers operating in BoP markets exercise power due to a number of different reasons. Companies need to understand the sources of power and therefore deal with new product introduction appropriately.
rather than leave it to the channel intermediaries. Retailers can understand the factors that empower them while bargaining with companies in new product introductions. Innovative methods to overcome the obstacles to effective new product introduction will require a cooperative effort between the companies and the retailers.

References


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