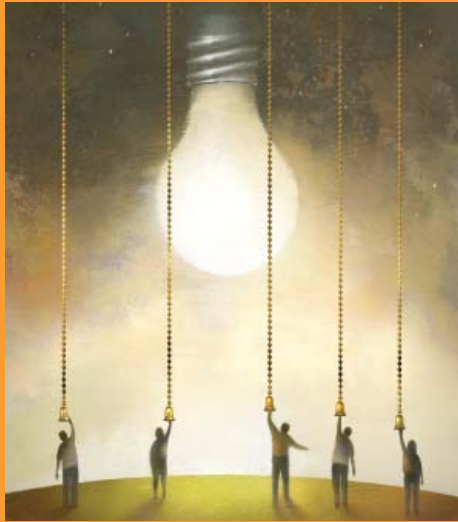


# BCG

OPPORTUNITIES  
for ACTION

## TECHNOLOGY & COMMUNICATIONS



- *The next billion consumers are low-income individuals in rapidly developing economies whose potential to become profitable telecom customers has been underestimated and misunderstood*
- *In order to serve these individuals profitably, telecom companies will need to alter their business models radically*
- *Successful companies will apply a set of design principles in order to create, manufacture, and distribute products to the next billion*
- *The companies that crack the code of serving the next billion will be able to achieve a substantial advantage over their competitors and be able to export the approach to other markets*

## New Rules for the Next Billion

The mobile handset has emerged as the fastest-growing consumer product in history. Although the industry took a leisurely 12 years to reach 1 billion mobile subscribers, it broke the 2 billion barrier less than three years later. Mobile operators and equipment manufacturers are busily laying plans to pull the next billion consumers into their orbit. However, the next billion will be different from the first two.

We use the term *next billion* to describe the large untapped base of consumers in emerging economies who sit just above the poorest of the poor and just below the group currently targeted by commercial enterprises. In short, the next billion consumers are stuck in the middle. They fly under the radar of existing business models that target the top of the economic pyramid but above the sweep of government programs geared to meet the needs of the bottom.

Is the telecommunications industry ready to embrace the next billion? The center of gravity of the mobile world is rapidly shifting toward emerging economies. More than 60 percent of the next billion subscribers will be in Africa, China, India, and Latin America. If the next billion constituted a nation by itself, it would be the tenth-largest economy in terms of GDP. The next billion consumers represent a new—and potentially lucrative—opportunity for mobile operators. But these consumers cannot be served profitably through existing business models.

The Boston Consulting Group's ongoing research into the aspirations and needs of the next billion provides the backdrop to help companies design the business models to serve these consumers profitably. Seizing the opportunity will be hard work, but mobile operators that follow five design principles will have a head start.

### Creating Life-Enhancing Products

The mobile handset can transform the lives of the next billion in ways that it hasn't for the first 2 billion. It can help

self-employed individuals stay connected with their customers and reduce travel time, and it can give traders instant access to information on market prices. Take the example of a painter in an Indian city. Before he bought a handset, he struggled to support his family on his monthly income of \$100. Since purchasing his handset, he has been able to manage his schedules more efficiently and serve his customers more effectively. And he can check paint inventory at various stores in the city before wasting a day shuttling among them. He has more than doubled his monthly income and now employs two workers.

Contrary to popular perception, the next billion do not want products that have been “dumbed down”; instead, they desire products that fit their lifestyles and economic needs. Mobile operators and handset manufacturers need to design products and services that deliver both aspirational and pragmatic value. Our research suggests a few guidelines:

- “Fit the pocket” of consumers by lowering minimum recharge amounts (the charge for buying minutes), offering flexible terms, and encouraging free or low-cost trial use. In 2005, for example, operators in India introduced lifetime plans that allow prepaid users to recharge their accounts only twice a year. The plans have been a big hit.
- Incorporate lifestyle constraints into product design. For example, because the next billion consumers tend to share mobile handsets with family members, prepaid family plans would be an attractive option.
- Appeal to aspirations. Among other benefits, the handset is a status symbol for the next billion. They enjoy color screens, ring tone downloads, and other features that can be noticed by people around them. They care less about sophisticated software.
- Strive for quality. The next billion consumers value durability and sturdiness. They will be turned off if their initial experience with a mobile phone is negative.

## Reaching Out Through Distribution

Distribution networks wrestle with inherent tradeoffs between cost, coverage, and control. Successful companies will eliminate the tradeoffs by developing channels that extend deep into the inner cities or the countryside

and are viable even at low volumes and prices. They will also maintain adequate control over pricing, stocking, and service to deliver high quality. The following recommendations should guide the design of distribution networks:

- Broaden reach by leveraging low-cost and well-established channels and by building partnerships. One mobile operator aligned with the *dabbawallas* in Mumbai to distribute SIM cards and prepaid vouchers. (The *dabbawallas* are members of a 125-year-old trade who deliver 200,000 lunches a day with Six Sigma accuracy.)
- Reduce breakeven points by combining volumes with other players that are targeting the next billion—fast-moving consumer-goods companies, for example.
- Eliminate intimidation. Operators could, for example, place an attendant at recharge kiosks, as airline carriers often do at self-service ticketing booths.
- Capture discretionary spending. Mobile operators could establish arrangements with supermarkets that allow consumers to buy prepaid minutes with change from their shopping trips.
- Work around infrastructure constraints. Handset manufacturers could dispatch service vans to villages on a weekly schedule to pick up and drop off handsets for repair. In areas where physical distribution is difficult owing to a lack of roads, operators could promote over-the-air recharge.

## Marketing Through Education

The economic benefits of a mobile handset are not well understood by nonusers. Operators and handset manufacturers need to convince potential customers of the pragmatic value of owning a handset by following several steps:

- Educate consumers about basic functions and features of a mobile handset and the economic benefits of owning one. In Brazil, for instance, the use of text messaging is 65 times lower than in Argentina, even though that service is only five times more expensive in Brazil. More than 70 percent of consumers do not use the feature because they do not know how to use it or are not interested in learning.

- Design pricing and promotion schemes that encourage trial usage and move to traditional plans as users start to enjoy economic benefits.
- Take advantage of local advocates by relying on self-help groups within villages and other referral programs. Hindustan Unilever’s Project Shakti, which enlists poor women to sell soap, toothpaste, and shampoo in remote regions, now reaches 80,000 villages in India and accounts for about 15 percent of the company’s rural sales.
- Support first-time users. Handsets could have a “tip for the day” appear when users turn them on and could be packaged with illustrated user manuals.
- Build trust and identification. As first-time buyers, the next billion are not wedded to incumbent brands and are willing to associate unfamiliar products with familiar brands. This provides an opportunity to extend trusted brands or create new brands for this segment.
- Establish relationships. If companies lose the trust of these consumers on their first purchase, they may never restore it.

## Unleashing the Organization

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When mobile operators and handset manufacturers entered emerging markets, they built organizations focused on serving high-end individuals. Their centralized, top-down approach to decision making has often stifled the initiative required to reach those lower down the economic pyramid.

Companies must create momentum within their organizations in order to develop new approaches to reaching the next billion. In many organizations, a standalone business will encourage bolder collaboration and partnerships, but a corporate program that orchestrates initiatives cutting across the organization can also work. Whatever the structure, the new organization design will have a few cornerstones:

- Create accountability. The next billion consumers need a champion within the organization—a respected senior executive who has resources and responsibilities.
- Develop innovation networks to construct offerings, distribution channels, and marketing programs. These networks could even include competitors and players from other industries.
- Embed low costs. Companies should establish a shared-services structure that allows the next-billion business to gain access to capabilities across the organization. The business should also take part only in activities that it can handle profitably and should outsource or collaborate to fill in the gaps.
- Establish clear governance. The next-billion business needs rules to ensure that it is conforming with the parent company’s overall principles, guidelines, and approaches.

## Fostering Collaboration

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Mobile operators and handset manufacturers will need to reach out to other industries in order to develop the right products and services for the next billion consumers. For example, given the fact that mobile phones have greater penetration among the next billion than bank accounts do, mobile banking could become a killer app—but only if the telecommunications and banking industries work together. Again, a few ideas stand out:

- Lay out the logic of working together. All parties need to understand the benefits of collaboration. They also need to understand that the benefits may accrue at different times to each party. For example, a fast-moving consumer-goods company that makes its distribution network available for handset distribution should receive immediate marginal revenue, whereas a handset manufacturer accessing the network may realize benefits further down the road. The collaboration agreement should try to address these expected returns.
- Articulate each party’s responsibilities. In a collaborative venture, all parties need a solid understanding of costs, investments, and responsibilities. They must fully comprehend their responsibilities for management, staffing, real estate, and infrastructure. In many cases, a partnership will rely on the existing investments and infrastructure of one or both partners. The agreement needs to assign to each partner the costs and benefits of those investments.
- Establish a governance structure. Although partnerships, alliances, and collaborations should be flexible,

all parties need a firm understanding of who makes decisions, who is responsible for external affairs—such as dealing with regulators and the news media—and how disagreements are resolved.

- Encourage open or closed partnerships as appropriate. Collaborative arrangements serving the next billion can be either exclusive or open. Tying up an existing distribution channel closes it off for competitors. Not all areas of collaboration, however, are unique. Some pieces of infrastructure serving the next billion should be left open to ensure interoperability and build volume. For example, operators might be better off relying on a single payment platform to offer mobile banking and commerce and then competing on the product and customer service. In such cases, the parties must agree on how others will be allowed to enter the collaboration to ensure that the operators and their partners maintain both competitive advantage and confidentiality.

These design principles for reaching the next billion consumers could form the bedrock of new sources of competitive advantage for mobile operators and other players that are bold enough to experiment. No doubt, government intervention and regulatory reform will be needed, too. Operators and equipment manufacturers that develop new approaches can make a strong case for regulatory action. The first companies to establish workable and scalable business models will achieve a running advantage through superior economics and long-term customer loyalty. If they are farsighted and ambitious, successful companies can export these models to other markets.

More so than existing customers, the next billion consumers will see a dramatic transformation in their economic prospects when they acquire handsets and mobile services. As their livelihoods improve, they will have more disposable income. Mobile operators can then offer additional services in partnership with players from other industries. This virtuous cycle will create sustainable competitive advantage for the companies that crack the code of profitably serving the next billion. The players that design the right business models will win. The rest will remain spectators.

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