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Business Models Sustaining Subsistence Economies: Evidence from India  
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## **Business Models Sustaining Subsistence Economies: Evidence from India**

### **Abstract**

**Purpose** – To analyse interventions of various forms of organisations operating with the objective of connecting subsistence entrepreneurs (SEs) with the formal economy. This work also attempts to understand and analyse the transformational role played by these organisations. Finally the paper aims to arrive at a conceptual framework for organisations interested in playing transformational role.

**Methodology** – The paper deals with subsistence entrepreneurship and business models for subsistence economies. It draws from case studies of six organisations operating with the objective to connect subsistence entrepreneurs with formal economy. Each case chosen is unique with respect to the organisational form it takes to achieve the objective. However, a lot of similarity can be seen in the components of the business model adopted by these organisations.

**Findings** – Organisations which emerge keeping the context of rural producers in mind survive and support SEs in long run. SEs need not always get converted into transformational entrepreneurs. However, with the help of organisations which collectivise SEs, they can interact with formal economy. Such organisations help large numbers of SEs to sustain and possibly move out of subsistence status over a period of time. These organisations have to fill the voids left by government or market institutions so as to create enabling conditions for SEs to thrive. Despite the efforts of the organisations it is not possible for all SEs to move out of their subsistence status and existence in informal markets. However, it is possible in case of some SEs at least as the institutional support gives them more certainty in incomes.

**Research limitations** – The paper does not take a business model adopted by government institution for the purpose of analysis.

**Practical implications** – The paper offers practical suggestions for organisations interested in collectivising SEs with the aim to improve their returns from market transactions.

**Originality / Value** – The paper offers a conceptual framework to enrich the understanding of role played by organisations working towards collectivising SEs. It adds to the debate of subsistence entrepreneurship and transformational entrepreneurship. It elaborates the elements of social capital created by these organisations at the meso level. Finally, it reemphasises the strengths of informal economy to support the customer value proposition for formal markets.

**Keywords** – Subsistence entrepreneur, Subsistence economy, Business model, Transformational role, social capital

**Paper type** – Research paper

## **Business Models Sustaining Subsistence Economies: Evidence from India**

### **Introduction**

Developing economy like India continues to face the challenge of poverty, especially in rural areas. It is seen that poor people take up entrepreneurial activities to subsist in the poverty context. Largely the enterprises of poor confine to informal economy (Viswanathan et.al, 2014). These informal economies in which subsistence entrepreneurs thrive is rightly labelled as subsistence marketplaces (Viswanathan and Rosa, 2007). The poor in such context need to be seen as playing the roles of both producer and consumer (Sridharan and Viswanathan, 2008). Though the aim of development interventions is to see conversion of subsistence enterprises into big businesses, it is rarely observed in practice. This is owing to individual differences in motivation, ability and personal characteristics among entrepreneurs (Schoar, 2010).

Subsistence entrepreneurs (SEs) running microenterprises in the poverty context face problems in accessing productive resources and markets. Due to this, their ability to earn income and reinvest in the business is adversely affected, leaving them in the vicious cycle of low level equilibrium (London et.al, 2010). As individually it may not be possible for the SEs to come out of their subsistence status or low level of equilibrium, they need support from an organisation that plays transformational role in supporting the SEs. The transformation role of these organisations involves reduction of costs and risks and improvement of benefits and returns from the entrepreneurial activities of SEs. These organisations support the activities of SEs by facilitating inputs in the form of products and services. India as an emerging nation has seen a spectrum of organisations from third sector to corporations taking interest in supporting the SEs. We look into working of six such organisations and draw insights from their functioning.

The paper first presents challenges faced by SEs in running their microenterprises in informal economies. This is followed by a description of activities of the six organisations supporting the SEs. Further, the activities are analysed through a business model framework given by Morris et.al. (2005). Based on the insights obtained from the functioning of these six organisations we develop a framework for organisations involved in playing transformational role in the subsistence marketplaces. This is followed by discussion and implications for practitioners.

### **Literature Review: Subsistence Entrepreneurship**

Subsistence means “barely having sufficient resources for day-to-day living, yet allowing for the possibility of abundance in other life dimensions” (Viswanathan and Rosa, 2010:535). SE is one who takes up entrepreneurship for earning subsistence income. Entrepreneurial ventures by such persons do not create employment for others as they rarely grow into medium or large enterprises (Schoar, 2010). However, SEs can create value at two different levels. At personal level, the economic value created at personal level helps them to subsist. At a community level, they create both economic and social value. The social exchanges created by SEs help construction of community exchange systems at meso-level. The community exchange systems so created further the development and maintenance of informal economy (Viswanathan et.al, 2014).

SEs operate in subsistence markets where severe gaps can be observed in the scope of regulative norms as cognitive and normative institutions prevail in such markets. Personal relationships gain prominence in these markets and there is lack of specialisation in

institutions. Authority either of a single person or a group or a well-defined structure is lacking in this context. Misbehaviour is usually penalised through exclusion from the community (Rivera-Santos et.al, 2012).

In developing countries, poor people are often disenfranchised from formal economy. They survive by operating a micro business, which is embedded in the social fabric of their surrounding community (Viswanathan et.al, 2012). Rural areas in India comprise higher percentage of population and also poor people. Caste rigidities and inequalities in local society can create systematic barriers to entrepreneurship in rural settings (Epstein, 2007).

In subsistence context, entrepreneurs cannot discern, evaluate and exploit growth oriented business opportunities. This results from lack of practice in deploying cognitive skills (Viswanathan, 2007). SEs engage in business based on their skills or resources rather than the differentiation it brings to marketplace. This does not suggest lack of cognitive strengths or skills among them, but only shows their limited market or growth orientation in doing business (Viswanathan et.al, 2014). In general entrepreneurs follow three stages in setting up their business; alertness, recognition, and exploitation and growth with respect to opportunities. Generally these entrepreneurs function in formal markets with capital and labour markets, infrastructure, contract and regulation enforcement mechanism, and most importantly property right (Webb et.al, 2009). Subsistence marketplaces in which SEs function represent informal economies that are characterised by institutional voids, uncertain institutional context and market based institutions and resources (Mair and Marti, 2006) which are part of formal economy.

London et.al (2010) identify the constraints limiting the ability of SEs and categorised them as productivity and transaction related. Productivity related constraints refer to producer's inability in accessing raw material, finance, and production resources. Problems in accessibility, affordability and quality of these resources puts pressure on the total value created by the producers. In addition transactional constraints such as inability in securing access to marketplace, asserting market power, and getting consistent transactions puts pressure on SEs value capturing ability. Transactional constraints further limit producer's ability to capture higher share of value created. The producer's income is further lowered as he is forced to settle with little residual value. Lower income worsens productivity constraints of producers, which reinforce the vicious cycle of low equilibrium.

Two major reasons for limited growth of SEs are capital and labour. Personal savings of the owner are generally invested in business operations. This limits the speed of business growth due to very high marginal utility of consumption of the owner. It gains prominence in contexts where the entrepreneur lives in extended family where it is expected that successful member provides for relatives. Further, stringent labour laws or regulations of market entry can increase cost of business thereby effecting growth of business. Growth constraints put on successful entrepreneurs leads to increment in subsistence entrepreneurship (Schoar, 2010). Microenterprises working within the local economy have constraints in obtaining access to technology, quality assurance, and markets (Viswanathan et.al, 2012).

### **Research Context and Methodology**

SEs find it difficult to connect with formal markets to sell their products and services. They face uncertainties in business as they subsist in the poverty context. Regularity of income is always a challenge in such circumstances. Due to this, they limit their transactions to informal markets. Such entrepreneurs need support of institutions which mediate their

transactions with formal markets and help in getting remunerative price from consumers. Different organisational forms have been tried out in this regard in India. The paper looks at six such organisations working with SEs (in addition to other entrepreneurs) with the objective of helping them sustain or possibly move out of subsistence status. Organisations chosen cover a spectrum of business ventures i.e. from third sector to corporations taking interest in supporting the SEs.

Multiple case study design with organisation as a unit of analysis is taken up in this paper. This is with the view that analytical conclusions generated from multiple cases are more powerful. Further, it is possible to arrive at same conclusions even with cases having varying contexts leading to generalisability of findings (Yin, 2003).

### *Sample Organisations*

Hariyali Kisaan Bazaar (referred as Hariyali) is an initiative of DCM Shriram Ltd., which is a leading business conglomerate. The outlets are owned and managed by DCM Shriram. The organisation works predominantly in rural areas (Chhabra, 2009). Piramal Water Ltd. is an organisation started by Piramal Foundation. It is part of Piramal group, which is a diversified conglomerate. It works in underserved areas promoting designs and innovative solutions to help create access to safe drinking water. The water is sold under the brand name Sarvajal<sup>[i]</sup>. Fabindia Overseas Pvt. Ltd. is a largest private platform for products produced by artisans using traditional techniques, skills and processes which are hand-based. Fabindia established 17 supplier regional companies (SRCs) by collectivising artisans in different states. Artisans hold 26 percent stakes in SRCs and Fabindia owns 49 percent and rest shares are held by employees and investors (DeSai, 2011). Gujarat Cooperative Milk Marketing Federation (GCMMF), is an organisation with \$3.5 billion turnover in 2015-16. It is a largest food product marketing organisation in India. It brings all types of milk producers including subsistence producers under 18,545 village milk cooperative societies. These village cooperatives work under 18 member unions. The unions work under GCMMF<sup>[ii]</sup>. Dhruva is an NGO working with subsistence tribal producers to market cashew, mango and other products. It organised tribals into village development committees (VDCs) at village level, a group of VDCs are brought under a cooperative, and cooperatives are brought under a producer company to take up marketing (Shankar, 2014). Kala Raksha is an NGO which is organising women from lower socio-economic strata doing embroidery for their own usage. It organised 1000 embroidery artisans belonging to seven ethnic communities<sup>[iii]</sup>. Kala Raksha remained in the third sector realm as it did not establish any producer company or other commercial organisation to market products. Details of the support extended by these organisations is provided in Table 1.

**Table 1 Products and Services extended to SEs: At a Glance**

Organisation	Products and Services extended to SEs: At a Glance	
	Products	Services
Hariyali	Farm inputs: Fertilisers, agro chemicals, speciality fertilisers, micro nutrients and seeds	Agriculture services, buying back the produce, financial and warehouse services.
Sarvajal	Water purification machinery, water ATMs, Containers to store and sell water	Training, technology support, constant maintenance support.
Fabindia	Enables production of cloth materials by placing orders with	Design, technology upgradation, and finance is extended through Artisan's

	SRCs	microfinance venture.
GCMMF	Cattle feed and fodder	Free services such as animal husbandry, breeding support, artificial insemination, vaccination, and handling of milk
Dhruva	Sale of agricultural inputs, inputs for orchards	Land development Water resources development Formation of SHGs for microfinance Training to take care of orchard Agricultural extension services Procurement Processing Grading Marketing
Kala Rakha	Supplies inputs for apparel making	Training Vocational Education Market related education

**Note:** Hariyali also takes care of the consumer side of the SEs, as it sells goods necessary for the household in its outlets. Sarvajal and GCMMF though in a limited way also take care of the consumer role as they are involved in production and distribution of household necessities like water and milk respectively. All other interventions largely focus on the producer side of SEs.

### **Business Model Adopted by Organisations Supporting SEs**

Business model framework given by Morris et.al (2005:730) involving six components was used to present the details of six organisations working with SEs. The components are “(1) How do we create value? (2) Who do we create value for? (3) What is our source of competence? (4) How do we competitively position ourselves? (5) How do we make money? and (6) What are our time, scope and size ambitions?”.

#### *How do we create value?*

**Hariyali:** Agriculture services, farm inputs (fertilisers, agro chemicals, speciality fertilisers, micro nutrients and seeds) consumer goods, financial services, health and education are extended under this initiative. Hariyali buys back the agricultural output by providing financing and warehousing.

**Sarvajal:** Creates an income generating opportunity for franchisees with an initial investment of \$14,000 to buy equipment and \$4100 operational expenses per year. S/he will be able to generate revenues of \$8000 per annum in this venture. If there are 150 families existing in the village to purchase water regularly from the franchisee, her/his venture can break-even in 30-45 months. Employment opportunities are created for support staff as the model is based on selling water through automated teller machines (ATMs) and door to door (Sevea, 2013).

**Fabindia:** Creates income generating opportunity to about 55,000 artisans by continuously sourcing fabrics from their SRCs. Direct employment is created for 850 people and 1000 consultants. The artisan gets design, technical and skill upgradation support to improve productivity (DeSai, 2011).

**GCMMF:** First problem a dairy farmer faces is animal nutrition. The problem intensifies in case of subsistence dairy farmers who usually are landless. GCMMF sells cattle feed to

producers to take care of animal's nutrition, productivity, fat content in the milk, regularisation of reproductive cycle, metabolism and immunity<sup>[iv]</sup>. Cattle feed manufacturing plant available with GCMMF has a capacity of 7800 MT per day<sup>[v]</sup>. Fodder is supplied at subsidised prices. Free services such as animal husbandry, breeding support, artificial insemination, vaccination, and handling of milk are also provided. Veterinary services are charged INR.60 per visit and emergency veterinary doctor services are charged INR.120 per visit<sup>[vi]</sup>. Most importantly, producers are paid INR.42.50 per litre for 7 percent FAT and 9 percent solid non-fat (SNF) in the year 2015-16. This price increased from INR.34.68 in the year 2012-13, a 22.55 percent increment<sup>[vii]</sup>. The milk prices are paid on weekly basis to the dairy farmers to take care of those who need liquid cash.

**Dhruva:** Tribals who are part of this intervention had lost access to forest resources due to deforestation. Further, their subsistence agricultural productivity reduced due to top soil erosion from heavy rain fall. Keeping these problems in mind, Dhruva planned intervention to grow orchards of cashew and mango in the waste land available with tribals. Productivity enhancement of subsistence agriculture was also taken up. Pre-production services such as development of land and water resources, sale of agricultural inputs, and financial services were extended to enable rising orchards and betterment of agriculture. Procurement, processing, grading, packaging and marketing are critical activities in which tribals generally don't get support. These facilities have been offered by Dhruva to encourage continuance of tribal producers in the intervention. Men are employed in the procurement of cashew and mango at the village level. Women are employed in the processing and grading of cashew and mango at the 11 cooperatives (Shankar, 2014).

**Kala Raksha:** Women belonging to lower socio-economic strata were brought together to enable them for earning regular income. The women used their embroidery skills to make apparels for self or family usage, but now it used in achieving economic self-sufficiency. Innovation is encouraged so that women artisans can produce contemporary products using traditional art. Involvement in all steps from designing to final production is encouraged to train women in all market transactions<sup>[viii]</sup>. When women found it difficult to get involved education modules were planned to instil these skills<sup>[ix]</sup>. Kala Raksha supplies all the raw materials and shares 30 percent of revenue paid by customers with women artisans<sup>[x]</sup>.

*Who do we create value for?*

**Hariyali:** Large, medium, small farmers using agricultural inputs are catered to by this initiative<sup>[xi]</sup>. Agricultural services to improve productivity are extended through trained agronomists, who customise their suggestions for each farmer. Farmers in local, regional and national markets are reached through 163 outlets of Hariyali. About 360 agronomists' support 0.8 million farmers with agricultural services. These interactions between agronomists and farmers solidify their relationship with Hariyali. Customised solutions helps in building trust among the farmers (Chhabra, 2009).

**Sarvajal:** Sarvajal's franchisees are established in villages with 1000 plus households facing drinking water problem. The purified water is directly supplied to customers by each franchisee or delivered through water ATMs. Availability of potable drinking water helps in reducing the adverse effects of water bound diseases. Quality of water helps build reputation of the franchisee in the local community. Sarvajal creates income earning opportunities for franchisee and employees. Good relation between franchisee and Sarvajal helps in sustaining the intervention and scaling it up to other needy villages. Currently the organisation is

working in villages of Rajasthan, Gujarat, Uttar Pradesh and Madhya Pradesh. Biggest challenge for franchisee in this model is to manage 4500-5000 litres of brine generated from the plant (Sevea, 2013).

**Fabindia:** Largely consumers are reached through 211 retail outlets established throughout India. Stores are also established in countries like Singapore, United Arab Emirates, Nepal, Malaysia and Mauritius<sup>[xii]</sup>. Fabindia's website provides range of products available at various prices for men, women and kids. Men's wear ranges from INR.590 to 13,990. Women's wear ranges from INR.390 to 39,990. Kid's wear ranges from INR.390 to 3,290 for girls and INR.490 to 1890 for boys<sup>[xiii]</sup>. By offering best products in a suitable ambience (retail outlets) Fabindia tries to build relations with its customers. Relationships with artisans was built over a period of 50 years with continuous involvement and support.

**GCMMF:** It is a largest exporter of dairy products under brand name Amul. The products are ubiquitously available in India. Amul's products are made available in countries such as Australia, China, Gulf countries, Japan, Singapore, The Philippines and USA. The products cater to needs of all types of customers<sup>[xiv]</sup>. Amul connects with its customers due to long time presence in the market and regular supply of milk. Amul is also seen as a movement helping rural producers with regular incomes.

**Dhruva:** Products of Dhruva are largely absorbed in regional markets and rest is routed through institutional sales. Best quality and value added cashew is exported to Middle East. Customers are reached through own outlets or organised retailers. Different segments of consumers are targeted with different qualities of cashew and mangoes. Amul, Sumul, ITC are the institutional buyers and organised retailers include More, Booker and Shops for Change (Shankar, 2014). Efforts are needed to strengthen the brand Vasundhara under which Dhruva sells its products.

**Kala Raksha:** Sales are taken up for both retail customers and institutional buyers<sup>[xv]</sup>. Products are sold to customers through own store in Kutch district of Gujarat state and exhibitions across country. E-mail invitations are sent in advance to attract customers for Kala Raksha's exhibitions. This opportunity is used to create a customer database.

*What is source of competence?*

**Hariyali:** It establishes relation with farmers by selling consumer durables and other necessities regularly. As agricultural input production is in-house, effective management of supply chain is possible. Apart from Hariyali, parent company DCL Shiram extends agricultural services through 106 centers with 122 agronomists, covering 0.6 million hectares of land held by 0.3 million farmers. Its cane development programme through 350 agronomists aims to cover 0.3 million hectares of land held by 0.2 million farmers. These programmes help build reputation among farmers creating steady flow of customers. It also helps in cross learning and development of innovative solutions to farmer's problems (Chhabra, 2009).

**Sarvajal:** Water purification equipment installed at franchisee is of low cost. The water purification systems work at 40 percent efficiency, which is six times better than regular purification systems available in the market. A patented two-way monitoring system is set up to track real-time information on water production of all franchisee outlets. This monitoring system helps in anticipation of maintenance problems. Further, in-house enterprise resource

planning (ERP) system helps in proper management of the venture. Local distribution of water does not require significant investments from the franchisee in the supply chain (Sevea, 2013).

**Fabindia:** SRCs are Fabindia's centers for production. In the supply chain, weavers work with SRCs to develop samples, pricing committee decides the price for the fabric, woven fabric moves from SRC to Fabindia's regional center, and then SRCs place orders for fabrics with weavers (Jayashankar et.al, 2011). Fabindia follows decentralisation in inventory management, quality assurance and market information (Desai, 2011). Over 55,000 rural artisans are connected with customers through its outlets. This network not only creates rural employment on sustainable basis, but also helps in rejuvenating artisans' skill base to preserve traditional crafts<sup>[xvi]</sup>.

**GCMMF:** Production happens at the household level of the dairy farmer and value addition takes place in cooperatives and unions. Marketing efforts of GCMMF are supported with brand name Amul and its longest running campaign using Amul girl<sup>[xvii]</sup>. It spent maximum 1 percent of sales revenue on advertising, which is way below competition. Amul also attracts customers through social media (Malviya, 2013). The organisation has a network of 17 unions working under its ambit. Together these unions face competition from organised as well as unorganised players.

**Dhruva:** Some orchards are organic certified and produce mangoes to be sold to institutional buyers such as ITC. The detailed supply chain that was established from remote villages to the block level and further to the market is a source of competence for Dhruva. However, if production levels manifold then advantage of economies of scale will be much more in future. Dhruva was established by BAIF Development Research Foundation. This intervention was known as Orchard programme and received funding of INR. 450 crores from The German Development Bank (KfW). The successful implementation of this programme in three districts of Gujarat state prompted National Bank for Agriculture and Rural Development (NABARD) to invest in replication of the programme with a budget allocation of INR. 200 crores. This programme was planned for implementation in 14 states of India at 85 project sites. It is reputation of BAIF as a responsible NGO in India, which led to allocation of resources (Shankar, 2014).

**Kala Raksha:** Being a small organisation committed for the development of women artisans, Kala Raksha strives for using eco-friendly and natural materials of excellent quality. Dyes used in fabric dyeing are natural as they are brewed from fruits, flowers, leaves and roots. Though labour intensive, these dyes are non-harmful to dyers and users<sup>[xviii]</sup>.

*How do we competitively position ourselves?*

**Hariyali:** It tries to support farmers' role as producer and consumer. The outlets build long term relations by capturing as many transactions of farmers as possible (Chhabra, 2009). Thus making it difficult for other competitors to replicate the complex business model.

**Sarvajal:** The position taken by Sarvajal is that technology can be used to solve the problems of masses. One example of this is Soochak, a system to track purity of water processed at its franchisees. World Health Organisation's water purity standard of 50 to 150 total dissolved solids (TDS) is adhered to by all franchisees. If any deviation occurs, it is captured through Soochak and corrective action is initiated (Sevea, 2013).

**Fabindia:** The products are contemporary and affordable to meet changing fashion needs of customers. Natural materials and rural artisan's work is promoted to reinvigorate craftsmanship<sup>[xix]</sup>. Customers can experience standardised products, consistent quality and wider variety in the stores (DeSai, 2011).

**GCMMF:** Amul received numerous awards for quality of its products<sup>[xx]</sup>. The intermediaries operated on razor thin margins with lean operations to reduce costs. This helps in transferring maximum percentage of money paid by customers to milk producers. Success of operations is the outcome of robust coordination between village cooperatives, district unions and state federation. GCMMF plays key role of coordinating the activities of all unions. It also determines the products to be produced by different unions (Chandra and Tirupaty, 2003). Such complex structure helps build responsiveness at different levels of the organisation, which works for benefitting dairy farmer.

**Dhruva:** Product quality is one factor which is enabling competitive positioning of Vasundhara brand. Number of nuts per Kilo is the benchmark used to grade the cashew. About 160-175 nuts per Kilo is categorised as grade A, 175-201 nuts per Kilo is categorised as grade B, 211-240 nuts per Kilo is categorised as grade C and others are rejected. Each grade of the cashew is sold to appropriate segment of customers. Mangoes are not graded as they either are processed in Dhruva or sold directly in the local market. By involving with organisations like Shops for Change, Dhruva is also trying to highlight the beneficial effects of Orchard programme to customers (Shankar, 2014).

**Kala Raksha:** The uniqueness of the crafts comes from the skills of women artisans and natural dyes used in dyeing clothes.

*How do we make money?*

**Hariyali:** Sales of products and services are the major source of revenue.

**Sarvajal:** Sarvajal earns its revenues from the money paid by the franchisees. A franchisee pays 20 percent of water sales revenues from the purification unit. In addition they also pay three paisa per litre for water sold through ATMs (Sevea, 2013). Operating leverage is medium, volumes are high and margins are deliberately kept low to cover more households with the service.

**Fabindia:** Annual revenue of INR.350 crores of which 95 percent comes from domestic sales. Rest comes from wholesale exports to 33 countries (DeSai, 2011).

**GCMMF:** Products are priced competitively as milk is needed by majority of customers and there is a huge competition from unorganised sector. Sale of milk, milk products, and cattle feed are the major sources of revenue. Cafes started by Amul in recent times are slowly becoming sources of revenue. Sales revenue of GCMMF for the year 2015-16 is \$3.5 billion<sup>[xxi]</sup>.

**Dhruva:** Sale of cashew and mango is the source of revenue. Margins are low due to commodity nature of the offering and prices are determined by national and international markets. Dependence on donors is observed for capital investments.

**Kala Raksha:** Revenue is generated from the sale of crafts. Dependence on donors is observed for capital investments.



*What are time, scope and size ambitions?*

**Hariyali:** At farmer level Hariyali is a regular income generating model. Crop diversification and intercropping helps in improving the per unit area incomes of farmers. Market linkages are created for high value crops resulting in better incomes for farmers. At the organisation level, each Hariyali outlet reaches 15 to 20 thousand farmers in a catchment radius of 20 to 25 kilo meters. It covers land of 20 to 40 thousand ha and helps in creation of \$60 million in the community. Organised retailing is new to rural India and interventions like these are needed to bring urban like amenities to rural folk (Chhabra, 2009).

**Sarvajal:** A franchisee sells water in cans of 20 litre for INR 6. S/he gets to keep 80 percent revenues earned every month. S/he can keep 100 percent of delivery and chilling fee, which is INR.4 and INR.9 respectively (Sevea, 2013). Currently, the model does not allow a franchisee to expand into other territories due to machine capacity constraints.

**Fabindia:** Significant initial investments were made by Fabindia in the business. Substantial reinvestments were also taken up by the organisation in order to enhance the value of the firm to create value for investors. Artisans owning shares in their SRCs is a feature unique to this model. The artisan gets regular orders from SRCs which provides him / her with stable income earning opportunity. If the money earned is reinvested in the facilities, the artisan can meet bigger orders and make better money.

**GCMMF:** This business model has brought together 15 million milk producers under 1,44,500 dairy cooperative societies, which are working under 184 district unions and which are under the ambit of 22 state marketing federations in India. In Gujarat where GCMMF is located, total 3.2 million milk producers are organised under 16,914 dairy cooperatives, which work under 17 district milk unions<sup>[xxii]</sup>. In this model there are no private investors who expect share value to appreciate. However, dairy farmers expect to receive improved services for enhancing animal productivity leading to improved income.

**Dhruva:** The business is conceptualised as a source of regular income for tribals. If the households nurture the orchard, they can receive regular income year on year. However, seasonal nature of the produce needs be kept in mind.

**Kala Raksha:** It invested in improving skills of women artisans and established processes to market their products. This creates regular stream of income for women supplementing their agricultural income. Limited number of artisans present in the business model restricts the scope of products and the business.

## **Findings and Discussion**

### *Proposed Framework*

To begin with organisations playing transformational role collectivise SEs under community based organisations (CBOs) / franchisees. These CBOs / franchisees act as a base through which productivity and transaction related constraints are addressed. Table 1 provided earlier indicates all the products and services extended by the six organisations to address these constraints. The SEs spread across villages or bigger geographies are brought together and production is taken up. Sometimes the production happens at the house or workshop of the SE. The organisations either collect the intermediate product which needs further processing e.g. milk, cashew at a factory or the final product is collected for packaging and sale. The

organisation playing transformational role may use intermediaries like wholesalers and retailers or set up own stores to reach end customers. The organisation can also establish a brand to sustain its sales in the long run. Activities taken up by the six organisations are described in previous section. These activities are difficult for individual SE or a group of SEs to carryout profitably on a sustainable basis. It is with the support of large scale organisation they are able to overcome their individual and collective constraints to interact and benefit from market transactions. Also as suggested by Viswanathan et.al (2014) the organisation benefits from the flexibility and customisation that is possible at the individual level. Overall the efforts are aimed at providing a better value proposition to the customers and sustainable income to the SEs.

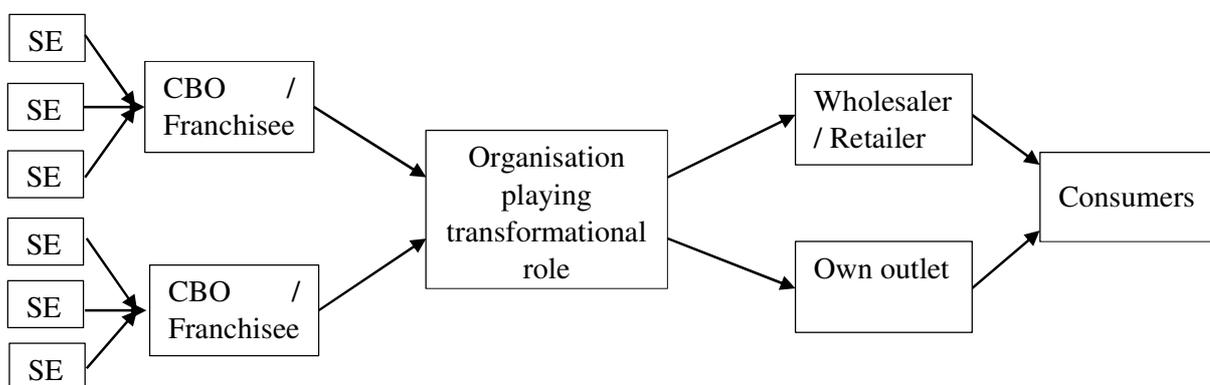


Figure 1 Conceptual Framework to Understand Transformational Role of an Organisation Interested to Serve SEs

Source: Authors's own

### Discussion

Entrepreneurs differ from each other on the basis of their ability, motivation and personal characteristics. Due to this, it is difficult to scale-up small firms into larger businesses (Schoar, 2010). In developing country context, where we find large number of SEs, this may be true. However, the alternative is to collectivise the SEs under one organisation, which is willing to play a transformational role. So by collectivising SEs and addressing the institutional voids, we can create an enabling environment in which products or services by SEs not only serve the local markets, but go beyond to reach, regional, national and international markets. Such efforts help creation of regular incomes at individual SE level and help him / her in sustaining the business in the long run. GCMMF, Dhruva, Fabindia, Kala Raksha, Sarvajal and Hariyali are the organisations, which found an activity that can be taken up by many SEs individually under a collective. By giving these SEs a sense of direction under a collective, a good value proposition for the consumers was created. All these initiatives with their systems and processes try to overcome any deficits at the individual level i.e. ability, motivation and personal character. As suggested by London et.al (2010) the six organisations help SEs to overcome productivity and transactional constraints, thereby enabling them to escape the vicious low equilibrium. So it may not be necessary to convert all SEs into TEs, but efforts should be directed to find attractive market opportunities, for which large number of SEs can be collectivised.

In subsistence entrepreneurship context, the three dimensions of social capital (structural, cognitive and relational) work at the community (meso) level rather than individual level

(Viswanathan et.al 2014; Van Den Hooff and De Winter 2011). *Structural social capital* at the community level represents diversity and patterns of ties among entrepreneurs. The six organisations help in increasing the number and nodes of ties in the network and their intensity. This is because as a collective, the SEs are encouraged to interact with each other in the subsistence context improving their social capital at the community level. Most importantly, the six organisations bring together various communities with differing social and economic status to create better structural social capital. This is important in case of SEs, as they have little capital or volumes of products to contribute to business model. However, the SEs compensate these lacunae with their numbers i.e. if few number of upper caste, well to do entrepreneurs are able to contribute a fixed quantity of produce, the same can be obtained from large number of SEs. The strength of the business model adopted by the six organisations lies in the inter community interactions, which supplement and complement each other and contribute to overall development of society. *Cognitive social capital* at the community level evolves out of shared experiences of the market place and common understanding of values and attitude in the community. The organisations discussed have established standard operating procedures for all the interactions and continue to train their SEs on the best practices to be adopted. This helps all the members to develop a common understanding of procedures to be followed and also helps create common values and attitudes towards the business model. *Relational social capital* at the community level is enhanced with the steps taken by macro level institutional arrangements. Regular payments made to SEs have created a sense of trust between organisations and SEs. Further, the support extended to overcome productivity constraints creates a sense of belongingness among the SEs. This ensures regularity of supply of products to the business model by all the SEs involved.

Most informal sector microenterprises working in the local economy are small, and lack scale and resources to take up activities that would bring enhanced economic outcomes. To address this problem, they need to be linked with formal sector, rather than replacing them with enterprises in formal sector. Characteristics such as fluidity, constant customisation and enduring relationships, which are difficult for formal sector organisations to emulate can be brought in by linking them with microenterprises which possess these characteristics. Further, formal sector organisations can benefit from the social capital possessed in informal economies (Viswanathan et.al, 2012). The six cases discussed try to connect the SEs with formal markets rather than replacing the SEs. They let SEs to function and contribute to the informal economy i.e. sell products / services to locals. Most importantly, they enable SEs to create value for customers in organised markets, which may be regional, national and international. Because of this, SEs live in their informal economy and keep traversing between informal and formal economy. This dual role facilitated by six organisations enables increment in remuneration for SEs. Can the SEs be completely out of the informal market transactions and move out of subsistence status remains uncertain. However, the institutional support given if utilised well by the individual can enable some SEs to move out of their subsistence status. Most importantly, the institutional support ensures that the SEs don't fall into negative spiral of low equilibrium.

### **Implications for Theory and Practice**

The SEs need continuous handholding to remain in the venture. The handholding can be in the form of addressing the productivity and transactional constraints. The objective of handholding should be to create an enabling environment for the SEs so that s/he sustains the microenterprise in the long-run. Handholding without creating a sense of ownership towards

the product, CBO, or the organisation playing transformational role will only discourage the continuance of SE in the venture.

In a country like India, where the SEs come from the lower socio-economic strata, it is not possible to have a successful venture only with SEs. This is largely due the fact that SEs even as a collective may not have the capacity to raise capital for the business, which requires continuous investments. In this regard, it is better to collectivise people who are well to do along with the SEs. The intention here is to ensure regular supply of capital and large scale production from the well to do entrepreneurs who may be less in number. At the same time, the collective with large number of SEs will be able to provide products contributing to economies of scale. The six organisations have tried to incorporate this model of mixing SEs with well to do entrepreneurs.

The organisations interested in working with SEs also need to focus on enhancing all dimensions of social capital at the community level. These organisations bring SEs from various communities existing in the society thereby enhancing structural social capital at community level. The CBOs / franchisees created by the organisations provide spaces for the SEs to exchange experiences, values and attitudes with others, thereby creating a shared understanding of the business. Recurring positive experiences and remuneration due to involvement in the intervention leads to building of trust, which eases future business expansion.

The interventions planned with SEs usually have higher emphasis on production and productivity. However, enough time should be spent on conceptualising the business considering the six questions discussed by Morris et.al (2005). This will help in selecting the right set of ideas for business. Most importantly, the market for products to be produced by SEs needs to be assessed carefully to understand the costs, risks, benefits and returns.

### **Conclusion**

Transformational role played by six organisations working with SEs has been looked into. The organisations adopted different forms to collectivise and connect SEs with market. All the six organisations have extended support with respect to the producer role played by the SE. However, largely Hariyali took care of the consumer role played the SEs. Producer collectives were organised to carry out production at the individual household level, which was then processed to make a final product. Such dispersed production systems help the SE to live and function in his / her own context and strive towards earning better living. The support extended also contributes to sustenance of SEs over a period of time.

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