

Profitable growth strategies

Global Emerging Middle (GEM)



Imagine a market of consumers with greater spending power than the US, opening up over the next decade. A market growing in terms of consumer numbers, per capita income and aspiration.

Such a market is coming. A new class of consumers in the form of 4 Billion people living in countries whose per income capita is between US\$1,000 and US\$4,000 per year.

In China, India, Indonesia, across Africa and Latin America, businesses have traditionally focused on the 'Middle' and 'Upper Middle+' income tiers. Our research has explored an important growth horizon – the '**Global Emerging Middle**' – GEM – which lies just below the Middle segment and is a significant, expanding and largely untapped market. The Global Emerging Middle is already 2.3 billion people globally. And it is going to get bigger, thanks to high birth rates, improving life expectancy and above-average economic growth in many countries. In 10 years, this will represent a combined annual market in excess of US\$6 trillion, more than total US GDP in 2009¹. In India alone, the segment is expected to cross the \$1 trillion threshold by 2021 as its ranks swell to 570 million, from 470 million in 2010.

New consumers – new demands

Companies hungry for growth can't afford to ignore the opportunity offered by the GEM. But while the segment itself is expanding rapidly, companies entering the market often find that **profits** can prove elusive. **Creating value, both for the customers and for a business, needs** a different and adaptive approach. These are new consumers but not unsophisticated. Technology, education and mobility have raised not only their living standards but also their expectations and aspirations. They are price-conscious but also switched on to quality, service and desirability. They may be living in rapidly growing megacities, or on the land in rural China or India. Many may be far more at home using mobile payments options than their counterparts in more mature markets, but don't have bank accounts and need approaches to give them access.

You can't win if you are not in

The competition for such customers is going to be tough. Companies already at home in these markets, used to working with the upper economic segments, are busy trying to win their attention, with mixed success. As the case studies we share here highlight, being close to the customers is necessary but not sufficient to gain their trust and loyalty. But some companies went in early and – often by

trial and error – have found strategies that work. Others can learn a lot from these pioneers, but only if they are willing to suspend their "business as normal" models and show flexibility in addressing this new market differently. New customer value propositions, innovative business models, and a shift in mindset, of the leaders of businesses entering the GEM market, are required.

Bajaj Auto, for instance, not only designed the Bajaj Boxer motorcycle to cater to the aspirations of the rural male consumer in India, but also created an innovative, localised financing mechanism to reduce the cost of financing and delivery.

The strong innovation and R&D capabilities of international companies can be of help. But listening, partnering, and patience are equally important. The process can be a lucrative two-way street: the investment in innovative approaches to product design, service and distribution needed for the GEM can often pay-off in improvements to companies' offerings in mature markets. There are several examples of GE's products, such as ultra low cost CT scan machines, developed for emerging economies being sold in mature markets.

From a GEM of opportunity into profitable reality

So what works for companies setting out to conquer this new, and uncharted global middle? The rules are still being written and strategies being tested but drawing on the hard-earned experience of others and our own research, we offer a framework to help.

Key Strategies for succeeding in the Global Emerging Middle

3 x 3: A recipe for Success

There are three elements for a successful strategy, each with three parts to it.

New value propositions

- 1. Aspiration trade-offs**
Understand the very different aspirations, influencers, and tradeoffs of this segment
- 2. Beyond low cost**
Position product and services beyond cost, pricing beyond functional considerations
- 3. Platform Customisation**
Design product and services with a few key features, but tailoring it for diversity

Innovative business models

- 1. Ecosystem Collaboration**
Extract value by creating an ecosystem, collaborate with the unorganized sector
- 2. Modular scale**
Have a modular design, aggregate local demand and think scale from the beginning
- 3. Smart reach**
Cluster marketing and distribution, create local financing mechanism, enable through technology and offline

Shift in mindset

- 1. Trusted endorsements**
Build the brand with aspiration in mind, but using word of mouth to drive awareness
- 2. Disruptive thinking**
Disruptive changes required in addressing this market often with leapfrog solutions
- 3. Values and metrics**
Drive this business with broader values and incubate it with different metrics

How it works in practice – some of the examples drawn from India

New Value Propositions – Understanding Demand

The value propositions designed for higher income groups rarely translate directly to the GEM, even at lower prices. Companies need to understand the set of problems these consumers face and to respond to them [with a complete solution to facilitate economic trade-offs these consumers need to make].

Aspiration trade-offs (Consumer assessment) Companies need to understand the trade-offs, which can sometimes appear counterintuitive, that the GEM consumers make in purchasing decisions. In India, their spending on entertainment is expected to triple by 2021. The market for SMS-based services is already growing strongly in rural areas there.

Beyond Price: While price is important, prestige and convenience are strong selling points with GEM customers. Tata Sky offers customised channel packages to rural viewers at less cost than cable but with greater transmission quality and with subscriptions payable

on line and by mobile phone. Bajaj Auto produced a budget motorcycle, the Bajaj Boxer, built to withstand rough road conditions but designed to appeal to more image conscious customers in the emerging middle segment. Its success means it has now been adapted to sell to GEM consumers in Egypt as well.

Platform customisation: as in the Tata Sky example, companies may need not only to tailor the product or service to the customer, but also provide equally tailored technology often through partners, who may even be members of the user community.

ITC built on India's tradition of "Chaupal" (communal space), to create an e-chaupal network to deliver real-time information on weather and price data to farmers. Platform customisation solutions like this offer a cost effective and comprehensive way to cater to the diversity of this market.

Innovative Business Models – Creating Supply

Our research shows that traditional business models are rarely up to the task of addressing the broad diversity and variety of the GEM segment. Most companies will need to partner with the unorganised sector, the government or other stakeholders to fill the institutional or market voids in these areas.

Ecosystem collaboration is critical: in the Bajaj example, the company worked with village heads, using word of mouth to get the message out about the qualities of the bike.

Modular design and economies of scale can be improved through ecosystem collaboration. Reaching the end customer can be made easier by building up a network for distribution or service. Speeding up and improving the reliability of service, both pre and post sales, wins trust and customer loyalty. Hindustan Unilever Limited (HUL) pioneered with "Project Shakti" in 2001, building up a distribution system of female agents working in rural India. A microfinance arrangement provides these women entrepreneurs with credit to start their sales businesses. The Shakti network means HUL has overcome the last mile and created employment and thus more customers.

Smart reach: the immense degree of diversity in the GEM market calls for a "cluster" approach to identify and serve subgroups of consumers, which can be defined on various criteria, such as migration patterns, trade flows, income and demographics. Nokia money, for example, ran a year-long analysis of migration clusters in India. They were then able to target specific clusters with customised advertising and services, acquiring new customers with optimised spend. High levels of data facilitated this, but physical networks can work too. Bajaj Auto used agreements with small dealers to distribute but also to gather market information, particularly around the credit worthiness of customers, enabling financing with lower credit risk.

Shift in Mindset

For long there has been an assumption that less well-off consumers are primarily concerned with price but as the above examples suggest and our research shows, this bias must be addressed. Lower incomes, or more constrained spending, do not equate with lower aspirations or less sophisticated demands.

Trusted endorsements: trust will be a key to accessing the GEM. Unconventional proxies and partnerships are essential to demonstrating trustworthiness. Be it presenting the appeal of a motorcycle to village heads, as Bajaj did, or liaising with local non-governmental organisation (NGO), as HUL did when starting project Shakti, trust can only be built from the bottom-up.

Disruptive thinking will also be required to break the old mould of "low cost at any cost". Companies must be prepared to offer leapfrog products and services, as this market often misses a generation of technology but is ready to dive into the next generation. Nokia Money used leapfrog technology to offer mobile financial services, immediately satisfying an unmet global demand for access to financial services to the unbanked and under-banked population.

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Values and metrics – moving the company mindset forward

One of the biggest leaps companies may have to make is to re-evaluate how growth and success is to be measured. The company's values will need to adapt: the approach to risk taking, partnering with new and very different stakeholders and what it means to be customer-oriented. Needs may not translate into demands – only the customer will decide. Traditional consumer research may have inherent biases. Performance measurement instruments geared towards higher income segments may not fit the GEM. One cell phone company abandoned the industry standard of using average revenue per customer in favour of return on capital and gross margins, in essence taking the long-term view. Risk appetite and patience are needed in equal measure.

There is no one size fits all but again the framework provides some guidelines. Globally, the Emerging Middle is ripe for change and is open to fresh thinking. The challenge for business is to capitalize on this opportunity by changing how to fundamentally view this market – not as the bottom of the pyramid with a social lens, but as a very diverse, different and aspiring Global Emerging Middle Class - with a profitable future.

India – a macrocosm of the GEM in action

These factors came to the fore through the many interviews we conducted with CEOs and innovation leaders. As home to the biggest emerging middle section, much of our research focused on India. Already home to around 470 million of the GEM, this group is expected to grow to 570 million, or 42% of India's population by 2021.

India's regional and demographic diversity, differing rates of literacy and access to utilities, education and infrastructure, make it the ideal macrocosm in which to test the framework. Its population is young (58% under 30), which means they are more open to media influence and rising expectations. However, the population is still predominantly rural (over 67%), with all the challenges that entails for sales, marketing and distribution strategies. Indeed, many of its large domestic companies and home-grown MNCs have been among the first and, in some cases, the most successful in creating value for and from India's emerging middle class.

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About strategy & research practice

Strategic insight and advice that can be implemented in the market place – “Distinctive strategies that work”

PwC’s strategy practice helps organisations to continuously evolve and adapt in the face of a changing and complex business environment. We assist our clients in responding with speed and agility to the opportunities by undertaking strategic initiatives that are forward looking and that enable the organisation to sustain its competitive advantage. We recognise the fact that organizations are at differing stages of maturity and growth even in the same industry and tailor our approach and recommendations accordingly.

Our key value proposition for clients is “strategy as execution” i.e. to create a pragmatic strategy with execution focus right from strategy design, thus creating value through execution, not a “report”. To achieve this, we would undertake a collaborative approach with you, working out the “what” and “how” to execute the strategy from the word “go” Our practice thus addresses a variety of CEO/Board’s agenda ranging from a strategy health check through strategy development to strategy deployment. This group focuses on a three to five year performance horizon.

Contacts

Shashank Tripathi
Executive Director
Mobile:+91 98196 78900
Email: shashank.tripathi@in.pwc.com

Arup Mazumdar
Senior Consultant
Mobile:+91 99305 88938
Email: arup.mazumdar@in.pwc.com

Monish Suri
Principal Consultant
Mobile:+91 9810147091
Email: monish.suri@in.pwc.com

Tanushree Srivastava
Consultant
Mobile:+91 99308 21238
Email: tanushree.srivastava@in.pwc.com