

# MONITOR INCLUSIVE MARKETS

2009

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## Emerging Markets, Emerging Models *Market Based Solutions for Social Change*

Nishant Lalwani  
Monitor Inclusive Markets, Mumbai

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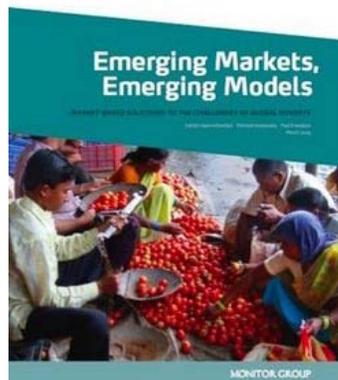
This document provides an outline of a presentation and is incomplete without the accompanying oral commentary and discussion.

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# MONITOR INCLUSIVE MARKETS

Market Based Solutions

Affordable Housing

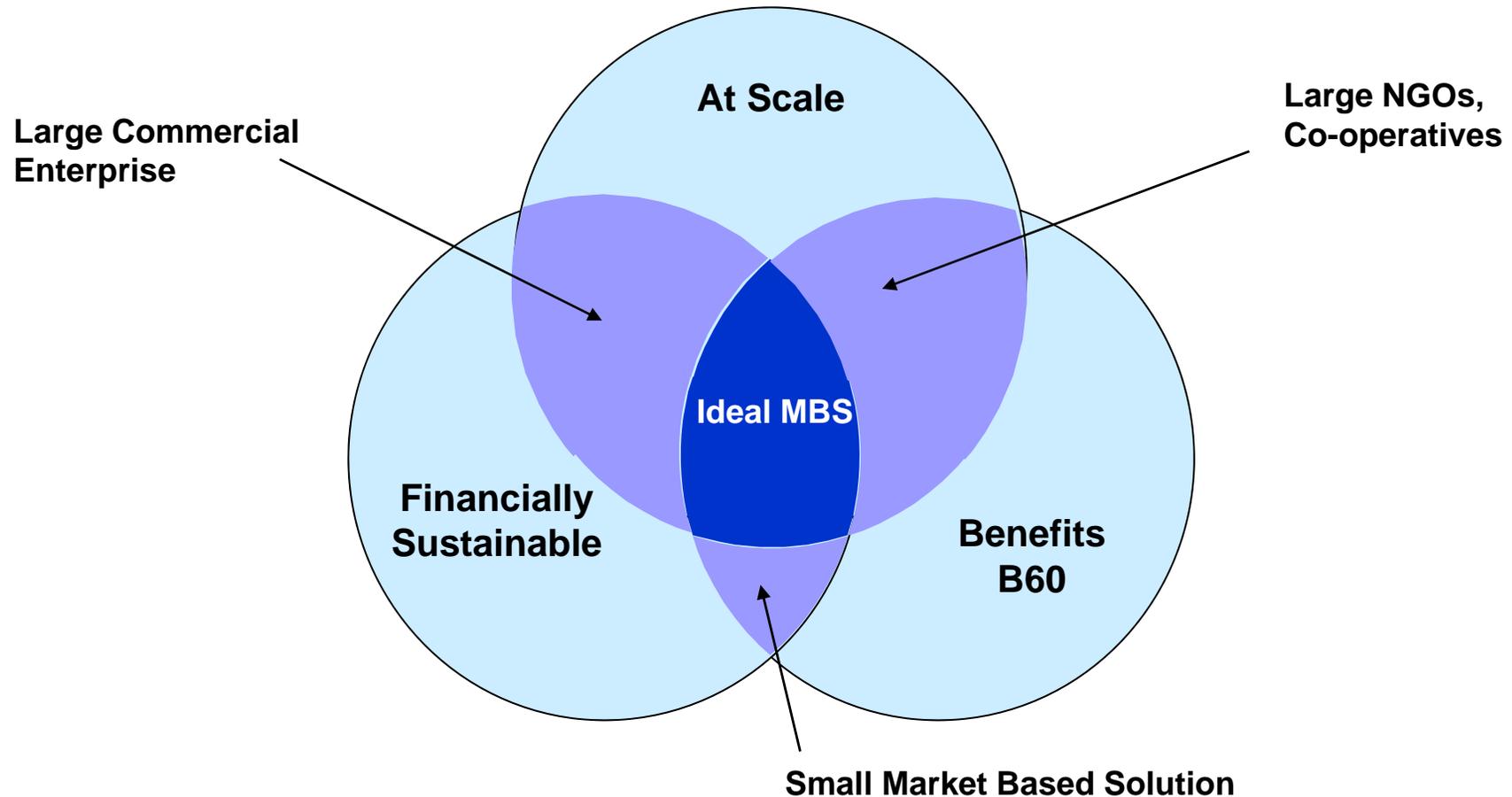


Monitor Mock Apartment, Mumbai

# Market Based Solutions for Social Change

## What does 'Market Based Solution' Mean?

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\*: "B60" refers to the bottom 60% of the income distribution, about 650 million people in India

# Market Based Solutions for Social Change

## Some Examples of MBSs

Commercially sustainable solutions that can achieve social impact...at scale

**Doctor-attended hospital  
labor and delivery  
for Rs2000 (US\$40)**



*For-Profit Hospital Chain*

**Private slum primary schools  
that outperform  
the best  
government  
schools at  
cost of Rs150 (US\$3.00)/month**



*NGO*

**12 litres of clean drinking  
water daily**

for  
Rs1  
(US\$0



*NGOs, For-profit filtration equipment firms*

**Agricultural supply chains that**



improve  
incomes for  
farmers  
by 125%

*For-profit agri-processing firms, NGOs*

*Market Based Solutions for Social Change*  
**Meta-Questions and Analytic Approach**

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We did not aim to answer whether Market-Based Solutions (MBSs) are good or bad, nor which sectors “should have” market-based approaches and which should not. Rather, the two key questions for the project were:

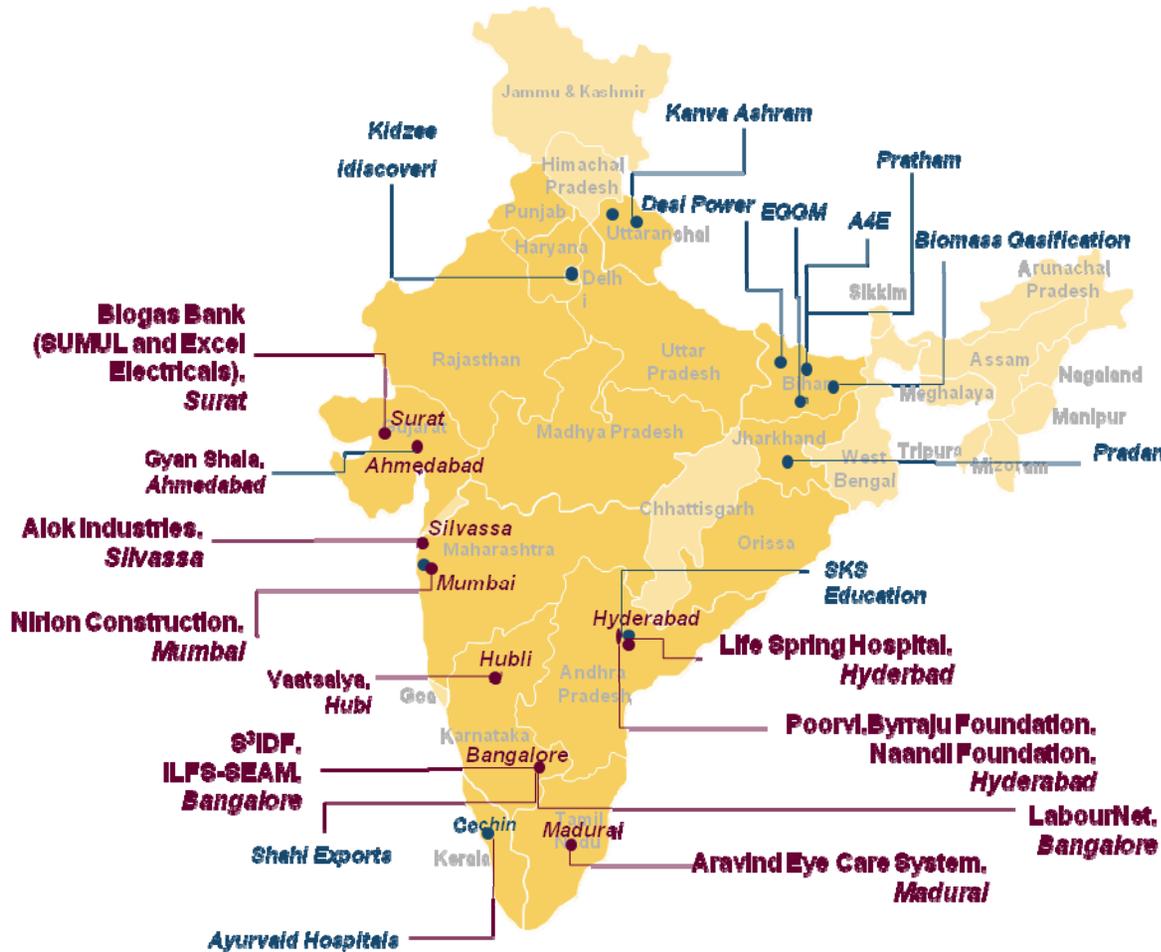
***1. Why have so few market-based solutions in India gone to scale, and what are the obstacles?***

***2. What are the business models — across sectors — that show promise of success in getting to scale?***

# Market Based Solutions for Social Change

## Foundational Study in India

*A few of the MBSs we studied...*



- **Year-long study** with a full time team of six people
- **Covered around 300 market based solutions**, including NGOs, commercial businesses and government initiatives
- **In-depth analysis of 7-8 business models**
- Now working with a number of **specific MBSs** to help develop their growth strategies and ensure they reach scale
- **All IP developed is public domain** – “Emerging Markets, Emerging Models” report

## **“Barriers to Scale” for Enterprises targeting the B60 as Customers**

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- **B60 as customers**

- **Affordability is extremely low** in absolute terms...
- ...but **Cash Flow is King**: B60 cash flow is often very limited and inconsistent, but is a critical determinant of customer buying decisions
- **The cost of skilled labour and assets to provide quality** education and health to the B60 is high, and difficult to find
- **Distributing products to the B60 is expensive** through dedicated channels, but there seems to be little appetite for establishing shared channels
- Conventional B60-targeted **enterprises confuse need with demand**: giving the B60 things they don't really want
- **Marketing products** and services to the B60 can be **high cost and low return**

## **“Barriers to Scale” for Enterprises targeting the B60 as Suppliers**

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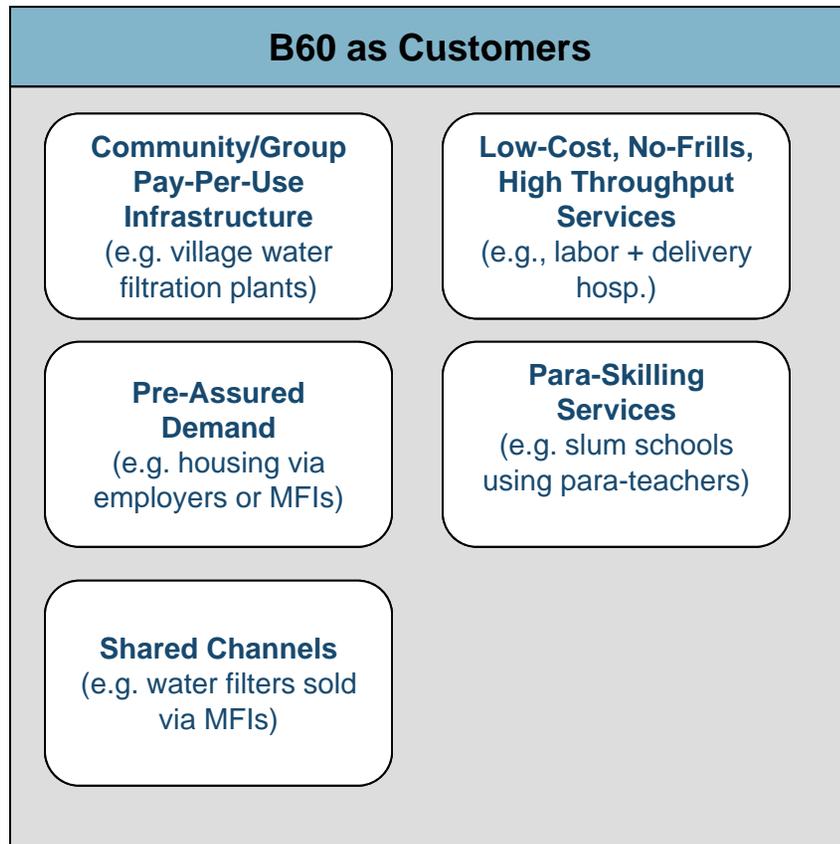
- **B60 as Suppliers**

- The **supply chains in which the B60 typically participate are inefficient and expensive**
- **B60 are expensive to engage directly** – preference will almost always be for larger suppliers that are less distributed and more formal
- **Switching costs are high and B60 suppliers are risk averse.** Getting B60 suppliers to switch to more valuable goods and activities (e.g., away from traditional crops, away from traditional occupations) is often difficult
- **B60 suppliers often lack the ability to purchase inputs** (whether supplies, training, TA, etc) or access credit
- **Retention is paramount** – and difficult in informal settings where B60 are free agents and not in long-term contractual relationships
- Market linkages are key. It sounds obvious, but **many interventions aim at the middle of the supply chain and never scale up.**

# Market Based Solutions for Social Change

## Eight Promising Business Models

Several high-promise business models emerged from the study as either already being at scale or showing strong potential to achieve scale.



*The study found other promising models as well, but did not examine them in-depth. These business models reflect only the focus of the study and are not meant to be a comprehensive list of “what works”*

## Market Based Solutions for Social Change

### Different Business Models for the Poor: Gyan Shala Example

*Gyan Shala's business model has distinct features that enables Gyan Shala to provide a effective, standardized, and low-cost education*

#### "Para-Skilling"

- Gyan Shala have re-engineered the role of the headmaster and the teacher
- Created highly standardized interventions such as kits, worksheets and lesson plans

#### 'No Frills' Set-Up and Service

- A Gyan Shala school is just one room
- Lowered capital cost by renting rooms



#### Strong links to the Community

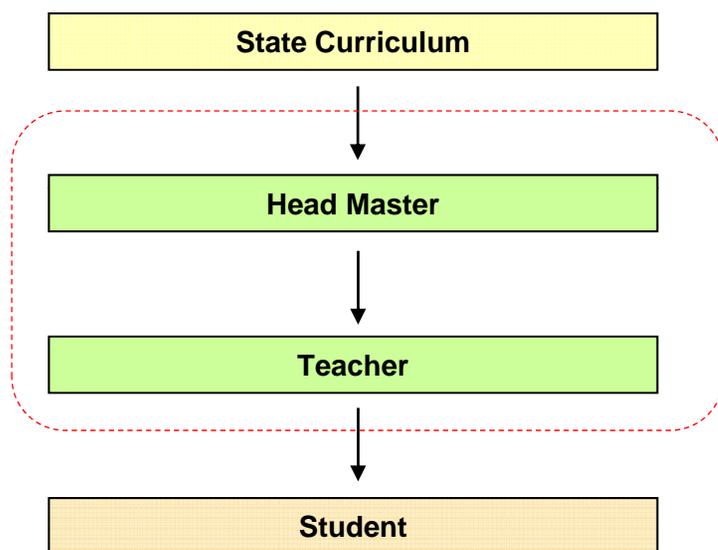
- Community outreach
- Have schools close to slum areas
- Teachers are from the local areas



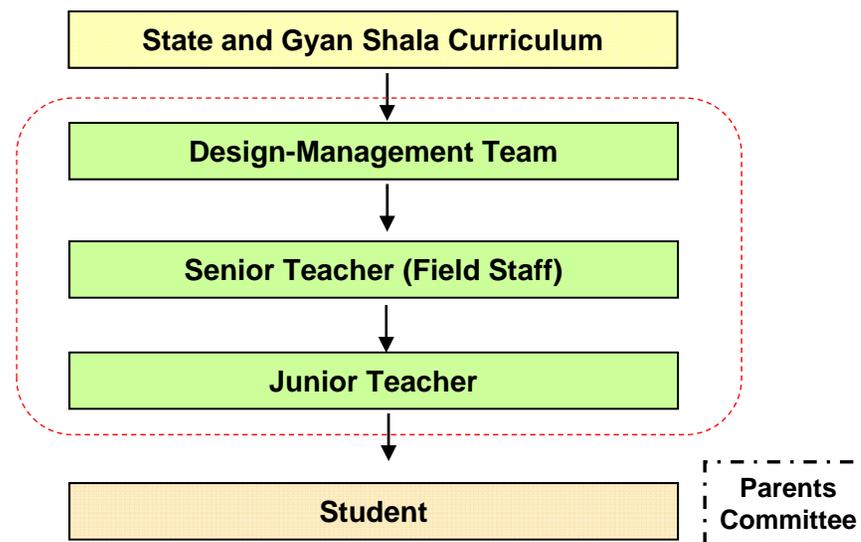
## Gyan Shala: Process of Service Delivery (One-Room School)

***Gyan Shala has re-engineered the typical education delivery process — allowing for specialization by activity and cost reduction through ‘para skilling’***

### Typical Pvt. School Organizational structure



### Gyan Shala Organizational structure



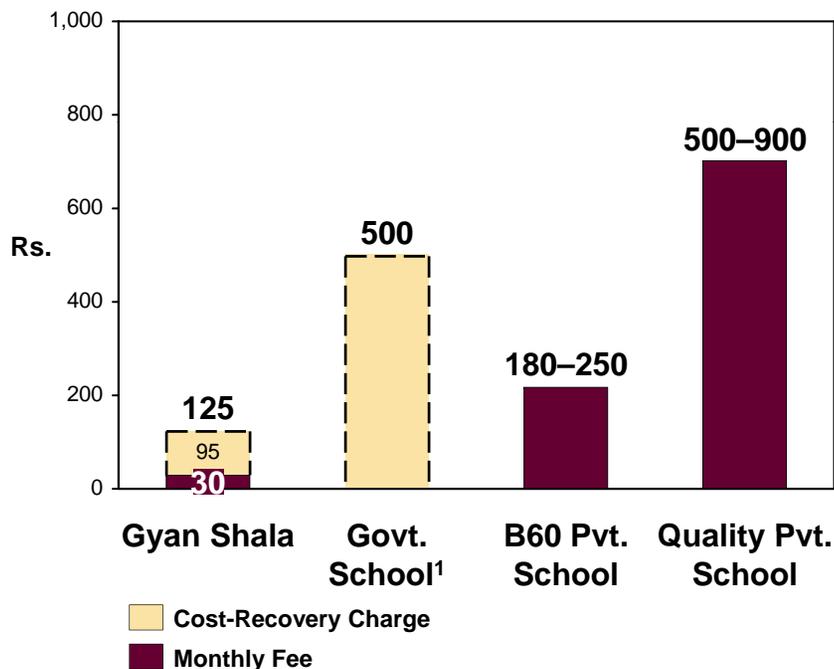
- **Gyan Shala has re-engineered the role of the headmaster and the teacher into three new roles**
  - **Design and Management team consists of Office team (curriculum design and administration) and Field work team (mentoring senior teachers and implementation)**
  - **Senior teachers monitor the junior teachers**
    - **Each senior teacher oversees 8–10 classes a week and spends 3 hours a week on assessing the junior teacher, class performance, etc.**
  - **Junior teacher teaches a class of 30 students; some do two shifts of 3 hours each, per day**



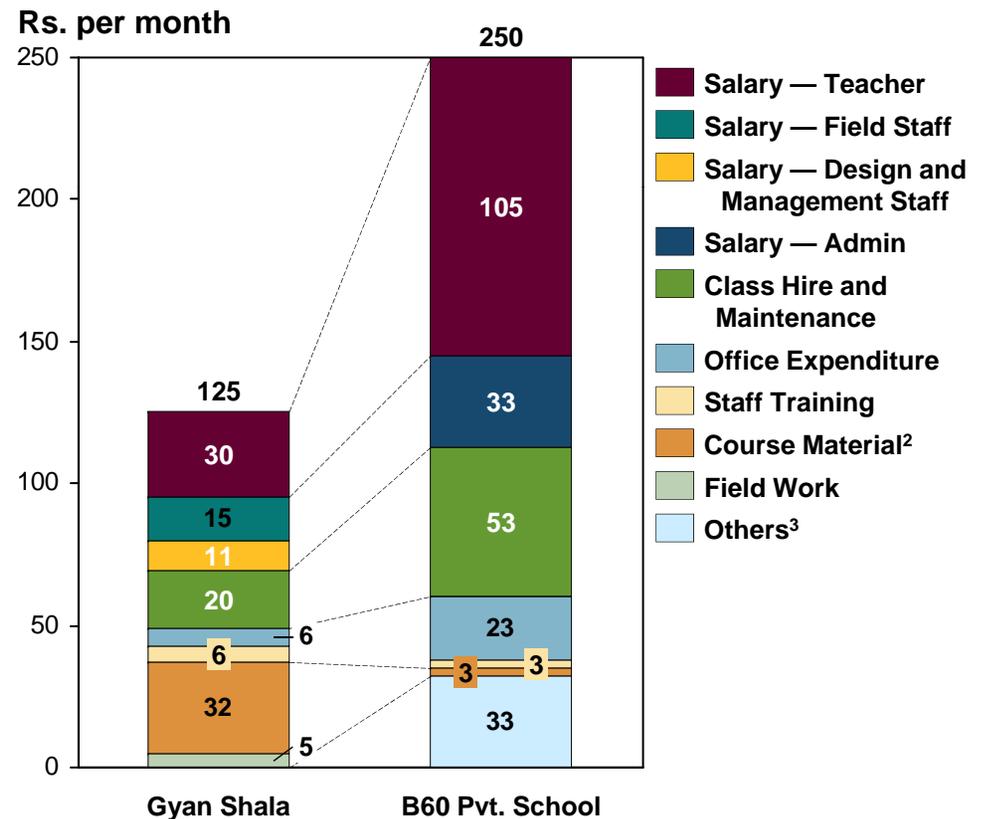
## Gyan Shala: Cost Structure and Performance Metrics

**Gyan Shala's fee and cost structure is very low, with costs being less than 1/2 of that of competitors in the private sector**

Monthly fee Comparison for Primary Schooling Options



Cost Comparison of a Typical B60 Pvt. School vs. Gyan Shala<sup>1</sup>



Note: <sup>1</sup> Government schools are free <sup>1</sup> Average school surplus (profit) is 25%–30% of the revenue and school fee per student is often more than the tuition fee. So, assume Rs. 250 tuition fee as the cost per child per month at a private school <sup>2</sup> Worksheets and learning aids are provided by GS, <sup>3</sup> Others include fee concessions, unofficial payments, Typical B60 private school is often a private recognized / unrecognized school operating in urban slums and an average monthly fee of Rs.150/child

Source: GS Annual Report 2007, Private Schools Serving the Poor WP: A Study from Delhi and Private Schools for the Poor – Case Study from India by Tooley & Dixon, Interviews, Secondary Research, Monitor Analysis, Linden Complement of Substitute? Effect of Technology on Student Achievement(2008)

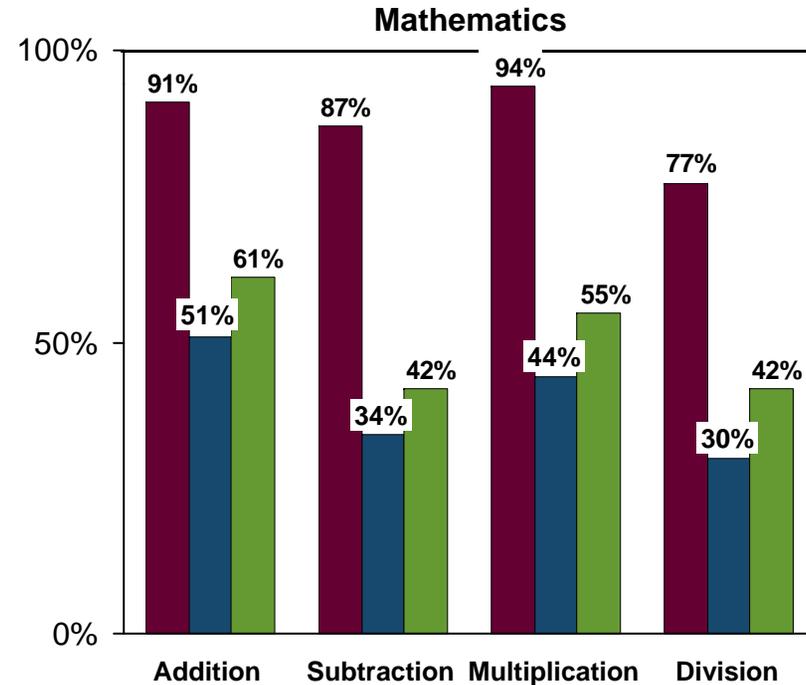
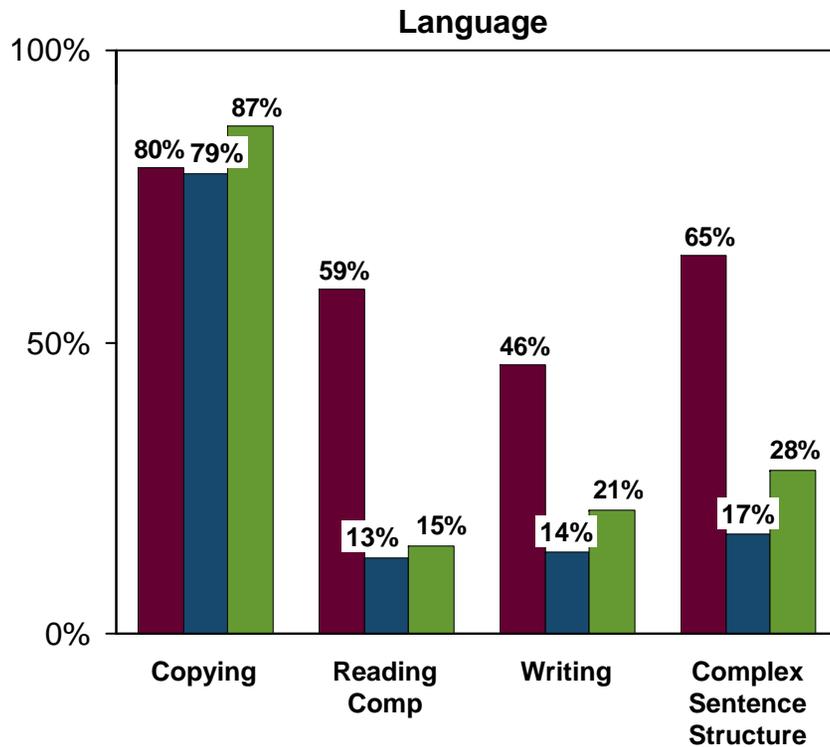
## Gyan Shala: Learning Outcomes



**A study on Gyan Shala and comparable public school student performance shows GS has satisfactory learning outcomes**

**Gyan Shala vs. Public School Student Performance**  
(% of correct answers in indicated subject)

- GS Class III
- Vadodara Public Class III
- Vadodara Public Class IV



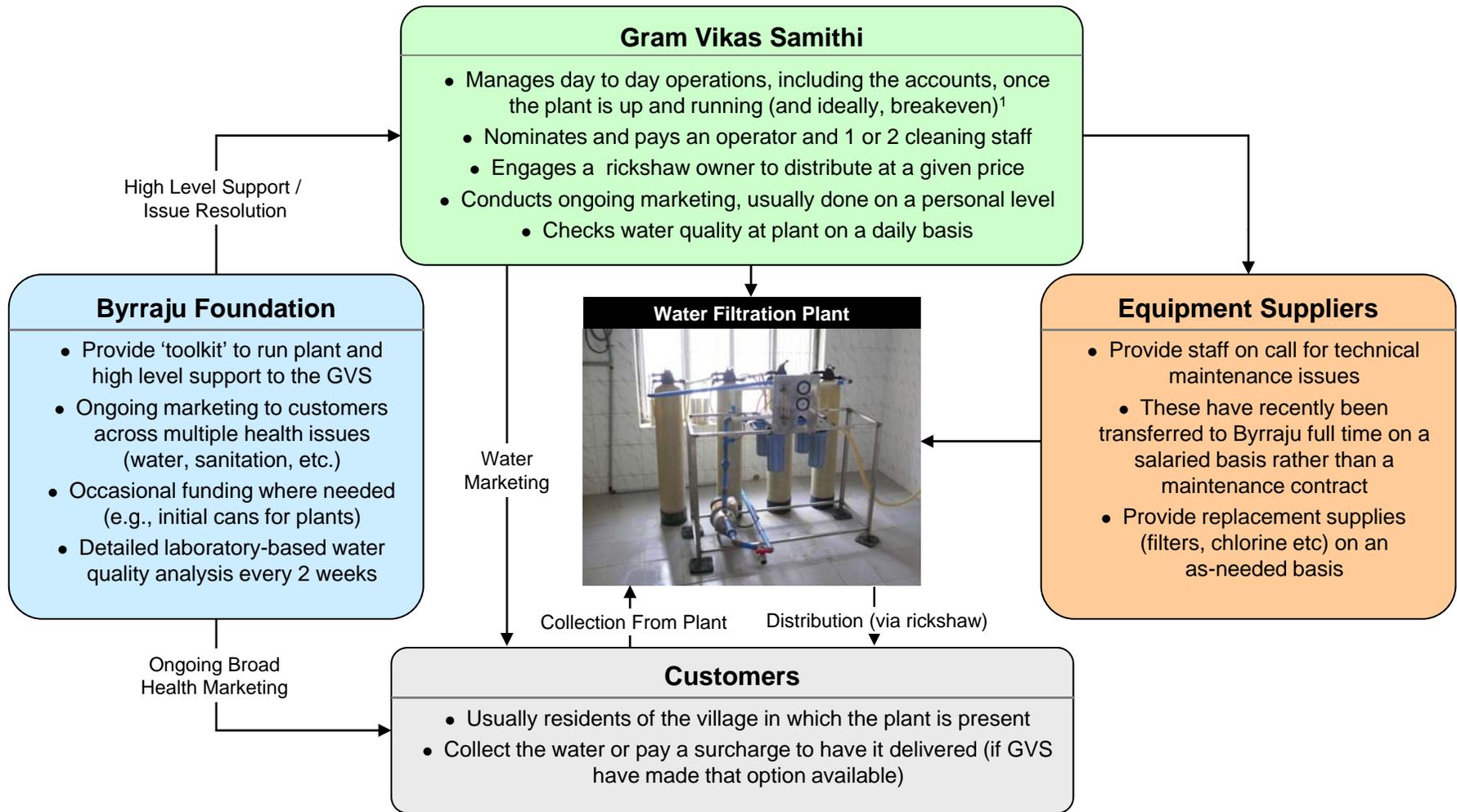
Source: GS Annual Report, Linden Complement of Substitute Effect of Technology on Student Achievement(2008), Secondary Research, Monitor Analysis

# Market Based Solutions for Social Change

## 'Pay Per Use' Example – Community Water Filtration



The Gram Vikas Samithi operates the plant on a day-to-day basis, but the Byrraju Foundation provides high level support when needed



Note: For a typical plant; <sup>1</sup> In some instances an entrepreneur takes over the running of the plant, and the GVS oversees and provides guidance

Source: Monitor Analysis; Byrraju Foundation

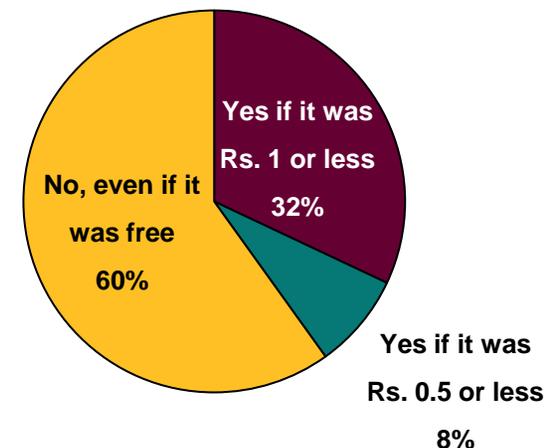
## Byrraju Foundation: Non-user Behaviour Insights



*Most non-users did not see price as a barrier — in fact, they believed that the taste and health impact of their conventional water sources were as good as, if not better than, Byrraju water*

- **Taste was an important factor in people’s decision to stick with habitual sources of drinking water**
  - All the customers we spoke to had tasted Byrraju water (for example, at weddings and other social events, or during the initial 2 weeks of operation where water was given free)
  - 50% of these preferred the taste of their conventional source
- **People’s perceptions of water quality are often very different from reality**
  - The vast majority of non-users believed that municipal /well water had no detrimental effect on health
  - Only very visual signs alerted people to the potential of their conventional water sources being polluted (e.g., in one village, toilet outlets had been constructed on the inlet to the water tank and people reacted extremely negatively)
- **Non-users were fairly divided over whether price was an issue — a majority said that they would not use Byrraju water even if it was free**
  - 60% said that they would not use Byrraju water even if it was free as they did not like the taste or perceived the quality to be low

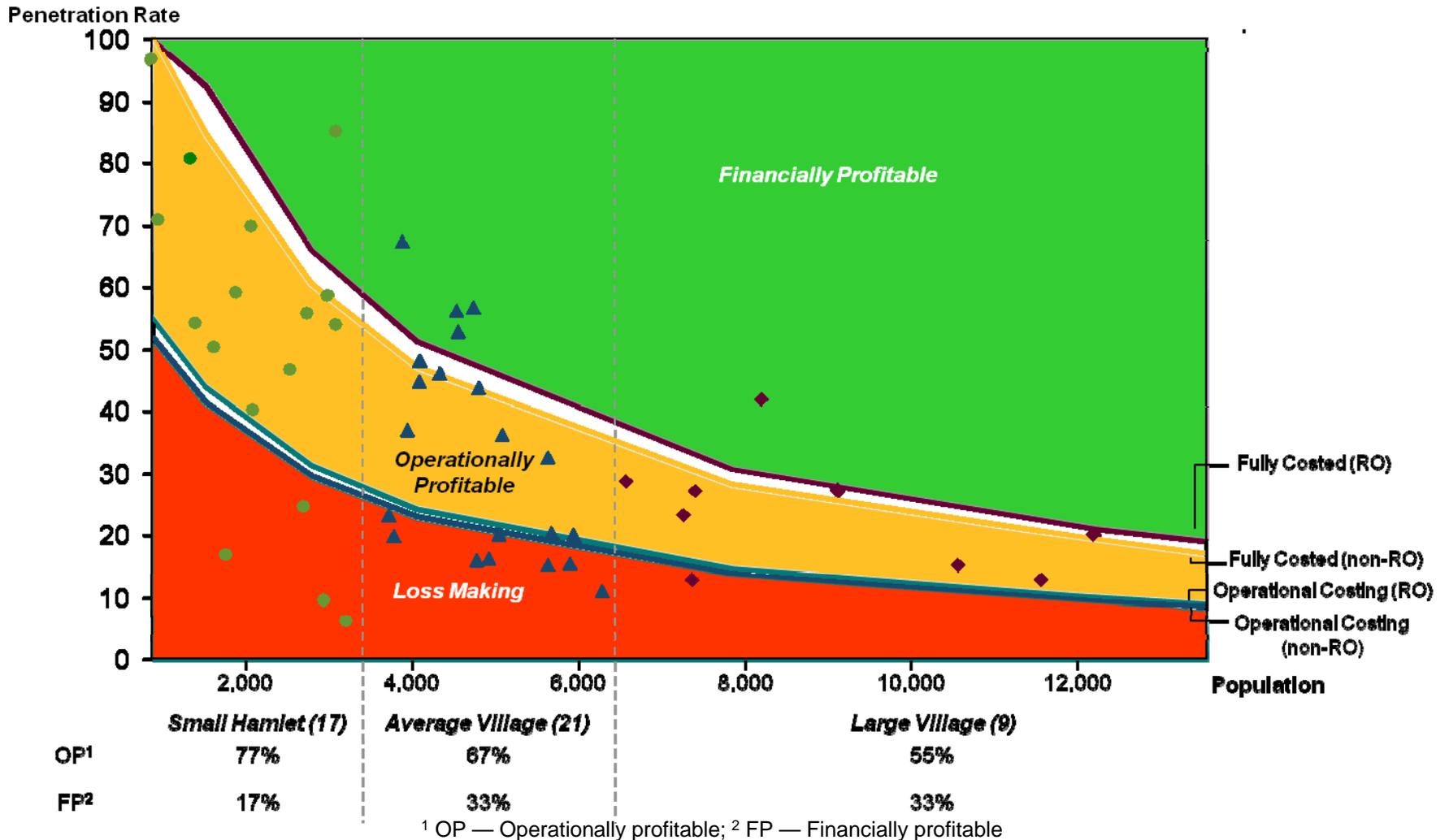
**Would You Switch To Byrraju Water If It Was cheaper?**



# Market Based Solutions for Social Change

## Byrraju Foundation: Current Plants

*A higher proportion of mid to large size villages are profitable, although smaller villages do sustain higher penetration rates, perhaps due to necessity*



Source: Byrraju Foundation, Monitor Analysis

## Case Study: Community Water Filtration Plants

### Pay Per Use Key Benefits

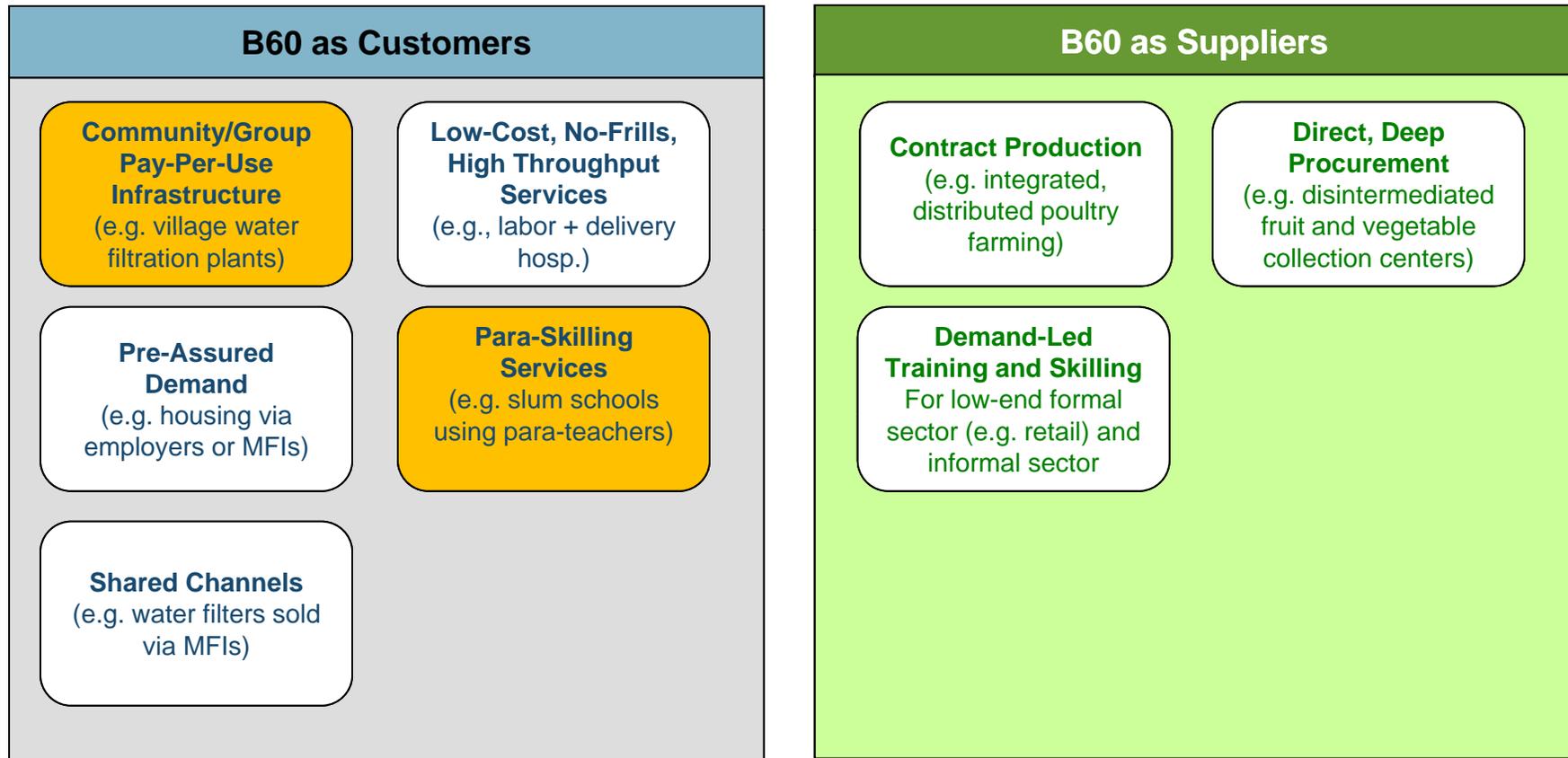
*Village level water filtration plants such as Byrraju provide very significant reductions in cost per liter and also allow access to a high quality of water without a Rs. 1,000+ upfront expense*

Key Benefit	Description
<b>Unit Cost Reduction</b>	<ul style="list-style-type: none"><li>• The cost of filtered water per litre drops from 20–40 paise to 10–12 paise</li></ul>
<b>Up-front Capital Cost Reduction</b>	<ul style="list-style-type: none"><li>• Customers do not need to purchase a filter (~Rs. 900–1,600)</li><li>• However, the cost of the plant is roughly Rs 8 lakh (US \$20k)</li><li>• Credit is also transferred who parties that can bear risk</li></ul>
<b>Operational Efficiency</b>	<ul style="list-style-type: none"><li>• Compliance is usually a key issue in household level plants</li><li>• Using trained staff at a plant level results in consistently high quality water</li></ul>
<b>Risk Reduction</b>	<ul style="list-style-type: none"><li>• Costs of breakage or breakdown are paid by the plant</li></ul>

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## *Market Based Solutions for Social Change*

### **Top Line Findings of the Study**

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*The in-depth analysis of 40+ businesses and business models, and scan of over 270 market-based solutions yielded insight on a number of dimensions, including:*

- Market-based solutions have high potential to help the poor – however, business models cannot just be ported in from middle class markets, they must be **customized to reach these segments**
- New business models are difficult to develop and it **takes time to get to scale** – and often **require development of end-to-end solutions** rather than specific narrow interventions.
- Many – though not all – MBSs **require some “soft” funding** to get to scale and prove out the business model, whether a small NGO or a bigger corporate
- **Scale is achieved in different ways** – sometimes as a single firm, sometimes as a cluster of enterprises using the same business model.
- **Corporates are much less active in the MBS space than socially geared start-ups**, who are driving the bulk of the innovation; this is because of the large opportunities in the middle/upper income segments of emerging economies

## *Market Based Solutions for Social Change*

### **Where Next?**

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*Monitor Inclusive Markets is now furthering its presence in the social enterprise space, both globally and in India*

- **Market Based Solutions Project in Africa**
  - \$3.1m project over 18 months
  - Anchor sponsorship from The Gates Foundation, The Rockefeller Foundation
- **“Deeper” MBS work in India**
  - Community water models – helping scale up the sector
  - Looking for funders interested in the space
- **Affordable Housing Initiative in India**
  - Working hands-on with players in the market to catalyze the space
  - Developers, Housing Finance, Government
  - Continuing to develop IP (e.g., micromortgage models & products)
- **Building Networks in the UK / Europe**
  - Spreading awareness of our work
  - Finding funders to support our work in India & Africa
  - Using Monitor Inclusive Markets work as a differentiator to get commercial clients