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**ASIAN TIGERS & ASEAN COUNTRIES -  
Potential Growth and Business Opportunities**

**“New Business Models for ASEAN Opportunities”**

by

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## “New Business Models for ASEAN Opportunities”

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Catalyzing INNOVATIVE THOUGHT™

Excellencies, distinguished guests, ladies and gentleman, first, I would like to thank Asian Strategy Leadership Institute for inviting me here today.

**SYNOVATIONS™** is committed to catalyzing innovative thought, identifying innovative profitable opportunities and supporting their implementation and I am therefore particularly pleased to be presenting to you some of my thoughts on new business models for opportunities in ASEAN.

I would like to begin by recounting the story of an experiment that was conducted at the University of Arizona<sup>1</sup> at a conference on consciousness in 2002. My apologies to those of you who have heard me tell this story before; it is such an important analogy that I am compelled to repeat it.

In this experiment, the observers were asked to closely watch two participants throwing a ball. The observers were told to focus on the number of times the ball was thrown and caught. While they were doing this, a man dressed in a gorilla costume walked directly through the line of sight between the participants throwing and catching the ball. What percentage of the observers did *not* see the gorilla? I would appreciate your participation here. Please, let's have a show of hands.

There are four choices; how many of you believe that 10% of the observers did not see the gorilla, 25%, 50%, 75 %? The answer is 50% of the people watching the ball throwers did not see the gorilla. And this was at a conference during which all were focused on consciousness!

Why am I telling you this story and what does it have to do with the ASEAN countries potential business opportunities?

I'm telling the story because it describes the core challenge that all CEO's face in discovering and realizing opportunities from what appear to be problems and challenges.

If we go through the business day fully focused only on the business as it has been, or is at hand, we miss opportunities that are beyond our focus. Seeing a gorilla is only the beginning of the process. At the same time, most humans upon seeing a gorilla, have a 'knee-jerk' reaction that it must be a dangerous problem. It can't possibly be good. It's a gorilla! Let's *avoid* it. As leaders, determined to make a difference, we must change the lenses in our glasses. We must change the prescription so that the opportunity may be unveiled. These opportunities can *only* be perceived by shifting our perspectives, our states of awareness and our assumptions, the mental models<sup>ii</sup> through which we experience what we observe.

It's great, while ASEAN is riding the boom cycle of 'over-demand' for its rich raw materials, the spillover of manufacturing from China and the growing middle class,

**but** as CEOs we need to keep our eyes focused beyond the current growth and find the pioneering opportunities.

Some of these opportunities can be seen amidst the major revolutionizing forces that are in the process of changing life today - and over the next 20 years. These opportunities can result in sustainable, profitable solutions that build domestic markets and engage more efficient utilization of resources. An important feature of their sustainability is that they all make the pie bigger. However, to see them requires looking beyond developed consumer markets here and in the rest of the world.

A brief outline: I will start by presenting the revolutionizing forces that are pertinent in these cases, nominate the main generic features of the profitable business models that these revolutions are spawning, review two successful examples and conclude with some steps forward.

The three revolutionizing forces that are relevant to this presentation are identified by The Center for Strategic & International Studies (CSIS) in Washington, DC and are in alignment with studies from other leading think tanks such as the Milken Institute (Milken), Los Angeles, California. They are taking place in the world's population, in the management of resources – specifically, the scarcity of water and environmental stewardship plus the development and dissemination of information and knowledge.

Did you know that there are two different estimates of the world's population? CSIS estimated 6.3 billion in 2001,<sup>iii</sup> Milken estimated 8.8 billion in 2003,<sup>iv</sup> while both project that the population will peak with an addition of some 2 billion people and then level off for a while before declining.<sup>v</sup> The developed world and those living in affluence in the developing world account for approximately 900 million people. This, by any calculation, after generously considering the growing middle classes, leaves about five billion people, some three billion of whom live in Asia with needs that are underserved.<sup>vi</sup>

The World Watch Institute, in their report, "The State of The World 2004" indicates that almost 50% of the 1.7 billion persons in the consumer class already live in the developing countries. The "consumer class" is defined as the population with per capita purchasing power parity greater than USD7,000.00.<sup>vii</sup> Vijay Mahajan<sup>viii</sup>, in his soon to be published book The 86 Per Cent Solution<sup>ix</sup> emphasizes how the developed markets are no longer the majority of the world market but rather a "shrinking part" of it, since only 14% of the world's population live in developed markets.<sup>x</sup>

The gorilla opportunities are in the underserved segments of the developing world. We have historically dismissed them because of the low income levels, our lack of familiarity with life at that level, and our discomfort in observing it. Therefore we have looked away, but please, look now again with different lenses.

ASEAN CEO's would be wise to mine these opportunities before the Multi-National Corporations (MNC) reap all the benefits from them. Many of the

regional corporations are better positioned to understand these markets than the MNCs, since regional corporations are, usually, more familiar with the cultures and customs.

Let's look more closely with new mental models<sup>xi</sup> at India, where the business cases for these new business models have already been proven. This Asian Elephant, so nominated by Gurcharan Das<sup>xii</sup> for its consistent 24 years of 6% growth, provides many rich examples to explore cutting edge profitable business models.

The drivers of the two exemplary business models I am about to present<sup>xiii</sup> (albeit from a high altitude due to the limited time) are rooted in the realities of population growth, water scarcity and the dissemination of information. They all required a 360% change in perspective and perception by those who developed them.

All these models are structured on three focal points:

1. The huge scale of the potential numbers of consumers and units of sale.
2. Products sold in small units have larger profit margins than products sold in large units.
3. It is not possible to service this sector in the developing world with products that have a cost structure of the MNCs or that inherent in corporations in the industrialized world.

All the business models involve new ways of:

- Identifying, serving and educating new customers

- Changing product formats
- Interfacing with the NGO community
- Creating completely new delivery and marketing channels
- Utilizing technology to make some leap

While several examples of these types of business models have already appeared in ASEAN in the form of single-use shampoo packages at a penny or two a piece and micro-credit schemes. The fully-developed and deeply-constructed business models have not yet been engaged. While recognizing differences in scale, culture and character of the demographics, there are important lessons to be learned, adapted and applied.

Let's turn now to the first example, Hindustan Lever's<sup>xiv</sup> Shakti Program<sup>xv</sup>.

Hindustan Lever had tried and failed to penetrate the rural Indian market for years before trying to institute Project Shakti. This model completely revolutionizes the way women, the poor, rural, ignorant and needy are viewed. It is an initiative with a goal to reach consumers in more than 600,000 villages to sell single servings and small-size packages of soaps and detergents that have large-scale impact on health and the economic development of women and their families.<sup>xvi</sup> The population was widely dispersed, there was no infrastructure for traditional delivery channels; media penetration was non-existent.<sup>xvii</sup>

Hindustan Lever sought the assistance of NGOs to be introduced to Self Help Groups organized by the NGOs for women in rural villages.<sup>xviii</sup> The process

involved identifying, convincing, educating and hand-holding each woman.<sup>xix</sup> This ‘Shakti entrepreneur’, after training, would sell the products person-to-person in a defined radius of her village. Many of these women had not used soap before.<sup>xx</sup> The products that Hindustan Lever was selling were genuinely filling a health need (lifebuoy soap<sup>xxi</sup>) and addressing the reality of water scarcity (the detergent, SURF<sup>xxii</sup>).

SURF was developed with low-suds action, which reduced the pails of water required for each wash from four to two and increased the environmental friendliness of the product.<sup>xxiii</sup>

All the products required educating the customers about health, hygiene and doing so via one-on-one communication.<sup>xxiv</sup> These women “Shakti entrepreneurs” are able for the first time to provide livelihoods for their families. Now two years into the project, there are 13,000 Shakti Entrepreneurs, each with average sales of 10,000 Rupees per month.<sup>xxv</sup> The project doubled Hindustan Lever’s penetration into rural markets and is expected to reach 100,000 villages by the end of this year.<sup>xxvi</sup>

The second example to be explored is ICICI Bank, today it is India’s second largest Bank<sup>xxvii</sup>:

ICICI Bank (ICICI) is the leading business model that makes lending to the very poor financially viable for banks.<sup>xxviii</sup> ICICI engages new models of credit evaluation, contract enforcement and builds trust with the poor which converts them into responsible customers and empowers them.<sup>xxix</sup>

Micro Finance has historically been defined by a donor-led model that is unsustainable<sup>xxx</sup>. The Micro Finance institution focuses on giving access to credit through a capital intensive system. ICICI used its creativity to structure a business model of impressive depth, breadth and complexity, to which I am not able to do justice in this brief presentation. Thus, in brief from 1000 feet, the model combines the following elements:

- Making a leap into rural banking<sup>xxxi</sup>
- Providing a range of services that were technologically driven<sup>xxxii</sup>
- Increasing the bank's presence in rural areas through internet kiosks and low- cost ATMs<sup>xxxiii</sup>
- Partnering with NGOs and Micro Finance Institutes to gain access to and learn the market<sup>xxxiv</sup>
- Utilizing a direct access bank-led model as well as an indirect channels partnership model<sup>xxxv</sup>.
- Using these business models for value to the whole system, which facilitated the participation of the poor in the larger economy and which developed into the creation of a demand led growth cycle<sup>xxxvi</sup>
- Working with NGO and Self Help Groups so that participants could learn to save first and then borrow responsibly<sup>xxxvii</sup>

K. V. Kamath, CEO of ICICI, spoke with a group of Wharton Fellows, when we were in India recently. He underscored the radical rethinking of ICICI's banking model that took place prior to their move into the rural village market<sup>xxxviii</sup>. Serving

smaller clients required that costs be driven down. It is noteworthy, with regard to technology; ICICI has no mainframes or an IT department<sup>xxxix</sup>. They rely on an open-architecture and local staff and have a locally-built Customer Relationship Management product<sup>xl</sup>. Their total cost structure is 5-10% of any global bank's costs<sup>xli</sup>. The majority of their micro-finance customers are women, with whom they have a 99% pay back ratio, and three of the Bank's five executive directors are women<sup>xlii</sup>.

There are many other inspiring and profitable examples, that at the same time improve the quality of life for many: - from Jaipur Foot<sup>xliii</sup> in India, that is a radical deviation from traditional prosthesis' design, to CEMEX's Patrimonia Hoy<sup>xliv</sup> project that enables low-wage overseas Mexican workers to pay in the country of employment, to build homes in their homeland.

It is widely recognized that the world is facing problems of greater and greater complexity. If we are willing to give up our fixed perspectives and view these complexities with a new set of glasses, 'Gorilla' opportunities will be found. While I recognize that this may appear to be easier said than done, we can train ourselves to do this as a matter of practice. As physical exercise, we develop a habit of shifting focus for profitable discovery. It is my hope that some of the information presented today may kick-start such a process for you, if you are not already actively engaged in this practice.

Thank you for your consideration.

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- <sup>i</sup> *Toward a Science of Consciousness*, "Tucson 2002" Tucson Convention Center Music Hall, Tucson, Arizona April 8-12, 2002, Sponsored by the Center for Consciousness Studies at The University of Arizona
- <sup>ii</sup> The Power of Impossible Thinking by Jerry Wind and Colin Crook with Robert Gunther ( Wharton Publishing 2004)
- <sup>iii</sup> "The Seven Revolutions" study by Center for Strategic and International Studies, Washington, D.C.
- <sup>iv</sup> Announced at the Annual Global Conference, 2004, The Milken Institute, Los Angeles, CA, USA.
- <sup>v</sup> "The Seven Revolutions" study by Center for Strategic and International Studies, Washington, D.C. Announced at the Annual global conference 2004, The Milken Institute, Los Angeles, CA, USA.
- <sup>vi</sup> "The Seven Futures" study by Center for Strategic and International Studies, Washington, D.C.
- <sup>vii</sup> "The State of The World 2004" by The World Watch Institute.
- <sup>viii</sup> Vijay Mahajan, marketing professor, John P. Harbin Centennial Chair in Business, McCombs School of Business, The University of Austin, Texas.
- <sup>ix</sup> The 86 Percent Solution by Vijay Mahajan and Kamini Banga with Robert Gunther (Wharton School Publishing, U.S.A.2005)
- <sup>x</sup> Ibid., p. 14.
- <sup>xi</sup> The Power of Impossible Thinking by Jerry Wind and Colin Crook with Robert Gunther ( Wharton Publishing 2004) and The Wharton Fellows.
- <sup>xii</sup> Author of India Unbounded, (First Anchor Books 2002,U.S.A.) and former CEO of Proctor & Gamble
- <sup>xiii</sup> The Fortune at The Bottom of The Pyramid by C.K. Prahalad (Wharton School Publishing, U.S.A., 2005)
- <sup>xiv</sup> Ibid., p. 207.
- <sup>xv</sup> Ibid., p. 194.
- <sup>xvi</sup> Ibid., p. 193-202.
- <sup>xvii</sup> Ibid., p. 193-202.
- <sup>xviii</sup> Ibid., p. 193-202.
- <sup>xix</sup> Ibid., p. 193-202.

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<sup>xx</sup> Gopal Vital, regional brand director, Hindustan Lever, presentation on 8 march 2005, to Wharton Fellows.

<sup>xxi</sup> Ibid.

<sup>xxii</sup> Ibid.

<sup>xxiii</sup> Ibid.

<sup>xxiv</sup> Ibid.

<sup>xxv</sup> Ibid.

<sup>xxvi</sup> Ibid.

<sup>xxvii</sup> The Fortune at The Bottom of The Pyramid by C.K. Prahalad (Wharton School Publishing, U.S.A., 2005). P. 289

<sup>xxviii</sup> Ibid.

<sup>xxix</sup> Ibid., p. 289

<sup>xxx</sup> Ibid., p. 292

<sup>xxxi</sup> Ibid., p. 292

<sup>xxxii</sup> Presentation by and conversation with Mr. KV Kamath, CEO, ICICI Bank, 6 March 2005, Mumbai, India

<sup>xxxiii</sup> The Fortune at The Bottom of The Pyramid by C.K. Prahalad (Wharton School Publishing, U.S.A., 2005). p. 298

<sup>xxxiv</sup> Ibid., p. 296

<sup>xxxv</sup> Ibid.

<sup>xxxvi</sup> Ananth, Bindu, duggel, Bikram, and Saboo, Kattekeya. 2002. *“Micro Finance: Building The Capacities of The Poor To Participate In The Larger Economy”*, p.1. ICICI Social Initiatives.org

<sup>xxxvii</sup> The Fortune at The Bottom of The Pyramid by C.K. Prahalad (Wharton School Publishing, U.S.A., 2005). p. 304

<sup>xxxviii</sup> Presentation by and conversation with Mr. KV Kamath, CEO, ICICI Bank, 6 March 2005, Mumbai, India

<sup>xxxix</sup> Ibid

<sup>xl</sup> Ibid.

<sup>xli</sup> Ibid.

<sup>xlii</sup> Ibid.

<sup>xliii</sup> The Fortune at The Bottom of The Pyramid by C.K. Prahalad (Wharton School Publishing, U.S.A., 2005). p. 243

<sup>xliv</sup> Ibid., p. 147