Inside
Inclusive Business

The Practitioner Hub FOR INCLUSIVE BUSINESS

Business Innovation Facility

ISSUE 5 | APRIL 2013

A word from the authors...

High distribution costs in rural and remote markets are a significant barrier to entry for companies trying to reach the base of the pyramid populations. Engaging with existing networks can be a time and cost effective solution. However, companies need to be strategic and cautious about selecting the right distribution partners.

There are three key risks associated with partnerships with existing networks:

- **Reputational risk:** Could the distribution partner dilute or damage your brand?
- **Operational risk:** Could the distribution partner impair or hamper planned operations?
- **Financial risk:** If financial transactions are involved, can the distribution partner handle the risk?

We hope that the approach presented in this document helps companies as they develop their strategy to partner with existing networks to reach BOP markets.

Rashi Agrawal
Technical Services Provider, Intellecap

Nisha Dutt
Country Manager, India, Business Innovation Facility

The **'Inside Inclusive Business'** series is based on the real-world experiences of companies who are actively expanding opportunities for people at the base of global economic pyramid through their core business activities.

Each edition explores one aspect of inclusive business. The aim is to share practical ideas, challenges and solutions, as they emerge, in ways that are relevant to other business and development professionals.

Distribution channels to the base of the pyramid

Harnessing existing networks and creating unusual partnerships

Many companies are seeking to sell essential goods and services, such as energy, healthcare, education, water, sanitation, and livelihood and information services to underserved markets.

Product innovations have helped adapt traditional products to the specific needs of rural and underserved markets. However, reaching end-consumers, who often live in remote geographies with weak infrastructure, is costly and challenging.

This 'Inside Inclusive Business' looks at the different ways in which Business Innovation Facility (BIF) projects have addressed these challenges, by building on existing distribution infrastructure across various channels.

The first section focuses on identifying the nature and cause of 'last mile' access challenges. The following sections highlight examples of partnerships in BIF projects, the approach to partnerships with existing distribution networks and the criteria for selection of partners.

© Anurag Khare

Farmer at MCX's Gramin Suvidha Kendra (GSK) co-branded Post Office

Why look for existing infrastructure to reach the Base of the Pyramid (BOP)?

BOP consumers generally do not frequent the conventional retail outlets of the middle pyramid consumers. However, building a distribution network that covers the 'last mile' to poor and under-developed communities and villages can be very costly for most companies. Hence the search for existing networks that already reach them, even if they are not known as 'distribution' networks.

Figure 1 outlines the three main options for choosing a distribution channel to the BOP.

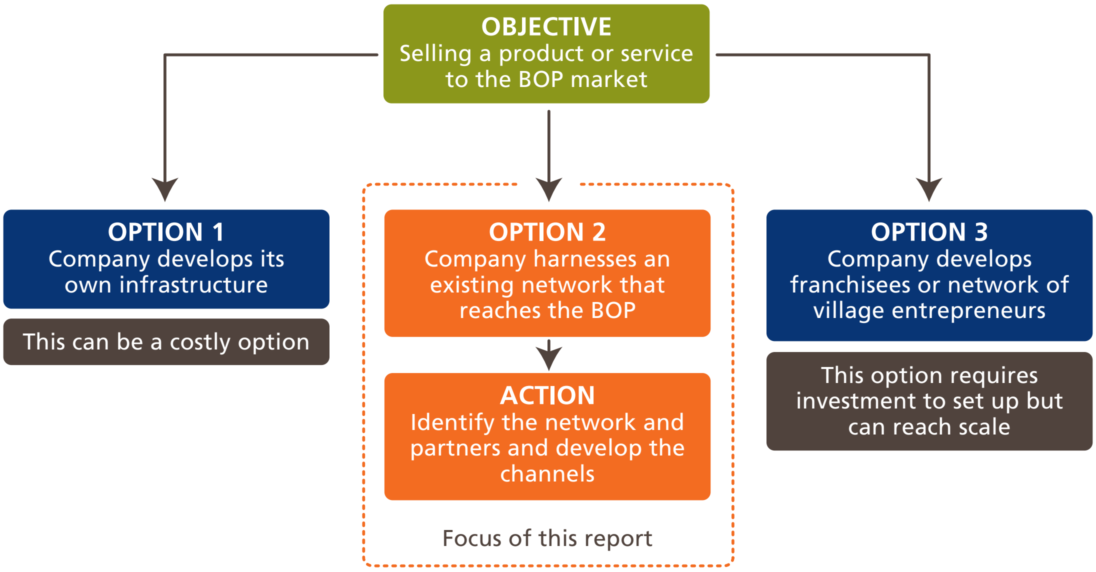


Figure 1: *Three options to create or harness a distribution network*

Few companies are likely to have their own ready-made distribution infrastructure that reaches the BOP market. Assuming they don't, they have three options:

- build their own infrastructure, at considerable expense
- harness an infrastructure already created by someone else
- co-create one by setting up a franchisee system.

This document focuses on the middle option: harnessing networks built by others, by entering partnerships.

There are a number of examples in the BIF portfolio of companies adopting the other distribution options (1 and 3). Healthstore in Zambia seeks to build a network of rural clinics through a franchise model. In Nigeria, Oando are creating a new distribution model for their low cost LPG stove product. This will create income opportunities for micro-entrepreneurs via a franchise model. However, in the short term they are also making use of their own extensive vehicle fuel retail forecourts to distribute the product. The Inside Inclusive Business "The 'last mile' challenge" considers the village entrepreneur distribution model'.

There are several challenges faced by companies trying to sell products to underserved consumers. These consumers are often poor, are located in remote rural areas where access infrastructure has not reached and have heterogeneous needs and demands. Some of the key challenges companies face while developing a distribution strategy for products targeted at underserved markets are listed here:

The challenges of reaching the BOP consumer	
Absence of conventional distribution chain	Markets often lack the presence of distributors and distribution infrastructure such as warehouses, cold storages, logistics and transport infrastructure, and retail outlets.
Irregular and unreliable cash flows	Consumers are usually cash-poor and cash flows depend on external factors such as weather and harvest cycles. Consumers are unable to make single large payments (anything over INR 1000 or USD 20) and require financing assistance.
Fragmented and decentralised demand	Consumer groups in these markets are very different. Each group exhibits unique, heterogeneous demands. Demand is also fairly decentralised, in that there are no mechanisms to aggregate demand from many small customers (no equivalent to the superstore or online outlet) across regions and segments.
Demand for basic services is latent	While there is a clear need for basic services (water, sanitation, health, education and energy), it does not translate into demand. Converting this latent demand into real demand requires mechanisms such as awareness-building programmes and free product trials.
Demand is fairly elastic	Cash-poor consumers are highly price-sensitive, brand insensitive and willing to compromise on quality – particularly for small ticket items. However, for larger purchases, such as farm equipment and household gadgets, they are likely to be more loyal towards certain trusted brands (e.g. in India there are some ubiquitous brands such as Tata and Mahindra, and it would take time for a smaller brand to establish an identity in a market for large items.).
Reverse logistics are crucial but difficult	After-sales support is crucial for durables (e.g. water filters, pumps, solar home lighting kits, etc.) that tend to be costly purchases. However, it is challenging for manufacturers to provide product training, servicing and part replacement services in remote geographies.

Table 1: *The challenges of reaching the BOP consumer*

Some companies in the BIF portfolio have successfully tackled the distribution challenge through partnerships with existing distribution networks. These include the networks of Microfinance Institutions (MFIs), regional cooperatives, post offices, government-run social security networks and networks of other companies (e.g. fast-moving consumer goods (FMCGs), agri-input providers, etc.).

BIF projects using existing 'last-mile' networks

Inclusive Business company (and product or service)	Country of operation	Conventional distribution network of the company	Existing external distribution network harnessed to reach BOP	Role of the partner
MCX (agri-information, commodity prices)	India	None to the BOP	Village post office network	Post office provides a physical network that farmers can use for regular interaction
mKrishi® (patented mobile-based personalised service delivery platform)	India	None	Dissemination points for agri-inputs, farmer producer organisations, cooperatives, village entrepreneurs	Co-ordinator promotes and trains the target consumers (farmers) on the mobile application. Provides physical last mile connectivity to the farmers and agri-expertise for dissemination to the farmers
HUL (water filter for household use)	India	Retail distribution channel – wholesalers to retailers	Microfinance institutions, self-help groups, and cooperatives	Aggregates demand, provides financing, unlocks new markets
d.light (solar powered lamps)	Nigeria	Commercial channels for sales on commission basis	Microfinance institutions and other high-engagement channels	Explain benefits of the product and encourage a switch from less sustainable options

***Table 2:** BIF projects using existing 'last-mile' networks*

Common themes:

- The networks harnessed by companies were not necessarily set up for distribution, but could serve as a physical network to distribute essential goods and services. For example, the post office network was set up for mail. However, it offers a valuable 'brick and mortar' network that could be harnessed to deliver several essential services.
- Distribution partners not only provide the physical infrastructure, but also play several key functions. They may add value to the product through bundling with other products (see Tata example), build awareness about the benefits of the product or support consumer finance. A distribution network that has earned the trust among the communities in which it works can also offer that same trust with the products or services channeled through it.
- Distribution networks can come from a variety of agencies – the government, non-profits that work at large scale or commercial retail networks. It is important to understand the value that each network offers and the constraints it works with.

CASE STUDY

Tata Consultancy Services (TCS), mKRISHI® – India

Partners: MCX, Other private local partners

Tata Consultancy Services has developed mKRISHI®, a mobile-based personalized service delivery platform for dissemination of information such as latest crop price and weather information to farmers. Initial mKRISHI® pilots revealed that while farmers like the product, a strong local partner is required to provide the agri-expertise and the physical 'last mile' connectivity to the farmer. mKRISHI® is now partnering with several organisations, including the MCX's Gramin Suvidha Kendras that provide co-ordination services, along with product-bundling that generates demand.

The six steps in utilising existing distribution infrastructure

Developing partnerships for the distribution of new products and services should be viewed as a crucial part of a company's growth strategy. It is a continuous process that evolves with the growth targets of the company. It can be approached through six considerations that can make the distribution partnerships stronger and more effective, as illustrated in Figure 2.

Figure 2: *Six steps for creating effective partnerships to tap into distribution networks*

1. Identifying existing networks with reach to the target market: think broad

It is important to think laterally to identify a range of networks that reach the target market and then focus on the appropriate channel that is aligned with the strategic needs of the product or service. Companies need to recognise the specific challenges associated with the rural market, the product or service being offered and the operating environment in which it works.

An appropriate channel may be identified, based on:

- Geographic focus: does it cover the target region/district?
- Channel penetration: how many people does it reach in the target region?
- Resources: does it have the physical plant, staff, and financial investment necessary for the hard-to-reach market?
- Capability to address product, market or operating environment challenges of this product or service? e.g. the ability to handle financial transactions or provide awareness and capacity building support.

© Anurag Khare

Latest crop and commodity prices displayed at GSK co-branded Post Office

Companies may have different options for distribution partners which vary according to the countries in which they operate. These can be broadly categorised into three types of networks.

ACTION
Identify the network and partners and develop the channels

GOVERNMENT AND SOCIAL SECURITY NETWORKS	NON-GOVERNMENT ORGANISATION NETWORKS	CORPORATE NETWORKS
TYPICAL EXAMPLES		
National health, insurance, pension, postal service, and government assistance schemes	Large non-profit organisations, MFIs and producer cooperatives	FMCG and agri-input companies – who invest in distribution infrastructure in rural and remote geographies
CHARACTERISTICS		
These networks often have the technology and infrastructure to support national operations. They typically have a low-touch and high volume outreach.	These networks typically have strong local and regional presence. They have high-touch involvement in the communities where they function.	The quality and characteristics of these networks vary by product and company. However, these networks can serve as strong partners for products and services that exhibit clear alignment with their corporate mission.
GOOD TO UTILISE FOR…		
These networks could be utilised for increasing outreach of related add-on services (e.g. private insurance services, health plans).	These networks are ideal for products and services that need support services such as training, awareness, capacity building and reverse logistics. Organisations like MFIs and cooperatives that administer financial transactions also enable micro-financing and demand aggregation support.	Ideal scenarios for partnerships with corporate networks include cases where bundling can increase the uptake of all products in the bundle or where one product can create a demand for others (e.g. agri-information service could create pull for agri-inputs).

Figure 3: *Options for distribution partners*

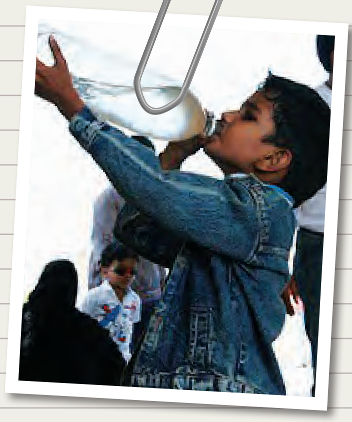
> *"The selection of appropriate distribution partners requires an alignment of mission and resources, and the willingness to work together. One of our project companies was able to bring significant resources – human and material – to the partnership but required someone who could offer a viable conduit to manage consumer financing and support it through consumer education and after-sales service. Achieving this goal required the company to leverage multiple networks (listed above) while staying flexible in adapting to the idiosyncrasies of different types of partnerships."*
>
> **Prashant Chandrasekaran,** Manager, Consulting, Intellecap

2. Determining the roles for partners in managing demand, supply and distribution

It is clear from Table 3 that distribution partners can play various roles in a partnership, such as offering a network through which a partner company can extend its reach to new customer segments, or offering financing for the purchase of the product. See the HUL example.

CASE STUDY

Hindustan Unilever (HUL), Pureit – India



Partners: MFIs, Self Help Groups (SHG), Cooperatives

Hindustan Unilever (HUL)'s *Pureit* is a low cost, point-of-use water purifier targeted to provide clean drinking water to low income communities. At $40 per unit, Pureit is expensive for cash-poor Indian households. HUL partnered with MFIs who both have a network of low income clients and can provide financing to make Pureit more affordable. HUL also plans to partner with SHGs and cooperatives that could provide similar support in areas where MFI networks are not strong.

It is important to identify what role (or multiple roles) network partners are required to play in a relationship. Companies must assess the capabilities of partners to effectively deliver on their requirements and develop mechanisms to track, monitor and incentivise the partner on that basis. Typically network partners play one of four following roles:

1. Extend reach and penetration via their existing networks and unlock new markets
2. Make the product more saleable via bundling or awareness building
3. Finance the consumer's purchase where needed
4. Add trust and brand value to the product through their relationship with consumers.

3. Assessing whether and how to adapt current infrastructure for effective distribution at scale

For some products and services, a "plug-and-play" approach to network partnership may not work perfectly with the marketing goals. The distribution network in its current capacity may not be ready to meet the conditions required for product sale. The partnership will need to determine if investment in process innovation or in incremental distribution infrastructure can help all stakeholders. For example, the post office network may offer 'brick and mortar' points of sale in rural India, but may not have power supply to run an electronic kiosk needed to enable product sale. It may be worth considering investment in improving the post office infrastructure to make it compatible with the product sale strategy.

CASE STUDY

Multi Commodities Exchange (MCX), Gramin Suvidha Kendra – India

© Anurag Khare

Partners: Post Office, mKrishi, agri-input companies

The Multi Commodities Exchange (MCX) has partnered with the postal network in India to disseminate up-to-date price information to farmers in rural India who are often cheated by middlemen who misinform them and buy from them at below market rates. MCX has also partnered with mKrishi, a mobile based application for price information dissemination that strengthens MCX's delivery mechanism, and agri-input companies that generate market demand through product-bundling.

4. Establishing margins and incentives for all stakeholders

It is essential to establish a strong business case and attractive margins for all stakeholders to sustain successful partnerships in the long term. Incentives can be built through monetary compensation for services rendered by partners, or percentage of revenues attributable to partnership. Incentives should be proportional to the effort and investment by each partner and should be constantly reviewed and revised to reflect "fair" compensation for services. For example, distributors of consumer durables (such as water filters) expect margins of 8-15 per cent while retailers of FMCG products expect 5-10 per cent margins. Mobile-based information services companies (such as mKrishi) that complement other products are likely to be in revenue share arrangements with partner organisations.

Figure 4 illustrates the roles of various partners in the value chain of a product sold through Primary Agricultural Credit Society (PACS), the farmer cooperatives that aggregate millions of farmers in India. It outlines the flow of money and how each stakeholder is incentivised.

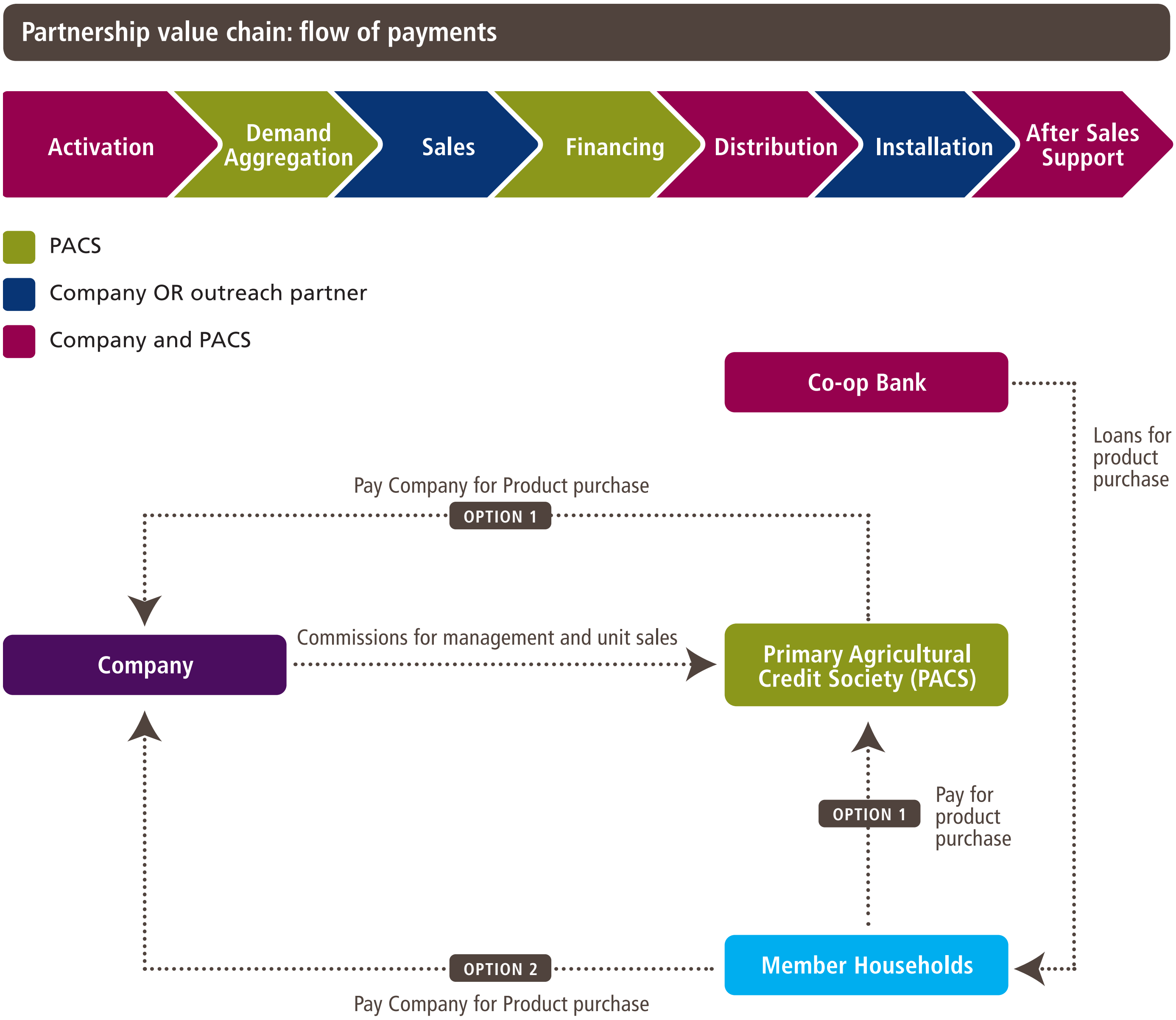


Figure 4: Partnership value chain: flow of payments

5. Is further product development required?

Companies should regularly seek feedback from network partners on their product or service. Network partners often work closely with consumers and are a repository of consumer feedback about the product or service. Companies that maintain continued dialogue and feedback process with their partners can undertake product improvements and innovations to boost sales. Partners could also advise companies on complementary product bundles that harness and build consumer demand.

CASE STUDY

JITA, FMCG and basic hygiene/nutrition goods – Bangladesh

Partners: International and local organisations involving FMCG, Agro Farm, Tele-Co and Solar Energy.

JITA operates a network currently of 4000 ladies in Bangladesh who earn livelihoods through door-to-door salesmanship of FMCG and products that meet basic needs. Through this established localised distribution network, private companies have tested their new products (Mitsubishi Corporation with a micro-nutrient food supplement, a Japanese Skin Care company testing affordable skin care products and Bright Solar company for solar lamp development) with potential consumers. The distributors are well placed to provide feedback on consumer acceptance in terms of taste, quantity and price. After supporting in research and product development JITA also design and implement BOP Market Creation programmes for partner company products.

6. Is a multi-channel strategy required?

One partner network may not be able to enough to help a company achieve its growth and scale goals in all geographies. Companies may need to partner with several networks in different regions. Regional strengths and costs of delivery for each partner must be considered to develop a multi-channel strategy for growth.

The following image illustrates the geographical strength of each of three different channels in India. The Kisan Credit Cards (KCC) channel is prevalent across India but is a government channel that has wide reach but is relatively low-touch. This generally works best for products that have active demand, but it can also it be made effective for products with latent demand when it is harnessed in partnership with another, high-touch channel. The Milk Union channel is strongest in in the milk-producing states in India, while the Self Help Group network has little influence outside the southern states. The overall strategy for a company considering these channels would involve selecting the most effective channel for each region. Companies may also need to customise products to the specific demand of each region and channel partner.

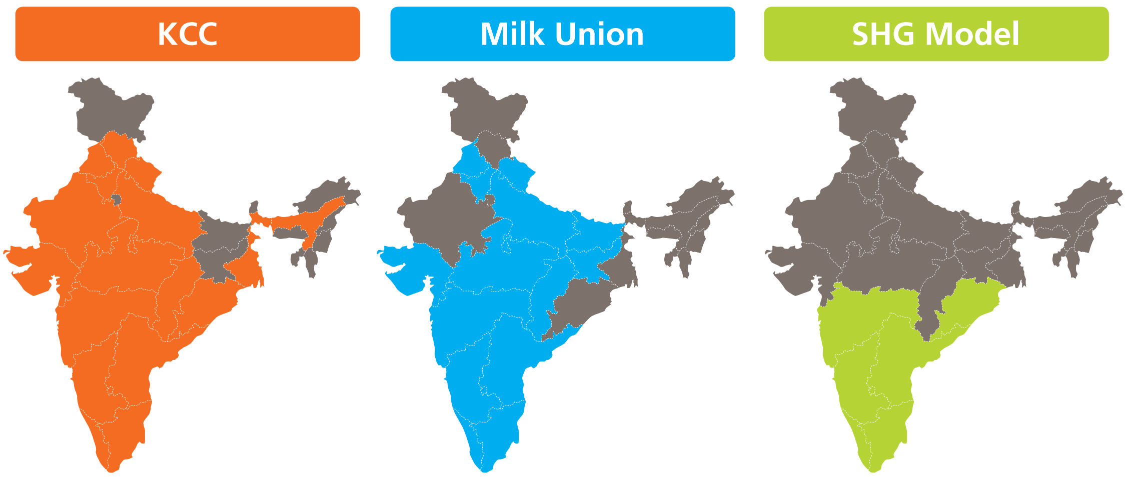


Figure 5: *The geographical strength of three different distribution channels in India (coloured sections indicate the areas where the channel is present)*

The decision-making framework: criteria for selecting a distribution partnership

If your product or service needs to tap into an existing network for effective distribution, then finding the right network and right partner is essential. Screening potential partners against key criteria is needed to select the right partner and right channel.

The following checklist highlights the key attributes to consider in a partner:

☑ Do they reach the target consumer?

Companies need to consider both the number of people an organisation reaches in the target geography as well as the quality of their interaction with potential customers. For example, some producer cooperatives in India earn high levels of trust from the communities in which they work from prolonged association with the community and the reliance of members on the cooperative for income and farm inputs. These organisations have a high quality of interaction with the community and can be relied on for various supporting activities for demand generation.

Milk marketing cooperatives engage millions of dairy farmers in India by providing livelihoods, farm inputs, capacity building support and linkages to other essential services, such as financial inclusion.

☑ Do their strengths complement yours?

Some partners may bring their unique strengths to the relationships, such as the ability to provide product financing (MFIs), or the ability to conduct training and awareness programs (NGOs and cooperatives). It is important to consider the complementary resources and capabilities the partners bring to the table, as these could be crucial to generate product uptake.

☑ Are they in good financial health?

It is important that the selected partner is in sound financial health. This enables them to invest more in the partnership and take greater financial risk to develop a partnership model that is effective. Partners with suitable financial health are also likely to be better aggregators of demand because they have the ability to make bulk purchases.

MFIs have been harnessed by several companies to distribute to the BOP. In India, MFIs recently went into a crisis period, with many struggling or closing. It does not mean that MFIs are no longer a feasible channel. However, it does mean that each potential MFI channel should be carefully screened for financial robustness before investing in a partnership.

☑ Are they a willing partner?

Potential partners need to see a clear business case for entering an arrangement with a product or a company. Additionally there should be buy-in from within the relevant senior leadership at the partner organisation and an inherent willingness to experiment with and adapt to existing models.

☑ Do you share the same financial objectives?

Alignment of financial objectives is crucial to ensure that each partner dedicates the appropriate resources to succeed. For example, if a company sees a venture as a profit making opportunity while its partner sees it as a social initiative, the venture may not get the appropriate level of resources required to succeed.

☑ Do you share the same social mission?

All partners in an agreement must be aligned on the social mission served by the product or service. This is crucial to ensure that there is no 'mission drift' for the company at a later stage.

In the case of one partnership supported by BIF, both businesses started off with an initiative that was not core business, but had an element of innovation or CSR. When the two partnered to jointly distribute their products, the fact that one organisation had transitioned the initiative to the product commercialisation team, and the other had not, posed challenges. It meant they did not have the same drive to scale, and this was problematic for the partnership.

Conclusion – a final word from the authors…

Setting up a new distribution network can be both expensive and time consuming, particularly for small and medium enterprises. There are five key points to consider when establishing partnerships with existing networks.

1 Companies can significantly reduce time-to-market for new products and services by partnering with existing distribution networks. While networks like the MFI channel have been explored by several inclusive business initiatives, companies need to look beyond these traditional networks to partners such as producer cooperatives, NGOs, and corporate distribution chains.

2 Bundling products and services with other complementary products could also help generate demand-pull that makes distribution more effective.

3 A decentralised, regional, multi-channel strategy with each partner selected on the basis of its strength and fitness for the specific demand in that region can be both financially and operationally more effective than a single channel strategy.

4 Finding the right distribution partner should help tackle some of the challenges of reaching BOP consumers. However, it will not overcome them all. Due to the latent nature of demand for some seemingly essential products and services, companies may still need to invest patient capital into market creation through activities such as marketing and awareness-building. Business models should factor the time and cost of such operations.

5 Companies need to nurture relationships with their distribution partners to ensure long-term viability. Success requires a blend of two different strategies: firstly, selecting and adapting the channel that best reaches the target consumer for this specific product; secondly, selecting, building and managing a partnership with another organisation – who may be unfamiliar. This requires investment in partnership, not just infrastructure and marketing, and may require new skills.

The Partnership Perspective

Does it come as a surprise to you that an Insider about solutions for the last mile distribution challenge ends up with a framework for selecting partners? The critical role of new partnerships is no surprise to us, because it is something we see repeatedly in the field of inclusive business.

Inclusive business projects, by definition, tend to sit in areas outside of companies' traditional comfort zones. They are rarely business as usual, requiring a much stronger interaction with 'society' than traditional business. For most inclusive business models to work, companies must collaborate with others as implementing, intermediary, capacity-building or knowledge partners.

Indeed, sometimes multiple partnerships are needed with different types of organisation. Distributing medical products to the rural poor is a classic example in which companies may need to work with government health services to provide technical support, NGOs to deliver the health service to clients, and finance institutions to help fund distribution costs.

Partnering across sectors is not for the faint hearted. It requires a certain mindset, courage to take risks, vision and commitment. It also requires a specific set of professional partnering skills and competences – as important to the end goal as financial or project management competencies. So we encourage you to not only analyse your distribution model, but assess your partnering capacity and strategies, and draw on tools that can help with effective partnership management.

The International Business Leaders Forum's programme, The Partnering Initiative, is providing the partnership elements of DfID's Business Innovation Facility. The Partnering Section of the Practitioner Hub's Resource Library contains several resources by the Partnering Initiative and others.

Additional resources:

Visit our 'know-how' section on last mile distribution at: www.inclusivebusinesshub.org/page/know-how-last-mile-distribution. We have two resources which look at the alternative distribution model of using a local entrepreneur network. These are our Inside Inclusive Business "The 'last mile' challenge" and a Checklist "Reaching the rural consumer: Is the village entrepreneur (VE) or local franchisee the right model for your initiative?"

View other Insiders in this series from the BIF Publications Page: www.inclusivebusinesshub.org/page/facility-publications

"The Base of Pyramid distribution challenge: Evaluating alternate distribution models of energy products for rural Base of Pyramid in India," **Shukla S.**, 2011: http://web.mit.edu/idi/idi/India-%20The%20Base%20of%20Pyramid%20distribution%20Challenge-IFMR.pdf

The following companies and social enterprises are also interesting case studies:

Frontier Marketing: http://www.frontiermrkting.com/

Boond: http://www.boond.net/

HUL Shakti: http://www.hul.co.in/sustainable-living/casestudies/Casecategory/Project-Shakti.aspx

These blogs provide interesting insights:

Stanford Social Innovation Review: http://www.ssireview.org/blog

Skoll Centre for Social Entrepreneurship: http://skollcentreblog.org/

About the authors:

Rashi Agrawal is a Senior Associate at Intellecap. She has supported sourcing for the Business Innovation Facility and has worked on Facility projects that took her to rural India.

rashi.agrawal@intellecap.com

Nisha Dutt is Director, Business Consulting, Intellecap and the Country Manager for the Business Innovation Facility, India. She is responsible for sourcing and supporting projects under the Facility's mandate.

This Inside Inclusive Business was edited by **Caroline Ashley**, Director, Inclusive Business Results. Its production was overseen by **Clare Convey**, Communications Manager. Members of the BIF team in the UK and the five pilot countries have also contributed to its content.

Intellecap works at the intersection of the private sector and development. It provides consulting and investment banking services driven by innovative thought processes, to Business and Development communities globally, helping them bring entrepreneurship solutions to development challenges at the Base of the Pyramid and beyond. Intellecap provides India Country Management for the Business Innovation Facility.

Intellecap
SHAPING OUTCOMES

The Business Innovation Facility supports companies as they develop and implement inclusive businesses. Inclusive business is profitable, core business activity that also expands opportunities for people at the base of the economic pyramid: either as producers, suppliers, employees, distributors, or consumers of affordable goods and services.

For further information and more resources on inclusive business visit the www.inclusivebusinesshub.org

UKaid from the British people | The Practitioner Hub FOR INCLUSIVE BUSINESS | Business Innovation Facility

The Business Innovation Facility (BIF) pilot project was funded by the UK Department for International Development (DFID), managed for DFID by PricewaterhouseCoopers LLP in alliance with the International Business Leaders Forum and Accenture Development Partnerships, and in collaboration with Imani Development, Intellecap, Renaissance Consultants Ltd, The Convention on Business Integrity and Challenges Worldwide. The views presented in this publication are those of the author(s) and do not necessarily represent the views of BIF, its managers, funders or project partners and does not constitute professional advice. BIF pilot ran from 2010-2013. Information on the next phase of BIF, since 2014, can be found at www.bifprogramme.org

We welcome feedback on our publications – please contact us at **enquiries@inclusivebusinesshub.org**

Design: holmqvistdesign.co.uk