

Building Global Prosperity: Where to Next?

GE MACRO TRENDS WORKING SESSION

THE EMERGING MIDDLE CLASS

KIN GLOBAL 2012
PRESENTED BY



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Macro Trend Working Session Overview

KIN Global is a platform for cross-sector collaboration—where all delegates come to actively participate. Our delegates are hand-selected, as each of them is a leader in his or her field. To leverage the collective intelligence of KINians and elevate thinking in areas relevant to our businesses, we created the Macro Trend Working Sessions.

During KIN Global 2012, we facilitated these working sessions to address four macro trends facing humanity in which business will play a critical part. Sessions included thought and practice leaders in each realm and resulted in tangible output. The summary below is a distillation of the conversation on “The Emerging Middle Class.” We invite readers to review the findings below and discover opportunities for their own organizations.

The Emerging Middle Class

We keep hearing big numbers—2.6 billion people in our world make up the emerging middle class (EMC). Each year they spend \$7 trillion (USD). In 2022, it is projected to be 22 trillion dollars. So there’s a big desire to get into that action. But there is an even bigger opportunity for a company to use the opportunity presented by the emerging middle class as leverage to drive disruptive innovation within the company. How do we define this new category? How can we design our businesses and our products to meet this new demand, while staying within the carrying capacity of our planet? Can we use this tension to drive innovation, increase profits, reduce costs and find a new definition of sustainable prosperity?

THE EMERGING MIDDLE CLASS EXPERTS:



Jacky Mussry
Vice President
MarkPlus (Indonesia)



Marcos Leal
Marketing Executive Director
Global Growth & Operations
GE (Latin America)



Seth Starner
Director
Business Innovations
Amway Company (Global)



Facilitator: Pablo Restrepo
Partner
Tandem
KIN Ambassador (Colombia)



The Rising Middle Class Says...

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WE ARE NOT A GROWING MIDDLE CLASS—we are a whole new social class with totally different wants and needs. We are coming from different perspectives, views, and experiences.

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Thirteen years ago, 95,000 people took a cruise out of the port of Sanchos, Brazil. Now, the port struggles to handle over a million. **INFRASTRUCTURE CAPACITY MUST DRAMATICALLY INCREASE.**

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WE HAVE TO KNOW WHERE THEY LIVE, HOW THEY TALK, WHERE THEY PLAY—ALL THE HOWS AND WHYS—which is how we develop successful products. In that sense, collaboration or co-creation is really how the best products can be designed and delivered.

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If you're not going to disrupt yourself, someone else will, **AND THEY'LL EAT YOUR PROFITS.**

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Facilitator: Pablo Restrepo

PARTNER, TANDEM & KIN AMBASSADOR

Colombia The rising middle class is a new social class. To think what happened in the past is going to happen the same way in the future, well, that isn't going to happen. There are some similarities and some of the same needs and wants obviously, but this is an entirely new social class. To try to use historical models is useful as far as perspective, but it's a totally different cycle of growth. There is no trend. They are coming from a totally different place. We need to be brave enough to put aside our preconceived notions and enter a totally new space.

Seth Starner

DIRECTOR - BUSINESS INNOVATIONS, AMWAY COMPANY GLOBAL

I'd like you to meet a woman. Her name is Tola, and she is a small business owner who runs a noodle stand. She is married, 35 years old and has a six-year-old daughter and an eight-year-old son. She works from 5 a.m. in the morning until 3 p.m. in the afternoon. She takes two days off a month, so she works hard. Her husband is a mechanic and he works hard too. She earns about \$4,900 a year. They live in an 800-square-foot apartment with two small rooms. One is for the adults, and one is for the kids.

She picks up her kids on one of the two scooters they own, and she drops the boy off at guitar lessons, and the girl goes to ballet. This is all stuff she never had. She is fundamentally focused on getting her children into the global middle class. Tola is a typical emerging middle class woman with all kinds of new needs.

And one of the most interesting things is that these people don't think about categories. It's not, 'do I buy this shampoo or that shampoo?' At the end of the week, Tola has five dollars. Does she buy shampoo? Does she buy more cell phone minutes? Does she update her existing refrigerator or spend money on a new refrigerator she'd be proud of? So, it's this idea of 'category collision.' How is she going to distribute the little money that's left over? And as a company, how do we create a value proposition that encourages Tola to spend her leftover money on my company's products, over all of the other products she is competing against?

Tola is just one member of the emerging middle class, and there are a lot of them. In China, where personal care and home care is \$23 billion (USD) a year, the average emerging middle class person spends \$21 (USD) a year. If the emerging middle class is your customer segment, what will you do?

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The big issue is how to develop the right business model. To do this, we need to ask the right questions. For example, what does your value proposition look like, and what does your cost structure look like? How about revenue? How do you penetrate the market? More importantly, how do you figure out how to totally change your cost structure? You're going to have to think about the business model differently from developed economies—thus disruptive innovation. Pursuing the emerging middle class forces the company to think about how they would offer value propositions that the emerging middle class likes and that you will be able to compete against while being profitable.

Our business is about creating a platform for people to create their own business. We hope they choose our business from their portfolio of options and that they have two or three ways of making money, which allows them to transition from the informal to the formal, and it allows them to have a network of people who are trying to do similar things. We are hoping our business is creating a whole new generation of entrepreneurs.

Marcos Leal

**MARKETING EXECUTIVE DIRECTOR - GLOBAL GROWTH & OPERATIONS, GE
LATIN AMERICA**

There is a totally new social class emerging who can afford large TVs, refrigerators, cars, etc. Moreover, there is a huge demand for infrastructure (clean streets, parking stations, good airports, etc.), education (better schools, bilingual schools), healthcare, and internet access, to meet the needs of this fast-growing middle class.

A big challenge for a government is how to effectively increase capacity of infrastructure, health, and education. However, it is not for governments to address this alone. Public/private partnerships will more effectively address these issues.

Given their background and lack of experience consuming different products and services, the EMC does not have a good understanding of how to be informed consumers. This new category of consumer needs to be educated in order to understand how to access, select and consume a product or a service.

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Jacky Mussry

**VICE PRESIDENT, MARKPLUS
INDONESIA**

In the last few years, Indonesia has experienced fast economic expansion. In 2009, the middle class was spending from \$2 to \$20 USD per day, and accounted for 41 percent of the population in Indonesia and 54 percent in 2010. Among them, 41 percent are status-conscious. They want to impress others, and be well-educated about current topics. 45.7 percent are trying to support their families and actively planning for the future.

This middle class has a variety of needs. Once they can spend more money, they spend it on clothing, shoes, and accessories, and then TVs, refrigerators, cars, education, travel, etc. They tend to spend more money on entertainment. The challenge for companies is to figure out who and where they are and how to fill their different wants and needs.

Interestingly, based on interviews of over 2,500 married Indonesian women, more than half of them had their own income. 87 percent of these married women, with or without their own income are managing their husband's income.

Implications for Business

OPPORTUNITIES

We are at a unique moment of opportunity. A massive, as of yet undefined market is growing with rapidly increasing needs and wants. Companies can harness this extraordinary context to drive innovation and create not only a new economic model, but a new, more sustainable definition of prosperity. Sustainability drives innovation. Innovation drives growth.

The EMC is rising and growing fast. The EMC has a wide variety of wants: large TVs, scooters, refrigerators, cars, etc. Moreover, there are huge needs in infrastructure (clean streets, parking stations, good airports, etc.), education (better schools, bilingual schools), healthcare, and internet access.

Companies will find sustainable growth by providing goods and services that improve the quality of life and do not overburden current infrastructure. Companies will maintain their license to operate by incorporating Extended Producer Responsibility principles into their operations.

A big opportunity for companies is to understand local wants and needs and provide custom products and services.

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As a result of cultural barriers, many in the EMC do not trust online transactions and credit cards. An opportunity exists to build a payment platform the EMC can trust. Taobao.com is a successful example.

CHALLENGES & RISKS

If negative externalities outweigh the benefits of products and services, companies will encounter disruption from communities, NGOs and governments. Products and services must be designed to be more sustainable, and infrastructure must increase capacity to meet the changing lifestyle of the EMC. Businesses must embrace the basic human right to a clean environment and become part of the solution.

Public/private partnerships can create the scale needed to address the needs of the EMC, but a successful partnership can be challenging without clear roles and responsibilities.

Currently, we do not know how to accurately define and identify the evolving needs of the EMC and how to best serve them. The EMC has a different model of growth from advanced economics. We can't put everyone in the same basket and say they are the middle class. The EMC is different from country to country, from city to city, even from town to town. The middle class is very different in Brazil than it is in Chile, than it is in Peru, than it is in Asia and Indonesia. They are different and have totally different needs. Some are based on culture; some are based on religion; some on education; some on spending.

The challenge as we go into this market is to be able to throw all current models and paradigms away and approach them with a completely new perspective. We'll need to build different channels, logistics, pricing strategies, etc. for different markets.

Companies must customize their products and services based on local context. Trust local knowledge—because that's how people operate and how they make decisions—through their brothers, mothers, neighbors. In most countries there is a significant difference in a product on the East Coast to the product on the West Coast. Customize your product from one town to another town.

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