The "Traditional" or "Bottom of the Pyramid" Consumer

Hypothesizing the "Emerging Consumer"

by Jeb Brugmann, Partner
The Next Practice

The "Modern" Consumer
The dominant lens

“Traditional”

access

+ capacity to consume

= “switching”

“Modern”
There are 3 ideas in this presentation

**IDEA #1:** To serve the “BOP” consumer we need to understand and co-evolve with a very different wealth creation ecosystem.

**IDEA #2:** Success with this segment requires the creation of an entirely unique or hybrid business model.

**IDEA #3:** Managing the consumer pathway is key to both value delivery and profitability. Migration from “traditional” to “emerging” to “modern” ecosystems demands new CRM, design & production approaches.
IDEA #1: To serve the “BOP” consumer we need to understand and co-evolve with a very different wealth creation ecosystem.
What, dear tell, is the real “emerging economy”?

- The Formal Economy (~ 1.5 billion people)
- The Informal or “Other” Economy (~ 3.0 billion people)
- Subsistence household economics (~ 1.5 billion people)

Are we extending today’s “TOP” Formal Economy or co-evolving with the “Other” Economy in ways that will fundamentally change both?
These are distinct, globally-integrated economic worlds

Net FDI from Developed Countries
= $260 billion

Remittances from immigrants and international migrant workers
= $150-$200 billion
  2.6 times total ODA
Can we profitably extend the complex economic, infrastructural, social & political components of the modern consumer ecosystem in a coordinated, timely way?
While we have experimented and debated, another economy—"The Other Global Economy"—has emerged
Introducing INMA Enterprises, Dharavi, Mumbai
What is INMA Enterprises?

www.inmaenterprises.com

- A globally integrated, tightly-engineered modern value chain?

- A family business rooted in local customs and traditions, providing high quality bespoke fashion?

- A grey market enterprise caught in an untransparent web of corruption and exploitation?
“The Syed family has been one of India’s foremost leather families with three generations seeped in the intricacies of the business. Ask any Goat or Cattle! Our operations cover the entire gamut from raw skin to finished leather and products.

“Our family is so well structured even we mistake it for a business organisation. Each of the family members plays a different role in this business first of all Syed Ahmed Ali, the largest supplier of Raw Skin. Mr. Hamza, he is the technical person in the business. Mr. Syed Irshad Ali is the connecting force of the family production part is maintained by him. Mr. Syed Naushad Ali he is the technocrat in the family. Mr. Syed Mushtaq Ali a solid production man, assisting Syed Irshad Ali. Mr. Syed Anwar Ali he is creative and lively member of the family.”
Some aspects of the INMA ecosystem
What is INMA Enterprises?

INMA leverages traditional knowledge, markets and social relations. It has to manage the taxes, rates and norms of the informal sector.

INMA leverages modern infrastructure, technology and business systems. It manages the taxes, rates and norms of the formal sector.

INMA garners customers and competes effectively with businesses in both worlds!

INMA leverages traditional knowledge, markets and social relations. It has to manage the taxes, rates and norms of the informal sector.
IDEA #2: Success with this segment often requires the creation and co-management of an entirely unique or hybrid business model.
So who is the “emerging consumer” in this economy?
Aspiring, increasingly cosmopolitan
Also highly traditional, with strong vernacular values

“The goddess enters the house via the chulla.”
Pramila’s P&L and balance sheet are embedded in two economies

**HOUSEHOLD REVENUES**
+ Formal HH wage income
+ Informal HH wage income
+ Advances on informal wage contracts
+ Farm and micro-enterprise income
+ Gifts of consumer durables from migrant family members
+ Formal remittances from metros and abroad
+ Informal remittances from metros and abroad
+ Bartered goods
+ Interest on loans given
+ Income from property rents

**HOUSEHOLD COSTS**
- Market basket of consumer purchases
- Farm and micro-enterprise outlays
- Formal utility rates
- Informal utility rates and rents
- Bad debts from enterprise activities

**EBITDA**
- Interest on bank loans
- Interest on micro-credit loans
- Interest on money lender debt
- Formal taxes
- Informal taxes
+ Poverty Penalty adjustment

**NET PROFIT**
“Capacity to consume” is not the biggest challenge
Meet Florence & Phoie
Khayelitsha, Cape Town, South Africa

Unmarried partners, each with 2 children.
Florence is a self-employed seamstress.
Phoie owns two mini-van taxis.

Household Income (annual): R42000 (US$7,000)
Household Expenditure (annual): R27,000 (US$4,500)
Household Savings (est.): R15,000 (US$2,500)

Housing & Appliances:
Informal shack in Cape Town’s largest township. Second hand furniture, electric lighting and a music system, and paraffin stoves.

Consumption Strategy:
Discretionary spending from savings focused on appliance and furniture purchases for home in rural Transkei. “I cannot buy new things for the shack because it can burn any time.”
The “emerging consumer” is a consumer who is selectively combining the practices, preferences, technologies and products of “traditional” and “modern” living to create a unique consumer-entrepreneurial strategy for betterment.

The result is a plethora of new psycho-geodemographic consumer cluster profiles.

1. Co-creation and product flexibility/modularity become the order of the day.

2. CRM trumps access and capacity to consume as the major creative business challenge.

3. There is no “switch” per se.
Is a new form of consumption emerging?

...managing multiple solutions simultaneously

...combining consumption, production & entrepreneurship

...both highly local and global in its sensibilities & execution: “cosmopolitan vernacular”

How do we aim to socialize the emerging consumer?
IDEA #3: Managing the consumer pathway is key to both value delivery and profitability. Migration from “traditional” to “emerging” to “modern” ecosystems demands new CRM, design & production approaches.
Pramila’s fuel use: her household logic

Electricity used for very basic purposes: a few light bulbs + fan. Kerosene lamp back-up.

LPG stove used for tea, pressure cooker (rice), “show off” to guests, and for cooking for large family gatherings. In a distinct indoor kitchen space.

“3 burner” chulla uses wood, dung/husks & charcoal to regulate heat with different kinds of burn. Chulla located in outdoor kitchen.

Switched to LPG when family got larger. It “took too much time to cook on chulla”. Chulla makes “tastier food”. Lighting chulla “unsafe”.

Wood is purchased because “husband no longer works in the field”.

The chulla is a sort of shrine. P: “Goddess enters the house through the chulla.”

Middle-Income Band, Peri-Urban
### China: Rural HH Energy Use by Source

<table>
<thead>
<tr>
<th>Source</th>
<th>Xuishui County (SE)</th>
<th>Hengnan County (SW)</th>
<th>Kezuo County (NE)</th>
<th>Jianyang County (SW)</th>
<th>Huantai County (NE)</th>
<th>Changshu County (SE)</th>
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</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>0.1</td>
<td>0.3</td>
<td>0.6</td>
<td>0.8</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>LPG</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Biogas</td>
<td>0.3</td>
<td>0.0</td>
<td>0.4</td>
<td>1.4</td>
<td>0.1</td>
<td>0.2</td>
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<tr>
<td>Coal</td>
<td>3.4</td>
<td>34.7</td>
<td>27.3</td>
<td>11.9</td>
<td>62.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Charcoal</td>
<td>1.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Dung</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Firewood</td>
<td>69.8</td>
<td>40.3</td>
<td>8.9</td>
<td>14.3</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Grass &amp; Leaves</td>
<td>17.6</td>
<td>10.8</td>
<td>11.3</td>
<td>15.3</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Kerosene</td>
<td>0.4</td>
<td>0.6</td>
<td>0.0</td>
<td>0.0</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Straw &amp; Stalks</td>
<td>7.3</td>
<td>13.2</td>
<td>51.5</td>
<td>56.3</td>
<td>35.4</td>
<td>91.5</td>
</tr>
</tbody>
</table>

**HEADLINE: The entry-point is heterogeneity**

<table>
<thead>
<tr>
<th>Category</th>
<th>&quot;Traditional&quot;</th>
<th>&quot;Emerging&quot;</th>
<th>&quot;Modern&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medicine</strong></td>
<td>Local traditional medicines &amp; practices</td>
<td>Both Traditional + Modern + new neutriceutical products + holistic practices</td>
<td>Modern medicine Branded &amp; generic pharma</td>
</tr>
<tr>
<td><strong>Banking &amp; Insurance</strong></td>
<td>Local peer-based savings &amp; insurance pooling; Adjustable rates &amp; premiums</td>
<td>Both Traditional + Modern + MFI and Mutuals</td>
<td>Integrated global financial products; high fixed rates &amp; premiums</td>
</tr>
<tr>
<td><strong>Transport</strong></td>
<td>Bullock cart, Bicycle, Auto rickshaw, Two-wheeler</td>
<td>Both Traditional + Modern + new modes, e.g., minivan taxis</td>
<td>Automobile Tractor, Bus, Train</td>
</tr>
</tbody>
</table>
### Percentage prevalence of different HH fuel/energy mixes in rural China, 1999

<table>
<thead>
<tr>
<th>Fuel/energy mix</th>
<th>% total HHs</th>
<th>Per capita net income (yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biomass only</td>
<td>1.23</td>
<td>1548</td>
</tr>
<tr>
<td>Biomass + coal + LPG</td>
<td>0.02</td>
<td>1719</td>
</tr>
<tr>
<td>Biomass + coal</td>
<td>0.15</td>
<td>1767</td>
</tr>
<tr>
<td>Coal only</td>
<td>0.20</td>
<td>1787</td>
</tr>
<tr>
<td>Biomass + coal + electricity</td>
<td>16.30</td>
<td>1938</td>
</tr>
<tr>
<td>Biomass + electricity</td>
<td>34.74</td>
<td>1947</td>
</tr>
<tr>
<td>Coal + electricity</td>
<td>13.89</td>
<td>2142</td>
</tr>
<tr>
<td>Electricity only</td>
<td>1.25</td>
<td>2188</td>
</tr>
<tr>
<td>Biomass + LPG</td>
<td>0.14</td>
<td>2392</td>
</tr>
<tr>
<td>Coal + LPG</td>
<td>0.12</td>
<td>2795</td>
</tr>
<tr>
<td>LPG only</td>
<td>0.15</td>
<td>2958</td>
</tr>
<tr>
<td>All types</td>
<td>4.44</td>
<td>2967</td>
</tr>
<tr>
<td>Biomass + electricity + LPG</td>
<td>11.05</td>
<td>3046</td>
</tr>
<tr>
<td>Coal + electricity + LPG</td>
<td>7.84</td>
<td>3259</td>
</tr>
<tr>
<td>Electricity + LPG</td>
<td>8.49</td>
<td>3698</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
<td></td>
</tr>
</tbody>
</table>

HEADLINE: The emerging consumer is on a highly dynamic pathway

- Rural Traditional living
  - Mix of biomass fuels. Low efficiency combustion.

- Urban Modern living
  - Increased electricity & gas use.
  - Mix of low efficiency biomass, coal & kerosene PLUS electricity & gas.
  - Switch to progressive fuels.

- Access & Connectivity
  - Demand for Convenience
- Affordability
- Local market livelihood
- Global market livelihood

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Today’s Emerging Consumer
served by a unique, hybrid business model & flexible product solutions, combining global standards & local responsiveness

Evolution towards homogeneity
The consumer evolves towards uniform, modern consumption patterns and preferences.

*The company seeks to define the pathway.*

Global standards dominate, accessibility & “switching” are emphasized—and so is the cost & challenge of retention/loyalty.

Designed (co-created) heterogeneity
The consumer migrates from one stable cluster to another, each with a defined, co-created mix of global standards & local features.

*The company co-creates the pathway.*

Predictability & stability of the mix is managed through CRM-driven co-evolution.

Sustained, dynamic heterogeneity
The consumer evolves to different forms of heterogeneity.

*The company reacts.*

Local responsiveness requirements dominate, advanced co-creation is required—and so is cost & challenge of innovation and pricing.
Sources of Competence
Adapted from C.K. Prahalad and V. Ramaswamy, *The Future of Competition*, p. 141
Finding the sweet spot

Aspiration
• Esteem
• Experience of equality

Livelihood
• Stability
• Scaling
• Market access

Quality of Life
• Convenience
• Need fulfillment

Mobile phone
Vehicle
Clean, efficient cooking

home furnishings
sewing machine
irrigation pump
health care
toilet
food products

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The Emerging Consumer: a pathway of unrealized value?

- **Household Income**
  - Local market livelihood
  - Global market livelihood

- **Access & Connectivity**
  - Rural Traditional living
  - Urban Modern living

- **Demand for Convenience**
  - Mix of walking, bullock cart, motorcycle, bicycle
  - Mix of bicycle, motorcycle, tractor, (mini)bus, auto-rickshaw, train
  - Increased use of motorcycle, auto-rickshaw, mini-bus, transit
  - Ultimate switch to “modern” transit and vehicles?

Who’s global business is this?

Today’s global (formal) industry

Global market livelihood

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How can design & production innovation facilitate a sustained consumer relationship along this pathway?

**Knowledge**
Deep consumer insight. New research methods. Bringing outlier communities into the process.

**Process**
“Capacity to co-create”: the democratization of design.

**Utility**
New categories of price-performance.

**Retention**
Modularity & flexibility: evolutionary by design.

**Aspiration**
“My X”: solving the problem of the “cosmopolitan vernacular”, both standardized and just-in-time/bespoke.

**Partnership**
Create a role *in the middle* of the value chain—not just at the end.
Stay humble. Rely on the kindness of strangers.