

# RETHINKING THE BOTTOM OF THE PYRAMID

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*An interview with Mr. Arvind Singhal, Chairman, Technopak Advisors Pvt. Ltd.*

With India emerging as a leading economic powerhouse, inclusive growth has become much more essential today. There has been a lot of focus on the Bottom of the Pyramid and the growth opportunities that it has to offer. But still, India's rural market space has become a tantalizing but difficult nut to crack. For companies to cater to the bottom of the pyramid, companies have to develop unique models, research on distribution channel alternatives and find innovative ways of shaping their product portfolio to suit the demands of the different groups. But before all that can happen there has to be a substantial increase in the purchasing power of the people at the BoP. In this interview, Mr. Arvind Singhal, Chariman of Technopak Advisors Pvt. Ltd. , talks about who constitute the real BoP in India, the misconceptions regarding the growth opportunities at the BoP, ways to increase the purchasing capabilities of the people at the BoP and how the retail sector can better cater to them.

## **Opportunities at the BoP**

Are the opportunities a reality or mirage?

BoP II phenomenon

## **Increasing the purchasing capabilities of the BoP stratum**

Role of Microfinance

Sustainability of subsidies

Channelization of Subsidies

## **Understanding the BoP market**

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## **The Impact of the Retail World on the BoP**

Impact of allowing FDI in retail on the BoP

Rural Retailing

## Opportunities at the BoP – a reality or a mirage?

**Tejas:** In the past few years, there has been a lot of focus on the bottom of the pyramid and on the business opportunities that it offers. Critics of this idea argue that there is no real potential at the BoP. What is your opinion about this?

**Arvind Singhal (AS):** I am strongly against the BoP concept. It has not been clearly defined where it starts and where it ends. There are 2 dimensions to this. There is a social need to look at the people at the BoP and hence I understand why there should be a focus on the BoP but to say that the BoP offers a marketing opportunity is what I have a disagreement with. When u look into India's BoP, you are looking at not more than 30-35% of the people below the poverty line where the poverty line is defined as earning less than \$1 income per day. Looking at the world bank's classification of the poverty line which is below \$2 per day almost 60% of India is below the poverty line. If there is no income there, where is the market? Unless the bottom is not really the bottom but we are looking at the middle of the pyramid. It is a CSR need, how the people should be taken out of the poverty. But from a business perspective taking them into account shrinks the market. Their basic need is food where there is no opportunity, then in the hierarchy comes shelter which again does not offer any opportunity and mostly their clothing is also second hand, third hand or fourth hand where again there is no market.

People wrongly talk about the sachet strategy but a poor person will not have any interest in buying a one or two rupees sachet when there is no food. So people who buy the sachets are not actually the bottom of the pyramid, ironically they are among the top 30% of the population.

**Tejas:** As you said, nearly 60% of India's population is earning less than \$2 per day. How can they be brought up to the levels of the consumer class? There are some schemes like Namdhari's fresh, e-Choupal etc where instead of the poor being considered as consumers they are included as producers. This is called the BOP II phenomenon, can this be seen as a better proposition to improve their living standards?

**AS:** Bringing them up to the level of the consumer class is to do with social reforms, political reforms and economic reforms. No private company can achieve that. Even Corporate CSR cannot take care of it when there is such a large population. Inclusive growth is a different subject all together.

Not at all, when you look at the bottom 30%, most of the people are landless and they have no physical assets. Neither are they producers nor are they consumers, because if they are producers they would see some economic value.

### **Increasing the purchasing capabilities of the BoP stratum**

**Tejas:** Microfinance is currently being touted as a tool to eradicate poverty and empower the people at the Bottom of the Pyramid. In your opinion, does microfinance have the potential to pull them out of poverty and set them on a sustainable growth trajectory?

**AS:** Most certainly capital is needed for micro entrepreneurs in India which is largely a self-employed economy. Having said so, you will also have to link microfinance with vocational education as well. Because if you can vocationally train people to become micro entrepreneurs, the probability of them to pay back the money is much more. It has to be a carefully directed step but for sure micro-financing is currently one of the needs of the country.

**Tejas:** In the face of huge opposition to the amount of subsidies and the populist schemes that the Government is following and our increasing fiscal deficit, can the level of current subsidies be sustainable? Do the subsidies really serve their purpose?

**AS:** Subsidies are a wrong way of distributing. No government in the world be it the US government, the British government, or the German government is rich enough to provide monetary resources to 30-35% of the population, that too when the numbers are so large, without expecting anything in return. The resources don't exist. Let's talk about fuel subsidies. Even if it is for railways, automobiles and buses, it is my belief that the bottom 35% doesn't even get to use those services either directly or indirectly.

**Tejas:** Are the subsidies that the government is providing being channelized in the right direction? What should be done by the Government to ensure that the subsidies don't just remain populist measures but help in the uplifting the people at the BoP?

**AS:** The money given out as subsidies can be used to create jobs by way of roads, by way of infrastructure, by way of vocational education whereby the poor could have come up into the main stream. My personal view is very straight forward, yes you have to provide some basic support to the poor. For e.g. in healthcare if the 50,000 crore was used to provide insurance scheme for every single poor person below a certain level I would say that it is something which is justified. If it was given to make every single poor child go to school or to provide every poor family, irrespective of their caste, vocational training free of cost, I would accept the subsidy because you are making a productive or healthy citizen. Subsidy based schemes may cause damage to the poor because they will have to bear the brunt of inflation. Education, healthcare, water for drinking purposes, sanitation etc can be subsidised because you are creating living conditions for people at large and they can be made more productive. More certainly they will add to the overall growth of the country and they will have sustainable jobs.

## Understanding the BoP market

**Tejas:** There has been a huge influx of MNCs in the Indian market in the past two decades. According to you, are the Indian companies better positioned or are MNCs better positioned to capture market share in the rural areas?

**AS:** I don't think there is a big distinction. You can argue that Amul which is an Italian Indian company has done a good job while at the same time you can argue that there are companies like Hindustan Lever which have done a very good job in reaching to the smaller parts of India. I don't think it has to do with whether Indian companies are better than MNCs or the other way round, but it has more to do with the attitude which says let me reach out to the middle income India, come out with an appropriate product, appropriate distribution strategy and appropriate pricing then by and large it is a good strategy. Companies sometime end up focussing on the premium end rather than the real middle end of India. If they avoid that, then it is a great opportunity and there are many companies which are doing that. I wouldn't distinguish between international and Indian companies, it has to do with the positioning and the focus that the management has.

**Tejas:** C.K Prahalad mentions in his book , “The Fortune at the Bottom of the Pyramid” , that “Distribution systems that reach the BoP are critical for developing this market. Innovations in distribution are as critical as products and process innovations”. What kind of changes or innovation in distribution channels can lead to a sustainable method of reaching to the people in the BoP?

**AS:** It cannot be talked on a generic basis, depends on whether the products are durables, consumables, perishables, the companies will have to develop different kinds of strategies depending on the category. My advice, by and large to most companies, is that rather than spreading the resources too thin focus on a particular region or territory. Most major states of India offer many opportunities for companies to concentrate on and that is how they can improve their distribution and logistics and make it more efficient.

## The Impact of the Retail World on the BoP

**Tejas:** There is a lot of debate going on about allowing FDI in multi-brand retail. There have been arguments that it will increase the efficiency of our distribution systems and also help to curb inflation while the other sect argues that it will be detrimental to the local mom and pop stores. What according to you will be the impact of allowing FDI in retail on the kirana stores?

**AS:** Even at a real GDP growth rate of 6% per year for the next 10 years (the government's projections are closer to 8%), India would consume an additional \$340 bn (in 2011 dollar terms) of retail merchandise. Medium and large retail (including corporatized) account for barely \$33 bn out of the current \$470 bn, and may at best grow to about \$150 bn by 2021, implying that traditional retailers (micro and small independent retailers and hawkers) will have an additional \$223 bn or more of the market (in 2011 prices) to cater to. It is, therefore, no surprise that as per Technopak's projections, the number of such traditional retailers will steadily increase in the next 10 years to 21m or more, with direct employment in traditional retail increasing from about 22.5 m in 2011 to about 31.5 m by 2021. No estimates have been made for 2031 but it is safe to believe that the number of independent outlets and direct employment therein will further increase very substantially—simply because Indian retail is not a “zero-sum” game as long as the economy continues to grow steadily and with that, the growth in consumption remains robust. It is extremely important that all the participants in the debate relating to FDI in retail must acknowledge that the larger issue that the nation has to address is to come up with suitable reforms in the agriculture sector that can improve the lives of the farmer, undertake suitable reforms to smoothen the entire internal trade within India, improve rural and urban road connectivity to reduce the wastages in perishables because of bad logistics, and make suitable changes in the urban and suburban master planning to provide for adequate quantum of retail space for all categories of retailers including the hawkers, independents, corporate chains and even farmers' wet markets, which can bring the small farmers and producers in direct contact with the final consumers.

**Tejas:** Is retailing in rural areas very different from the urban areas? What would your recommendation to companies that are catering to both rural and urban markets?

**AS:** Don't think of rural retail customers and rural market customers as very different from the urban. They are human beings and they are not a different species altogether. They have general aspirations and ambitions, sometimes the purchasing power could be different sometimes the distribution strategies could be different, but don't distinguish between the rural and urban customers. Also take a regional approach rather than a national approach. Don't open up too many challenges in India at once because the customer needs are changing from one state to another. Logistics and other challenges are also sometimes very different from one state to another. This is my recommendation to most of the companies.

## Conclusion

Mr. Singhal explained how the segment being focussed upon is not really the BoP but the middle income group and also elaborated on how the market opportunities at the real BoP are still a mirage. He talked about how the subsidies can be better channelized and how corporates should develop strategies keeping in mind the category and the specific region or territory. He believes that the retail market in India is strongly poised and there is space for both local and foreign players.

## Profile of Interviewee – Mr. Arvind Singhal

Mr. Arvind Singhal is the Chairman and Managing Director of Technopak. He started his career as Management Trainee with DCM Group in 1979 and then worked with DCM Data Products, VXL India Ltd and Modern Suitings before founding Technopak in 1992. Technopak is now one of India's leading Management Consultancy firm focusing on the Fashion (Fiber to Retail), FMCG & other Consumer Goods, Healthcare, Education, Food & Agriculture and Leisure / Tourism sectors.

Arvind is professionally active at various professional associations and industry fora and is also a regular contributor to various national and international publications that include Wall Street Journal and Washington Post. He has also been writing a fortnightly column for Business Standard for the last 10 years and now a monthly column for Economic Times.