Inside Inclusive Business

The Practitioner Hub FOR INCLUSIVE BUSINESS

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The 'last mile' challenge

The limitations of the village entrepreneur model

What are the types of village entrepreneur model and how do they differ?

What factors should a company consider if they are thinking of engaging village entrepreneurs?

Inclusive businesses wanting to market to low-income, rural consumers face a number of barriers when trying to break into these markets. Low purchasing power, traditional consumer preferences and inadequate infrastructure mean that companies often have to establish a human link with rural consumers for the 'last mile' of their distribution channel.

Village, or micro, entrepreneurs are increasingly being used to provide this link to rural markets. A village entrepreneur (VE) is an individual who acts as a 'touch point' between a business and local customers. The village entrepreneur is usually selected from within a village, and sells products and services offered by companies on a commission basis.

A number of VE different 'models' exist and their application – and levels of success – can vary greatly. For companies who are struggling with their 'last mile' distribution, understanding these models and the circumstances under which they are most successful, needs to be a critical part of their decision-making process.

This 'Insider' documents looks at circumstances where this model does and doesn't work and why it may not be a universal solution to the last mile challenge. It is based on a number of examples which were drawn together for inclusive business projects supported by the Business Innovation Facility.

Three approaches are identified and examined in this document:

- **Pure play VE** – useful if there is high market demand and low upfront investment
- **Hybrid VE** – useful if there is low market demand and high upfront investment
- **Quasi VE** – useful if there is moderate to high market demand and high upfront investment

A word from the author...

Although the village entrepreneur model is growing in popularity as a way to reach rural consumers, my experience in India suggests caution is needed. Much depends on the context in which it is deployed, and how it is applied or adapted.

We found three main factors which, when combined, are required for a VE model to be successful:

- customer demand is strong
- the level of risk taken by the village entrepreneur is relatively low and manageable
- the model is adapted so that the lead company takes on some risk, capital costs or promotional activity

I hope that the experiences covered in this 'Insider' helps other businesses to decide what type of VE model, if any, is most appropriate for reaching their customer base.

Nisha Dutt, *Intellecap*

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.

Context

Considering the village entrepreneur model

Companies looking to extend their distribution channels to reach rural low-income consumers have a variety of options to consider. Setting up a company-owned retail network of brick-and-mortar stores is one solution, although the cost and time involved may be prohibitive, particularly if the company is distributing a limited number of products. A more cost-efficient approach is to partner with an existing network that already reaches the people at the base of the economic pyramid. This can be anything from the post office network, and microfinance institutions, to non-governmental organisations. Partnerships bring their own set of challenges, however, and in many markets, an ideal partner may not exist.

A third alternative is for companies to employ a village entrepreneur (VE) model. This inclusive business model integrates independent entrepreneurs into a company's value chain as 'last mile' distributors and retailers. The company supplies the product or service being sold and provides additional support to help the VE succeed. The VE sells the company's product, provides customer support, invests capital, earns commission, and takes risks. For the relationship to work, the potential risks and rewards must be aligned for both stakeholders

In practice, this means there are various ways the VE model could be implemented.

Our analysis indicates that the appropriate structure of the model – and its potential for success – are dependent primarily on two important factors:

1. **Strength of consumer demand for the product or service**

   With limited disposable income and irregular cash flows, purchasing decisions of low-income households are focused on meeting day-to-day needs. Products and services that are necessities do better in a VE model because demand is already strong enough to generate customer pull on its own. Conversely, if a product is new or unknown, or if its value is less tangible in the short term, a much higher level of marketing is required which may be beyond the willingness or ability of the VE to provide.

2. **Level of financial risk for the village entrepreneur**

   Upfront and ongoing investment costs, regularity of sales and amount of compensation all contribute to financial risk. The investments must be feasible and the benefit-cost analysis attractive enough to the entrepreneur for the model to be successful.

If existing consumer demand is not strong enough, or if the level of financial risk is too great for the entrepreneur, the model must be adapted so that the lead company takes on some risk, capital costs or promotion activity.

If the product already has a strong consumer demand, the VE may be more capable of taking on a greater amount of financial risk. Conversely, if demand for the product is lower, or if the initial capital investment costs are high, a hybrid or quasi VE model may be more appropriate.

*Which VE model is most appropriate — **pure play, hybrid,** or **quasi** — depends on the type of product being sold, and how the risk is shared between the company and the entrepreneur.*

In a **pure play model,** the VE is responsible for all capital expenditure and working capital expenses. Since the risk lies with the VE, the model is viable when upfront investment costs are relatively low and consumer demand is high.

In a **hybrid model,** the company is responsible for capital investments and pays the VE a base salary, in addition to commission. This 'employee' model is useful when market demand for the product is low and upfront investment costs are high.

In a **quasi VE model,** the company is responsible for capital investments, considerably reducing the financial risk of the VE. The model is appropriate when a market exists for the product or service being sold, but upfront capital costs are high.

Case 1

Pure Play VE model:
Project Shakti

Project Shakti was launched by Hindustan Unilever (HUL) in 2000 to expand its distribution of consumer goods to poor rural areas. Using a pure play VE model, HUL sells fast moving consumer goods (FMCG)[1] through a network of women entrepreneurs known as 'Shakti Ammas.'

The initiative is designed to help these women set up a direct-to-consumer retail business, in which they travel door-to-door selling products such as soap and shampoo to rural households, small businesses and convenience stores. No asset investment is required from the VE, but she has to fund her own working capital to buy stocks of goods from HUL. To ensure that Shakti Ammas have sufficient working capital, HUL restricts the programme to members of a partner self-help group (SHG)[2] providing financial support to the VE.

In this pure play model, the financial risk and responsibility for generating sales lies with the VE. The viability of the business depends on how much stock she is able to sell to households and stores, and on the financing support she gets from her self-help group.

Products Characteristics	Financial Risk
• Meets basic needs • Affordable, and competitive with local substitutes • Therefore demand is relatively strong	• Transferred from HUL to the VE because of cash-and-carry terms • Reduced for VE by SHG financial support and HUL promotion support (media & incentives)

Case 2

Pure Play VE model:
Common Service Centres

The Common Service Centres (CSC) initiative was launched by the Indian government in 2006 to provide government, private and social sector services through IT-enabled rural kiosks. The CSCs offered a variety of IT and non-IT services in areas such as health, education and e-governance.

A pure play VE model was adopted through which the VE would act as the CSC operator, and be required to make substantial upfront financial investments. However, there were very few takers for the initiative.

The model was not appropriate because market demand was uncertain and the financial risks were too high for potential entrepreneurs. Rather than be owner-operators, the target VE population (local young people with IT skills) were looking for stable, salaried work operating the kiosks.

Products Characteristics	Financial Risk
• Do not meet daily needs • Intangible value in short term (e.g. application forms) • Services often unavailable due to connectivity outages • Therefore diffuse demand	• Fell solely on VE • No financial or promotional support provided

[1]**Fast moving consumer goods** are consumer goods that are sold quickly and at relatively low cost. Examples include toiletries, soft drinks and groceries.

[2]**Self-help groups** are village-based financial intermediaries usually composed of 10-20 local women. Members make small regular savings contributions, building a pool of capital that the group tends to its members for income-generating activities and other purposes.

Case 3

Hybrid VE model:
BASIX takes on CSC

BASIX, a leading microfinance organisation in India, decided to invest in the government's CSC programme in 2008. The organisation implemented a hybrid VE model, covering the upfront capital costs itself and hiring local young people to run the kiosks on a fixed salary and commission.

While the product was the same as under the original CSC programme, the VE was employed and no longer carrying the financial risk. This made the business model work. The VE gained income stability, while the commission continued to incentivise an entrepreneurial approach to kiosk management.

Creating a market for IT-enabled services in previously unconnected rural villages takes time. But even with the limited offerings initially available, BASIX was able to generate enough revenue through financial and documentation services to make the inclusive business model sustainable.

Products Characteristics	Financial Risk
• Do not meet daily needs • Intangible value in short term (e.g. application forms) • Services often unavailable due to connectivity outages • Therefore diffuse demand	• Majority of risk taken by BASIX • Low risk for VLE due to guaranteed wages

Case 4

Quasi VE model:
e-Choupal

Indian conglomerate ITC launched its e-Choupal programme in 2000 to strengthen its value chain. The programme involves the installation of computers with internet access in rural areas of India through which farmers can buy and sell produce and agricultural inputs, as well as access information services such as agricultural advisory and weather forecasts.

The VE, called a "Sanchalak", is a trusted farmer, and acts as an interface between ITC and the other local farmers. His, or her, role is to aggregate produce, demand for agricultural inputs and consumer goods, earning him a commission for his services.

This is a 'quasi village entrepreneur model' because most of the business risk actually still lies with ITC and not with the VE. ITC chose to make the capital investments in the initiative and set up the IT infrastructure needed at each eChoupal in order to strengthen backward supply chain linkages and create a distribution channel for agricultural goods and inputs.

Products Characteristics	Financial Risk
• Focus target to farming community bundled with free information	• Majority of risk lies with ICT capital investors • Low risk for VE because commission provides a supplementary income to farming and no asset/ capital investment is required

The table below summarises each of the models described, highlighting key factors that contributed to their success.

		Pure VE Model	Pure VE Model	Hybrid VE Model	Quasi VE Model
Project	Initiative and Company	Project Shakti, HUL	Common Service Centres, Indian Government	Common Service Centres, BASIX & Govt.	eChoupal ITC
	Result	Successful	Not workable	Successful	Successful
Product	Product	Toiletries, other FMCG	Govt. services: data, voice, video, online	Govt. services: data, voice, video, online	Agricultural inputs, sales, advice
	Product characteristics	Daily needs	Intangible	Intangible	Daily needs for farmers
	Factors that stimulate product sales	HUL promotion & marketing support; Product pull			Critical services, some provided for free
Financial Risk	VLE income	Commission	Commission	Wage plus commission	Commission
	Investment and working capital	Working capital for stocks funded by VLE	Capital investment & working capital funded by VLE	Capital invested by BASIX.	Infrastructure equipment funded by ITC
	Who bears risk	VLE	VLE	VLE and company	VLE and company
	Factors that reduce risk borne by VLE	Membership of self-help group helps with working capital	–	Receives basic wage as well as commission	Capital provided by ITC; Commission is secondary income.

Insights

Success factors and evaluation questions

The franchisee or village entrepreneur model is growing in popularity. But it does not always work. Much depends on the context in which it is deployed, how it is applied and how it is adapted. Experience with inclusive businesses in India so far suggests that success is most likely when:

- Customer demand is strong
- The level of risk taken by the village entrepreneur is relatively low and manageable
- The model is adapted so that the lead company takes on some risk, capital costs or promotion activity

Companies often design their distribution channels around the VE model before asking a few fundamental questions about the characteristics of their products and services, their importance to households, the income expectation of the target VE group and the level of involvement that the company will have in VE operations. The perspectives of all stakeholders must be carefully considered.

To successfully solve the last-mile challenge, companies may need to think beyond the pure play VE approach and develop customised models based on the reality of market demand and the need to balance financial risks for the entrepreneur.

Is the VE model right for your initiative?

***The company:* Does a VE model make sense?**

- Is the VE model a good fit for the product being brought to market? If demand is too weak, the risk to the entrepreneur too high, or the company's involvement too 'hands-off, it may not succeed.

***The village entrepreneur:* Will the return be worth the effort?**

- Is capital expenditure low and affordable for the entrepreneur?
- Will income depend solely on commission?
- How long until break-even point? What would deliver break-even earlier?

***The consumer:* Is there demand?**

- Is product appeal sufficient to drive demand?
- If not, will the company invest in promotion, rather than leave it all to the entrepreneur?

A human link to the 'last mile' is very important, but the VE model is not a universal solution.

Project information:

The ideas outlined in this edition of Inside Inclusive Business were developed and used by Nisha Dutt as part of input from the Business Innovation Facility to the mKRISHI project and to other inclusive business projects in India.

The mKRISHI project profile is available at www.inclusivebusinesshub.org/page/project-profile-mkrishi-mobile-technology-for-farmers-in-india

A number of inclusive business projects supported by the Business Innovation Facility and Innovations Against Poverty are exploring or using innovative approaches engaging local entrepreneurs and franchisees for their 'last mile' distribution. These include:

- Jita (formerly Rural Sales Programme), established by CARE in Bangladesh
- Saraplast Pvt Lted and Sanergy, both setting up low-cost sanitation (India and Kenya)
- HealthStore Zambia, setting up locally franchised Child and Family Wellness Clinics

Further information on these projects and topics can be found on the Practitioner Hub on Inclusive Business at:

- www.inclusivebusinesshub.org/page/projects-landing-page-template, and
- the Know how page: Last mile distribution to low income consumers: www.inclusivebusinesshub.org/page/know-how-last-mile-distribution

To use these ideas in your own planning, also read our companion two-page 'Checklist':

- 'Reaching the rural consumer': www.inclusivebusinesshub.org/inclusive-business-hub-publications/


Inclusive Business
CHECKLIST
Business Innovation Facility

Reaching the rural consumer:

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Intellecap
SHAPING OUTCOMES

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.

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

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