

# *Innovative Business Opportunities in India's Volume-Driven Markets*

## Chances for (Medium-sized) German Enterprises in India: Concepts and Examples

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## Agenda



- Introduction
- India's Increasing Capacity to Consume
- Examples of Successful Innovations in India
- Opportunities for German (mid-sized) Firms
- Conclusions & Discussion

Research Areas:

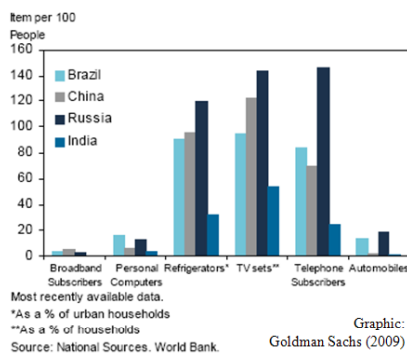
- Fuzzy Front-end of Innovation
- Intellectual Property Rights
- Open Innovation
- Innovation in SMEs
- Globalization of R&D
- Mobile Commerce / Banking



Research Project  
“Global Innovation”

Innovation management  
related research with  
special focus on Indo-German  
context and SMEs

Dominant Logic Regarding Mass Markets



Ownership of selected goods in the  
BRIC countries

Tempting Assumptions

- The poor are not our target customers; they can not afford our products or services
- The poor do not have use for products sold in developed countries
- Only developed countries appreciate and pay for technological innovations
- The BOP market is not critical for long-term growth and vitality of our firm
- Intellectual excitement is in developed markets; it is very hard to recruit managers for BOP markets

Source: Prahalad (2005)

→ Excessive focus on the rich and upper middle classes in developing countries

## Increasing Capacity to Consume



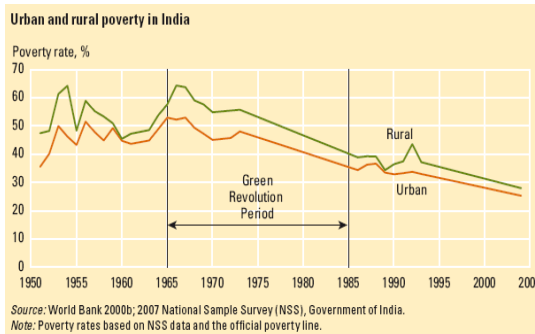
“India, poised as she is, will either account for a great deal, or nothing at all.”

- Jawahar Lal Nehru

**Growth in per capita income in current prices:**

1991: Rs. 7,160 (\$ 315)

2008: Rs. 44,276 (\$ 1017)



**Emolument per worker** in the industry sector grew from about Rs. 25,000 to over Rs. 80,000 between FY 1991 and FY 2005.

**Employment in the industry recovered**

growing from 7.75 million in FY 2001 to 9.1 million in FY 2005.

Graphic: WDR (2008)  
Note: In India the fiscal year runs from April to March of the following year.

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5

## Aspirations Driven by “Family Power”



- Work participation rate: 39%  
i.e. > 400 million people are engaged in some kind of employment.
- India has 194 million households, average household-size is 5.3 persons (Census of India, 2001).
- An average family would have an income of approx. Rs. 235,000 (~ \$ 5,400) a year at its disposal.
- 35% of Indians are below 15 years of age → **Aspirations**
- 72% of the population (> 742 million) live in villages → **Aspirations**



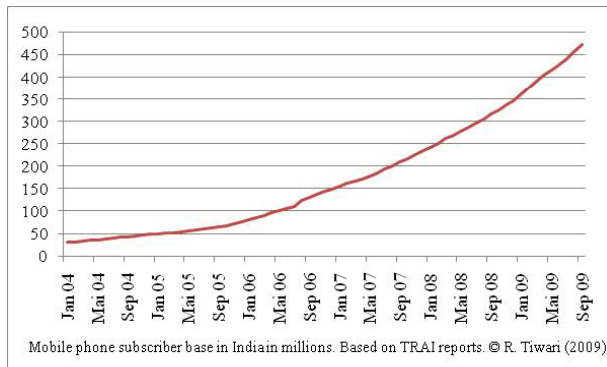
The real capacity to consume in India is often underestimated!!

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6

## Consumption Power in Rural India on the Rise



### Mobile telephony in rural India

#### Subscriber base

June '08: 71 million

June '09: 126 million

#### Mobile Tele-density

June '08: 8%

June '09: 15%

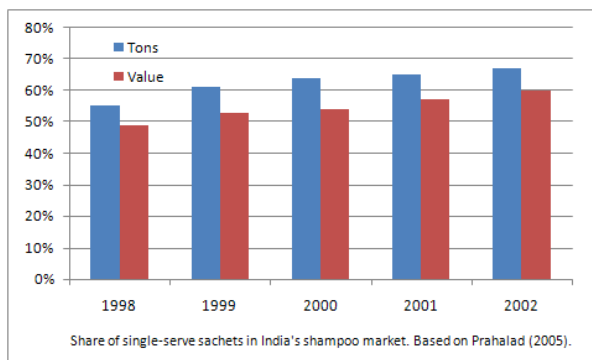
Rural India and urban lower-middle classes are playing a robust role in the growth of various industries, e.g. two-wheelers and FMCG showing a strong preference for **affordable, branded products**, which are more often than not scarce...

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7

## Creating the Capacity to Consume: An Indicator of Overwhelming BOP Volume



97% of all shampoos sold in India are "single-serve"

The three key principles for creating the capacity to consume are:

- **Affordability:** without sacrificing quality
- **Access:** geographical intensity of distribution with long opening hours to cater to daily wagers
- **Availability:** a well-oiled supply-chain, for consumers can not defer buying decisions

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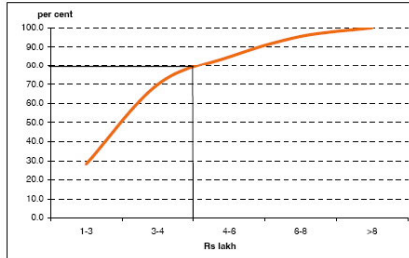
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8

# Business with Volumes: An Example



Proportion of cars sold by price point (cumulative)

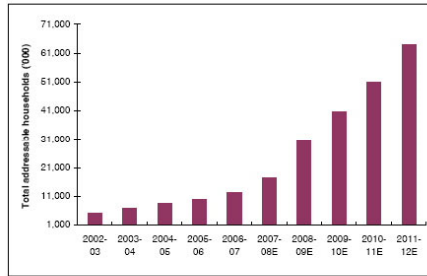


Source: CRISIL Research

Tata Nano “brings down the cost of ownership of an entry level car in India by 30%, making a new car affordable to families with income level of Rs 2 lakh (\$5,000)”.

“The new price point translates into a 65% increase in the number of families that can afford a car.” By FY 2011-12 over 60 million Indian families should be able to afford an entry-level car.

Rapid expansion in addressable households



Source: CRISIL Research

Graphics and quotes: Economic Times, 2008

# Tata Nano and its Suppliers: BOP Opens New Innovation Arenas



Graphic: autonews.com

Tata Nano has been dreamt of by Ratan Tata but it is a global product – involving various component suppliers that especially developed new components for the Nano

German technology for Tata Nano: In 1700 € Tata Nano there is 10% Bosch inside!

“Big Auto warms up to Nano for takeaways [...]”

“According to unconfirmed media reports, Tata Motors has teamed up with German engineering firm FEV (who’s also developing the hybrid system on the Mahindra Scorpio) [...]”

## Low-Cost Small Car Models in India



BRAND	MODEL	ESTIMATED LAUNCH	ENGINE TYPE / SIZE	ESTIMATED PRICE
Ajanta	small car	-	electric	INR 85,000 (approx. US\$ 2,125)
Bajaj Auto/Renault/Nissan	ULC	early 2011	600 - 700 cc	INR 100,000 (approx. US\$ 2,500)
Fiat	low cost car	earliest 2010	-	-
Ford	small car	2010	-	-
GM	mini-car	2010	-	-
Hindustan Motors/Mitsubishi	I-Miev	2011	electric	-
Honda Siel Car	Jazz	end of 2009	1200 cc	-
India				
Hyundai Motor India	small car	2012	-	INR 140,000 (approx. US\$ 3,500)
Maruti Suzuki Ltd.	A-Star Splash	end of 2008 end of 2008	1000 cc 1200 cc gasoline	-
Skoda	small car	2010	-	INR 300,000 – 500,000 (~ US\$ 7,500 – 12,500)
Tata Motors	Nano	2008	623 cc gasoline	INR 100,000 (approx. US\$ 2,500)
Toyota	small car	2009	-	-
Volkswagen	Polo small car	2010 2012	-	-

### Partnerships in Technology upgrade?

India's emergence as a thriving hub for low-cost small cars is inducing investments in R&D by component suppliers. While only 2% of auto parts suppliers engaged in R&D in 1991, in 2007 their share increased to 39%.

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11

## Examples of Innovations for India's Volume-Driven Markets



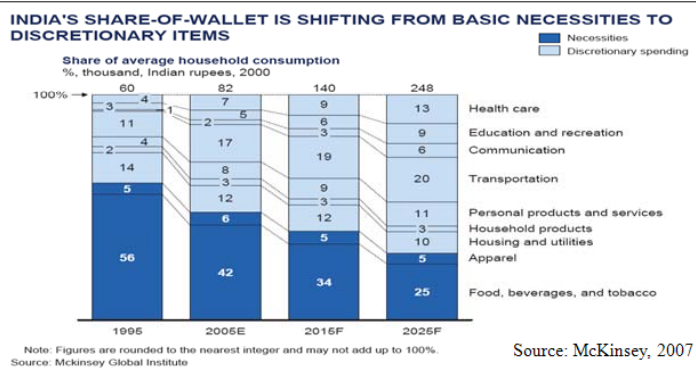
Company	Innovation
Nokia	Development of mobile phones with built-in torch, multi-lingual and multi-user mobile phones
IBM	Accessing Indian SMEs to provide low-cost IT infrastructure
<u>Hindustan Lever</u>	Various offers, e.g. single-serve shampoos, especially developed water filters, iodized salt, branded consumer products
Hako-Werke	Floor scrubbers in industrial settings especially suited to Indian conditions ("over-usage", power failures etc.)
<u>RÖDER Zeltsysteme</u>	Large tent systems for events & organizations – seeks to utilize Indian's penchant e.g. for big marriage ceremonies
Vibracoustic	Development of affordable & high quality auto components for Tata's Nano, Indica Vista etc.
<u>Bajaj Allianz</u>	"flexible, affordable and easily available insurance to the masses in the semi-urban and rural areas." (e.g. for Rs. 240)

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12

## Shift in Consumption Pattern & its Implications in a Volume-Driven Economy



Sales of foreign affiliates in India increased from \$ 15 billion to \$ 41 billion between 2001 and 2005  
(Source: UNCTAD)

Accumulated profits in the industry rose from \$ 3.9 billion in FY 1991 to \$ 41.6 billion in FY 2005.

Profit per invested \$ increased from \$ 0.04 to \$ 0.20 in this period.

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13

## Chances for German (Medium-sized) Firms



- India's mass markets are characterized by a large volume, steadily growing purchasing power and aspirations for a higher standard of living
- Chances in both B2B and B2C segments (partnerships)
  - Infrastructure projects & Component suppliers
  - Durable and fast-moving consumer goods (FMCG)
  - Services, e.g. Mobile Commerce applications (e.g. Content, Banking, Ticketing)
- German businesses (outstanding reputation), especially SMEs (flexible, innovation-inducing work culture), with institutional backing at home are ideally poised for taking up the emerging opportunities in India



India's volume-driven markets offer an excellent "win-win" incentive

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14

# The End!

*Thank you for your attention!*

For further information...

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