

WHAT WILL IT TAKE To Create A Market Out Of India's Poor?

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HENRY FORD, AS THE STORY GOES, created a market for automobiles among the poorer people of the US. He upturned the auto industry by paying his workers more than double what workers were getting in other factories because, as he is supposed to have said, he wanted his workers to be able to buy his cars. However, the doubling of salary levels was not the only revolutionary change he made. Other revolutionary changes were in the technology he introduced to the industry and the new concept of a production organisation. In fact, all three changes had to go hand-in-hand for his business model to work.

Ford introduced the concept of mass produced, interchangeable parts into the production of cars. He was one of the pioneers of mass production. Until the Model T, cars were produced in very small batches, or even custom-built, and there was no assurance that a part from one car would fit another. Building on this technological innovation, Ford introduced the concept of the assembly line, which required simple, repetitive operations and could be manned by workers with very little training. With these technical and organisational innovations, Ford was able to produce a simple car at a very low cost and propel the growth of the automobile market. Some principles

can be drawn from this remarkable story about the creation of markets out of the poor, an idea that C.K. Prahalad's recent book, *The Fortune at the Bottom of the Pyramid*, has popularised again.

The first principle is: to create markets, an essential requirement is creation of incomes. This principle, captured in Ford's response to those who questioned the high salaries he paid his workers, seems to be shoved too far into the background in the examples that are usually given to explain Prahalad's concept. Oft repeated examples, such as the shampoo sachet, the simple TV, and other such low-priced products focus too much on the product and price side of the equation, rather than on ways to grow incomes of the potential customers by engaging them in the production process as Ford did. In the final analysis, what grows the market is the growth of more incomes and in the hands of more people through their participation, whether as employees or business partners, in the activity of the economic enterprise. However, it is hard to understand how any businessman who attempts to grow the market for his products merely by hiring more employees at double the salary than his competitors could remain in business! Therefore, the other principle must also be understood and simultaneously applied.

The second principle is innovation—in technology

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as well in the organisational model of the enterprise, whereby the enterprise can produce and market products that are more affordable by engaging income-seeking poorer people in the enterprise. In fact, Amul, by building a supply chain for milk with small cattle owners in rural areas, has obtained a competitive advantage over its competitors who are using a more conventional industrial model of production. Another remarkable, though less well known, Indian story with innovation in both the model of the enterprise as well as product technology, is that of Kuroiler poultry. In this story of market development, the poor are both the producers and also consumers. It illustrates how growth in incomes and growth in consumption can go hand in hand.

Keggfarms is one of the pioneers of modern poultry farming in India. As the industry has grown in scale over several decades, Keggfarms has progressed upstream to higher value products to feed the downstream poultry farmers and retailers, to provide them with chicks, vaccines and other inputs. With its technological capabilities, Keggfarms has developed a new breed of chicken that combines the qualities of traditional country chickens and industrial broilers. Country chickens have dark plumage as camouflage for protection against predatory birds. Also, country chickens, that have to scurry around and forage for their own feed, are leaner and more muscular than the lazy, plump (and mostly white-feathered) broilers who are fed within their coops in poultry farms. The patented Kuroiler breed has more meat and lays bigger eggs than traditional country chickens, while retaining its ability to fend for and protect itself. Therefore, it can be grown outside expensive industrial coops by women in villages. With this technological innovation, Keggfarms concentrated on the development of a new model for the

production and retailing of poultry, connecting village producers with urban markets and also with new markets created within rural areas.

In the words of a director of Keggfarms, "India is a country of the masses. India's economy will sustain and grow only if the focus is kept on production by the masses rather than by mass production." To involve the masses in the poultry industry, both the supply chain, beginning with supply of day-old chicks to intermediate brooders who grow them for one month before passing on the birds to women in the villages to grow them to maturity, as well as the sales

chain beginning with the women in the villages who have birds and eggs to sell (after retaining what they want for their family's consumption), were redesigned to include many cooperative enterprises of villagers, NGOs and others. Thus, by combining a technological innovation in the product with an innovation in the model of the enterprise, new sources of incomes have been created in rural areas, and the overall poultry market has been expanded. It is worth noting that the women who grow these chickens in the villages are at the very bottom of the economic and social pyramid. The richer people in villages own cattle. It is the poorest, and quite often the lower

castes that, unable to afford cattle of their own, have to resort to less capital-intensive poultry farming.

Mass production, in the development of which Henry Ford made a seminal contribution, requires large factories to which people must come to work, and around which they must find habitation. It draws people from villages to towns and is one of the primary forces for urbanisation and its associated challenges of providing adequate housing, utilities, and infrastructure under pressure-cooker conditions. Recently a concerted thrust is building in India for rural development by enhancing agriculture-related



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activities, providing urban amenities in rural areas (PURA), and facilitating the growth of small enterprises with micro-lending. Mahatma Gandhi, who often said that India lives in its villages, wanted village economies to develop simultaneously with towns and cities. Therefore, it is worth recalling a question Mahatma Gandhi had posed to an industrialist. He pointed out to the industrialist that the centralisation of production under one roof was necessary when steam was the motive force for driving machines in factories, since steam could not be transported over long distances. However, he wondered why with the use of electricity, which can be transported over hundreds of miles, production activity could not be dispersed. Of course, transportability of energy was not the only factor for aggregating production activity within large factories. The other reason was the need to control workers. Charlie Chaplin highlighted this in his memorable movie *Modern Times*, in which he poked fun at Ford's concept of the assembly line and the mass-production system.

Nevertheless, Gandhi made a good point. Mental models of how things have to be done often linger when they are no longer appropriate. Hence, the earliest cars looked like horse carriages with an internal combustion engine in place of the horse. It was many years before automobile designers figured out that a car need not have the features required for a horse carriage! It is likely that embedded mental models are preventing us from conceiving a dispersed enterprise, even though information and communication technologies now enable coordination to take place across large distances, making it no longer necessary to have all workers within one's sight as the boss in Chaplin's *Modern Times* factory had to.

Therefore, the answer to the question, 'What will it take to create a market out of India's poor?' is: it will require innovation—innovation in products, innovation in processes, and above all, innovation in the concept of the enterprise. Managers must break out of the imitative mode of learning and copying best practices from elsewhere that are not solutions for our economic challenges and opportunities. Innovations in India should be directed towards engaging more people in economically productive activity, preferably in dispersed networks, and preferably using the skills they have and those they can develop quickly. Using new models of production and distribution, new products and services at lower cost can be created that can meet people's requirements along with the growth in their incomes.

There are many examples of innovations in India that could be the trendsetters. I will name only one, because when it is implemented it will have turned full circle the wheel that Ford set in motion. The Rs 1-lakh car that Tata Motors is developing will incorporate many innovations in the concept of a car. It will also spread the production and distribution activity into many non-traditional formats, thereby engaging a greater variety and greater number of people in the enterprise than in the

traditional mass production model. The Tatas are taking a risk by breaking out of the established industrial mould, as all innovators do. Innovations are riskier than applications of proven formulas. However, imitation of current concepts of best practices (generally sought from the more developed countries) may not be appropriate to develop a market out of India's poor. Therefore, we will have to innovate. ■

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