

Field Actions Science Reports

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Last Mile Delivery

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About FACTS Reports

FACTS Reports

Aim and scope

FACTS Reports is an international, free access for both readers and authors, peer-reviewed journal devoted to promoting field-based activities in developing and developed countries. Since 2007, FACTS is a forum that publishes manuscripts and opinion pieces in the areas of economy and development, health, education, agriculture, and the environment.

Articles are submitted to peer review with a requirement that peers work in the field themselves. The main criterion for publication is that the articles describe actions that are useful and can be reproduced. Editorials and Commentaries are also published. This process ensures critical input from world experts, allows for cooperation among authors, and promotes a high level of science.

Objectives

The major objective of **FACTS Reports** is to assist field actors, International Organisations and National Agencies in their various missions in their goals to communicate, to exchange and to disseminate good practices and lessons learned from the implementation of some programmes. Many field actors implement projects in developing countries to address issues related to economics, health, the environment, agriculture, education and development in general. There are many opportunities to learn from the outcomes of these projects.

The journal is a unique international instrument and, moreover, the first Initiative of this type in the world. It provides to key international development actors, a neutral and independent platform for spreading good practices. In addition, it allows them to express freely their views and opinions, to exchange experiences and cooperate with other international development actors across the world.

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Economic and social issues around Last Mile Delivery FACTS Introduction



David Ménascé

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Last Mile Delivery is a subject at the crossroads of economic and social issues.

On the one hand, the ability to reach out to very low income populations deprived of access to basic services, particularly those in isolated rural areas, has long been one of the main concerns of many humanitarian organizations or development NGOs.

On the other, for a few years now a growing number of businesses have become interested in a segment that is too often forgotten by economic glottalization: populations living on only a few dollars a day.

The very strong economic growth of the emerging countries, and in particular India, China and Brazil, has led the major multinational corporations to be interested not only in the emerging middle classes in these countries, but also in the very great majority of potential consumers of these markets, the lower-income populations. The *Base of the Pyramid* theory thus conceptualizes a natural tendency of globalization: the search for the new untapped markets that the four billion people living with less than 5 to 6 dollars per day could represent. In parallel, after being in existence of over 15 years, the “Social Responsibility” initiatives of large multinationals have moved from traditional forms of patronage to the creation of “laboratories” of alternative economic projects targeting poor populations. Social and inclusive business are some of the terms used to designate these new ways for businesses to contribute to economic and social development seeking legitimacy in the eyes of the public and motivation for their employees.

And if the strategies concerning underprivileged populations today cover multiple realities, a change is in progress: poverty is no longer only seen by the international private sector from a philanthropic viewpoint but also from a more economic angle. In France, for instance, half of listed businesses in the CAC 40 index have launched initiatives of this type.

The last mile is considered as one of the key challenges for

these models. All the stakeholders involved in these strategies, despite their considerable diversity - businesses, NGOs, social entrepreneurs -and the variety of sectors in which they operate, are encountering operational difficulties in actually reaching the poor populations in question, especially in rural areas.

The last mile delivery is also and above all a significant challenge for economic development, for two reasons: on the one hand, the implementation of innovative distribution systems relying on micro-entrepreneurs could be an important factor in terms of job creation and income generation; the development of micro-franchise networks also plays a significant part in the development of micro-entrepreneurship. On the other hand, the inefficiency or even total absence of distribution networks, particularly in rural areas of developing countries, is a major obstacle to access by poor populations to essential goods and services and largely explains the penalties of poverty weighing down on the “base of the pyramid”.

In this context, this FACTS issue therefore aims to better analyze innovative distribution practices, including those relying on micro-franchises, and to understand the effects of these new practices on development. The sector of essential goods and services, such as nutrition, energy, health or water, will be studied more particularly.

The analysis of these practices has highlighted several points which are often overlooked in the debate around the last Mile.

In the first place, the last mile is not simply a logistic and physical challenge; it comprises, as Arjun Appadurai¹ has shown, all of the things that make up “the capacity to aspire”. In this context, it entails for organizations seeking to reach out to low-income populations, to achieve a happy match between distribution and understanding of the needs of the populations concerned.

In addition, these strategies represent the meeting between radically different market logics. The businesses, particularly

¹ Arjun Appadurai, *The Capacity to Aspire: Culture and the Terms of Recognition*, in *Culture and Public Action*. Rao, Vijayendra and Michael Walton (ed.). Stanford University Press. 2004.

multinationals are part of a formal market economy, contract-based and imbued with modern marketing techniques. When they target low-income segments of the population in emerging countries, they confront a traditional, certainly informal but sometimes very hierarchical, market logic. In other words, these strategies lead to a confrontation between *political economies* that are often profoundly different.

The point of contact between two specific trade cultures in the implementation of these strategies will precisely be the distributor. The distributor may in effect be also the “relay” between these two worlds, the figure where these two economies influence each other, like the passageway identified by Laurence Fontaine between the aristocratic economy and the democratic economy in pre-industrial Europe ².

The distribution circuits and networks of distributors then become an issue that goes beyond the simple question - one that is nevertheless strategic for business - of the effectiveness of the sales channels: the point being indeed a much broader one, and that is to understand - through distribution - the interaction between different political logics.

This issue’s analysis of distribution strategies to reach low-income populations in emerging countries provides the opportunity to understand how these political market economies fit together and interact with each other. The aim is on the one hand to understand the existing distribution networks, their structure and their dynamics, and on the other to analyze the possible relations between these networks and multinational businesses, and their consequences on the two economies.

Lastly, these analyses will firstly make it possible to understand, as Laurence Fontaine points out in the historical perspective she provides in introduction to this number, how access to the market is a key element for survival strategies and poverty avoidance coping mechanisms for low-income populations. It is in this context that distribution plays a major part in development and the fight against poverty. Distribution first favors the employment of micro-entrepreneurs - street vendors, shopkeepers, hawkers - and then gives low-income populations access to quality products.

This issue aims to analyze very varied geographical situations and sectors of activity in order to multiply the forms of political economies. Rapidly developing urban India; rural India still marked by the importance of traditions and castes; urban Vietnam, a country that is still communist but where cities are experiencing a disruption: these will be the main areas analyzed, but Bangladesh, Brazil or South Africa will help identify both the best ways for reaching low-income populations but also the possible configurations between different political economies.

² Laurence Fontaine, *L’économie morale, pauvreté, crédit et confiance dans l’Europe pré-industrielle*. Gallimard, 2008

The role of peddling in consumption in modern Europe

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Abstract. After stressing the importance of the market in the survival strategies of European populations, the article highlights the role, nature and structure of the networks of peddlers in pre-industrial Europe. Far from being limited to the distribution of new goods, these networks of peddlers were also agents of change through the circulation of new ideas.

Keywords. peddler, survival strategies, informal trade, informal networks

The image most of us have of peddling are the prints and engravings showing common folk, midway between vagrant and beggar, small-scale vendors offering their wares in a wicker basket, going down the roads with a box on their back; or showing to their audience, on an improvised stage, a stick or bow in hand, reproductions of the scenes they describe. These sketches are reinforced by sources denouncing the competition they represent for settled traders, counting them or monitoring the circulation of ideas with them through the printed and spoken word and in song.

However, looking at the home villages of these ambulant merchants gives you a completely different image than that of the small-scale marginal trade exercised by an underclass that urban eyes see: it takes you into vast networks of migrants who have been one of the most important vectors in the dissemination of new forms of consumption¹. In fact, next to the small street vendors - men and women who are trying to escape from poverty by selling, or reselling, small items and foodstuffs - are many street hawkers belonging to structured organizations of migrants from the more remote areas of Europe, mainly the mountains but also isolated seashores such as peninsulas. A map of the origins of the first migrant merchants shows, for western Europe, three main centers: the entire stretch of the Alps (and mainly all high-altitude villages, from Savoy to Tyrol), the Pyrenees and Scotland. The importance of peddling in these mountains is rooted in the Middle Ages, in the complementary nature of life between high and lowlands, which brings its denizens, with their meat and wood, into the

¹ L. Fontaine, *Histoire du colportage en Europe*, Paris, Albin Michel, 1993.

circuits of European trade, which often values a geographical location that is on major commercial routes.

These organizations of migrant merchants operate on two levels: a first is formed by a few families who have managed, with the help of their relatives and allies, to open city warehouses and shops in vast geographical groupings. A second level is a distribution system through peddling based on temporary migration.

These networks of relatives organize themselves into very flexible family businesses, that merge and separate as dictated by the necessities of trade, death, and the growing or decreasing wealth of its members. They are supported by a family funding system in which dowries and assets are invested, and protected by endogamous marriages that further tie the families to the business network and preserve the underlying funding system. The exceptions to this rule are the result of the adjustments that migrants must make to penetrate the market of the countries in which they settle, as in Germanic areas, for example, where the cities refuse to accept newcomers. To circumvent the law, the migrants marry the widows of native merchants, while nevertheless continuing to marry their offspring into families from their homeland. The prohibition to marry into the lowlands also makes it possible to move men easily to match business needs and to monitor them through the family remaining in the village.

To develop their trade, these merchants rely on village migration. Within this group, a hierarchy emerges. At the summit are those peddlers who do not have a shop and who are among the more wealthy inhabitants of their home villages. Their absence or presence is marked by the seasons. Official documents dating

from the end of the seventeenth century concerning these peddlers shows the importance of their role between town-based merchants and the villagers: in the lowlands, they are part of the network woven by the traders who have set up shop and acquire their goods from these traders; at the mountain village, they are the intermediaries providing access to winter trading. These peddlers in turn hire servants and apprentices. However, their employees are not allowed to make money: they are prohibited from trading for themselves and from lending money (the other path to honest wealth).

These networks of small traders all practice non-specialization of business: merchants and peddlers trade in everything in line with existing needs and opportunities, even if each family also has a relative specialty, within the general specialization of the source areas, e.g. south Tyrol in carpets, lake Como in citrus fruit, or Haut-Dauphiné in gloves. Three factors drive the diversification of goods on offer: the desire to appeal to a broader clientele by supplying the most diverse range of items, the payment systems which are largely barter-based, and the search for new or banned products which ensure the biggest profits. In addition, itinerant merchants always trade in money. Sedentary merchants obviously complain about this credit which ties the peasant clientele to the peddlers and allows them to claim their dues at the best price either from the crops, or in the fall when the peasants have just sold them. With the money trade, migrant merchants step out of the context of kinship and the small people to slowly become banker-traders who have a clientele where craftsmen rub shoulders with the upper classes and the small bourgeoisie.

A final characteristic, running through every aspect of the trade organization: men and goods work and circulate at the edge of the law. Goods are moved through their own circuits to avoid duties and tolls, when not directly obtained through smuggling. As soon as a new market opens, whenever the situation allows it, and in particular when a war is in progress, smuggling and illegal warehouses multiply. Men circulate under the same conditions: the richest as far as possible avoiding the costly city registration with the purchase of “bourgeoisie” rights, scrambling both city and peddler hierarchies.

Some families achieve outstanding success, which must not hide the fact that many of the large trading houses or banks started out this way, through the juxtaposition of income from peddling on credit to the more humble and that from loaning money to the more affluent. Among the most famous companies are that of the Perrolaz of Magland in Savoy who, associated with Belmont, Lichier, Ribola and Casal from Val d’Aosta and Brentano of lake Como, monopolized the retail trade throughout the middle Rhine in the 1700s at the same time as they were becoming bankers.

In the distribution system that these families set up, three types of peddler can be observed according to the assets they can offer as surety for the goods supplied on credit by urban traders.

The poorer only have their personality to offer and for these peddlers, half-beggars and half-vagrants, the act of sale itself is more important than the goods on offer. They give a show, stage themselves and sell entertainment and dreams. Ultimately, they sell their person and everything that their

words, spoken or sung, kindles in the imagination. They do not seek individual contact with buyers in the privacy of their homes, but public squares, fairs, busy places, and moments of enjoyment where a circle of many people can form around them. These entertainments can comprise singers or poor migrants exhibiting a curiosity, such as the groundhog that accompanies certain mountain dwellers or the bear brought down from the Pyrenees by others. Some have a few goods to offer - haberdashery, toys, some reading material - and to sell them, they showcase peasants’ dreams and aspirations. The ballads and tales that Autolycus, portrayed by Shakespeare in *The Winter’s Tale*, carries with him expose isolated villagers to the events of the world, the strangeness of some behaviors, and the vagaries of the news. It does not matter that the news is weird and wonderful, what is important is the assertion by the narrator that it is new and true: all the stories he relates are “true” and “happened less than a month ago”. He then sings about his goods, fabrics and ribbons in such contrast with the dull peasant clothing, the pleasure of giving and wearing them, and how they can make the wearer fashionable:

[...]O master, if you did but hear the pedlar at the door, you would never dance again after a tambour and pipe; no, the bagpipe could not move you [...] - He could never come better; he shall come in.[...] - He hath songs for man or woman, of all sizes; [...] He has the prettiest love-songs for maids [...]. -Has he any unbraided wares? - He hath ribbons of all the colors i’ the rainbow; points, more than all the lawyers in Bohemia can learnedly handle, though they come to him by the gross: inkles, caddisses, cambrics, lawns: Why, he sings ‘em over, as they were gods or goddesses; you would think a smock were a she-angel, he so chants to the sleevehand, and the work about the square on ‘t.2 .

Lace and ribbons become the medium to vicariously enjoy the adventures of the traveler; they are imbued with foreignness. And like Autolycus, the peddler that a century and a half later Diderot sets on the path of Jacques the fatalist, sings about his bale and fashion, opening through the them windows onto other ways of life, other conditions. He sells garters, belts, watch chains, rings, snuffboxes in the latest taste -genuine Jaback, he explains, because fashion only favors real Jaback goods, named after the eponymous hotel in Paris-, or selling jewelry and novelties of all genres.

To the window onto other worlds, some add the quickly shared knowledge of fresh facts, dreams soon to be realized, of regaining health and understanding the future. The quacks who bring potions, pills, powders and ointments make available to all the medical knowledge, the power over sickness and death.

The peddlers whose assets are sufficient to ensure their credit, have, in turn, accredited suppliers and faithful clients. They set out between the end of August and the end of November, depending on the requirements of farmwork, the dates of cattle markets and when they can be replaced in the

² William Shakespeare, *The Winter’s Tale*, act IV, scene 4.

village. Their return dates show that the needs of trade outweigh those of agriculture, since no peddlers return in time for the first work in the fields. They acquire supplies firstly among the emigrants who have set up shop, and then they supplement their wares from other traders and in regions that make specialized goods, such as Troyes, whose blue collection of small novels and almanacs, full of practical advice and predictions, is highly prized in the countryside. Among the first, they make the bulk of their purchases and borrow all or part of the money necessary for their campaign. With the second, over the years a family tradition is born and we can follow the special relationship that families of peddlers have maintained over the generations with the same families of suppliers between the seventeenth and nineteenth century. The peddlers usually have one or two small, fixed routes that they travel constantly in the hope of being reimbursed for previous purchases and selling new items. They keep account books that show that the bulk of their transactions is done on credit.

When they become successful, they become peddler traders who, based on solid assets, move around in wagons, making lengthy stops at fairs and villages, sending their servants to all hamlets and all the way to the more isolated farms. If business continues to prosper, they set up shop, although they are ready to return to roaming should affairs be bad. They use the latest selling techniques, printing business cards and publishing advertisements in the press to boast about the modernity of their store, which is still often just a wagon.

The wares of all these peddlers who have a mount comprises a wide assortment of fabrics (muslin cottons, percale, calico, silks), a large lot of haberdashery and baubles, a few items of clothing and accessories (gloves, socks, caps, hats, belts and capes), supplemented by a few small luxury items (glasses, fabric collars, bracelets, spices and items used in peasant ceremonies), religious items (mainly rosaries and small crosses) and remedies. In addition, each item is offered in a wide range of textures, prices and qualities, allowing them to meet the needs of all pockets and reach out to more varied social groups than just the lower classes. In the countryside, in 1684, two Dauphiné peddlers thus sell «canvas, needles, wire, pins, hooks, buckles, buttons, glasses and glass cases, mirrors, gloves, combs, garters, stockings, jerkins, writing desks, pens, knives, forks, laces, ribbons, lace and frills, handkerchiefs, rosaries, snuffboxes, a few rings, spices (cloves, nutmeg, pepper), and commodities (sugar, tobacco, anchovy, olives), wax, whiting powder, etc.; each item being available in a great variety of textures, prices and qualities: gloves vary between 5 and 12 «sous» to a pair, stockings from 12 pounds to 30 sous each, tinplate hand mirrors costing 1 sou 7 deniers, while golden or cardboard ones fetch between 15 sols and 6 deniers.»

The descriptions of the time always insist on the novelty of the items that the peddler offers from village to village and farm to farm. His commitment to items that are new and/or in high demand makes them a good indicator of prevailing fashions, consumers’ desires and how these change over the centuries. In addition, when excitement over a new product is very strong, specialized networks develop around it. This was the case first around religious items and subsequently books

and watches, and when the business virtually disappeared after the first world war, some continued to operate but specializing in eyeglasses.

The different networks formed around printed matter in the eighteenth century all had an international influence, such as the one described in 1754 in a letter addressed to the director of the French library, a former head clerk of one of the great publishers of the Enlightenment based in Geneva:

The book trade in Spain and Portugal, as well as in many cities in Italy, is all in the hands of the French; all come from a village located in a valley of the Briançonnais, in the Dauphiné province. These people - active, hardworking and extremely sober - successively move into Spain and almost always form alliances with each other. [...] Not only is the book trade in their hands, but also that of geographical maps, prints, clocks, paintings, floral indienne fabric, stockings, bonnets, etc.

In fact, this network of booksellers and peddlers originating in Le Monétier-les-Bains, acquired, via bases in Geneva, Avignon, and Marseille, a very large share of the book market in Mediterranean Europe, in Italy, Spain and Portugal. Its history between the seventeenth century and the end of the eighteenth century could be described as a network of peddlers, predominantly protestant, carrying through Catholic Europe books of theology and religion, with a protestant bible here and there, which a century later becomes a network of Catholic peddlers spreading, at the end of the Old Regime, the writings of the Enlightenment” slipped into some other book so they are not detected during checks” or “on loose sheets mixed up with the wrapping paper, to keep them hidden”.

By bringing the written word into homes well before literacy was prevalent, by spreading -altered and amplified- both official news and items that the powers that be would have gladly kept secret, peddlers brought many people into contact with printed matter, helped them develop a taste for it, and allowed them to participate in the spreading of new ideas, whether those of Protestantism or Enlightenment; people who, without them, would have been kept ignorant.

Thus the success of peddling comes not only from an organization particularly well suited to the weaknesses of the economic markets of the time, where trust was very little institutionalized, but also undoubtedly from its ability to offer luxury items, novel, quite often illicit, and at better prices than the established shop-owners and jewelers; not to mention the fact that, before the arrival of the railway, travel was not easy and peddlers had the immense advantage of going to people’s homes.

Finally, peddlers also spread objects and ideas that help people develop and shape their personality. However they were used, they all gave people the opportunity to express their own unique individuality. And that in itself was a radically new concept.

Safe drinking water for rural populations in India: An effective service delivery model by Naandi Foundation

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Abstract. This article analyses how Naandi Foundation has evolved a community-based model in which a water treatment plant is set up in a village after testing the available source of water for nature of contamination. Using appropriate treatment technology, this plant (which is designed to cover the entire village population) is operational for 5 to 8 hours every day and residents of the village are mobilised to collect their daily household's need of drinking water from here at a nominal user-fee of Rs 4 (USD 0.08) for 20 litres. The model engages the water bureaucracy, political representatives and local self government in rollout of safe water services in a village. This new service delivery design, which combines public, private and community contributions for provision of safe drinking water at a very low at a nominal user fee, at the same time exploring modalities of access to this water by the poorest of the village has been the innovative feature of Naandi's strategy.

Keywords. access to water, rural India, Social Business, community engagement, innovative public-private partnerships

1. The context

Water deprivation of the poorest is a widely recognised phenomenon all over the world. It is estimated that over one billion people across the world do not have access to safe, clean drinking water¹, although as a basic human need it is an integral constituent of the right to life. Reducing this number by half by 2015 is one of the United Nations' Millennium Development Goals – which India has committed to achieve.

The health burden of poor water quality is enormous. It is estimated that around 37.7 million Indians are affected by waterborne diseases annually, 1.5 million children are estimated to die of diarrhoea alone and 73 million working days are lost due to waterborne disease each year.² The resulting economic burden is estimated at \$600 million a year. The nature of contamination of drinking water in India varies from region to region - bacteriological contamination being more common in regions where

open defecation is the norm. Chemical contamination being more common in regions where there has been high use of fertilizers and pesticides in agriculture over the past few decades.

There is clearly an urgent need to take steps to protect our poorer populations from unnecessary health risks, medical expenditures and morbidity caused by consumption of unsafe water. It has been estimated for instance that improved quality of water supply reduces diarrhoeal morbidity by between 6% to 25%, if severe outcomes are included. Hygiene interventions including hygiene education and promotion of hand washing can lead to reduction of diarrhoea cases by upto 45%. Improvements in drinking water quality through household water treatment such as chlorination at a point of use, can lead to a reduction of diarrhoeal episodes by between 35% and 39%. And an integrated approach of providing water, sanitation and hygiene reduces the number of deaths caused by diarrhoeal diseases by an average of 65%.³

¹ WHO/UNICEF, 2006

² http://www.smaataqua.com/ourbusiness_communitywater-centers.html

³ http://www.who.int/water_sanitation_health/publications/facts2004/en/

2. In India - state as primary provider of drinking water

The provision of clean drinking water has been given priority in the Constitution of India, with Article 47 conferring the duty of providing clean drinking water and improving public health standards to the State. Both Union and State Governments have been extending policy, technological and financial support for implementing rural water supply schemes. By the 10th Five Year Plan (2002-07), an estimated total of Rs. 1,105 billion had been spent on providing drinking water. Yet, at around the same time 2.17 lakh habitations had water quality problems and did not have a safe drinking water source. Data available with the Department of Drinking Water Supply shows that of the 1.42 million rural habitations in the country, 1.27 million are fully covered (FC), 0.13 million are partially covered (PC) and 15,917 are not covered (NC).⁴ However, coverage refers to installed capacity, and not average actual supply over a sustained period or the quality of water being supplied which is the most essential part.

While accessing drinking water continues to be a problem, assuring that it is safe is a challenge by itself. Water quality problems are caused by pollution and over-exploitation. The rapid pace of industrialisation and greater emphasis on agricultural growth combined with financial and technological constraints and non-enforcement of laws have led to generation of large quantities of untreated waste water. Huge public expenditure did not necessarily lead to significant improvement in provision of safe water. Given that 170 million Indians still do not have access to safe water, the scale and sustainability of the delivering safe drinking water needed urgent attention.

By the early 1990s, with economic liberalisation unfolding in India, reforms involving commercialization of water services and private sector participation - along with cost recovery and profit maximisation implications - were being proposed as a way improve access for all sectors of the population and reduce the burden on government of delivering efficient services. But this opening up of the sector did not have popular results.⁵ Typically, the twin challenges of equity and managerial (technological and financial) efficiency were difficult to balance. Either cost of water was higher than comfortable, or the quality of the water was still not as good as it needed to be. This led to policy discussions around drinking water being dominated by the debate on privatization versus state ownership. But does this have to be the choice? Can it not be a discussion on rational policy approaches for securing clean water for the poor in which some combination of public and private sector involvement is considered?

3. The Naandi Model

It is well known that ideal delivery of any basic service is defined by accountability balanced between different groups of stakeholders - policy-makers, owners, financiers, customers

⁴ <http://planningcommission.gov.in/reports/genrep/wtrسانی.pdf>

⁵ Naandi Foundation Annual Report 2007-2008 - Jasveen Jairath - Safe Drinking Water for All

and regulators. Results are best if the roles of policy maker and financier are played by different agencies, as also with the roles of owner and regulator. In the case of the rural water supply in India, the composition of these stakeholders has been as follows:

- *Policy makers:* The central government, with senior bureaucrats drafting policies based on a study of similar services across the world and seeking approval of the same from relevant Minister
- *Owners:* the local village government or the Gram Panchayat is the default owner as this is the only easily identifiable arm of the government at the village level
- *Financiers:* The central government, with a percentage share from the state governments
- *Customers:* Rural poor
- *Regulators:* the state government

The government has been playing the role of 4 out of 5 of the stakeholders in some capacity or other - this concentration of multiple roles in the government has resulted in a scenario lacking in accountability and drive for excellence. There is no push for improving quality of service where state is both owner and regulator. Being policy-maker and financier results in no motivation for evolving cost-effective models and so on. The separation of policy and regulation from functions such as ownership, financing and implementation would help to deliver better quality of services. This understanding, along with a close study of day to day challenges in existing systems of water service delivery form the foundation of Naandi Foundations' strategy.

4. Key features of Naandi's strategy

- I. **Engage all stakeholders in a manner that addresses their interests** - The model focuses on networking among stakeholders for getting them to buy into the idea and develop a stake in the proposed institutional model to provide safe and affordable drinking water on a sustainable basis. As part of this Naandi focuses on building bridges with the state sector - state government, concerned govt departments, political representatives, local communities in conjunction with appropriate technology partners.
- II. **The local government - Gram Panchayat - as the key owner of water** for the village - the 73rd amendment to the Constitution of India in 1992 brought in, for the first time in the country, devolution of powers to Gram Panchayats (Village Self Government) and the subject of drinking water (management, operations and maintenance) was brought under the mandate of these local bodies. Seeing this as the best opportunity to have a locally governed water system, the Naandi model works with the Gram Panchayat as the key custodian of the system.

- III. Keep focus on the **necessity, importance and urgency of safe drinking water for all** in all operations and communications
- IV. High level of **transparency in institutional structure for operations and maintenance, costing and expenditures**
- V. Strong **technical support** for repairs and maintenance, so that water does not stop flowing even for half a day

5. Steps taken by Naandi to set up a Community Drinking Water System

1. The process begins with Naandi initiating a dialogue with concerned state officials and leading political representatives of the region to motivate their interest and create their stake in the proposed drinking water schemes. Because of the current scenario of poor services in drinking water supply system, Naandi's proposal usually finds broad acceptance. These interactions provide an opportunity to emphasise the fact that Naandi's role is organise and manage *only* the treatment of the water and its access by user community - water is a public good and Naandi has no intent of appropriating it. Any misconceptions about possible private appropriation of a common good are thus pre-empted. Forms of collaboration range from financial support for capital investment from the state governments to facilitation of cost sharing. A non-government initiative thus becomes integrated with the constitutionally mandated structures of public governance which in turn lends an element of legitimacy to the Naandi intervention through its recognition and acceptance as a constituent of a public programme. At the same time, Naandi also scouts for potential donors willing to give grants for setting up and/or running community water systems.
2. Identification of locations for setting up the water systems is done in consultation with state level actors. While the process of technical commissioning of the drinking water facility is underway, local communities are mobilised and sensitised to the hazards of drinking contaminated water and to the prospect of a new water system in the village. Simultaneously, commitments from Gram Panchayats are obtained about their contribution towards running of the project. Typically - allocation of Gram Panchayat land is obtained to construct the building for housing the treatment plant based on the criteria of centralized location, proximity to a raw water source, away from overhead electric wires, close to a transformer, channel for outflow of reject water etc. Care is taken to conduct village meetings for public decision making in order to avoid any undue bias in the decision making. The institutional structure for operation and maintenance of the water system is explained in a public

meeting, including role of the community and financial break-up of the project and the logic of a user fee.

3. The capacity of the water treatment plant, its design option and total estimated costs are decided on the basis of a detailed technical feasibility of grounding a treatment plant known as *Primary Information Report (PIR)*. Water samples collected from random points are tested for the nature of contamination to gauge severity and nature of the problem prior to site selection within the village and choice of technological option is made. A number of technology providers (RO and UV being the technologies most commonly used) are empanelled and the most suitable one is selected - depending on the nature of water contamination and other factors. UV technology for example can handle pathogens, bacteria and mechanical impurities - but is unable to deal with TDS normally found in ground water. This also constrains switching to ground water source for supplying raw water to such plants in case surface water dries up during peak summer.
4. Each of the plants are owned by constitutionally mandated local authorities - Gram Panchayats. The land, building, plant, electricity connection & raw water source as a composite unit retain their legal status as common village property beyond any corporate control. Each Gram Panchayat is required to pass a resolution committing their support on a long-term basis prior to installation of the plant. Naandi then takes up construction work, installs the treatment machinery, sets up technological, financial and institutional management systems of treating raw water from a nearby source and making it available to the community for a nominal user fee.
5. The process of installing the system is then commenced upon - 60 days being the maximum time needed for this. Naandi handles managing, monitoring, financial matters of collection and accounts maintenance. It maintains this through its local offices, field coordinators who have about 6-8 villages under them and village staff of operators and Safe Water Promoters (SWPs). Necessary trainings are provided for various functions as part of induction programmes of these staff. Entire responsibility for timely provision for recurring costs for replacement of parts such as RO membranes, filters, water softeners, payment of staff, organisation of substitutes, monitoring etc., vests solely with Naandi.
6. User-fee compliance - The user-fee amount at a plant is set by Naandi in its initial agreement with a government or community. All agreements entered into by Naandi clearly specify the price and conditions under which it can be revised. The proper enforcement of the initially agreed pricing is

guaranteed by the fact that plant operators are on Naandi's payroll and closely supervised. Across its geographies of operation, Naandi currently sells water at less than 10 cents (USD 0.08) for 20 litres, making the cost of consumption of up to 4 litres per capita per day of safe drinking water less than 2% of the income of the very poor who earn as little as one dollar a day. A core concern of Nandi is to keep water rates affordable and Naandi believes that its pricing is adequately set to meet that goal.

7. Users of Naandi water are expected to buy water cans as prescribed and are discouraged to use any other vessels for ensuring uniformity in off take and maintenance of basic hygienic standards and lends status and prestige to 'superior' water in the wider community. Also, every water plant keeps complete details of its water users and water usage and this a robust MIS ensures regular follow -ups, facilitates consumer feedback and helps also guards against unrealistic surges of water purchase - for purposes other than domestic and limited commercial purposes – to prevent misuse of water available at low rates.
8. Monitoring the quality of water is one of the primary responsibilities of the Naandi team. Water samples are taken and tested at regular intervals at raw water stage, product or post treatment water, rejected water that emerges as waste from use of RO technology and waste water that prevails in outlets that receive reject water. WHO guidelines serve as the benchmark for monitoring the quality of product water. Samples of water are sent to local laboratories as well as to those in the nearest big city and reports are regularly displayed at the water plants. These reports are also translated into local languages and build the capacity of user communities for interpretation of these technical reports for surveillance by their members. Any deviation from expected quality is immediately acted upon either locally or through inputs from technical partners. Engineers from their technical partners and the Naandi team have a hot line of communication that enables prompt response. Maintenance of water quality remains the litmus test of Naandi's strategy and claims to delivering what is promised.

6. Gaps bridged by the Naandi model

The characteristics of the ideal system are - affordability, efficiency, effectiveness, scalability, inclusiveness and quality control. The Naandi model attempts to address each of these. It attempts to address issues of equity and marginalisation - thereby enabling universalisation of access. It also generates community ownership over created assets and ensures sustained management. The decentralised nature of this model allows greater flexibility to adapt to local contexts of demand and capacity. The managing and monitoring the sustainable working of the plants by Naandi provides a capacity that is

not available at local level – neither with the government department nor with the GPs.

The model has the potential of building into it a mechanism that does not allow any of the actors to default on its commitments and neither is able to monopolise on the resources and revenues. This model provides an inbuilt regulation of private agencies - thereby addressing the concerns of those who fear profitability, rather than economic viability, will become a motive in the delivery of a common good such as water.

In the last 5 years the biggest strength of the Naandi model has been the fact that it has provided space for incorporating learnings from the operation of each plant that feeds into subsequent installations. For instance recent plants have raised the height of water collection taps and provided a platform so that people don't have to bend over to collect the water cans – this was found to be rather uncomfortable in earlier plants. This sensitivity to user community creates a goodwill capital that inspires further «ownership» of the service and its efficiency by the users. Another example is that now the plants have storage facilities for storing raw water as well as treated or product water as buffers to maintain continuity of supply even in case of electricity failure – an eventuality that is quite frequent in rural India.

7. Moving into a for-profit social business framework

Having established a successful delivery platform for providing safe drinking water in over 400 villages of India and reaching out to half a million people already, Naandi is today a major "water player". However, it is quite obvious already that there is an urgent need to ramp up the speed of replication and expansion and evolve a mechanism of high quality operations & maintenance which is effective on a large scale – if every village in the country is to have safe drinking water by the year 2020. In this context, the current model has the following limitations:

- Even in cases where government is committed to fund installation of the water treatment plant, Naandi needs to have working capital for setting up the plant as government payments happen on a reimbursement basis, and in most cases are significantly delayed. When the number of plants in question is 15 to 20, it is not much of a challenge. However, when the number is 100 plus, Naandi as a not-for-profit is not in a position to put in the money.
- While this was not an issue when the plants were new, a time has come when the plants are beginning to age and standardised procedures and protocol to service the plants are needed. This entails tracking of wear and tear, stringent quality control, efficiency in servicing costs, mechanisms to ensure continued contribution from community, large-scale cash collection, vendor-servicing, inventory management etc. The current field level team of community workers are not cut out for providing this service. We need a professional team with

technical skills and management abilities to carry out this service.

Clearly, a new institutional framework – one that is different from a purely grant-funded NGO's - was needed. In 2010, after several rounds of brainstorming internally as well as with experts in the sector, a transition into a social business framework was decided upon. For us, a social business (or a social for-profit) could be defined as follows:

- An enterprise in which investors are prepared for submarket returns on their investment and willing to share profits with the project and the community
- The objective is to use the revenue for further formation of development capital. Therefore there is a cap on the dividend, beyond which the wealth created is used for further development activities

Overall, this new institutional framework would address the issue of safe drinking water for rural communities in the following ways:

- Decentralised, village-based treatment of water
- Guaranteed quality
- Increased adoption of safe water by more and more users
- Involvement of state – meet installation expenditure, facilitate fast power & water connections, accept a culture of user-fees
- Transformation in the basic norms of drinking water in the country – by making WHO-standard potable water the quality benchmark

The translation of this social business idea into a real-life working model began in May 2010, with the Naandi spinning off a for-profit water company called Naandi Community Water Services (NCWS), with danone communities as a major investment partner. This new company is now taking over entire responsibility of operating and maintaining the rapidly growing number of treatment plants across the country.

8. What have been the challenges of this model so far

With over 400 operational water treatment plants and more in various stages of construction, across the states of Andhra Pradesh, Punjab, Haryana and Rajasthan Naandi's Safe Water division has grown from a single plant with 5000 beneficiaries to a social enterprise managing 440 plants in the current year reaching out to more than half million for accessing safe water. However, there are a number of challenges that are yet to be successfully overcome. Some of these challenges are mentioned here. In spite of offering a price of water that is lower than that provided through the government's Rural Water Supply – the poorest 5-10% of households are unable to avail of the service. Since Naandi's object is not to sell water but to make it accessible to all - their exclusion from such a basic facility raises issue of designing various forms of

cross subsidies targeted specifically on such households. Co-existence of freebies along with paid water however, can create problems as all would like to avail of concessions. The NCWS is the attempt to find a full market affordable solution ideally with no grants and subsidies to make it sustainable. And for this we may have to not only educate and prepare communities but also negotiate with governments to increase the price to 25 or 30 paise and close viable plants that are not viable.

Secondly, misusing treated water meant for providing safe water for domestic consumption by village residents for commercial, industrial or other purpose. Cases of re-selling of Naandi water in neighboring markets was discovered and checked. Constant vigilance over sudden increase by individual user or such strange behavior pattern needs to be maintained.

Thirdly, handling the reject water from RO plants that has a high concentration of contaminants is a major technological challenge that requires more concerted efforts. These effluents are at present being let out into any available channel- a drain, a pond. Such a disposal is not sustainable and it might increase levels of contamination at some other point in the environment. Further expert consultation is being sought in this subject, we are aware that this is a solution eluding RO users across the world.

Fourthly, insulating routine operations and maintenance from interference by local politics is a challenge as it affects managerial autonomy, product quality and even equitable access.

Last but not the least, the model is designed in such a way that there are pressures for greater accountability and transparency are generated on all the actors through mutual checks and balances. This sometimes poses a threat to established structures for utilisation of public resources that are deeply entrenched in corrupt practices and traditions. The situation may inspire opposition to Naandi strategy that needs to be dealt with through pro-active measures.

Challenges and opportunities of the last mile for the base of the pyramid: The case of Brazil

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ABSTRACT. The last mile in distribution offers many challenges for organizations to access the Base of the Pyramid (BoP) market. This paper analyses how companies in Brazil are managing to effectively serve these markets. Small retailers located in these regions have developed very strong emotional bonds with their clients, becoming fierce competitors to large global retailers. We have identified that the companies which perform well in these markets, either small local enterprises or large global corporations, have developed business models incorporated the following 3 dimensions: efficient execution, close relationship with retailers and BoP communities, and an ingrained BoP DNA culture. Rethinking distribution is important not only to reduce BoP consumers' vulnerability with a decrease of the poverty penalty, but also to offer in a more efficient manner access to basic needs such as health, education and financial services.

KEYWORDS. base of the pyramid, distribution, marketing channels

1. INTRODUCTION

Since the 1940's decade there have been plenty of discussions about the poverty penalty, which means that besides being poor, this population usually pays more than wealthier people for the same products. There are several reasons that explain this phenomenon, such as the need of credit, the behavior of buying in smaller packages and the difficulty to access larger, more efficient and cheaper retailers. This last reason by itself demonstrates the importance of an effective distribution so as to reach the consumer with basic and important products and diminish his vulnerability.

The challenges to reach Base of the Pyramid (BoP) population are many. First of all, this market faces higher transaction costs. Usually the marketing channel is longer and for a product to reach its destination it must pass through many intermediaries. The infrastructure, such as roads and transportation is poor and costly. Moreover, BoP market has a larger capillarity and places in inter land are far and difficult to reach. On the other side, in the shanty towns of metropolitan regions, there is a lack of urban infrastructure and safety. All these factors make the distribution to BoP be more costly and challenging.

New strategies and business models were

developed in recent years to reach BoP in an efficient way. Performing well in the last mile is a challenge that might create in one side a competitive advantage and on the other side it can reduce vulnerability, improve well-being of the population diminishing the poverty penalty and offering access to basic products. This article aims to describe some Brazilian cases of organizations that were able to innovate and create alternatives to distribute products and services to BoP and to identify some success factors for an effective distribution in these markets. .

2. BEYOND LARGE RETAILERS

During many decades, small retailers were the only shopping alternatives located in BoP regions in Brazil. All the institutional voids and challenges aforementioned inhibited large retailers to open stores in BoP locations. Consequently, BoP consumers got used to buy their products in these small retailers that over time created some important competitive advantages, usually linked to emotional attributes, such as a good relationship with the community, empathy, trust and habit. Although small retailers are more expensive, these emotional attributes have developed high loyalty among customers, and have transformed the small stores into fierce competitors for large retailers that more recently

have been trying to enter BoP communities. To reach these small retailers, manufacturers have to create a capillary sales structure and work with several intermediaries as wholesalers and mini wholesalers.

Besides the significant role of small retailers, another important channel is door to door. In Brazil, more than 2.8 million people sell products door to door. Most of these salespeople are women selling cosmetics. Companies as Avon and Natura created a huge structure in Brazil to sell door to door and got an important competitive advantage through this marketing channel. However, lately, door to door has been also adopted by leading “fast moving consumer goods” companies, as a means to reach BoP consumers in a more direct way. One example is Nestlé that since 2006 has established a door to door program. In 2013 it counted with almost 8,000 salespeople that visited more than 250 thousand households every fortnight. For consumers, the main difference is having the opportunity to receive at home more than 800 Nestlé products, such as yoghurts, crackers, chocolate bars, and powder milk. Some of those products are not found in the small retailers of BoP regions. With a more innovative perspective, Nestle also created a floating supermarket, which sells more than 300 products from the company in a boat that visits many small towns through the Amazon region in Brazil.

3. SUCCESS FACTORS

In our researches, three basic success factors appear as crucial for an effective distribution for BoP: a BoP DNA, a good execution and relationship. Although basic and apparently similar to the distribution in any market, these three factors have important consequences at BoP.

The first point is linked to what we call BoP DNA. Drawing from the biology science, we have adopted the metaphor of BoP DNA to design fundamental aspects of the company culture, strategy and tactics which is deeply ingrained and permeates all levels of the organization, as a company which: 1) recognizes the market potential of the BoP and gives priority to sell and serve this market; 2) develops a deep knowledge about the needs and peculiarities of the market; 3) treats this market with the same respect as she treats upper income markets. 4) develops an empathic and two-way communication with the BoP players.

Most multinational Companies (MNCs) don’t have a clear understanding of the characteristics and needs of BoP population. Due to that, they suffer and just create some adaptations to try to reach this market and have the local companies as fierce competitors. Owing to the difficulties and peculiarities of the market, a successful strategy to reach BoP is much more than some specific and sporadic adaptations, but is indeed a call for a change in the mindset of corporation’s employees. Companies with a BoP DNA, that understand the peculiarities of the market and have an aligned strategy, have a higher propensity to have a strong willingness to operate at BoP and consequently to create a satisfactory distribution strategy. Because of that some MNCs in Brazil, like Nestle, Unilever and Coca-Cola created specific business units to better understand this field.

Moreover, the institutional voids of BoP market, such as

low level of professionalization, informality, unsafe routes, capillarity, distance and lack of infrastructure turn the execution into a central point in distribution. Whether execution is important for any market, our researches suggest that it has a higher level of complexity and demand in BoP market, since it is a market full of difficulties and also because consumers need to access affordable goods. As a consequence the cost structure analysis becomes more challenging.

Another reason for the relevance of execution is the need of constancy and flexibility. As small retailers are not, most of the times, professionals, they have a difficulty with cash flows, since the money from the business is mixed with the family needs and because of that, constant visits and the right offer of credit is quintessential. Likewise, the inventory management is hard for this retailer and flexibility in delivery is also important. Small manufacturers and some distributors might have a differentiation with a delivery in 24 hours.

Furthermore, as this market is characterized by low level of professionalization and still displays a high level of informality, relationship, although important in any market, has a higher degree of relevance at BoP. Friendlier relationship is essential in BoP markets. Manufactures are more likely to have a satisfactory distribution when they establish strong relationships in the marketing channel. Besides, small retailers have a perception of isolation from suppliers and are extremely receptive to a higher level of relationship.

Differently from large companies small local manufacturers have an intense relationship with those small retailers. They are not only suppliers, but many times are considered as friends by the retailers. They are integrated in the same social life and therefore have the preference to make business. To operate at BoP, relationship is not restricted to a personal contact. In this market, partnerships are a must. It is very difficult to access different regions with distinct motivations and behaviors without local partners. MNCs and large companies seek strong partners, including many times NGOs so as to succeed at BoP (Seelos & Mair, 2007; Brugmann & Prahalad, 2007).

One case that illustrates the relevance of these factors is the “Collective Platform” from Coca Cola, which has the main objective to provide and contribute to the improvement of life of the base of the pyramid, offering tools for income generation and education and training do develop working and job skills. Partnering with local ONGs, the project is innovative as it shows how a large company can be relevant to society and at the same time benefit from the positive impacts of the project using all their value chain to generate socio-economic benefits. So far the project has served more than 35,000 youth in 37 cities of Brazil. It is possible to notice the three success factors in this case:

- BoP DNA: The company had a strong perception that it should learn a lot about the BoP market. It created a business unit of Social Business and has developed several marketing researches to better understand the market and its needs. It was clear for the board the potential and pitfalls of the market.
- Execution: Coca-Cola accompanies the project closely with several business and social indicators.

As social indicators it is used the confidence in the future, in which this initiative was able to achieve a 20% increase. The second is related to job generation, where the company has an aggressive goal of employing 30% of the young people who pass through the program. As business indicators, it is measured the sales increase in the retail of the community. An increase on the overall sale has a positive impact on the Company’s performance.

- Relationship: Collective Platform developed relationship in two different approaches. First of all, it established partnerships with NGOs. The Collective Platform was initially developed in partnership with two leading NGOs: CDI and World Vision. Currently the company works directly with local NGOs to facilitate the company’s interaction with communities and also help identify local NGOs who can afford the project. Moreover it has developed partnership with other companies, such as McDonald’s and Microsoft. In the second approach, Coca Cola organized a community mobilization. The program only works properly with the active participation of the community. Therefore, the project has to be relevant and focused on the need of the young to become financially independent. With this focus, the initiative gained in relevance and therefore increased the brand love and the relationship with the population.

In summary, Coca-Cola partners with NGOs and other companies to create a program that is relevant to the community. This allows a new form of company’s relationship with the youth of the base of the pyramid as the program facilitates access to employment and the generation of income, which means more money circulating in the community. On the other hand, Coca-Cola benefits from access to a market more difficult to sell their products, building a stronger brand image and a bond closer to the consumer’s heart. In areas where the Collective Platform was implemented, Coca-Cola makes an intense monitoring of sales in the local retail units, and develops a more committed and different relationship with this local retail.

The Collective Platform reveals how a large corporation can have an objective of social inclusion, promoting training and income generation and at the same time benefit from being more relevant to the community and improving the image of its brand. In business terms, this project is important for Coca-Cola that establishes a better relationship with the community, with local retailers and, ultimately, has more sales.

Interestingly, these success factors help to identify how the distribution strategies of small local companies make them fierce competitors of MNCs and large companies. Indeed, that is a recurrent complaint of large manufacturers who believe that small manufacturers have many competitive advantages as lower prices, good distribution (as they operate in a small region), strong brand image in the local region, better relationship and better credit offer.

- BoP DNA: Even though, the strategy might be an emergent one and small companies have fewer options, they know the BoP market very well and are committed with it.
- Execution: These small companies have more flexibility, are more agile and operate in a small region, which give them the opportunity to have a lower cost and a good distribution.
- Relationship: Small manufacturers have valuable ties with retailers and create close relationships with them. Moreover, they are embedded in their community, which allows for a better relationship with consumers and even building strong local brands.

4. ACCESS TO HEALTH, EDUCATION AND FINANCIAL SERVICES

4.1 Health Service

Distribution is not just about delivering products. One of the main issues of poverty is the vulnerability of its population (Sen, 1999). The health service, despite being free for all the Brazilian population, doesn’t have a high quality or is difficult to access or even sometimes people don’t know how and where to access it, in a clear problem of gap of information.

One simple but very innovative organization that aims at diminishing this gap of information is Saútil. It is a service based on the internet that works as a searcher that primarily helps people find information on the public health system. Although this is a service that the Government should provide to the citizens, the fact is that the population doesn’t know where to find specialized doctors or even free or cheap medicines. The website helps people find what they need and where is the nearest location for them.

Another example is Dr. Consulta, which is a popular health clinic that offers medical services with specialized doctors with very low prices. Besides the advantage of a cost effective, high quality service, Dr. Consulta is located just across one of the largest slums of São Paulo city. Since its inauguration in August 2011, the clinic has grown 40% per month and today performs 600 procedures every 30 days. For this clinic there was an investment of about US\$ 1 million in structure. The objective of the company is to have one clinic in every one of the 96 districts of the city.

In order to scale the offering of health services, Sorridents, which is a dental clinic, decided to grow through franchising. Founded in 1995, the company grew with their motto of offering a good service, using materials of the best quality and caring for the consumers. They have the same value proposition as Dr. Consulta, based on an affordable and good service. To gain scale, Sorridents created the franchising model, and in 2013 the company had almost 200 clinics in Brazil, which made them the largest dental clinic in Latin America.

4.2 Education

To offer access to education, at least two organizations in Brazil are developing innovative models through the internet. The first one is “Quadrado Mágico” (Magic Square) that is an online education platform, based on Khan Academy model, which offers video-lectures in mathematics, history, finance, physics, chemistry and biology covered in the curriculum of elementary and high school education. The organization aims to help solving the problem of low quality of education in Brazil. Its target audience is school-aged children without access to quality education or learning difficulties.

The second one is Geekie, which is the first adaptive learning platform in Brazil, developed to optimize the studies of each student in a personalized and interactive way. The student is constantly challenged according to their abilities in each subject, so that the learning is continuous.

4.3 Financial Services

A large population from BoP doesn’t have access to financial services. Sometimes, distribution is also the barrier. Banks are not always available for BoP communities. In order to overcome this problem, the banking correspondent might be a solution in some places. In 2010 there were over 160,000 banking correspondents’ agencies in Brazil. The banking correspondent is an intermediary agent that offers some bank services, like receiving and paying bills, investing and redemptions of investment funds, applications for loans and for credit cards.

One example of its importance is the case of Autazes¹ that is a small town by the Amazon River. Before the opening of a banking correspondent in the region, the population suffered with basic financial services, such as receiving money from retirement or paying bills. To make these basic transactions, the population had to travel around six hours by boat to reach the closest municipality with a bank. This trip was costly, exhausting and people could be robbed. With the correspondent banking, the transaction costs and vulnerability of the population were reduced.

These examples of business solutions to offer distribution services in health, education and financial services have implicitly highlighted the relevance of technology. Sautil, Quadrado Mágico, Geekie and banking correspondent use intensive technology in order to achieve their goals and access the market. Technology is central in their value proposition and is a means to overcome the barriers of reaching the low income the market.

5. FINAL CONSIDERATIONS

BoP presents many challenges in distribution that create higher transactions costs for the organizations. Owing to that, companies that seek to access this market have to develop new business models and innovative alternatives to reach these consumers.

¹ http://www.youtube.com/watch?v=oggYsCiJ_Q0

The main challenges of this market are its capillarity, the channel length, informality and poor infrastructure. Some success factors to have an effective distribution are BoP DNA, a good execution and relationship. Although important in any market, these dimensions have a greater effect in BoP, due to the peculiarities and challenges organizations face. Technology might also be an important ally to distribute services and diminish the distance to BoP.

The impacts of an efficient distribution are threefold: it makes available for consumers to access products and services that otherwise would be difficult to reach, which is more relevant when we think about basic services, such as health, education and financial services. Secondly, an efficient distribution might diminish the poverty penalty and therefore the vulnerability of the population. Thirdly, it might be a meaningful source of competitive advantage of companies, both large and small.

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Last mile delivery in low income communities: The Sekulula spaza express experiment in South Africa

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Abstract. This article is a description of Sekulula Spaza Express, a business model to deliver goods to informal traders piloted in Khayelitsha and Nyanga in Cape Town, South Africa by Reciprocity, a consultancy based in South Africa. The Sekulula Spaza Express model was established by Reciprocity, with funding from PepsiCo, and tested and tracked over a period of 3 months from January to March 2010. The results allowed to gain a better understanding of the dynamics of last mile delivery in low income communities in the South African context, and identify the bottlenecks that need to be addressed in order to create a financially viable business model. It also demonstrated the value of “learning by doing”, and the valuable learnings that can be gathered at little cost to understand the dynamics of last mile delivery and trading in very low income communities. In this regard, Cape Town and its immediate surroundings present unique features, making the area an ideal testing ground for inclusive business models.

Keywords. Informal sector, Last mile delivery, Informal distribution

1. Background: South Africa’s dual economy

As is the case with most other aspects of its society, South Africa’s economy is characterized by a huge dichotomy and extremes. More than almost anywhere else in the world, vastly different levels of economic development coexist and co-depend on each other. One part of South Africa’s economy is highly developed, and endowed with all of the classic enablers that support modern economies, such as sound financial institutions, excellent infrastructure, a few world class universities, a functional and generally efficient legal and regulatory system, and a small but efficient pool of qualified human resources. A traveler landing in Johannesburg from California for a meeting in Sandton, the city’s main business district, would hardly notice any difference between that city and Los Angeles.

The other part of South Africa’s economy functions almost in a kind of parallel universe. In this environment, most of the economic structures are informal. Here, hundreds of thousands of informal entrepreneurs struggle to gain access to financial services, endure sub-standard infrastructure, have low skills levels and don’t have a legal existence, making it almost impossible for them to enforce contracts or

enter into partnerships or formal agreements. Such entrepreneurs, and the economic ecosystem in which they function, are excluded from the formal economy.



Figure 1. Entrance of a self-service spaza, Khayelitsha

Despite this dichotomy, revolving doors link the formal and informal economy. For instance, informal traders in the townships (as South Africa’s mainly black residential areas around formerly “white” cities are called) sell products that they buy wholesale from giant formal wholesalers that are strategically

located at the edge of the townships.

The dynamics behind this duality are complex and of course not unique to South Africa. It is the magnitude of the dichotomy which is specific. It can at least partly be traced back to South Africa's history of apartheid (white minority rule) that ended only in 1994. By and large, the pre-1994 formal economy was white-managed and white-owned, while the informal economy was black. One of the central challenges of the post-1994 settlement and the advent of democracy is to translate political power into economic inclusion for the majority of South Africans. Perhaps as a result of this specific context, the challenge of integrating the "base of the pyramid" or low income communities into the mainstream economy is far more sensitive and politicized than in most other parts of the world.

2. A gap in the market, but also an opportunity to link formal and informal?

As in many other emerging economies, a significant portion of the retail needs of South Africa's low income market is serviced by thousands of informal retailers, usually referred to in South Africa as "spazas" or "tuck shops". Spazas typically sell essential household goods and local staples: food items such as cooking oil, sugar, maize meal, flour and snacks, household essential such as soap, paraffin, candles, matches and disinfectants, but also cigarettes and prepaid air-time for mobile phones, with the last two products often mentioned by spaza owners as significant revenue generators.

Estimates vary widely as to how many spazas exist in South Africa: by definition, informal businesses don't have any legal existence and are therefore not registered in any company registrar or database, so one has to rely on estimates and extrapolations. A recent conservative estimate by the University of the Western Cape (UWC) is that the number of spazas hovers around 100,000¹, with a collective turnover estimated at R 7 billion (Around US \$ 700 million). But the Bureau of Market Research estimated in 2006 that there might be as many as 750,000 spazas and hawkers, with a collective turnover of R 35-50 billion². Whatever their actual numbers are, spazas are undoubtedly a ubiquitous feature of South Africa's townships, and considering that shopkeepers would typically have at least 3 or 4 dependants, spazas provide a livelihood for at least several hundred thousand people in South Africa. They also vary vastly in terms of size, sophistication and customer experience: Some are barely more than a hole in the wall selling cookies, snacks and sugar, while a few allow customers to enter the store and select their own items from the shelves. As a rule, however, customers are served by the store manager, limiting the sales opportunities that impulse purchases offer in self-service stores. This is partly the result of South Africa's high crime rates, which makes spaza managers feel vulnerable to robberies and pilferage.

The spaza model is under threat, however: As most spaza owners have little formal business training, and since they

intrinsically depend on higher margins rather than volumes to be viable, they are ill-equipped to respond to the changing dynamics of South Africa's low income market. Their market share has been put under huge pressure by large formal retailers, as well as newcomers in the informal market: At the formal level, companies like Shoprite Checkers and Pick n Pay, two of South Africa's largest retail chains, are expanding in many large townships and are able to offer lower prices than spazas. Another major player is Walmart, the world's largest retailer, which has purchased South Africa's Massmart chain, owner of several giant wholesalers in the townships. At the informal level, local spaza

owners face heavy competition from highly successful migrant traders: Over the past 15 years, immigrants from other parts of the continent, especially Somalia, Ethiopia and Tanzania, as well as South Asia (mainly Pakistan and Bangladesh), have opened thousands of spaza shops around the country. These traders leverage informal financial networks and social capital with business skills acquired over generations, and are competing fiercely with local traders on price.



Figure 2. Sugar, maize meal, cooking oil and flour account for most sales in value

Low income consumers have arguably benefited from the increased competition in the form of lower prices. However local traders, which form the backbone of South Africa's informal businesses, and their dependants have suffered greatly. Their margins have been squeezed, and they have lost customers to the competition. They typically lack the working capital needed to upgrade premises and make shops more appealing, or to gain better skills in bookkeeping or stock management. Owning and running a spaza shop in South Africa today involves very hard work, long hours, high risks and low returns.

Despite this rather bleak picture, spazas should not be written off: in fact, they could actually leverage some crucial competitive advantages. One such advantage is location: Like any convenience store, they can use proximity to their clients to attract foot traffic. Their second major competitive advantage is the intimate knowledge they have of local markets and trends: At the micro-level, spaza owners possess an expertise on South Africa's low income market that larger

retail stores are unable to match.

The challenge, in this context, is to enable spazas to use these competitive advantages and allow them to compete on a level playing field. One way that spazas could collectively improve their position is by running more efficient **delivery** systems and **ordering** processes. Indeed, during the pre-field immersion phase in Kliptown and Khayelitsha, Reciprocity found that many spazas tended to have particularly inefficient practices in this regard.

- **Delivery:** Many spazas are one-man shows, where the owner typically closes his or her store several hours every week, during business hours, in order to purchase stock. Spaza owners usually purchase stock from giant wholesalers who operate from massive warehouses located in industrial areas on the edge of the townships. Typically, spaza owners make use of public transport (combi taxis) or hire pick-up trucks to get the purchased goods to their shop. Either way, this involves not only an opportunity cost (store closed during business hours several times a week) but also an actual expense (transport fare or van rental fare) which typically varies between R 40 – R 60 (US \$ 4 to US \$ 6).
- **Ordering process:** During the pre-field study, Reciprocity found that spaza owners tend to have limited stock management processes: The practice is often to simply top up on an ad-hoc basis when the store runs out of a particular product. On the other hand, many products that don't sell gather dust on shelves and remain there long after their theoretical sell-by date. This translates into lost opportunities as well as wasted shelf space which could be used more efficiently.

As a result of these findings, the Reciprocity team decided to focus on these two aspects in order to develop a business model that could help to fill a gap in the market, create employment, and ultimately increase the sales figures of the spazas.

3. Testing a model: Determining the variables of the experimental protocol

During the pre-field phase, Reciprocity had to:

- Identify the ideal location to run the pilot
- Identify the wholesalers willing to contribute to the research
- Understand how the informal retailers get their supplies, and the costs associated to their stock-taking
- Identify and define the research variables of a viable supply model by way of a distribution service
- To start the business model, we had to:
- Recruit and train a sales force

- Develop marketing tools adapted to the context of the informal retailers
- Develop and implement a tool-pack specifically designed for the entrepreneur
- Establish and formalise a relationship with the supplier, i.e. the wholesaler



Figure 3. A logo and brand was developed during the pre-field phase

The pre-field surveys and focus groups helped Reciprocity to establish a set of independent variables that each play a role at one step along the value chain. These variables were each likely to influence the outcome of the pilot, and each was linked to a specific aspect of doing business in low income communities:

- **The profile** of the shop owner: for instance, is the shopkeeper a migrant or a local, male or female, old or young, etc? This was a fundamentally important aspect as many informal traders are entrepreneurs by necessity rather than opportunity. There is no way of telling for sure what the most common characteristics of successful entrepreneurs are, and Reciprocity sought to challenge and test widely held assumptions about "entrepreneurial migrants" vs. "local survivalists" and other pre-conceived ideas. What we could presume however was that Sekulula's prospects would be influenced by whether or not the clients it seeks to serve had entrepreneurial drive or not.
- **The delivery vehicle:** Should it be a truck, a bicycle, a donkey cart, a tuk-tuk, or something else altogether? Again, this variable sought, from a business perspective, to test assumptions about what kind of vehicle would be most suitable for deliveries. What is the best combination of cost effectiveness, terrain suitability, carrying capacity, cultural acceptability, while remaining compliant with safety regulations, etc. ? For instance, accessing some shops in informal settlements may be impossible for motorized vehicles, so the delivery mode would have to be suited to local terrain and infrastructure. Or a vehicle may not be commonly used, increasing the difficulty of finding qualified drivers and ensuring maintenance. In the case of Sekulula, the tuk-tuk turned out to be highly suc-

¹ Source: A Charman; L Petersen; L Piper: "From local survivalism to foreign entrepreneurship: the transformation of the spaza sector in Delft", University of the Western Cape, Cape Town

² <http://www.eprop.co.za/index.php/news/item/7487-Retailers-drive-into-the-township-market-threatens-spaza-shops>

- cessful in terms of cost effectiveness, but finding licensed drivers was a challenge as experienced drivers are usually not qualified on such vehicles.
- **Should the pilot focus on a selection of the 10 most popular products**, or offer a universal service? From Sekulula's perspective, it would be far more cost effective and easy to offer a limited range of the 10 or 15 most popular products sold by informal traders. But the service might only be of value to traders if Sekulula was able to deliver the entire range of product lines, including the marginal ones. This trade-off therefore needed to be tested in the field.
 - **How should the spaza send its order**: a mobile phone application, a phone call, a fax, or something else? While there is, for good reason, huge enthusiasm about mobile phone applications in low-income contexts, the reality is that many traders are not necessarily able or willing to use such applications unless there is a clear advantage for them, and then only if such applications are easy to use and reliable. From a business perspective, the challenge was to find which channel is most suitable and realistically usable for a trader in a South African township, where smartphones are not yet ubiquitous and more 'traditional' means of communication might be more familiar, effective and reliable.
 - **Timeframe of order-taking**: How much notice would wholesalers need from spaza owners to place their orders? Assuming that wholesalers would accept to prepare orders from spazas to be picked up, how much time do they need to do so?
 - **Payment method: Cash or mobile money?** As

with the previous point, mobile money payments are making fast inroads into payment systems in several parts of Africa, and there is indeed great interest in decashing transactions. The assumption needs to be tested in real life however: In fact, the experience of Sekulula showed that despite the advantages of mobile money payments, many traders and their customers still have a preference for physical cash transactions, which are perceived to be practical, easy, and totally reliable while mobile money payments may, in the local context and environment, be seen as complicated, costly (banks offering mobile money payments usually charge their customers per transaction), scary (what if I make a mistake and pay too much / too little) and potentially unreliable (unconfirmed transactions resulting from network issues, etc).

This list of variables and the business challenges Reciprocity sought to address illustrate that to successfully test a new business model, assumptions need to be set aside.

Regardless of which independent variables were at play, the model needed to generate an income stream that covered the costs.

The **income stream** of the model depended on the number of deliveries: At its simplest level, assuming a flat fee for each delivery, the level of revenue is simply a multiple of the number of deliveries made. With a more complex fee scale, factors such as distance covered, weight, volume and type of produce delivered could be made factored into the pricing model. For the purposes of the pilot, it was decided to initially experiment only with flat fees, as the business model's basic potential viability needed to be established first.

Sekulula's **financial outflows** were mainly made out of operational costs such as vehicle finance, maintenance, fuel, insurance and a salary for the drivers.

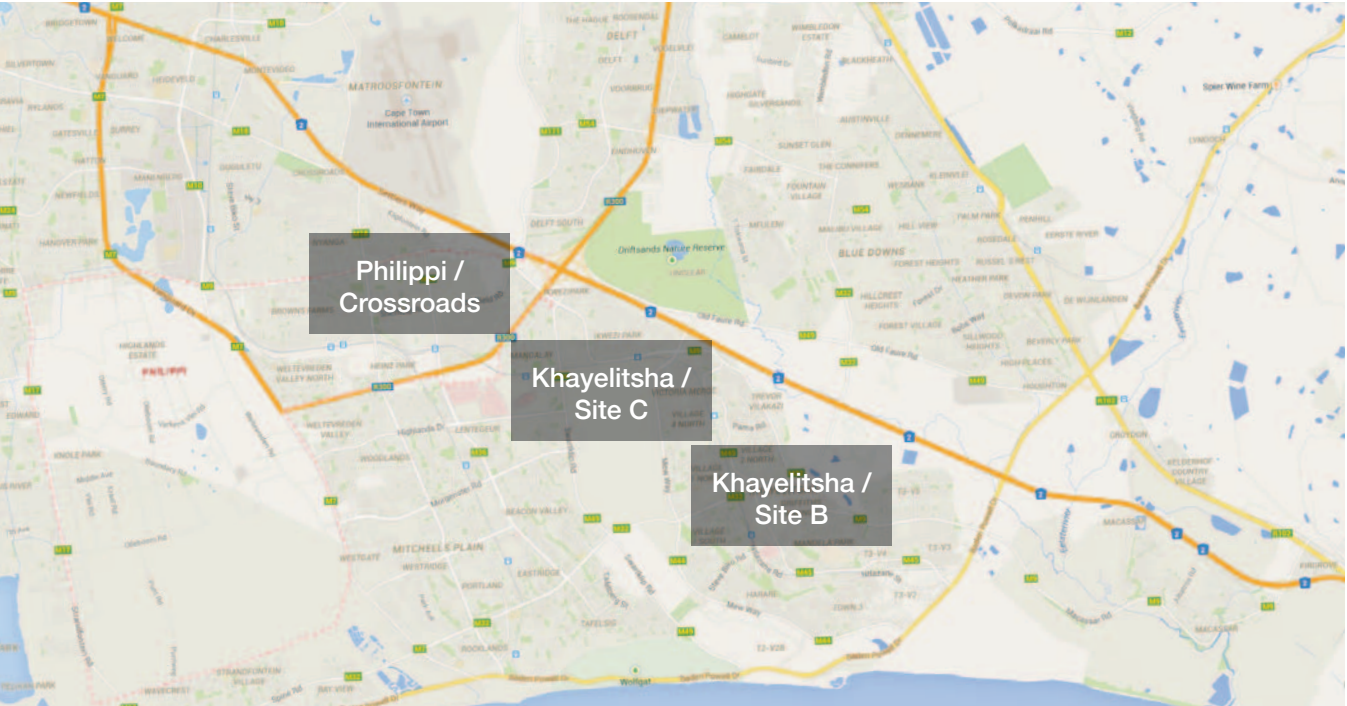


Figure 4. Area detail of Cape Town's Philippi, Nyanga and Khayelitsha townships



Figure 5. Delivery in progress, Nyanga

4. Results and Learnings

Sekulula spaza express was tested and operated as a going concern over a period of 3 months, which enabled Reciprocity to gather reliable sales data, imagine the possible business models that could result from the pilot, and assess the level at which a delivery service can be economically viable.

Reliable sales data: The live testing phase enabled us to collect detailed sales data which helped us to get unique insights into the basket of products purchased by spaza shops, and therefore get a precise picture of consumption patterns in the households which shop for staples at these spazas. All purchases were broken down per category, product, brand and packaging.

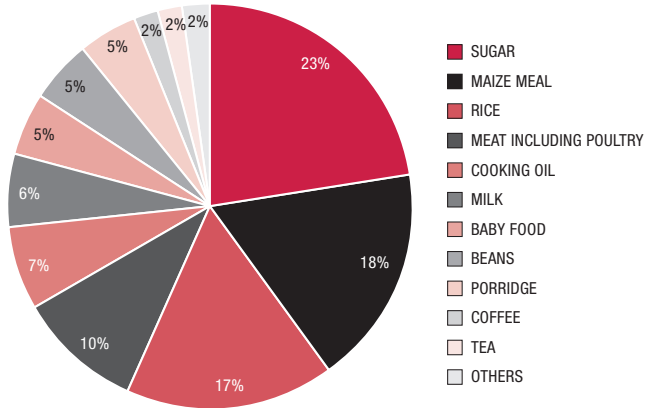


Figure 6. Breakdown of food products purchased by Sekulula clients. Data gathered from Sekulula sales

The pilot allowed us to track a sample of 120 deliveries made to a client basis of ca. 100 spaza shops mapped in the areas of Gugulethu, Nyanga and Khayelitsha (the largest townships in Cape Town), located in a radius of ca. 15 km from the main wholesalers. Around 20 of these spaza shops became regular clients over the period. The average delivery value was R 835 (ca US \$ 85). Around 43% of all goods purchased on behalf of clients was made up of food products, while another 42% was made up of snacks and soft drinks.

The remaining categories were household products (11%) and personal care products (3%). Remarkably, only 4 products accounted for half the total value of purchases in the "food" category: white sugar (18%), maize meal (corn flour, 17%), rice (11%) and meat (7%). This type of data is very valuable to consumer goods companies, who often have only vague indications of how their products are positioned with spazas, and faint understanding of consumer preferences. The testing also became an appropriate way in which to track not only the type of products sold but also frequency, size of packaging, prices and payment methods.

Two possible business models: The experience of testing the variables helped us to design two broad options for inclusive business models that could fill gaps in the market identified during the study, while creating jobs and consolidating the local entrepreneurial ecosystem:

1. An **"owner-driver"** model, in which the driver is a subcontracted entrepreneur of a wholesaler or a coalition of consumer goods companies, which would provide vehicle loan finance (similar models have been successfully used in South Africa by SAB-Miller and mpact paper recycling)
2. An **independent entrepreneur** model, in which the driver is completely independent and the costs of operating the business are entirely covered by revenue

In an ideal world, the only model sustainable in the long run should be the independent entrepreneur model, which allows the entrepreneur to succeed or fail on his or her own merits. But in this case, the owner-driver model could be seen as a useful first step towards full autonomy.

Table 1. A summary of most likely business models for Sekulula

Business status	Basic revenue stream	Basic cost structure
Model 1. Owner-driver model	Subcontracted entrepreneur	Fees paid by end-customers for delivery service.
Model 2. Micro-entrepreneur model	Independent entrepreneur	Fees paid by end-customer for delivery service
		Owner-driver in charge of vehicle-related costs Other costs determined in contractual arrangement
		Entrepreneur: in charge of vehicle related costs and all other costs

Potential for economic viability: Based on Sekulula's revenue and expense projections, the break-even point is reached at 6 deliveries per day, and long-term profitability is reached around 10 deliveries per day. At 10 deliveries per day (on a basis of 5 days per week), the driver-entrepreneur's operating costs can be covered, and sustainable income levels

are reached.

In a 10-delivery per day model, Sekulula could generate monthly revenue of R 8,000 (ca US \$ 800), compared to operating costs (fuel, insurance, phone, vehicle finance...) of R 4,250, generating a net monthly income of approximately R 3,750 (ca US \$ 375) for the entrepreneur (i.e about R 125 or US \$ 12.50 per day). This is significantly above the average income in a South African low-income environment: an estimated 35% of South Africans live on less than R 20 per day.

5. Conclusion

Sekulula spaza express is a business model designed to address a proven demand from informal retailers for more efficient ways of managing deliveries and stock. Scaling up the model could potentially create hundreds of self-employment opportunities in low-income communities, while at the same time significantly improving the prospects of small informal retailers, who form the backbone of entrepreneurial activity at the base of the pyramid in South Africa.

The Sekulula pilot has also demonstrated that there is a gap in the market for

- An efficient delivery system enabling spaza shop owners to outsource the task of stocking up on goods to an external party, and be delivered in the most cost-effective way
- An efficient ordering system that could help spaza owners to access up to date information on the lowest prices available.

At the conclusion of the pilot, the delivery service reached a maximum of 6 deliveries per day, and now needs to overcome two significant bottlenecks to become viable:

Cash management: Ensuring cash flow is a challenge, as the driver needs to have enough float (in cash or on a bank account) to pay for goods upfront. The driver can also be at risk for theft given the amount of cash he is carrying. An appropriate mobile money solution will address this issue, but it still needs to be tested.

Logistics: Finding the most appropriate channel through which the spaza owner can place orders at the wholesaler, how to send these orders to wholesalers, and efficiently collect the orders still needs to be further explored and tested: A mobile application that is usable on a feature phone and a smartphone would need to be developed in this regard.

At least three categories of people at the base of the pyramid would benefit from Sekulula's success: The **spaza shop owners** would benefit from the cost savings of this approach, with better information on which wholesalers offer the lowest prices on which products, and capitalize on the delivery service being able to bulk-buy on behalf of a number of spazas. They would also benefit from the ability to remain open to customers while their goods are being re-stocked. The **owner-drivers** of the delivery vehicles would benefit through employment and income generating opportunities, but also from the ability to run their own businesses. Finally, **consumers** could benefit in the form of more cashless payments, and potentially lower prices for goods and services.

Sekulula could be a sustainable business model which can be scaled up across South Africa, creating employment opportunities, viable small businesses, and consolidating the ability of informal retailers from low income communities to compete with formal retailers and multinationals.

The cost of testing such pilots is low, with high returns are high in terms of knowledge gained. The pilot would also be replicable elsewhere in Africa.

On a broader level, the testing of Sekulula also constitutes an opportunity to ask to what degree businesses should also seek to influence outcomes: Should inclusive or social business models seek to simply respond to needs and expectations in the market as they are, or seek, on the contrary, to influence consumer behaviour and social outcomes by "pushing" some products or services, for example more "nutritious" or "healthy" products ? The case of Sekulula, which highlights the huge spending on white sugar, sweet drinks and processed foods in low income communities, illustrates this dilemma: Where does the social responsibility of business to influence consumer behaviour begin, and where does it end ? Questions such as these demonstrate the need for far more research and testing to be done in this field.

SHARING CITIES: an innovative partnership between the Bel Group and street vendors

The experience in Ho Chi Minh

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Abstract. Street vendors and street food play a significant role in the informal sector in emerging markets. Street vendors stand as a primary source of supply in terms of food purchase for low-income consumers. However, their work is threatened by the rapid modernization of economies in developing and emerging countries and the evolution of the food retail industry. Furthermore, harassment, thugs, corruption, and economic insecurities hamper the street vendor's daily life. It is therefore essential to support street vendors in gaining resilience and adapting to the modernization of the economy of their countries. This article analyses how a corporate-led initiative –Sharing Cities designed by the Bel Group– can at the same time empower street vendors and provide business opportunities for the Group. Its aim is to study the interface between a formal company and the informal sector.

Keywords. Informal sector, Street vendors, Inclusive business, Multi-stakeholder partnership.

In November 2011, representatives of the Bel group had the honor to be invited to the International Convention of Street Vendors organized in New Delhi by NASVI (*National Association of Street Vendors in India*).

While the situation of street vendors may seem very remote from the concerns of one of the global leaders of cheese products, the issues discussed during this convention actually converge with the strategic challenges that the Group faces for its operations in emerging countries. Better yet, it quickly became apparent that mutual interest could create very innovative forms of partnership.

In the first place, the Convention provided a better understanding of the situation of street vendors. Very significantly, the Convention's title - and general demand - was "*Cities for All*". As Laurence Fontaine stressed, access to markets is for many poor populations a basic survival strategy. The situation of ambulant vendors perfectly illustrates this position. Most street vendors in effect demand better access to urban

markets. Today the activity is increasingly banned in city centers. And when not actually banned, a legal gray area -often purposely maintained- leaves room for arbitrary behavior from law enforcement agencies, who are rarely in favor of itinerant salesmen. When there is a legal framework in place, it does not allow vendors to choose their location and thus forces them to ply their trade in unsuitable areas, far from their "regular" clients who make up a large part of their income. Their activity is therefore permitted by law but condemned by events. This deep-seated request for a "right to trade", "right to the city" and for equal access to economic opportunities, had a strong historic repercussion in 2010: the Arab Spring was started in Tunisia at Sidi Bouaziz by a street vendor who immolated himself, rendered desperate by the bullying he suffered daily from policemen.

The Convention then highlighted the growing difficulties currently faced by street vendors. Their future is weakened by the development of more organized trade in city centers and they must find new

trading opportunities to preserve their income levels. Their challenge is therefore to identify new economic opportunities and find ways to grow their business.

Therefore today is it necessary to find solutions to support street vendors in this transition period, and allow them to bring their activity, often viewed as archaic, into modern times, as for instance in New York City, where street vendors are today an essential and uncontested part of the urban landscape.

At the same time, like a growing number of companies in the food-processing sector, for many years the Bel group sought to implement strategies reconciling economic sustainability and social impact in emerging countries based on the model of inclusive strategies. The ambition is in effect to expand its circle of consumers by offering quality, nutritional and affordable products, relying on alternative distribution networks, including the people at the bottom of the pyramid.

Thus in 2011 the Bel group created a dedicated entity, Bel Access, to implement these innovation projects with a view to becoming a leader in the inclusive business market, and so contributing to the Group's target of reaching 1 billion consumers by 2020.

A first Bel Access project was launched in Vietnam; it aimed to provide access to nutritionally improved products to low-income populations in Ho Chi Minh City.

Bel Access firstly created a system of door-to-door sales using saleswomen recruited through women's associations in Vietnam. It very quickly became clear that this system was structurally loss-making, since sales were not enough to cover fixed costs and generate enough income for the seller. It was then thought better to rely on existing networks rather than trying to create an ad hoc sales network. The street vendors naturally seemed the obvious answer because they constitute a potentially very effective sales network. There are, for instance, close to two million ambulant sellers in Vietnam, four million in Egypt, and even almost a million in Indonesia. Using street vendors to sell Bel products would help reach out to new consumers with smaller incomes for whom purchasing from street sellers is an integral part of daily life. In addition, they represent the main channel for food purchases for low-income consumers.

It must be noted that in emerging countries, even today there are more of street vendors that fixed market stalls and, paradoxically, no brand is truly and lastingly interested in this network.

A partnership structured around a dedicated platform, Sharing Cities

One issue particularly attracted the attention of the Bel team during this Convention. Unanimously, the speakers, all street vendors repeatedly made the same request: *“Nothing for us without us”*. This aspect of participation and partnership with the sellers was revealed to be essential. It is this demand that guided the strategy of Bel Access when, a few months later, a platform to promote alternative distribution systems was implemented in all the group's subsidiaries, relying largely on partnerships with the street vendors. Naturally called *Sharing Cities* –a double nod to the group slogan, *“Sharing Smiles”* and to the sellers' demand, *“Cities for all”*–, this platform's goal is at once simple and ambitious: to improve the living conditions of street sellers on the one hand, and to set up ef-

ficient networks for the Group on the other.

A first pilot project was initiated in Vietnam at the beginning of 2013. It invited fruit and vegetable vendors to sell boxes of Laughing Cow in Ho Chi Minh City. With over 135,000 sellers just in Ho Chi Minh City, Viet Nam, street vendors present a great commercial opportunity. In particular, this channel is especially effective in peri-urban residential areas, where there are fewer general trade stores.

The opportunity even more interesting because it is estimated that street vendors are the main food supply source for lower-income consumers (over 80% of food expenditure for low income consumers is made to street vendors in Hanoi and 37% of meals for low-income consumers in Vietnam is taken from street vendors).

Within the population of street vendors, Bel Access will particularly focus on the community of fruits and vegetable sellers (estimated to be 25,000 in Ho Chi Minh City), in particular because they acquire all their goods from a limited number of wholesale markets around the city. The sellers obtain their supply every day from the dedicated “Laughing Cow” stand located in these wholesale markets, and then crisscross the peri-urban areas of the city selling their goods.

Inset

While the initial objective was set at 40 sellers within 6 months, four months later the team celebrated the arrival of the 100th vendor. In December 2013, less than a year after the program was launched, there were close to 250 vendors active in the Sharing Cities network in Ho Chi Minh City.

Setting up a network of street vendors first requires understanding the situation of sellers in Vietnam in order to comprehend their real opportunities. Next, it is necessary to establish a system combining three targets: the economic sustainability of the initiative, both for Bel and the vendors; the social impact; and the possibility of changing its scale.

1. Understanding the economic and social situation of street sellers

First of all, Bel Access tried to understand the economic and social situation of the vendors, their interest in working with a group like Bel, and the obstacles that might keep them from cooperating with a formal business and from selling products radically different from those they sell daily.

To that end, several studies were conducted in order to understand both the profile of the vendors, the complexity of their activity, and the constraints they are under.

A first study was conducted between March and April 2012 in the three wholesale fruit and vegetable markets around Ho Chi Minh City center: Binh Dien market (district 8), Tam Binh market (Thu Duc district) and Hoc Mon market (Hoc Mon rural district). Three-hundred street vendors were interviewed, which has helped to clarify the sellers' situation and the opportunity they represented.

1.1 The sellers' profile

Street vendors can generally be divided into two main groups. One comprises the least skilled people, for whom selling is one of the only survival strategies. They are usually migrants, poorly educated and without no other alternative than itinerant sale. For them, this activity is their sole career opportunity and most are committed to their professions and do not wish to change. The other, by contrast, comprises sellers who, because of the effects of industrial transformation and the waves of redundancies (for instance, in the textile industry), have had to resign themselves to opt for this activity: better qualified, street vending is for them a safety net that allows them to make a living. But they will seize the first opportunity to return to the formal sector and find salaried employment.

Bel Access has decided to rely primarily on the first category of sellers, and saleswomen in particular.

At Ho Chi Minh City, most itinerant vendors interviewed are migrants who either do not have a work permit or have seasonal worker status KT4 although they work all year round. 71% of interviewed sellers report that they live in Ho Chi Minh all year round. 29% of them go home once a year for agricultural activities or the Tet Holiday (Chinese new year).

1.1.1 A majority of saleswomen

To begin with, 65% of the 135,000 street vendors are women. They usually experience harder conditions than men. Most are aged between 35 and 50 years.

AGE DISTRIBUTION	%
Aged 20-24	1%
Aged 25-34	33%
Aged 35-49	52%
Aged 50 and over	13%

Most of them have children and one their key motivations is the possibility of paying for their education.

Number of children	%
None	12%
1	34%
2	43%
3	6%
4+	4%

Age of children	%
0-6	40%
7-12	29%
13 and over	31%

Most street vendors interviewed live in peri-urban areas in the suburbs of Ho Chi Minh city.

- 25% of them live in district 12, the city's most working class district, which has a strong population growth due to rural exodus.
- 14% live in the Hoc Mon neighborhood: this area is transitioning from rural to peri-urban.
- 14% live in Binh Tan, a peri-urban neighborhood.
- 10% live in Thu Duc a peri-urban neighborhood.
- None of the vendors interviewed live in the city center

A very large majority of saleswomen migrated on their own, without their families who remained in their home village. They live in communities and share the cost of a room. 83% of those interviewed live in low-rent dwellings, as shown in the table below:

Monthly rent	%
200,000 to 1m VND	83%
1m VND to 1.5m VND	12%
1.5m VND to 2m VND	2%
More than 2m VND	3%

Other qualitative studies conducted in July 2012 helped draw up three distinct profiles:

- Street vendors living in poverty. These are women on bicycles who sell fruit making profits below 100,000 VND per day (a little under 5 euros).
- The intermediate group: these women on bikes earn a better daily profit and have greater stability. Their income varies between 1 and 2.5 million VND, with a daily profit of around 150,000 VND (about 7 euros). There is a strong correlation between time on the job and income. The intermediate group is for the most part composed of women who have had this activity for over 5 years.
- The men who own a motorcycle and can carry and sell more. Their daily profit is of some 250,000 VND (approximately 15 euros). They enjoy a far higher social status, which is strongly apparent in the optimism they show when speaking of their future.

Vietnam is also special as regards itinerant vendors compared to other Asian countries: for more than 40% of them, the street sale activity is the family's main income.

1.1.2 Time on the job

Most of the vendors interviewed have exercised this activity for more than three years and nearly 45% for over five years.

Sellers' time on the job	%
Less than a year	4%
Less than three years	28%
Less than five years	25%
Less than ten years	31%
More than ten years	13%

1.1.3 Education

Vendors have a basic education: only 2% of them never went to school (they can therefore mostly read, write and count), but only 15% of them completed their secondary schooling (versus nearly 80% in the public sector in Vietnam).

1.2 Typical day of a street vendor

Next it was necessary to precisely understand the typical day of a seller so as to be able to encompass new activities.

A typical day runs as follows:

- 5:30-6 a.m. to 8-9 a.m.: purchasing at the fruit and vegetable market
 - This takes 2-2.5 hours.
 - Ambulant sellers typically make their purchases in the same market (for 94% of them). Their choice is determined by proximity with their home.
 - 75% of vendors say they buy their products from the same suppliers. 25% explain they buy from the supplier with the best offers.
 - 99% of sellers interviewed go to the market every morning.
- They start selling by 9-10 a.m.
 - 94% of vendors questioned sell every day
 - 69% of them exercise this activity all year round. 31% stop during Tet and the harvest months.
 - 91% of vendors sell in peri-urban and rural areas (with less than 10,000 inhabitants per sq km)
 - 42% always sell at the same locations. 58% change locations. 15% are of the fixed sellers, the rest are mobile. There is no gender influence on these issues.
 - 51% of sellers have a bicycle (17% of men vs. 69% of women), 43% have a moped (74% of men vs. 26% of women). 6% of them are on foot.
- Street vendors go home between 7 p.m. and 10 p.m.
 - For 92% of vendors questioned, selling their entire stock takes a full day. 6% of them feel it takes half a day. Unsold stock is usually lost.

In the end, the sellers earn between 100,000 and 300,000

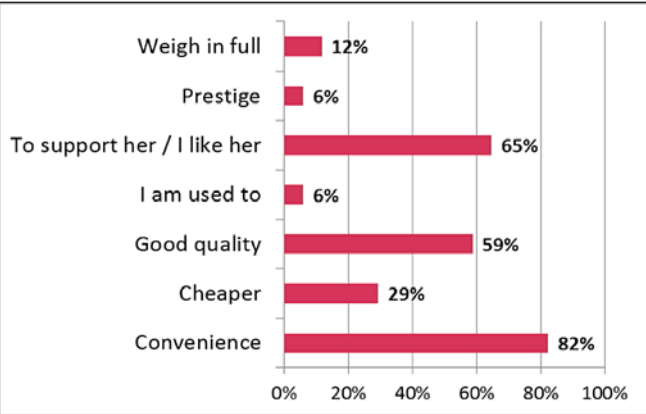
VND per day, or between 3 and 10 euros.

1.3 Relationship with customers

All itinerant vendors questioned sell to customers they know. 80% of their basket is sold to this network of privileged clients, with whom they have a trusted relationship, within half a day. The remaining 20% will be sold in as much time and with greater difficulty. On average, a street vendor “has” between 100 and 150 regular clients who he visits each week, or even every day. A vendor on a bike makes 40 sales per day (1 to 3 kg of fruit and vegetables per sale), i.e. 50 to 60 kg per day.

The focus group revealed a paradoxical situation: ambulant vendors are far from being “professional salespeople”. The vast majority of them have no sales pitch, which is why they find it so difficult to sell to new consumers that they do not know. The bulk of the work of the street vendor is to perpetuate its network of regular customers, to develop of friendship with them and grow the network as far as possible with new customers. The concept of service quality is therefore essential, and perceived as such by the street sellers. For them, maintaining a quality of service is crucial to the survival of their business, for which reason there is that very little price negotiation, very few quality problems and “customer support” provided whenever necessary.

The reasons pushing consumers to buy from ambulant vendors are many and rather interesting:



The fact that the street vendor delivers the goods directly at their home is seen as a strong argument (82%), as well as the quality of the produce (59%). But there is also very strong component of solidarity: 65% of consumers surveyed report they buy to support their seller. Each consumer has in fact his own preferred itinerant seller that he will support over many years: 76% of consumers questioned state that they have been buying from the same street vendor for over 5 years.

1.4 An opportunity to create an effective inclusive business for Bel in emerging countries

Based on these results, selling through the network of street vendors presents 4 key interests for Bel:

- Extend its penetration in peri-urban areas by reaching out to new consumers

- Increase the frequency of purchase of its products, since itinerant sellers visit the same consumers every week.
- Increase its number of distribution points (25,000 fruit and vegetables sellers at Ho Chi Minh, 10,000 in Hanoi)
- And finally, implement the Group’s desire to support the communities in the countries where it operates.

Key figures of Sharing Cities for 2013

- 240 sellers in December 2013
- The goal is to reach 830 sellers in 2014
- 1 street vendor contacts 100 to 150 households each week
- 80% of consumers said they bought Laughing Cow cheese more than five times in the past four months from itinerant sellers. 59% of them made more than 10 purchases
- 98% of consumers were tempted to buy more LC cheese because, like them, Bel supports the itinerant sellers.

2. Understand the obstacles to a partnership with a company like Bel

2.1 The situation of ambulant vendors is slightly paradoxical.

On the one hand, their numbers make them in principle a very appealing sales force for companies marketing consumer goods. As we have pointed out, there are in fact more street vendors that stalls (what is usually called the general trade in many emerging countries, including Vietnam).

However, this apparently obvious business opportunity does not translate into something specific: it is very rare to see street vendors distribute branded products (with the exception of cold drinks and ice creams). Also despite the importance of street vendors in the consumption of low-income populations, it seems difficult to use this network to distribute the products of multinational companies without adapting it.

2.2 There are many reasons for this situation.

In the first place, companies selling branded products in the “general trade” do not wish to create competition with their main customers, the small stallholders.

In addition, the street vendors do not have the capacity to talk with distributors. They do not have access to information or networks of acquaintances allowing them to sell other products.

Access to credit is also a major obstacle. Most street vendors pay in cash and their revenue of the day can barely generate enough margin to diversify their basket of products, also given the risk for them of investing in products they are not sure to sell.

Some sellers must in addition themselves give credit to their customers. A female vendor explained for instance that at the time of the interview (August 26, 2012) she has outstanding credit among her clients of some 5 million VND (approximately 180 euros), or nearly 15 days’ profit. 90% of the amounts of this credit concern 3 clients.

In the end, the purchase of branded products, given the risk that it presents, constitutes an extremely costly investment.

But our research also enabled us to understand that it was the street vendors themselves who were apprehensive. In 2012, the Group met with four groups of male and female vendors to assess their interest and their ability to sell the group’s products.

Methodology

Panel of 4 groups of six male and female vendors

- Group 1& 2. A similar profile: only women who have a bicycle, only sell fruit, and with daily profits below 180,000 VND.
- Group 3: only women who have a bicycle, only sell fruit, and with daily profits below 100,000 VND.
- Group 4: men who have a motorcycle, selling fruit with a daily profit above 180,000 VND

At the outset, almost all vendors interviewed in the two intermediate groups were skeptical about the possibility of selling Bel products.

Their misgivings were not financial but rather psychological: their apprehension was rooted in the perception that the vendor had of her own status and her relationship with her customers. According to them, as a street vendor they could not sell branded products, because “nobody buys brand products from a street vendor”. The apprehension is twofold: on the one hand, the sellers predominantly think that consumers will not be not willing to purchase packaged products from street vendors; on the other, they do not have enough confidence in their own selling ability. The sellers “do not dare” sell packaged products that they often perceive to be “too good for them”. What they usually say is, “I am only a fruit seller. I cannot sell this type of product (Laughing Cow)”.

This refusal is a pity, all the more so that most of the vendors, and the women in particular, insist on the growing difficulties they face in generating a decent income from their activity. They talk of the growing competition to explain their decreasing income. They all believe that their business was easier a dozen years ago. But this lucid analysis of their situation is not accompanied by a search for new opportunities.

The have entrepreneurial capabilities - these vendors have been making a living from their activities for several years - but are considerably limited by their lack of self-confidence and their perception of their relationship with their customers. The customers usually have an ambivalent relationship with them. On one hand, they are happy to contribute to the survival of these vendors and their act of purchase is in part a form of solidarity. At the same time, they seem to have little consideration for the sellers: they know what they want and

generally help themselves directly from the stocks. So the latter often end up accepting this lack of consideration and feeling that they are not qualified salespeople.

Other difficulties explain their position toward packaged products: how to procure them, what to do with unsold stocks? How to protect the goods from the weather? The question for sellers is naturally how to manage the commercial risk which includes, among other things, the risk of losing hard won regular customers. They are in fact in a position which only allows a very small risk-taking.

Finally, it should be noted that the sellers most interested were both the poorest (exclusively women) and richest (men).

And the poorest women were the only ones not familiar with the Laughing Cow goods, but they were immediately interested in the opportunity offered to them of selling these products.

3. Surmounting obstacles and optimizing opportunities: the double economic and social offer of Bel Access

In order to respond to the different challenges that face street vendors, the Sharing Cities platform has two components: an economic component and a social component.

3.1 The economic component: offer new products to add to the existing basket of fruit and vegetables.

3.1.1 Simplify the logistics by creating dedicated stands in the markets where the sellers can stock up

Bel Access has set up hubs in existing wholesale markets. The aim was to identify the sellers' main catchment areas and install there a Bel stand where they can stock up easily. The goal is multiple:

- Avoid making the sellers travel to a specific location to buy the products. The goal was to fit perfectly in the vendors' daily routine and not ask them for additional efforts as regards travel. At the same time, this solution helps reduce logistics and commercial costs.
- Having an actual physical platform to sell and implement socio-economic support programs.
- Finally, to increase the brand visibility directly in the wholesale markets.

3.1.2 Promote the Bel group brand image

When the street vendors join the program, they receive a brand uniform and can thus become the brand's ambassadors in the city. It is important to leave them the choice of wearing the uniform or not. For some, it is essential because it allows them to reassure their customers. Others, find it counter-productive because they always wear the same clothes so as to be more easily recognized by their regular customers.

3.1.3 Incentives: make the offer appealing

One of the major challenges that the group faced was convincing the street vendors to sell a new product very different from their usual fruit and vegetables.

Fruits and vegetables have better profit margins than conventional FMCG products. But this is the only margin street vendors are familiar with. So their legitimate expectations as regards profit margins were therefore higher than what the Bel Group could offer. In fact, Bel did not wish to set up a preferential margin system for street vendors in order to avoid the risk that they would kill off the traditional sales network. To convince the itinerant sellers, an incentive system was set up to allow those wishing to do so to start distributing our products by limiting their financial risk and adding a strong social component, while meeting their expectations: vocational training, welfare...

This is the Sharing Cities model: the more we add social incentives to the model, the more we grow the sales network, and through it, the business volumes.

3.2 The social component: identify potential partners capable of meeting all of the vendors' expectations

This aspect is fundamental. The idea is to provide street vendors with an integral social support offer allowing them to adapt to the challenges they face. Bel Access has thus adopted a holistic approach to street-vending: depending on the problems of each city, it identifies the best partners to cover one or more of the following five issues:

- *Training:* Bel Access offers street vendors technical training courses ranging from food security to sales techniques through basic bookkeeping.
- *Improve access to financial services:* Bel Access has joined forces with micro-insurance institutions to provide services that sellers usually do not have access to.
- *Improve access to the markets:* Bel Access helps the sellers to identify new business opportunities
- *Improve the access to the formal sector:* Through partnerships with associations and charities, Bel Access helps street vendors with their administrative paperwork to enter the formal sector (permit, taxes, social security, health insurance, etc.)
- *Advocacy:* Bel Access also contributes to the public debate on street vendors.

Its offer of providing social support cannot be undertaken on its own. The Bel Group has neither the capacity nor the legitimacy. The strategy here is to identify, according to the issues and the location, the partners best suited to carry out this work in concert with the Group. These may be associations, such as IECD in Vietnam who provides training, or companies that can provide additional services to the sellers.

The partnership with IECD

IECD, one of the most effective NGOs in supporting the micro-entrepreneurs, created with Bel "*Business schools for street vendors*" in order to help the itinerant sellers to develop their activities. Co-funded by Bel and IECD, the partnership launched in December 2012 and created an 18-hour module (9 sessions of 2 hours).

70 sellers have already completed this course.

According to the surveys carried out by IECD, a 15% rise in income was observed after 3 months. The goal is to reach 25% after 1 year.

With a view to the leveraging the social impact of the program, Bel Access has joined forces with Groupama, one of

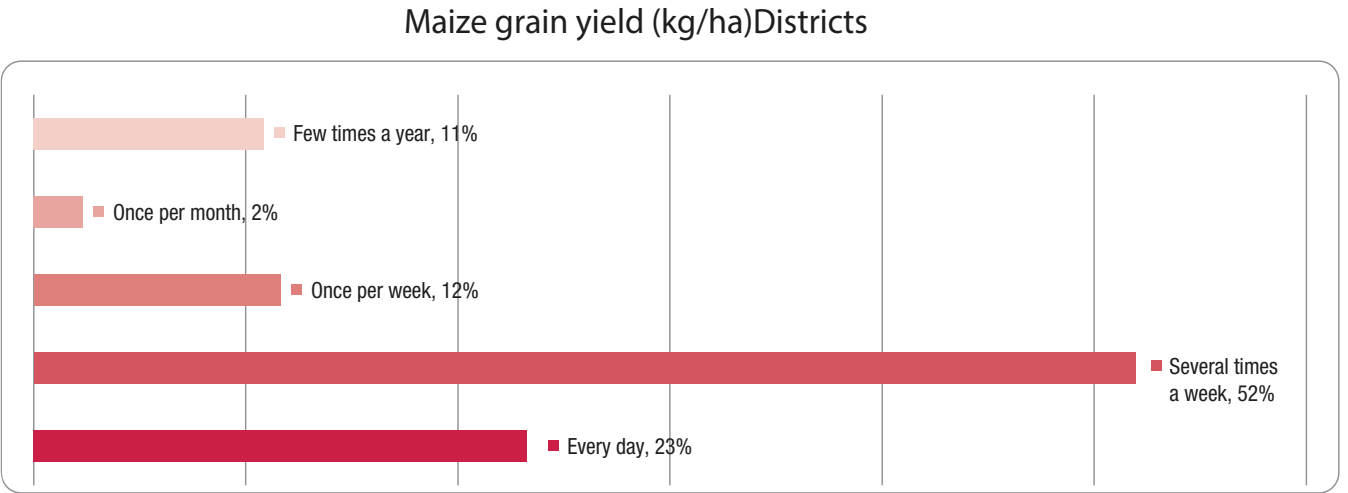
the world's leading insurers Groupama and Bel co-funded a program to offer a micro-insurance product at less than 1 dollar per month to cover the potential cost of hospitalization and education for the children in the event of parental disability.

150 vendors have already joined this program.

This partnership also contributes to the economic success of the program: the Groupama offer in effect helps to attract and recruit new sellers and thus to increase business prospects.

3.3 Enhancing the value of street sellers among consumers

In addition, Bel wishes to promote the social status of sellers among consumers. The goal is mainly to reassure potential consumers who are reluctant to purchase branded products from sellers. For this purpose, Bel wants to publicize widely its commitment to vendors.



Sharing Cities: a platform to deploy the alternative distribution networks

Sharing Cities has set itself the following social objectives for 2015:

- Reach out to 2,000 street vendors
- Set up 1,000 micro-insurances
- Graduate 400 street vendors from the «Business Schools for Street Vendors»
- Increase vendors' income by 20%

4. Conclusion

A well-known story is doing the rounds of the economists: “Why does an economist who sees a \$100 note on the floor not pick it up? Because he thinks that if the note were really there, someone would have already picked it up.”

The street vendors perfectly illustrate the obstacles to social innovation in multinational companies and the short-sightedness that often characterizes economic stakeholders when dealing with low-income populations. “If the vendors could sell brand-name products, some other company would have already used them” was something we often heard before launching the alternative distribution pilot projects.

Unfortunately, the reality is much simpler: too few companies seek to use this sales channel in the first place. The timidity of the sellers explains in part why this network remains largely under-used.

A *fresh outlook* would seem to us to be the key factor for the success of this project. In the future, it will help set up an extremely fertile culture of innovation in the organization.

Based on our conviction that it is possible to simultaneously identify new trading opportunities and help develop a more inclusive economy, through the modernization of the informal sector and social support for street vendors, some projects have since been launched in Africa . The *Sharing Cities* platform thus constitutes today one of the pillars of the strategy of Bel Access. It makes it possible to consider creating large-scale and sustainable economic models with a strong social impact.

Today, *Sharing Cities* is being deployed in Africa. The Vietnam experience helped establish the key principles that must govern the partnerships we form with the street vendors.

- Never substitute products but understand how to add products to an existing basket
- Identify the most effective partners to create a social security offer capable of solving all the daily problems of vendors in the field, particularly in terms of self-confidence and vocational training
- Support the street vendors in their relationship with clients to facilitate their exchanges
- Help achieve a better understanding of the situation of street vendors in the public arena

JITA Social Business Bangladesh Limited-
“Reaching the unreachable in Bangladesh”

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Abstract. This article analyses how the NGO Care has created with various stakeholders a new social enterprise –JITA. By integrating distribution channel, market creation model, research initiative and multi dimensional partnerships JITA is exploring a powerful platform that empower women, create employment opportunities and educating as well as building access to underserved consumers.

Keywords. Rural marketing, Community engagement, Social business, Base of the pyramid, Inclusive business

1. JITA's realm within the Base of the pyramid community:

Scenario 1: *Tariq, a mid aged rural male from Southern Bangladesh, has always possessed the dream of becoming an established distributor in the locality. But for years Tariq failed to find such opportunity as because there was no renowned company who would do business with him and as consumers in such remote rurals seemed unreachable for geographical dispersion as well as socio-cultural dynamics. However things changed rapidly when Tariq get involved in a rural supply chain having reputed companies at one hand and a network of door to door sales women in other hand. Today Tariq is a great is earning a great reputation as an entrepreneur ensuring the sales of seven company products to more than ten thousand remote households.*

Scenario 2: *Zahid is a 25 year old rural habitant of central Bangladesh who was struggling to find a job for years. It was very difficult for him as he refused to look for opportunities in urban areas due to intensive competition and the rural market was not promising enough to offer him with a stable job. But, fate was not too cruel to him and due to his perseverance he fought against all odds and joined a unique rural supply chain model where he started working as a product delivery person going to rural sales ladies in remotest places with a bicycle. Today Zahid is earning a satisfying amount of living without moving into cities (unlike his friends) and has emerged as a youth icon in the rural locality.*

Scenario 3: *China Begum openly acknowledges the amazing transformation bestowed upon her life . Like most rural poor women in Northern Bangladesh she was married off at an early age and went through shivering domestic violence and poverty. The only remedy for her was to get financially independent in a backward locality where women would hardly get such opportunity. However there was one such opportunity that was offering the work of door to door as a sales entrepreneur. China was trained to be a saleswomen entrepreneur and since then, she never looked back. Now she has become the main earning member of the family. Today her newly built house stands proudly in the locality as a symbol of her socio-economic freedom.*

Scenario 4: *Rosy is a housewife like most other women of her village. The nearest shop to buy daily necessities is two miles away from her deep rural neighborhood. Even if she ever walks such distance, the highest possible chance remains she will not get all necessary products. So she remained overwhelmed with the challenges of finding daily necessities (including hygiene, nutrition products) for years until the day a sales lady walked in to her door-steps with all the things she requires. Now Rosy doesn't have to go anywhere for anything. She just waits for the sales woman to arrive every week. Her standard of living has drastically changed.*

From the above illustrations, it is clear that the scenarios are depicted from Bangladeshi BoP communities. Although, the perspectives are different from

one another, the conclusion is the inclusion of JITA Bangladesh’s rural intervention. Each scenario represents valuable components and impact of JITA’s unique approach to undertake BoP market of Bangladesh and vision of *‘reaching the last mile’*

2. JITA Social Business Bangladesh Ltd- Birth of a vision with some amazing milestones to achieve

JITA Bangladesh has emerged as a solution to the highly informal Bangladeshi rural marketing and distribution system that does not allow the accessibility of healthy nutritious products and services and hinders poor’s market participation opportunity as entrepreneur or employee. JITA is the joint venture social business of CARE International and Danone Communities dedicated to empower women through an extensive network of enterprises, creating employment opportunities and improving access to market for the underprivileged people of Bangladesh. JITA works through a long experimented rural distribution model that reaches daily necessities mainly under categories of **Health, Household energy, Information and Education** through door to door sales ladies (As China Begum in Scenario 2) known as Aparajitas (Means women who never accept defeat) getting products delivered from Private Sector partners by a commission based unique supply chain model involving local entrepreneurs and delivery persons. By innovating and managing this revolutionary rural distribution model JITA is currently not only reaching more than 2 million rural consumers with better living standard but also directly socio-economically empowering more than 4000 poor women and providing entrepreneurship and employment opportunities for thousands.

Now JITA is moving with mission of covering the entire BoP market of Bangladesh by 2015. In the process of reaching these unreachable localities JITA will be –

- Empowering socio-economically more than Eleven thousand women as JITA ‘Aparajitas’
- Providing Business opportunities for more than Four hundred sub-district level local entrepreneurs (there are around 450 sub-districts in Bangladesh)
- Creating sustainable employment opportunities for more than thousand rural youths.
- Reaching with better lifestyle for more than Seven million Base of the Pyramid consumers through products of health, household energy, information and education category.

In other words, JITA Bangladesh’s standing can be validated with its growing ability to

- A. Make ‘impactful’ safe, affordable and demand-driven products available to rural BoP consumers that help them have a better life as well as increase their monthly savings and household incomes in the process.
- B. Increase the number of inclusion of rural women as sales ladies as well as to leverage their income opportunities thus livelihood.

- C. Bridge the rural marketing landscape with Bangladesh’s growing private sector, such that equitable economic growth reaches those most impoverished and marginalized.
- D. Develop itself as a sustainable business that can be effectively replicated in to other countries that exhibit a need for such a model.

3. How the JITA Journey Began:

The formation of JITA is considered to be a significant milestone for Social business arena as it has established a striking example by being transformed from a non- governmental organization (NGO) CARE Bangladesh project named Rural Sales Program (RSP). CARE piloted the Rural Sales Program (RSP) in 2005 by addressing the problem of highly informal rural marketing and distribution system of Bangladesh which deprives poor’s access to many important products, information and income generating opportunities. The project started with 25 poor women selling BATA shoes door to door in the northern region of Bangladesh. Soon it became clear that RSP had tapped into a massive market and there was a bright, prosperous future ahead. So RSP management started expanding its operation in some other areas of the country. The main objective was to create economic empowerment for rural women by providing them with suitable products to sell in BoP market. As the number of women increased RSP took the revolutionary decision of creating product basket (Bundle of different company products) for women instead of selling single line product. Over the period of time gradually RSP could involve Prime private sector players such as Square Toiletries, Unilever Bangladesh and Grameen Phone in the program. As a consequence RSP ladies ‘Aparajitas’ got wider range of product to sell in the communities thus started attaining sustainability in their door to door business. By the increasing success of the project, RSP management could envision a future model that not only could sustainably improve livelihood of sales women but also create significant impact towards BoP consumer living as well as win-win situation with rural market seeking private companies. With the inclusion of a superior partner as Unilever, RSP brought a new innovation in distribution model (creation of local distribution hub system and delivery men with viable structured commission mechanism. By 2010 RSP was dealing with seven private sector partners including newly joined Grameen Danone Foods Ltd and BIC. In the mean time a global acknowledgement was already being established (Publication in Forbes, recognition from Oxford University etc) due to sustainability of the model. CARE management became highly interested on finding a way to make it up a separate business entity. As the model was well recognized both in development and private sectors, it didn’t take long to attain a valuable investment, came in the form of Danone Communities who partnered with Care International to make RSP into a separate Social Business.

Today JITA aims to reach a far more sustainable and successful position in the social business arena which would never have been possible by working as a donor dependent project.

4. How JITA is unique in its approach

There are many established rural distribution models around the globe as Grameen ‘shakti’ ladies in Bangladesh, BRAC Health-women or Avon ladies in Africa. Now JITA Bangladesh has emerged as a promising social business in the BoP arena with its ability to take integrated strategies which is very unique in nature. Before going deep into JITA’s operational model or activities its significant to know some of JITA’s attributes those make JITA stand apart from contemporary organizations-

- **“Basket of Goods”:** JITA Bangladesh is the only supply-chain model which distributes various company products/services through single channel/sales force. As a consequence JITA Sales Ladies Aparajitas got valuable opportunity of carrying a “Product basket” having goods varied from Unilever Soap-Shampoo to d.light’s solar lamps. This provides lucrative opportunities to Aparajitas to earn a handsome amount of sales commission.
- **Impactful Products:** Through the rural market expertise, community research and multiple partner selection JITA distribution model provides 360 degree supports to rural communities and bring appropriate wider range of necessary products. As a consequence JITA brings various health-hygiene customized products altogether required by rural communities such as sanitary napkin, Micro-nutrient food item, shaving products, Agro-inputs etc.
- **Beneficiary Selection and incubation:** Though almost all rural distribution initiatives got appropriate system of choosing rural sales agents from rural background JITA Bangladesh, remaining coherent with its social objectives, applies methodical process for searching, recruiting, training and nurturing sales ladies. “JITA Aparajita selection Criteria” guides to obtain sales ladies having background of past family/social struggle, poverty etc and train and monitor their sales activities to ensure sustainable women empowerment.
- **Consumer Awareness & Market Creation:** The Total Rural population in Bangladesh is estimated to be close to 100 million where only around 25% of this population is under direct access of private sector. The 75% is untapped market. Through JITA distribution model and with extensive support from JITA’s market creation initiatives, many researches are being conducted and awareness/market promotion campaigns assist the partner companies to penetrate and create demand for their products and channel them through the distribution system. Thus BoP communities become well aware about health-education-hygiene and required while having access to associated products
- **Balancing Impact:** Almost all global door-door

distribution initiatives are being operated keeping the goal of consumer benefits. However, JITA has the uniqueness of balancing its focus on both BoP consumers and Sales women welfare. JITA has been created with the vision of women empowerment through creating a series of network and reaching BoP consumers. Hence, bringing impactful products to the community JITA always ensures such product basket which provides sustainable income source for sales ladies.

5. What JITA Bangladesh Does?

Women Empowerment: “A woman is the full circle. Within her is the power to create, nurture and transform.” And here JITA is unleashing that power through directly engaging destitute rural women as door to door seller “Aparajitas” in a unique business distribution model. JITA’s inclusive business approach has been created having the vision in center of empowering poor women through sustainable economic independence that brings out women’s very own power to transform their lives.

In order to make socio-economically sustainable JITA search and select poor rural women and provide them with product specific sales training with basic accounting knowledge as well as door to door marketing techniques necessary to be an aparajita. After training aparajitas are directly involved in rural hub based supply chain system. They buy products of distribution partners from JITA hub and sell them to undeserved areas on retail commission through JITA’s direct assistance. JITA design consumer education program on aparajita’s products and services so that they find a ready market to serve. Moreover JITA introduce, promote and link aparajitas with different activities of rural community.

With the vision of empowering more than Eleven Thousand women all over Bangladesh JITA is heading faster than ever. Around 40 districts are already being covered by us having more than Four thousand ladies experiencing socio-economic freedom. By engaging into JITA’s commission based sales activity aparajitas are securing an earning avj BDT 2,000 (20 EUR) per month. JITA seek village ladies who desperately look for financial capacity and get out of personal misery. “My husband died leaving me with two young children and no money to survive. But not only I survived but also built a new house and managed to give education to my children. Because I became an aparajita”- Fatema. Like Fatema most of the women became aparajita as they had no other proper means to survive. Currently these women are not only surviving rather building savings and assets such as land, animals, shops etc. JITA is empowering women and showing the rural community that women are widely capable of doing business activities. As a result rural community is welcoming and accepting the positive change JITA brings. Moreover aparajitas are being treated as social idol and symbol of “poverty winners” among rural inhabitants; specially female groups. “I had no face in the society as a divorcee woman. Nobody helped me or showed any respect. After I built my own house being an aparajita, the notion completely changed of the community. Now everyone is interested in my work and many

women want to become an aparajita”- Beshobala (Rural Woman from North Bengal)

Employment Creation: JITA is having nation-wide network through which local entrepreneurs are given prospect of working as area distributor under JITA rural supply chain. Most of these local small business owners faced challenges for years to get such opportunity due to the isolated nature of Base of the Pyramid market. JITA provides them with the standing ground of distributing necessary products through a proven sales force in deep rural areas. JITA entrepreneurs (Hub Manager) are not only having a better living/income generation source but also putting huge social contribution by serving the underserved localities. These entrepreneurs are selected through special JITA criteria and trained extensively to become successful rural distributors. JITA also ensures the growth and progress of their entrepreneurship by continuous monitoring/management and up gradation of distribution/product arrangement strategies.

JITA’s special focus is on uplifting the rural youth who are generally deprived of income-seeking activities. Currently around 300 young people, who were previously unemployed, have got opportunity to earn continuous earning by working as delivery persons in JITA. Significant improvement can be measured in lives of these young workers of JITA. JITA entrepreneurs and delivery-men have set examples of aspiration, success and vision in their underprivileged communities.

Awareness and access for rural consumers: Improving rural community lifestyle stays as the vital objective of JITA Bangladesh. Considering the ignorance, poverty & chaotic market and distribution systems of rural communities, JITA got a multi dimensional approach to reach its vision of changing scenarios for the poor on consumer level. Currently JITA is serving around 2 million deep rural consumers.

JITA considers below four categories to be integrated in creating a rural **Consumer Life Style Model:**

- Health (Nutrition & Hygiene)
- Agriculture
- Household Energy
- Information (social and empowerment)

JITA dig down deep by conducting research on different under-privileged communities under the context of the requirements and challenges for consumers to attain lifestyle having balanced attributes from above mentioned categories. JITA recognizes the importance of maintaining a proper portfolio offering for rural consumers and for the prospective social impact.

Thus JITA creates market and access for products which can improve

- the nutrition-hygiene condition of rural households (as Micro-nutrient food, fortified yogurt, , soap, sanitary napkins),
- the agricultural practice thus transform households

towards health & prosper

- knowledge and communication sharing (information/awareness relevant for rural living) &
- household energy consumption pattern (as introducing solar cook-stoves and lamps)

6. The way JITA Bangladesh does it:

- A. **Rural Supply Chain System:** JITA Bangladesh has been placed and presented as one of the six successful sustainable development models in the global event ‘Million Development Goal (MDG) Countdown’ 2012 as JITA got the most cost effective robust rural distribution system currently comprised of around 4000 Aparajitas, ensuring door to door sales to rural underserved consumers around Bangladesh. JITA’s innovative supply-chain model includes rural poor women as door to door seller of “a basket of goods” including impactful products like health hygiene nutrition and agricultural inputs. Built on a long experimented sustainable business model where a rural franchise called ‘Hub’ delivers inventory to the women, which in turn procure from MNCs, local conglomerates and rural producers. Paid “service persons” facilitate product lifting and sales, and enhance program quality. Actors, including rural poor women accumulate wealth based on a viable commission structure provided by partner companies. Jita’s rural supply chain model is currently working through around 150 local distribution hubs in 150 sub-districts selling impactful and necessary products from private sector companies such as Unilever, BATA, BIC,d.light, Lalteer Seeds, Square Toiletries, Grameen Danone Foods Ltd, Marico etc.

This supply chain remains in the core of JITA’s overall business model as well as the source of organizational revenue. Besides distributing commissions to Hub and aparajita level JITA obtains certain amount of commissions for managing the whole system from each supply-chain partner organizations. It is to be mentioned that the transformation as a social business has dramatically uplifted the commission structure due to JITA’s increasing capacity and focus to do business with BoP and ever-growing BoP market share enjoyed by partner Unilever, BATA, Square through JITA channel

- B. **Research and Development Projects:** JITA got specialization on getting market insights, understand consumer demand, geographical market mix, socio economic pattern and changes over time from a social business perspective to support both Private sector & NGO’s rural intervention.

JITA conducts market/community research on rural needs, challenges, suitable product/service identifi-

cation, product experience feedback etc on behalf of organizations like Bright (Solar Lamp), Mitsubishi (Micro-Nutrient Food Supplement), Square Toiletries (Sanitary Napkin). Currently Jita has built a research partnership with Said Business School, Oxford University in order to measure Bottom of the Pyramid consumer impact in JITA operational area.

JITA also provides technical support, bringing knowledge and expertise as partnership broker between corporations and NGO’s. There are many development organizations that are building partnership with JITA and aiding their objectives through utilization of our unique distribution channel and Market expertise. CARE Bangladesh with collaboration of Private Sector Companies GSK is implementing community health worker program and intending to spread health service through JITA network. Project Laser Beam- A multi organizational collaboration has chosen JITA as an implementation partner to eradicate child-malnutrition.

- C. **Market Creation:** Rural and deep rural market is in such condition that these markets are not only unaware of the appropriate products, but also their needs on appropriate necessities and lifestyles. JITA plays not only the role of creating access to BoP community but also the responsibility of making them aware on relevant issues. JITA put high focus on developing consumer knowledge, education and awareness in areas of nutrition, hygiene, technology by creative rural campaigns through partnering with associated companies and institutes. JITA activation team design and implement activation programs through rural household yard meetings, rural market events, school-college program, door to door communication etc those cover problem/challenge addressing, product orientation/information, product availability assurance etc. Recently JITA designed awareness/activation programs for essential products like Sanitary napkin, vegetable seeds, Shaving products, Nutritional food item etc.

7. Sustainability Issue always comes first:

JITA became a separate social business from Rural Sales Program because of its proven sustainable business model. The entire system is operated through a meticulous commission structure. If we look even closer, it is clear that *JITA’s sustainability is entirely relied upon the sustainability of aparajitas*. The increasing capability of JITA to increase income and retention of Aparajitas is ensuring organizational long term solid standing.

JITA has become a sustainable inclusive business as:

- Over years JITA brought sustainability by making systematic improvisation on aparajita product basket (portfolio). Initially (with formation of RSP) JITA aparajitas used to earn USD 7 per month by

selling BATA shoes. Strikingly their earning increases to USD 13 when fast moving Unilever & Square high demand products were brought into basket. This step was a revolutionary for the business model as aparajitas started dedicating entire work-effort on the sales channel. Business pie was even more extended for aparajitas through the inclusion of rural produced items. Finally on top of this business viable product portfolio significant social as well as economic value was added through impactful products (Backed by market creation model) such as agro seeds, solar lamp, micro-nutrient, sanitary napkins etc.

- JITA also focuses on maximizing **cost reduction** for the itself and also for private sector partners, rural enterprises, farmers, and extreme poor women and their households.
- JITA seeks to reform the rural market system, making it more active and responsive to the needs of the poor, the overriding strategy will be to ensure **social and economic empowerment** of the poor and marginalized cross-sections of rural Bangladesh.

8. JITA Integrated BoP strategy- Creating Opportunities in the face of challenges:

JITA Bangladesh was formed on the basis of a tested mission that its rural distribution model is capable enough to bridge the gap between underserved consumer and needed private sector offerings and to create sustainable rural women empowerment through sales entrepreneurship that no other approaches could attain before. After the formation in 2012 JITA has already crossed a successful year exceeding investor’s expectations both in terms of achieving business and social target indicators. The business has expanded rapidly in different geographical directions with new distribution hubs establishment and inclusion of new private sector partners. The sales women number has just doubled within a year and so does the number of BoP consumer reached. Unilever, Square, BATA, GDFL etc companies promptly acknowledge JITA’s contribution in reaching a concrete standing in rural markets through the amplifying strategic positioning of JITA resulted from the formation of such social business.

However JITA’s first year was not only about aggressive expansion or periodic achievements but also about ‘learning through experiences’ and ‘developing new strategies/opportunities for long term sustainability and predictive challenges’.

Initially JITA experienced few cases on ‘aparajita retention challenges’. As a consequence JITA found it’s highly important for long term benefit to dig down the reasons. After thorough research it was identified that appropriate consumer demand should come as the focal point of the entire mechanism. Only through understanding specific community needs, appropriate distribution strategies can take place. Now Aparajitas income has dramatically increased after they are given with suitable products (based on sales-route wise

demand) and thus aparajita retention rate has increased. JITA Bangladesh is in the middle of developing ‘Rural strategic center’ that is having all necessary data/ information regarding BoP market. This software-based mechanism has started allowing JITA to have solid grip on rural community demand, geographical spread, consumption pattern, local market information etc. Thus JITA is now having increasing capacity over aparajita selection criteria, training modalities, distribution hub location fixation, effective sales route creation and above all appropriate product/distribution partner selection. JITA has developed region wise strategic mapping on BoP market and guidelines on approaching these vastly diversified communities.

While introducing any new product in Bop market, JITA has strict guideline to conduct community research on the product through innovative methods (like product experience, periodical questionnaire survey). Only after having satisfying results of such research activities JITA would proceed with product/pricing customization if requires. A perfect example can be given through JITA’s research on Mitubishi’s micro-nutrient product. Having research on both BoP urban and rural communities JITA has gone forward with the product only after some customizations were brought into flavor, ingredient and pack size. Also the household research on Bright Solar lamps provided the insight on the crucial factor of pricing strategy and product user-friendliness.

To have better understanding on how to create more impact on BoP consumer level, JITA has partnered with Said business School; Oxford University for doing impact assessment research in JITA intervention areas.

The greatest strategic development JITA has achieved is regarding the initiation of Market Creation Model and integrating it with JITA core supply chain system. Considering the long term vision, JITA identified the significance of introducing various products which would directly create impact on consumer’s welfare. Also these products need to ensure sustainable income source for Aparajitas so that they keep these in their product basket for long. In addition to that companies owning those products would also demand significant sales impact with social objectives. As a result JITA introduced innovative market creation programs where markets are created for products which are believed to aid JITA’s impact vision of building a healthy and enlightened rural lifestyle. Though it takes time to establish new market and to inbuilt new awareness/learning’s JITA has started getting measurable results from its approaches during last one year through activation programs on Nutrition-Shokti Yogurt (GDFL), Shaving and Hygiene (BIC), Sanitation- Sanitary napkin (Square Toiletries).

It is believed that JITA may continue facing the dilemma on balancing between its consumer and aparajita benefits in recent future. Aparajita’s sale is the crucial decider of JITA’s business and social objectives. However the social objective of providing consumers with utmost impactful products will remain as equally important if not more. The only way to balance between objectives is to ensure that the impactful products turns out to be the most sellable ones. JITA is striving to achieve exactly this solution with assistance from JITA BoP research and JITA Market creation modalities.

9. Looking into JITA Impact:

JITA (past RSP) started with 26 sales women in 2005 and by the end of 2012, JITA has empowered **4,080 sales women and established 136 hubs around Bangladesh**, these women earn around BDT 2000 (USD 25) per month on average form JITA- partners products. These in return assist the improvements of women’s livelihood conditions and social positions, confidence levels, and participation in household decision-making. Most women have been able to save up and invest in assets as lands, farms etc. these women are also being able to support their households, their children can afford to go to schools, and their acceptance in the community has been amplified. The female members of the communities they serve in value their services and to some extent, rely on the Aparajitas for their community mobilization. In these communities the Aparajitas build a sense of ownership and on an average an Aparajita serves 200 households per month. Their network is being enhanced within their route plan and her total coverage is 200 households throughout the year.

On the other hand, these Aparajitas also create an impact on the consumers that they serve and also the society they belong to:

- Improved lifestyle conditions of family members due to increased consumption of products associated with Health, Energy, Education and
- Improved consumer awareness fostered through conveyance of product information by sales ladies during door-to-door sales (Given women have the opportunity to trade products for products there will be additional household savings in the form of hard cash, there will be increased control over household expenditures. There will be increased expenditure for children’s and self (women).

JITA has formulated a KPI (Key Performance Indicators) and milestones matrix, based on which the organization can assess its achievement and targets against the planned targets. The KPIs are as follow:

10. A future where different continents experience JITA:

JITA is highly replicable. After having a long tested period of JITA’s distribution model, it is very much likely that JITA is moving ahead with the aspiration of expanding its business around the globe. There will be two different mechanisms JITA will like to adhere. The distribution model, even as it is now, generates a positive net present value based on future contracts and net cash flows demonstrating that it is already financial sustainable. Separating it from CARE into its own independent entity has resulted in new overhead costs originally not sustained by the project but it has also allowed for growth and social impact expansion. Through partnerships development with new private sector distributors or expansion into new products with existing partners- brings in new sources of commission and revenue. As a result, these figures

are modest and easily attainable. The financial self-sufficiency of JITA, combined with its simple hub-and-spoke structure and low marginal costs, indicate that it is highly replicable in a relatively short period of time. There is unanswered market opportunity in Bangladesh to facilitate rural distribution and sales for certain types of daily use goods to BoP consumers. Currently it is very difficult for companies to get into these rural markets. Danone is privy to this fact, having spent notable time and resources in attempting to penetrate this market with its GrameenDanone yogurt. In fact, before partnering with JITA, GrameenDanone was providing its yogurt at a loss. The partnership cut GrameenDanone costs and increased rural distribution and sales.

For many companies, rural market penetration, especially when targeting BoP (Bottom of the Pyramid) consumers, requires significant investment and development of the

appropriate distribution and sales structure. Most companies would prefer to work within a framework that already exists. JITA has established and expanded this framework. With JITA’s existing structure and rural sales system, when new companies is attempting to penetrate these rural markets, they realize the benefits of working within an existing structure, and are likely to want to partner with JITA- providing significant potential revenue opportunities.

Already countries from separate continents as Vietnam, India, Uganda, Zambia are eagerly waiting to replicate JITA approach. JITA realizes how dramatically BoP scenario can be transformed globally if such initiatives can be taken. JITA’s vision has always been reaching the end miles and now let it be the end miles of thousand corners of the world.

Table 1. Key Performance Indicators

Impact	Impact indicator	Key Performance indicator	Final target 2015	Methods for Data Collection	Reporting Frequency	Assessment Frequency
Ensure Sustainable Income of Aparajita	Income of Aparajita exceed baseline income	Manage supply chain delivery of sales in alignment with BP	More than 1000tk (increasing weekly average income)	Quantitative	Quarterly	Annually
Create women Employment	# of active Aparajita	Aparajita Hire and Train	12000 Aparajitas (20% increasing)	Quantitative	Weekly	Quarterly
Developing Enterprises	Develop HUBs	Manage training (hub managers) of operational chain	More than 400 HUBs	Quantitative	Quarterly	Quarterly
Employ Service Persons	Recruit 800 services person	Hire , Manage training (service persons) of operational chain	More than 800 service person	Quantitative	Quarterly	Quarterly
Create women Empowerment	a) Increased Annual HH income and assets b)Increased HH savings c) Women’s participation in HH decision making d) Ownership and control over acquired resources e) Social security in market access and mobility .	Baseline, Data collection, Analysis, Reporting	End of 2015 Baseline	Quantitative and qualitative survey	Annually	Annually
				PRA exercise1 ¹		
				Review of Government reports		
Provide people access to quality product	More access to health, hygiene, nutrition and HH products with overall Impact in their life.	Increase market access of HH by door to door sales product	6 million consumer reach with quality product	Quantitative and qualitative survey	Annually	Annually
				PRA exercise		
				Review of Government reports		

The Last Mile: Gateway to rural empowerment in India

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Abstract. This article focuses on exemplary projects conducted by organizations who are providing access to key services and goods by creating new markets in rural India. Reaching “the last mile” is a key issue in India, which complexity is often overlooked by multinational firms. This article aims at providing a framework to help understanding innovative strategies to reach low-income consumers in India through innovative partnerships.

Keywords. Rural India, Community empowerment, Base of the pyramid, Rural distribution, Rural marketing

1. Introduction

During a recent visit to a small village in Northern Karnataka in India, our team, along with a senior professor, visited a water purification centre. We wanted to understand the situation with last mile delivery of essential services in the region. We noticed a modestly dressed villager emerge with a set of cans to fill up water for his family’s daily consumption. Nothing unusual about this scene, except that the villager had driven to the water purification centre in a recently launched and very successful European SUV! The man’s appearance clearly didn’t “fit” the vehicle he was driving and this made the professor curious enough to ask the man what he did for a living. “I’m a shepherd sir” said the man in his local dialect, because of his lack of any notion of English. Upon further questioning, he mentioned that there were over 50 such vehicles in that region. When we narrated the incident to the senior management of the automobile company, they could hardly believe it. Someone like him had clearly not been a part of the initial ‘target segment’ for this vehicle.

While the person we met may not have access to clean drinking water among many other basic services, he still aspires for a lifestyle similar to the urban middle class because information, in the form of news, mobile services and entertainment, has reached him before the infrastructure and opportunities have reached him.

This was a very interesting dichotomy. On one hand, we were seeing a clear rise in the aspirations of

the rural consumer. And on the other, as a system we are unable to deliver essential services to the rural population, affecting the productivity and quality of life in rural areas. We were seeing unsustainability in front of us.



2. The Problem: Lack of Access and Empowerment

Over 55% of children in India suffer from malnutrition, close to 10 million children don’t go to school forget getting quality education, over 300 million people in India have no access to electricity, over 600 million people in India have no access to clean drinking water, toilets or good sanitation services – there is no dearth of statistics to show why rural India is so backward. Many such people from among the rural population are *forced* to move to urban areas in search of better opportunities that meet their aspirations, quality education for their children being one

of the key drivers. The problems emerging out of this phenomenon have been many - families either uprooted from native cultures or separated from one another; lack of life skills to adapt to an alien urban environment leading to lost opportunities; unstructured and uncontrolled growth in urban areas leading to social and environmental tensions and more.



Access to social security, welfare schemes and even essential services has a long way to go in rural India. Pic: Welfare scheme enumeration in Odisha, Western India

2.1 A collaborative platform for essential services and market opportunities

It is an age old saying, emerging from the identity of India as an agrarian economy, that 'India lives in its villages. Governments however have been working for years to deliver essential services to the rural poor with limited effect, that too in small pockets - **the effectiveness and efficiency of social security delivery, employment and welfare schemes still leaves much to be desired.** Very few states, like Chattisgarh which is one of the poorest states in India, have managed to make their public food distribution systems (PDS) relatively more effective than the average, and even there, it is thanks to the initiative of few committed bureaucrats who have partnered with an empowered local community and NGOs over years of effort and monitoring. However, structured partnerships between the state, civil society and the markets to respond to these social needs have been lacking, resulting in each of these players working in silos based on their own priorities and needs.

Unless the state moves from being a service provider to being a facilitator and starts to foster better partnerships with the civil society and the markets, there is little hope to solve the above challenges in the near future.

In addition, the inadequacy in infrastructure and access to effectively connect with the mainstream markets strongly impacts the productivity and socio-economic growth of rural populations. For instance, there have been significant improvements in agriculture technologies across India. However very little of this technological advancement or inputs have been able to reach small farmers who need it the most. . However very little of this technological advancement or inputs have been able to reach small farmers who need it the

most. Similarly, while Indian art, handicraft and handloom sectors are multi-billion dollar markets across the world, wages earned by the artisans in rural India is below market rates and insignificant. The inequitable distribution of margins across the value chains is common across every produce coming from smaller producer groups in rural India. With lack of tools and technologies, lack of education, uneven information distribution and requisite skills needed to understand and operate in mainstream markets, the population at the bottom of the pyramid is being pushed further down even as the inequality in the markets continues to grow in an unsustainable way.



There are over 14 million artisans in India, but both the value for their goods and their access to markets has been very poor.

2.2 Consumer empowerment and the importance of choice

Markets work effectively when there is empowerment of the consumer with sufficient choice and quality of products and information available in a transparent manner. Information asymmetry and lack of choices place the consumer at the "mercy" of the market till it fully develops, which is the danger in rural markets being serviced by only a few anxious players. However, it is equally dangerous for socially motivated players or non-profits to decide on behalf of the community about what products they should or should not be using. We have seen several instances of grassroot organisations taking strong positions – from deciding what solar lamp or cook stoves communities should buy to migration of rural populations to urban areas. While it is important for the state and non-state players to address the lack of access to essential services, doing so by providing little or no choice to the consumers could reduce the effectiveness of its delivery.

Most markets probably develop more by co-opting than by providing relevant choices, yet this approach could be dangerous in a market where the population has limited savings and expensive credit options. We have seen this in urban markets in India and across the world where the markets have focused on short-term gains and offering products and services that are sustainable neither for the consumer nor for the environment. However, with the emergence of the rural consumer, there is an opportunity for us to establish a new paradigm in the rural areas that combines the drive for commer-

cial gain with a strong focus on education and awareness.

The good news is, there has been a very interesting trend in the last few years - the emergence of 'a sustainable way of doing business.' Non-profits, Social enterprises and Corporates, though few in number, have started to experiment with business models that can address the above challenges of customer empowerment and delivery of essential services in rural India in socially, environmentally and economically sustainable ways. Large FMCGs, for instance, have started to invest in sanitation issues in rural areas, which grow the market for their affordable personal hygiene and cleaning products, while also addressing gaping social and environmental issues.

Based on our experience of working with diverse players in building such models, one thing has been very clear – that *businesses* in their current form will not be able to address these markets, especially with the "pure profit motive". Similarly a model based on addressing only the social needs of a community is going to be equally short-term and ineffective. Serving these rural populations is a long-term journey of empowerment and access to shape our world and solve the most challenging problems of our times, keeping in mind various costs and impact – social, ecological, cultural and economic.

And in this journey towards sustainability, with the current administration unable to fully address these issues, there is a significant opportunity for corporates, social enterprises, non-profits and communities to come together and take on the onus to bridge the gap of empowering rural consumers and delivering essential services in an effective manner.

Anybody who succeeds will automatically be serving the largest and youngest markets in the world in a profitable and sustainable manner.

3. The Catalyst: Rise of the rural market in India

Rural markets in India are changing and changing fast. In a research report released in August 2012, Crisil Research reported that, for the first time since the opening up of the Indian markets in the 90s, rural consumption had overtaken urban consumption. Both in terms of volume and its pace of growth, consumers in the hinterland are buying more and faster, a trend corroborated by firms like Credit Suisse and Accenture. While there are many reasons for this trend, what is critical to note is that new markets that were hitherto out of the reach of the 'mainstream markets' from both production and consumption, are rapidly opening up in India.

Multi-national companies are already looking beyond their well established, developed urban markets towards untapped, unstructured markets in rural areas, requiring them to innovate at all phases of the product lifecycle. Notable among these are Fast Moving Consumer Goods (FMCG) companies such as ITC, with its e-Choupal, and Hindustan Unilever's Project Shakti whose successes have been widely documented. However these examples are still few and far between.

In order to ensure the dual aim of larger corporate involvement and true social empowerment, it is imperative that the last mile conundrum be cracked.

4. Challenges and Key Success Factors : Effectively serving India's hinterland

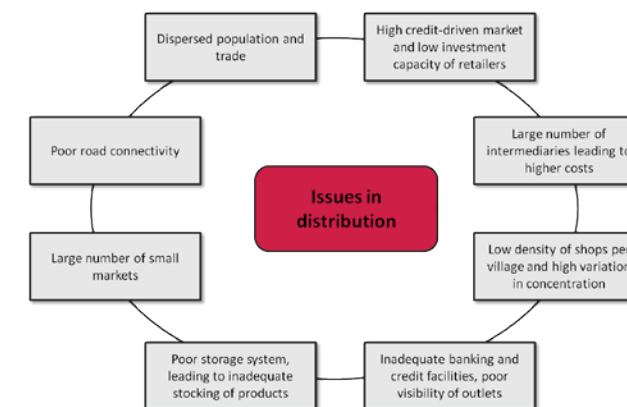


Figure 1. Issues in Distribution in rural markets Source: MART

As detailed by a recent Accenture report on selling to rural India, the path to rural consumers can be full of unexpected challenges even for large multinationals with significant resources. The following graphic¹ outlines the key issues in distributing products in rural markets today. Accenture's report goes to further detail many strategies and tips on *what* needs to be done to capture rural markets. Based on our experience of working extensively with communities in rural areas, we can say that many of those tips are absolutely right. However, the challenge is not the why and what needs to be done anymore, it is the big "HOW." As an old saying goes, the devil is in the detail!

4.1 Breaking through local networks

"We are at the mercy of local distributors and haven't been able to break through the local networks and barriers, even though we know how to serve the farmers better," lamented the owner of a leading agricultural input supplier in India recently. Agriculture is the primary occupation of India's rural population and this company had been able to penetrate less than 15% of the market in the rural regions where they were market leaders.

Local governments, networks, markets and institutions have existed for decades in rural India and have grown stronger over the last few years with the growth in the rural economy. Understanding, engaging and working with these local players is not a skill companies from the urban markets organically possess. Furthermore, a holistic understanding and appreciation of local customs and cultures is critical to understand product and service needs which are often understated and much less vocalised.

4.2 Understanding the consumer

A few years back, while on an expedition to sell fuel-efficient cook stoves which were an eco-friendly and healthier

¹ http://www.martrural.com/Rural%20Opportunities%20%26%20Challenges_website.pdf

household option, we realized that the consumer had very little interest in saving wood – it was available in plenty in the forest area. He had even lesser interest in saving time spent in collecting wood as that was a good way to spend time with his son and teach him about nature! The farmer's wife further added that the homemade mud stoves warmed up the house during winters. One can count many similar examples of products and services across energy, water, healthcare, durables which were built and tested in leading research labs from across the world and have not found acceptance among rural consumers.

The most common competition to companies entering rural markets is “non-consumption” or existing practices.

On the other hand, the ecosystem of sustainable businesses in India, have, over the last few decades, built significant knowledge and understanding of the rural population, with ready answers to some if not all of the challenges and needs. However, given that the approach, vision and philosophies of these non-profit organizations are often times diametrically opposite to the “pure profit motive” of businesses, finding and sustaining common grounds/reasons to work together has been rare.

4.3 Empowering the local community with the power of knowledge

It is common among institutions working successfully with rural populations to see a certain focus on information and knowledge ahead of their products or services. A leading bank we met last month in an economically backward district had put a lot of effort in designing and delivering financial literacy programs as part of their first set of operations. In another instance there was a strong focus on awareness and training regarding sanitation and hygiene practices before taking related products or services into the communities.

With business models, one often gets into the debate of who decides what is good for the consumer and who plays the role of the gatekeeper while introducing relevant products to the communities that are not yet ‘empowered’ with information. According to us, it is the collective responsibility of the entire supply chain to keep the customers’ need and well-being in mind, but in the end the choice always has to be of the consumer and his community alone. Hence, somebody or if possible everybody in the chain will **have to** focus on educating and empowering the consumers they want to serve in the long-run.

4.4 Building a soft infrastructure

India's hard infrastructure has been constantly improving, making rural markets more accessible to the outside world. With better roads and stronger mobile infrastructure, companies have been able to access rural markets with considerably lower effort compared to a decade ago. While this has brought many companies to the doorstep of rural consumers, without developing local talent or engaging the local entrepreneur, sustaining business is hard.

4.5 Providing fertile ground for local enterprise, our last mile

Recent years have seen the emergence of enterprises focusing on engaging and developing the capacity of local talent to be their champions in understanding and delivering to the needs of the rural consumers. These companies have been focusing on building talent, nurturing the entrepreneurial spirit and slowly developing the ecosystem to provide an environment that is right for the infusion of products and services, but more importantly, to lay the foundation for a community that is empowered in arriving at local solutions to its local challenges.

5. The Way Ahead: Impactful last mile Delivery and empowering the rural workforce

5.1 Some Examples: Reaching the rural doorstep effectively

Here are some interesting models that have been implemented to reach consumers more effectively, all of which enable the flow of information and awareness, providing a range of options for the consumers : More importantly they aim to achieve rural employability and empowerment as the main drivers:

5.1.1 The Village Level Entrepreneur

Companies like Villgro-stores, Frontier Markets, Essmart etc. have created unique distribution models that reach within villages through VLEs (Village Level Entrepreneurs) or local dealership networks. The process of participative product testing and evaluation by end users in actual field conditions makes adoption quick and cost effective. The VLE model effectively creates viable businesses even in smaller villages given its low cost of operation and local participation. For the VLEs this serves as an additional income other than their regular income through agriculture, local business etc. Few hundred such VLEs have been operating successfully across India.



VLEs help create viable business models even in smaller villages through low costs of operations. Pic courtesy: Villgro Stores

5.1.2 Hubs to empower local talent

Companies like Head-Held-High (www.head-held-high.com) have brought to life the concept of creating multi-purpose rural hubs that train local youth in various kinds of business and employability skills, to be hired by corporations or local businesses wanting to access the regional markets. The network is also leveraged to service the various needs of local rural consumers by nurturing local entrepreneurs and connecting them to manufacturers and service providers from across the country. Two hubs have been piloted successfully by HHH in south India and 3-5 more hubs will be ready to setup across other states in south and central India. Bridging the gap between education and employment, Head Held High has a school dropout program and a graduate program for rural youth. The VEF - Village entrepreneur forum – holds various events, expert talks and networking events that bring the local entrepreneurs onto a single platform along with experts, mentors and peers they can learn from. Beyond serving as an effective engagement and knowledge platform, the VEF also helps keep the spirit of enterprise alive in the rural areas where youngsters feel empowered enough to come up with their own initiatives and ideas to tackle local challenges with the support of this ecosystem.



The Rural Entrepreneur Forms held by Head Held High

help serve as a knowledge, networking and peer-exchange learning platform for aspiring village youth. Pic courtesy HHH.

5.1.3 Engaging women micro-entrepreneurs

Social Organizations like Udyogini (www.udyogini.org) have pioneered a model of creating women entrepreneurs who own and run Village Level Service Centres (VLSCs) in some of the most backward and remote tribal areas of Jharkhand, Madhya Pradesh and Orissa in north/east part of India. Having a local woman as an entrepreneur has ensured that they are now financially empowered and contributing to the local economy. More importantly the choice of products and acceptance levels have been much higher than usual given that these women better understand the needs of the local households and communities. Udyogini over the last few years has setup of over 120 women entrepreneurs through a unique curriculum in partnership with Intel.



Udyogini over the last few years has setup facilities for over 120 women entrepreneurs across remote far-flung areas.

While there are more such examples of upcoming innovations, a few key players have started to architect these models to scale through the use of technology. Logistimo, an exciting tech start-up in Bangalore has made it seemingly easy for large corporations like TATA Steel with complex supply chain back ends to better engage and deliver through these rural entrepreneurs with the use of technology. **EKutir** is another upcoming rural business that has created over 75 entrepreneurs delivering agricultural services to small and marginalized farmers through mobile tablet solutions.

5.2 Our Suggested Model: An architecture to serve rural markets

From the collective learning of various rural distribution models that have been tested by non-profits, social businesses and corporations, we believe we are now at the right stage of evolution of these markets. We recommend the following architecture that can address the needs of the rural population and empower them in a sustainable manner while fetching the corporations gain in reaching out to the BOP.

The following layers thus working together are imperative:



5.2.1 Community based organizations: Local presence

The layer closest to the community needs to understand, engage and effectively deliver to the rural markets through local physical presence. Research and experience of many organizations have shown that there is no better way of doing this than developing the capacity of local talent, entrepreneurs and grassroot institutions. Grassroot NGOs that have been working on development challenges in the local area for a while can play this role extremely well as institutions given their depth of understanding of the local markets, cultures and communities. Grassroot organisations are also well aligned with the welfare and development needs of the communities, resulting in an engagement that can go beyond transaction and focus strongly also on educating the making the consumers more aware of their needs and choices.

5.2.2 Social business: Consumer understanding and go-to-market

Secondly, there needs to be a layer that can understand and translate local needs into services and products that can be delivered in a sustainable and profitable manner. In addition this layer can play a significant role in creating effective go-to-market strategies and executing the same through the layers below. This layer is many times the missing middle and many grassroot NGOs on one-side and product/sales teams of corporations on the other side have tried to play this role with limited success. The ethos and principles behind a “social business” that is designed to operate on the twin goals of a social mission and a for-profit structure, is probably the best suited to execute this layer most effectively. NGOs with an economics and value driven approach and corporations with a community based approach to business are the next best options.

5.2.3 Corporations: Building products, services and an ecosystem for empowerment

Finally, the last layer comprises corporations themselves who can take the knowledge coming from these markets and design and build products/services at significant scale, with appropriate quality and cost parameters. This requires the corporations to realign themselves from their product development to sales and human resource management and start with an attitude of learning about rural markets, rather than pre-supposing what these markets want. While markets and scale are huge, companies will have to be open to test their internal processes of bottom up innovation, frugality and marketing approaches, beyond just traditional CSR.

5.2.4 Building capacity in the last mile

As evident from the above examples there is a strong need to invest in building capacity of local talent, entrepreneurs, institutions and networks to be able to align and speak the language of self-sustenance and empowerment. And, at the other end, a change in mindset and approach within corporations looking to serve the rural markets. This ‘investment’ in building the capacity of the last mile helps in creating a much more aligned and sustained supply chain with equitable distribution of value leading to larger success in the long run. This however requires patience and perseverance and more importantly strategic partnerships for corporations to succeed in these markets. Many short-term based approaches of looking to “quickly sell” to growing rural markets have resulted in small-time failures to sometimes large-scale disasters, across sectors like energy, microfinance and other consumer products. Furthermore, this has also destroyed the trust between various parties in a market that can only work through partnerships

5.2.5 Orchestrators /Glue and Governments

We have seen many models where any 2 layers have been combined and offered within a single entity and also others where 2 layers have been integrated well within corporations. However, rarely have we ever seen all the three layers built into one single entity and then the last mile empowered to create the access.

To enable this, on one side we would have to have orchestrators who are able to understand and empathise with these different layers and create a constructive dialogue and empower a common platform and methodology where all these layers can work together.

While governments may not have all the tools to enable this, in countries like India, it is imperative that they are involved right throughout the process as one of the stakeholders

This takes time, effort and creation of new knowledge and process systems, within organizations and in the industry ecosystems.

6. Conclusion

Aspirations in rural India are on the rise and we are racing against time to ensure the effective delivery of essential services to these areas. Significant information asymmetry and lack of awareness among consumers make this a vulnerable market that needs to be approached in a responsible manner. However, the costs of learning about the needs of these markets and understanding consumer behaviour are high and serving them profitably is not easy.

Markets need to realize and imbibe the fact that serving rural markets in a long-term game and there are very few quick wins which will be sustainable. Hence treating the rural consumers as an opportunistic customer segment through existing systems will only lead to short-term success and/or higher costs of experiment. Social organizations have to ‘nudge’ the consumers to make responsible choices by focusing on empowerment and connecting them with opportunities in the markets in a way that meets both their needs and aspirations.

Dichotomy and dilemma exists at almost every level of this value chain, from a rural consumer who is caught between aspirations and essentials, to a corporate having to balance its profits with responsibility and impact and a social organization with social structures on one side and the need for economic empowerment and viability on the other. Every player has to make a strong attempt to move towards the “balanced middle” for this value chain to align and deliver with absolute effectiveness.

For this to happen though, Corporations and non-profits will have to reinvent themselves and be prepared for an exciting but long road ahead of them if they want to serve the rural markets. The question really is, in the midst of quarterly reviews and earning calls in the corporate world or a donor driven non-profit world, does one have mindshare, time and resources to invest in the long term? And more importantly - Today, is there enough empathy in the corporate world or an open mind in the non-profit world to try and understand the aspirations of an emerging customer segment and serve them through a new breed of partnerships and innovative products and channels?

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