

Innovation essentially!

Dr. Sanjay Bhale

Professor, SIBM Pune

"A nation has to evolve as a knowledge centre through innovation and creativity," said the former President, Mr. A.P.J Abdul Kalam, recently at an event in Bangalore. Innovation leads to technological development and social development in turn. One must innovate to differentiate, integrate society and bridge divide between people. Creativity is in seeing the same things as everyone else and inventing something different. Creativity involves reapplying existing ideas, accepting change and being flexible in outlook.

Historically, economic development of nations has occurred in stages - from mechanizing agriculture to industrializing factories and developing post-industrial enterprises. Experts describe development as evolutionary in which economies progress from simple to intricate activities. Factor-driven economy is at the low-end, processing natural resources; investment-driven in the middle, focused on high-volume manufacturing, and innovation-driven at the high-end, offering value-added products. As nations upgrade from factor processing to innovation, their economy is deemed to emerge sophisticated and prosperous.

A more salient approach is to leapfrog to the innovation-driven stage. This view is congruent with the Global Competitiveness Report which recognizes India's innovation capabilities. India's world-class engineering and business schools offer opportunities to export higher knowledge in specialized fields. Large pool of skilled workforce in science and technology makes the country attractive to new ventures in product engineering, pharmaceutical research, and healthcare etc. In essence, India must exploit its investments in human capital by positioning itself as an innovation-driven economy focused on knowledge-based industries. Following are few examples of such practices.

Contract product development: Contract product developers are engineering consultants who develop products from clients' patents. Providing services only or jointly developing products are common. Nasscom estimates engineering services outsourcing alone to total \$50 billion by 2020. If joint product development is added, the revenue potential could be immense.

Contract drug development: Escalating drug development costs are pressuring pharmaceutical firms to offshore R&D. Contract drug developers performing pre-clinical evaluation, data collection, and analysis. Business Insights predicts this industry to earn \$35 billion by 2013. The country's share today in this industry is \$100 million. Joint drug development opportunities, while driving revenues higher, would thrust India's pharmaceutical industry into the international scene.

Networking: Some Indian companies such as Mahindra and Mahindra group's internet-based innovation pad are facilitating generation of new ideas by cutting down organizational hierarchies. Its younger employees, with 1-2 years work experience, have successfully generated over 400 ideas related to products, process and new ways of doing things. This has also been reflected in the rising valuation of the Mahindra and Mahindra stock price over past one year or so.

To draw true benefit of the wisdom of many, due consideration needs to be given for leveraging mass collaboration to achieve business goals similar to the concept of crowd sourcing defined by Jeff Howe in June 2006. Encouraging innovations, brainstorming and questions and answers through crowd sourcing can be an answer to corporations looking for innovative solutions by combining the wisdom of many individuals or community groups using online medium as is being done by Wikipedia, Linux, Twitter and others.

A few years ago, researchers at Cincinnati-based consumer goods multinational company P&G made a breakthrough that could revolutionize how food is wrapped and stored. The manufacturing and the packaging content was indeed, world class. But there was one problem, despite a portfolio of more than 300 products worth nearly \$80 Billion, P&G didn't have a strong presence on supermarket food shelves, and it would take millions of dollars of marketing, packaging and other costs to change that. P&G tried an innovative idea; it approached Clorox Company, manufacturer of various food and chemical products with relatively significant market presence, for a joint venture. And this idea worked benefiting both the companies leverage their competencies.

Innovation and creativity are new intangibles that have not been given adequate weightage in corporate valuations. With the 21st century being aptly described as the new age of innovation, these new intangibles needs to be suitably factored into the corporate.

Historical valuations of countries of the European and American continent, which had risen after the new discoveries in science and technology, particularly during the period of Industrial Revolution of the 19th and 20th century and the information technology revolution of the last quarter of the 20th century, is now giving way to the innovation revolution led by developing countries especially India and China.

An example of the emergence of this trend is seen in the job market, coming full circle from a period before the Industrial Revolution when China and India were among the richest countries and did the best quality work to a period during Industrial Revolution when these jobs moved to western countries, and now back again to China and India in the form of outsourcing of innovative low-cost creative solutions in manufacturing and services sectors, respectively.

India has a great potential as far as innovation is concerned. This country was, as C. Rajagopalachari said, a civilization without governments for the 5,000 years before the Mughals and the British arrived. The Indian genotype is unique, especially so in its ability to innovate. This is because innovation requires the four Cs: chaos, creativity, communication to generate ideas, and channelization to convert them into real products. India has the first three, but needs to strengthen the fourth. Further, our plurality in terms of culture, religion, language and more is a great asset which can be systematically channelized by providing apt infrastructure to instill a positive attitude towards research & development.

Prof Anil Gupta of IIM-A argues that natural innovativeness exists at the grassroots of our society. It occurs by imitating the principles of innovation witnessed in Nature: simplicity, frugality, multi-functionality and diversity. Whereas an invention is the first occurrence of an idea, an innovation is its implementation.

Innovation has got to be natural, with the basics essentially. Have you ever seen a bird that tries to fly, a fish that tries to swim, and a flower that tries to bloom? No, these happen naturally. Have you

ever seen companies and managers trying to innovate? Plenty! Why can't managers innovate naturally? It is evident that the companies that continue to invest in their innovative capabilities during tough economic times are those that fare best when growth returns. Many companies give attention and resources only to the projects that are most likely to generate near term profits, and they end up deciding quickly which initiatives fit best with the company's core business.

Toyota's lean production system can be one of the best examples. When asked Toyota engineers to find out how they did it. The engineers said, poker-faced: "That's what we do. Is there any other way?" They were not aware that they were innovating. When the whole world says what they are doing is fantastic, they say: "How can you guys be so dumb not to do it this way." That's unconscious innovation.

Creativity is the discovery of new ideas or concepts, or new associations of existing ideas or concepts. Innovation is taking them into practice and deriving results. Ask any leader and he or she will agree - great ideas are in plenty but the people who pick them up and persevere to make them a reality with positive results are difficult to find.

The downside of rigorous prioritization, however, is that it halts many potentially promising projects at an early point in their development and leaves them stranded inside the company. Over time, so many projects get abandoned that the company's ability grows beyond its core business threatened. If focus is maintained too long or with too much rigidity, it can become enemy of growth. By breaking down traditional corporate boundaries, open innovation allows intellectual property, ideas, and people to think freely both into and outside organization.

One can be innovative by pursuing it in a conscious way, with programmes and huge budgets, the chairman making speeches and all that kind of stuff. Programmed innovation is a perfectly good way to go, but the ultimate goal should be to liberate the innovation gene inside a person, a company, an organization.

While integrity and knowledge are fundamental to business, inner motivation combined with innovation is the key to emerge successful. The spirit of innovation is to be imbibed and cultivated through experience; it ought to be almost a natural phenomenon. When a child is born, she is naturally innovative. We put blinkers on the kid and we condition her to become like us; we inhibit her.

The key, therefore, to becoming innovative is not to introduce new techniques of innovation, but to unlearn the ones that block innovation. And that's a hell of a job. India may not yet figure in any global list of innovative countries, yet the number, the variety and the spread of innovations across the land are striking. Our challenge is to build on this legacy of creativity. Destiny awaits us.

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Modern Trade – Threat to General Trade?

Prof. Shrirang Altekar

Associate Professor, SIBM Pune

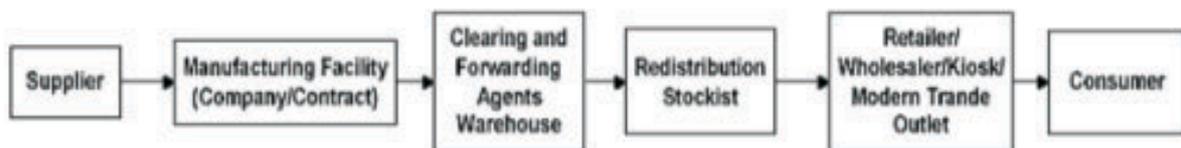
One of the questions that is often been asked is how will the coming 'mall culture' affect the small retail or kirana business.

This is the age of super markets, hyper markets, malls, large department stores etc. They appear to be coming up at (for the small retailer) an alarming rate. We see higher footfalls, newer formats, more attractive deals and ATL promotions. It naturally raises in the mind of the small retailer, the question as to whether these will, eventually, swamp and finish off the smaller outlets.

How far is this presumption correct?

Let us look at both of them as specific channels. The physical flow of material let us say in the case of a typical FMCG company, would be somewhat as below:

Physical Flow



Each of the above 2 channels addresses the needs of the customer. The kirana (FG - Family Grocer) segments address the convenience aspect as they are located in proximity to residential areas. The Modern Retail outlets might address the same customer but provides a different value proposition. It addresses a different need : of providing a wide array of products under one roof where the customer values a shopping experience, and would like to have an experience of picking up his groceries and personal care products. They thus enable the corporates to provide greater scope for brand promotions and consumer activations which might ultimately lead to increased consumption through a different channel.

The growth in Modern Trade can be attributed to 3 primary factors:

1. Positive Demographic Trends
2. Improved Income levels and Buying power
3. Changing Preferences and expectations as a result of exposure to retailing experiences.

With increasing disposable income the customers realize that organized trade provides them with a shopping experience which is par excellence and at the same time there is no differentiation in terms of

the prices of most goods offered on sale, at times at prices lesser than the FG outlets.

The Modern Trade paradigm can be pictorially represented as follows:



I would like to share here some of the findings of a survey done by 2 SIBM students, Mr. Susheel Aswani and Mr. Amit Puri (batch of 2008) under the guidance of my colleague Prof. Abhijeet Ranade.

A comprehensive survey was done by the above students and some of the findings of the primary research were:

Consumer Survey results:

1. It was generally agreed that the customers preferred the Supermarkets and self service stores whenever they had a pre-determined list of goods to be purchased.
2. The Kirana stores in such cases were generally visited for replenishments or single piece purchases.
3. It was also opined that the Modern Trade stores invariably encouraged spending more than the planned intention of the customer, encouraging impulsive purchases through planned activations and through use of Planogramming and merchandising
4. It was revealed that the customer could specify his budget to his nearby Kiranawala (FG) and could fit in the purchases as per preference.
5. Also the customers felt that there was greater exposure to promotional schemes at the Super markets compared to the Kirana stores. This coupled with the ambience and the experience to choose products from a wide array were some of the reasons why customers preferred Modern Trade.
6. Almost 90% of the customers agreed on being deal prone. They felt that in most cases when a product had a close substitute in the same segment, and a scheme (read - deal) was available on the substitute they would prefer such items and switch brands.
7. Also the general opinion was that in the case of most categories of products the customers would either choose Kirana stores or the supermarkets as per their convenience and time on

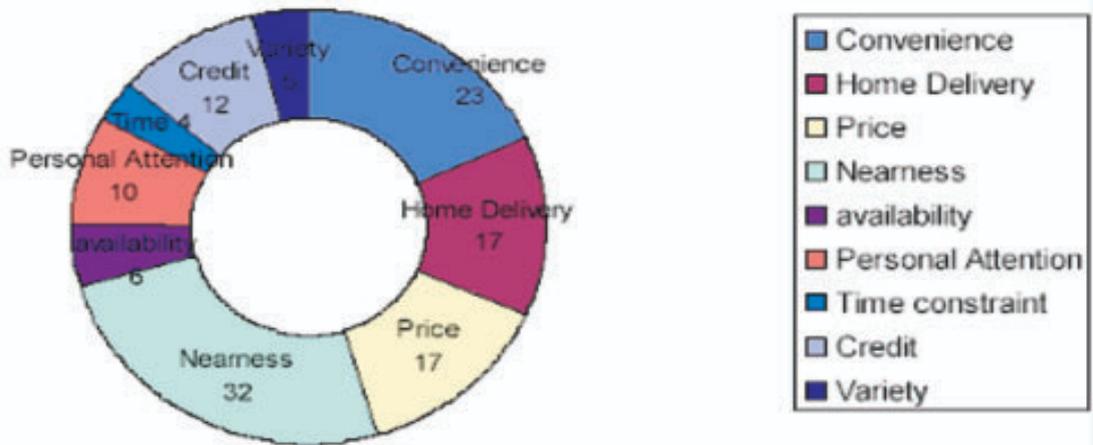
hand. But in the case of certain category of products such as Deodorants and Premium Personal Care categories, specifically in Skin Care and Hair Care, they would prefer Modern Trade outlets.

8. It was felt that Kirana stores are the preferred choice of destination when it came to purchasing items in an emergency, or for convenience. Also for certain shoppers (30%)
9. It was felt by consumers that the Kirana shop owners forecasted their needs and offered services such as elastic credit and home delivery, which they valued.
10. It was also felt that if in case the Kirana were to be substituted by a super market in close vicinity it would be the preferred choice of point of purchase.
11. The customers felt that the supermarkets offered greater visibility for schemes.
12. When the customers were asked to pick the single most important factor influencing the purchase decision the discussion revealed the following result :
 - a) Certain factors disliked about the modern trade format included the long traveling time and the fact that these could be visited only when one had time on their hands. This was because of the fact that most Modern Trade outlets, being dependant on size were coming up in the outskirts or suburban areas.
 - b) The long waiting time in queues at the time of billing was acknowledged as being an inconvenience. Insufficient cash counters led to delays and high irritation levels.

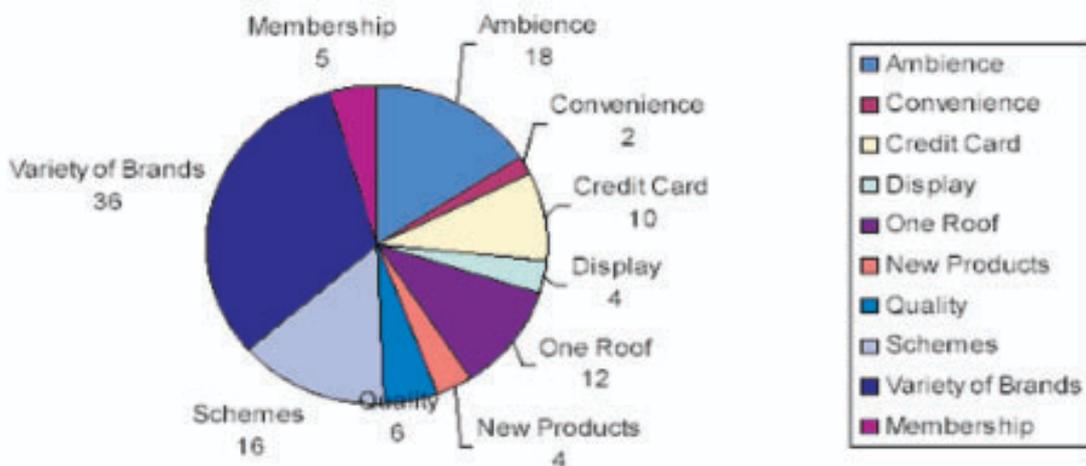
Retailer reactions in the survey:(Kirana)

1. From the point of view of merchandise sold in these stores the staples, pulses formed the bulk of the purchases and the branded FMCG goods were generally accounted for the overall bundle of products a typical loyal customer would purchase.
2. The stores have a bank of loyal customers who are responsible for a majority (nearly 70% on an average) of the Total sales.
3. The services offered to these class of customers include: Home delivery, Order Booking via Telephone, Credit facility (for 1 month and beyond).
4. Relationship building is a key strategy and the store owners believe that Modern Trade would be a once in a while option.
5. There hasn't been a noticeable decline in any category of products as such; though around 2-3 retailers cited the sales of cosmetics to have been lost to Modern Retail stores.
6. Shelf space was generally purchased by companies, paid windows being the preferred mode.

Kirana Store Driving Attributes



Supermarket Driving Attributes



Source: Distribution Channel Analysis for HUL's Personal Care Range February 24, 2007, Susheel Aswani and Amit Puri.

Thus we see the key drivers which would drive the sustenance or growth of the above channels.

As we can see from the above, location (nearness or proximity) is a key parameter and this is why presently Modern Trade cannot duplicate the convenience of a neighborhood store. Still with increasing consumption, newer agreements which mean servicing directly from the CFA and a possibility of greater customer activation makes Modern Trade no doubt an important channel.

We also need to look at the actual operations inside the Super markets.

I have tried to observe behavior of shoppers inside malls in Gurgaon. Instore promotions are the norm. But the major observation was that the shoppers, mainly young to middle aged ladies, were clearly uncomfortable with the idea that they had to walk over a large area to collect their purchases, put it in the shopping basket or trolley, push it around all over the store, wait in the queue to settle the bill, and then carry their purchases out with them.

In several cases, I saw attendants being asked to get goods from shelves and they were hard pushed to satisfy multiple customers. This will change with the shoppers fast becoming familiar with in-store operations of the MT outlet and also with retail chains offering home delivery, which has already started, and which could well mean a shift in the way that customers shop.

Personal experience shows that nothing is free: all offers and promotions are either linked to minimum purchase amounts or on offer of additional merchandise in the same SKU. For example offering 30 % extra toothpaste would upset the monthly buying decision cycle, preventing a potential shift to a competing brand in the same. If we are to look at MT shopping as " an experience ", it would mean that I would probably end up spending more than expected due to impulsive purchases and availability of larger SKUs predominantly in the store.

This is a factor which must be considered. However if time and convenience are factors, along with reasonable, not lowest prices, the Friendly Neighborhood Kirana(FNK) would score over a supermarket.

Looking at the above, I would venture to say that at least for the time being, the FNK would not be affected greatly for some time at least by the advent of MT, but of necessity would have to follow the basic mantras:

Availability

Ensuring that the products / brands required by customers are always available to ensure a shift in consumer preference through lack of product availability does not take place.

Visibility

Ensuring that the shopper is made aware that the product he has come to buy is available in the outlet so that he does not shift his preference to another outlet where he perceives an availability width.

Eye Catching Display

Ensuring that the products are displayed in a manner to attract the shopper. The outlets are competing with Modern Trade where this is a key factor and where attractive displays are the norm and not the exception. Coordination with merchandisers is absolutely necessary to ensure this.

Focus on Service

Personal Attention, Home Delivery and variable credit are major factors ensuring outlet loyalty. The fact that it is possible that the outlet will be known to the customer for the last several years and a relationship is already enjoyed will also play a major part. A Customer friendly attitude should be necessarily maintained.

Also it may call for some out of the box thinking.

An example I can share is: In Pune, an entire road, long considered a prime shopping area, M.G. Road or Main Street, was being badly affected by malls coming up nearby. An innovative idea was put in place and which was supported by local authorities. From Saturday evening to Sunday night, the entire road was declared a no - traffic zone. A "shopping as an experience" atmosphere was created on the entire road, with life - size comic characters like Mickey Mouse and Donald Duck walking on the road to attract and entertain children. The entire road was given a festive look, and wi - fi was introduced. It was named as the "walking plaza".

The road managed to regain some of its lost customers over a period of 1 year. Though the experiment fizzled out later on for various reasons, it did work for some time.

In trade, in equal measure as manufacturing, innovation would be the key to attract and more importantly, retain customers.

This article is based on the following:

1. My personal primary research carried out while planning for interventions with a premier FMCG company.
2. Personal observations and study in Modern Trade outlets in Gurgaon, Chennai, Mumbai and Pune.
3. I acknowledge drawing upon the research done by my students Susheel Aswani and Amit Puri SIBM batch of 2008, on similar lines under the guidance of my colleague, Prof. Abhijit Ranade.

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