

Evolution of a Sustainable PPP Model in the BOP Market

Creating value for all

01 August 2008

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Debrief

Colgate Palmolive, the world's leading manufacturer of oral care products, dominates the Indian oral care industry with a market share of more than 62%. The word 'Colgate' has become synonymous with 'toothpaste' for most consumers in India, especially those in the rural Indian context.



As the leader, Colgate faces the major challenge of expanding the market which will ultimately result in increased business for all players. The urban market is more or less saturated with most consumers in this segment already using oral hygiene products in one form or other. In the rural context, however, there is scope for growth, as over 30% of the population of 780 million still uses traditional methods of oral care. Colgate's rural coverage reaches down to villages with a population of 5000+ through direct distribution channels but it is unviable to penetrate further. An increasingly active competition is putting further pressure on Colgate. Large powerful corporations like Hindustan Unilever are getting ready for a tough fight with their 'Pepsodent' brand, while smaller regional players like 'Anchor', 'Ajanta' and 'Amar' are cashing in on religious sentiments with vegetarian toothpaste, increasingly segmenting the market further, and in the deep interiors the fight against lookalikes, fakes and spell-alikes has made a heavy dent in Colgate's market share.

The big challenge, Colgate executives stated to their agency - MART – was that the remaining un-penetrated villages with populations of less than five thousand inhabitants account for 85% of the rural population of India. "The major portion of the non-using oral care segment lies in the less than 5000 population village strata," said Sudhir Langer, Manager, New ventures at Colgate, "and current methods and forms of accessing this stratum of rural population are not commercially viable models."

These smaller villages would have little economic development, with a small proportion being affluent and the majority at the bottom of the pyramid. In this stratum, people would typically have to travel out of the village for the purchase of many necessities; periodically visiting Haats¹, shops at nearby larger villages or the block town. Low per capita usage in these small villages fosters an environment where there is inadequate scale for return on investment and which makes regular access untenable for existing direct distribution channels. The brief to MART executives was clear: create a model or program that can viably and sustainably address the critical issues facing Colgate at this point of time.

Deliberation

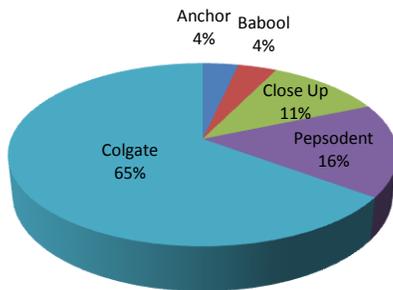
The MART team absorbed the brief. One team member decided to start with a holistic understanding of the oral care industry, the levels of rural penetration and other issues dogging the industry as a whole. He prepared a report for the team, a summary of which is given below.

¹ A "Haat" is a temporary market that is set up at regular periodic intervals in various specified localities in rural and semi urban India. There are about 42,000 periodic markets in the country, having highest concentration in North India.

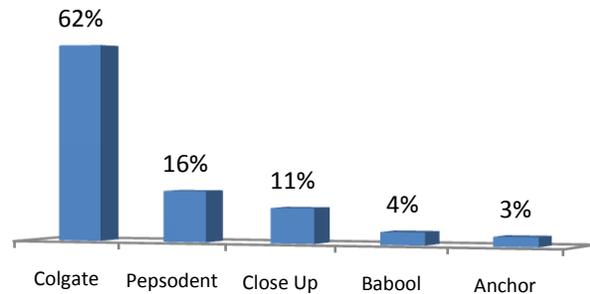
Oral Care Penetration Figures

Particulars	India				Zones			
	All	Urban	Rural	North	South	East	West	
Toothpaste	48.6	74.9	37.6	47.8	61.8	40.0	44.4	
Toothpowder	34.7	30.6	36.5	37.1	35.7	30.0	36.1	

**Brand Share
(Million Households)**

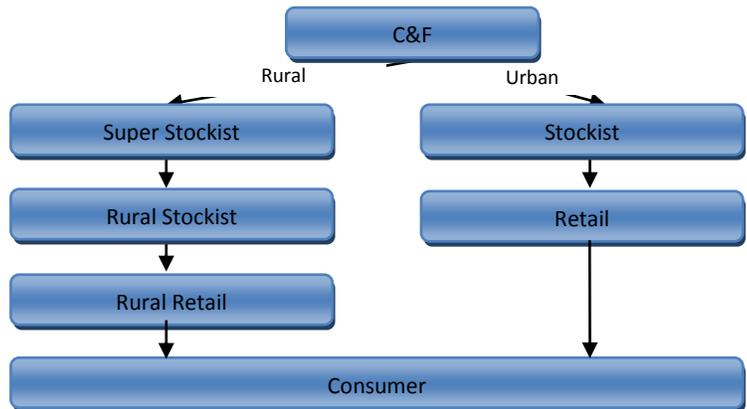


Market Penetration (%)



Current Colgate Strategy

The existing distribution structure, as depicted in the diagram, allowed direct access to the inhabitants of 5000+ population villages. Colgate wished to penetrate deeper and achieve a distribution spread of villages with 2000 population. They had tried experimenting with different models; none worked.



Buying Behavior

The BOP population, which accounts for a substantial proportion of the rural market, depicts unique buying behavior. Their main interest is in 'value for money' offerings. They also shop more frequently than their urban counterparts, but fewer items on each occasion. As there are limited shops in villages of this pop stratum, the BOP segment usually conducts most of its purchases from the nearby Haat.



From the overview of the oral care sector and understanding on the BOP segment buying behavior, it became evident that the solution revolved around three main factors:

- Distribution enhancement to expand beyond current coverage levels to access the BOP segment
- Provision of strong communication on identification of fakes and use of the genuine article
- Ensuring sustainability and scalability of the developed model

Issues and strategic perspective on a BOP access model

After much deliberation within the MART team, several issues emerged to be addressed while conceptualizing a model:

- As the traditional retailer driven/ sales force model had proven to not be cost effective at lower population strata, a lower cost model would have to be developed. This would not necessarily be a low opportunity model, but it would be unlikely to meet traditional margin expectations. Further, the proposition of overcoming physical coverage issues in the vast remote areas of rural India would be unattractive to a distributor. These factors called for a channel partner who would be rural in residence and orientation, as well as having low economic expectations.
- The main functions of a channel partner would be to buy the products from the company at an approved rate and sell them to the next channel/consumers, while also promoting the brand at different levels. Identification of appropriate candidates became the next challenge.
- The ideal channel partner is one who promotes the brand, communicates brand messages, sells the product and, thereby, earns a reasonable living. An advantage of this type of dedicated channel partners is that the company gets a loyal brand ambassador with social standing in the local community.
- The team at MART wondered whether the channel partner could work through a 'support' model, where Colgate would provide training, products, margins and promotions while the channel partner sells the products and earns his living. This could be viewed as a new business venture for the channel partner, despite being fully supported by the company and provided a fixed stipend, as earnings would be largely through the margins earned and the business created.
- Being external in nature, this channel would not entail any on-going liability to the company. However, some initial investment in partner development would be required and these costs would be spread across the total personnel deployed over the duration of the initiative. Being from a social sector organization, rural youth channel partners would have the capability to act as 'brand ambassadors' independently in the rural environment, reducing risk for the company.
- In this scenario, the company gains with deeper brand penetration and access to unreached markets, allowing the brand to strike back at fakes and duplicates. At the same time, the partner can start his own business selling company products, earning his livelihood while being respected as the company man in the area. A win-win situation; creating value for all.
- In the Indian, and even global, context, presence in the BOP sector is the single largest remaining market opportunity which any company can address today.

The Search for a Channel Partner

The GOI, after Independence, initiated national level youth based organizations, such as the 'Nehru Yuva Kendra Sanghathan', with a social focus to channelize the rural youth's energy into productive areas. Training was provided, along with short employment contracts, to suitable high potential villagers. This became a launching pad for various social welfare and cultural initiatives.

Over the years, a significant resource pool has been created. These trained youth, oriented towards the rural population, are now on the lookout for alternate livelihood possibilities.

Model Development

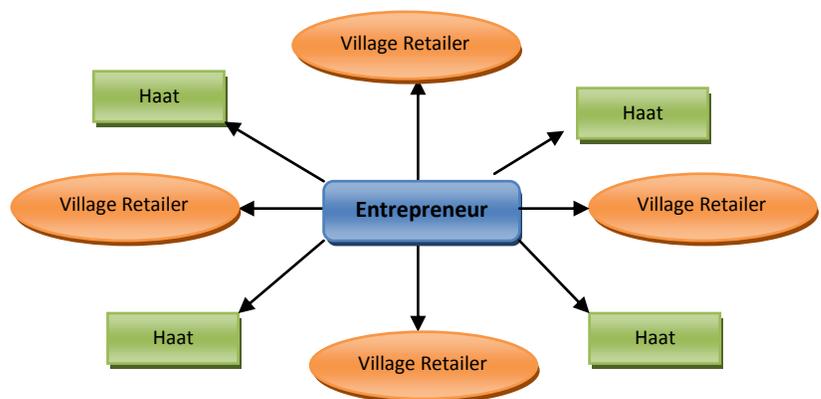
After extensive internal deliberation by MART team, the model that emerged is described below:

- Identify educated, unemployed youth in villages as potential channel partners for Colgate products
- Selected youth would act as entrepreneurs, paying cash for stock and earning from sale of products
- To keep costs low, youth will travel by bicycle with a stock box attached for product storage.
- Makeshift stall, using a branded umbrella, erected at venue to attract buyers.
- Branding of channel partner through company logos on T-shirt, bicycle and box will increase visibility and ensure authenticity.

The Entity of Entrepreneur

To reach the BOP market in below 5000 population villages, MART decided to hire local youth from different sources including the Nehru Yuva Kendra Sanghathan. The process used is as follows:

- Map the uncovered territory of the rural Colgate stockists. Select a cluster of 20-30 uncovered villages within a 10 km radius. Ensure Haats are present.
- Identify, select, recruit and train youth.
- Allocate territories and develop a permanent journey cycle plan to cover these markets. In one day, the entrepreneur covers 2 village retailers and one Haat. On 'non Haat' days, the entrepreneur covers 4 villages.
- At the Village retailer, activities are:
 - Introduction of self as a Colgate last mile channel partner
 - Sharing journey plan and visiting on fixed day
 - Promotion of Colgate products
 - Placing posters at Shop
- At the Haat, activities include:
 - Ensuring an optimal vantage point for location of stand
 - Setting up branded umbrella on cycle and display of stock
 - Communication on oral hygiene practices, differentiating between fakes and genuine Colgate products.
 - Offering of samples and product trials
 - Sale of Colgate products
- The youth is linked to the nearest company stockist and buys stock on cash, usually weekly.
- The entrepreneur margins are approximately 3% selling to village retailers and approximately 8% selling directly to consumers at Haats, creating a weighted average margin of 7%.



- To sustain the entrepreneur interest in the business an initial stipend of Rs 1500/- per month was fixed. This is reduced, on a sliding scale, over time as the business grows, but is not completely eliminated to retain some degree of control over the entrepreneur.



Roadblock and way out

Post roll out, first time hiccups and ground realities had to be taken into account while refining the model. The pilot implementation phase had encountered three major roadblocks:

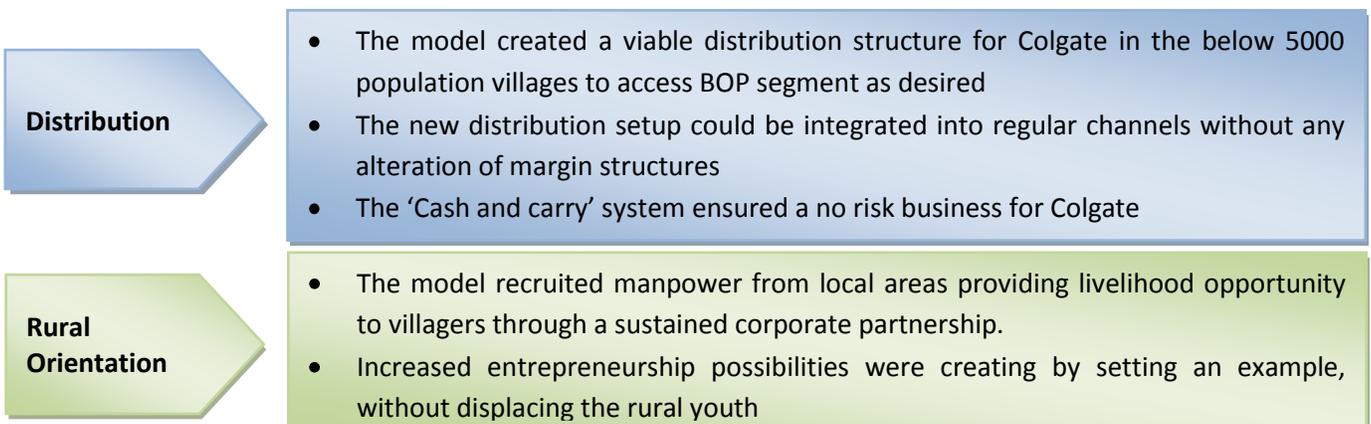
- Channel partner motivation and retention was an issue over time. During the initial phase of operations, earnings rise very slowly and reducing the stipend before the business is established would lead to exit by the channel partner. In order to maintain a sustainable earning potential and to keep the partner motivated, MART introduced the concept of a monthly stipend payable on reducing scale. As business volumes build to attractive levels, the stipend is reduced in a calibrated manner to Rs 1200/- but not withdrawn totally. This continued payment ensures control over the channel partner is retained.
- Correct identification of youth is required to ensure that their income expectations are consistent with the lower earnings available as a channel partner. The profile to be targeted to avoid duplication of efforts and resources are from needy lower middle income homes, who have a small family to support, earn less than one thousand a month currently and have an education of up to 12th class.
- A major challenge will be to retain Channel partner 'buy in' over time as demonstrated through increasing investments as the business grows and observing total loyalty to Colgate only. The continued stipend will work to prevent the shifting of loyalties.

Size and scale of Model

The model was implemented across 28 districts with 240 entrepreneurs working full time for Colgate. It took roughly 18 months for MART to operationalize this model in the field.

Impact of Model: characteristics enhancing viable access of the BOP market

This model addresses the following issues:



**Promotion of
Genuine
Products**

- The promotion of the genuine brand by an authorized partner to village consumers creates an advantage for Colgate over fakes.
- Communication at Haats to the target audience on how to identify the genuine brand impacted sales positively.

Other Benefits

- This is a self sustaining, entrepreneurial model based on sales earnings rather than a typical salary outflow employee mode.
- It is a low cost model targeted at high sales volumes through access to large concentrated crowds at Haats and by serving the larger requirements of village retailers rather than addressing individual consumers.

These benefits would allow any company with a brand to gain a strategic foothold in the BOP market in below 5000 population villages provided that it is ready to partner a new entrepreneurial channel with an open mind, has a readiness to support the livelihood of the partner and be willing to provide long term growth prospects.

Results at glance

In 2005, the initial year of implementation, the 28 identified districts contributed to a total of 2% of rural sales for the state. By 2006, this figure had grown to 6% and, by 2008, it had jumped to 9% of the state's rural sales.