

Fortune at the Top of the Pyramid

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ABSTRACT: C K Pralhad had written a book – Fortune at the Bottom of the Pyramid. In this book he discussed how there is large market of 4 billion people with incomes less than 1500 dollars and this can be a market of 4 trillion dollars which companies can target for making profits while helping eradicate poverty at the same time. Usually companies focus on the middle of the pyramid – the market with incomes between 1500 dollars and say 100,000 dollars. This paper suggests that there is market at the top of the pyramid of the richest 1% , 0.1%, 0.01% people of nation. Somehow organisations do not focus on this top tiny tip of the pyramid which has unimaginable wealth concentrated in few hands and targeting that top of pyramid can be profitable for Businesses, Governments and NGOs.

I. INTRODUCTION

When organisations create products and services they very obviously try to gauge the market. In estimating the market, organisations try to size the market – how many people could be interested in the product and service. Additionally organisations try to judge the income of the people for whom the product is made. Obviously if people are interested but do not have income then it is impossible for them to spend money to avail of the goods or services.

Hence naturally, organisations focus on creating products and services, for the middle pyramid of the economy. That is to organisations try to create products and services for middle class – upper middle class, middle middle class and lower middle class. There isn't any sense creating products and services for rich – because they are so few in number. And there isn't any sense in creating products and services for poor, because they do not have money.

Management Thinker, C K Pralhad challenged this normal thought process by posing a counterintuitive insight. In his book – Fortune at the Bottom of the Pyramid, Pralhad showed that there exists a market of 4 billion people with per capita incomes less than 1500 dollars, but collectively a huge market of 4 trillion dollars. C K Pralhad argued that companies can make significant profits by targeting this market of poor people while also helping eradicate poverty. Pralhad illustrated his insight with many case studies.

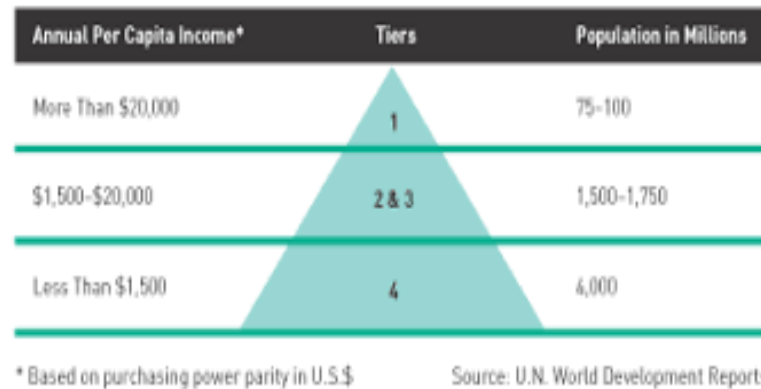
However this paper is not about Fortune at the Bottom of the Pyramid. This paper is instead about Fortune at the top of the Pyramid. This paper argues that the rich, though very few in number also have a huge purchasing power and it makes sense for organisations to target this tiny tip at the top of pyramid.

Thus while conventional intuitive normal behaviour is to target the middle of the pyramid with huge number and adequate purchasing power, C K Pralhad and the author of this paper challenge conventional thinking. While C K Pralhad challenges conventional wisdom by pointing at the fortune at the bottom of the pyramid, the author of this paper challenges the same by pointing at the fortune at the tiny tip at the top of the pyramid. While no doubt drawing inspiration from C K Pralhad's book, this paper is in no way related to that book.

The Fortune at the Bottom of the Pyramid

C K Pralhad has written a book – Fortune at the bottom of the Pyramid. This book discusses business models targeted at providing goods and services to the poorest people of the world. Interestingly not only will this enable corporations to make profits but this will also enable corporations to contribute to the amelioration of poverty.

Exhibit 1: The World Economic Pyramid



As shown in figure above, Prahlad divides world into three categories, the rich with per capita income in excess of 20,000 dollars per month, the middle class with income between 1500 dollars to 20,000 dollars and poor class with incomes less than 1500 dollars. Prahlad points that corporations target the upper two segments of the pyramid. The lowest pyramid is also huge with almost 4 billion people. And though their income is less than 1500 dollars, they form significant market and corporations can make profit by targeting this market.

Arvind Eye Hospitals performs surgeries at low cost for poor people using cross subsidy by paying patients. It is the same doctors who treat free patients and paying patients, thus ensuring the same quality of services and the defect rate at Arvind is low. This is an obvious model of removal of poverty through sustainable profit making

Prahlad challenges the belief that there is no market for the poorest 4 billion people. He gives example of Unilever, the well-known multinational producing consumer products such as soap, detergents etc. Known in India as Hindustan Lever, it was targeting the creamy market. However in came Nirma a detergent targeting the poor people. Hindustan Lever initially dismissed this. But later Hindustan lever came up with a product called 'Wheel' targeted at poor and thus competing with Nirma.

Prahlad then gives the example of Grameen Bank. This was started in Bangladesh by Mohammad Yunus, a professor of Economics. Grameen Bank with its more than 1000 branches in over 40,000 villages (more than half of the villages in Bangladesh) lends microloans to its 2.3 million customers. The repayment rate is over 95%.

The business models and production paradigms for the top strata of the pyramid will not

work for the bottom pyramid. Businesses will have to reinvent business models to target bottom of the pyramid. Prahlad is not suggesting NGO type goodness for corporations. He is pointing out that there is profitability even at the bottom of the pyramid. It is not as if corporations would be exploiting the poor. On the contrary by leveraging technology and managements, corporations would be assisting poor in overcoming poverty.

Fortune at the Top of the Pyramid

However this paper is not about the bottom of the pyramid. This paper is about the top of the pyramid. And we are discussing the very top of the pyramid. The top of the pyramid consists of top 1% of the population, top 0.1% of the population and the top 0.01% of the population.

The microscopic section of humanity has immense amount of wealth. Indeed the top 1% of people of the world have almost 50% of wealth of the world according to OXFAM. According to Federal Reserve the richest 1% in the USA holds almost 33% of wealth. Similarly in India, according to the economist Thomas Piketty, the richest 1% hold 33% of wealth. The richest 1% in China hold nearly 33% of wealth and in Europe richest 1% hold nearly 20% of wealth. More important than the wealth of top 1% of population is the wealth of the top 0.01% of population and wealth tax on top 0.1% of population. In USA for instance while the wealth held by top 1% of population is 33%, the wealth held by top 0.1% of population is 18% and the wealth held by top 0.01% of population is 9% of total wealth. Very little is usually discussed on wealth of top 0.01% and top 0.1% of population. Almost half of the wealth is held by top 0.1% and almost quarter of wealth is held by top 0.01%.



The above figure shows the global economic pyramid.

At the bottom, you have 4 billion people whose income is very low (less than 1500 dollars), who form 60-70% of consumers. C K Prahalad is discussing this group when he discussed fortune at the bottom of the Pyramid.

Above that is the middle class of the world, consisting of 1.2 billion people or 19% of global consumers. Above that there is 620 million rich consumers forming 10% of global consumers. Now most corporations target these two sections – the 1.2 billion + 620 million.

Above that there are 10-100 million millionaires of the world. And above that still you have 1000 odd billionaires of the world like Bill Gates.

This paper is pointing at the fortune at this top of the pyramid which includes 10-100 million millionaires and 1000 odd billionaires.

Challenge in targeting the fortune at the top of the pyramid

Now if the top 1% has 50% of global wealth of the world and in most nations 33% of wealth of the nation clearly it makes sense to target this segment. After all if the global GDP is 100 trillion dollars, and the global wealth is 500 trillion dollars and 50% of this or 250 trillion dollars is with top 1% of the population, it should be obvious that just from this wealth, the top 1% of the population has at least 20% of world's income and that amounts to 20 trillion dollars.

The challenge is in creating products and services for this 20 trillion dollars. Say you are a health care company there is nothing you can do for the top 1% of population. The top 1% have the same medical needs as the bottom 10% of the population. The top 1% of population cannot consume medicines they don't need, have unnecessary surgeries, or visit doctors without reason.

Of course in education, there can be expensive schools, but the rich go to same universities as the poor and middle class. What kind of products and services can you target the rich for? The rich with 20 trillion dollars in income per year, use around 16 years of education as do the middle class.

In food of course there can be expensive restaurants, which the rich may visit occasionally. But most of the time the rich eat at home. After all milk and eggs are same for poor and rich as are rice and wheat. You just cannot forcibly make rich eat at five star hotels for every meal.

Of course the rich have bigger houses and furnished luxuriously. The rich also have fancy cars. This rich wear expensive watches. Travel first class. Carry luxurious bags. So there is a market for luxury goods.

But the luxury goods market is around 500 billion dollars annually. Even if you take into account houses, cars, accessories, and food and travel and furnishing and clothes this market cannot

be more than 2 trillion dollars, which is pittance compared to the 20 trillion dollar income.

Not Consumption but Taxation, Donation and Investment

Human needs and wants are limited in healthcare, education, food, travel, clothes. So it is impossible to target the fortune at the top of the pyramid, which is nearly 50% of world's wealth for consumption.

Hence the fortune at the top of the pyramid must be targeted differently. If this fortune is not targeted intelligently it gets wasted in mindless and senseless consumerism for vanity.

Firstly Governments can target the fortune at the top of the pyramid for taxation. Governments can easily collect additional 5% of GDP in taxation by imposing adequate wealth tax, inheritance tax, luxury tax, gift tax and high income tax on this segment of the population. That is a huge amount and that money can easily help reduce poverty of the nation and the world. Imagine for instance in USA, an additional 5% in taxation can make healthcare free for everybody. In India additional 5% means the incomes of the bottom 50% of the population can be doubled. Globally additional 5% means 5 trillion dollars and even 1% of that amount or 50 billion dollars can make a significant dent in the poverty of bottom 1 billion people.

Second way to target the fortune at the top of the pyramid is through donation. The global charity budget is around 500 billion dollars in a 100 trillion dollar economy. Now the wealth in top 1% of the population is 250 trillion dollars out of the total global wealth of 500 trillion dollars. Even if 2% of this 250 trillion dollars is collected as donation, that will be 5 trillion dollars and that means that the charity budget of the world can increase by 10 multiple times.

Finally the fortune at the top of the pyramid can be used for investment. Now out of the 20 trillion dollar income that the top 1% get at least 2 trillion dollars gets wasted in mindless consumerism – cars, watches, clothes, furnishing, housing, food, travel etc. Imagine if these 2 trillion dollars were invested instead of being wasted. And better still this 2 trillion dollars is invested in poor nations of the world. Well the growth rate will increase drastically, more employment will be created and poverty will rapidly get eradicated.

II. CONCLUSION

The richest 1000 billionaires and the 10-100 million millionaires of the world have almost 250 trillion dollars in wealth. What is even worse is that top 0.01% of population of world has 1/4th of

the wealth of top 1% of population of world and top 0.1% of population of world has 1/2th wealth of the world and top 1% of population has 50% of the wealth of the world.

Now clearly if so few people have so much wealth, in absence of an intelligent plan born out of wisdom, this money will get wasted in mindless and senseless consumerism or stupid investment that depreciates this wealth.

Hence there has to be an action plan on how best to target the fortune at the top of the pyramid so that resources are not wasted and a more optimum social welfare is achieved.

There are three ways that the fortune at the top of the pyramid can be targeted. And these are

- a. Taxation
- b. Donation
- c. Investment.

If the fortune at the top of the pyramid is intelligently taxed, then at least 5% more taxes as percentage of GDP can be collected in nation and world. This can mean 5 trillion dollars globally. Even 1% of this 5 trillion dollars can make significant dent in the poverty of 1 billion poorest people. This 5% can make health care free in America and double the income of the bottom 50% of population in India.

Even if 2% of wealth of top 1% of population is collected as donation this will multiply global donation of 500 billion dollars 10 times and increase it to 5 trillion dollars. Imagine the increase in social work and social welfare.

Finally if the fortune at the top of the pyramid is invested intelligently in poor countries it can eradicate poverty faster, create more employment and raise growth rate, since at least 2 trillion dollars is wasted in senseless and mindless consumerism and silly investments.

It is incumbent on humanity to access this fortune which is at the tiny tip at top of pyramid. If intelligent choices are made for utilisation of this fortune at the tiny tip at top of the pyramid it will improve social welfare of entire humanity of the nation and the world.

This paper should serve as catalyst for more thinking in this direction. Somehow humanity seems to be oblivious to the waste resulting from concentration of huge amount of wealth with very tiny fraction of humanity.

REFERENCES

1. Pralhad C K, The Fortune at the Bottom of the Pyramid – Eradicating Poverty Through Profits, Dorling Kindersley Pvt Ltd, 2006.