

Transforming Business Models in Fast-Emerging Markets—Lessons from India

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There is a need for understanding the entrepreneurship and business models in the emerging economies, especially the fast-expanding ones, from a different perspective as compared to the developed economies. The consistent gross domestic product (GDP) growth rate, significant socioeconomic potential, untapped needs of the population, and economic growth potential in the fast-expanding emerging economies like the BRIC nations (Brazil, Russia, India, and China) have changed the paradigm for investment, thereby creating a new economic development reality and focus for the global companies. However, achieving success in these emerging markets has its own unique mix of challenges. This requires a transformative and innovative mind-set toward conceptualization of a working business model that can fit into the reality of the socioeconomic and cultural challenges of these emerging markets. Further, the business model changes and alignment in these emerging markets require closer analysis and understanding of the global trends as well as ability to leverage the emerging technologies and linkages. The objective of this article is to explore the magnitude of opportunities and emerging business models transforming the socioeconomic landscape in fast-expanding emerging markets. In doing so, the article attempts to provide an overview of the emerging business model typologies and patterns that will enable the global companies to make better-informed decisions and build their presence in the fast-expanding emerging markets. © 2015 Wiley Periodicals, Inc.

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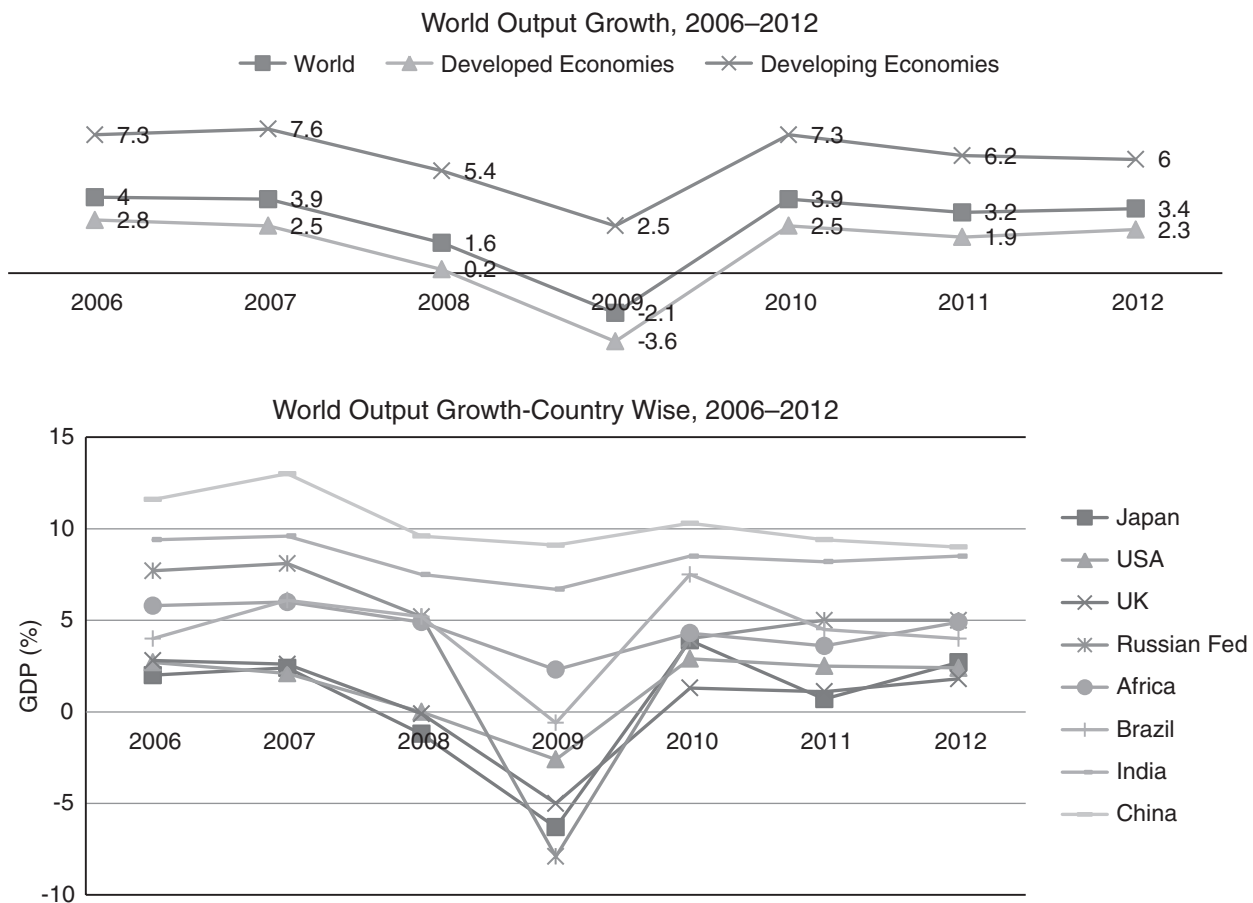
Introduction

Increasingly, emerging markets, formerly known as developing economies, are becoming important platforms for business growth. To compare this, one has only to look at the data surrounding the substantial opportunities afforded by the world's economies in transition. During 1990, emerging markets accounted for 19 to 20% of the overall global gross domestic product (GDP) wherein around 13% came from the fast-expanding emerging economies comprising the BRIC (Brazil, Russia, India, and China) nations. The global GDP contribution of the emerging markets increased to 34% of global GDP in 2008 and 38% in 2010 (Power Shift, 2011). This reflects a need for gradual shift in priority of the global economies toward embracing the

opportunities arising from the positive GDP growth rate in the fast-expanding emerging markets (Figure 1). In terms of purchasing power parity (PPP), the global GDP contribution of the emerging markets reached more than 50% by 2011–2012 (Power Shift, 2011). This growth has been felt not only in terms of GDP, but also across industry segments like 82% of the world market in mobile phone subscriptions, 75% in steel consumption, 52% in motor vehicle sales, and 46% in global retail sales during 2010 (Power Shift, 2011). This signifies the emergence of an underserved socioeconomic segment across the emerging markets having huge demand potential for different goods and services.

The significant socioeconomic growth in emerging markets like the BRIC nations has changed the paradigm for investment, creating a new economic development

FIGURE 1 Global GDP Trends



Source: UNCTAD secretariat calculations based on United Nations, UN/DESA, National Accounts Main Aggregates database and World Economic Situation and Prospects (WESP) 2011; ECLAC EDD database; Country Reports to project LINK; national sources. *Data for 2011 and 2012 are forecasts. Calculations for country aggregates are based on GDP at constant 2005 dollars.

reality that many companies have yet to address. Achieving success in fast-expanding emerging markets is still fraught with challenges and uncertainty, and it is apparent that new business models must be explored in order to take full advantage of their increased market potential. Some of these business model changes have been driven by increased innovation within the markets themselves, while others have been driven by outside factors, organizational and otherwise, that require companies to transform their mind-set and organizational structures in order to adapt and succeed in the emerging economies.

The objective of this article is to explore the magnitude of opportunities and emerging business models transforming the socioeconomic landscape in fast-expanding emerging markets like the BRIC nations. In doing so, the article attempts to provide an overview of the emerging business model typologies and patterns, which will enable the global companies to make better-informed decisions and build their presence in the fast-expanding emerging markets.

The subsequent sections will consider fast-expanding emerging markets as emerging markets in the context of this study. The article is organized in the following sections. The second section focuses on the review of the business model literature to get a basic overview of the definition and components of the business model concept. The third section provides an overview of the emerging business models in terms of typologies and commonalities in the context of emerging markets. The conclusion of this article provides a summary view of the emerging business model typologies.

What Is a Business Model?—Literature Review

The Internet revolution in the 1990s has led to the emergence of *business model* as a new buzzword for competitive advantage (Timmers, 1998). Since the 1990s, the business model concept has gained increasing attention within the industry and the research community (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Magretta, 2002; Mitchell & Coles, 2004a, 2004b; Morris, Schindehutte, & Allen, 2005; Osterwalder & Pigneur, 2010; Porter, 2001; Shafer, Smith, & Linder, 2005; Teece, 2010; Timmers, 1998). The researchers have defined this from different perspectives. The architectural perspective links the business model concept to the product, service, and information flows (Timmers, 1998). The transaction perspective links the business model concept to understanding of the content, structure, and governance (Amit & Zott, 2001). Chesbrough and Rosenbloom (2002) define business

model as a mediator between technology and economic value creation. Magretta (2002) defines business model as a mix of narrative (how enterprise does business) and numbers (cost, revenue, profit, and loss). Mitchell and Coles (2004a, 2004b) define it as a combination of “who, what, where, when, why, how,” and “how much.” Shafer et al. (2005) define it as a strategic choice for value creation and value capture. Teece (2010) defines it as a plan for value creation, value delivery, and value capture. Osterwalder and Pigneur (2010) define it as a conceptual and architectural blueprint of business strategy comprising a combination of four value dimensions: value proposition, value creation, value delivery, and value capture. These four dimensions comprise nine building blocks for easy conceptualization and design of any business model. The value proposition dimension involves the need being addressed and description of the value a company offers to one or several segments of its customers. The value creation dimension focuses on the operations and architecture of the firm, including key resources, key activities, and partnerships. The value delivery dimension comprises channels for creating awareness, marketing, and delivering the value and relationship capital. The value capture dimension is linked to optimizing the costs and maximizing the revenue streams.

During 2000–2010, the business model concept gained increasing attention among practitioners and academicians from both the operational and strategic perspectives. The operational aspect of the business model focuses on value offering, creation, delivery, and revenue logic. The strategic aspect of the business model focuses on evaluating the sustainability of the value offering, creation, delivery, and revenue logic in the context of the dynamic environment (Morris et al., 2005). The strategic aspect has gained importance due to the shift in focus of the global companies toward the potential business opportunities in the fast-expanding emerging economies having positive GDP growth trends as compared to the developed economies having flat or negative GDP growth trends (Figure 1).

Business Models in Fast-Emerging Markets

The underserved needs of the socioeconomic segment in emerging markets demand conceptualization of new, changing, and innovative business models that are designed to flexibly navigate the inherent socioeconomic and environmental challenges posed by these economies. With this in mind, a growing number of companies are approaching emerging markets as entrepreneurs, focus-

ing on market niches and “customer-centric” business models that carve out space in the marketplace. The heterogeneous customer segments, especially the low-income segment in the emerging markets, demand innovative market solutions that are affordable, accessible, and available (Eyring, Johnson, & Nair, 2011; Qerimi & Sergi, 2015). This implies that those companies willing to make an entry into the emerging markets need to transform their business models from the global standardized product-market-based approach to a customized need-based, end-to-end solution approach.

The new entrants and small enterprises find it easier to adapt their business models in emerging markets as compared to the large corporations that lack the flexibility to transform, adapt, and create market-based business models for low-income consumers. Besides timing, the scale and volume are important factors to be successful in the emerging markets, thereby making these markets potentially lucrative if the proper business model is put in place (Hout & Ghemawat, 2011). However, the belief in innovative business models in emerging markets is not just a corporate phenomenon. There are examples of many companies that faced a multitude of challenges in trying to gain a foothold due to their limited knowledge concerning the economy, culture, and market as a whole. It is therefore necessary for global companies to build flexibility and an adaptive organization culture, which will lead to context-relevant business models based on the sound understanding of customer needs and wants, leveraging technology, and utilizing integrated production and distribution processes (Bhattacharya & Michael, 2008). The companies entering the emerging markets should be focused on creating market-based solutions that are driven by the needs rather than wants of the customers (Eyring et al., 2011). Considering the socioeconomic diversity and environmental complexity of emerging markets, companies need to focus on understanding the actual needs of the target segment, differentiating needs from wants, and designing the value offerings based on an end-to-end, customized, solutions-based philosophy to maximize their reach and impact in these markets.

This section further provides a multidimensional view of the business models in emerging markets. First, it analyzes seven business model typologies that have enabled companies to effectively tune their business model for targeting the different socioeconomic subsegments in emerging markets like India. Second, it elaborates the commonalities required in the business models for creating customer value and options for design of value offerings. Third, it highlights three case studies of companies from India that have embraced innovative

business models for expanding their presence in India. These case studies will reinforce a few of the concepts outlined within these typologies as well as explore the impetus for others that are currently emerging.

Emerging Business Models—Typologies

The business model concept is gaining global recognition and acceptance. This has led to the discovery of different business models having relevance and applicability to the emerging markets. Key among them are the following:

Volume/Price-Based: This model involves products and services offerings to the target segment at rates that are cheaper than the market rates while maintaining the desired quality levels. The focus lies in increasing the market share as well as leveraging volume-based cost efficiency and benefits across the value chain during value creation, value delivery, and value capture. This growth in volumes leads to an increase in market share and cost efficiency, thereby affecting the overall profitability and scalability. This model has gained increasing attention and acceptance in the emerging markets, thereby leading to sustainability challenges as more and more companies are adopting this model. However, the volume-based approach will always attract the target segment in the emerging markets. How that approach can be differentiated further will determine the competitive advantage and sustainability for companies in emerging markets.

Airtel (www.airtel.in) serves as an example of a volume-based pricing model in India. Airtel is credited with introducing the “Minutes Factory” model in India during 2000–2001, which shifted the focus of the telecom companies in India from the high-margin premium segment to the low-margin mass segment. This transformed the competitive landscape of the telecom industry in India from value-based pricing to volume-based pricing.

Multitier (Tier-Based, Freemium, or Hybrid): This model involves offering multitier-based offerings where different customer segments can choose a different range (tier) of value offerings depending on their need, willingness, and capacity to pay. This involves different business model patterns, depending on the tier types. The freemium pattern involves providing basic product or service offerings free of charge or at extremely low cost and charging the premium offerings to the customer segments. The costs incurred by serving the nonpaying customers are financed by other parts of the business model or paying customer segments.

This model has been widely used by companies in different industries, such as advertising, publishing, print media, social media, e-commerce, telecom, and social enterprises. Airtel offers tier-based pricing comprising different combinations of pricing and offerings (mobile, Internet, and value-added services). Another example is Aravind Eyecare (www.aravind.org), which is driven by the mission of eliminating needless blindness from India. Aravind Eyecare offers eye-care treatment to all customer segments irrespective of their paying capacity, thereby adopting a hybrid business model, where the revenues from the paying customers cross-subsidize the nonpaying customers.

Unbundling: This model is designed to unbundle (disintegrate) customer orientation, product/service innovation, and infrastructure activities into separate entities. This approach enables companies to maintain focus on the core of the business, avoid conflicts, manage trade-offs, and leverage the expertise of existing companies in the market.

This model is widely accepted by private banking and telecom companies in emerging markets like India. Airtel shifted its focus from competing for network bandwidth to customer relationship and brand building in India. It unbundled the infrastructure and customer orientation activities by increasing the focus on customer orientation and brand-building activities, while outsourcing capital-intensive activities like network management and technology infrastructure management to the technology and information technology experts like IBM, Ericsson, and Nokia. The shift from asset ownership to a collaborative outsourcing model allowed Airtel to focus on the core activities around customer relationship and branding while achieving a significant savings on network and infrastructure management costs.

Open Innovation: This model signifies a considerable shift in approach of companies from competition to collaboration. This is used by companies to utilize both internal and external ideas, as well as internal and external paths to the market, to advance their technology and innovation. This not only creates greater understanding of the market but also allows the firms to leverage broad-based market resources, thereby facilitating innovative approaches (Chesbrough, 2006). Companies generate value using the “outside-in” approach and/or “inside-out” approach (Osterwalder & Pigneur, 2010). The outside-in approach involves turning external ideas, research, intellectual property, knowledge, and products into internal innovation process. The inside-out approach

involves revenue generation by licensing or sharing internal products, ideas, knowledge, intellectual property, and research to external companies.

IBM moved out of closed innovation mind-set and embraced open innovation by collaborating with technology leaders as well as licensing its research and ideas to other companies, thereby creating alternate revenue streams. GlaxoSmithKline created a “patent pool,” from which it offered the research and ideas related to understudied diseases to those researchers who were willing to address those diseases in underdeveloped countries (Osterwalder & Pigneur, 2010).

Hub-and-Spoke: This model enables companies to build a network having a strategic center (hub) connected to a network of smaller units (spokes) in surrounding areas. This enables ease of accessibility and availability in multiple geographies, as well as flexibility of experimentation and decentralized decision making as per local requirements.

This model is quite common among health care service providers operating at the base of the pyramid (BoP) in emerging markets. The business network of Aravind Eyecare consists of eye hospitals (hubs) supported by rural vision care centers and community camps (spokes) across the semiurban and rural areas (Rangan & Thulasiraj, 2007). The central and remote locations are further connected by mobile outreach vans and Internet technologies.

Crowdsourcing (Crowdfunding): This model enables companies to shift their sourcing (anything from ideas to raw materials to financing) from a few large suppliers to a network of multiple micro-suppliers or individuals. This brings about a significant shift in the value chain by changing the dynamics of input-level engagement (at source) from few to many, thereby bringing down the dependency and cost of capital and other key resources.

RangDe (www.rangde.org), a micro-financing organization, launched a peer-to-peer micro-lending platform, which acted as a bridge between individual investors (crowdfunding) and micro-entrepreneurs lying at the BoP. This dynamic shift in the business model enabled the company to reduce the cost of micro-credit for the borrower from a range of 13.5 to 20% to a range of 6 to 10% (flat rate).

Price-Minus (Challenge-Cost): This model enables companies to establish a target price first, depending on the paying capacity of the customer segment, and then work backward across the value chain to achieve

the required challenge cost. This requires ongoing cost innovation measures without compromising the quality aspects of the product and service offerings.

Aravind Eyecare set up the global benchmarks for low-cost and high-quality eye surgeries by setting up the assembly line system where each doctor performed multiple cataract surgeries simultaneously, thereby increasing the productivity and efficiency of surgeons by 10 times the market average (Rangan & Thulasiraj, 2007).

The business model typologies discussed here reflect that companies operating in the emerging markets should shift their orientation toward design of new solutions and business models for the fulfillment of unmet needs rather than aiming to sell their existing offerings from the developed markets. In doing so, they can utilize innovation and entrepreneurship to deliver what consumers in emerging markets need but lack accessibility and availability either because the products and services do not exist or because they cannot afford them. This mind-set leads to the emergence of business models that enable companies to fit into the reality of emerging markets and address the unmet needs rather than dumping these markets with noncompatible product/service offerings and incompatible business models.

What Are the Commonalities of Emerging Business Models?

Regardless of the business model typologies discussed above, there are some commonalities or ground rules to be understood by companies for the design and implementation of best-fit business models for the emerging markets.

The first rule involves having a clear understanding of the real need of the target segment. This is one of the key aspects to the development of a right-fit business model. Many companies fail because they attempt to simply sell what they have at prices that they perceive are affordable to the customer segment. Rather, the companies need to invest significant time and resources in building capacity and capability to undertake continuous experimentation and prototyping as well as setting up a grassroots learning ecosystem to remain in touch with the real needs, demands, and expectations of the target segment.

The second rule involves focusing on affordability. Affordability does not mean “inexpensive” or “cheap.” Affordability is an element of a business model that implies creation and delivery of high-quality value offerings at a price that meets the paying capacity of the customer segment in terms of total cost of ownership (Prahalad & Hammond, 2002). The objective is to deliver the best performance price ratio while meeting the quality expectations of the target segment.

The third rule involves focusing on setting up last-mile channels for last-mile connectivity and reach, thereby enabling accessibility and availability to the customer segment as per their preference.

The fourth rule puts emphasis on the effective choice and utilization of scarce resources, including human talent. There are many companies in emerging markets that address this issue by utilizing predominantly expatriates or diaspora in key management/supervisory positions. Experience indicates that this is typically neither practical nor particularly effective. Rather, the focus should be on engaging local individuals as well as local capacity building by training local talent, offering a reasonable pay structure and flexible working hours, and providing benefits, which can put the company in a strong position to retain key personnels.

The fifth rule involves focus on integrating the elements of strategy, customer value, affordability, availability, and accessibility, thereby ensuring a best-fit business model for the emerging markets. It is not enough for companies to simply focus on a one-dimensional approach to value creation or delivery. Rather, the companies should fully integrate their strategic goals with customer value orientation and operational excellence to design and implement a sustainable business model.

Finally, companies should take nothing at face value in the emerging markets. They should dig deep into the layers of the market to unearth the real reasons why consumers do what they do, buy what they buy, and want what they want. Eyring et al. (2011) argues that an open mind is likely the most important asset one can bring to the emerging market.

It is clear from a business model point of view that designing best-fit business models for the emerging markets is not easy for companies willing to make an entry or expand their presence. This is especially true for the large multinational firms having years of market experience. These multinational companies face difficulty in implementing dynamic business models because they tend to be steeped in tradition and “tried-and-true” approaches that do not fit into the realms of the emerging markets. However, small firms, both indigenous (homegrown) and international can in many ways take advantage of the emerging market opportunities that are either unnoticed or unworkable for large and multinational firms. With this in mind, some indigenous and small firms, which better understand the market and have the flexibility in their processes, products, and services to deliver on-demand and affordable offerings to consumers, have reaped and are reaping the rewards of developing a relevant business model. However, reaching customers with higher dispos-

able incomes is somewhat less complicated for larger and international corporations, as it typically requires less adaptation of their normal business models. Still, there are emerging models that have shown to be useful in accessing a growing number of higher-end and middle-class consumers in emerging markets. Often, these business models include elements of disruptive innovation. The concept of disruptive innovation is defined by Harvard University's Clayton Christensen (www.clayton-christensen.com/key-concepts/) as "a process by which a product or service takes root initially in simple applications at the bottom of the market, eventually displacing established competitors." The elements of the business models mentioned earlier can provide the impetus for disruptive innovation, but regardless of the method(s) used, the mind-set of the company is critical in achieving the desired results.

The theory of disruptive innovation and elements of other creative approaches have allowed a growing number of companies to develop unique models surrounding the needs of the emerging markets based on demand-driven and on-time offerings. The next section of this article features example case studies of companies that have effectively implemented right-fit business models in India. While their experiences vary in scope and focus, the common theme is the utilization of innovative and flexible approaches to customize the design, production, and delivery of products and services.

Emerging Business Models—Case Studies from India

The following mini-case studies highlight examples of companies that have been able to address effectively the needs of the customer segments in India by designing and implementing adaptive and innovative business models. These case examples highlight how companies are able to exploit innovatively on-the-ground opportunities in a timely and consumer-centric manner. These companies are examples of entrepreneurs in emerging markets who have not waited for donor organizations or government intervention to lay down the groundwork for business model innovation and fulfillment of underserved needs of the customer segments in India. These case examples represent a new mind-set in emerging markets—one that infuses disruptive innovation to promote productivity, competitiveness, and, ultimately, prosperity. These companies represent models of innovation in emerging markets, but how have they gained the desired results as compared to the majority of other companies operating in the same market. Arguably, the reason lies in the leadership of these companies that did not follow the conventional approach toward business model design. Rather, the leadership

of these companies has followed the adaptive approach toward design and implementation of innovative and transformative business models that suited the socioeconomic and environmental context of an emerging market like India. As a result, these companies have not only managed to survive the chaos of the emerging markets but also have moved beyond to achieve the desired mission and socioeconomic outcomes.

Case 1: Airtel—Minutes Factory Model Transforming the Telecom Business Landscape

Airtel entered the mobile telecommunication services market in India in 1995. During that time, the telecom industry dynamics in India were governed by high fixed operating costs requiring large investments in license fees, telecom towers, and network and technology support systems, such as billing and customer care. To manage the capital-intensive infrastructure, the focus was on a premium pricing strategy measured by average revenue per user (ARPU). Airtel decided to alter the industry dynamics by changing the focus from thousands of premium customers to millions of small customers (micro-consumers). Airtel widened its range of offerings to focus on the 4A's mix: affordability, accessibility, availability, and awareness (Prahalad & Hammond, 2002). The key metrics in the telecom industry shifted from ARPU to gross revenue, profits, operating efficiency, and capital efficiency. To achieve these metrics, Airtel transformed its existing business model through a series of strategic measures.

From a value creation perspective, Airtel moved from an asset-ownership model to an asset-light model by outsourcing the core functions related to technology services and telecom network to industry experts like IBM, Ericsson, and Nokia (Prahalad & Mashelkar, 2010). Also, it aligned the payment model of the technology and services and network vendors on the basis of capacity utilization and revenue generation (usage- and revenue-based payments). This led to the conversion of fixed costs and capital expenditures into variable operating expenses. Airtel further collaborated with its competitors to leverage the shared infrastructure such as telecom towers across India, while setting up last-mile channels for cost-effective delivery and support across semiurban and rural locations (accessibility and availability). It also leveraged the existing distribution network of fast-moving consumer goods and consumer durables companies, as well as entered into partnerships with local companies (micro-finance, agricultural, and commodity oriented) to strengthen the value delivery and customer relationship network across rural India.

These value creation, delivery, and network activities led to the rapid expansion of subscriber volumes. This resulted in creating a unique Minutes Factory (charging one cent per minute) business model, which transformed the prevalent industry metrics, target segment, and benchmarks in the telecom industry. The continuous focus on business model innovation enabled Airtel to become the largest cellular services provider in India.

Case 2: Aravind Eyecare (AEH)—Self-Sustainable Rural Health Care for Serving the BoP

According to the World Health Organization (2011), 285 million people are visually impaired worldwide, which includes 39 million who are blind and 246 million people who have reduced vision. About 90% of the world's visually impaired population lives in developing countries. Around 80% of all visual impairment can be avoided or cured. Dr. Govindappa Venkataswamy took the first step toward fulfilling a dream of eradicating needless blindness by establishing an 11-bed eye-care hospital in 1976 (Rangan & Thulasiraj, 2007). By 2011, AEH had treated 32 million patients; conducted around 4 million surgeries; and grew into a network of around 8 eye hospitals, 40 vision centers in rural areas, 7 community eye clinics, the Post Graduate Research Institute of Ophthalmology, Aurolab (manufacturing eye-care products), eye banks, and LAICO (consulting for knowledge transfer) (Naidu, 2012; Rangan & Thulasiraj, 2007).

The success of Aravind's business model is attributed to Dr. Venkataswamy's leadership and foresight, which led to the following strategic decisions: The first strategic decision involved setting up the mission to eliminate needless blindness from India, thereby providing treatment to all irrespective of their paying capacity. The second strategic decision involved moving beyond external funding to a market-oriented model for revenue generation, thereby transforming AEH into a self-sustainable social enterprise. This led to the design and implementation of a hybrid business model, where the revenues from the paying customers cross-subsidized the nonpaying customers. The third strategic decision involved adopting scalability approach driven by socioeconomic impact and reach rather than revenues alone. This required overcoming accessibility and availability constraints, especially for the rural population. AEH setup the hub-and-spoke model comprising an integrated network of hospitals, vision care centers, and community camps, thereby deepening the reach and impact across the rural areas. The fourth strategic decision involved continuous focus on scaling the operational capacity, productivity,

and efficiency to address the needs of the increasing number of people from the BoP. This involved standardizing the surgical instruments, documenting the processes, and creating an assembly-line setup for performing cataract surgeries. The focus was on establishing an operational ecosystem, in which surgeries could be performed in minimal time without affecting the quality and safety measures. The assembly-line model improved the productivity of critical resources (surgeons) tenfold, thereby increasing the capacity to match the increase in volumes. The fifth strategic decision involved vertical integration into manufacturing the ophthalmic products such as sutures, intraocular cataract lenses (IOLs), and other medical products. This ensured the availability and accessibility of high-quality, end-to-end eye-care solutions at minimal prices, thereby enhancing the socioeconomic impact and acceptance among the masses.

Case 3: RangDe—Crowdfunding Model for Low-Cost Financing for Micro-Entrepreneurs

Micro-credit is a financial innovation that refers to various kinds of small loans and financial services meant for low-income households. The borrowers of micro-credit usually lack collateral, steady employment, and verifiable credit history, and hence fail to qualify for regular bank loans. Access to micro-credit helps to bring the poor into the formal financial ecosystem.

RangDe (India) was founded in 2006 with the objective of providing access to micro-credit for micro-entrepreneurs. The mission of RangDe involved making micro-credit accessible to every low-income household by lowering loan interest rates through innovative business model interventions. RangDe differentiated itself from the traditional micro-finance institutions, which relied on banks and financial institutions as a primary source of credit. Rather than looking upon banks and financial institutions as sources of funds, RangDe decided to approach the millions of individuals as sources of funds. In doing so, RangDe established a peer-to-peer technology platform and acted as a bridge partner between individual investors and micro-entrepreneurs lying at the BoP. This dynamic shift in the business model enabled the company to reduce the cost of micro-credit for the borrower from a range of 13.5 to 20% to the range of 6 to 10% (flat rate). RangDe covered a long way since its inception in 2006. By August 2015, RangDe engaged around 7,800 social investors and disbursed around 38,500 loans amounting to more than INR 321 million (USD 4.85 million [1 USD = 66.1451 INR as on August 26, 2015; www.xe.com/currencyconverter]) while

TABLE 1 Overview of Business Model Typologies

Typology	Challenge	Approach	Rationale	Examples
Volume/Price-based	Price sensitivity of the customer	Volume-based pricing having high performance-price ratio	Volume-based approach leads to increase in market acceptance and cost efficiency	Airtel
Multitier (freemium/hybrid/bait-and-hook)	Heterogeneous and price sensitive customer segments	Multitier offerings and pricing to target different customer segments based on need and paying capacity	Cross-subsidization between paying and nonpaying customer segments, thereby increasing the inclusion, acceptance, and reach	Airtel, Aravind Eyecare
Unbundling	Integrated setup leading to high costs, inflexible, cultural conflicts, and trade-offs	Unbundling infrastructure, product innovation, and customer relationship into separate entities; maintain focus on the core and outsource the others	IT and management tools allow flexible coordination of different business models and entities thereby managing trade-offs	Airtel
Open innovation	In-house research and development (R&D) capital intensive, long time to market, risk of failure, or obsolete	“Inside-out” for generating revenues by licensing the intellectual property and patents; “outside-in” for acquiring R&D from external sources	Buy or sell approach toward patents and intellectual property leads to alternative revenue streams as well as faster time to market, reduced market risks, and investments	IBM, Glaxo-SmithKline
Hub-and-spoke	Accessibility and availability across remote locations	Setting up hub at the central location connected by spokes at remote locations	Multiple interconnected delivery channels are needed for last-mile connectivity and reach	Aravind Eyecare
Crowd sourcing/crowdfunding	High cost of capital or resources from large suppliers	Creating a platform to connect with large network of individuals for low-cost capital and other resources	Technology enables access to large network of individuals willing to lend capital at lower rate thereby decreasing the overall cost of capital	RangDe
Price-minus (challenge-cost)	Cost-plus pricing leads to affordability challenge	Finalizing the target price first based on the paying capacity and adapting the value chain accordingly	Challenge-cost or price-minus approach leads to affordable offerings and value-chain efficiency	Aravind Eyecare

having a repayment rate of approximately 99.7% to the social investors (www.rangde.org, retrieved on August 26, 2015).

Conclusion

The poverty challenge in emerging markets does not imply lack of business opportunity. Prahalad and Hammond (2002) argue that entrepreneurial companies both small and large are “already serving the world’s poor in ways that generate strong revenues, lead to greater operating efficiencies, and uncover new sources of innovation.” The key component for achieving success in the emerging markets is attributed to the mind-set and ability of these companies in breaking down the rigid organizational mind-set and capability to design and implement the adaptive business models for these markets. While emerging markets appear complex and chaotic, this article has found several business model types that can be adopted to design and implement the best-fit business models in the emerging markets (Table 1).

The first typology relates to the volume/price-based model. This model involves focus on volume-based dynamics with respect to the value offerings, value creation, value delivery, and value capture. The second typology relates to the multitier model. This model involves different tiers of value offerings to the different customer segments depending on their need and paying capacity, one of them being free or very low cost. The third typology relates to the unbundling model. This model involves disintegrating the key business activities (infrastructure, product innovation, and customer relationship) into separate entities, with selective focus on the core of the business and outsourcing the rest to the market experts. The fourth typology involves making a shift from a closed innovation to an open innovation model. This model involves acquiring innovations from external sources to enable faster time to market, as well as creating alternate revenue streams by licensing the unexploited innovations to other companies. The fifth typology involves adopting a hub-and-spoke model to design a distributed value creation and delivery network for last-mile connectivity and reach. This enables

companies to resolve accessibility and availability barriers in the emerging markets. The sixth typology involves setting up a crowdfunding platform or model, thereby shifting the dependency on selected individuals or groups to a large network of individuals for access to low-cost

capital and other resources. The seventh typology relates to setting up a challenge-cost model. This involves deciding upon the target price first on the basis of the paying capacity of the target segment and then working backward to design the value creation and delivery network.



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