Decision Support System for Managers
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Module – 06
Lecture – 31
Fortune at the Bottom of the Pyramid, GE, Rule of Three

Hello and welcome to "Decision Support Systems for Managers"! We are into module-6, 'decision support system for strategizing' and lecture-2 – 'fortune at the bottom of the pyramid, GE, and rule of three'; ok. This is the very-very interesting part of business strategy.

In the previous class we mentioned about SWOT. Now, SWOT analysis I think you have done for many times; ok, but SWOT analysis has to be looked into from that angle. Am I sustainable, will I succeed, what am I manufacturing with others cannot at a lesser price? If I am manufacturing something high and can others imitate?

Then there is a lot of problems that will happen. And my comparative advantage, we will lose that is why you will see every company wants to do innovation, but the moment it is innovated it is imitated and taken out; ok.

So, today we will learn two-three other points which one should be very careful about, and they are fortune at the bottom of the pyramid, rule of three, and GE matrix; ok.

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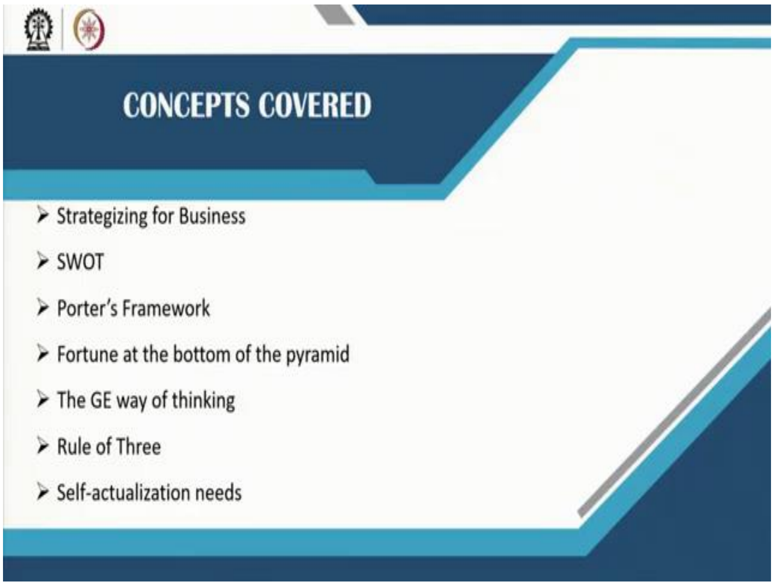

These are the ones that we wanted to cover as part of this course; ok.

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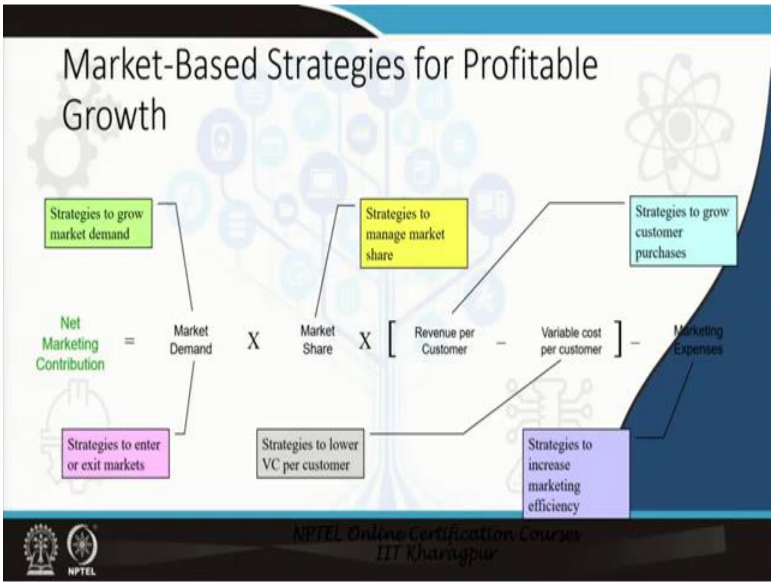

Now, we see what we are doing, what is the topic fortune at the bottom of the pyramid; ok.

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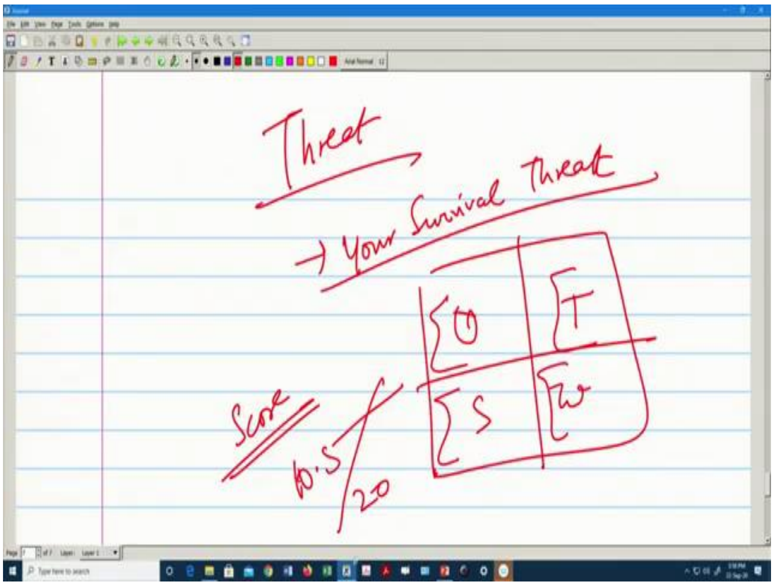

Now, fortune at the bottom of the pyramid means basically means basically let me just show you, this was the previous day’s class.

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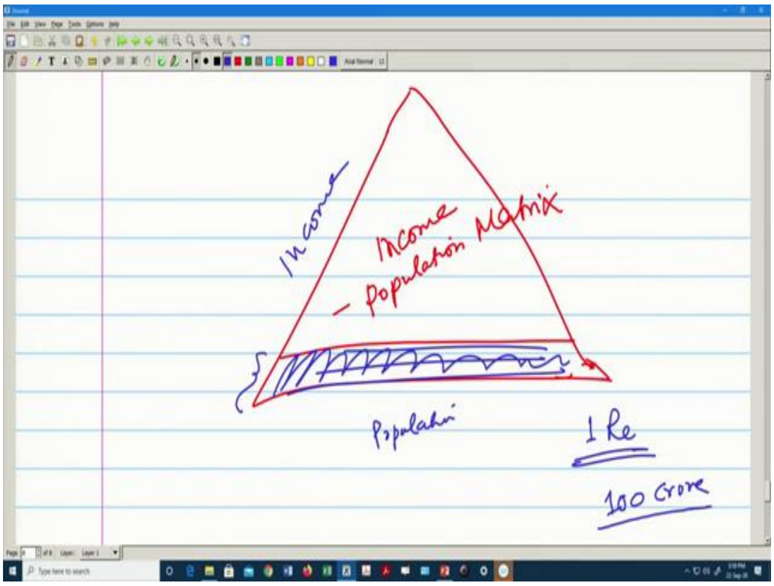

Fortune at the bottom of the pyramid tells you, this is my income pyramid ok, the income and population matrix. I am just modifying the original one a bit income to explain even in this income population matrix. Here we are seeing a huge amount of population ok, but the income if you can say this side has income, and this side has population, huge population ok, but income is only this much. Huge population income is only this much; ok.

But then if this is the income what, what C. K Prahalad says is that since the population base is very high, even if a person buys a product for 1 rupee you are getting sorry you are getting at least a 100 crore of rupees, because everybody is buying 1 rupee sachet.

So, what we are seeing is that the fortune at the bottom of the pyramid says that as the population level at the bottom is pretty much ok, the income is less, but population level is more. So, as we are moving up the bottom, so as we are moving up the bottom up from the bottom to the top of the pyramid your population is coming down, but income is increasing; ok.

But if you are concentrating as a marketer only on those top circles, then there is a problem; ok. So, either you are a full and specialist or an extreme specialist, so you are at the pyramidal top or you are a full line generalist. If you are a full line generalist, then you are at the bottom.

But there is no harm in being at the bottom, but C. K Prahalad says is there is a huge fortune waiting at the bottom of the pyramid. If each one buys 1 rupee sachet, it means lot of sale for the company; ok. So, that was the idea behind bottom fortune at the bottom of the pyramid; ok.

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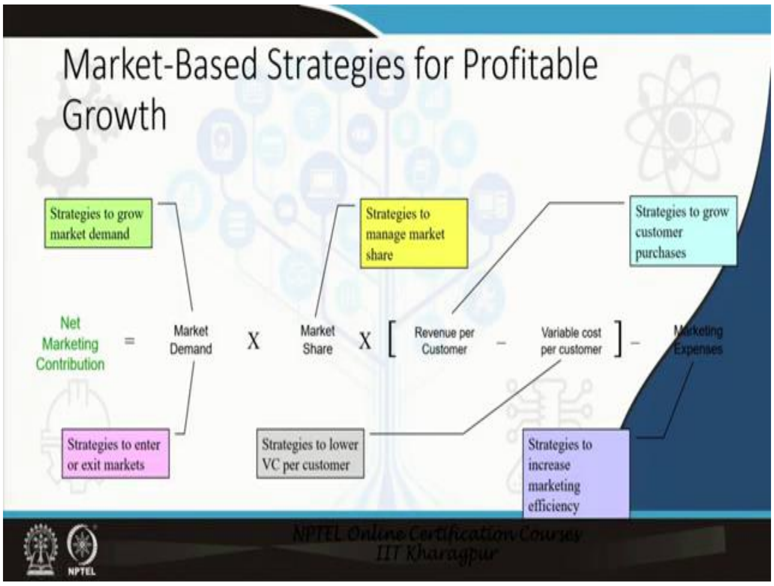

Now, with this let us start with this particular diagram; ok. Let us start with this particular diagram, and your entire concepts will come in here through this diagram ok. What is the objective of marketing?

Objective of marketing is to get this net marketing contribution that is the profit. And that profit is dependent on market demand, market share, market demand into market share minus into the profit per product that is the revenue minus variable cost, and minus the marketing expenses.

So, what strategies do you need to adopt? We the module is decision support systems for strategizing. What strategies you need to adopt? Strategies to enter or exit the market, strategies to grow market demand, strategy to reduce cost, strategy to increase market share; ok, strategies to increase efficiency, because efficiency and costs all are very related strategies to grow customer purchases; ok.

So, if you see your entire strategy, your entire strategy is covered in this diagram ok, entire strategy. Whatever you need is there and why do you need it is covered through this diagram; ok.

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We were just mentioning now fortune at the bottom of the pyramid. If you now look at this concept fortune at the bottom of the pyramid, and if you now juxtaposed it into this diagram fortune at the bottom of the pyramid, and if you now juxtapose this to this diagram, there you will see that huge fortune market demand very high.

Market share; if you are in rural market, your market share will increase multiplied by revenue per that is this revenue minus cost that margin will be very less; ok; but you multiply by the other dimensions, it will be very-very high that is why this concept of fortune at the bottom of the pyramid, and that also explains why the shampoo sachets are only one rupee; ok; ok.

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GE is another one. This GE matrix all of you might have covered, but we will look at it in another dimension; ok; see (Refer Time: 06:55).

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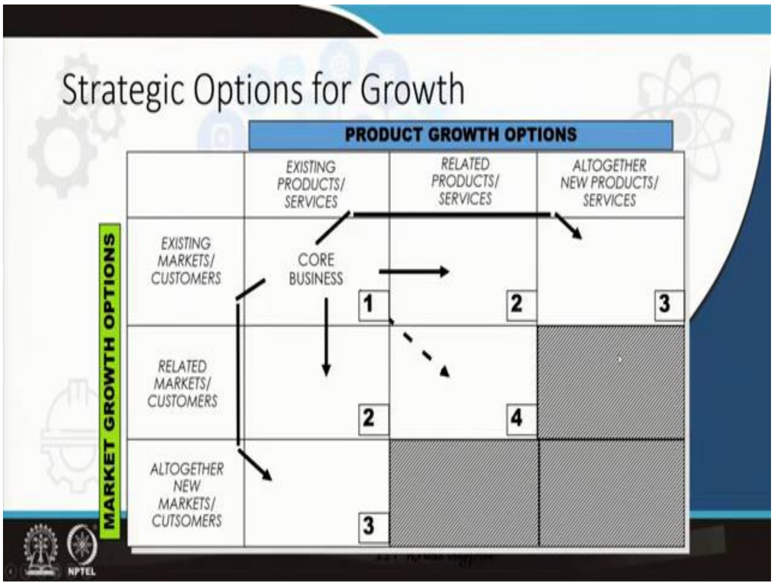

So, sorry; this, the matrix should have been somewhere else ok. Strategic options for growth. You see what is happening here is every business has to move a sideways either horizontally down, sorry either vertically down or horizontally sideways; ok, every organization goes in that direction. Starts with the code business, an

d then slowly expands into related product, and then to altogether new products; ok.

What is the idea that you start your business, say you are into book manufacturing; ok. So, you start your business, then you move on to book publishing also ok, a book binding, book manufacturing, then paper, then exercise book binding; ok; so this is what each one does that it moves into related business first. But here what we are seeing is that you can actually jump not be in the related business, but you can actually jump to some segment or the other; ok.

Why this is possible? This is possible because today all technology is available, all products are available; ok; all technology, all products everything is available. So, there is no point or no harm in jumping from one segment to the other instead of going into the next segment.

Rather, what we are seeing is if you are moving on to the next segment, then the time taken to earn profits to start earning profit that the time horizon increases a lot ok, time horizon increases a lot ok. But if you jump to another segment totally new segment that helps you something of like a blue ocean; ok.

So, this is what GE matrix you can take up from this thing that instead of moving sideways or downwards, just to the next segment just have a straight jump to another segment, and that is why that is what companies are doing today; ok.

ITC which was into pure cigarette business have went into paper ok. And then they went into the hotel that is the hospitality business. Are they related? If you are into strategizing maybe you will find some thin relation, but to the blunt eye, they are not at all related; ok.

So, you are jumping to totally unrelated segments ok. Tata’s into so many businesses. Do you really find a relation of one business with the other ok? So, the car business vis-a-vis the airline operation. Do they really go together? Tata manufacturing, car manufacturing vehicles versus the airline.

So, today the GE matrix has to be looked at into from a different angle that is you are here instead of moving sideways or downwards one step, one step by step, you are doing a straight jump ok. You are doing a straight jump and that is perfectly allowed ok, that is what companies are allowed in the sense that is what companies are doing today. So, you will have to think in that direction.

Now, why is that possible? Because technology is there, technology is there. If technology was not there, technology was not free flowing, then you would have landed into trouble. So, this is what is GE matrix; sorry.

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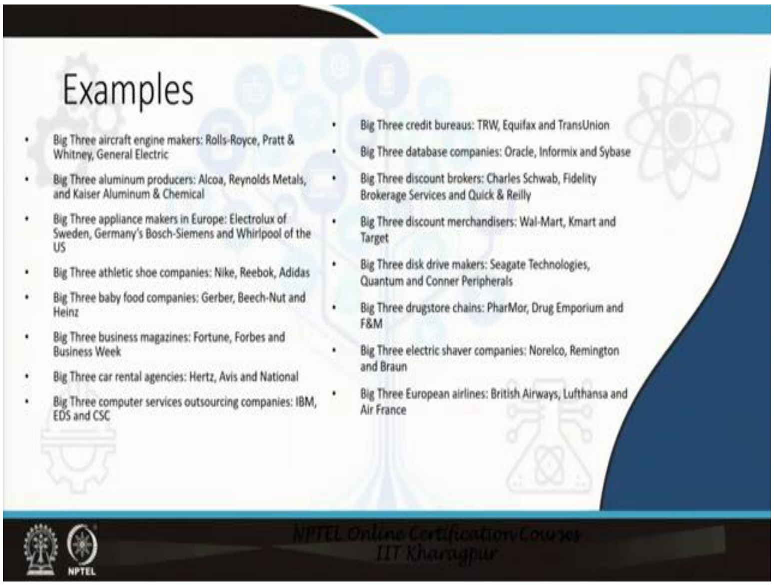

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Now, the most important one that is the rule of three ok, that is the rule of three. Now, this rule of three is a concept that is propounded by Prof. Rajendra Singh Sisodia of Bentley University, Waltham MA Massachusetts, US ok. And this rule of three is something that is that explains the business world in a very-very beautiful manner, and your business strategizing. What the rule of three says is this; that for every business that is in we can say industries, every sector we can say that.

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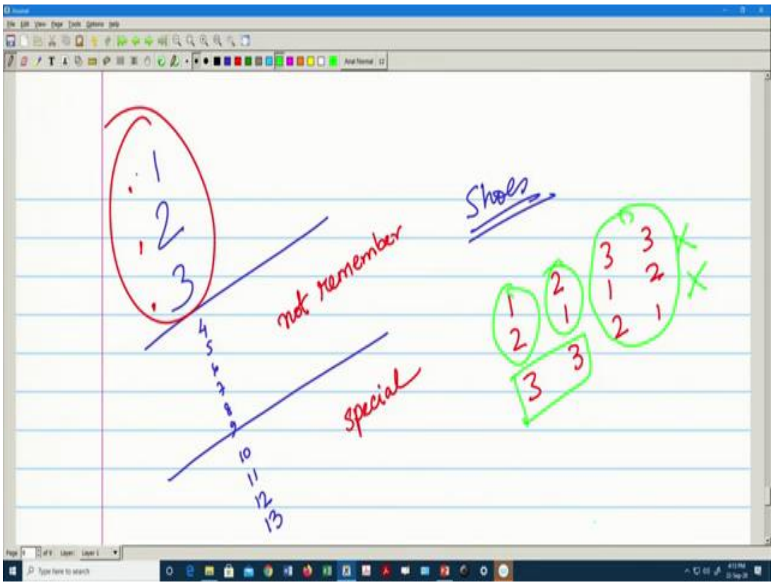

You have three players 1, 2, 3 ok. I am purposefully writing these numbers in very small letters some reason is there ok. See 1, 2, 3 have written in very big font size; 4, 5, 6, 7, 8 – I have written in very small font size; and 10, 11, 12 written in a bit bigger ok. Why? This is also the rule of three; ok.

Rule of three says that for any industry or any sector ok. You there are only three players who are doing very-very well; only three players. There are many other players who are somewhere in the middle, and there are other players yet still who are the extreme end, who are these what are these etcetera, etcetera. Let us see; ok.

Let us take the example of shoes ok. Let us take the example of shoes. Who are the major players? See, the, the, the, the formal shoes – the black coloured formal shoes are more or less disappearing ok. Now, the major players in this world of non-formal shoes are Reebok, Adidas and Nike ok. I am not exactly saying their market share or anything like that, but commonly said Reebok, Adidas, and Nike; Asics is again coming up to a great extent; ok.

So, so, this is it now this is 1, sorry let me put a different colour 1, 2 and 3 – Reebok, Adidas, Nike. Can you tell me the 4th name or the 5th name or the 6th name, you will not, sorry, you will not remember. This is reality. Top 3, you will remember, but 4, 5, 6, 7, 8, 9, you will not remember. But what you will remember you know, you will remember the bottom 1 or 2 also because those you are using those particular shoes or sandals. You are using for marriage or some of these events ok. So, they are special; ok.

So, who is in the ditch? Who is in the ditch? Is 1, 2, 3 in the ditch? Ditch means the whole ok. Who is in the ditch? 1, 2, 3 is not in the ditch, they are the top players. The bottom one specialized ones people will go to them. If they need a sandal for marriage season, they will go to them.

But these middle ones they are in the ditch – 4, 5, 6, 7, 8, 9. They are medium, mediocre; they cannot go up to that Reebok, 1, 2, 3. And they also cannot come down to level of specialization which other companies have over time done; ok. So, this is another way of looking at it.

Rule of three is 1, 2, rule of three is for other reason, but I am just telling you that if you can look at industry for look at industry and categorize in this manner that also you can do the top ones – player 1, 2, 3; middle ones who are really in the ditch gone, cannot climb up to 1 to 3, cannot go down also.

Cannot move sideways, they cannot be a specialized one anymore ok. And the other one ditch in is that, sorry other one is the specialized products ok. So, this is rule of three, 1, 2, 3 – 3 players clear right, sorry. So, rule of three.

Now, let us go and take some example, sorry they before that let me just put you one more point ok. So, this 1, 2, 3, we said 1, 2 and 3. We will only consider this now ok. This 1, 2, 3 can they change position 2, 1, 3, 3, 1, 2 over time? 3, 2, 1 can they change positions over time?

Normally, it is seen that this third player, the third player keeps on remaining to be 3, it is only the battle between 1 and 2, and 2 and 1; 1 year one is becomes first second year 2 becomes first, but this these ones are normally not same; 3 remains 3. But that does not mean the 3 is poor, 3 may be just marginally behind ok, but it is 3 ok. So, 3 normally cannot move up to 1 or 2; ok; clear!

Now, the specialization, no, sorry, specialization no competitors, so that is different specialization, no competitors, so the bottom layer no issues. Middle ones they are nowhere ok. They are just like your automated machines. They are working fine, but they cannot improve upon themselves; clear!

So, now let us see some examples big three aircraft engine sorry big three aircraft engine makers – Rolls Royce, Pratt, and Whitney GE; big three Aluminum producers – Alcoa, Reynolds Metals and Kaiser Aluminum; big three appliance makers in Europe – Electrolux Sweden, Germany's Bosch Siemens, and Whirlpool of the US. Big three athletic shoe companies – Reebok, Adidas, Nike.

Big three baby food Gerber, Beech-Nut and Heinz. Heinz is also known for you must have learned Heinz tomato ketchup in India ok. Big three business magazines – Fortune, Forbes and Business Week. Big three car rental agencies – Hertz, Avis, National. Big three computer services outsourcing companies – IBM, EDS, CSC ok. Big three credit bureaus – TRW, Equifax and TransUnion ok. Database – Oracle, Informix, Sybase, some of these names keep on changing.

Discount brokers - Charles Schwab, Fidelity rokerage, and quick and Reilly, ok, Quick and Reilly is very well known as Q and R or Q ok. Big three discount merchandisers means basically the cheap, cheap places to buy – Wal-Mart, Kmart and Target. Disk drive manufacturer - Seagate is a Seagate hard drive, Quantum and Conner peripherals ok. So, you see these are some examples.

In India also you will see the same thing. These are some American examples. In India also you will see the same thing ok. Top three in every category. Some places, you will not even find top three you will find only top two ok. So, tea manufacturing, tea brand, tea brands, all are Tata's; ok. So, big three European airlines – British Airways, Lufthansa and Air France; ok.

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So, what do you do? Strategies for now we will pause here and I will ask you, where are you? Where is your company? Is it in 1, 2, 3? Is it in 4 to 10? Is it below that? Below fine, you will earn some living, and you will earn some money. But if it is in the middle, then there is a problem ok, clear. So, where are your, where is your company. You first ask yourself this question: where is your company; ok, clear!

Now, strategy is for different competitors number one company see number one company is a fast follower, grow the total market ok, very quickly they change trend, etcetera ok. Number 2 company coexist with co-exist with number one company, and challenge the number one company that is what we were saying that you know that they will always keep on fighting. Some years I am number 2, you are number 1; some years you are number 2, I am number 1; ok.

Now, the number 3 company, who cannot basically move up to 2 or 1. What is his role? He has to insulate and innovate. Insulate why? Insulate means protect insulate why fear of being taken over by number 1 and number 2, because they also have a huge customer base, number 3, huge distribution base huge marketing channels already set. So, any big company will like to take them ok. So, number 3 company have to insulate yourself protect yourself and then innovate; right.

What about the other extreme? Then second part – the ditch dweller somewhere in the middle right ditch. Refocus as specialist try to go to niche or become a consolidator ok.

Just like your these Big Bazaars, what are they consolidators Spencer, more and there will be so many others, they are all consolidators; ok.

They are trying to somehow survive ok. What are the niche players? Move up to super niche. People already in the niche move up to a super niche, sell to full line generalist, or you sell your business. Either become a super niche or you sell your business ok. So, these are strategies for different competitors; right.

Now, can we link up this GE matrix and your BCG matrix sorry your rule of three matrix? If you see rule of three, if you are somewhere in the ditch that is 4, 5, 6, 7, 8, 9, can you try the GE matrix? I would request you if you are working somewhere, you try to find out what is your strength, what is your weakness – number 1.

Next is, you try to go back and check up for the rule of three where you are; ok. If you are somewhere in the middle, then come back to this matrix. And see whether you can enter unrelated business areas ok, unrelated business areas clear. So, this is the way by which you do rule of three.

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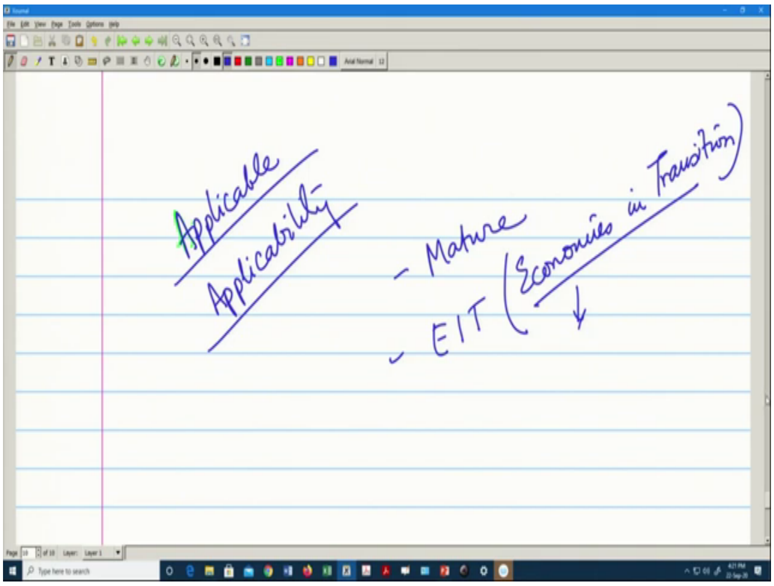

Now, now the next question that comes is now the next question that comes is this model, this is the rule of three right, is this model applicable everywhere, is this model applicable everywhere; ok? Applicability this rule of three phenomena is normally seen in economies that are quite mature.

For economies in transition – EIT, economies in transition this model somewhere there will be minor differences minor aberrations ok. So, this because these economies are still growing, these economies are still growing there will be lot of turmoils; ok; and you will ultimately come to this type of a system ok. So, for economies with transition this model sometimes you will have to look at with caution ok, but otherwise rule of three gives you a framework; ok.

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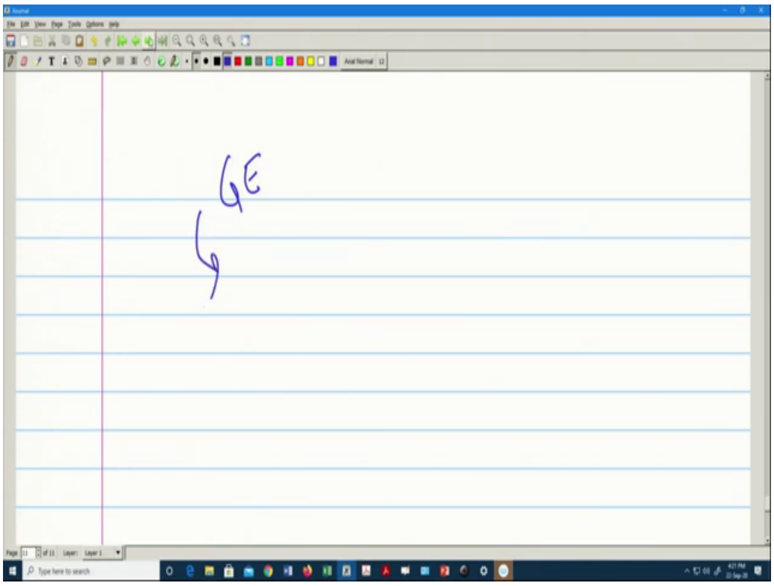

Now, so what did we learn here in this module? Ok; in this module, basically in summary what we learned is the GE, the or up till now; ok.

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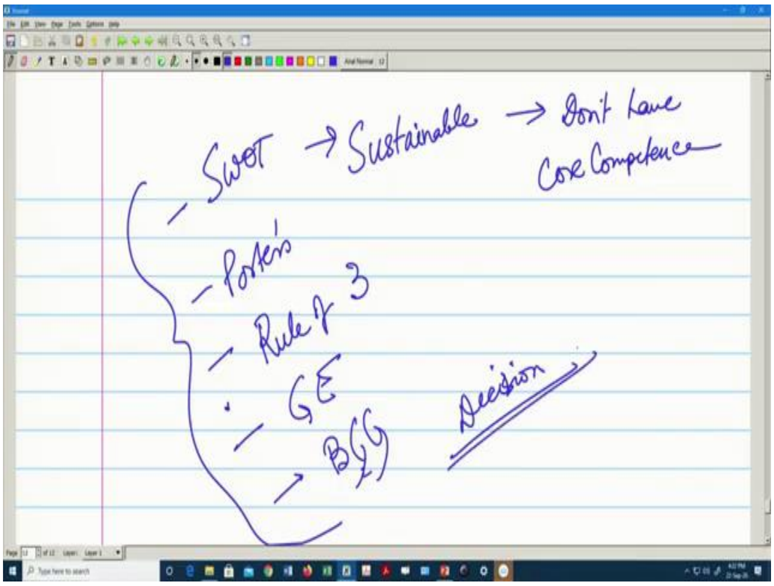

Let me first find out what are your strengths, what are your weaknesses, is the strength really sustainable ok, is the strength really sustainable? And if it is not sustainable, then you do not have core competence ok, you do not have core competence; ok.

So, first let us find out SWOT. Then look at who are your competitors, porters. Look at who are your competitors ok. Then look at your rule of three. Then look at your GE, what businesses you are in. And then you also which we will find out little later you can look at the BCG matrix, and see how it is working ok. And then together you can take a decision, together we can take a decision; clear! And this will actually lead to a better marketing market share etc.; ok.

So, as we mentioned that you these are the things that you should look at when you are into a business strategy; ok, I mean you are strategizing ok, and so this will ultimately lead to your survival; ok. So, only thing which is most important we often ignore this find out your strengths. Is the strength really sustainable? What about the technology? Are you investing in technology? Are you being an innovator ok? Imitators do not work; innovators only will keep the profit; ok.

So, we will finish this module here. And we will, I am, I must acknowledge Dr. Rajendra Singh Sisodia, Professor of Marketing, Bentley University, Waltham for these concepts.

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So, that and that I am sharing here reference, remains same.

So, thank you! Ok.