A BT–MONITOR STUDY

How innovation Really Works

It's not just about launching new products. It's about executing path-breaking models that are both disruptive and sustainable. A look at innovators who changed the rules of the game.

A business model that allows a company to procure agri-products directly from farmers, and which allows farmers online access to faraway markets; a newspaper that's customised to meet regional requirements from Day 1 itself; a company that extended beyond its manufacturing and tech capabilities to build a distribution network, offer content at never-before price points and in the process build a sustainable brand in the home video space. Those are just three examples of outstanding innovation—and you will read more about them in the pages ahead. They're not just new products or service offerings—if me-toos can swiftly come in and do the same,

then that wouldn't qualify as innovation in the first place.

So what then qualifies as an innovation? For starters, not everything that is new counts as innovation. It has to be path-breaking, potentially disruptive and sustainable. How can companies do this? One way is to use what Monitor calls the Ten Types of Innovation™ (see "Ten Types of Innovation" on page 40), a proprietary framework that helps broaden the drivers of value of a particular innovation along a much wider spectrum than just what the product or service "does". Break-through innovations almost always include multiple types of innovation: at least 3-4 out of the 10 types in the Monitor framework.

How does the "Ten Types of Innovation" framework apply to

Indian examples? To find answers to such questions, *Business Today* and the Monitor Group jointly interviewed key leaders at eight innovative organisations to study the reasons behind the success of their innovations. Each of the eight organisations exhibited four or more of the Ten Types of Innovations. Each illustrates how true breakthroughs are usually a set of innovative elements that work together as a holistic system and reinforce the competitive strength of the new product or service.

Innovation is about creating and capturing value through non-traditional approaches. It isn't only for

rapidly changing, technology companies either—the traditional brick and mortar companies included in our study, from agri-commodities to print media, have each realised market success and impact in their industries from innovation.

BT-Monitor has selected eight organisations to profile in this study. Though they come from many industries—and even the social and government sector—each has demonstrated outsize impact in India based on its innovation. We carefully edited the selection to include only those companies whose efforts have not been recently or extensively reported (like the Tata Nano or the

Aravind Eye Hospital). What's more, it's easy to confuse sundry launches and claims of differentiation and a competitive edge with innovation, and *BT* and the Monitor team looked at several examples of innovation before deciding on the final eight.

Understanding the 10 types is the first step toward being able to use them in your own innovation efforts. The remainder of this article defines each of the 10 types—broadly broken into four heads of finance, process, offerings and delivery—and provides illustrations.

Profound innovation was observed around business model, network, product performance, and customer

FIVE MYTHS OF INNOVATION

1 Innovation is about creating a hot new product... New products are swiftly copied and rarely enjoy sustained profits.

2 Innovation comes from being creative... It is far likelier to come from being disciplined.

3 Innovation is expensive, demanding lots of resources... Failure to innovate is what is costly.

4 Create hundreds of ideas because of high failure rates... Fewer, bolder ideas based on your company capabilities and the unmet customer needs you discover work best.

5 Early financial analysis is key to approving concepts... Nearly always wrong– build prototypes instead.

experience. However, there is markedly less innovation among Indian companies around product system, service, channel or brand. Product systems and service (post-purchase) can enhance customisability and cement ties with customers by engaging with them throughout the ownership cycle, not just at purchase.

'Finance' Innovation:
Re-inventing business models and creating extended networks
Innovative companies are the ones who succeed by defining new economic models and create a more permeable sort of enterprise: One that aligns incentives across a broader network to creating and capture new value.

For instance, Moser Baer created a disruptive change in the Indian home entertainment industry by changing the basis of competition along with its economic model (for how it did it, see page 58).

Companies can also be radically successful innovators when they reconsider the role they play in the ecosystem of their industry.
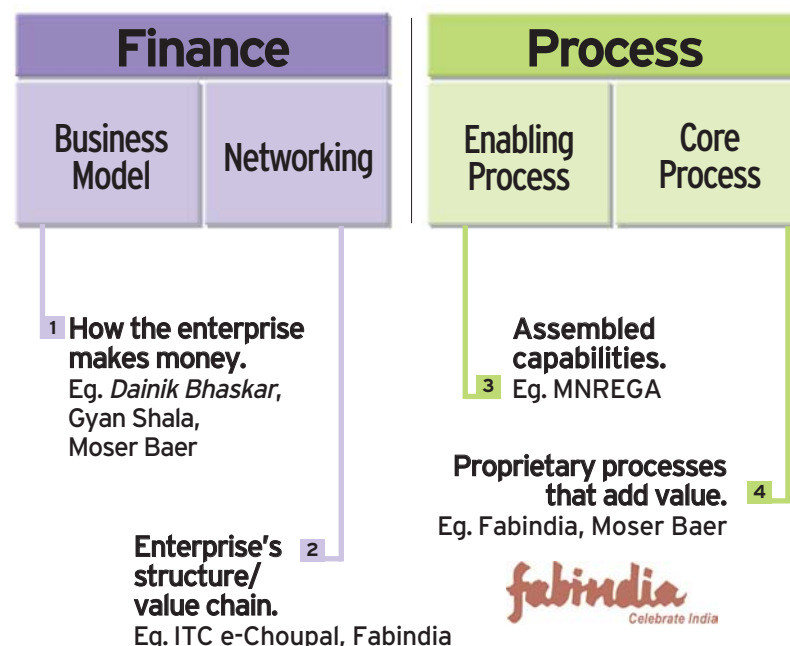
Innovative companies are finding new ways to position themselves within a non-linear network. Networks provide a way for companies to leverage each other's offerings, customers, and capabilities. Network and alliance innovations reflect a clear definition of each

Companies can also be radically successful innovators when they reconsider the role they play in the ecosystem of their industry.

partner's strength and weaknesses, have well-crafted shared operating processes and technology, and rock-solid governance.

During the study we found compelling examples of organisations in India using networking innovations to gain sustainable competitive ad-

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK
Companies that achieve breakthrough innovations usually cover at least 3-4 out of the 10 types of innovation included in the framework.

Examples used in the graphic are from the case studies that appear in subsequent pages

vantage. Fabindia draws its strength from close financial and operational ties to 17 community-owned companies which form the supplier base for its hand-crafted products. Through these tie-ups, Fabindia is able to deliver high quality products and make artisans a part of the wealth it helps create, aligning incentives with entities beyond the formal boundaries of Fabindia as a company (see page 62).
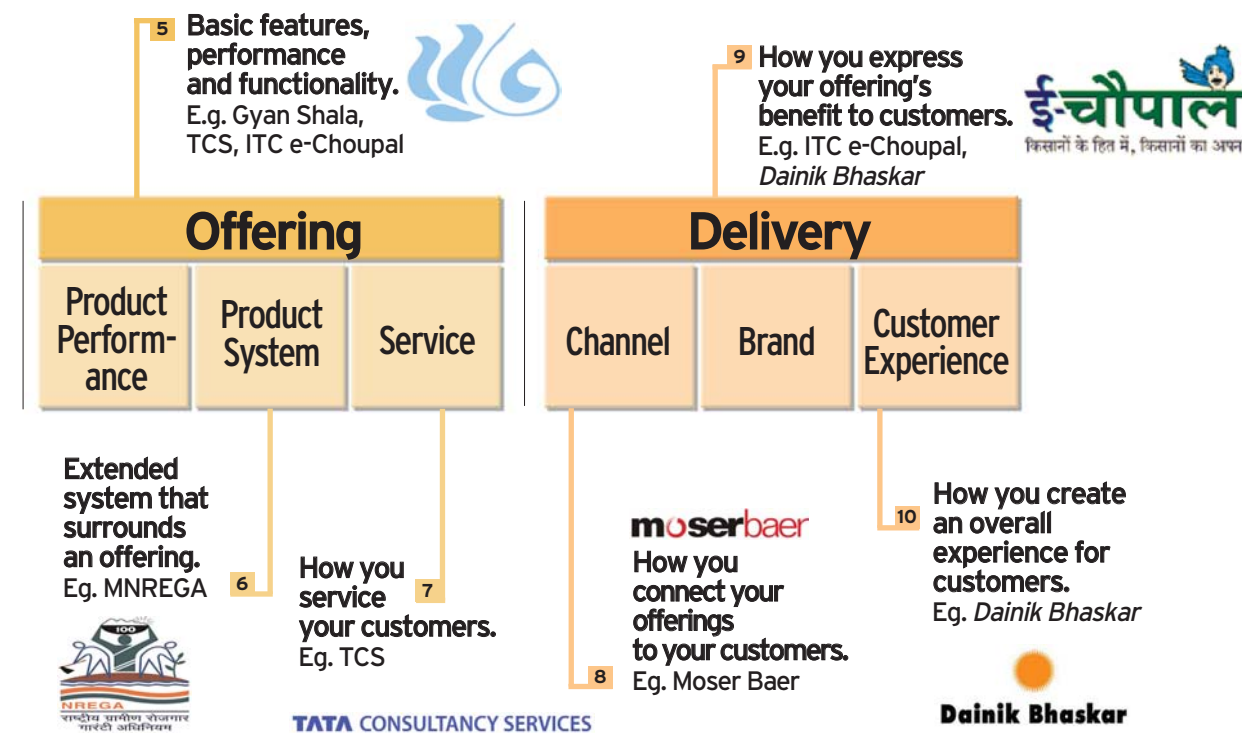
We also observed organisations using networks to accomplish two other important goals. First, networks can act as a direct source of revenue especially in B2B, short for business to business, arrangements, as with the case of ITC's e-Choupal platform (see page 44). Second, we saw organisations leveraging the technical

expertise of network partners to create open innovation networks. Tata Consultancy Services (TCS) has created an "extended co-innovation network" which constitutes, apart from employees, Tata group companies, academic institutions and other strategic partners. This network has helped TCS create numerous marketable innovations (see page 48).

'Process' Innovation:
Guts and imagination
The activities a company performs or the capabilities it leverages in order to deliver its product or service are categorised into two types: Enabling Process innovations and Core Process innovations.

Enabling Process innovation supports the enterprise's primary work, value delivery, and workers. Good enabling process innovation can help attract talent to the organisation and help people do their work faster, more easily, more efficiently, and more profitably. These processes are often the "infrastructure" that enables market-

facing processes and offerings, and deliver streamlined support.

The research-intensive approach adopted by *Dainik Bhaskar* to launch its Gujarati daily provides a good example of how enabling processes can positively affect the outcome. Whereas most media companies rely on internal expertise to develop the content strategy for their offerings, *Dainik Bhaskar* used a form of "crowdsourcing" to get inputs from a large number of potential consumers in order to structure the content of its new newspaper. This not only enabled the creation of a successful product but also helped in building a customer connect that subsequently resulted in high circulation (see page 70).

Core Processes are the capabilities proprietary to an enterprise that others can't duplicate. For product companies, this often involves their R&D, manufacturing, and marketing capabilities. Core process innovation typically involves dramatic changes in "business as usual".

Gyan Shala, a one of its kind budget private school in India, has in-

novated significantly in its core process: pedagogy. It creates detailed teaching manuals with step-by-step instructions for each minute of each day, including answers to probable questions that students may have. Gyan Shala's model is demonstrating the impact of core process innovation in even the perennially challenging arena of education (see page 52).

'Offering' Innovation:
Breakthrough change, not continuous improvement
Changes to the functionality of the product/service are nearly always where conventional innovation teams start. And there is an important role to play for incremental innovation—refreshing a product or service on an annual or more frequent basis can keep customers returning and take advantage of continuing technology advances. However, companies that aim to conquer a new market or radically reshape their position need to think bigger—and differently.

In the organisations studied, BT-

Monitor found that companies that innovated substantially on product performance started with a deep understanding of customer needs or industry shortcomings. They showed a willingness to look outside of the company's internal capabilities, and beyond their existing customer base. Since this often means trying to deeply understand the needs of new audiences that are not currently served by the company, this challenge may require an explicit mandate to be set forth internally since it's typically no one's job to try to understand people who are not current customers.

In our study, this is illustrated by how the financial services business unit of TCS started out by striving to understand the banking requirements of the rural Indian. Later, by leveraging its extended co-innovation network, it was able to create a branchless banking platform that was scalable in rural areas with poor infrastructure and connectivity to bricks and mortar facilities.

Product System innovation

demonstrates the ways in which several individual products connect with one another to create a larger system, which can lead to enhanced functionality. These innovations often bridge the needs gap between constraints imposed by production complexity, and helping individuals fulfil unique requirements. ITC e-Choupal's recent improvements to its well-established village kiosk model of agri-commodity procurement creates a platform that offers new consumer goods partners a cost effective way to "plug in" to the rural consumer. At the other end, the resulting

a wider audience a rewarding, full life-cycle experience.

'Delivery' Innovation:
The customer connect

How a company gets its product to the customer is the domain of delivery. There are three facets of delivery where innovation can yield disproportionately better results—Channel, Brand and Customer Experience. Channel innovations encompass all the ways that a company gives a customer access to its offering. Successful channel innovations use an ideal mix (retailers of all sorts, wholesalers and

customer expectations.

The BT-Monitor initiative sought to define more precisely than before exactly what innovation is, and provide an analytical framework and common language that senior executives can use when thinking about and acting on innovation. The examples—drawn from the corporate, social and government sectors—demonstrate the value of the framework and the messages for professionals: get beyond products, use many types of innovations to make them defensible, start with a market and customer-centric view, and challenge orthodoxies.

> There are three facets of delivery where innovation can yield disproportionately better results—Channel, Brand and Customer Experience.

Log on to **www.businesstoday.in** for:
● A more detailed explanation of Monitor's framework of innovation
● Apple and Google: Contrasting models of innovation
● Apple on Monitor's innovation framework

wide range of products helps address a number of unmet needs of farmers. The system spans the offerings of multiple companies, linked together by a distribution model that leverages ITC's proprietary channel.

Companies also innovate on the value they provide to customers that follows the purchase of the core product. This is the domain of service plans, customer service, information and education, and warranties/repairs. Service innovation is typically focussed on helping customers receive the full value of the products they purchase and use. For example, FedEx not only promised reliable overnight delivery, it innovated around the entire usage context to create automated tracking and integrated billing.

In India, we see relatively fewer companies innovating around post-sale service. Premium products such as watches, hotels, and high-end consumer electronics are beginning to be sold along with opportunities to join customer loyalty programmes, receive guarantees, and interact around personalised information. However, there is clearly room to offer

warehouses, distributors, call centres, catalogs, Internet, home delivery, etc.) to permit customers to buy what they want, when they want it, and how they want it. For example, Nike has created eye-wateringly expensive retail cathedrals called NIKETOWN stores to use as product showcases. What most people don't know is that these get their primary use as training facilities after closing!

Brand innovations are ways that companies use their brand in novel and powerful ways. ITC e-Choupal is able to regularly add and successfully market new product and service categories through network partnership. For this, it leverages brand e-Choupal which has, over time, built cache in the rural economy.

Finally, how your customers/consumers feel when they interact with your company and its offering can be a powerful source of differentiation that creates a long lasting emotional attachment.

Moser Baer was able to reduce the home movie release window from six months to 10 days in some cases —a feat that exceeded prevalent

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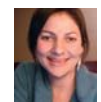
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ITC e-Choupal
From Mandi to Market

The e-Choupal model of ITC has continuously evolved over the past decade, and today is a boon not just for farmers but for the consumer goods business of the tobacco major as well.

''We did not want to follow the business model prevalent in the unorganised sector, which gets its margin through contract defaults and tax evasions''

S. SIVAKUMAR, CHIEF EXECUTIVE, ITC AGRI BUSINESS

SHEKHAR GHOSH

When tobacco giant ITC flagged off its agri-business in 1988, it was operating in a protected economy, procuring agri-products from *mandis* and exporting them. However, the '90s saw the opening up of the Indian economy, bringing opportunity for many—along with more than a few challenges. According to S. Sivakumar, Chief Executive, ITC Agri Business, it was a tense situation and the challenge was to innovate or perish. "We did not have the resources to compete with the global majors with multi-origin sourcing capabilities and neither did we want to follow the business model prevalent in the unorganised sector, which gets its margin through contract defaults and tax evasions."

ITC realised that by owning the agri-product procurement value chain, they could serve the needs of the end customer better and reduce their "true cost of contract." Because ITC maintained oversight of the goods for a broader part of the chain, buyers were able to realise substantial savings in their true cost of contract, which included, apart from the product cost, other elements like quality variability, cost of delays, warehousing, packing and shipping costs. This was the birth of e-Choupal—a shift in the business model of procuring from *mandis* to directly procuring from farmers. It led to substantial reduction in procurement costs, and also brought consistency and predictability in the supply chain.

Today, there are some 6,500 e-Choupal centres and all of 4 million farmers who use the e-Choupal platform across 40,000 villages in 10 states. However, fewer people are aware of the extent to which the agri business division of ITC has continued to innovate around the original model, evolving it to its current form as a true platform for engaging rural consumers and producers. Because platforms typically host an array of commercial partners and serve a wide range of customers, they cross many types of innovation; this is certainly true of e-Choupal.

For ITC, e-Choupal was originally a channel innovation that was able to extend its reach through a VSAT-based IT network, even in villages with no proper road connectivity. In each village, a trusted community member is appointed as a sanchalak to man the e-Choupal; this helps faster awareness of e-Choupal brand through word-of-mouth. Since the sanchalak is equidistant from ITC and the rural community, he plays a different role than a typical channel partner such as an

All I need, in my hand: e-Choupal's focus, as it evolves towards a more services-based platform, is to help farmers find personalised solutions to crop management and insurance, crop yields, weather information, etc.

end-retailer or a distributor would.

However, the innovation did not stop here. ITC realised that to earn greater profits from the channel infrastructure it had built and better protect the business model, it could create a more dynamic, two-way flow of goods through that channel. Between 2005 and 2007, e-Choupal began offering third-party access to rural India. Currently, there are 160 partners from domains as diverse as seeds, consumer products, finance, insurance and employment who sell their products to rural consumers through e-Choupal's channel. ITC leverages brand "e-Choupal" to promote these partners.

Charging for access to the platform helps ITC recover substantial costs of infrastructure and operations. Second, coupling its core offering of "terrain expertise" (which was initially built through the commodity procurement chain) with "domain expertise" of its network partners, e-Choupal is able to offer new products/services to its village customers, which broadens their access to useful goods and opportunities. For the network partners, e-Choupal is a cost-effective way to access the rural consumers without building their own distribution channel. This was e-Choupal v2.0.

But the innovation did not end there: The procurement

Key Challenge	Innovation
To build a unique and competitive channel to reach farmers, which is different from the model used by unorganised players and MNCs.	An Internet-based two-way platform to procure from and sell to farmers, which has evolved into a mobile-based channel that offers services too.

SHEKHAR GHOSH/www.indiatodayimages.com

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK: ITC e-CHOUPAL

Finance		Process		Offering			Delivery		
Business Model	Networking	Enabling Process	Core Process	Product Performance	Product System	Service	Channel	Brand	Customer Experience
✓	✓	✓	✓	✓	✓			✓	✓

1. Business Model: v1.0: Bypassing *mandis* from the procurement process by directly connecting with farmers. v2.0: Transforming the procurement channel to a distribution channel. v3.0: Building a services platform.

2. Networking: v2.0 and v3.0: Transforming e-Choupal network into a platform to partner with multiple agencies to provide value-added services.

3. Enabling Process: v1.0: Leveraging the established credibility of the sanchalaks to play a specific role in building up the original e-Choupal channel.

4. Core process: v1.0: Setting up a wide IT and logistics infrastructure even in remote places.

5. Product performance: v1.0: Reducing cost of contract (buyers), offering value-added services (farmers). V2.0 and v3.0: Low-cost access to rural India (network partners).

6. Product systems: v2.0 and v3.0: Offering a range of products/services to address farmers' needs. Offering network partners the ability to easily "plug in" to the network.

7. Brand: v2.0 and v3.0: Leveraging brand "e-Choupal" to promote sales of its FMCG and network partners' products/services.

8. Customer experience: Bringing transparency and ease to farmers, both as suppliers of agri-products (v1.0) and as customers of ITC's value-added products/services (v2.0 and v3.0).

Organisations that achieve breakthrough innovation usually cover at least 3-4 types of innovation included in the framework. ITC e-Choupal fulfils eight.

network that was transformed into a product platform is now getting amplified into a service platform. e-Choupal is actively looking at employment, training and agriculture services business (productivity enhancement options that could double yields, respond to climate change, etc.) as new anchor businesses.

As the model evolves, it is equally conscious of the need to address the most pressing problem in the agri-space: producing abundant food that is safe and healthy, yet climate-friendly. The next level of innovation that ITC e-Choupal is engaged in focusses on ways to align small farmers with the war against climate change.

At ITC, the innovation imperative has come from two sources. The external environment (like when the Indian economy began opening up or, more recently, the negative effect of high food prices and the resultant government intervention on e-Choupal's anchor procurement businesss) has caused ITC to learn how to adapt quickly and innovate under duress. At the same time, the internal approach to innovation—multi-dimensional, quick to leverage internal capabilities in a cross-functional way and learn how to apply them in new situations—gives the e-Choupal team the conviction to try radical new ideas over time.

The impact of this model is widespread. Other than its wide reach, the e-Choupal model has led to 4-7 per cent reduction in the true cost of contract for different buyers in the commodities business. For ITC, there has been a 40 per cent reduction in transaction costs of procurement. This channel throughputs more than Rs. 2,000 crore in sales for ITC and its partner companies. Through e-Choupal v3.0, which will personalise crop management advisory for farmers, crop yields could potentially double. ⊙

> **"A smaller bank like a cooperative bank or regional rural bank can get configured on to the banking cloud within two weeks"**
>
> K. ANANTH KRISHNAN, CHIEF TECHNOLOGY OFFICER, TCS

TCS
Banking in the Backwaters

TCS finds a viable route to the unbanked Indian in the country's villages with the help of cloud computing.

For Tata Research Development and Design Centre, also known as Tata Innovation Labs, a subsidiary of Tata Consultancy Services (TCS), innovation entails meeting a critical need. It sometimes also means adapting a project for a totally different market than it was originally blueprinted for. For instance, how to adapt TCS' core banking solution and banking software, branded BaNCS, with customers across 80 countries, and take this solution directly to millions of unbanked Indians upcountry.

To take on the particularly hairy problem of rural banking, TCS used its robust innovation infrastructure—a combination of internal resources and strategic partners including Tata Group companies and other entities like emerging technology companies, academic institutions and others. It also looked carefully at the needs of the end users and leveraged those insights to design new solutions.

For banks, reaching rural India through the traditional branch banking model isn't viable because of the low value of transaction per customer and a dispersed population. There is little experience in managing remote information technology (IT) infrastructure and guaranteeing security and services. From a consumer perspective, the time spent in banking transactions set off against the opportunity cost of lost employment posed challenges to adoption of banking services in rural areas, as also did the habit of storing money at home (typically stuffed into pillow covers or under mattresses).

Still, banks could ill-afford to ignore rural India as it increasingly became a hub of economic activity. Mobile phone and TV penetration is high and rising, has made a number of people "connected" and represented a major opportunity for TCS. But that's only if the IT services major was able to deliver a product or service that is designed specifically for rural banking needs within the cost parameters that would make business and social sense.

The solution: Branchless banking using cloud computing to take banking services to the unbanked. (Cloud computing refers to Internet-based computing where delivery of services is from servers, storage and other resources served from the Web rather than on-premise assets.) TCS' financial solutions business unit had pioneered banking automation and branchless banking in India. State Bank of India was its biggest success story. The company had an understanding of the challenges and needs of Regional Rural Banks and cooperative banks.
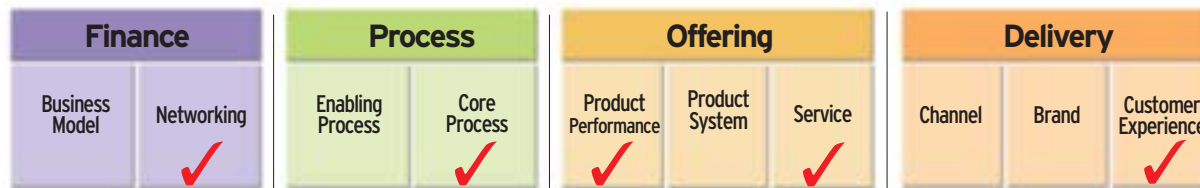
VIVAN MEHRA

TCS is working with banks like SBI to help customers such as these transact from their homes

TCS recognised that the branchless banking solution could not just be technology-driven, but ecosystem-driven, by which the products and services offered are meaningful and addresses the needs and concerns of the customer segment. For example, how does one enable repayments on a micro loan whenever the consumer wants it rather than only when an agent of the bank visits?

TCS leveraged cloud computing to take on the challenge. Today, it has 60-70 rural banks using its offerings connecting more than a 1,000 branches. Typically, a bank would be able to connect 20-30 branches in a 200-mile radius. Shared resources, software and information were provided to computers and other devices on demand. A bank's operational data could be transferred to a cloud (a server that customers and branches can connect to through the net), enabling banks to offer basic

Key Challenge	Innovation
To create a rural banking model that is viable against the backdrop of low-value transactions and a dispersed population.	Branchless banking via cloud computing, which enables sharing of resources, software and information.

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK: TCS

Finance		Process		Offering			Delivery		
Business Model	Networking ✓	Enabling Process	Core Process ✓	Product Performance ✓	Product System	Service ✓	Channel	Brand	Customer Experience ✓

1. Networking: Leveraging different innovation capabilities existing within Tata Group and TCS co-innovation partners.

2. Core Process: The core banking platform, which is built in a manner that allows "on-the-fly" configurability bringing down both time and effort, addresses the critical adoption constraints of these smaller banks. Another option is a handheld device, which enables banks to offer services in a remote environment without electricity and telecommunication links.

3. Product Performance: Changes the price/performance paradigm for a core banking solution. Will enable branchless banking in rural India with substantial lower capex or opex for Regional Rural Banks as compared to traditional offerings.

4. Service: Facilitates rapid integration of the platform with RRBs.

5. Customer Experience: Provides the bank a relatively simple and hassle-free experience in implementing an automated solution.

Organisations that achieve breakthrough innovation usually cover at least 3-4 types of innovation included in the framework. TCS fulfils five.

banking facilities on mobile, Internet-enabled computers and other devices. Ease of configuration and elimination of regular maintenance helped greatly reduce the IT overheads required to get onto the platform. Granular or pay-per-use pricing models enabled the banks to manage the capital expenditure to operating expenditure ratio of IT investments. Banks are able to integrate with this platform rapidly (within 2-3 weeks), thereby effectively overcoming their primary barrier to adoption—their limited exposure to technology.

In a recent white paper on cloud computing, TCS' Chief Technology Officer, K. Ananth Krishnan, Vice President of the TCS Innovation Labs, Harrick Vin, and leader of the cloud computing initiative, V. Srinivasa Raghavan, wrote: "Cloud computing will prove very attractive to the enterprise IT world and specifically to IT service providers. TCS firmly believes that the business models will prove to be potentially disruptive." It is already proving its words true in banking. Ananth Krishnan told *Business Today* that the company is pondering whether to extend the cloud route of roll out of services to mid-sized banks, too.

And, the rural customer—how is he served? The branchless solution has a smart card or a debit card given to the account holder, containing his personal information, and a biometric handheld device operated by the bank's agents. The handheld device is small enough to carry around and has the memory and battery power to capture a full day's work. This would enable elec-

State Bank of India, the biggest success story of TCS' financial solutions business unit

tronic financial transactions as well as full integration and seamless experience of using the mobile phone as a device for business transactions. TCS Innovation Labs is also testing banking via a television set-top box so that TV users (and penetration of TVs is significantly higher than of computers in rural India) will get the experience of Internet banking without access to computers, but with the help of a more familiar user interface that doesn't require Internet fluency. ⊙

''Good education isn't just about good teaching. Good education is about good learning''

PANKAJ JAIN, CHAIRMAN, GYAN SHALA

Gyan Shala

No-frills Learning

Gyan Shala educates a child at a fraction of the cost of a government school—and strives to ensure that the quality of learning doesn't suffer.

t's an unusual classroom by any standards. Twenty kids, aged between six and seven, are packed in a small room, seven-by-seven feet in dimension. The teacher does not have a textbook open, nor does she lecture. The class itself is divided into three sections. Not the usual boys on one side, girls on the other setup; students in this classroom are slotted into three batches based on what they are studying. One batch is working on their language skills (Gujarati, in this case); another batch is cracking simple multiplication problems and yet another is probing "science" topics like "why it's important to keep
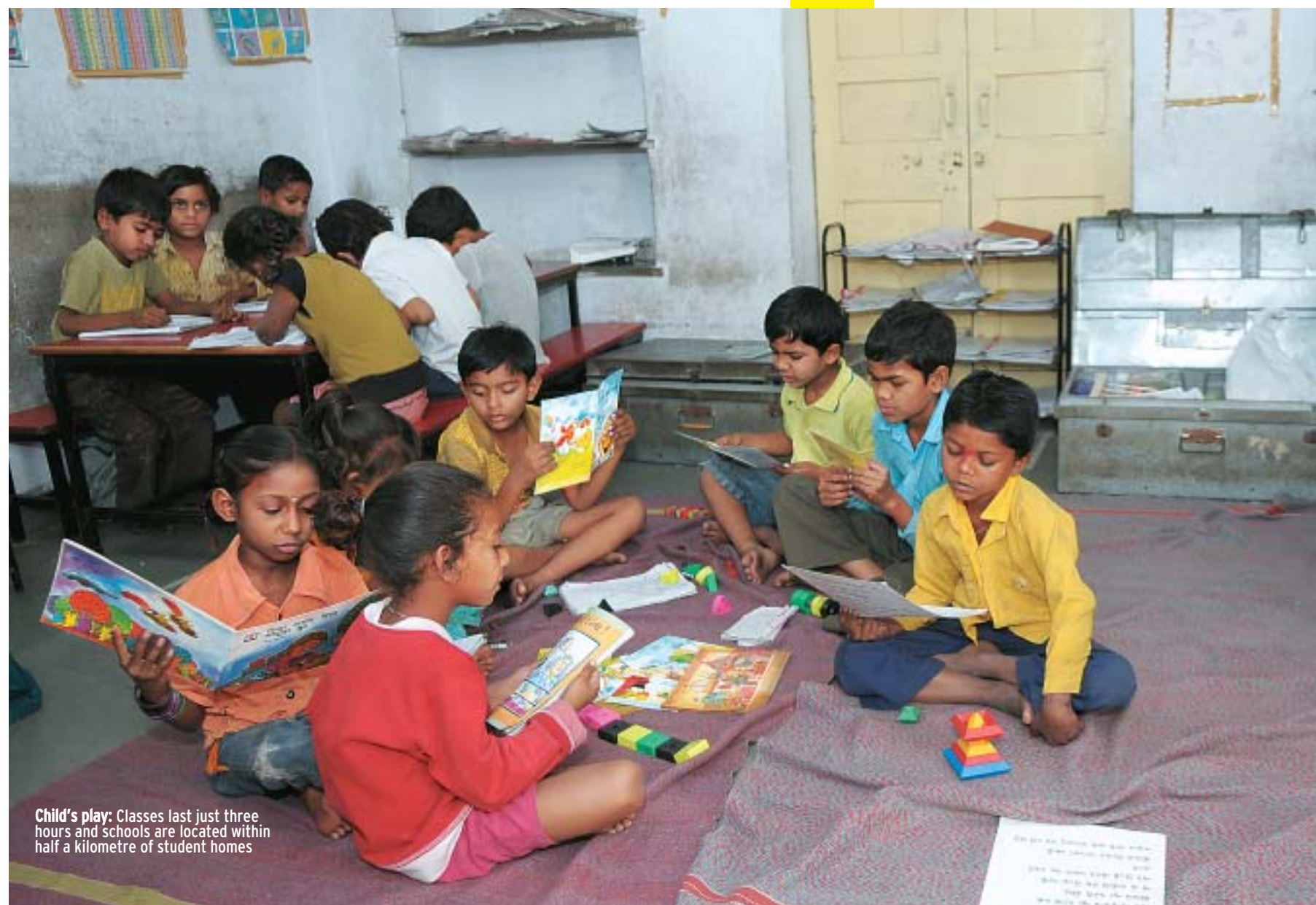
Child's play: Classes last just three hours and schools are located within half a kilometre of student homes

PHOTOGRAPHS BY UMESH GOSWAMI/www.indiatodayimages.com

your surroundings clean." That's right, same classroom and three different subjects are being taught and learnt. Fifteen minutes later, a merry-go-round of sorts happens as the batches switch places and students change subjects. The teacher goes from table to table, spending time with students, individually.

The classroom is located in Gupta Nagar, a grubby, crowded slum in Ahmedabad. But curiously, there are hardly any children playing in the streets of this low-income locality at noon. "Whenever we want to start a school, we go to slums and look for children playing in the streets during school hours. We don't do any other survey or studies," explains Pankaj Jain, Chairman of the Ahmedabad-based Gyan Shala, which runs 360 such single-room schools in Gujarat and Bihar that educate over 15,000 students between class I and VII.

The 59-year-old Jain believes that schools like Gyan Shala will help India deal with the crisis in the primary and secondary education sector. While four out of every 10 Indians are now under the age of 18, 40 per cent of them don't attend school. Of the 361 million school age children, 35 per cent are enrolled in government schools where they receive low-quality education. "Budget private schools" like Gyan Shala—which has been providing low-cost schooling since 2002—might just be the answer.

Jain argues that for any school education model to be successful in India, it has to have four prerequisites: Low
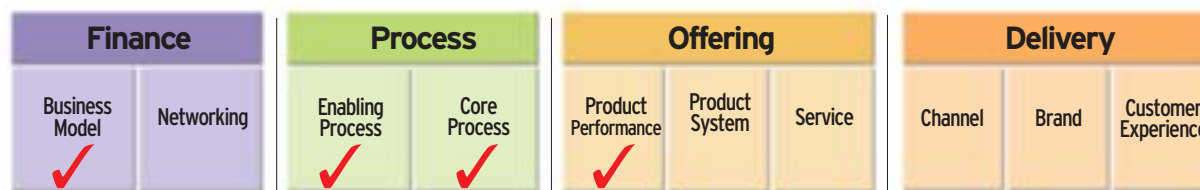

Key Challenge

To deliver quality, primary and secondary education at affordable prices to a large poor population.

Innovation

Reduce costs by tapping informal market for teachers and maintain quality with a strong backend that creates standardised content for the lesser-qualified teachers.

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK: GYAN SHALA

Finance		Process		Offering			Delivery		
Business Model ✓	Networking	Enabling Process ✓	Core Process ✓	Product Performance ✓	Product System	Service	Channel	Brand	Customer Experience

1. Business model: Organisation and infrastructure designed to deliver no-frills, high throughput education.

2. Enabling process: Real estate strategy enabling high teacher and student attendance and performance.

3. Core process: Paraskilling (modifying a task to help the lesser-skilled do it) and redesigning pedagogy.

4. Product performance: Blend of curriculum and interaction between student and teacher.

Organisations that achieve breakthrough innovation usually cover at least 3-4 types of innovation included in the framework. Gyan Shala fulfils four.

cost, high quality, scalability, and focus on barriers to education for poor. Drawing from his experience as an academic (at institutions like Institute of Rural Management) and his work with grassroots organisations like Amul and Grameen Bank, Jain has addressed these issues in the Gyan Shala model.

To keep costs down, Gyan Shala aims for a no-frills setup—classrooms are rented, single rooms like the one in Gupta Nagar and there are no playgrounds or other amenities. As for the teachers, they are hired from the informal sector. "There is a huge gap between the salaries of teachers in the formal sector and the informal sector. If you look at the latest Pay Commission recommendations, it's almost five-to-six times," explains Jain. With these innovations, Gyan Shala's cost of educating a child is Rs 2,000-2,200 while the same cost is about Rs 18,000 (both per year) in a government school in a metro.

The organisation's cost consciousness can be gauged by the fact that Gyan Shala employs just 50 people full-time, of which barely a handful have a salary exceeding Rs 10,000 per month. But does that mean that the quality of teaching suffers? Not in the Gyan Shala model, contends Jain. "When I was working on the model, whoever I spoke to equated good teaching with good

education. On the contrary, good education is about good learning," he says. So, Gyan Shala chose to focus on a model that emphasises learning-based education instead of teacher-centric learning.

Gyan Shala has a strong back-end design and management team to support its relatively low-skilled teachers. The pedagogy, which is the core process of any educational institute, has undergone extensive reengineering to provide education delivery that is built on highly-standardised elements. The design and management team creates a curriculum supported by worksheets for students and a daily-use manual for teachers. This manual provides step-by-step details of what is to be covered each day. In addition, learning is reinforced by making students fill pre-designed worksheets on each topic. Gyan Shala also employs techniques like shorter subject periods (15 minutes each) to maximise the student learning experience. Moreover, a feedback mechanism has been built in to not just redesign the curriculum but also change the way teachers teach a concept. There are four revisions annually, which are enabled by the design and management team.

One problem plaguing government-run schools in India is low attendance, of both faculty and students. In the past, governments have

tried to fix the problem by providing mid-day meals for students, but low turnout continues to be an issue. Gyan Shala ensures higher teacher attendance by hiring them from local communities and making them work shorter shifts. Gyan Shala classes are just three hours in duration. Driven by fewer working hours and proximity of classrooms, the teacher turnover rates of 22 per cent are much below those of government schools at 35 per cent. Schools are located within half a kilometre of the homes of students to ensure that attendance is regular. Gyan Shala also charges a monthly fee of Rs 30, which helps in securing the commitment of students and parents. Currently, Gyan Shala relies on funding from government education programmes (like Sarva Siksha Abhiyan) and charitable foundations like Michael and Susan Dell Foundation and the David and Lucile Packard Foundation.

The result of Gyan Shala's innovations has been quite positive, says Jain. Gyan Shala students tend to fare very well when they move to government schools, at least in the first year. "What happens after the first year in the government school is beyond my control," says Jain, who sees Gyan Shala expanding operations to five states (including Orissa, Jharkhand, MP, UP) and covering one lakh students in another five years. ⊙

"You are selling two things—a brand and a movie. The customer has to say 'I want to buy a Moser Baer movie'"

RATUL PURI, EXECUTIVE DIRECTOR, MOSER BAER

Moser Baer
Taking on Piracy, Profitably

It added content to its blank CD/DVDs to make home viewing affordable.

Historically, the home video market in India has been highly fragmented. Before 2007, no single company had been able to capture a significant share as none had the distribution capability or a large content base in multiple languages. Also, rampant piracy was eating into the market share of brands. The 'legal' players used to price home VCD/DVDs at a large premium and stress the quality difference compared to pirated videos. Though this created a profitable channel, home viewing formed a much smaller share of film industry revenues than it did in markets like the US.

With many small players competing and using essentially the same strategy, the opportunity to use innovation for breaking out of the pack was potentially very large. But it takes courage to challenge the dominant orthodoxies and not every company is willing to contradict the prevailing wisdom.

Moser Baer, which is today the world's second-largest producer of blank optical disks, was willing to do so. "With the entertainment business, we charted out a strategy which had really not been followed anywhere," says Ratul Puri, Executive Director, Moser Baer, adding: "Later, someone was explaining the term Blue Ocean

strategy to me, and I realised that is exactly what the entertainment division is!"

Delhi-based Moser Baer had invested heavily in manufacturing capabilities to get huge economies of scale. But it was worried that the limited technology life cycle of the disks would make its capacity obsolete and redundant. Moser Baer was also conscious of its low brand equity, as it dealt with a commoditised product: Blank CD/DVDs.

So, it started looking for innovations to move up the value chain beyond its present business and created an entertainment division. To bring a new competitive model to this industry, the company looked at four aspects—reapplying its manufacturing and technology capabilities, building the distribution capability of a fast-moving consumer goods or FMCG company, acquiring and exploiting content, and building a sustainable brand with a clear value proposition.

Technology, which Moser Baer understood well, enabled it to break the mould in the home video space. Before Moser Baer entered the market, there were essentially two price points for each VCD/DVD—the legitimate content came in disks priced at Rs 300-500 each, and the pirated stuff was available at Rs 30-40 per disk.

Moser Baer solved this price-or-quality puzzle to produce

VIVAN MEHRA/www.indiatodayimages.com

Key Challenge	Innovation
Diversify into branded home video, which was an impulse purchase with customer displaying no brand loyalty.	Use technology and pricing advantage in blank disks to create low-price, high-quality products.

high-quality VCDs/DVDs at prices up to 80 per cent less than those charged by established players. Consumers always want a quality product, but Indian consumers want a quality product at a very low price. For Moser Baer, low prices meant high volumes—and a stronger business case.
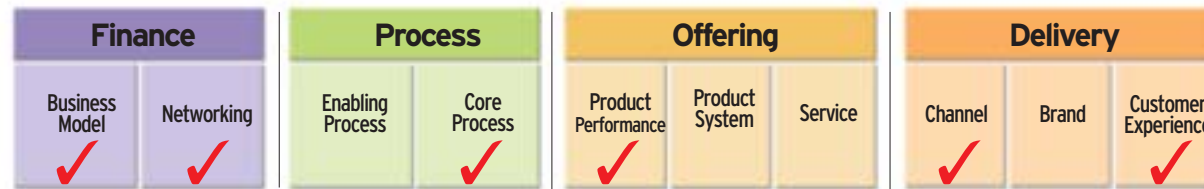
Moser Baer's strategy completely changed the industry from a high-margin, low-volume one to a low-margin, high-volume one. The company could effectively challenge the pirates and change the basis of the competition.

However, for a pure-play optical media player, it was

a difficult transition since the sale of each DVD or VCD also depended on the movie that it had, not just the brand of the company making the blank DVDs or VCDs.

Explains Puri: "It is relatively easy to put a brand on something and sell it. Here you are selling two things—a brand and a movie. You really have to get the consumer to say 'I want to buy a movie but I want to buy a Moser Baer movie'. That is something that we have been able to achieve and that is mainly because what we are offering is a good value proposition."

But the application of superior technology is not

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK: MOSER BAER

Finance		Process		Offering			Delivery		
Business Model	Networking	Enabling Process	Core Process	Product Performance	Product System	Service	Channel	Brand	Customer Experience
✓	✓		✓	✓			✓		✓

1. Business Model: Creating a high-quality, low-margin, high-volume business model to penetrate home entertainment business.

2. Networking: Forming relationships with content providers across regions/languages.

3. Core Process: Leveraging technical capabilities in manufacturing to radically reduce the cost.

Organisations that achieve breakthrough innovation usually cover at least 3-4 types of innovation included in the framework. Moser Baer fulfils six.

4. Product Performance: Established a new price-performance level in the home entertainment industry.

5. Channel: Adoption of a low-cost "FMCG-type" distribution model complete with regional offices, sales team and a right mix of FMCG and entertainment trade distributors.

6. Customer Experience: It has negotiated to get the movie "LSD" on a DVD within 10 days of its release in theatres, against the usual delay of six months.

Tech edge: The manufacturing facility in Greater Noida

enough—competitors will usually eventually catch up. It is crucial to have more types of innovation. So, to create a distribution network that had a wide reach at a very low cost, it aggressively hired talent from the best FMCG companies and borrowed tactics that were new to home entertainment.

Harish Dayani, CEO of Moser Baer's Entertainment Division, says: "If the price of our DVD is comparable to that of a chocolate, it must be sold in a shop that sells chocolates." This included activating new channels like cycle carts in cities. Each cart is expected to carry 35 best-sellers.

Moser Baer also realised that control over content was necessary to defend its new business model. After launching its home entertainment business, it acquired the rights to 10,000 titles (or over half the total content created in India) in Hindi and 14 regional languages. It also entered into a tie-up with regular content producers like UTV to release their productions on home videos after a certain period of theatrical release. Moser Baer is now moving into new content generation, with plans to produce content specifically for DVDs in direct-to-home educational and devotional categories.

All this helped Moser Baer to create a brand with a clear consumer benefit—a high quality product widely available at delightful prices.

The innovation did not stop. When prices of blank DVDs fell sharply in late 2008, pirates were able to bundle more movies into a single disk at a low cost. For Moser Baer, more content per disk would have meant higher cost. So, it started innovating to reach new audiences. It created an extended offering with collections (like the "Shah Rukh Khan 6 pack" of six movies of the Bollywood superstar) priced at a premium and aimed at high-end customers. It

also created a brand 'Super DVD' priced at Rs 27-30 with three movies to cater to the rural markets and take the pirates head on. "The market is evolving and one has to continue to respond," says Puri.

In just a few years, Moser Baer created a disruptive change in the home entertainment business. The average cost of movie VCD/DVD has come down from Rs 125/250 to Rs 25/50, respectively. Even the share of home entertainment to the film industry's revenues has gone up from eight per cent to 20 per cent. Moser Baer's home entertainment business now accounts for 10 per cent of group revenues of Rs 2,344 crore, and it has become a household brand, with 50,000 sales outlets and over 400 distributors. It says the business is making a profit at the EBIDTA, but much depends on how much it pays for each movie title and over what period it amortises that cost.

Puri points out: "The most important thing from here on is to deepen the distribution reach…. The aim is to reach the million retail outlets that are in mofussil India." Add to that is the widening of the online distribution model as volumes pick up on that side. ⊙

''We realised that we had a very well-recognised brand, but we needed to establish a supply chain that could sustain large supplies. For this, we needed to involve artisans as they were very integral to our DNA''

SUNIL CHAINANI, WORKING DIRECTOR, FABINDIA

Fabindia
Weaving Scale into Handicrafts

How do you turn thousands of artisans into suppliers to a commercial, for-profit retail chain? Make them shareholders in community-owned companies that can supply in bulk.

DEEPAK G. PAWAR/www.indiatodayimages.com

Commercialise handmade products and market them globally, while maintaining high quality? Fabindia has mastered these conflicts, creating a retail platform of 111 stores, including two abroad, while reporting a turnover of Rs 350 crore for 2009-10. Fabindia's secret: A pioneering, community-led supply chain that has helped it create and dominate its niche—textiles in the form of readymade garments, bed linen, curtains, and even non-textile products in personal care, furniture, lighting and organic foods—while benefiting the artisans who work for it.

Handicrafts are by definition things made by hand with rudimentary tools and have been exceptions to the laws of mass production. But, Fabindia has introduced the element of scale and quality to its process.

About five years ago, Fabindia realised that it needed to take some tough calls on how to scale up profitably and while retaining its brand equity in handicrafts. "We realised that we had a very well-recognised brand, but we needed to establish a supply chain that could sustain large supplies. For this, we needed to involve artisans as they were very integral to our DNA," says Sunil Chainani, Working Director, Fabindia. The company today deals with nearly 40,000 artisan families and has come a long way from its beginnings in 1960 as an exporter of Indian textiles.

The domestic business came much later: It set up its first store in 1976, in Delhi's Greater Kailash area, and the second came only in 1993, again in Delhi (Vasant Kunj), followed three years later by one in Bangalore, its first outside Delhi. As its expansion gathered speed, by 2007, it had 54 retail stores across the country, including one each in Dubai and Rome, backed by 7,000 artisans. Today, almost 95 per cent of its turnover comes from domestic sales. The product base has diversified from textiles to include non-textile items and even organic foods. This required the presence of a robust supply chain that could deliver goods at affordable prices, with very low variance in quality and just-in-time supplies—making its supply chain innovation an imperative.

Fabindia was convinced that making the artisans a part

of its wealth creation process would help its own profitable growth. So, it has worked out a rather simple—yet a very modern and transparent—system of organisation that not only seeks to make disparate artisans more closely-knit, but also more organised in their functioning. It mapped all entire artisan/supplier groups and created 17 community-owned companies (COCs), which were financed through the creation of shares and capital investment by Artisans Microfinance (a fully-owned subsidiary established in 2007).

In other words, the artisans working on any supply related to Fabindia become shareholders of the company that exists in their region—which is in addition to the money they get by selling their produce. "These artisans can trade the shares between various stakeholders, and all the companies except one are profitable entities and they all pay dividends," says Chainani.

Artisans hold a substantial part of the shareholding of each COC: At least 26 per cent in all cases (this gives them a say in all key decisions). For the artisans, their own

Key Challenge	Innovation
To get global scale out of products that by definition are not made by machines.	Got clusters of artisans to become shareholders in companies that in turn supply Fabindia.

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK: FABINDIA

Finance		Process		Offering			Delivery		
Business Model	Networking	Enabling Process	Core Process	Product Performance	Product System	Service	Channel	Brand	Customer Experience
	✓	✓	✓					✓	✓

1. Networking: Pioneering the concept of community-owned companies and providing financial services, equity stake and capacity building to such companies.

2. Enabling Process: Inventory management enabled by decentralised decision-making model and aligning incentives across all network players.

3. Core Process: Decentralised quality assurance and mechanism for transmission of market signals.

Organisations that achieve breakthrough innovation usually cover at least 3-4 types of innovation included in the framework. Fabindia fulfils five.

4. Brand: Use of interactive ways to educate customers—coffee mornings, kids interactions, cooking with organic foods demos, and block printing workshops with master craftsmen (all in stores)—making purchase process a participatory process.

5. Customer Experience: Standardised and consistent quality. Availability of very wide range of stock-keeping units.

supplies to Fabindia improved their companies' bottom line. This provided an investment opportunity: They could realise capital gains by share trading at pre-decided intervals.

These suppliers are not contractually limited to supplying only Fabindia—they can realise additional gains if they choose to sell to other exporters. Overall, Fabindia aimed at building reliable partnerships with artisan groups. By providing management training, skills training, and working capital to its network members, Fabindia now stands to reduce the true cost of procurement over time.

Fabindia provides another kind of 'service' to its network of suppliers: It assists in translating market signals (that is, the consumption trends) to the artisans so that they make products that Fabindia and its customers really want to buy. A product selection committee regularly checks the pulse of the market through data and trend analysis, based on which it advises the COCs about the latest fashion trends and helps them get inputs from professional designers.

The COCs are required to provide Fabindia an assured supply of high-quality goods at competitive prices. But instead of implementing centralised quality control mechanisms, Fabindia has handed over the quality process to the COCs after defining stringent procedures. Now, COCs ship directly to stores and the stores decide whether to accept or reject shipments.

According to Fabindia, it aspires to create a retail experience which entails an "element of surprise". Every time customers visit a store, Fabindia hopes they will discover a new design. In the past several years, while pursuing this 'delight' factor, the Fabindia portfolio has expanded to more than 150,000 SKUs (stock-keeping units) each sig-

Partnering success: A Fabindia artisan at work

AMIT KUMAR

nifying a separate product, design, colour and size. This posed a serious challenge for inventory management. Having built the capability for decentralised quality assurance, Fabindia created an automated process that allowed the stores to directly place orders with the COCs, based on a pre-programmed algorithm, completely decentralising the inventory management process as well. The result: Faster signalling of real demand through the supply chain, so that Fabindia never has to put even 10 per cent of its inventory on discount sale.

Though Fabindia is guided by its ethical stance towards its stakeholders, it relentlessly focusses on profits—a key reason for its success and retail growth—even as it pioneers the mass retailing of handcrafted products. In fact, 11 of the 17 COCs have begun generating dividends within three years of incorporation. So far, the Fabindia model contributes to wealth creation and employment for close to 40,000 families. ⊙

"The scheme benefits from the learning on the field as it allows creative deviations"

AMITA SHARMA, MINISTRY OF RURAL DEVT

MNREGA
Reforming Governance and Society at One Go

India's biggest social welfare scheme has its share of problems, but innovations in its design and delivery hold out promise.

Breakthrough innovation in a government scheme! The very thought sounds far-fetched. The only innovation public programmes in India have been known for are the novel ways used to siphon off public money for private gains. No wonder, over 25 per cent Indians still live on less than $1 (Rs 45) a day and 70 per cent of the money allocated to welfare schemes does not reach the intended beneficiary. The problem is not the objectives or the lack of funds, it is always poor governance.

But what if there was a scheme that was designed to improve governance and society at the same time? What if there was a scheme that legally mandated the delivery of prescribed benefits? What if there was a scheme that is pulled in by the intended beneficiary (people demanding it as their right) rather than being pushed by the official machinery? What if there was a scheme that could emerge as a single platform to deliver several other existing public programmes—each more efficiently and

effectively than earlier? Such a welfare scheme would truely qualify to be a breakthrough innovation.

This is exactly what the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) is evolving into. That is why Monitor's innovation framework was applied to this scheme. The idea was to understand innovation in the social sector, even if the main goal of government welfare schemes isn't profit generation or outsmarting the competition. The core message of the Monitor framework is that it is essential to innovate on multiple fronts at once to create a truly compelling and differentiated offering—something MNREGA is morphing into. We found the scheme covering at least four types of innovation included in the framework (see *grid on page 68*).

The key innovation is that MNREGA is a law—an intended beneficiary can sue the government for not getting his entitlement. Multiple courts, including high courts, regularly hear cases from people being denied wage under the scheme. Uttar Pradesh has become the first state to invite applications for the post of ombudsmen

Wages of reform: Villagers dig a well under the MNREGA scheme in Uttar Pradesh

VIVAN MEHRA/www.indiatodayimages.com

<table>
<tr><td>**Key Challenge**</td><td>**Innovation**</td></tr>
<tr><td>To guarantee right to work to one unemployed adult in every rural family all over the country.</td><td>Delivery of benefits legally mandated, flexibility for customisation, enforced financial inclusion.</td></tr>
</table>

to hear MNREGA complaints from every village. As awareness about redress through legal routes spreads, the efficiency of the scheme will increase further through both better governance in local administration and increased demand from people. "Programmes belong to government, but laws belong to people. MNREGA is supposed to transform society and governance at the same time," says Amita Sharma, Joint Secretary in the Ministry of Rural Development and the key person in implementation and modification of this scheme.

MNREGA has been designed to be inherently customisable—the second important differentiator for the scheme. Beneficiaries continuously decide new ways to use wages provided under the scheme. Such usages vary from helping create assets (like orchards) to skill development to starting new village industries. For example, when villagers in Karnataka's Gulbarga district had a problem with wells going dry, farmers had this idea of building check dams on a nullah that ran along their property. The MNREGA funded Rs 2 lakh for this project;
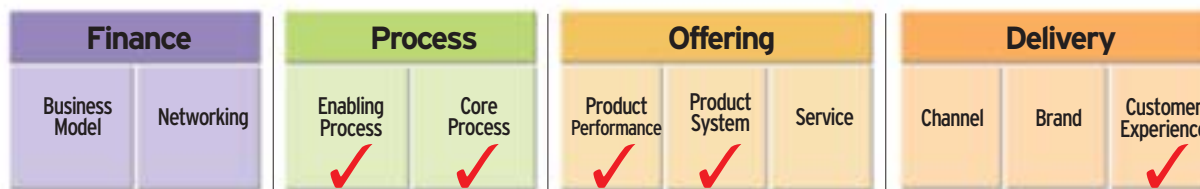
the check dams soon recharged all wells in the area. Says Sharma: "The scheme benefits from the learning on the field as it allows creative deviations." It has also found new ways of using features of old welfare schemes somewhat more efficiently—like job cards and social audits. This has been possible because of decentralised decision-making. MNREGA works on two legs—gram panchayat and administration—and the two are supposed to keep checks on each other.

Even such checks and balances have not rid the scheme of frauds and leakages, though. In some places, the administration is experimenting with technology to improve the monitoring mechanisms to cap diversion of funds. For example, Andhra Pradesh has developed a tracking tool in partnership with Tata Consultancy Services, which handles registration,

150 per cent—from Rs 16,000 crore in 2005 to Rs 41,000 crore in 2010—which is an indication of increase in demand for work. This, when only about half of its mandate is achieved—so far, average all-India wage days generated (per person per year) is 49—against the upper limit of 100. A National Council of Applied Economic Research review points out that MNREGA has been effective in making a dent in rural poverty and helping the poor avoid hunger and migration, allowing them to send their children to school, and helping them cope with illness.

Apart from existing leakages, the scheme faces two more unintended problems. It's a social security that could become an entrapment and lead to a phenomenon called de-skilling—e.g. trained artisans will gladly become stone breakers if that pays more. For the same reason, it is perhaps also stoking wage price inflation, especially for

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK: MNREGA

Finance		Process		Offering			Delivery		
Business Model	Networking	Enabling Process ✓	Core Process ✓	Product Performance ✓	Product System ✓	Service	Channel	Brand	Customer Experience ✓

1. Enabling process: Partnering with TCS to improve and automate monitoring mechanisms.

2. Core process: Legal guarantee and accountability built into the scheme.

3. Product performance: "Demand-driven" nature of the act, allowing it to reach further than other schemes.

4. Product system: Customisability of the scheme to satisfy the local community needs.

5. Customer experience: Choice between multiple public works; financial inclusion through bank deposits.

Schemes that achieve breakthrough innovation usually cover at least 3-4 types of innovation included in the framework. MNREGA fulfils five.

work estimates, muster rolls and wages. This means payments to workers are accurate and deposited directly to their bank account. MNREGA is also piloting advanced technologies like biometric job cards and IT kiosks, though fixed costs and maintenance continue to pose a challenge.

Still, the scheme has provided employment to 5.06 crore households for a total of 4,774 crore person days. It has taken up nearly 43 lakh work projects, of which 18 lakh are completed. The average minimum wage has jumped 30 per cent to Rs 84 a day in three years. The scheme's budget has risen more than

De-skilling: Could be one unintended consequence

small scale industries, at a time when inflation has been unmanageably high. But these aren't really problems with the scheme. They are more like consequences of its success. It's for the sponsor of the scheme—the government—to devise ways to handle such fallouts. Moreover, relative price adjustments do take care of such consequences over a period of time. Besides, the best hope for remedy to such, and several other issues with MNREGA, is its inbuilt system of self-criticism and transparency. It's one of those rare schemes that advertises its own deficiencies—which is another social sector innovation. ◉

''Having broken the geographic barrier, we now wanted to break the language barrier''

GIRISH AGARWAL, DIRECTOR, BHASKAR GROUP

Dainik Bhaskar
Customised from Day One

Before launching its Gujarati daily, it took feedback from over 1.2 million homes to understand what prospective readers wanted. And then it gave them just that.

For organisations entering new markets and product segments it is essential to understand the unique needs of their potential customers. Success in one geography does not always guarantee success everywhere. The task of entering a new market is made even more difficult when there are established players that present significant competition. Despite all odds, *Dainik Bhaskar* entered Gujarat with a Gujarati daily (*Divya Bhaskar*) and became the #1 newspaper in Ahmedabad on the day of the launch.

Until the early 2000s, *Dainik Bhaskar* was a Hindi language newspaper circulated in Madhya Pradesh, Jaipur in Rajasthan, Chandigarh in Punjab and Haryana. Given the need to grow in other lucrative markets, *Dainik Bhaskar* did not want to be constrained by language. Girish Agarwal, Director of the Bhaskar Group, says: "Having broken the geographic barrier, we now wanted to break the language barrier." The first step in choosing to change its geographical track was to choose the market. "After careful consideration, we decided that it could be Ahmedabad," says Agarwal. "It had the 'potential of a metro' with a proven consumption pattern, and our product had to generate revenues from advertisers. There was no point in choosing a location just for the sake of it. It had to make complete business sense as well."

After this, the group set out to understand the needs of potential customers. For this, they contracted over 1,450 researchers to survey 1.2 million homes and conducted 54 focus groups in Ahmedabad and six neighbouring districts. This sample is larger than the combined sample size of the Indian Readership Survey or IRS and the National Readership Survey or NRS for two years. The researchers were trained extensively on key interview skills to be more effective and also aid in building the *Divya Bhaskar* brand. In the survey, people were asked what they wanted from a newspaper and what the current newspapers lacked.

The feedback from the focus groups seemed confusing at first. "By the end of it, we were very confused with the hints," Agarwal recalls. "We had given four options to potential readers for the price of the new paper (Rs 3, Rs 2.50, Rs 2 and Rs 1.50). But 40 per cent said Rs 2, and 30 per cent wanted Rs 2.50, while the rest said Rs 1.50."

Why would the lay reader opt for a higher price? The group then decided not to follow the hints that traditional market research was throwing up. "We realised that people often quote a higher price as they don't want to appear like they are going for a cheap substitute in front of others," says Agarwal.

The entire exercise helped *Dainik Bhaskar* to shape the content of the newspaper to the needs of the customers, and also gave it new insights into the Gujarati market.

In the second stage, they revisited the 1.2 million people surveyed with a pre-paid subscription offer to *Divya Bhaskar*. Conversion rates were high as people saw their feedback being incorporated in the design of the paper. It also helped rope in vendors who saw a large reader base already demanding this paper. This was the final nail in the coffin for any threat that competition could pose.

The large numbers of pre-paid subscription were also helpful in roping in advertisers faster, leading to much higher revenues. The result? *Divya Bhaskar's* launch edition sold 4,52,000 copies, taking it straight to the #1 position.

Instead of a "test-market and scale-up approach" this allowed *Divya Bhaskar* to be able to launch at scale. It got to lock in the positive network effects of having a large subscriber base, vendor base and advertisers at launch instead of going through the birth and growth pains of a new entrant. It continues to maintain the leadership position in Ahmedabad (it is the second-largest in all of Gujarat) even today and use the same tactics to launch in new markets.

One key aspect of the innovation was using consumer research for two-way communication, effectively doubling the impact of each interaction. This approach was effectively a form of "crowdsourcing," where a company finds a way to get the input of a large number of consumers to help configure an offering. In addition to extracting the information that was relevant to the creation of a new, market appropriate product, the experience that consumers received over the course of the two visits was enough of a differentiator to cement a relationship that resulted in high conversion to subscriptions.

Divya Bhaskar has continued to leverage its knowledge of the Gujarati market to launch other editions in Gujarat to fill market gaps and niches. *DB Gold* became Surat's first afternoon paper catering to the needs of industrialists, traders and the business community.

Leveraging the learning from Gujarat, *Dainik Bhaskar* has launched *DNA* in Mumbai—another new language in a new geography. *DNA* is at present #2 in terms of circulation in that city. What began as an innovative, experimental process has become a core aspect of their way of doing business.

At present, *Divya Bhaskar* has a circulation of 11.5 lakh in Gujarat with nine editions. ⊙

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK: DAINIK BHASKAR

Finance		Process		Offering			Delivery		
Business Model	Networking	Enabling Process	Core Process	Product Performance	Product System	Service	Channel	Brand	Customer Experience
✓		✓	✓	✓				✓	✓

1. Business model: Using a pre-paid model at a large scale to convince advertisers and vendors of the circulation at launch.

2. Enabling process: Using a "crowdsourcing" approach to provide potential consumers increased leverage in designing a new product.

3. Core process: Developing a consumer-centered, repeatable process to launch media products in unfamiliar geographies and new languages.

4. Product performance: A localised content offering based on superior knowledge of the needs of Gujarati newspaper readers.

5. Brand: Using the research process as a platform to promote the brand.

6. Customer experience: A unique model of consumer engagement that enables *Dainik Bhaskar* to build awareness, obtain insights and build loyalty rapidly in a new market.

Organisations that achieve breakthrough innovation usually cover at least 3-4 types of innovation included in the framework. Dainik Bhaskar fulfils six.

"The massive pent-up demand for value-added services in rural India surprised us pleasantly... rural consumers are quite aware of what is available and what they want"

SANJAY KAPOOR, CHIEF EXECUTIVE, **BHARTI AIRTEL**

Bharti Airtel
Mobility for Rural Wallets

At a time when mobile phones in Indian villages were a rarity, Airtel found a way to capture the market successfully.

Travel into the deepest hinterland of India and you will still spot the unmistakable red-and-white Airtel logo. Bharti Airtel, the brand's owner and India's largest mobile telephony player, has got to where it is today largely on the back of its rural growth. But Airtel executives admit that the plan to 'go rural' wasn't actually a plan, it was a necessity. "Opting out is not an option if you wanted to be a leader," jokes Sanjay Kapoor, Bharti Airtel's Chief Executive in India. In 2004, Airtel realised that, with the entry of additional operators across the country's telecom circles, competition for urban consumers would only intensify. But, while tapping the vast riches of India's rural heartland is every marketer's dream, it is not easy.

Why rural in the first place? In aggregate terms, rural India represents a material opportunity across many categories—and its salience is on the increase, driven by a wide range of stimuli. Initiatives like higher minimum support prices for crops, the farm loan waiver and the National Rural Employment Guarantee Scheme, and factors like generally good monsoons, have all helped. The increasing prosperity of such a large population—some 700 million—creates an enticing growth potential.

But rural comes with its own set of challenges—distribution, service, product knowledge, affordability, and so on. Still, Airtel has successfully cracked the code. As the brand began its rural push in 2004, there were some things it learnt almost instantly. Globally and in Indian cities, mobile telephony helps consumers travel while they talk: It is a mobility solution. In rural India, the need was more basic: Communication. An industry belief, for example, was that rural Rajasthan with its poor infrastructure, sparse population and large open desert spaces could not be a good telecom market. However, the very factors that did not lend themselves to 'mobility' supported a 'communication' paradigm, Airtel found.

Even so, Airtel had to cross many hurdles to become #1. First, while it had no problem putting up telecom towers in rural areas, it found that handset makers had a scant distribution presence there. Airtel entered into what turned out to be a crucial partnership with Nokia to bundle a handset with a connection. It helped that both Airtel and Nokia had the same, immensely popular brand ambassador, Shah Rukh Khan. Why Nokia? "Rural consumers are extremely brand aware, they would pay a bit more and get a top brand rather than a

MONEY SHARMA

For Airtel, the 'go rural' push in 2004 wasn't actually a plan, it was a necessity

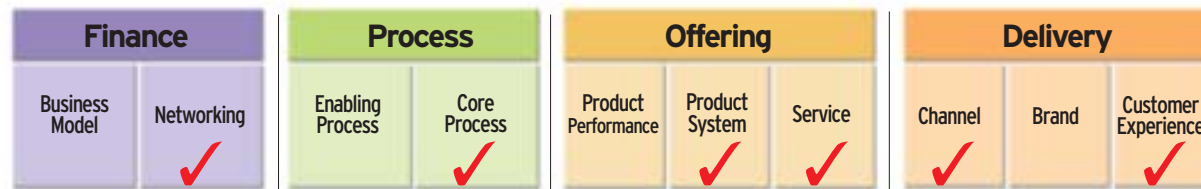| Key Challenge	Innovation
To keep its leadership position intact by expanding into rural markets, which needed a totally different strategy, products and service standards.	The right mix of product and pricing, strengthened by a vast and unique network of over 25,000 centres to serve customers.

cheaper brand," Kapoor points out.

Then there was the 'validity' hurdle. Rural consumers could ill afford to pay the steep validity charge—the money they had to pay just to stay connected on the network. In 2004-05, a typical monthly prepaid recharge cost Rs 333, of which Rs 33 was tax, Rs 175 the validity charge and the airtime only Rs 125.

Something had to change. Airtel began playing around with its recharge schemes, prodded no doubt by pro-

nouncements from the government and regulators. Recharge rates came down, eventually culminating in 'lifetime validity' connections for as little as Rs 99 and micro-recharges where consumers could top up as much as they needed in multiples of Rs 10.

To increase reach and distribution (not just for initial consumer acquisition, but for recharge and service requirements), Airtel created a two-tiered structure with Rural Super-stockists (approximately 2,000) and Rural

MONITOR'S TEN TYPES OF INNOVATION™ FRAMEWORK: BHARTI AIRTEL

Finance		Process		Offering			Delivery		
Business Model	Networking	Enabling Process	Core Process	Product Performance	Product System	Service	Channel	Brand	Customer Experience
	✓		✓		✓	✓	✓		✓

1. Networking: Forming relationships with Nokia to bundle handsets with its offer, and other alliances for distribution.

2. Core Process: Airtel Service Centres help widen service, a roaming distributor helps acquire consumers.

3. Product System: Introduced affordable bundled handset offers.

4. Service: Created service options appropriate to the consumer segment; service in the village, SMS-based systems, vernacular IVR systems, etc., through effectively outsourced systems like the Airtel Service Centres.

5. Channel: Created a cost-effective, young entrepreneur-led distribution channel. Effectively worked around the issue of handset manufacturers not having the relevant distribution networks.

6. Customer Experience: In addition to the freedom to communicate, rural consumers are also provided with support to their livelihood through job alerts, weather and price-related information.

Organisations that achieve breakthrough innovation usually cover at least 3-4 types of innovation included in the framework. Bharti Airtel fulfils six.

Distributors under them. The Rural Distributors were effectively young entrepreneurs (around 30,000 at last count), who were allocated territories around a few mobile towers and were responsible for consumer acquisition. Airtel also entered into alliances with Indian Farmers Fertiliser Cooperative Ltd, or IFFCO, which helped it sell connections through 35,000 agricultural societies.

Similar alliances were also set up in various micro-finance institutions. It built an enabling system that allowed 700,000 rural retail outlets to sell recharges through a mobile device. For service requirements, in addition to the challenge posed by distance, consumers had a fear of technology. They weren't willing to deal with call centres. Airtel created 25,000 Airtel Service Centres (ASCS) across rural India. This involved training a specific retailer in a village to handle service requirements in addition to selling new connections and recharge—the retailer gained higher credibility leading to increased walk-ins while Airtel provided a face to customer service interactions. Moreover, a dedicated helpline or call centre in each circle provided real-time back-up support to these ASCS.

"This says a lot about the rural Indian's entrepreneurial spirit," argues Kapoor. Airtel's growth throughout rural India has been powered by local talent. This has allowed it to cross the challenges posed by languages and dialects and even the 'shyness' of some consumers. As products are sold, serviced and maintained by local people, it is even argued that this enhances Airtel's brand loyalty in highly competitive times.

Over time, Airtel continued to innovate to drive more value from its rural initiative. It introduced value-added services like fixed duration music radio, job alerts and for consumers buying connections through the IFFCO joint venture—information about produce prices and tips on crop management, among other things.

On the service aspect, Airtel has introduced SMS-based self-service systems in nine vernacular languages. It is now piloting call centres dedicated to rural customers in Tier III and IV towns with interactive voice response or IVRS options in 16 local languages. "The massive pent-up demand for value-added services in rural India surprised us pleasantly... the rural consumers are quite aware of what is available and what they want," Kapoor points out.

There are a number of elements that need to work in tandem for such an initiative to succeed. It required a network presence before Airtel could put up a distribution and customer service system. Similarly, the rural distributors had to demonstrate some level of demand generation before additional effort in setting up the ASC could be expended. The alliance with Nokia and the ability to provide a bundled offer was critical to address the affordability and comfort with handset aspects. Progressively reducing the total cost of ownership for the consumer by moving towards "lifetime validity" was critical in this regard.

The impact of Airtel's rural initiative has been phenomenal. Not only has penetration in rural India increased manifold, given that two out of three net subscriber additions in India today come from its villages, the drive has also placed Airtel in a strong position. ⊙