

How to create value FROM
& FOR emerging markets

Future Story

- Consumer society with total absence of public goods
- "Jugaad" patchwork of solutions
- Low formal job creation
- Child "escape velocity" obsessed
- Do good > feel good
- More complex identity, more heterogeneous society

Consumer wish list un - addressed

- Low cost waterproofing
- Affordable Ready rice – soak and eat
- Affordable Ready chapatis – heat and eat
- Cheap disintegrating diapers for 21 mn babies each year
- Quick drying one day painting
- Less electricity consuming heater cum aircon
- Commuter pain relief anything
- Community lighting
- Well and river cleaning
- Quick building material

1. Mistakes developed market MNCs commonly make
2. Key challenges posed by Consumer India
3. Strategy and innovation agenda

Common Mistakes of MNCs

1. Theory of "same evolution path"

"The Ugly Duckling will evolve
into the Familiar Beautiful Swan
and be ready for my GLOBAL
strategy "

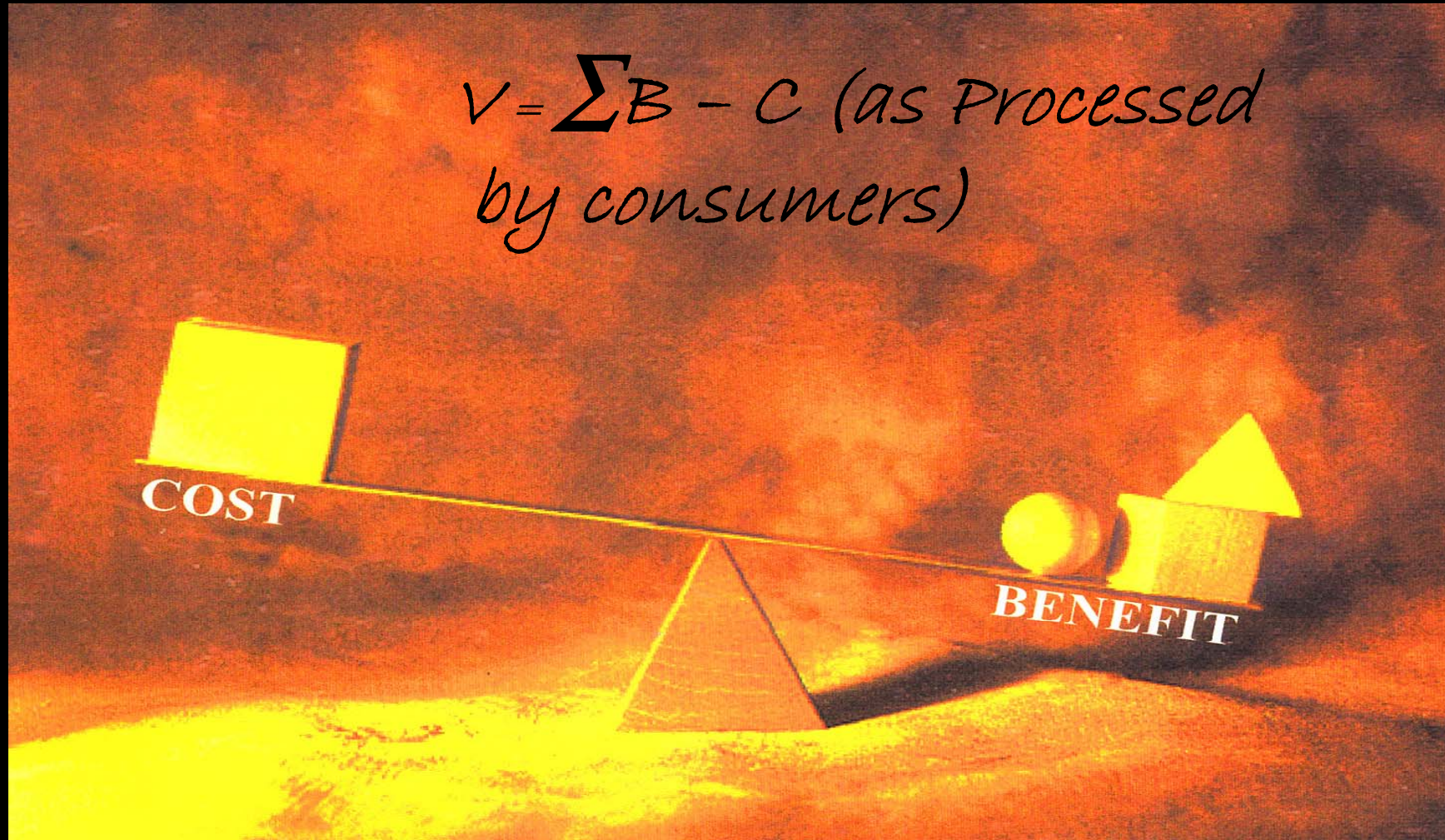


Common Mistakes of MNCs

1. Theory of "same evolution path"
2. Value - arrogance or "how can they not want modernity"?

Delivering Customer Perceived Value

$$V = \sum B - C \text{ (as Processed by consumers)}$$



Suicidal Moves

Decrease price, decrease performance, make profit

***Decrease
functionality***

***Decrease
styling***

***Offer old
obsolete
products with
no adaptation***

Common Mistakes of MNCs

1. Theory of "same evolution path"
2. Value - arrogance or "how can they not want modernity"?
3. Theory of income thresholds for consumption "take off"
4. "Class market" first, then "mass market" at leisure

Many Indias - equally big economies,
but not equally rich, all contributing

Income percentile	Number of people (mn)	% of income they have	GDP Per capita USD
Top 1%	11	8.6	9164
Top 10 %	109	34.1 ●	3667
Next 30%	326	36.1 ●	1294
Next 60%	653	29.7 ●	367

Source: Indicus Analytics, Rama Bijapurkar, 07-08

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Mass Markets will not
sit around and wait.
Someone else will get there

... maybe Nokia... Grey + Intel ... Grid computing
pay as you use White labelled store brands ...

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Economically Challenging Demand Structure

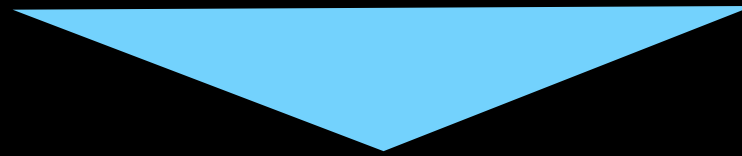
Large economies of poor people

← PPP →

Country	Population Rank	GDP Rank	GNI Per Cap Rank (% of USA)
China	1	2	133 (12%)
India	2	4	167 (6%)
Brazil	5	9	105 (21%)
Russia	8	7	76 (32%)
USA	3	1	10 (100%)

Difficult Demand Structure, unusual consumption patterns

A **LOT** of people
consuming a **little**
bit each, adds up
to a **LOT**



Business economics of "global"
business models don't work

Many, many, distinctive
Indias. Increasing in
number.

Requires portfolio complexity
>> current market worth

MONSTER CONSUMERS & LOCAL COMPETITORS

Consumers extract value

- Cut strips of Glucometer to minimum useful size
- "Missed call" communication on cell.
- Micro glasses to serve cold drink.
- Refill, recycle almost anything
- Internet kiosk utilization and service

Poor, Rural, but not backward:
embraces technology,
information hungry, striving
for better, highly innovative,
unusual value processing

Will reject try low features at low
price

Remove luxuries, not decrease
necessities

Insidious, hard-to-read,
slow-burn change ;
Prefer "this as well as that"
hybrid solutions

Cell phone is India's central nervous system : "the cell phone will change India the way the automobile changed America"

*Shiv Vishwanath
Anthropologist*

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How do you think about Market Potential?

Size of market for my value proposition and business model? (potential offered **BY** the market)

OR

What value proposition and business model to maximize market opportunity? (proposition offered **TO** the market)

Nirma, Nokia, Nano , Suvidha, Subhiksha, STD/ISD booths, Pre paid cards, SMS, Sachets, Cable Operators

The Stressful Economic Challenge

- Price able to pay is fixed =
CHALLENGE PRICE

Within this challenge price

- Deliver consumer acceptable performance
(Product and service)
- At a cost that makes you profitable

BIG Challenges

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graph TD; A[BIG Challenges] --> B[Company Mindset, beliefs, mental models]; A --> C[Business Design Challenges]; B --> D[Organization structure and governance for EM];
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Company Mindset, beliefs,
mental models

Organization structure
and governance for EM

Business Design
Challenges

Business Design Challenges

Delivering consumer acceptable price – performance, PROFITABLY

Demand structure requires new business economics, portfolio complexity

Monster Consumer :
Advanced products, modest prices

Patchy eco system – to walk down a road, build it first,

Creating value Advantage over others

Innovative consumers & competitors

Local players, even unorganized deliver high level of value to consumer

Delivering Consumer Acceptable Performance at a Challenge Price

- Break through R & D - low cost, good performance solution
- Smart, value Right product and service design
- Smart pricing design
- Smart manufacturing processes, low cost sourcing
- Smart market access, market servicing
- Smart credit
- Customer acquisition, market development

variables to balance

- Price - volume
- Performance specs, usage model
- Cost of delivering performance
- Cost of market access & communication
- Cost of management and complexity
- Capital costs (including R&D costs)
- Pay back period

Some learning on cost

- Low Cost needs High Tech
- High consumer capex can reduce variable costs – capex cost to be borne by company
- Consumer variable costs is the silver bullet (100 kms / l benchmark)
- Whole “eco system” has to be put in place not just one piece of it.

Well Established Methods of Cost Reduction

- Community use models.
- Miniaturisation for occasional use
- Aggregation of "thin" front end customer facing people / machines at full service mode.
- Market development via free information and knowledge and consumer credit

Investments with long payback

- Advanced product / service solutions at modest prices: Economic challenge to be solved by innovation
- Patchy ecosystem – participate in building the road – alliance web master
- Investment in innovation needed to win big time
- Need multiple strategies to be supported at the same time

Logic for investing in EMS

- IPO
- Snowball
- Building robust growth engines that can ride the growth story, long term

Need to Re-Examine "Evergreen" Business Rules

- Margin – volume mix for “healthy” business
- Payback speed vs. long term growth and sustainability
- Complexity allowed per unit of value.
- Notion of scale and scale economics
- Low cost products = low tech, low capex
- Capital – output ratios hence manufacturing “best practices”

CO - CREATE WITH
CONSUMERS - THEY
INNOVATE BETTER THAN BIG
BUSINESSES

The End of Corporate Imperialism

"While it is true that MNCs will change emerging markets forever, the reverse is also true.....the opportunity that big emerging markets represent, will demand a new way of thinking [*and offer new opportunities to change things*] ... requiring more than developing cultural sensitivity"

C K Prahalad, HBR

Agenda for Global Businesses

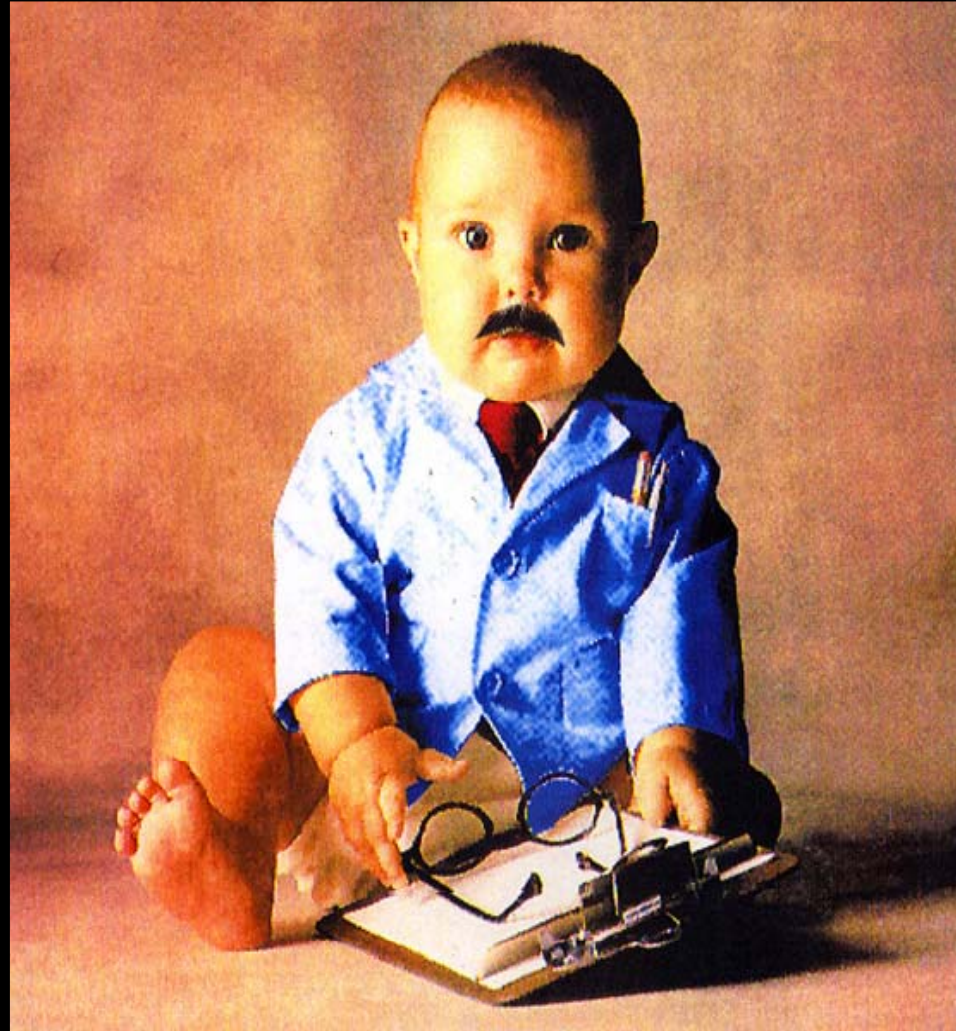
- Leverage existing competencies to create new customized emerging market solutions / business models: "Make for India"
- Develop new competencies and new business models to strengthen value creation capability of the company
- ADDRESS PROBLEMS OF "BLOCKBUSTER" RELEVANCE

Thank You!

Serve the rich and wait, or invest
in creating mass markets?



Emerging markets are not like
developed markets were in their
infancy



Winston Churchill had once dismissed India as "a geographical expression"-a land that was "no more a single country than the Equator." Churchill was rarely right about India, but.....

Competitive advantage comes from stitching together "MY TARGET INDIA" for your business

Different markets evolve differently

based on :

(a) environmental forces

(b) supplier actions

(b) their starting point

(c) social, cultural DNA

Unorthodox competition



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Networking solution
Scanner, printer
& All hardware devices

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Monster Consumer have been created

- Spoilt by:

High tech + high touch

"Better for cheaper" for 10+ formative yrs

Deal making, brand cheapening suppliers

Innovative small suppliers, gray market

- Demands cued by "real time" exposure and information & smart local suppliers

- Demands >> purchasing power