The Last Mile Challenge - Need To Go Beyond The Village Level Entrepreneur Model

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The 'last mile' of distribution poses a challenge for many businesses seeking to market to low-income consumers. Village Level Entrepreneur (VLE) is one solution being used by many businesses in India. Recent experience suggests that although it does work well in specific situations, it is not a universal solution.

Recent trends in India show a growing corporate penchant for micro-entrepreneurs or VLEs for the last-mile link. A VLE is an individual selected from within a village/area to act as a touch point between the business and the customer. It is usually based in the target geography and is often from within the target community. The role of a VLE is to sell products and services offered by the corporates, and for every sale they make, they earn a commission. Depending on the extent of investment required from the entrepreneur, three types of VLE models can be seen

1. Pure play model – The VLE is responsible for all the capital expenditure and working capital expenses

2. Cost sharing model - Costs are shared between the VLE and the implementing agency

3. Quasi village entrepreneur model - Implementing agency makes all the capital investments in setting up the model and has operating control over the operations

An example of a 'pure-play' VLE is Project Shakti started by Hindustan Unilever (HUL). HUL sells consumer goods such as soaps, shampoos, etc. to the base of pyramid in rural areas through women VLEs known as *Shakti Ammas*. Project Shakti is designed to help women (Shakti Amma) setup a direct-to-consumer retail business. No asset investment is required from the VLE; however, the VLE is required to fund their own working capital for buying stocks of goods from HUL. The women VLEs travel from door-to-door in designated area selling fast-moving-consumer goods (FMCG) to households and small mom and pop stores.

The reason this model works are as below:

- The products sold are basic-needs products and the purchasing decision is not very involved
- Financial risk for HUL is low because they have cash-and-carry terms with the VLE. The transfers the risk of sales/finance to the VLE
- Promotion support in form of media and incentives from HUL boosts sales for the VLE.

But, what if the intended entrepreneurs do not have the enthusiasm or the capital to risk?   This presents a real obstacle, as the case of the Indian Government's information kiosks known as Common Service Centre (CSC) shows.

CSCs are supposed to provide Government-to-Consumer (G2C) services across all villages in India. Many private partners of the CSC program have designed VLE based models in which the VLEs are required to make substantial financial investments. There were very few takers for the initiative as the "target entrepreneurs" instead expect stable salaried jobs as operators of the kiosk. One of the other reasons for poor roll-out was non-availability of basic G2C services that the kiosk was expected to deliver. Also the services on offer are intangible, and not part of daily basic needs.

In contrast, BASIX, a leading microfinance organization in India, decided to invest in the CSC and hired local youth on fixed salary and commission. Even with the poor G2C services, BASIX was able to generate enough business through financial services and other documentation services.

In other sectors too, there are models that use an element of VLE but do not put all the risk on the entrepreneur. For example, Indian Tobacco Company (ITC), an Indian conglomerate, established e-Choupal as a virtual market place where farmers can sell their farm produce, and purchase agricultural inputs and consumer goods in addition to obtaining free information services. The VLE, who is a lead farmer, acts as an interface between ITC and the farmers. We call e-Choupal a *quasi-village entrepreneur model*, because much of the business risk actually rests with ITC, not with the entrepreneur.

Key features of e-Choupal are:

- ITC has complete control over the operations of the e-Choupal
- ITC has made capital investments in the initiative i.e. setup IT infrastructure at each Choupal
- The VLE does not make any asset or working capital investment in setting up or operating the Choupal
- The VLE continues to pursue farming as his primary business, e-Choupal is a secondary business

Based on the models we have seen, a pure-play VLE model is NOT likely succeed when:

- The characteristics of products and services marketed are such that

o Products and services are way down the priority list of households/businesses
o The demand and/or awareness among consumers is low
o Products and services directly affect the sustenance (livelihood/ agricultural yield) of the consumer i.e. high involvement products and services
o The value offered by the product is intangible, and does not directly meet daily needs
o Products involved have a high price point that requires financing support

- Business requires VLE to take substantial financial risk
- Corporates seeks low involvement in VLE operations, rather than back it up with marketing.

In conclusion, there is a need to go beyond pure-play VLE models and develop other hybrid models or salary-based models. There is a need to look at the characteristics of the products and services, the importance of the products and services for rural households, and the vision of the corporate before designing the last-mile outreach model.
