

Happy New Year 2010

MART has recently completed 15 years. During these eventful years our endeavor has always been to innovate appropriate solutions for enhancing the quality of life of Base of the Pyramid poor. This journey has offered us diversified opportunities and new learnings. I would like to share my thoughts on this occasion on emerging markets .

My 7 Big Thoughts for the Rural Markets



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Rural India now accounts for 50% of the country's income. It is a half trillion dollar economy. Already 54% of all FMCGs, 59% durables, 100% of agri inputs and between 10 to 50% of 4 wheelers and 2 wheelers are sold in rural India. The situation is similar in insurance, banking, telecom and other services. The rural market is now bigger than the urban market for most categories. My big thoughts for corporate who want to work the rural markets are:

1. Rural Boom



Rural housing reflecting higher incomes

By 2012 it is expected that every village will be connected by an all weather road, every village will have internet connectivity, and almost every home will have electricity and possess a mobile phone. With significant improvement in rural infrastructure coupled with agriculture reforms already under way we can expect rural markets to reach inflexion point. This will lead to an explosion in demand the way it happened in the urban markets in the mid 90s as a result of easy consumer finance, a boom in the IT sector and steep increase in corporate salaries. Companies are not anticipating this boom and many will be taken by surprise when it happens.

2. Reverse Innovation



Jugaad, a rural transport vehicle assembled locally with diesel pump as engine and gear assembly of a MUV

Ever since the BoP concept was introduced at the turn of the century many companies have tried to transform their business models through single serve sachets, low cost production, extended mom and pop distribution and NGO partnerships. But in the rush to capture the fortune at the base of the pyramid, something may have been lost-the perspective of the poor themselves. In my view most such initiatives have failed to hit the mark. Pushing the company's reformulated or repackaged products into villages may indeed produce incremental sales in the short term. But in the long term, this strategy will almost certainly fail because the business remains alien to the communities it intends to serve.

For decades, MNCs have sold modified products in India, a process widely recognized as glocalization. This strategy worked reasonably well with the more affluent urban consumers whose behavior is somewhat similar to Western consumers. With growing rural purchasing power and the three times

larger population than urban, companies will need to develop appropriate products for this market. The glocalization or minor modification will not work as rural consumers are very different. This will call for a reverse innovation approach, totally opposite to the glocalization approach. This will involve a bottom up, community embedded process of co-invention and business co-creation. Such an approach will bring the company into close, personal business partnership with BoP communities. While creating enduring value for the community it will establish a foundation for long-term corporate growth and innovation.

3. New Price Performance Paradigm

What the rural market requires of products is delivery of decent performance at very low cost. My advice to companies is to aim for 75% performance at 25% cost. Nirma or Ghadi washing powders are excellent lower performance-low cost products compared to the global Surf and Ariel brands. Rural consumers are interested in deriving core benefit from the product and these low priced brands essentially clean clothes adequately. Users are not worried if these powders don't have a softener or whitener. The sachet as a solution of making the offering more affordable will not work in the long term as the price still continues to remain high.



4. Innovative Rural Distribution

The biggest challenge in rural remains reaching your product to 600,000 villages compared to 5,000 odd towns in urban. A few new rural distribution and procurement models have been innovated by ITC e-choupal and HUL Project Shakti. But much more needs to be done in this area. One possibility is the use of the social infrastructure being created by government. For example there over 5 million women's micro-finance groups in existence and by 2011 the number of groups is expected to jump to 15 million. Thus 150 million rural women or 150 million of the 200 million total households in rural would be linked to self help groups. Can this channel be used innovatively to reach products and services to rural homes?



Companies will need to shift power to where the growth is by dedicating empowered teams for the rural markets so that they can develop their own strategies and products. A separate sales force is also desirable as the regular force will avoid covering the more difficult and small off-take rural markets. MBAs from B grade small town institutes should be hired. Not only will they work at much lower salaries but will stick around as they belong to the local areas.

5. Dedicated Rural Teams



6. Inclusive Marketing



This is a new concept I have created which goes much beyond BoP. Inclusive marketing looks at the poor not only as consumers but also as producers/suppliers of goods and services. This approach offers promise to add economic value to goods and services contributed by the poor. It can therefore impact poverty positively. ITC's E-choupal is a perfect example of inclusive marketing. The business model ensures that farmers as producers get better value for their produce. Once their incomes are enhanced the model then uses the same channel that was created for procuring produce to push relevant goods and services needed by the

farmers as consumers. Government and the private sector need to come together to promote inclusive marketing and grow the size of the rural pie through the development of reverse distribution channels rather than companies fighting with each other to grab share of the limited pie.

7. New Opportunities

Rural markets now offer a number of new opportunities.

Healthcare: Total rural spending on health care currently is Rs 700 billion and expected to reach Rs 3.5 trillion by 2025, an impressive fivefold increase. Despite the launch of the National Rural Health Mission 80% of health spending will be in the private sector.

Durables consumer financing: In the 90s consumer finance became available easily which led to high growth in sale of durables. Rural consumer finance has become a big opportunity only now with rapid electrification of rural households

Banking: According to a World Bank study bankable people in rural India is 185 million.

Construction and Housing: Currently there is shortage of 40 million houses in rural India.



In conclusion I would say the next growth will come from the rural market and companies that ignore this segment will do so at their own peril.

Warm regards

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