

The Smart Manager

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1st
anniversary
special issue

star wars
by morgen witzel
& gita piramal

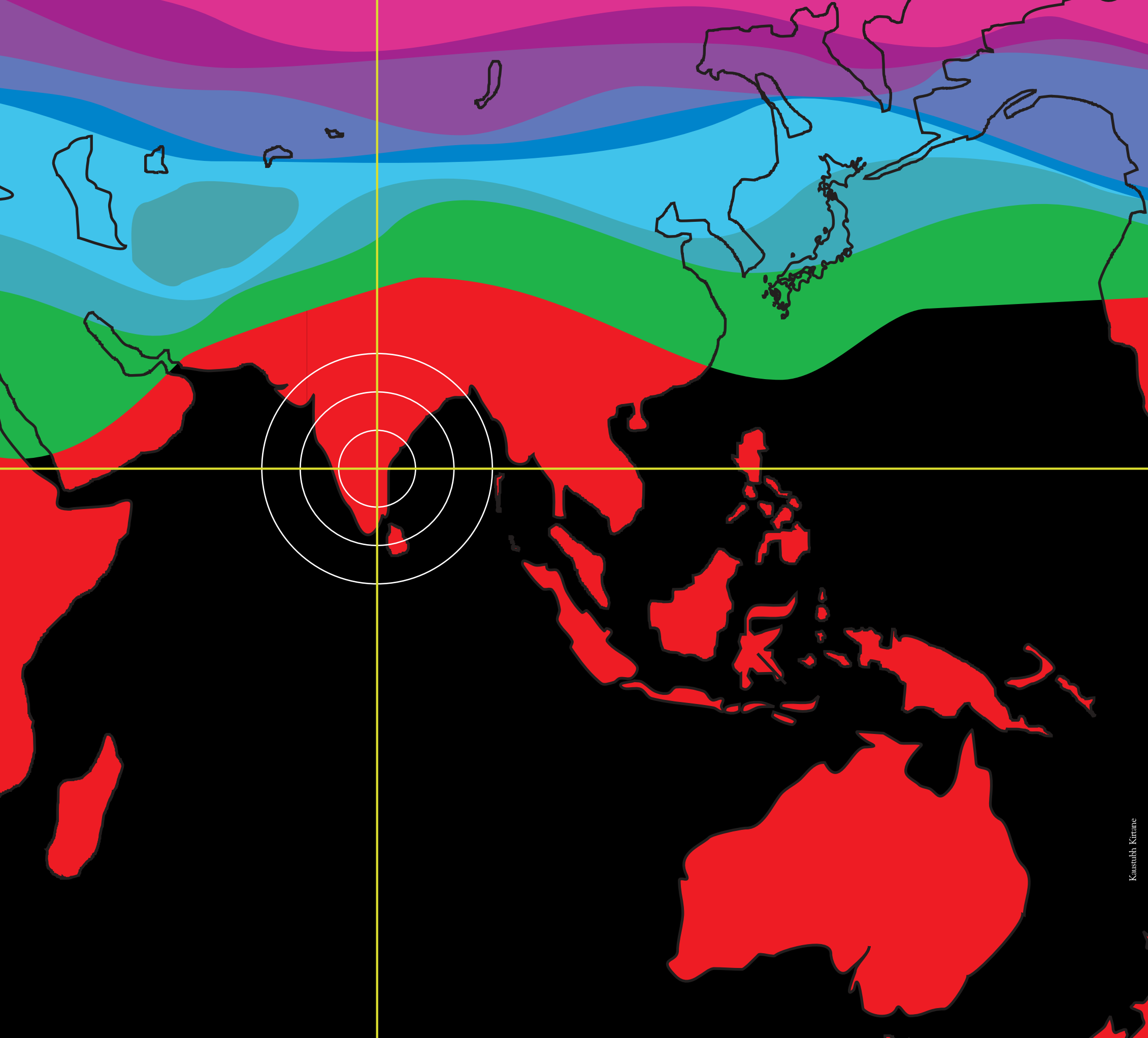
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customers come second





the 86% opportunity

by Vijay Mahajan

There's a huge invisible global market which modern marketing has ignored. You cannot wait for these customers to appear on your radar screen. You have to go and find them. Change your perspective and strategies to convert these invisible markets into visible returns.

- Is it not curious that savvy marketers have managed to miss out on 86% of the world's consumers? Most companies tend to focus attention on the competitive and saturated markets of developed nations, dismissing other markets as too poor to matter. Though

these customers may not be buying Rolexes, BMWs or Gucci bags, they represent some of the best global market opportunities today. Developed nations with per capita GNP of more than \$10,000 account for only 14% of the global population. This means that companies that focus on these markets don't see roughly 86% of the world population. This is the invisible global market.

Individually, customers in these invisible markets may represent a small opportunity but the sheer number of this forgotten 86% of the world represents a huge opportunity. If you have been walking by this opportunity on your way to the visible 14%, it may be worth taking a look at the data.

Since 1948, barely a handful of countries have jumped to "developed" status. The countries that have managed to do so are countries like Japan, Israel, Singapore and Kuwait, countries with small populations, generally

less than 10mn people. It is highly unlikely that any of today's developing nations will become a developed nation over the next twenty years.

Japanese companies have already recognized the trend. It is no coincidence that they have moved from earlier lucrative markets such as the US consumer durable and car market to focus on developing countries. US companies such as Hewlett Packard have already begun to move research facilities to India, in search of Rs5,000 computer. On the other hand, Indian companies are building call centers, trying to reach out to the visible 14% market.

This \$10,000 mark of the visible 14% is a rather crude cutoff and assumes that individuals in the developed nations have enough disposable income to support a market. However, as most companies recognize, several developing nations have islands of "developed" customers. In many cases, these "islands" can

be larger than entire nations. For example, with 86mn people in Mexico, if 1% of the population achieves the income status of a developed nation, that segment would be twice the size of Luxemburg. But even if a few high income customers are on the radar screen, the majority of potential customers in developing nations are virtually ignored because of the challenges of reaching them by conventional methods. However, marketers can reach this segment by unconventional methods.

How can you reach these invisible markets? It requires creative marketing and a shift in perspective. The principles for strategic success for the 86% opportunity are quite different from those used in developed markets. To find and connect to these customers, companies need to pay attention to the following ten insights and strategies.

01 compete against bullock carts, not cars

- **insight:** in developing markets, your competitors may not be who you think they are. Understanding local product needs can lead to radically rethinking products. For example, when an Indian-Australian car manufacturer created a rural transport vehicle, it was not designed to compete with automobiles but rather to replace the bullock cart. The new vehicle needed to be able to navigate the



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harmonizer

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rough, narrow roads of rural India and haul both people and cargo. Like the bullock cart it replaces, it functions well at low speeds, with four low gears, and carries up to two tons.

■ **strategy:** focus on using the market as laboratory for new product designs rather than on conquering markets. A company that sells washers and dryers to Japan is not just penetrating a new market. It has learned about selling products to customers with small homes. This is a lesson it can then translate from the Japanese market, where homes average 900 square feet (half the size of US homes), to Hong Kong where the average drops to 480

square feet and India where it is 400 square feet.

02 export the revolution

■ **insight:** a product revolution such as the motorized bullock cart can often be exported to other invisible markets. Fiat deliberately chose Brazil as the laboratory for launching its new ‘third-world car’, the Palio, to ensure it would respond to the invisible market. The vehicle was completely rethought for Brazilian consumers. One year after its launch, Fiat sold 250,000 cars, double the previous record for a new car launch in Brazil. In contrast, Ford’s Fiesta, imported from Europe and launched

around the same time, achieved less than one-third of Fiat’s sales in Brazil. Fiat exported its Brazilian revolution to Argentina, where sales of a Palio version took off rapidly. Another version is available in India. The Palio was part of Fiat’s deliberate strategy to shift its focus from the crowded West European market to target the invisible global market.

■ **strategy:** instead of focusing on conquering the market, concentrate on learning as much as you can about the needs of customers and developing product and service offerings to meet these needs. A product and service revolution created in one invisible market often creates opportunities to export the revolution to others.

top 15 countries in the \$10,000 club

rank	country name	GDP/capita US\$	GNP/capita US\$	population
01	Luxembourg	42,550	44,338	438,000
04	Switzerland	33,471	38,118	7,180,000
03	United States	35,102	34,259	281,550,000
02	Japan	36,894	34,214	126,770,000
05	Norway	33,248	33,649	4,492,000
07	Denmark	30,109	32,022	5,340,000
06	Iceland	31,435	31,087	281,000
08	Sweden	25,638	26,776	8,869,000
10	Hong Kong	24,018	25,955	6,797,900
12	Austria	23,581	25,222	8,098,000
15	Netherlands	22,925	25,145	15,919,000
13	Finland	23,132	24,903	5,180,000
14	Singapore	22,960	24,740	4,018,000
11	United Kingdom	23,660	24,498	59,738,900
09	Ireland	24,878	22,959	3,794,000

source: The World Bank Group, <http://www.worldbank.org/data>, 2000

03 watch the enemy

■ **insight:** In India, under 15,000 of its roughly one billion citizens admit to earning an income of over \$28,000 per year. In fact, the informal economy could be as much as half the market. Creative channels are required for the informal economy. For example, a bright 22 year old in Jammu, currently a place with few jobs available, approached a computer company to give him agency to sell their products. He approached the “Lalas” of the invisible market, offering laptops not as PCs but as a device to watch movies at night and do accounts in the day. The Lalas had no problems with the high ticket

INCREASED eyeballs would ADD to the ADVERTISING REVENUES

price of Rs100,000 as long as they could pay in cash. It seemed an insurmountable problem, until a finance company came to the rescue. It loaned the purchase amount to the Lalas who then repaid the finance company in installments small enough not to attract attention.

The economist Friedrich Schneider estimates that the shadow economy or informal economy may account for one-seventh of the output of the world's wealthiest nations and a much higher proportion of developing nations. According to these estimates, the shadow economy has been growing three times as fast as the formal economy since the 1960s. If you don't see this shadow economy, you could be blindsided by competitors you don't even know exist.

The informal economy often competes directly with the formal economy, but without the constraints of regulation or taxation. When one country from Latin America opened to foreign companies in the mid-1990s, small entrepreneurial companies began rebottling domestic automobile oil in containers of US oil companies, and selling them at higher prices to take advantage of their brand names. This informal economy

accounted for a large part of the oil sold in the country, angering both the foreign companies and the legitimate domestic firm.

■ **strategy:** instead of fighting to change the market, companies can find ways to use it (obviously within legal channels). For example, most Westerners respond to intellectual property violations by pressuring governments for rigid enforcement of anti-piracy laws. But instead of fighting the pirates, it might be a better strategy to take advantage of them. For example what if Microsoft were to add advertising to its software programs in these countries? Just as the print media differentiates between readership and circulation, Microsoft would gain from its wide distribution be it legal or illegal. Increased eyeballs would add to the advertising revenues.

Educations also can be used to shine some light into the black market. In Brazil, where pirates account for an estimated 68% of software, Microsoft replaced its hard line lobbying for trade sanctions with a \$10mn deal to bring low cost software to public schools to try to get Brazilians used to the idea of paying for software.

Activities of the informal economy can offer indications of unmet consumers needs. If these

activities are in the informal economy (assuming they are not strictly illegal), are there ways to meet the same needs in a different way through legitimate channels?

04 use global family networks

■ **insight:** why did Japanese companies advertise products in India that were not sold in India, before the Indian economy was opened to outsiders? Because close to 20mn Indian expatriates live in other parts of the world, the advertisements led local Indians to contact their relatives overseas who brought these products on their next visit. The world's borders are permeable, with non-resident populations connecting different markets in diverse parts of the world.

There are more than 23mn foreign born people in the US, with 7mn from Mexico alone. If these Mexican immigrants spend just \$200 per year on purchases for relatives back home, this is more than \$1bn in what are effectively purchases for relatively poor Mexicans. As another confirmation of this interaction between immigrants and their relatives back home, Mexican phone-access receipts from the US are the highest in the world followed by China and India, reflecting higher volumes of calling to these nations. Are American companies aware of this? Are they advertising products in Mexico that might be

bought by relatives in the US and sent or taken back home?

■ **strategy:** even if an economy is formally closed by regulations and income, as long as information is flowing, the market is never really closed. The Internet only accelerates this process. Sometimes the most direct route to a customer is not a straight line, but rather a global zigzag through developing and developed markets.

05 when customers don't know how to be customers

■ **insight:** Domino's Pizza has taken off in one Latin American country, but for the wrong reasons. Customers see its 30 minute delivery guarantee as a challenge and they take advantage of complex and confusing addresses to slow the driver and

receive a free pizza. In most of the invisible economy, there is no consumer culture. Customers in emerging markets do not behave the way marketers expect. They have never been taught to be customers, so you cannot assume they will respond in the way that customers respond in developed markets.

As another example, money-back guarantees don't always translate well in these markets. Amway in China told customers that if they were not satisfied, they could bring the product (soap) back for a full refund, no questions asked, even if the bottles were empty. Some enterprising third parties began repackaging the soap and returning the empty bottle. Others just scoured empty bottles out of trash cans to seek refunds. When refunds mounted

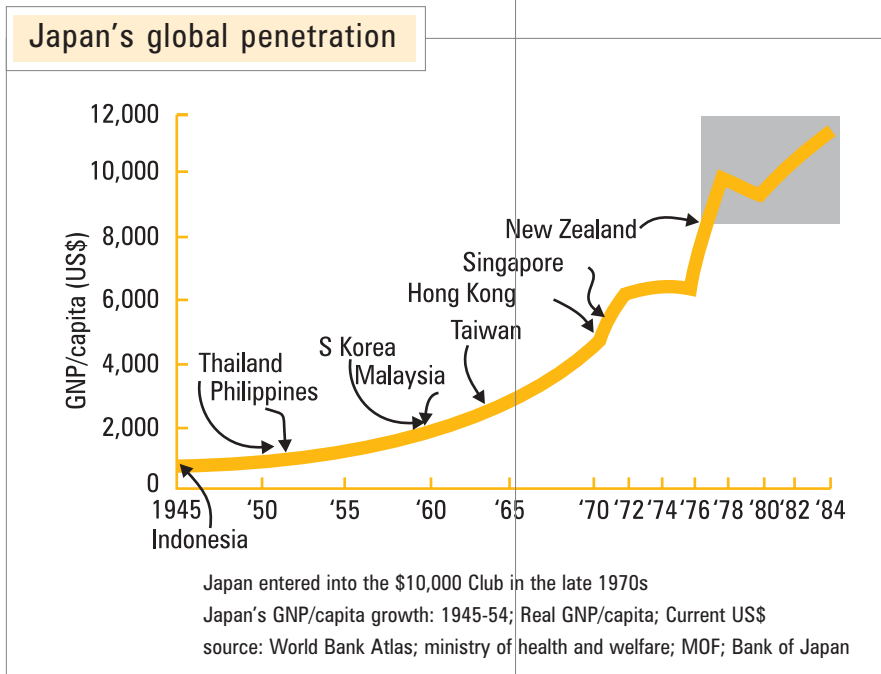
to \$100,000 per day, Amway rescinded the policy, only to face angry distributors who marched into offices to complain. They felt they were entitled to the refunds. Amway offers the same guarantee worldwide – with very different results – so it was surprised by the Chinese reaction.

■ **strategy:** companies cannot assume that customers know how to be customers. Firms may need to rethink their approaches to reach these customers or spend more time to educate them.

06 remember old is not gold

■ **insight:** realizing that the Indian market for its luxury cars was limited, Mercedes-Benz built a factory in 1995 to produce an older model car used for taxis in Germany. Indian consumers turned away from what was perceived as an inferior product, leaving the plant hobbling among at 10% capacity.

Amway took a drubbing in South Korea when consumer and environmental groups began claiming its dish detergent did not meet Korean standards for biodegradability. Although the soap meets international standards for degradability over an eight day period, South Korean activists used a one-day test (claiming Korean streams were shorter). They also claimed the product was overpriced, although Amway officials commented this was a misperception because the



is it WORTH marketing CELLULAR phones to tiny VILLAGES in BANGLADESH?

detergent is concentrated. Regardless of the validity of the allegations, the perception of poor quality led to a precipitous loss of nearly two-thirds of its sales there in a seven-month period.

■ **strategy:** perceived quality is extremely important, even in emerging economies.

07 use 'demand pooling' to reach critical mass

■ **insight:** sometimes to find a market large enough to serve, you need to gather customers together. Because shoppers in a Latin American country buy their food fresh every day, there is not enough volume to support a large supermarket (eg few retail customers would buy a dozen oranges). So an enterprising retailer created a supermarket where small grocers can shop. Grocers buy larger quantities (eg fresh fruit) that they then divide up for their customers.

Is it worth marketing cellular phones to tiny villages in Bangladesh? Not according to traditional approaches to marketing. The market is too small and income is too low to make the villages attractive target markets. Yet Grameen-Phone, a Dhaka-based company, has developed a strategy for marketing cell phones to the 35,000 villages

in Bangladesh. It has appointed women in the villages as agents who lease phone time to other villagers, one call at a time.

■ **strategy:** one way to reach critical mass is to pool demand. Another alternative is to reduce the package size to make it affordable for customers with low income. A building supply retailer in a Latin American country found that by reducing the size of its bags of cement, it could offer quality products in small packages to customers who are building their own homes. The company also offers innovative financing schemes for building materials for shanties. In India, the 1kg cement pack has become ubiquitous.

08 bring your own infrastructure

■ **insight:** the competitive environment of the invisible economy is often quite different from traditional markets. Coca-Cola rarely has to think about electricity in the US, but it is a serious concern in the developing world. How can the company keep sodas in machines cold when the public electric supply may shut down for hours? What happens to computer systems? Coca-Cola's challenge is to design refrigeration systems to ensure products remain cold despite long

power outages. Other companies need to use battery backup systems to keep computers running despite fluctuating power. Similarly, clean water is a problem in many developing countries, but portable water-purification systems can clean the water as it comes out of the tap. Finally, the lack of telephone systems in rural areas is being overcome by the rapid spread of cellular telephones.

■ **strategy:** new technology and innovative solutions help to overcome inhospitable business environments. Sometimes as with the rapid spread of cellular systems in countries without extensive landline infrastructures innovative technologies may allow the new markets to leapfrog more developed nations. Companies can wait years until governments build the reliable infrastructure to support their businesses or they can accept the environment as it is and work out solutions of their own. The motto should be, "Don't wait, innovate."

09 rethink the entire marketing and business strategy

■ **insight:** customers in the invisible 86% are culturally extremely diverse, even within the borders of the same country. There is no melting pot here, and this requires rethinking the entire marketing and business strategy. For example, a wealthy housewife

you CANNOT WAIT for these customers to APPEAR on your RADAR SCREEN. You have to GO and FIND them

may set the trends for maids and others employed in her household, a fact that is often missed if companies focus on the end purchaser. In many Indian households, for example, there may be as many as six part-time workers (eg dhobhi, cleaner, cook, driver, handyman, maid) who regularly meet memsaheb. Memsahab advises them on all kinds of problems and on purchases as diverse as cough medicine and detergents. By default, she is the decision maker for six families. But how many companies target her as the most important influence point for products designed for the six families? If she herself uses these products, think for a moment about the multiplier effect on sales.

There are one billion people of Islamic heritage, and maybe 250mn of them would be conservative women. How do you market products in this market? Recognizing that this segment buys a lot of jewellery, *Islamic Horizon*, a market research magazine points out that typical modern advertising strategies revolving around emotions such as “buying a diamond shows you care” don’t appeal. For this group, jewellery is an expression of wealth, prosperity and security; and a handbag represents the woman in advertising.

■ **strategy:** to address the very different dynamics of the invisible global markets, companies often have to do more than merely tweak their existing marketing and business strategies. For example, companies need to be aware that the change agent influencing a decision might not be the customer or even a family member. And marketers may need to rethink the unit of analysis because sometimes it takes a village to make a purchase. Where repair costs are high, companies need to think about the lifetime costs of ownership of major purchases such as automobiles rather than purchase price. If you can design a car less likely to need repairs, or build insurance into the product, it may have much higher value in these markets.

10 bridge the digital divide

■ **insight:** the digital divide may increase the gap between large companies and the invisible market. In India, for example, the penetration of PCs is only 0.5% and this technological barrier threatens to make these markets ever more invisible. Companies need to think of clever ways to offer access to the Internet infrastructure, as creative entrepreneurs are already doing

through kiosks and other shared methods of access. Companies can begin by initiating programs for their own employees, as Ford is doing by offering PCs and Internet services to employees around the world. In addition, the content of Web-based marketing needs to be rethought for these markets, with an emphasis on educating consumers and reaching markets with a low penetration of credit cards.

■ **strategy:** companies that can use the Internet creatively may find that the lower costs of reaching customers actually makes these markets more accessible

the invisible global market

This 86% invisible market will become even more significant in the future. As population growth slows in major developed countries relative to developing nations, more customers will be from the invisible global market. Even though these consumers will move to higher income segments, many will continue to fly below the radar. You cannot wait for these customers to appear on your radar screen. You have to go and find them. You need to move off the beaten path, both in the products you develop and the creative strategies you use, to turn these invisible markets into visible returns. ■

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