

Finding a fortune where none existed

Indian companies find that as they cater to the lowest income groups in what is called the 'bottom of the pyramid' they find a huge unexplored market that makes them change the way in which they approach it. There's money to be made there but only if they innovate, says **Yogi Aggarwal**



FASCINATING FARMERS WITH TECHNOLOGY: Inside a rural ITC e-chaupal

India is a country of a billion people but a market that is just one-fifth or one-sixth of this. Even though this is still huge in number terms, companies are beginning to realise that a vast potential remains to be tapped at the lower end of the market.

Sometimes the companies are discovering the opportunities the expanded market is offering as part of their strategy to broaden the market. Sometimes they are inspired by the work of C K Prahalad, professor of business strategy and international business at the University of Michigan, whose ideas since the 1990s, recently put into book form in *The Fortune at the Bottom of the Pyramid* (Wharton School Publishing, 2005) have led to a reorientation of strategies in corporate circles. Consider a few examples:

■ Mobile phones are spreading like wildfire in smaller towns in India. Though the market in the large cities is reaching saturation levels, there is an untapped market in the smaller towns and villages. Mobile operators are responding by having schemes for less than \$4 a month. Realising the potential for phones for this section, companies like Motorola are planning handsets for as little as \$22.

■ Sales of desktop computers in India at 3.6 million per year is still quite low. One company has now come out with a basic desktop model for \$220 while others are planning computers for just \$100. Microsoft is planning a stripped down version of Windows XP for just \$22.

■ Banks don't go to the rural market, not only because of high defaults, but because loan amounts are small and transaction costs are high. Some banks see the way out of this dilemma by using technology to leapfrog the normal process.

■ In the field of medicine there have been several innovations. The prosthetic Jaipur Foot costs just \$30 and is of better design and as effective as one made in the US at over a hundred times the cost. The Aravind Eye Care Systems perform 190,000 surgeries a year safely and at a fraction of the cost elsewhere.

■ One of India's largest companies, ITC, is able to reduce costs of agricultural purchases, yet offer better prices to the farmer, by a system of using internet connected kiosks in many villages. These e-kiosks are also able to offer a convenient marketing platform to several companies

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SUCCESS OF THE MODEL: Management guru C K Prahalad

who want to sell to farmers.

■ The luxury hotel chain Indian Hotels has pioneered the concept of comfortable and functional hotels for as little as \$20 per night.

■ Tata Motors has seen the huge market for low priced cars aimed at families that sometimes travel together on a scooter. It plans to bring out a car priced at around \$2,200 in a few years.

It's not as if there have not been low cost products sold before in a country with a large poor population like India. Detergent maker Nirma started small in the '70s by offering its product at one-fourth of the price of branded detergents. Soon Nirma became one of the largest detergent manufacturers in the country with annual sales of 800,000 tonnes.

Another success story is of Amul, the dairy co-operative that began from a few villages in Gujarat to become one of the best know brands in India. Today it is a giant which sells two billion litres of milk a year and has a turnover of \$700 million.

Though companies like Nirma have taken on established multinationals, they do not strictly meet Prahalad's criteria for the 'bottom of the pyramid' (BOP) model. During a conference on rural mar-

kets held in Mumbai recently, he said, "We can create world class innovations that can go to the developed world. We have to change from thinking of the poor as a problem to an opportunity."

He says of the BOP model, "BOP has to work within a sandbox which is bounded by 1) scalability, 2) universal access 3) world class quality and 4) new price performance levels if it is to work."

Among the successful models he highlighted at the conference were three marvelous stories from India. The Jaipur Foot, which makes prosthetic limbs better than any in the developed world and at less than a hundredth of the cost. Another is the Aravind Eye Care Systems, which treats some 1.4 million patients at eye camps and at its four hospitals. The third is the Narayan Hrudalaya Cardiac Care Systems that is able to do heart surgeries at low cost by the intensive use of expensive facilities like MRIs, which are kept open 24 hours a day to bring down unit cost.

The big story in India is the rapid spread of mobiles currently at more than two million a month. One reason is the falling price of mobiles. Nokia is the market leader (see article on Nokia in this issue) and its largest selling model the 1100 is the lowest priced at \$66. According to a survey by ORG-



COMFORTABLE AND FUNCTIONAL SPACE: Low cost IndiOne hotels from luxury hotel chain Indian Hotels

GFK, it accounts for 25 per cent of the mobile market by volume and 16 per cent by value. While a Nokia spokesperson said "Nokia does not share figures," she added, "logically we would expect higher market share by entry level products." Mobile phone costs are going to fall further with recent reports of Motorola planning to introduce a phone for \$22.

The mobile operators have also been trying to capture a larger slice of the exploding mobile market by lowering costs. The first big growth trust came when incoming calls were made free. This brought in a number of skilled tradesmen like carpenters, plumbers, delivery boys and lorry drivers, into the net since they use the phone mainly so that they can be contacted. When they want to make a call they use a landline. As mobiles reach lower income levels in the large cities and spread to smaller towns and to villages, minimum charges for customers have fallen to \$4 a month.

Computers are another area where costs are falling rapidly. Recently HCL Infosystems (sales \$1.77 billion, net profit \$52 million) the country's largest manufacturer of desktops, introduced a model for under \$180. "At this price new segments of the market would open up," says Rajendra Kumar, executive VP of HCL Infosystems. Kumar adds, "A lot of people who want a computer don't have access

Internet connected e-kiosks would allow farmers to check daily prices at various markets without having to transport their produce there.

to finance from banks or finance companies. For such people the Rs 10,000 computer (\$227) is affordable without taking a loan. Another market is the small shopkeepers who will want VAT-enabled computers for billing. Also, schools who want computers but have limited resources can now go in for a new branded PC instead of buying a second hand machine."

In another effort, Chennai-based Novatium Solutions is building a computer for \$100. Encore Software in Bangalore is also engaged in a similar experiment. Based on 'thin client' architecture they will be able to handle most routine functions such as email, word processing, spread sheets, internet browsing and presenta-

tions but will be more like computing devices rather than feature rich desktops.

The government expects the number of computers in the country to go up from 15 million at present to 75 million by 2010 and internet connections to go up from five million at present to 25 million by 2010. These numbers reflect the vital role of IT and telecom in the development of the economy and hence the market, both BOP and otherwise. Connected IT is increasingly been seen as important for various changes — e-governance, farmers getting better prices for their produce, rural banking services, education and entertainment. Two private sector initiatives illustrate this.

Banks are unable to spread effectively to villages. The main problem is the high transaction costs since transactions are normally small, risk of default, and the cost of maintaining bank branches in places too small to sustain them. Traditionally the rural population, especially the poor, have been at the mercy of money-lenders who charge extortionate rates of interest and still cater to over half the demand for credit from the rural poor.

Rural credit societies use 'self help groups' (SHGs), of around 20 people (generally women) through whom to channel credit as this lowers transaction costs and ensures better recovery — normally over 99 per cent. ICICI Bank decided to use

existing networks of SHGs besides building new ones. Chanda Kochhar, executive director of ICICI Bank said in a recent interview, "We decided we wanted to develop a model that was not only scalable but is low-cost and commercially viable."

The bank decided it wanted to "become active and informed participants in socio-economic processes as opposed to passive spectators." Though it charges 18 per cent interest to SHGs, higher than the 8 to 10 per cent charged to urban borrowers, it is much lower than what they paid earlier and is meant to recover the higher cost of infrastructure.

The next step is the e-kiosk, a technology ICICI Bank (income \$2.91 billion, net profit \$456 million) is using along with several other companies. The e-kiosk lowers costs by reducing the need to have a brick-and-mortar bank branch manned by many people. But if rural banking is to become really broad-based, several observers believe it must use technologies such as fingerprint recognition that are more advanced than anything being used elsewhere to leapfrog ahead.

The company leading the e-kiosk charge is ITC with a turnover of \$3.1 billion and net profit \$497 million. The company entered the agri-trading business in 1990 with soya for crushing into oil, which it subsequently expanded to include food grains, coffee, processed fruits and marine products. It found that by buying through the traditional village *mandis* or weekly markets, both the company and the farmer lost while the middlemen made a big margin.

ITC decided to start *e-chaupals* or e-kiosks to achieve greater efficiencies. These internet connected e-kiosks, would allow farmers to check daily prices at various markets without having to transport their produce there. They were able to negotiate better prices while ITC also bought directly from the farmer and lowered costs. "The *e-chaupals* now have a three-tiered structure," says S Shivkumar, chief executive Agribusiness, ITC, "The *sanchalak* (or kiosk operator), a local person who is not paid a salary but receives a commission on every sale, the warehousing system in which the farmer's produce is stored, and the companies which have partnered with ITC to use the *e-chaupals* to market their goods in rural India."

The system has been working very

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INFORMED PARTICIPANTS: Chanda Kochhar of ICICI Bank

well. Till now ITC has got 5,300 *e-chaupals*, serving 31,000 villages and over 3.5 million farming families. By 2010 they hope to expand this to 20,000 *chaupals* serving 100,000 villages (or one-sixth the total villages in India). "We run the *e-chaupals* on three basic principles: any information or knowledge is free of cost; farmer decides when, where and if he wants to do any transaction; and the *sanchalak* doesn't earn a salary but only earns through transactions. *E-chaupals* are also used for credit rating services, education upto 10th standard, entertainment, e-governance and health," says Shivkumar.

The *e-chaupals* have also allowed other companies to use them to reach the rural market while ITC makes a commission with every sale done through the *e-chaupals*. Some forty companies are presently using them, says Shivkumar, and these include tractor manufacturers Mahindra and Eicher, seed major Monsanto, ICICI Bank and State Bank of India, the Life Insurance Corporation of India, pesticide companies like BASF and FMCG companies like Colgate, Marico and Duncans.

On the Web

ITC group: www.itcportal.com
 ICICI Bank: www.icicibank.com
 Tata Motors: www.tatamotors.com
 IndiOne: www.tajhotels.com

While these companies may or may not have been directly influenced by Prahalad's ideas, one company which acknowledges the influence is Indian Hotels. A company press release acknowledges that the concept was "developed in association with Dr C K Prahalad". The first hotel was opened in Bangalore and another ten are scheduled within the next year. The guiding principle behind the design was to create a "unique 'space' that is conducive not only for guest comfort and relaxation but also for their work requirements".

Another innovation on the drawing boards is a low cost car for \$2,200 from Tata Motors (sales \$ 3.96 billion, net profit \$281 million). "We see people with a spouse and three children on a two wheeler. Does it require market research to show that there is an opportunity for a Rs 100,000 car?:" asks Prahalad in a recent interview. Though Tata Motors is tight lipped about the car to be released in 2007 or 2008, prototypes are reportedly being made.

Prahalad's ideas are being vindicated in the Indian context. Companies looking at the bottom of the pyramid are finding there is a large market out there that can be served profitably. Many innovations have taken place in catering to this market. The question as posed by Prahalad is: "Can BOP provide the opportunity for a breakthrough in innovation?" 