

FORETHOUGHT STRATEGY

Capturing the Ricochet Economy

by Vijay Mahajan and Yoram (Jerry) Wind

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As waves of immigrants come to developed countries from developing ones, many policy makers tend to focus on the downsides, such as strains on social services, competition for employment, and racial tensions. Largely overlooked is a huge emerging market that is spanning national borders: purchases and investments that bounce money back to expats' homelands. This is the "ricochet economy," described by Vijay Mahajan and Kamini Banga in their 2006 book *The 86% Solution*.

The ricochet economy is growing at emerging economy rates. Its remittances to the developing world are second only to those generated by foreign direct investments. The dispersed "immigrant nation" feeding that financial flow has a global population equal to that of Belgium, Portugal, and Greece combined. Yet because this market isn't addressed by traditional organizational structures—which look at markets by country or region—many companies fail to see its potential.

They're missing big opportunities. In 2005, immigrants worldwide who worked abroad sent home more than \$230 billion. Of that, \$167 billion went to developing countries, according to World Bank estimates, an amount that exceeds the GDP of Singapore. Actual remittances from developed to developing countries are much higher, given the size of the informal economy, which by some estimates could add another 50% or more to the official figures. And these are only the financial flows. Direct flows of goods, travel, phone calls, and other exchanges greatly increase the size of this ricochet economy. Expatriates are also major investors in venture capital firms and private foundations in their homelands, bringing knowledge and influence that cannot be measured in dollars alone.

Some companies that are recognizing the opportunities created by this market have launched "bank shot" businesses, which allow customers to select and pay for products in a developed country that are then delivered to relatives living in developing countries from local companies there—everything from bags

of cement (Cemex) to retail products (La Curacao) to mortgages (Hipotecaria Nacional). Many banks, credit unions, and even nonbanks are directly facilitating the flow of remittances, including Western Union, Wells Fargo, the Spanish bank BBVA, India's ICICI Bank, Citigroup, and Bank of America. Retail giant Wal-Mart is offering its U.S. customers money transfers to Mexico for less than \$10 per transaction, and recipients who pick up the money at a Wal-Mart in Mexico receive an additional 20-peso (about \$2) store gift certificate. While banks often have charged their customers prohibitive fees for such transactions, many now offer free or low-cost transfers, as well as services such as credit cards for relatives back home that are billed to account holders in the States.

Companies are also catering to immigrants through various media vehicles—from Web sites that connect immigrant groups around the world (such as *sulekha.com*, for the Indian community) to Spanish-language *telenovelas* and Bollywood films. Initially marketed to people who have moved overseas, many of these offerings are appealing, ultimately, to an even broader set of consumers. Cisneros Group of Companies—a privately held media, entertainment, technology, and consumer-product conglomerate based in Venezuela—was able to build on its investment in Univision and other U.S.-based Spanish-language media companies to launch a new prepaid cellular phone service (Movida) across the United States in just seven months. The service offers low-priced calling to Mexico and other Latin American countries. Many other companies have built their businesses through such synergies between developed and developing markets.

Every year, the opportunities grow. Are you capitalizing on them? What percentage of your customers are immigrants who have family members abroad? How can you facilitate the flow of goods or remittances back home? Do you need a "country" manager for this invisible nation?

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