



India's Rising Bottom of the Pyramid

A Perspective from Boston Analytics

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The economic and demographic environment in India is largely favorable for retail oriented businesses

- Unlike China, more than half of the GDP of India is contributed by household (private) consumption
- Consumer spending has been on the rise and is expected to drive the retail industry at rates higher than those of China (~18.8% YoY as compared to 14% in China)
- With respect to demographics, India is one of the most populous countries in the world, and has a relatively young population; by 2020 64% of its population will be in the working group

~ 70% of the population resides at low income levels, but they have garnered immense interest with projections of their move up and out of poverty

- The Indian population is skewed towards lower income groups with ~70% of the households earning an annual income of less than \$4,000
- These income segments have lower disposable incomes and spend most of their income on food, power and fuel
- Poverty rates at the lowest income levels are declining rapidly however as those who generated less than \$2,000 a year are moving up to higher income segments, 80% of the consumption growth is expected from rising incomes

The upper segment of the “Bottom-of-the-Pyramid” or BoP is young, optimistic and are typically value seekers due to lower disposable incomes. As a result, they often seek out and spend money on “aspirational” products

- The upper segment of the BoP is rapidly moving to higher income groups and has some disposable income for aspirational products. According to Boston Analytics’ survey of over 1600 Indians residing in the upper BOP, they prefer spending this money on low involvement and comparatively less expensive goods, such as, clothes and food. Quality, value for money and social status are at the top of their minds
- The characteristics of this segment lead to a unique set of challenges for marketers; primarily lower margins, more costly distribution and more limited means of communication

The most successful companies catering to this segment not only use innovations to lower costs, produce relevant products and effectively distribute their products; they also work to establish a mutually beneficial and symbiotic relationship with consumers to ensure sustainability

- The basic requirement for succeeding in this segment is providing value for money and good quality, keeping in mind that the needs of this segment are driven by smaller incomes
- Success in this segment should typically be measured with a long term focus; companies that engage at a more deeper personal level which taps into the aspirations of the upper BoP are those that have managed to develop a strong brand name and market share

In addition, such companies require patience, creativity, commitment from the top, openness to pursuing different models and most often a willingness to pursue a low margin high volume business

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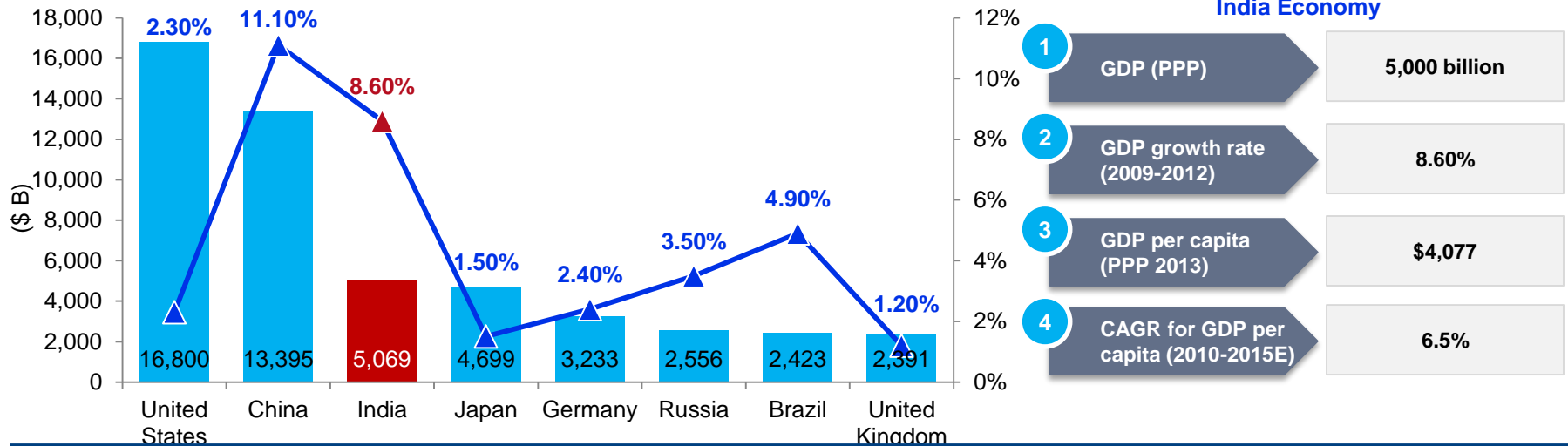
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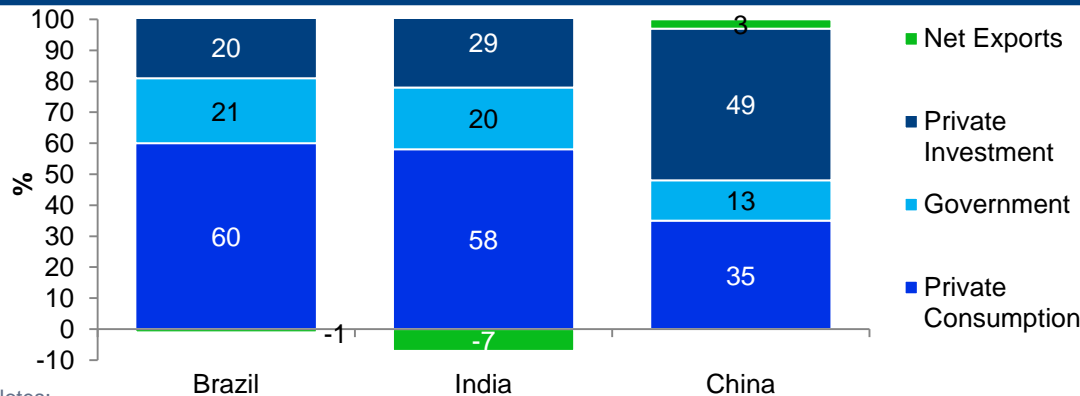
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India is the second fastest growing economy in the world with a large percentage of GDP coming from personal consumption

GDP (PPP) and CAGR (2009-2012): Top Economies (2013)⁽¹⁾



GDP by Expenditure Category (2011)



India has a more balanced economy in terms of private consumption, government, and private investment, as compared to China, and to some extent Brazil

While China is more export driven, India's economy is more consumption driven

Notes:

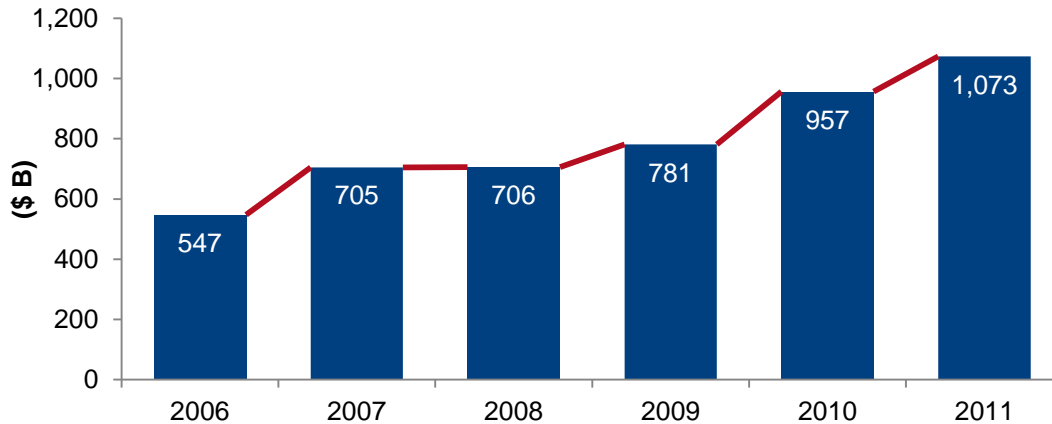
- (A) GDP: Gross Domestic Product; PPP: Purchasing Power Parity; CAGR: Constant Annual Growth Rate for period (2008 to 2013)
- (B) Median age are 2014 estimates by CIA Fact book

Sources:

- (1) World Economic Outlook Database, IMF
- (2) CIA Fact book Census of India
- (3) https://www.kkr.com/_files/pdf/KKR_Insights_121129.pdf

Indeed, private consumption has been growing in India as reflected in an increase in retail sales

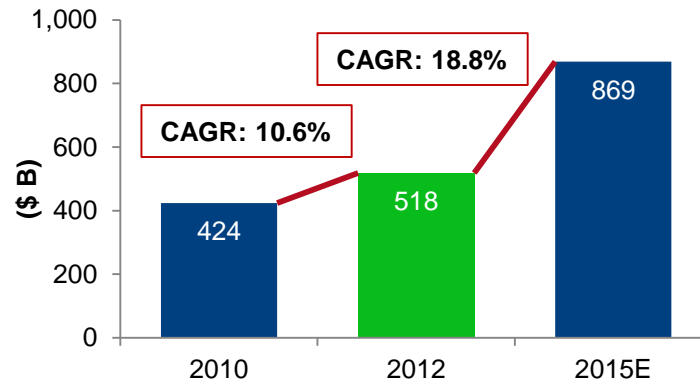
Growth in Household (Private) Consumption Expenditure^{(1)(A)}



- Consumer spending in India almost doubled in 5 years (2006-2011) from \$547 billion to \$1.07 trillion
- It is approximately 60% of the GDP of the country (2011)
- Consumer spending has been on the rise due to growing discretionary spending; supported by low interest rates, increased government spending and rising rural income

Retail industry in India ⁽²⁾ (B)

The Indian retail industry has grown by 10.6% in the last couple of years (2010-2012), and is expected to accelerate to a CAGR of 18.8% (China's retail is expected to grow at 14% in the same period)



Notes:

(A) Household consumption expenditure is the market value of all goods and services, including durable products purchased by households. It excludes purchases of dwellings but includes rent for owner-occupied dwellings. It also includes payments and fees to governments to obtain permits and licenses. It includes the expenditures of nonprofit institutions serving households, even when reported separately.

(B) Includes both modern and retail trade

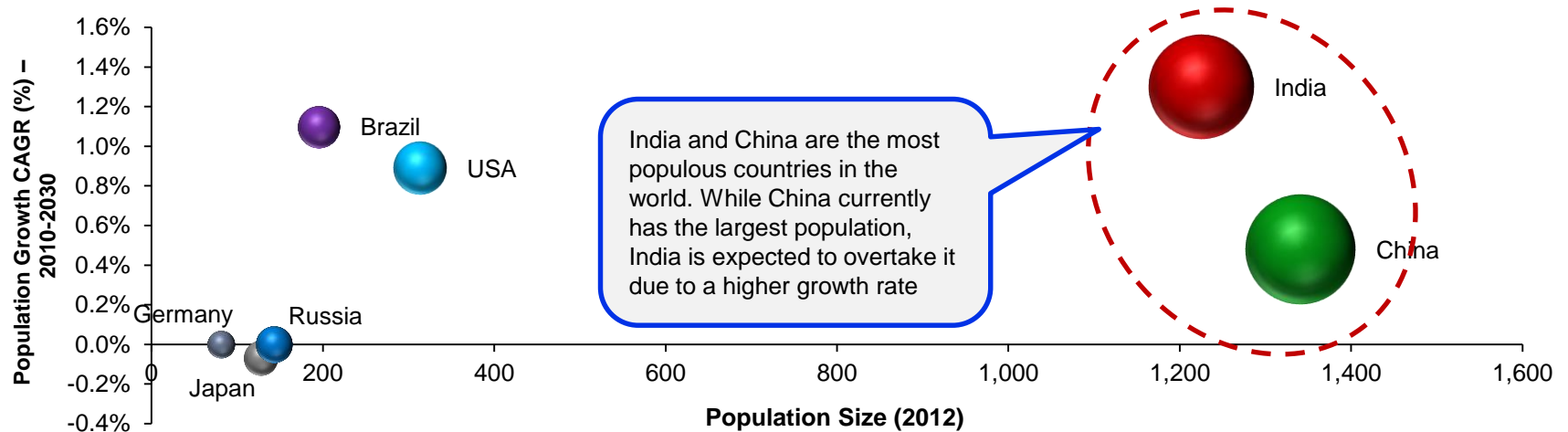
Sources:

(1) World Bank national accounts data, and OECD National Accounts data files

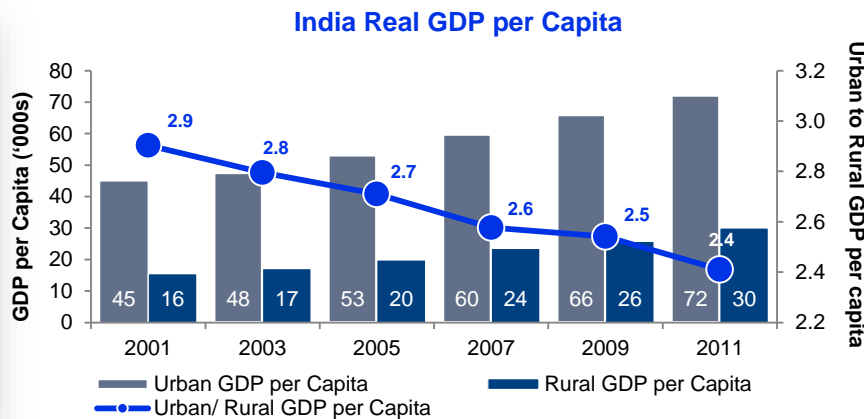
(2) https://www.deloitte.com/assets/Dcom-India/Local%20Assets/Documents/Thoughtware/Indian_Retail_Report_Opening_more_doors.pdf

A large growing population and growth in rural productivity are two unique factors of the Indian economy which are driving consumption

Population Size (2012) and Growth: Top Economies



Rural Productivity and Increased Rural Consumption in India

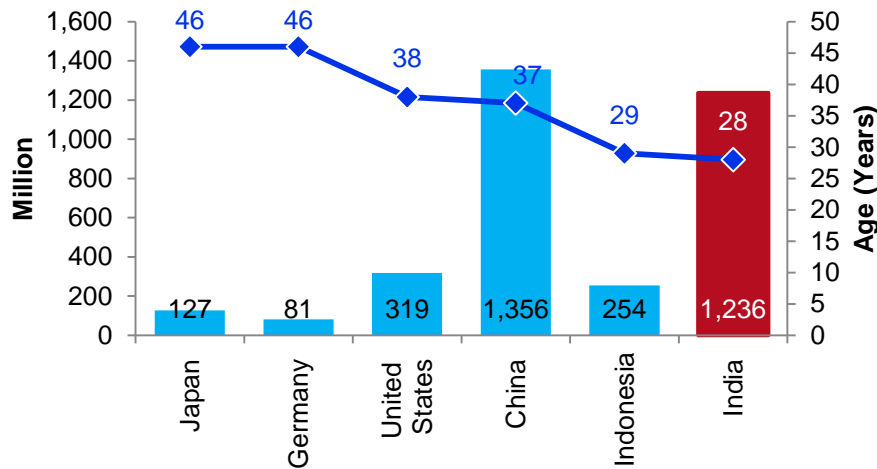


- Productivity improvements have been seen throughout the Indian population
- This is the case not only in urban India, but also in rural areas where an estimated 70% of the population lives
- An increase in rural productivity (75% of new factories built in India in the last decade were located in rural areas) is not only driving the growth of GDP, but also spending amongst rural consumers

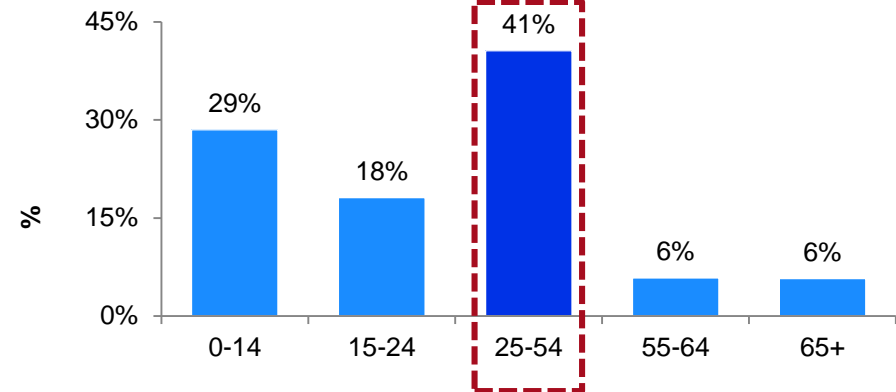
Source:
 (1) <http://www.thefinancialist.com/the-rapid-urbanization-of-rural-india/>

In addition, India's relatively young population is expected to contribute significantly to future growth in consumption

Population (M) and Median Age: Select Countries (2)



Distribution of Population by Age in India (2014E)(3)



- By 2020, India is expected to become the world's youngest country with 64 % of its population in the working age group
- Growth in India's working age population is expected to be 31%, compared to -1.1% for China (for the period of 2010-2030)
- This demographic potential offers India an unprecedented edge over other global economies; economists from the International Monetary Fund(IMF) believe that this could add 2 % to the GDP growth rate

“India has close to ideal demographics. It's in a sweet spot”... “This will be beneficial for the country's competitiveness as other countries age”

- Robert Prior-Wandesforde, director, Asian economics research at Credit Suisse

“Two hundred and fifty million people are set to join India's workforce by 2030. As a big chunk of the population shifts into the working age group, the offshoot of that is an increase in disposable incomes and conspicuous consumption. This is the most exciting aspect of India's demographic dividend”

-Sunil Devmurari, country manager at Euromonitor

Sources:

- (1) <http://www.thehindu.com/news/national/india-is-set-to-become-the-youngest-country-by-2020/article4624347.ece>
- (2) <http://www.cnbc.com/id/49472962>
- (3) https://www.kkr.com/files/pdf/KKR_Insights_121129.pdf

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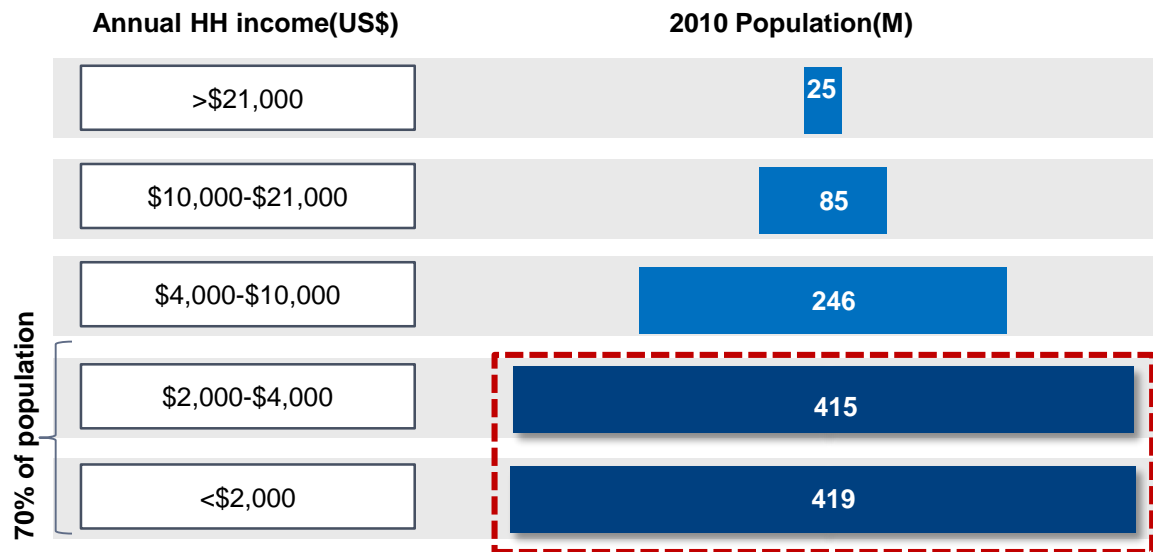
Penetrating the Upper BoP Segment

Ceasing the Opportunity

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Despite many favorable demographics, the India population is highly skewed towards lower income groups with ~70% of the households earning an annual income of less than \$4,000

Income Distribution and the BoP Segment



Households earning <\$4,000 are typically referred to as those belonging to the **Bottom of the Pyramid** segment.

- The “Bottom of the Pyramid” (BoP) constitutes ~70% of India’s total population (880 million); it has a combined disposable income of ~\$358B⁽¹⁾
- A large part of this population resides in the rural areas, estimates suggest that 78% of the BoP segment is composed of rural population

Sources:

(1) McKinsey Global Institute; Global Insight; EIU

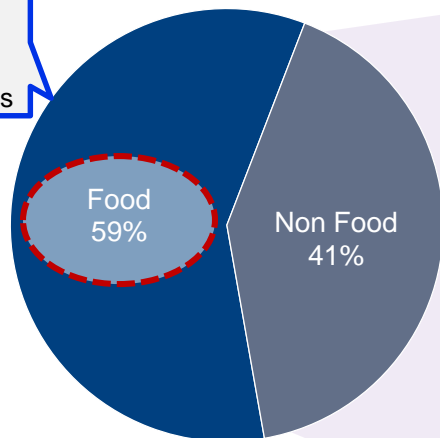
(2) <http://usf.vc/resources/defining-base-of-the-economic-pyramid-in-india/>

(3) <http://www.thehindubusinessline.com/industry-and-economy/per-capita-consumption-rising-faster-in-rural-areas/article3840622.ece>

The majority of their income is spent on food followed by power and fuel

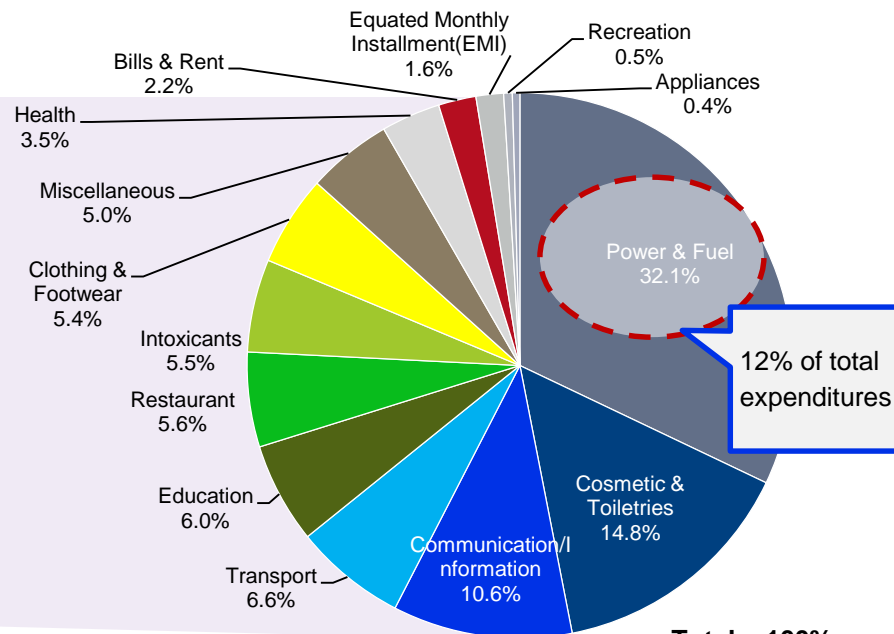
Break-up of Total Expenditure —BoP segment (2013) ^(A)

Food is the major expenditure item for the BoP leaving less disposable income for discretionary expenditures



Total = 100%

Break-up of Non Food Expenditure for BoP segment (2013)



Total = 100%

- Average food spending by BoP HHs is much higher than the middle class and rich segment
- While the BoP segment spends almost 59% on Food, the middle class spends 47% and the rich segment spends ~36%
- Food and fuel together contribute to almost 70% of expenditures, personal care contributes ~15% to non food expenditure and is the largest expenditure after fuel
- The consumption patterns of rural and urban areas are markedly different with the rural population spending more on basic necessities like fuel and food than the urban population (~10% more). That being said, there has been a shift in rural consumption patterns from necessities to discretionary expenses. For example, approximately one in every two rural households across the country owns a mobile phone, while nearly 42% of rural households owns a television set; up from 26% five years ago

Notes:

(A) Approximate income groups. Lower BoP (<\$2000) , Upper BoP (\$2000-\$4000)

(B) 1 basis point = 1/100th of a percentage point

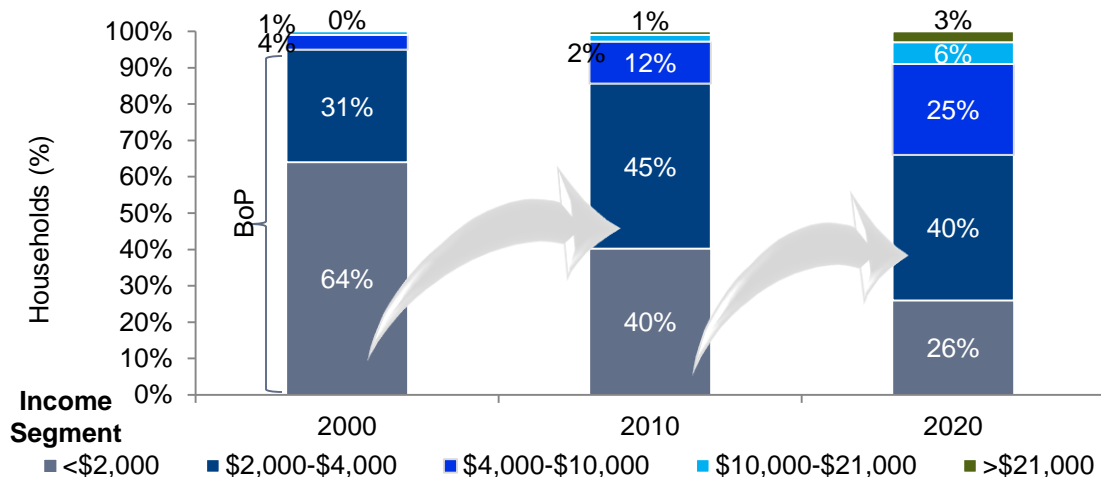
(C) Sources:

(1) CMIE

(2) NSSO statistics

This segment is evolving however and shifting to higher income levels and are expected to further contribute to overall consumption

Households by Income Bracket (2000–2030)



- India's "extreme poverty" (<\$2,000 Annual HH income) rate has been projected to drop to ~22% in 2015; as per a 2011 Poverty Development Goals Report. This indicates an upward economic movement to the income brackets above \$2,000
- 80% of the consumption growth is expected from rising incomes; as the population rapidly moves from the below \$2,000 income segment to higher income segments (\$2,000 - \$4,000 and \$4,000 - \$10,000)



In addition to rising incomes, interest in this segment is due the following other typical characteristics of this segment

- **Rising aspirations:** As incomes rise so does a desire for products and services that go beyond addressing one's basic needs. In addition, increasing media penetration and greater connectivity are expected to "urbanize" lifestyles and fuel latent desires for improved living standards. Together these 'aspirants' from rural and urban areas are expected to push demand for goods and services at the lower end of the spectrum
- **Brand loyalty:** Poor people tend to be more brand loyal because they cannot afford to make mistakes with their little disposable income⁽²⁾. As the per capita income of this segment increases, marketers believe it is important to generate brand awareness and loyalty in order to capture and retain those customers as the move into higher income segments

Notes:

- (A) Defined as those with annual HH incomes between \$4000-\$21000 (2001-02 INR prices converted to US\$)
 (B) Annual Household Incomes are at 2001-02 INR prices converted to US\$

Sources:

- (1) McKinsey report: India's Urban Awakening: http://www.mckinsey.com/locations/india/mckinseyonindia/pdf/India_Consumer_Market.pdf (accessed on November 28, 2012)
- (2) <http://embaconsortium.org/wp-content/uploads/2013/09/Consumer-Behaviour-of-the-BOP-Market-in-Br.pdf>
- (3) http://www.cccindia.co/corecentre/Database/Docs/DocFiles/INDIAN_CONSUMER_MARKET.pdf

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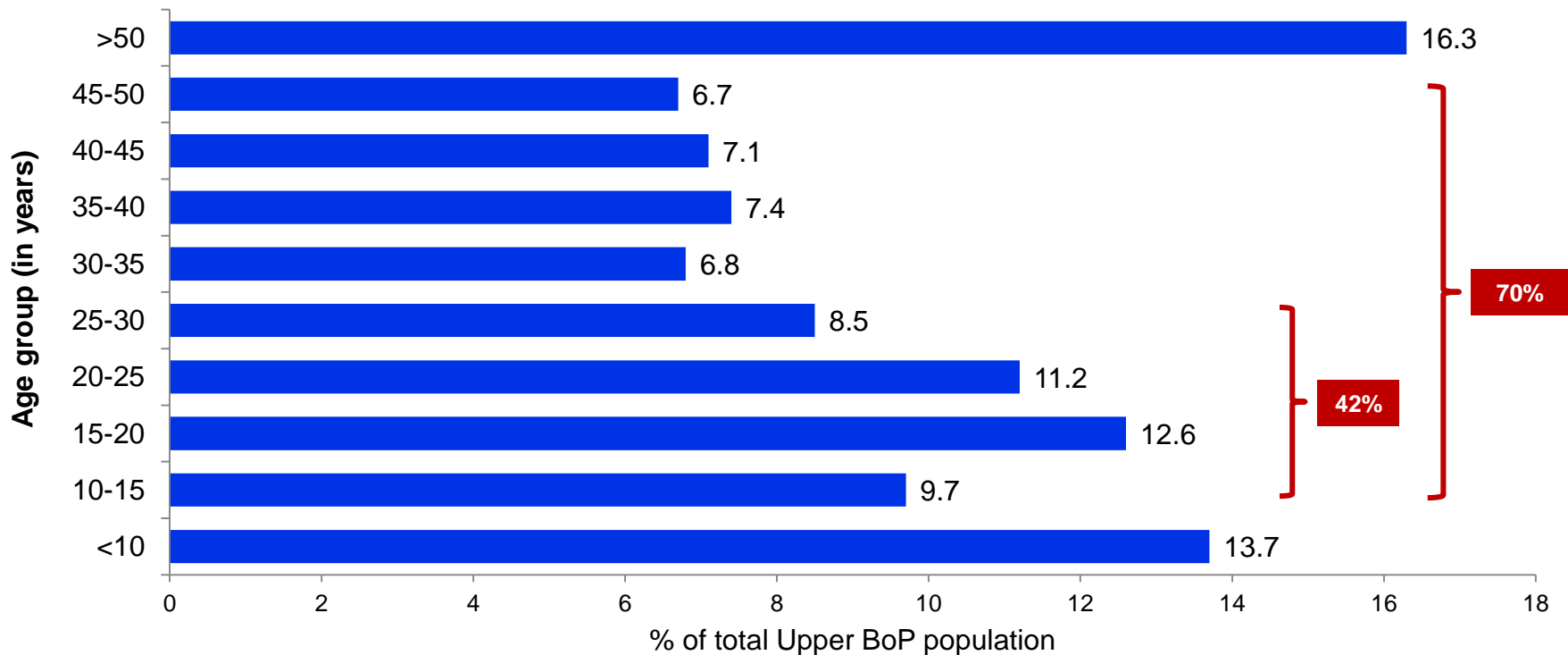
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Almost half of the upper BoP population is 10-30 years in age who represent a long term opportunity in terms of consumption and spending

Population Pyramid—Upper BoP segment (2012)^{(A),(B)}



- By 2020, a large percentage of the upper BoP population is expected to reach working age; a larger number than will exist in the middle or affluent classes
- As a consequence of their entry and sustained presence in the workforce over the next few decades, this segment is expected to hold an increasing share of the total personal consumption

Notes:

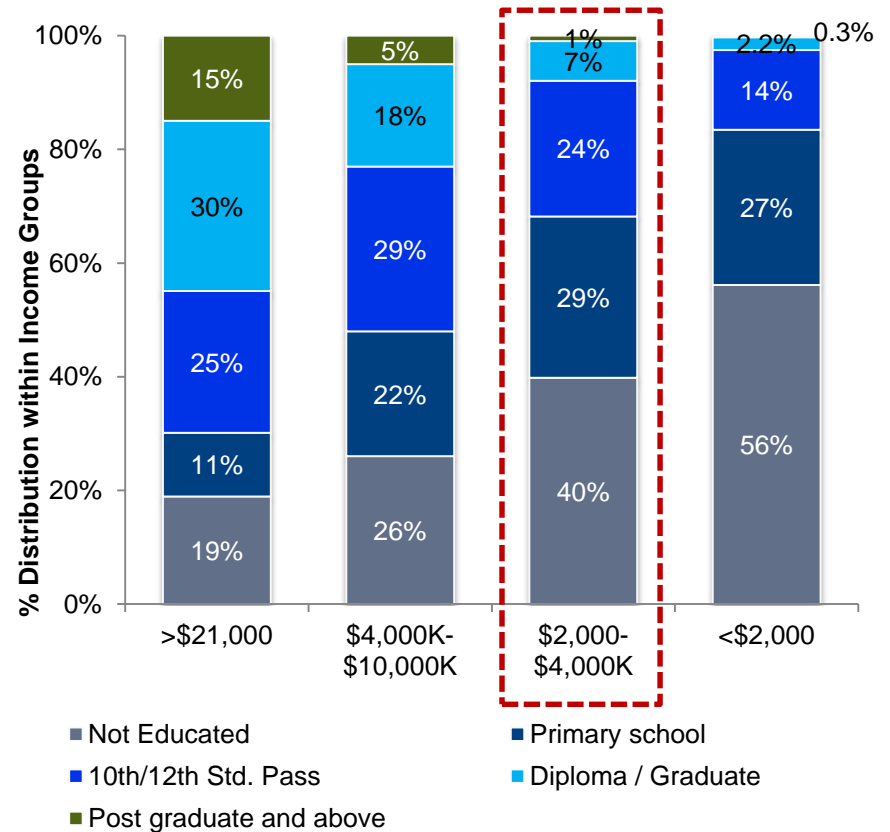
- (A) Data for quarter ended June 2012
- (B) Approximate income groups

Source:

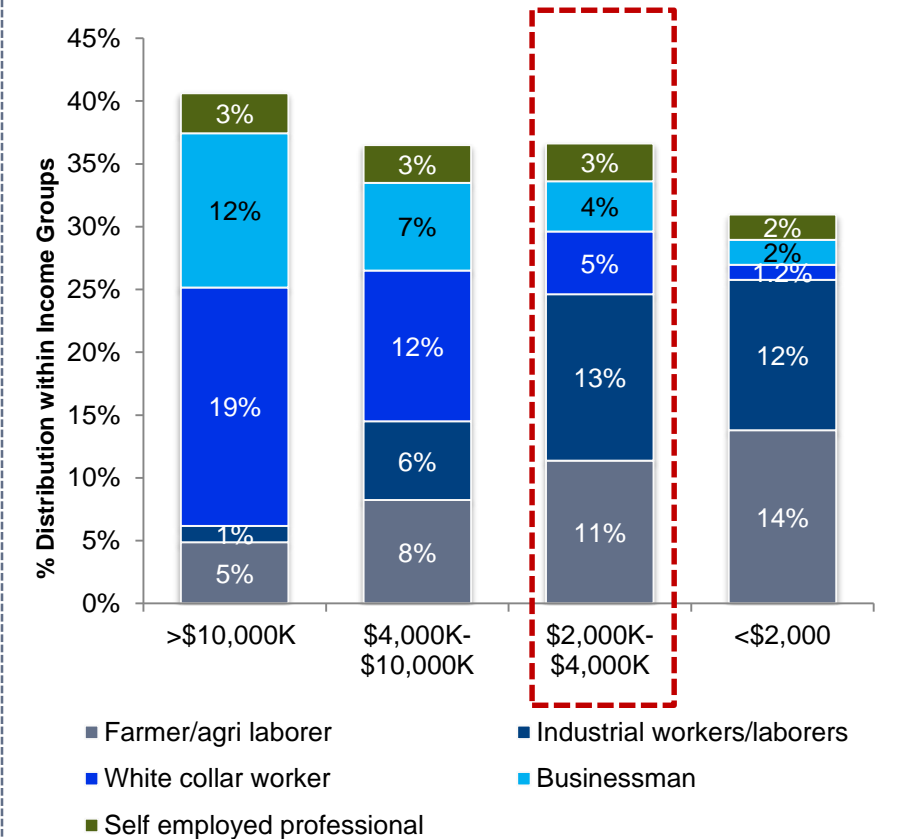
- (1) CMIE

Approximately half the upper BoP has a basic level of literacy (primary and secondary school) and contribute more to skilled labor as compared to the poor segment (<\$ 2,000)

Distribution of Literacy Levels by Income Group (2012^{(A),(C)})



Distribution of Earning Population by Occupation and Income Group (2012^{(A),(B),(C)})



- ~60% of the upper BoP segment is literate as compared to ~44% in the poor segment
- In this segment, the shift towards white collar work is evident, and is backed by better education as compared to lower income groups

Notes:
 (A) Data for quarter ended June 2012
 (B) Sum of each income group is not =100% ; the chart shows only working population %
 (C) Approximate income groups

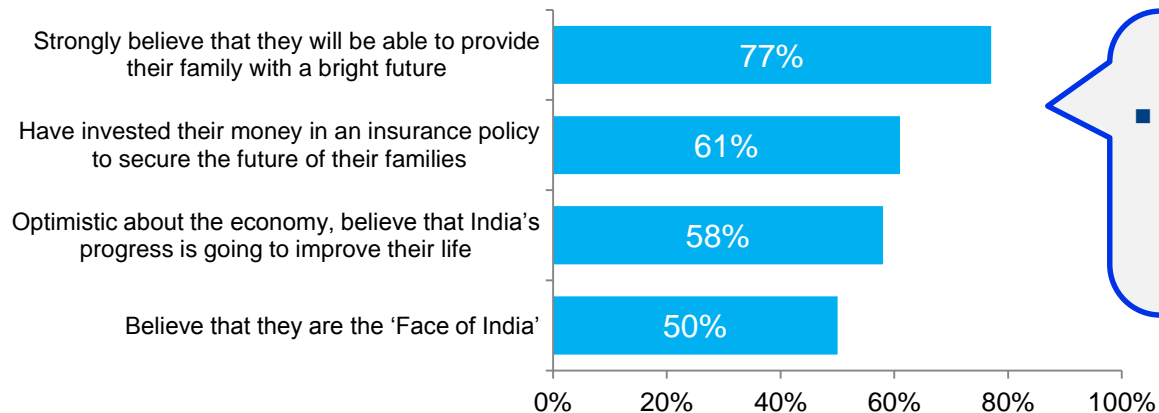
Source:
 (1) CMIE

 **Aspirants Segment**

In general, the upper BoP are optimistic about the nation's progress and their own future, and are driven by the need for better value from their purchase

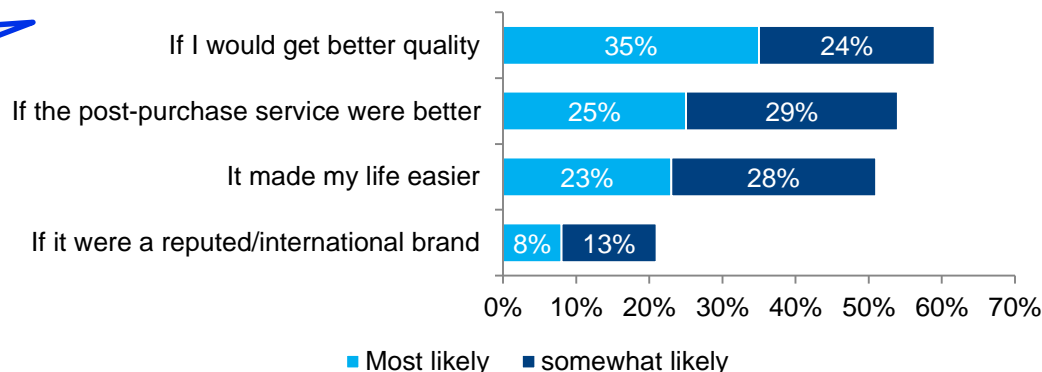
Key Insights: Upper BoP Segment⁽²⁾

Upper BoP Beliefs– Overall (%)



■ The upper BoP segment has a positive outlook towards the nation's progress and their personal future and can be considered to be cautiously optimistic

Factors that Would Make Respondents Pay More– Overall (%)



■ This segment is willing to pay more for a product if it is better value for money (better quality or service)

Notes:

(A) Note on BA Survey methodology is attached in the Appendix

(B) N = 1,653 Respondents

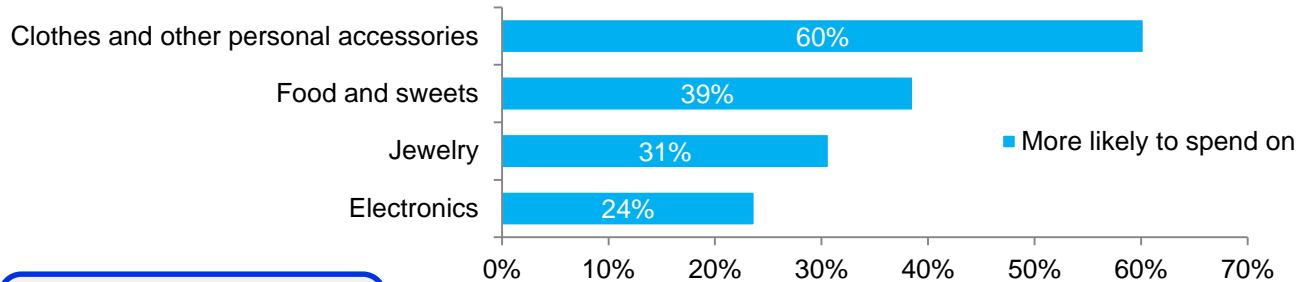
Source:

(1) 2011 BA Analysis: Findings are based on responses from 1,238 respondents from the upper BoP segment in India

Assuming they are within budget and a good value, this segment is more likely to spend their money on items that make them feel good and provide an opportunity to tell the world their lives have improved

Key Insights: Upper BoP Segment

Major Items of Spend During Festivals and Special Occasions (%)

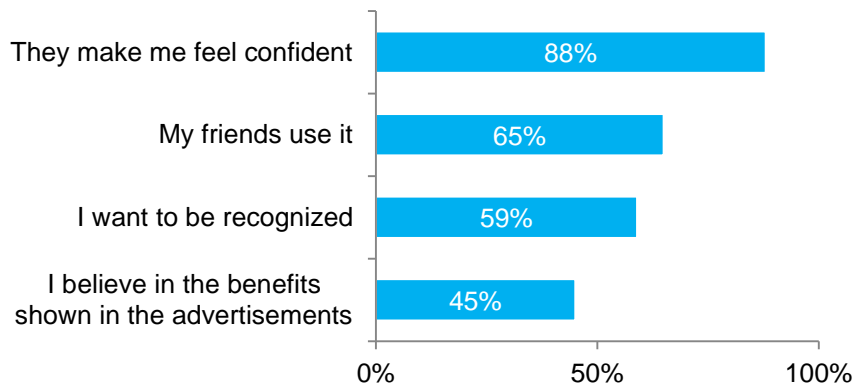


Similarly, in a study conducted by the Monitor Group in 2010, researchers found when microfinance customers in rural India were given a choice between solar-powered lanterns and low-energy stoves vs. more aspirational products like mobile phones and gold coins, 85% of customers opted for the latter. ⁽¹⁾

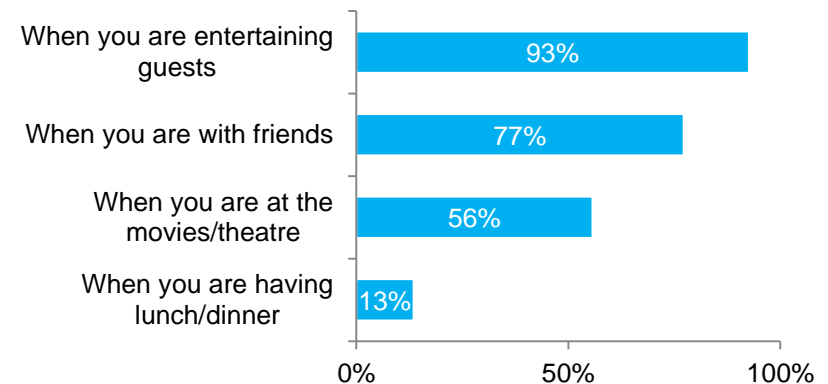
“Nice to Have” personal care product are bought for self affirmation

Packaged foods & beverages are considered a social tool and status symbol

Reasons for Buying ‘Nice to Have’ Personal Care Products (%)



Occasions on Which Packaged Snacks are Consumed (%)



Sources:

- (1) Is the Bottom of the Pyramid Really for You?, Harvard Business Review, March 2011
- (2) Boston Analytics BOP survey

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Despite the interest and opportunity, marketers face several challenges penetrating this market

Key Challenges of This Segment

1



Lower incomes and savings

- While not the poorest-of-the-poor, disposable income levels are still low, savings are minimal and money first goes towards fulfilling basic survival needs and health
- They also live in a state of uncertainty with very little cash

2



Fragmented markets & less connected

- The culturally and geographically diverse and fragmented nature of BoP markets does not offer significant economies of scale
- Poor roads, communications, electricity and infrastructure and poor last mile-reach are typically seen especially in rural segments^(A)

3



Low literacy & media penetration

- Low literacy and low media penetration make it difficult to increase brand awareness
- Large number of local languages also adds cost if marketing messages and materials need to be tailored

Impact Areas

Margins

- Companies have to operate on thin margins and hence need high volumes to be profitable
 - P&G had to move its PUR water-purification powder to its philanthropic arm as penetration failed to reach above 5% making the product unprofitable⁽²⁾

Distribution

- Companies struggle with distribution due to fragmented and sparsely connected markets
 - HUL partners with microfinance institutions who have greater reach to distribute their Pureit water filters

Understanding & creating demand

- The behavior of this segment is unlike other segments, with a lot of latent real as well as psychological needs
 - Customers in this segment choose aspirational products such as mobile phones over high utility products like solar lanterns and low-energy stoves⁽¹⁾

Note:

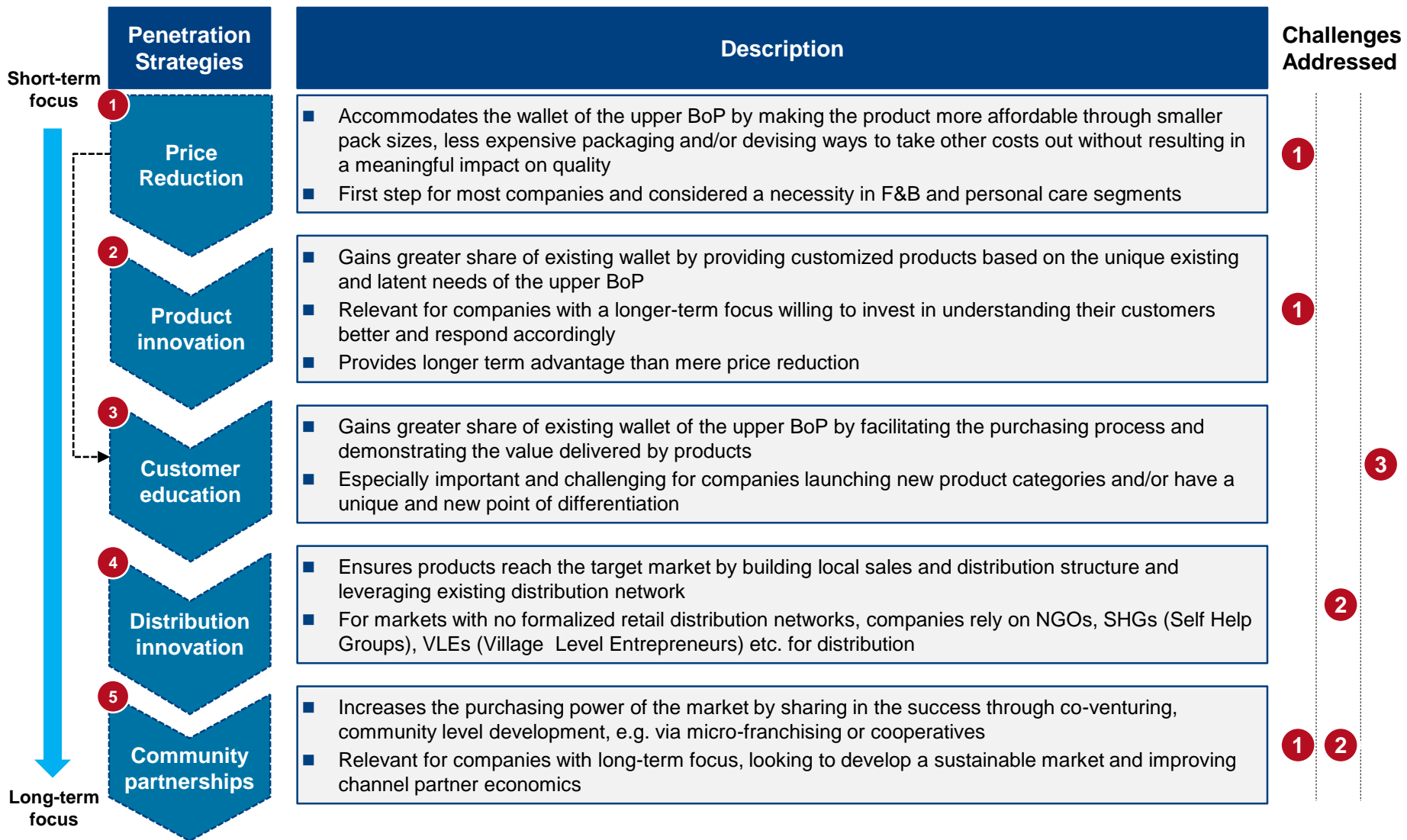
(A) Rural comprises 75% of the total BoP population in India; 'How India Earns, Spends and Saves: Unmasking the real India', NCAER

Sources:

(1) Is the Bottom of the Pyramid Really for You?, Harvard Business Review, March 2011

(2) 2012 HBR article; 'Reality check at the bottom of the pyramid' states that companies starting off in BoP markets need a minimum penetration rate of 30%

As a result, companies have designed a wide variety of strategies



Sources:

- (1) The Fortune at the Bottom of the Pyramid: Alleviating poverty through profits', CK Prahalad
- (2) <http://www.forbes.com/2010/10/01/forbes-india-hindustan-lever-bharat-darshan-rual-strategy.html> (accessed on 04/09/2014)
- (3) http://www.womens-forum.com/uploads/default/file/WFGM13_Innovation_at_the_bottom_of_the_pyramid_Business_initiatives.pdf (accessed on 04/09/2014)
- (4) <http://web.mit.edu/idi/India-%20The%20Base%20of%20Pyramid%20distribution%20Challenge-IFMR.pdf> (accessed on 04/09/2014)
- (5) <http://www.thehindubusinessline.com/features/brandline/price-small-packs-drive-purchases/article3859067.ece> (accessed on 04/09/2014)

The strategy chosen will depend on a number of specific product and firm factors

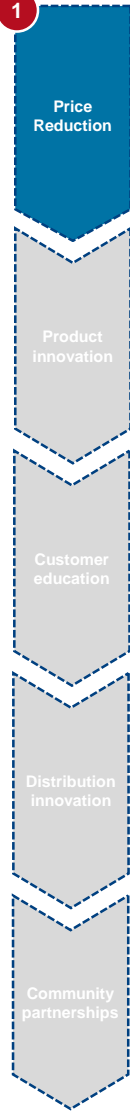
Strategies for BoP Penetration	Independent Factors				
	Stage of market entry (product)	Type of product category	Brand awareness	Expected timeline of returns	Distribution strength
Stages	Initial, Growth, Mature	New, Existing	Low, Medium, High	Short-term, Medium-term, Long-term	Under developed, Developing, Established
1 Price Reduction	Initial	New	NA	Short-term	NA
2 Product innovation	Growth, Mature	NA	NA	Medium-term	NA
3 Customer education	Initial	New	Low. Medium	Medium-term	Developing
4 Distribution innovation	Growth	NA	Low. Medium	Long-term	Under developed, Developing
5 Community partnerships	Mature	NA	Low. Medium	Long-term	Established

For example, if familiarity with the brand is low, a firm may need to engage in “distribution innovation” or identify more innovative means to penetrate the outlets where the upper BoP segment shop, rather than rely on consumer pull

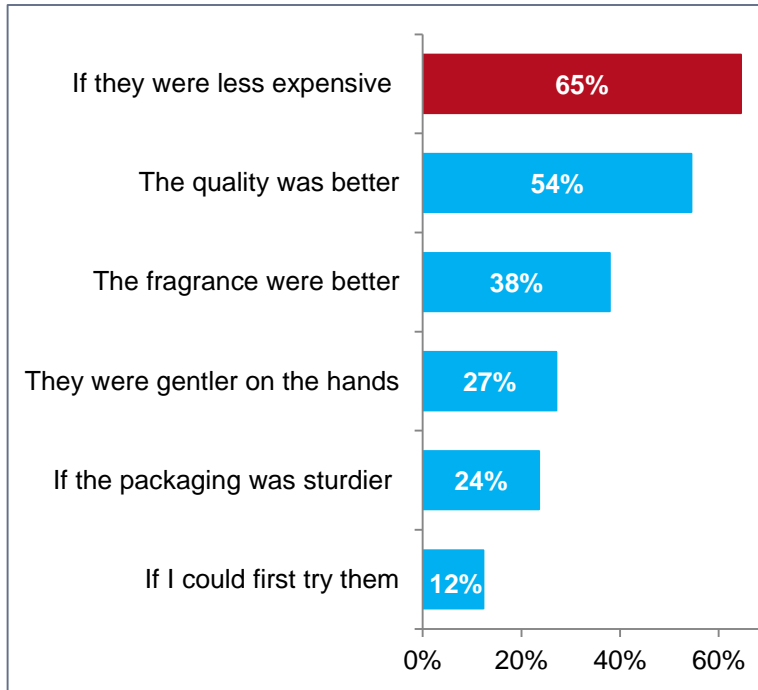
Note:
(A) NA: Not Applicable

Price is a primary driver of purchase within the BoP segment

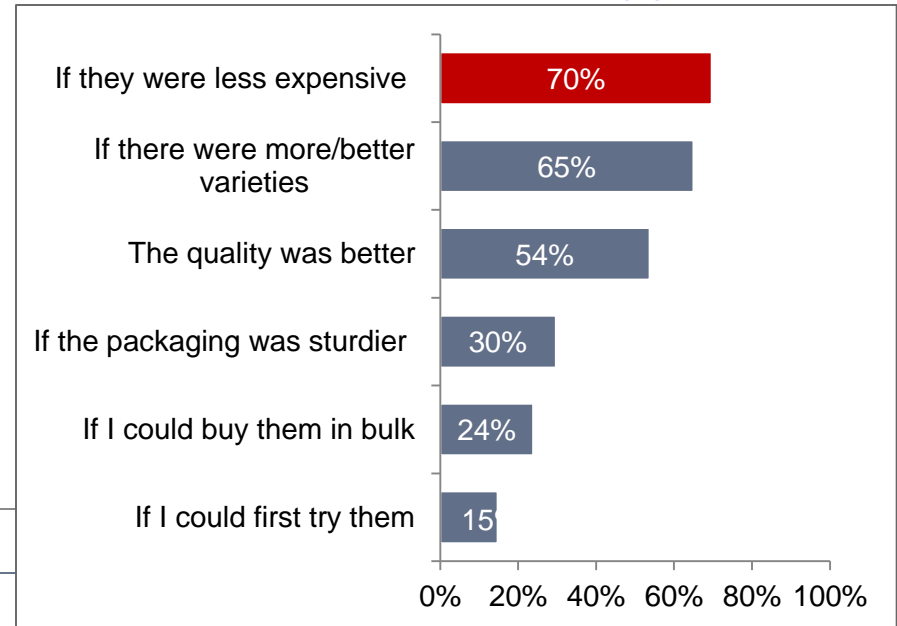
1



Factors that Would Make Respondents Buy More Home Care Products – Overall (%)



Factors that Would Make Respondents Buy More Personal Care Products – Overall (%)



Implications

- Companies must focus on increasing 'real affordability' if they wish to establish a sustainable BoP business
- BoP customers have a different price-quality trade-off and may be willing to use inexpensive low-quality products in certain categories. For Example: Nirma introduced a no-frills detergent powder with no add ons (such as, whiteners, perfume, or softeners) allowing them to price it very low and gain considerable market share

Source:
(1) Boston Analytics BOP survey

Single-serve packaging and lower-priced products are the most common strategies used to penetrate the BoP



Single Serve Revolution

- Sachets/smaller pack sizes are a very common strategy used to penetrate the BoP and can be found across a wide variety of products, e.g., hair oil (Marico), biscuits (Tiger biscuits), cold cream (Vaseline), ketchup, tea, coffee etc.
 - In 1983, Cavinkare introduced small 50p sachets for its 'Chik' shampoo which revolutionized shampoo sales in India; ORG Marg data suggests that 95% of all shampoo sales in rural India are now sachets
 - Nestle successfully promoted its brand 'Maggi' among BoP consumers by introducing its smallest pack at 8 cents (INR 5) which grew at a CAGR of 34% from 2001–2008 primarily due its affordability. In 2008, 8 cents (INR 5) and 16 cents (INR 10) packs accounted for ~53% of the overall Maggi Noodles sales ⁽²⁾



Low-price products designed for BoP

- Reducing the price of a product to penetrate the BoP entails finding the right balance between price-value
 - Nirma introduced a detergent powder for BoP with no 'active detergent', whitener, perfume, or softener. This allowed them to price it at one-third the price of Surf. Nirma's market share grew from 12% to 62% in ten years and the company made significant profits
- Less expensive packaging can also be used to incrementally reduce costs
 - Parle-G, a biscuit brand, among many other cost savings initiatives, changed its packaging material to a lower quality type, leading to a 2% reduction in its packaging cost



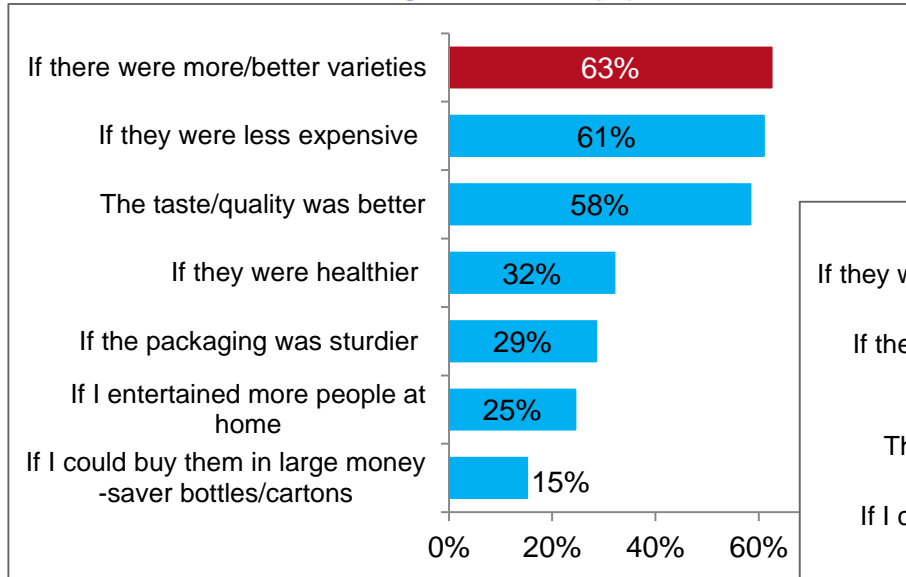
- Single-serve packaging is a prevalent approach in India and was first piloted in the 1980s. This approach encourages consumption, fosters impulse buying and increases convenience for BoP consumers by helping them manage cash flow
- Reducing the pack size alone does not increase affordability
 - E.g. HLL sells Annapurna salt in small pack sizes but at the same price per kg as larger pack sizes. As a result, these smaller packs have been slow in penetrating BoP markets
- It is also no longer a key differentiator in the Indian market. Instead, it is a requirement in terms of penetrating the BoP

Sources:
 (1) Forbes India
 (2) 1 USD = INR 59.2 = 100 cents

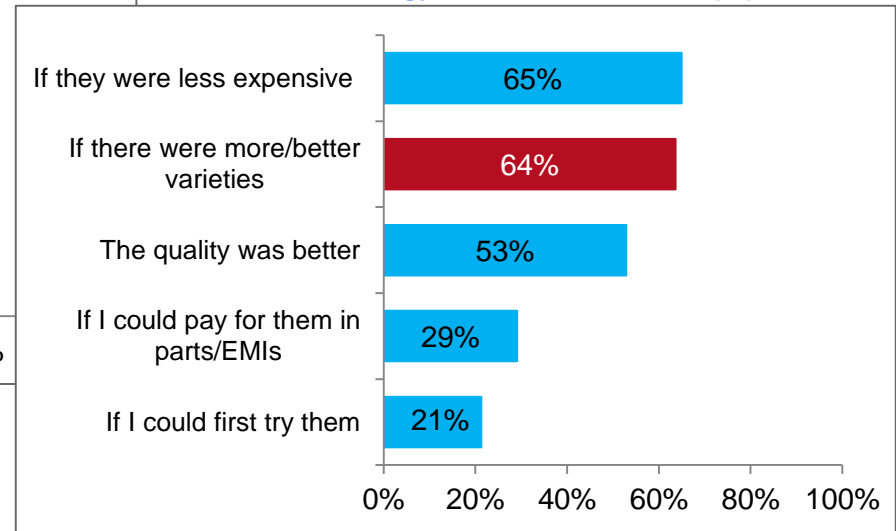
BoP customers seek variety and more options to meet their needs



Factors that would Make Respondents Buy More Packaged Beverages – Overall (%)



Factors that would Make Respondents Buy Technology Products – Overall (%)



Implications

- Single-minded focus on smaller packaging and cheaper products is not sufficient to penetrate BoP markets. Companies need to tailor their products to suit the habits and needs of local consumers
- Extensive research must be carried out to understand local preferences and understand existing and latent needs

Source: (1) Boston Analytics BOP survey

Product innovation and customization to suit local needs help companies penetrate the segment and build brand recognition



Godrej's Chotukool Co-created with Rural Customers

- Godrej introduced 'Chotukool', a small cooling device that runs on a battery and works like a refrigerator for BoP markets at an affordable price of ~\$70
- The team spent a large amount of time in rural India observing the daily routines of villagers; they learnt that people needed an affordable way to keep milk, vegetables and leftovers cool for a day or two and also learnt that large second hand refrigerators which were expensive and/or were unreliable to operate but used by some were largely empty with only water
- The company developed prototypes for feedback at 'co-creation events' and even the color (red) was decided by a community of village women
- The product was adopted by shopkeepers for their kirana stores to store refrigerated products as well as families for household consumption

PepsiCo's High Value Proposition Products for BoP Markets

- PepsiCo learned that smaller pack sizes and lower prices of its products alone were not helping penetrate the BoP consumer market; they needed to create a portfolio of relevant and affordable products with a clear value proposition
- They carved out 'Lehar Foods' as a separate profit centre
 - Research teams fanned out across rural India, found that iron deficiency is present in 55% of females between the ages of 15 and 49 and introduced Lehar Iron Chusti (iron fortified biscuits and puffs) targeting adolescent girls and priced them at INR 2 (\$0.04)
- In another study Nourishco (JV between Pepsi and Tata Global) found that customers wanted a beverage that refreshes and recharges them
 - Launched Tata GlucoPlus; an affordable health drink (\$0.12) with isotonic salts and rehydration capabilities for urban laborers and rural agricultural workers

Product innovation can also come in the form of needed complementary services, e.g., for homeowners buying construction products, they might receive assistance obtaining permits and designing their home, or for consumers buying durables they might receive financing to secure the product



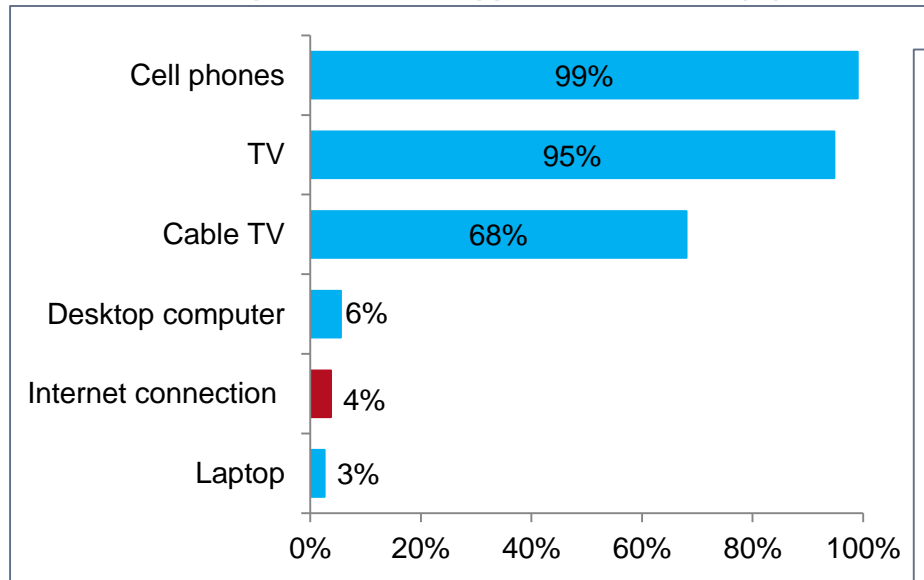
Sources:

- (1) <http://www.jica.go.jp/india/english/office/topics/100517.html>
- (2) The New Rules of BoP Marketing, Forbes India: <http://forbesindia.com/printcontent/32020> (accessed on April 22, 2014)

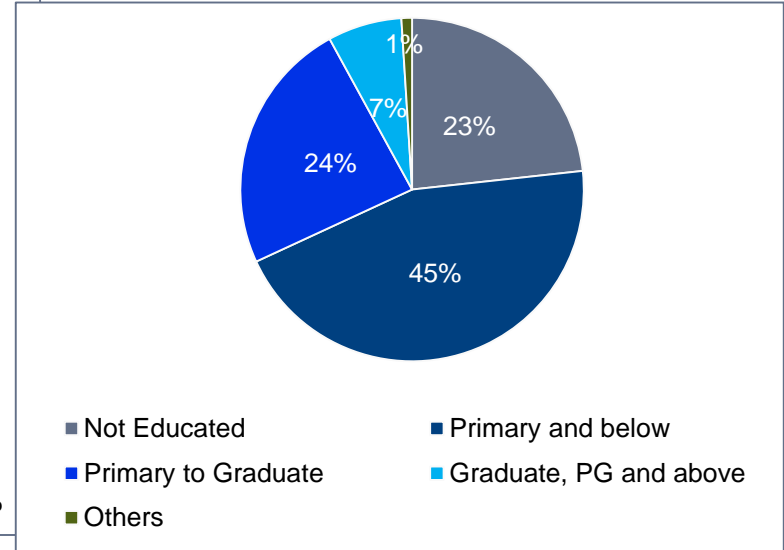
While many upper BoP consumers own their own cell phones and TVs, they typically don't have the means or educational level to research products and brands



Media penetration in Upper BoP- Overall (%)



Education levels of Upper BoP (%)



Implications

- BoP markets are often characterized by known problems and known solutions but the missing link is investments in educating customers
- Information still is in “push mode” in this segment, due to very low penetration of internet and computers that would allow consumers in this segment to seek information on their own
- Hence companies need to make a great effort to educate consumers in this segment and use communication means or vehicles relevant to them
- In addition, due to this segment’s relatively lower educational levels, often times marketers need to provide more context or tell their stories in different ways to ensure they resonate with their target consumers

Companies willing to invest in educating customers about product benefits can significantly increase brand awareness and sales



HUL's 'Lifebuoy Swasthya Chetna' Educational Program⁽¹⁾

- HUL undertook an educational program to counter the threat of 'invisible germs' and diarrhea, advocate basic hygiene practices and promote the benefits of Lifebuoy hand washing across villages in India. Four-person teams travelled to villages at a cost of \$87 to educate consumers, but this was later reduced to \$17
- The program has increased hand washing habits dramatically and reached out to 71 million people in 2012 alone and 119 million since 2010
- It has also started "Help A Child Reach 5" initiative to track the correlation between hand washing and decline in deaths
- Lifebuoy's skin cleansing soaps have grown from 14.7% in 2012 to 15% in 2013^(B)

Program Measures of Success

Parameters	Pre-intervention	Post-intervention
Awareness of germs	52%	83%
Associating germs with disease	35%	57%
Lifebuoy Brand Salience	28%	51%
Is a brand that you can trust	65%	97%

PepsiCo's school education program

- In 2011, Pepsi Co test marketed fortified snack products across 95 villages in coastal Andhra Pradesh, using an education program on to target school girls. Industry observers believe that educating the consumers on health and making the products available at the right price point was a good plank for PepsiCo to gain market share in this segment



Notes:

(A) Total program costs incurred by HLL by 2004 was \$2.7 M; where they reached out to 70M people across over 20,000 villages in India; cost per head \$0.038

(B) Nielsen figures

Sources:

(1) http://www.unilever.com/images/sd_WayofLifeJan2010_for_web1_tcm13-212739.pdf

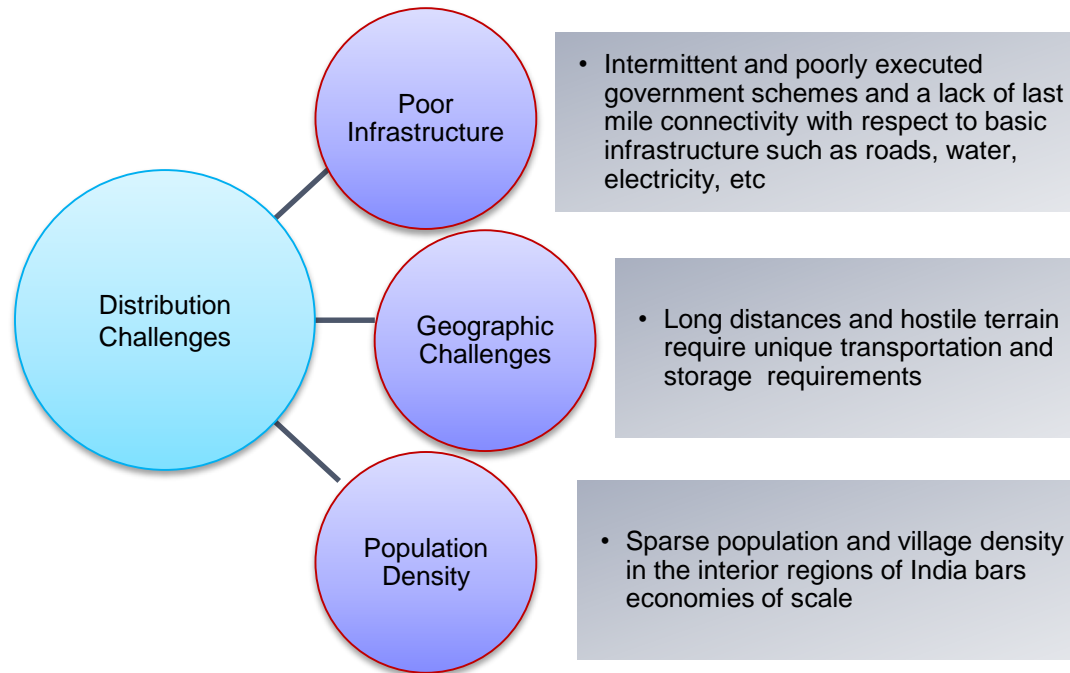
(2) http://www.wppindia.in/corporateresponsibilityreports/2007/impact/cr_clientwork/case_studies/lifebuoy_india.html

(3) Selling Health: HLL and the Soap market: Michigan Business School

(4) http://articles.economictimes.indiatimes.com/2011-07-20/news/2979473271_consumers-beverage-education-programme

While there is a distinct need for more varieties across categories, distribution challenges have created barriers to entry; particularly in the rural segment

Key Reasons for Distribution Challenges in Rural Upper BoP



Implications

- Companies need innovative and cost efficient means of distribution that allow them to reduce costs and reach the rural segments (as a large part of the upper BoP segment is in the rural areas)



Strategies to ensure greater reach can be roughly categorized into the following three models



1 Proprietary Distribution Model

- The company establishes its own distribution network including appointing C&F^(A) agents, stockists, wholesalers and retailers

- F&B companies most often deploy this distribution model. They hire local C&F agents to manage logistics and tax planning and appoint independent distributors/stockists by region
 - Parle-G has a single proprietary distribution channel for all its products in urban and rural markets with sales equally divided between wholesaler and retailer channels
 - Nestle's strong distributor model(urban) and super-stockist model(rural) allows it to reach more than 3M retailers with Maggi Noodles enjoying over 95% of Nestle's overall reach

2 Community Model

- The company distributes its products through members of the local community, e.g., NGOs, SHGs, cooperatives and VLEs ^(A)

- There are generally four types of community VLE models:

Pure Play	Cost Sharing
HUL sells soaps, shampoos through women VLEs who are required to fund their own working capital	Indian govt. provides information kiosks in all villages requiring private partners to make financial investments
Quasi	Multi-Level Marketing
ITC e-choupal, a virtual marketplace for farmers requires a VLE to interface with ITC; business risk lies with ITC	Avon Cosmetics use direct selling agents and multi level marketing schemes to sell its products in the BoP segment

3 Piggyback Model

- The company piggybacks on the distribution network of an existing player such as a financial provider

- Companies use this method to dramatically and quickly expand reach and/or reduce the costs of developing their own network
 - HUL partners with microfinance companies to sell its water purifiers
 - MCX's (multi-Commodity Exchange) Gramin Suidha Kendra initiative leverages the postal network to distribute agricultural inputs, warehousing, and spot and future pricing advice to farmers

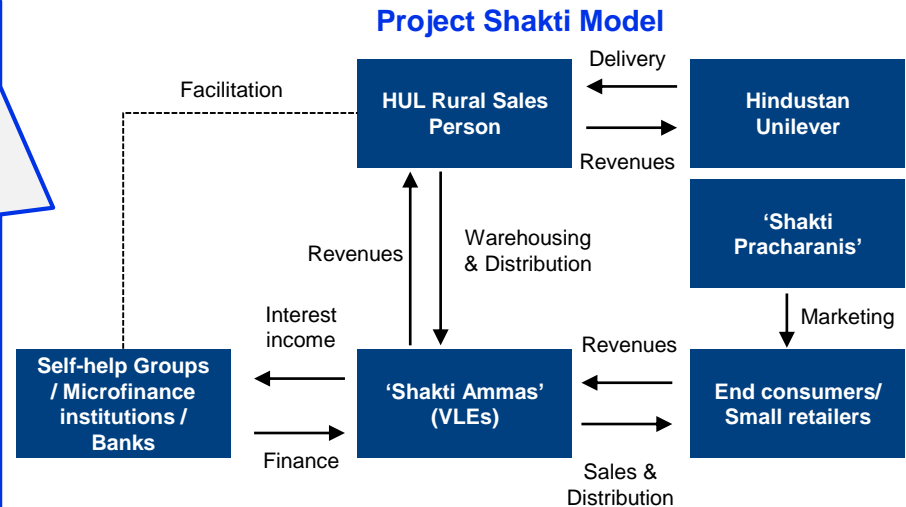
Note:
 (A) C&F: Carry and Forwarding; NGO: Non-governmental Organization; SHG: Self-help group; VLE: Village Level Entrepreneur

The community model which employs village level entrepreneurs has proven to be particularly successful for HUL overtime



HUL's Distribution Innovation: Project Shakti

- HUL's Project Shakti uses a network of women entrepreneurs ('Shakti Ammas') to sell their products in rural areas
- HUL appoints a Rural Sales Person (RSP) at each district responsible for warehousing and distribution; 'Shakti Amma' procures products from the RSP
- The company also employs a dedicated pool of staff known as "communicators" or 'The Shakti Pracharanis' for marketing and awareness building
- In 2012, 48,000 entrepreneurs were selling products to over 3.3 million households in 135,000 Indian villages. HUL plans to increase the number of Shakti entrepreneurs from 45,000 in 2010 to 75,000 in 2015



Essilor: Creating access

- Essilor realized that in rural India, the absence of any eye care facilities has resulted in negligible use of eyeglasses
- To address this gap in demand Essilor established a rural marketing division to increase the company's reach
- The company has developed a mobile refraction van which facilitates eye examination and the manufacturing and delivery of spectacles, leading to cheaper and more efficient distribution

Implications

- The Pure-Play VLE model is most commonly adopted by personal care companies in the Indian BoP market
- Village level entrepreneurs act as brand ambassadors in rural India. Their relationship with consumers is seen as very effective in building brand loyalty

Sources:

- (1) <http://www.livemint.com/Home-Page/TwqjDzhoNPiVFSAdd7uHJ/Mother-of-all-rural-marketing-schemes.html> (accessed on 04/11/2014)
- (2) <http://www.hul.co.in/sustainable-living/casestudies/Casecategory/Project-Shakti.aspx> (accessed on 04/11/2014)
- (3) Shaping Outcomes for Effective Social Enterprise, Models for Last-mile Distribution, September 2011: Intelicap
- (4) <http://knowledge.insead.edu/csr/social-entrepreneurship/creating-products-for-those-at-the-bottom-of-the-pyramid-1957>

Finally, in terms of Community Partnerships, companies have begun to shift their focus from ‘Selling to the Poor’ to ‘Creating Mutual Value’



Lehar Foods' Community Level Production Strategy

- Lehar Foods operates on a low “fixed cost” co-creation model employing small entrepreneurs across India to complete several key activities in the production and packing process
- Each entrepreneur is responsible for rolling dough, frying and packing namkeens. This requires no investment in plant and equipment for Lehar
- The co-packing model has reduced their freight costs by half and company insiders say that the long-term aim is to have a co-packer every 200 kilometers across India

Grameen Danone partnership, Bangladesh

- Danone in Bangladesh partnered with Grameen Bank (A Nobel Peace Prize-winning microfinance organization established in Bangladesh) to market affordable nutritional products for the BoP segment by leveraging Grameen's local understanding and networks
- Danone focused on product development, producing fortified yogurt in a low-cost facility, while Grameen developed a supply network of dairy farmers to supply milk and a distribution network of saleswomen for door-to-door selling
- This project aimed to involve the local communities in production, distribution and sales of yogurt
 - Milk was sourced from a co-operative of micro-farms and financed by Grameen; women micro-entrepreneurs involved in distribution earned ~ \$30 a month



Implications

- Traditional BoP companies leverage research and development to reduce price points and potentially alter their underlying product technology. They seek to grow their share through extended distribution and reduced prices
- Other BoP companies are going beyond this approach by building capacity and an eco-system of local partners. Such approaches have the potential of:
 - Increasing the purchasing power of the BoP audience and in turn increasing the potential market capable of buying their products.
 - Aggregating demand which will reduce transaction and marketing costs and contribute to higher margins.

Sources:

- (1) The New Rules of BoP Marketing, Forbes India (<http://forbesindia.com/printcontent/32020>)
- (2) Social Innovator (<http://socialinnovator.info/ways-supporting-social-innovation/market-economy/social-business-partnerships/partnerships-between/grameen-danone-partnership-b>)

Agenda

Executive Summary

Personal Consumption and the Indian Economy

The BoP Segment in India

Strength of the BoP Segment in India

Potential of the Upper BoP Segment

Penetrating the Upper BoP Segment

Ceasing the Opportunity

Appendix

While challenging to serve, the upper BoP in India represents an opportunity unmatched anywhere else in the world

- The size, growth and key characteristics of the upper BoP in India are unmatched anywhere else in the world. With over 400 million people in this segment who are on average, young, optimistic, and enjoying increasing levels of disposable income, it is hard to ignore the associated market opportunity
- Pursuing any segment within the BoP however is challenging as their wallets are relatively small, a large portion live in rural areas making distribution expensive, and they typically have less exposure to and awareness of different product categories
- To be successful a firm must:
 - Have patience in terms of financial returns
 - Be willing to pursue a low margin, high volume business model
 - Have support or a champion from the top to ensure the required resources are available
 - Be innovative in terms of the product, marketing and distribution
 - Design a holistic approach which is well-coordinated and addresses the challenges outlined above, rather than simply design a strategy that is incremental to the existing business

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Appendix

Boston Analytics defines the BoP segment as households earning an annual income of less than \$4000

Methodology for defining the BoP segment

- **Who is a BoP consumer?** The Bottom of the Pyramid (BoP) is a socio-economic concept that classifies the world's four billion poorest citizens as a large but under-served market blocked by challenging barriers that prevent them from realizing their human potential for their own benefit, those of their families, and that of society's at large. CK Prahalad in his book 'Fortune at the Bottom of the Pyramid', showed that this segment represents \$5 tn dollars of purchasing power (2004)
- **BoP Definitions:** There are definitional variations in terms of the income upper limit for the segment
 - McKinsey puts the BoP income line at INR 200,000 (\$4000) per household (HH) per year. This classification was tested for relevance and used for defining BoP segments
 - World Bank's abject poverty line of \$1.25 per person was translated to ~\$2000 per HH per year, while its upper poverty band is \$2, or \$4000 per HH per year (adjusted for inflation, and with a household size in the range of 4-5 people per household)
 - National Council for Applied Economic Research (NCAER) estimates for below poverty lie at ~ INR 63,000 (\$1300) per HH per year
 - The BoP segment was selected as below \$4000 per HH per year by validating both Indian and global definitions of abject poverty and below poverty

Note:

(A) Annual Household Incomes at 2001-02 INR prices converted to US\$

Sources:

(1) FT <http://lexicon.ft.com/Term?term=bottom-of-the-pyramid-%28BOP%29>

(2) http://www.mckinsey.com/App_Media/Reports/Asia%20Consumers/The_Great_Indian_Bazaar_Secure.pdf

Boston Analytics' BoP Survey

Survey Objective & Approach

Survey Objective

Analysis of Upper BoP segment population based on socio-graphic and psychographic profiles and spending patterns

Survey Details

Survey Period: December 2012

Total respondents: 1,653

Respondent Category: Upper BoP population

Geography: Respondents were from metros, tier 1 and tier 2 cities, and distributed logically considering various demographic characteristics like gender, age, annual HH income, and employment, etc.

Approach

- Identify the parameters to be studied for both potential segmentation and consumption:
 - Segmentation
 - ◆ Demographics
 - ◆ Sociographics
 - ◆ Socialization and value system
 - ◆ Psychographics (Lifestyle, aspirations, role model, etc)
 - Consumption
 - ◆ Total spend and as % of disposable income
 - ◆ Purchase motives and triggers
 - ◆ Buying Frequency
 - ◆ Quantity Purchased (Small pack, large pack)
 - ◆ Consumption Occasion
- Develop sample plan and quantitative survey design
- Conduct survey
- Clean, code and consolidate data
- Conduct segmentation as well as analysis of consumption patterns

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