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

© Rama Bijapurkar May 09
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

© Rama Bijapurkar May 09
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

<table>
<thead>
<tr>
<th>Income percentile</th>
<th>Number of people (mn)</th>
<th>% of income they have</th>
<th>GDP Per capita USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1%</td>
<td>11</td>
<td>8.6</td>
<td>9164</td>
</tr>
<tr>
<td>Top 10%</td>
<td>109</td>
<td>34.1</td>
<td>3667</td>
</tr>
<tr>
<td>Next 30%</td>
<td>326</td>
<td>36.1</td>
<td>1294</td>
</tr>
<tr>
<td>Next 60%</td>
<td>653</td>
<td>29.7</td>
<td>367</td>
</tr>
</tbody>
</table>

Source: Indicus Analytics, Rama Bijapurkar, 07-08
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 ...
1. Mistakes developed market MNCs commonly make
2. Key challenges posed by Consumer India
3. Strategy and innovation agenda
Economically Challenging
Demand Structure
## Large economies of poor people

<table>
<thead>
<tr>
<th>Country</th>
<th>Population Rank</th>
<th>GDP Rank</th>
<th>GNI Per Cap Rank (% of USA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1</td>
<td>2</td>
<td>133 (12%)</td>
</tr>
<tr>
<td>India</td>
<td>2</td>
<td>4</td>
<td>167 (6%)</td>
</tr>
<tr>
<td>Brazil</td>
<td>5</td>
<td>9</td>
<td>105 (21%)</td>
</tr>
<tr>
<td>Russia</td>
<td>8</td>
<td>7</td>
<td>76 (32%)</td>
</tr>
<tr>
<td>USA</td>
<td>3</td>
<td>1</td>
<td>10 (100%)</td>
</tr>
</tbody>
</table>

© Rama Bijapurkar May 09

World Factbook 2008
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
1. Mistakes developed market MNCs commonly make
2. Key challenges posed by Consumer India
3. Strategy & innovation agenda
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

© Rama Bijapurkar May 09
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

© Rama Bijapurkar May 09
BIG Challenges

- 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

© Rama Bijapurkar May 09
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

© Rama Bijapurkar May 09
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.

© Rama Bijapurkar May 09
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

© Rama Bijapurkar May 09
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**

© Rama Bijapurkar May 09
Different markets evolve differently based on:
(a) environmental forces
(b) supplier actions
(b) their starting point
(c) social, cultural DNA
Unorthodox competition

We thank you for giving support for the VENUS ELECTRIC SERVICE over 25 years through Mr. RAJAN. Because of only your co-operation we able to service more than 1000 clients. Now, his son Mr. ARUL providing service in hardware and networking field over 3 years and we request you to give him the opportunity to give the best service to you.

He also working for nearly 250 clients in Mumbai and we invite you to participate and get the valuable service we provide to you.

We provide services on:
- Hardware troubleshooting
- Motherboard chip level service
- Networking solution
- Scanner, printer
- All hardware devices

THANK YOU

VENUS COMPUTER SERVICE
C/O VENUS ELECTRIC SERVICE
YOURS TRULY
S. ARUL

CELL NO: 9820459463
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

© Rama Bijapurkar May 09