RIETI BBL Seminar
Handout

October 15, 2012

Speaker: Mr. Pradeep KASHYAP

http://www.rieti.go.jp/jp/index.html
The Emerging Market
India

Pradeep Kashyap
Founder & CEO, MART

Presentation to
RIETI, Japan
October 15, 2012
Challenges of Doing Business in India
Understanding Diversity ... *A Snapshot*

- 21 official languages, 432 dialects
- 4 major religions
- 56 Socio Cultural Regions

**Literacy**
- Kerala: 93%
- Bihar: 63%

**Per Capita Income (USD per annum)**
- Goa: 3700
- Bihar: 470

Source: Census of India 2011, Directorate of Economics & Statistics 2012, MART Knowledge centre

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Where Does India Live

GDP share
25%
25%
50%

Population

Large Cities
12%
50 large cities
1 Million +

Small Towns
18%
8,000 towns
< 1 Million

Villages
70%
< 10,000
(640,000)

Source: Census of India 2011, India Urbanization Econometric Model -McKinsey Global Institute, MART Knowledge Centre
<table>
<thead>
<tr>
<th>INDIA</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV ownership(%)</td>
<td>50</td>
<td>25</td>
<td>12</td>
</tr>
<tr>
<td>4 wheeler ownership (%)</td>
<td>4</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>GDP Share (%)</td>
<td>30</td>
<td>34</td>
<td>36</td>
</tr>
<tr>
<td>Population (%)</td>
<td>20</td>
<td>30</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Max NCAER Survey, 2007 and IRS 2011
Why to Invest in India?

Economy: USD 2 trillion (USD 10 trillion in PPP)
Last decade GDP growth: 8%

Demographic dividend...Youngest nation

360% Rise in consumer spending in next 10 years

Global Innovation Hub...2nd largest technical workforce

Source: The Tiger Roars BCG report & MART Knowledge Centre, & 12th Five Year Plan, GoI,
Population (million) | 2010 | 2020
---|---|---
1200 | 1350

Annual HH Income (USD) | 2010 | 2020
---|---|---
6,393 | 18,448

Per capita Income per day (USD) | 2010 | 2020
---|---|---
> 4 | 170
1-4 | 800
< 1 | 375

Source: The Tiger Roars BCG report & MART Knowledge Centre
## Success: McDonald's

<table>
<thead>
<tr>
<th>Meticulous Planning</th>
<th>Reliable supply chain built from Farm to Fork over 6 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culturally Sensitive</td>
<td>No-Beef, No- Pork</td>
</tr>
<tr>
<td>Food</td>
<td>Physical separation of Vegetarian items from farm to customer</td>
</tr>
<tr>
<td>Indianized Menu</td>
<td>McAloo Burger (Potato), Mc Veggie, McEgg</td>
</tr>
<tr>
<td>Pricing</td>
<td>Highly affordable, starting 40 cents – PPP basis</td>
</tr>
<tr>
<td>Promotion</td>
<td>Family dining for Indian tradition</td>
</tr>
<tr>
<td>Innovative Practice</td>
<td>Home Delivery</td>
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</tbody>
</table>

250 outlets in India...40% share in fast food market ...planning to have 500 outlets in next three years
# Failure: Kellogg’s

## India Opportunity

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
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<tbody>
<tr>
<td>250 Middle class completely untapped market</td>
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## Entry

<table>
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<tr>
<th>Description</th>
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<tr>
<td>1994, investment of 65 million $, Corn Flakes brand</td>
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</table>

## Cultural Barriers

<table>
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<tr>
<td>Eating breakfast cereals new concept</td>
<td></td>
</tr>
<tr>
<td>Indians prefer different breakfast types every day</td>
<td></td>
</tr>
<tr>
<td>Indians have all hot meals, also hot milk for breakfast</td>
<td>(Corn flakes remains crisp in cold milk)</td>
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</table>

## Price

<table>
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<tr>
<td>International pricing. 3 times of local brand (Too expensive)</td>
<td></td>
</tr>
</tbody>
</table>

## Outcome

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<td>Very low sale. Kellogg’s launched its other products – Choco Puffs, Honey Crunch...No success</td>
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## Reasons for Failure

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<tr>
<td>Product</td>
<td>Western product, but local tastes very strong</td>
</tr>
<tr>
<td>Price</td>
<td>Too high</td>
</tr>
<tr>
<td>Promotion</td>
<td>Advertising hinted Indian breakfast not nutritious, hurt local sentiments</td>
</tr>
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</table>

How to localize Business in India...

1. Understand local ecosystem
2. Hire local talent
3. Partner local companies
4. Understand local consumer behavior and customize products
5. Set up R & D facility
6. Benchmark price and quality against local players
The Shakti Story
Project Shakti – Women’s Empowerment

Co-created by Hindustan Unilever & MART
2000-2005
Where does Rural India Live

No of villages | Population % | Village population
---|---|---
20,000 | 22% | >5000
90,000 | 32% | 2001-5000
140,000 | 25% | 1000-2000
390,000 | 21% | < 1000

Source: Census of India 2001, MART Knowledge centre
HUL Rural Coverage Strategy

- **Combined IDC**
  - High Accessibility
  - Low Turnover / market
  - 5000+ pop villages

- **Indirect Coverage**
  - High Accessibility
  - High Turnover / market
  - 5000+ pop villages

- **Shakti**
  - Low Accessibility
  - Low Turnover / market
  - 1000 – 2000 pop villages

- **Streamline**
  - Low Accessibility
  - High Turnover / market
  - 2000 – 5000 pop villages

*(c)MART*
The Genesis

- Need
- Penetration in <2000 pop villages
- Sustainable business opportunity
- HUL + SHG Win – win partnership
5 million micro finance groups

Home shop

Leaders identified and trained

Door to door selling
**Shakti - The Model**

- **HUL Distributor**
  - Supply
  - Payment

- **Shakti Entrepreneur**
  - Sells

- **Consumers**
- **Retailers**

**Doubles Family Income**

- **Monthly Sale**: $300 – 500
- **Net Profit**: $25 – 35
Current Status
Scalability & Sustainability of Model

• 50,000 Shakti Entrepreneurs appointed across India
• 100,000 villages covered
• 10 million consumers serviced
Win-Win Model for All

Bank

* Higher loan offtake
* Better repayment
* Social fulfillment

Government

* Provide gainful livelihoods to the poor
* Non-grant sustainable livelihood

Project Shakti

* Better product reach
* Low cost communication channel
* Category penetration
* Social fulfillment

HUL

* Sustainable income opportunity
* Learn business Skills
* Economic Empowerment
* Education / Awareness

Woman

* Economic Empowerment
* Social fulfillment
Win-Win BOP Healthcare Model

**Company**
- New BoP business model
- Additional sale

**Government**
- Entrepreneurs sourced from youth clubs of a national public organization

**Novartis**

**Channel Partners**
- (doctor, diagnostic centre, chemist)
- More business

**Community & Patients**
- Efficient health services at the door step
- Follow up support and complete treatment
- Village Health Entrepreneurs promoted among local youth

Co-created by MART
Lessons Learnt... The Way

- A **Win – Win** for all stakeholders
- Buy in from the top management
- Use of existing social infrastructure
- Need for facilitating organization (MART)
- Developing capacities of local partners
Future Potential of India
Future Growth Path

- Growth Target 12th five year plan 8.2%
- Dominant services sector expanding to retail, health, financial services and tourism
- 5th largest economy by 2025 (USD 10 trillion)
- Innovation Hub
- 25% GDP share from manufacturing by 2022 from 16% at present...doubling employment
- Transport & logistics – USD 114 bn by 2014 at 10% CAGR
- Universalization of secondary education by 2017
- Health expenditure to reach 2.5% of GDP by 2017...Healthcare to become USD 170 billion market by 2025
Role of a foreign company
<table>
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<th>Insight</th>
<th>Consumers want to support top need of Education of poor children</th>
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<td>Program</td>
<td>Supported 140 schools in partnership with social organization</td>
</tr>
<tr>
<td>Contribution</td>
<td>INR 220 million by employees, stakeholders, celebrities, thought leaders</td>
</tr>
<tr>
<td>Employees</td>
<td>Volunteer time and effort</td>
</tr>
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Role of Foreign company

- Support Inclusive Growth
- Connect with local community
- Develop efficient solutions
Coca Cola India’s Engagement With Sustainability Programs: Water

**Improving quality of life**
Coca-Cola in India works with local organizations, governments and NGOs to support projects most relevant to community needs.

**Water**

<table>
<thead>
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<th><strong>Reduce</strong></th>
<th><strong>Recycle</strong></th>
<th><strong>Replenish</strong></th>
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<td>Water is most important ingredient in beverages. It is also used for rinsing, cleaning, heating and cooling. Coca-Cola in India has improved its water use efficiency by over 25 percent since 2005.</td>
<td>Wastewater is recycled through a treatment and cleansing process.</td>
<td>Coca-Cola works on Water replenishment projects that support communities and nature - rainwater harvesting structures, construction of check dams, restoration of ponds and traditional water bodies. They have installed 400 rainwater harvesting structures across 22 states.</td>
</tr>
</tbody>
</table>
Thank You