



■ Companies from around the world are charging into Brazil, China, India, and other emerging markets in search of new opportunities, yet they are reluctant to push beyond the familiar affluent fringes.

■ The result is that most companies have overlooked, or decided to ignore, a huge group—a billion strong, globally—with the potential to become viable customers.

■ These companies do so to their detriment, because this group represents a massive pool of untapped revenues and profits.

■ To win in this market, companies need to exchange their misconceptions for imaginative new approaches—in terms of business models, product design, and distribution channels.

The Next Billion

In the fifteenth century, Portuguese explorers were venturing into uncharted waters, searching for a sea route to Asia. When Vasco da Gama berthed the *São Gabriel* at the Indian port of Calicut in 1498, having safely rounded the Cape of Good Hope, he opened up a new pathway for profitable trade—an alternative to the costly and precarious Silk Road. Da Gama blazed a trail that led to a wealth of new opportunities for traders and helped establish Portugal as a leading European power.

The lure of new markets seems just as powerful today as it was then. Caught up in their own Age of Discovery, companies from around the world are charging boldly into Brazil, China, and India, as well as Africa and other parts of Asia, in search of new growth opportunities.

However, reluctant to push beyond the familiar affluent fringes, most companies have overlooked the next rung of consumers. Across these markets, a billion people are virtually invisible as potential buyers. They haven't opted out of formal markets as much as they have been excluded, kept out by a dearth of appropriate offerings and business models. Converting them into profitable customers isn't going to be easy, but companies that succeed will have found the real buried treasure.

The World's Tenth-Largest Economy

The economic boom in emerging markets has bypassed a vast swath of people. Among those left behind is a distinct and huge group—the *next billion*—whose potential to become viable customers has been greatly underestimated and at times misunderstood. Categorized by income, this group sits just above the poorest of the poor and just below those who are currently targeted by commercial enterprises.

If they were a nation, the next billion consumers would be the tenth-largest economy in terms of GDP, coming after Spain but ahead of Brazil, Russia, India, South Korea, and Mexico. In its development, the next billion “nation” is today where

India was in the 1990s and China in the 1980s. It is on the cusp of high growth and voracious consumption.

Yet the next billion consumers pose a conundrum for businesses. On the one hand, they are brimming with real demand for products and services. Their demand is so strong, in fact, that these consumers are willing to tolerate the trying conditions—usurious rates, substandard service, limited choice—that pervade the informal channels they're forced to rely on. On the other hand, the next billion are unprofitable to serve—at least in the eyes of many companies that view them through conventional business models.

Sitting on the brink of commercial viability, the next billion consumers are left stranded between the formal and informal sectors. The informal sector, by its very nature, cannot be scaled up quickly to cater to this entire segment: it relies heavily on local relationships, private sources of information, and loose, sometimes illegal, means of conducting business. Left unchecked, providers in the informal sector will continue to extract high prices even at the cost of restricting demand.

For its part, the formal sector, when it does try to reach the next billion, tends to suffer from a lack of imagination. Companies simply graft their existing business models onto this new group. The results are not surprising: products designed for a different part of the market prove unattractive, while high-cost, asset-intensive distribution channels turn the business unprofitable.

The next billion consumers would like companies to take time to understand them on their own terms. Companies that embrace the next billion stand to reap rich rewards by winning a disproportionate share of a massive pool of revenues and profits. After all, the first businesses that “discovered” China and India have since moved past their beachheads and are now delivering revenues and profits far in excess of early expectations. In fact, the next billion could determine the future winners and losers in many industries and herald the rise of new commercial giants.

Discovering the Next Billion

To tap into this market, companies must first drop their misconceptions about the next billion's needs and aspirations. Contrary to popular belief, for example,

these consumers do not want stripped-down products. They value convenience, flexibility, and timeliness and are willing to pay a price for them. Still, their needs are often distinct from those of existing customers, and these differences must also be taken into account.

Global appliance manufacturers seeking to build their businesses in India, for example, discovered that while the picture quality of their televisions was superior to that of existing brands, there was a problem with the sound. Because many of the next billion live in small apartments and houses in densely packed areas, noise from neighbors and the street is often excessive. The manufacturers had to raise the volume level on their TVs to compensate.

When it comes to buying behavior, the next billion are not constrained by industry boundaries. As these consumers enter markets for the first time, they do not feel the need, for example, to distinguish among banks, phone companies, and retailers as providers of payment and transaction services. In Kenya, telecom customers can deposit money into an account on their mobile phones and transfer the funds to other mobile-phone users—even in remote areas. The telecom operator's local agent can then convert the money into cash, allowing people to avoid cumbersome and costly dealings with banks.

Even so, businesses cannot view the next billion as a homogeneous group. Their needs are indeed diverse and vary by country and culture. Nonetheless, once a business has found a way to work with this group in one market, it can quickly transfer that technique to other markets. But that assumes it has found an alternative to the Silk Road.

Bypassing the Silk Road

Finding a new route will demand action at different levels—from both market players and government regulators. Players will need to be bold in their vision and investments. Regulators will need to be tolerant of experiments, reviewing and rescinding policies and rules that impede the exploration of this new “nation.”

The success of microfinance and self-help models has shown that with the right structures and incentives, a next billion community as a group poses a much lower risk than its individual members. In its

strength, however, also lies its weakness. As noted above, the next billion market, depending as it does on a maze of informal arrangements, often appears to be unscalable.

But commercial enterprises can build enormous scale and cost efficiencies, provided they are bold in their aspirations. Those that have successfully made inroads into the next billion have dreamed big and have built what at first glance seemed like audaciously outsize delivery platforms.

In India, a late-entrant mobile operator set itself the goal of pricing a mobile call on a par with a postcard—until then the cheapest means of communication across the country. The operator launched its service simultaneously in several thousand cities and towns, in sharp contrast to its predecessors. As a result, it was able to sign up more than 5 million subscribers in just a few months, catapulting itself to the top league of mobile operators in the country.

To break the compromise between intimacy and scale, innovators are experimenting with a host of self-service models in which target customers participate in the “production” process. Microfinance institutions, for example, operate through local groups that provide valuable information for credit assessment of customers and also serve as the primary collection agencies for loan installments.

Companies are also breaking the compromise between intimacy and scale by allying with unfamiliar partners (postal services, public distribution systems, and networks of direct-selling insurance agents, among others) to leverage preexisting high-reach distribution and service networks. Recently, another mobile operator in India turned to the *dabbawallas* as a channel for distributing its SIM cards and prepaid vouchers. A 125-year-old trade group in Mumbai, the *dabbawallas* comprise a network of 5,000 largely uneducated men who deliver, with Six Sigma accuracy, more than 200,000 homemade lunches each day from suburban kitchens to downtown offices. Other companies have followed suit and are

using the *dabbawallas* to distribute everything from bank account applications to promotional materials for software.

Government policy and regulation have a far-reaching impact on this segment and will also need to change. Rather than condemn the next billion consumers to rely on government action or social agencies for products and services, regulators must see them as commercially viable. In line with this view, the regulators’ primary role should be to make sure that the segment is served—not to prescribe how, at what price, or with what products. Market players, recognizing the cue, should take it from there.

Vasco da Gama’s successful voyage paved the way for others to follow, setting up a centuries-long era of leadership in trade and commerce. The next billion present a similar opportunity to companies with an appetite for adventure and innovation. The reward could well be a decades-long advantage in the world’s tenth-largest economy.

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