THRIVING IN LAST MILE MARKETS

intellecap

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Intellecap is a pioneer in providing innovative business solutions that help build and scale profitable and sustainable enterprises dedicated to social and environmental change. The company's unique positioning at the intersection of social and commercial business sectors allows it to attract and nurture intellectual capital that combines the business training of the commercial world with the passion and commitment of the social world to shape

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- Our understanding of the rural and low-income consumers drives our ability to address many of the complex challenges when working at the BoP

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CONTENT

1. Introduction 4

2. Blueprint for Thriving in Last-Mile Markets 6

1. Informed customer targeting 7
2. Effective low-cost marketing 9
3. Innovative distribution & sales 12
    1. Company-controlled models 14
    2. Partnership-led models 14
4. Nuturing customer goodwill 19

3. Enablers for Success 20

1. Organizational structure for BoP-focused products 20
2. Marketing & distribution-getting more from less 21

4. Road Ahead 22

1. INTRODUCTION

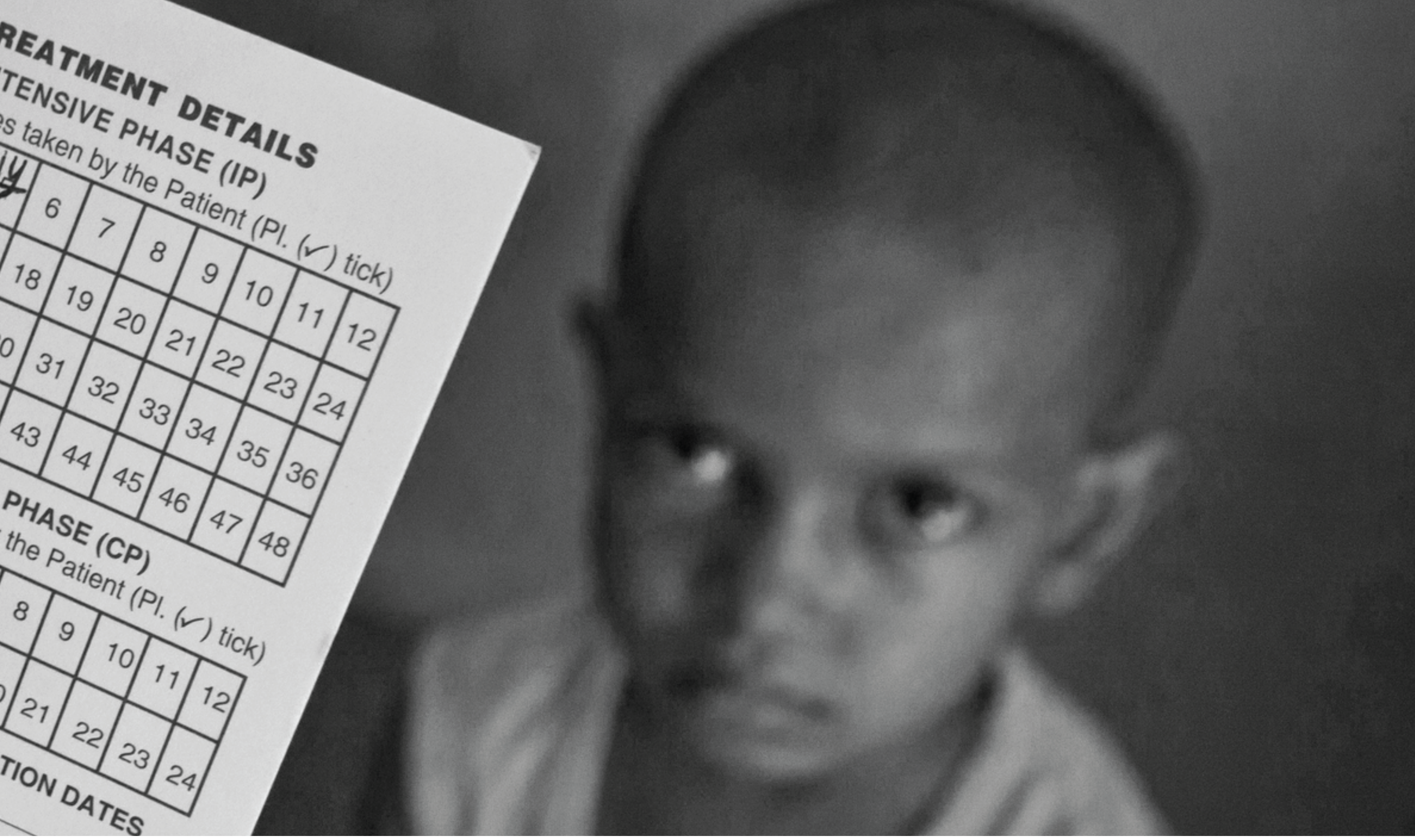
As firms seek new avenues for growth in emerging markets – strategies for tapping into "new and underserved" markets have been on the radar of almost every major mass-market focused firm. Comprising both urban slums and rural areas, these markets are exciting to firms, and for good reason. Approximately 4.5 billion low-income people globally represent an annual purchasing capacity of US$ 5 trillion (PPP), with India, East Africa and South East Asia accounting for a sizable chunk of this market.[1]

Popularly called 'last-mile markets', these urban slums and rural areas are largely served by disaggregated informal retail outlets, and have population agglomerations that are often too small to justify deployment of traditional sales and servicing infrastructure. Consumers display a seemingly contradictory set of characteristics: on one hand they are price sensitive and risk averse, and on the other they are highly aspirational in their preferences.

Much of the discourse around these markets is still narrowly focused on "sales and distribution", which is holding back firms from growth

Tapping into these last-mile markets is by no means a novel idea – the first waves of pioneering firms that successfully penetrated these markets have validated the opportunity represented by these markets. A large amount of research and literature already exists about the drivers of their success. What then must another report on firms targeting BoP markets cover?
At Intellecap, we have worked with several firms across emerging economies in Asia and Africa – both Fortune 500 enterprises as well as large local companies, helping them enter and grow their operations in last-mile markets. Through our research and interactions with our clients, their channel partners, and competitors, a common trend emerged: market intelligence narratives as well as firms' internal strategies are narrowly focused on decreasing product cost, and finding channels for last-mile distribution and sales. However, this narrow focus has not led to only limited success – products either failed to gather market traction, or failed to retain growth momentum after initial success.

[1] IFC Consumption Database



On the flipside, firms that thrived in last-mile markets owed their success to a concerted focus on building and nurturing relationships with last-mile customers. In fact, our experience shows a near-binary demarcation between firms that focus only on decreasing product costs and distributing through last-mile channels, and firms that take a more holistic approach. By creating integrated "go-to-market" strategies inclusive of other elements such as customer targeting, awareness building, and long-term engagement, successful firms have even successfully sold products that might be considered too expensive for last-mile markets – like solar home systems and water purifiers.

Blueprint on "Thriving in Last-Mile Markets" based on evidence from success stories

This paper focuses on synthesizing best practices from firms that have succeeded in last mile markets. We have analyzed insights and evidence from more than a dozen durable and fast-moving consumer goods (FMCG) companies to build a blueprint for "Thriving in Last-Mile Markets". The blueprint comprises four key elements: informed customer targeting, low-cost marketing, innovative distribution and sales models, and focused efforts towards nurturing customer goodwill. Using innovative last-mile channels is certainly an integral part of winning strategies – but only if a product-channel fitment, which takes into consideration nuances of the product's marketing, distribution, and sales needs, is established. This paper also highlights decision frameworks that can help identify optimal channels for different types of products.

The Thriving in Last-Mile Markets blueprint is targeted at consumer focused firms (especially durable goods and FMCGs) that have an interest in unlocking opportunities at the Base of the Pyramid (BoP) markets in emerging economies, across urban slums and rural areas. Each element of the blueprint is accompanied by case studies that bring to light key lessons from successful firms. In addition, the blueprint and this paper will be used to guide peer-to-peer learning circles comprising large corporates and small and medium enterprises (SMEs) at Sankalp Forum (sankalpforum.com) convenings in East Africa, India, and South East Asia through the course of 2016.

2. BLUEPRINT FOR THRIVING IN LAST-MILE MARKETS

The Thriving in Last-Mile Markets blueprint has four major components as shown in Figure 1. Each of these components can be broken down to activities that comprise a go-to-market value chain from customer identification and marketing and distribution to customer retention. While creating go-to-market strategies, successful firms plan well for all of these components. However, in implementation – informed customer targeting is the first step – followed by the others. This is not to say that customer targeting is a one-time activity. As firms deepen and widen their market share, customer targeting also becomes an on-going effort, and at steady state – all 4 components are implemented in tandem.

Figure 1: Blueprint for thriving in last mile markets

Focus Area	Informed customer targeting	Low-cost marketing	Innovative distribution & sales	Nurturing consumer goodwill
Go-to market value chain	Focused market indentification	Problem awareness	Demand aggregation	On-going engagement
	Price discovery	Product awareness	Financing	Post-sales servicing
		Brand awareness	Sales	
		Demand generation	Delivery	
Insight on what works	Serviceability-based targeting	Driving in-person awareness-building activities via channel partners	Channels available for products	Alternate approaches to extending post-sales infrastructure
	Affordability-based targeting		Choosing the right channel mix	Low-cost models for on-going engagement
	Need-based targeting	Lean & cost-effective mass media outreach	Scalling up the channel mix	

Source: Intellecap analysis

2.1 Informed Customer Targeting

There is a vast body of literature on designing for low-income consumer contexts – including approaches such as human-centered design. As a result, most new product firms find that research and development activities are quite successful. Products work in lab conditions, and also show success in pilots. The real challenges emerge while taking products to scale, particularly so when attempting to reach underserved customers.

Last-mile markets are not homogenous. They vary greatly based on location, terrain, incomes, demographics, exposure to consumer products, and cultural preferences. These unique characteristics must be taken into consideration while identifying the right customer segments for a product. The 'real-world' conditions that pilots try to stimulate can vary drastically across target markets, leading to significant challenges in identifying which customers to target.

We have found that a 4-part lens is useful in resolving this challenge: serviceability-based targeting, affordability-based targeting, need-based targeting, and viability-based targeting. In order to make these insights more actionable for sales force deployment and management, we have also developed a proprietary tool called an Area Lucrativeness Index that is also outlined as an 'implementation resource'.

Serviceability-based targeting

There is a fine line between an untapped market and an unserviceable market. This distinction can be made by evaluating different regions by population size and density, penetration of road and transport infrastructure, and the availability of partners who can provide distribution, sales, and financing facilities. This last factor is perhaps the most important of all – the presence of such partners minimizes the need for firms to deploy their own infrastructure, at least in the initial phase – significantly saving costs as well as time to enter new markets. Understanding serviceable markets helps to identify financially and operationally viable marketing and sales channels.

Aside from traditional and modern retail-linked distributors, examples of partners that are frequently used include aggregators of direct sales agents or village level entrepreneurs (VLEs), microfinance institutions (MFIs), non-governmental organizations (NGOs), and cooperatives. (These alternate channel partners are described in greater detail in Section 2.3.)

A good example of the efficacy of serviceability-based targeting can be seen in the case of a large health and hygiene focused FMCG firm in India which recently tapped into rural markets across over 6,000 villages by applying serviceability-based targeting strategies. It combined data from the national census, on-ground partners, industry data providers such as CMIE[2], and geo-spatial mapping to narrow down to specific clusters of towns and villages which had critical population mass and were serviceable within reasonable costs.

Affordability-based targeting

The ability and willingness to pay are both crucial to the successful uptake of products in last-mile markets. 'Ability to pay' is a simpler metric and can be measured by household consumption data reported by several market intelligence providers (including the IFC cosumption database which covers most major markets in the developing world). 'Willingness to pay' on the other hand is not only tricky, but also a more important metric to ascertain. It has a direct bearing on product pricing and marketing strategies. Often, product firms use pilot data to determine 'willingness to pay' – simply explaining the product benefits to a customer and then asking if they will pay a certain price for it. In most cases, while survey respondents will agree to paying a certain price, there is little uptake when the product is finally launched. We have found instead that a better approach to ascertaining willingness to pay is to find out what households currently spend on the product category and narrow down on the price that takes into account the capacity of the customer to pay in the short to medium term. In analyzing spends on product categories, it is important to consider informal alternates and substitutes – either by using data on cash spends where available or proxies for opportunity costs.

[2] http://www.cmie.com/

For instance, while evaluating the willingness to pay for a product like a water purifier in an urban slum, we have found it beneficial to understand both formal sector alternates such as water kiosks, as well as informal alternates such as boiling or filtration through a cloth.

Need-based targeting

Analyzing the 'need' for a specific product in last-mile markets entails measuring the 'scale' of the problem that the product seeks to solve across different regions and communities. For instance, a product such as oral rehydration salt, which is intended to aid with the care of patients suffering from diarrhea, is more likely to find uptake in a region where the prevalence of water-borne diseases and mortality is high. In the absence of disease prevalence, communities do not relate to marketing campaigns, eventually leading to low sales traction for products.

Novartis's social business program "Arogya Parivar" which combines awareness building around modern medicine with distribution of generics to rural pharmacies is a good example of "need-based" targeting. Each time Arogya Parivar program enters a new market, it customizes both awareness building and distribution to address the specific disease burden in that region. As a result, programmatic focus can vary from rabies in rural Telangana in India, to cervical cancer in rural Kenya (where the program is called 'Familia Nawiri' in Swahili).

Viability-based targeting

Changing market contexts across regions and communities also impact the viability of a product. This could be in the form of economic viability or technical viability. Presence of market distortions that render the product unattractive in comparison to alternates and substitutes have a huge impact on its economic viability. For instance, kerosene is a highly subsidized commodity in developing countries such as Indonesia and parts of Africa, as a result of which products such as solar lamps and solar home systems have not achieved significant commercial success, and remain donor or government-driven. Technical viability for many products is reliant upon geographical, climatic, and environmental contexts. The product might function as per specifications in a certain context and break-down in another. Even a few failure cases can spread across markets through word-of-mouth and harm brand positioning and customer trust. Checking for both, economic and technical viability, while identifying customers is particularly important for products that move through alternate last-mile channels such as MFIs and NGOs. When products do not function as advertised, the burden of negative branding falls as much on the last-mile partners as the product brand itself, and can result in a break-down of important partnerships as well as negative word-of-mouth.

As a case in point, Eureka Forbes takes a viability-based approach to marketing and selling its affordable water purifiers in India. Before it opens up sales channels to a rural area, it sends teams of technicians to test water sources from different sites to measure the amount of total dissolved solids (TDS) in the water. It goes ahead with deployment of its water filters only if they are able to filter the TDS. The Eureka Forbes team goes one step further with TDS analysis – they use data to estimate the frequency with which water filters will get clogged and require servicing – and station service personnel accordingly to ensure effective after-sales service.

Implementation resource: Area Lucrativeness Index

An Area Lucrativeness Index is a proprietary Intellecap tool that product teams can use to target high-potential regions for marketing and sales. It is based on suitable metrics for each of the 4 lenses for customer targeting - serviceability, affordability, need, and viability.

Analyzing results from the Index helps in identifying high-potential clusters of villages, towns or urban settlements that can be prioritized for marketing and sales. The index is flexible enough to be deployed across a diverse range of products. This Area Lucrativeness Index has helped our clients identify high-potential markets for:

- Agricultural input-linked loan products in India
- Trading agricultural, healthcare, and renewable energy products across international markets in South Asia and Sub Saharan Africa
- An affordable cement supply program in Zambia
- An affordable water purifier product in Kenya and Indonesia

Note: For more information on creating an Area Lucrativeness Index for your product, please write to us at info@intellecap.com

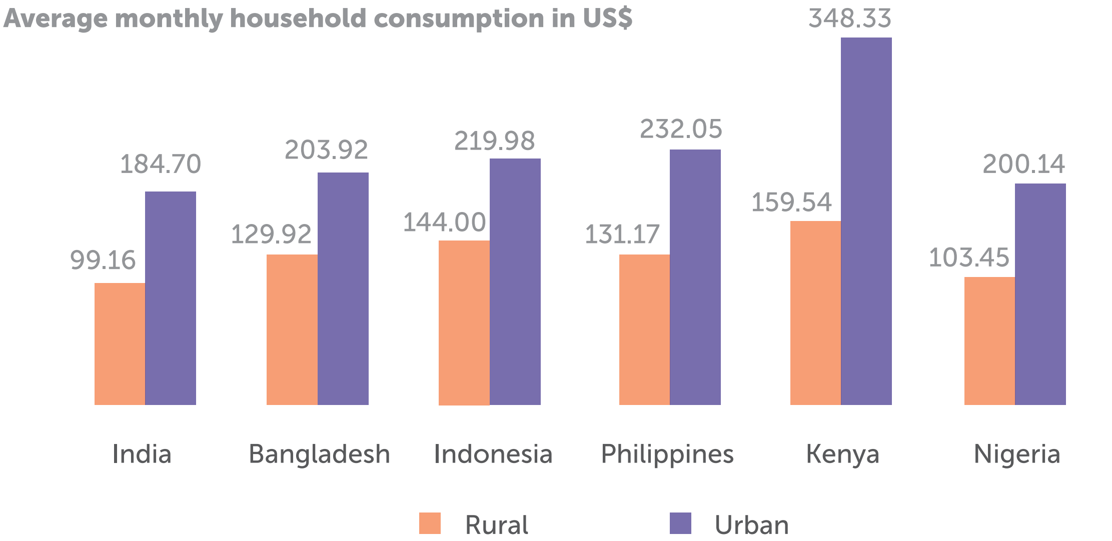
2.2 Effective Low-Cost Marketing

Marketing for last-mile markets is a science and an art. It is a science because firms have to find innovative ways to keep the per-customer outreach costs low while still ensuring that target customers are guided through a journey from problem awareness to product category awareness to finally brand awareness. But last-mile marketing is also an art because low-income consumers are highly aspirational. They are more likely to vote with their wallet for brands and products that are "best-in-class", used by local influencers (successful and affluent farmers, school teachers, larger retail store owners), and positioned as products used by middle and upper-class urban communities.

Effective messaging for last-mile markets

Households in last-mile markets have high collective consumption power, but their consumption at the individual unit level is still quite low. Figure 2 below indicates the average household monthly consumption across a few South Asian, South East Asian, and Sub Saharan African countries.

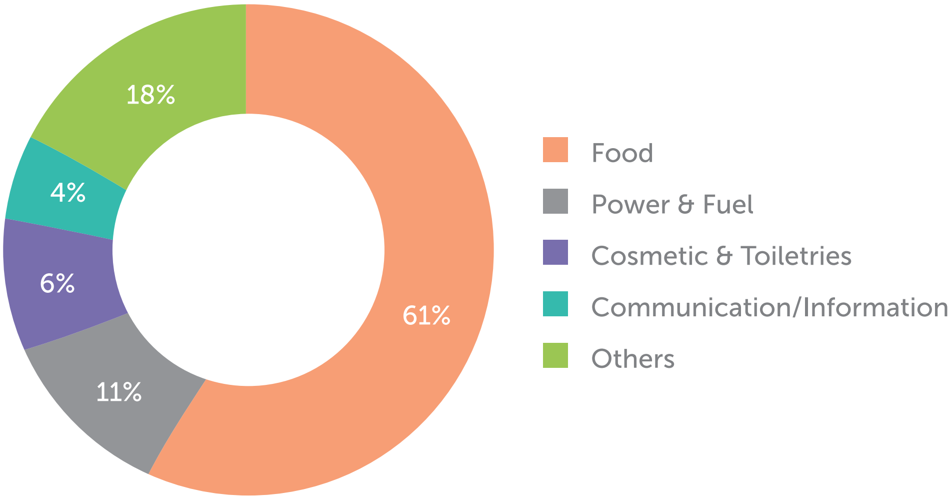
Figure 2: Household consumption across different developing countries



Source: IFC Consumption database, 2010 data. Consumption reported includes value of goods and services provisioned by non-profits.

The average household size across these countries varies from 4 to 5 members. A family of this size spends less than US$ 200 per month across most of the developing world. Once the basic necessities such as food and energy are taken care of – nearly three quarters of the monthly budget is exhausted (see Figure 3 for monthly consumption patterns in India). Families then tend to spend the remaining one-quarter on more aspirational products such as communication tools, entertainment, and toiletries. This requires firms to be more creative in how they design and market products to this segment of consumers. For instance, a malaria-prevention product such as a mosquito net is typically marketed using safety and health-oriented messages for mid and high-income consumers. The same messaging is rarely successful in low-income markets. Instead, as textile manufacturer A to Z in Tanzania found-out – positioning insecticide-treated mosquito nets as 'home décor' amongst low-income consumers has resulted in higher sales volume – making A to Z the largest supplier of treated mosquito nets in Africa. Unilever's PureIt brand of affordable water purifiers has seen similar success in the Indian market through aspirational positioning. Effective messaging to customers must also clearly explain the cost-benefit analysis of switching from the status quo, which could be using no product at all or a sub-optimal, but affordable alternative.

Figure 3: Monthly consumption of low-income households in India



Source: IFC Consumption Database and CMIE

Low-cost marketing channels for the last-mile

While communication is one part of successful marketing, finding the right channels to convey these messages forms the other part. This can be challenging because products focused on last-mile markets are priced competitively – leaving low margins for traditional marketing approaches such as television advertisement campaigns and billboards. Internet penetration still remains low, and digital advertising has minimal outreach. Several product categories may even be completely new to last-mile markets, and hence require significant awareness building of the problem and the product category before a brand can be introduced. Above-the-line (ATL)[3] marketing is not only expensive, but also ineffective in such cases.

Successful product firms overcome this challenge by working with alternate and innovative channels for below-the-line (BTL)[4] marketing including NGOs and locally influential individuals such as community and faith leaders and teachers. Firms with successful models have been able to deconstruct the entire value chain of marketing activities, and work with a blend of different partners for different activities as shown in Figure 4. In this deconstructed activity chain, partners can also play the role of distribution and sales agents – but usually only for social-purpose products which have a visible and proven positive impact on communities. As such channel partners are not naturally aligned towards sales and distribution activities; they require extensive training and hand-holding support on an on-going basis. As a case in point, Greenlight Planet's Kenya office regularly brings together the field agents of its marketing partners at periodic workshops to train new joinees and run refresher courses for existing personnel.

[3] Mass-media based marketing with indirect customer engagement.
[4] Personalized marketing with direct customer engagement.

Figure 4: Using a blend of partners to carry-out different marketing activities

Key Marketing Activities

Partners	Building need			Building willingness to pay			
	Mobilizing potential customers	Creating awareness	Driving behavorial change	Product demos	Demand aggregation	Distribution (direct/in-direct)	
NGOs	✓	✓	✓	0	0	0	**Used by:** Tata Tea in India, Envirofit in Kenya
Aggregators of direct sales agents or VLEs	✓	✓	0	✓	✓	✓	**Used by:** Coca Cola in India, d.Light in Kenya
Microfinance institutions	✓	✗	✗	✗	✓	✓	**Used by:** Unilever in India, Barefoot Power in Kenya
Rural marketing firm/ad agency	✓	✓	0	✓	✗	✗	**Used by:** Dabur in India, Novartis in Kenya

✓ Can do 0 May or may not do ✗ Generally will not do

Source: Intellecap analysis

Once last-mile markets are seeded with BTL marketing efforts, firms also invest carefully in ATL marketing – mostly through radio and newspaper which are lower-cost as compared to television – and have a greater reach. In order to maximize return on investments made in ATL, firms also synchronize marketing with customer cash-flow cycles, for instance by increasing the frequency of advertising during harvest season for farming communities.

2.3 Innovative Distribution and Sales

There are two main approaches that a product firm can take while entering a new last-mile market. It can either choose to tweak traditional distribution channels[5] or partner with alternate distribution channels. In each of these channels, the approaches for FMCG and durable products differ because of varying marketing needs, price points and margin structures, and logistical requirements. Hence insights on 'what has worked' for market leaders in both these categories have been highlighted separately in the pages that follow.

Well-established FMCG brands and product categories can tap into last-mile markets by tweaking traditional distribution models

Entering last-mile markets through traditional channels is more suited for well-established brands launching FMCG products that do not need significant awareness building or behavior change for uptake. The key challenge for these brands is to ensure that product overheads are minimal so that they remain affordable for the BoP. Some of the ways in which successful firms and brands such as Cremica, Parle, Marico and Lehar have achieved this in India is by making channels leaner and decreasing the number of intermediaries between factory-gate and last-mile retail outlets. The resulting margins saved are then passed-on to wholesalers and retailers, who are often also provided with credit lines and door-step delivery to ensure that they promote specific brands over competition in the same category. Firms such as Marico have also invested in process improvements by enabling technology across the distribution and sales value chain.

On the other hand, durables have seen less success in last-mile markets through traditional channels – primarily because the informal retailers that serve such markets usually cannot afford to stock durables, and hence last-mile linkages from distributors in urban centers to customers in small towns is missing. Durable products are also more expensive, and are often beyond the budgets of low-income households. Typical financing mechanisms that firms apply for mid and high-income consumers are not applicable in last-mile markets because customers are largely unbanked.

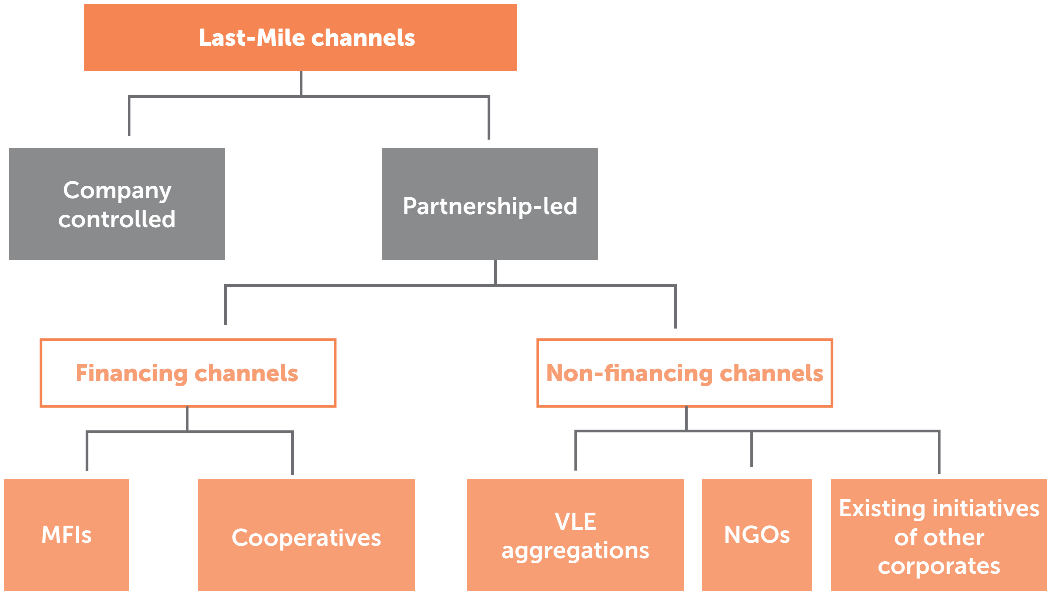
Some products and brands may require alternate last-mile channels

In the case of FMCG products, there are two primary triggers that cause firms to consider alternate channels. In the first case, products might require BTL awareness building or behavior change that traditional distribution infrastructure may not be best suited to provide. In the second case, some FMCG firms might want to increase penetration to regions where the informal retail networks do not stock their products – either because the products do not have local demand or because informal retailers do not have the capacity to purchase and stock them. In both instances, alternate channels that can address these challenges become more relevant for FMCG as well as durable goods.

[5] For the purpose of this paper, modern trade (supermarkets & large-format retail stores typically found in urban shopping centers such as malls) has not been considered since it has minimal outreach to the last-mile.

A brief overview of the typical alternate channels available across developing countries is presented below. These channels can be divided into company-controlled and partnership-based models. Partnership-based models, in turn, can be classified into financing and non-financing channels as shown in Figure 5.

Figure 5: Overview of last-mile channels



Source: Intellecap analysis

2.3.1 Company-Controlled Models

Product firms with significant exposure to last-mile markets such as Greenlight Planet, and large corporate firms that have specialized business units and the capacity to invest in building last-mile distribution such as Novartis have chosen to deploy company-controlled models for penetrating these underserved markets. While the upfront costs of setting up these models are high, they allow for far more customization and control, and, when successful, can result in higher profit margins than partnership–led models can provide.

Greenlight Planet has created a network of micro-entrepreneurs across India and East Africa that sell Sun King lights for a commission. Also called village level entrepreneurs (VLEs), they are typically teachers or local retail store owners who are influential within their communities. They sell Sun King lights as a source of additional income, augmenting their incomes by 30 - 50%. The relationship between Greenlight Planet and these VLEs is similar to that between a distributor and a retailer, with the VLEs buying products upfront once they are convinced of product quality and demand. Aside from its company-controlled model, Greenlight also distributes its products through partnership-led models.

Novartis, in contrast, employs a contracted workforce via third party organizations to run its last-mile program called Arogya Parivar in India and Familia Nawiri in Kenya. These third parties recruit, train, and manage personnel with two different skills sets. One group of contract workers organizes awareness building for good health practices and modern medicines for locally prevalent diseases in rural areas. They also organize medical camps in far flung rural areas with no access to doctors. The other group of contract workers manages marketing and distribution of affordable generic Novartis drugs to local pharmacies, doctors, and clinics in the areas where awareness building is done. The relationship between Novartis and these contract workers is similar to that between employer and employee.

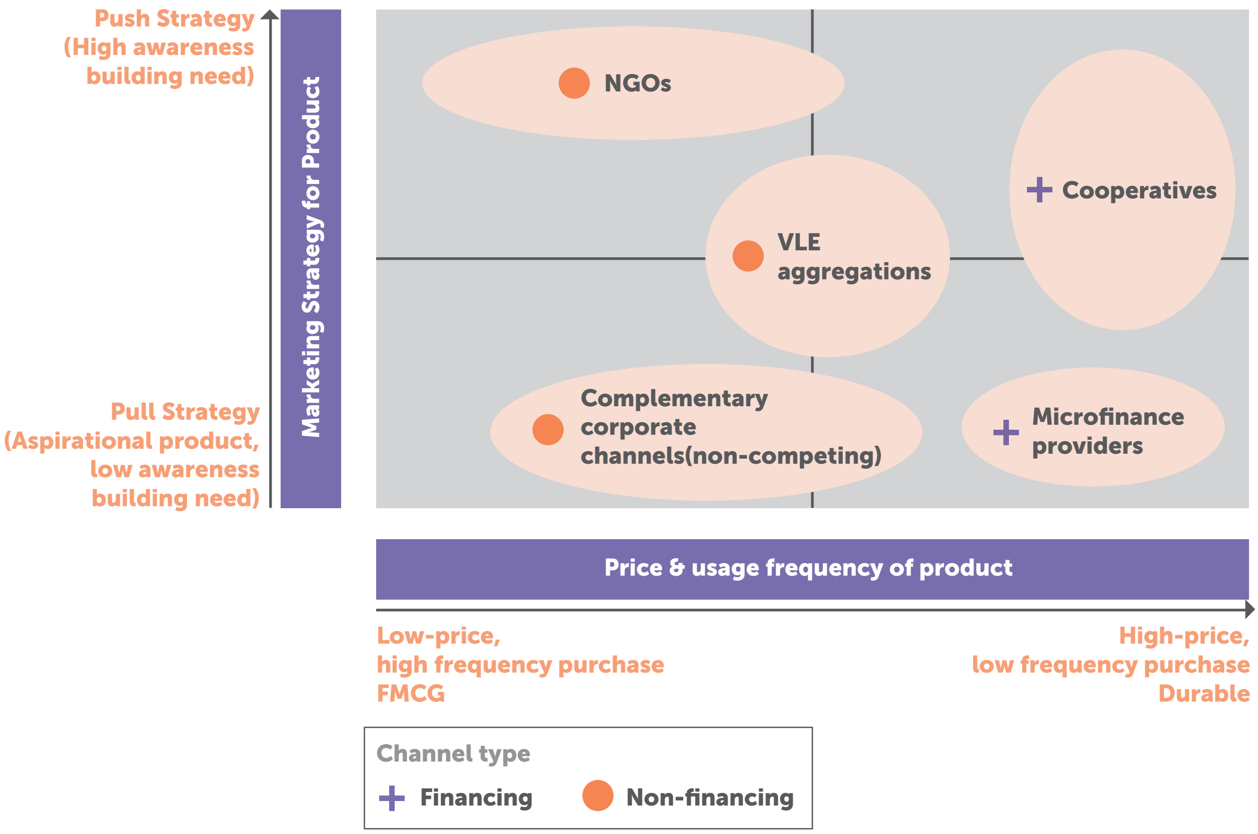
2.3.2 Partnership-Led Models

For firms that lack relevant context, or do not have resources to invest in experiential learning – entering last-mile markets through partnership-led models is a less risky approach. Instead of recruiting or deploying their own infrastructure, firms can rely on existing infrastructure of partners, and also learn more about operating in last-mile markets from these partners. For durable products that need financing and post-sales servicing support – partnerships may even be a long-term solution for acquiring and growing market share.

Two major types of channel partners are described in the sections that follow. Financing channels are more suited for high-cost durable products. These include microfinance providers and cooperatives. Non-financing channels only provide outreach, and hence, are better suited for FMCG and lower-value durable products. These include aggregators of village level entrepreneurs (VLEs) or micro-entrepreneurs, non-governmental organizations (NGOs), and other corporates with non-competing products.

It is important to note that most organizations categorized as alternate channel partners have limited scale, and that their geographic distribution tends to be non-uniform. For instance, micro-credit providers in India tend to be concentrated in Southern States. Similarly, MFIs in Kenya tend to be concentrated in the South Western counties, and in Indonesia tend to be concentrated around the West Java region. Hence, most successful product firms tend to use a blend of many different channel partners to achieve scale. Figure 6 shows a decision making framework that firms can use to select channels based on the nature of the product and its marketing needs.

Figure 6: Decision framework for selecting channel partners



Source: Intellecap analysis

Financing channels

Micro-credit providers

A multi-year effort by aid and government agencies on financial inclusion via microfinance has led to thriving micro-credit industries across many emerging markets including India, Kenya, and Indonesia. For the most part, these are well-regulated industries with three major types of players: traditional banks providing micro-credit to low-income consumers; deposit-taking microfinance banks that operate through brick-and-mortar branches; and credit-only microfinance institutions that operate through a branchless network of banking agents. Of these, operations of bank-based models are larger by size of membership base and assets while credit-focused MFIs are more numerous in number.

Micro-credit providers can act as last-mile channels by providing product firms with a platform to market their product – either through kiosks set up inside branches or at microfinance group meetings. Customers interested in buying the product can avail of loans from the micro-credit provider. Some providers will also aggregate demand from customers and support firms with closing sales.

Amongst the three different groups of microcredit providers, banks tend to be more process-driven and well-structured, but they have limited incentives to provide consumer financing for purchase of durables for low-income markets. Product financing forms a small part of their portfolio, and field agents are generally averse to investing time in promoting micro-loans. Hence, most firms have found success in working with smaller credit-only microfinance institutions. Some critical factors for selecting good microfinance partners include evaluation of their reach and penetration, past loan repayment track records, and willingness as well as experience in acting as last-mile channels for product firms.

Cooperatives

The cooperative movement is also quite strong across most developing countries. Cooperatives are essentially member-owned entities that provide social security, financing, and market linkage services. They are typically created based on common professions – e.g. farming or weaving cooperatives, or based on geography. Cooperatives are usually regulated by a government-mandated body, and they can accept savings deposits as well as forward loans in most countries.

Cooperatives can act as last-mile channels by providing platforms to market products to their members. In some cases, cooperatives can also co-opt entrepreneurial members into becoming direct sales agents for firms. Partnerships with cooperatives can be difficult to manage, because there is limited top-down leadership and power is more decentralized – so partnerships are driven by relationships with certain individuals rather than the entity as a whole. However, if managed successfully, cooperatives can be very effective because they have great influence on local communities, and are not seen as entities with commercial agendas; instead, they work with community development as their mission.

Critical success factors for managing cooperative partnerships include evaluation of reach and influence of the cooperative, member-type and their need for the specific product, and most importantly – hiring the right kind of talent with past experience in managing cooperative partnerships.

Non-financing channels

Aggregators of direct sales agents or village-level entrepreneurs (VLEs)

Driven by the opportunity in building access to last-mile markets, several businesses that build and manage networks of VLEs to distribute FMCG and durable products in a brand-agnostic manner have emerged in the last decade. These include Dharma Life, Frontier Markets, and Sakhi Unique Retail in India, and Solar Sister and Livelyhoods in Kenya. Most of these VLE aggregators work across multiple sectors, while some such as Frontier Markets and Solar Sister are specifically focused on clean energy products. Given the low absolute margin on FMCG products, they tend to focus more on durables that are viable for upfront purchase without a microloan rather than FMCG.

VLE aggregators can take up marketing as well as sales and distribution activities depending on the requirements and the margins on offer. Typically, margins are in the range of 12 to 15% for FMCG products, and 18 to 22% for durable products. Durable products are distributed by mobilizing communities with door-to-door calls, and organizing product demos. FMCG products, on the other hand, are supplied to existing informal retail stores, instead of selling directly to customers.

Key success factors for partnerships with VLE aggregators include past experience with the product category, an existing product basket to ensure that costs are divided across a larger group of products rather than just one product, and the reach and influence of VLEs in their respective markets.

Non-governmental organizations (NGOs)

NGOs can also act as last-mile channel partners specifically for socially-impactful products that demonstrably improve lives of low-income communities. The impact can be in two formats: either the direct use of the product is beneficial for the BoP (e.g. healthcare and sanitation products, agricultural inputs etc.) or there is a significant livelihood generation opportunity by engaging low-income communities in sales of the product.

In the first instance, NGOs that run complementary awareness building programs tend to be the best last-mile partners. For instance, Atom Solar, a firm which sells affordable and portable solar powered water pumping solutions, has partnered with an NGO called International Centre for Integrated Mountain Development (ICIMOD) for last-mile outreach in Nepal. ICIMOD has programmatic interventions that strive to build awareness around improving agricultural productivity in ecologically sustainable ways, and Atom Solar's product allows farmers implement the improved farming practices recommended by ICIMOD.

NGOs also partner with firms if sales of these products can create better livelihoods for disadvantaged populations. NGOs focus on livelihoods and development related issues in the communities they work in, and hence can act as recruiting and training partners for a network of direct sales agents (or VLEs). Unlike VLE aggregators however, such NGOs will often require that a minimum payment be guaranteed to their sales agents – which may need to be borne by the firm as an investment until sales volumes pick up. A good example of such a partnership is Tata Tea's Gaon Chalo program in India, which has partnered with NGOs such as Beti Foundation in Uttar Pradesh to build a network of rural youth who supply Tata Tea to informal retail stores in rural areas.

Strong mission alignment is the most critical success factor for partnering with NGOs. These organizations are not designed to manage marketing and sales activities, and require time and effort in capacity building and hand-holding so that they can run programs that drive product sales. NGOs are most suited for partnerships when firms have an explicit social agenda and also see NGOs as a source of strategic on-ground insights rather than plain-vanilla sales channels.

Existing initiatives of non-competing firms

Several firms are also opening up sales channels to complementary non-competing products to improve last-mile market access, and also improve their own sustainability. There are two prevalent models here – the first and more common is where firms such as Bharat Petroleum in India and Total in Kenya open up their gas station-based retail outlets to products from non-competing brands. Gas station owners or store renters benefit from additional incomes while those supplying products gain access to new retail outlets. In the second model, large corporates that employ a sizable workforce (particularly in the tea and coffee industry) offer a platform to firms to market products to employees. This model is less prevalent in India, but more common in Kenya. For instance, the Kenya Tea Development Alliance (KTDA) and Barefoot Power formed an alliance under which Barefoot is supplying Solar Home Systems (SHS) to KTDA employees, and KTDA is helping employees finance these purchases using a salary check-off approach.

Comparative view of different channels

It is highly unlikely to find one partner organization or even one group of channels that can take on all necessary marketing and sales activities, and still provide scale. Figure 7 shows a comparative view of different channels and the potential contribution they can make across the marketing and sales value chain of a product.

Figure 7: Comparative view of different last-mile channels

Business Needs Lens	MFIs	NGOs	Corporates	VLE aggregators	Traditional retail
Demand Generation	✓	✓	0	✓	✗
Demand Aggregation	✓	✗	✓	✓	✓
Financing	✓	✗	✗	✗	✗
Sales	✗	✗	✓	✓	✓
Delivery	0	✗	✗	0	0
Post-Sales Servicing	✗	✗	✗	0	0

✓ Can do 0 May or may not do ✗ Generally will not do

Source: Intellecap analysis

2.4 Nurturing Customer Goodwill

Perhaps the most critical, yet most ignored aspect of thriving in last-mile markets is making sustained efforts to engage the customer and develop goodwill. This is important because these markets are driven by word-of-mouth marketing and positive customer experiences, especially amongst early adopters.

There are some basic aspects to nurturing customer goodwill. For both, durables and FMCG products, firms will benefit from ensuring fair pricing and positive buyer experiences at the last-mile retail link, investing in building relationships with customers, and ensuring that products work as advertised.

Building long-term relationships with customers

When it comes to building relationships with customers, FMCG firms have seen success with campaigns that offer discounts and free samples, and SMS-based engagement. Unilever has an especially effective strategy for building long-term relationships – across each product category, it has created brands that are arranged along a price value pyramid – from low cost products for the BoP which are intended to drive penetration to high priced brands for the top 1% of the income pyramid which are intended to increase consumption. As customers improve earrings over several years (and even generations), they graduate to using higher priced products.

Durables on the other hand, have seen success when there is a designated direct sales agent from within the community who has existing relationships with potential buyers, and can keep them engaged even after a sale is made.

Ensuring fair pricing

In order to ensure fair pricing, maintaining span of control over distributors and retailers is usually sufficient in markets such as India which have well-regulated 'maximum retail price' (MRP) systems. However, maintaining fair pricing is challenging in other markets such as Kenya and Indonesia, which do not have an MRP system. In such countries, firms have used market forces to their advantage – by tying up with a blend of distribution partners who serve the same or adjacent areas – thereby ensuring that customers are aware of price discrepancies and can vote with their wallets to select the least expensive option.

Creating post-sales servicing infrastructure

This is important for durables products which represent a significant investment for a family living in a last-mile market. One way to ensure that products work as they are marketed is by good design, which has been covered in some detail in Section 2.1. However, given the high incidence of wear-and-tear and improper usage in last-mile markets, post-sales servicing infrastructure is essential. Since it is not economically viable to set up own infrastructure in sparsely populated markets, successful firms have adopted two major approaches. Some firms such as d.Light and Greenlight Planet train their distribution partners to diagnose failure causes and swap out faulty products for new ones within the warranty period. Others, such as Barefoot Power, are training technically inclined youth with limited education and job opportunities to become certified servicing agents for the company. In-house training helps these youth to become familiar with and address the most common causes of failure of solar home systems. The firm also provides them with tools and parts needed for repairs. Barefoot pays these certified servicing agents for repairs covered by warranties, while customers pay for repairs that are not covered by warranties.

3. ENABLERS FOR SUCCESS

While the blueprint seems intuitive, execution for most firms has been a challenge. It is difficult to find a business model to support the expenditure required in taking the holistic view that the blueprint recommends. Specifically, there are two key challenges: finding the right institutional structure for a BoP market focused product, and carving out spends for marketing and distribution from slim margins. In our experience, most firms tend to respond by adding the BoP-focused product to an existing team's responsibility area, and pass through the slim margin for marketing and distribution to an alternate channel partner who commits to carrying out most activities needed for marketing and sales. Both approaches predominantly fail to show results.

In the first case, adding a BoP-focused product to an existing team does not work because product revenues in early years are likely to be small when compared with existing products overseen by these teams. In the effort to meet quarterly targets, these teams lose sight of the longer term focus required to develop BoP focused products. In the second case, the problem is more external in nature – finding an alternate channel that can deliver on marketing and sales at low costs is like searching for the proverbial unicorn – exciting in concept, but nearly impossible to find in reality. Firms that thrive in last mile markets have innovated with their business models to overcome both these hurdles.

3.1 Organizational Structure for BoP-focused Products

Successful firms respond to the challenge of institutional structures for BoP products by first deconstructing the problem into its constituents – lack of incentives for corporates resources and field force to push BoP-focused products, and unfavorable comparisons with existing products targeted at mid and high-income consumers. There are different ways to tackle these twin challenges. For instance, when PepsiCo launched its product line of low-cost snacks under the Lehar brand – it hived off Lehar as a separate entity which built its own corporate resources and sales agents for tapping into last-mile markets. In doing this, the typical corporate overhead burden that PepsiCo products are required to bear was minimized. It was also easier to structure incentives for performance because the entire team focused only on growing Lehar's market share.

Another approach to tackling this challenge is by building out the BoP product portfolio as a shared project between business lines and corporate social responsibility (CSR) teams. This is especially helpful for firms whose CSR activities are closely aligned with their core businesses. As a case in point, consider RB (formerly Reckitt Benckiser) which recently launched affordable personal and homecare sanitation products focused on the BoP in Pakistan and India. By bringing together its CSR team – which had the context on last-mile markets and awareness building programs, and its business team – which had the context on extending sales and distribution infrastructure to the last mile – RB was able to design a blended social business model that combined strengths of both teams and allowed for integrated institutional knowledge to guide implementation.

Firms are also exploring a more variable cost model where teams are often external to the firm and are aligned more strongly to incentives. This model works well in more challenging times, but results in relatively lesser control (as the staff is outsourced) and learning for the company.

The second major hurdle in building a robust business model to back the blueprint is that products have very slim margins for supporting marketing and sales. Building lean corporate structures as discussed in Section 3.1 is one way to address this challenge. The core strategies that successful firms employ are to extend the lifetime value of a customer in case of durables, and to minimize the per unit load of marketing and distribution in the case of FMCG products.

Durables: Extending the lifetime value of a customer

The per customer spend on reaching, acquiring, and servicing a customer can be as high as one-third of the retail price for a durable product – especially given the lack of supporting infrastructure and third party services in last-mile markets. Business models for such products can only be scalable by mining customer wallet share beyond the initial sell. To tackle this challenge, durables companies have taken two prevalent approaches to extending this lifetime value of customers: by either increasing the breadth of product offerings or acting as sales channels for non-competing brands.

Firms in the off-grid solar home system space move customers up an “energy ladder or pyramid” by designing modular products that can be expanded by adding panels and appliances. Greenlight Planet and Barefoot Power, which operate across developing Asia and Africa, are examples of companies that take this approach. Others, such as mKopa, which is one of the market leaders in the pay-per-use solar energy space in East Africa, and Microclinics, a healthcare-focused enterprise resource planning (ERP) systems provider, have opened up their customer base to non-competing products. While Microclinics primarily plays the role of a sales channel, mKopa by virtue of its asset financing capability acts as a sales as well as financing channel.

FMCG: Optimizing unit costs for marketing and distribution

FMCG products also face the challenge of high marketing and distribution costs at the unit level – more so in early days where scale in operations is yet to be achieved. At this stage, the cost of marketing and distribution for products that require behavior change or awareness building frequently exceed the retail price at the unit level. Traditional BoP literature recommends that this challenge be overcome with rapid scale – but this is not an easy proposition in fragmented and sparsely populated markets. Not only is it difficult to convince customers to buy more of the same product, but it is also difficult to convince informal retailers (e.g. kirana stores in India and dukas in Kenya) to stock large quantities of a new product.

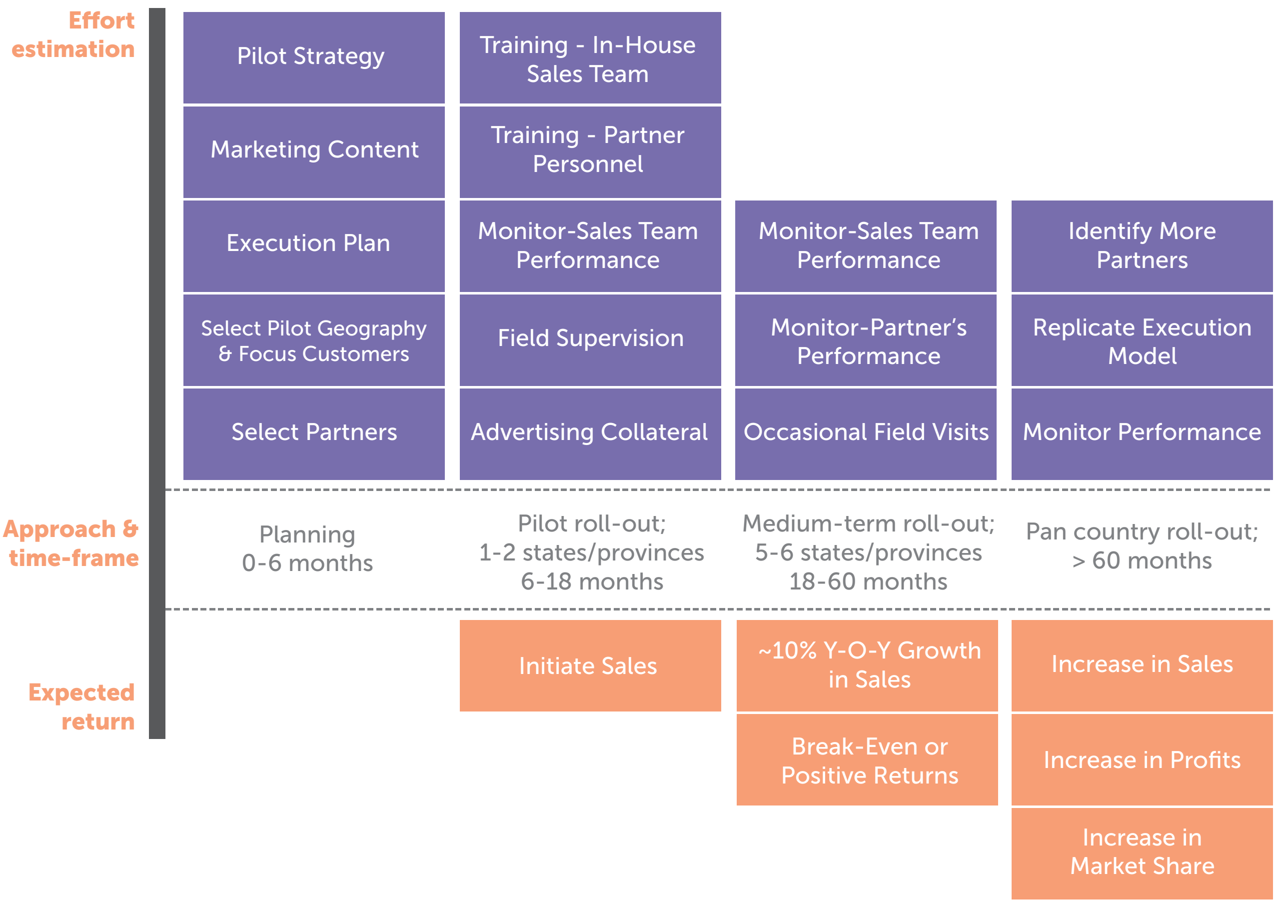
Instead, successful firms have taken two major approaches. Some such as Unilever and Dabur have created large-enough product baskets with a mix of low-margin high quantity and high-margin low quantity products such that the burden of customer acquisition and retention is divided across sub-brands. Others, such as Tata Tea (through its Gaon Chalo Abhiyaan combining youth employment and tea sales), started with a social business model operating via an alternate channel - but over time ensured stronger complementarity and integration with existing trade channels to bring down unit costs.

4. ROAD AHEAD

In conclusion, it is important to re-iterate that last-mile markets present both, great opportunities as well as challenges. Firms that succeed take a long-term and patient view of unlocking value in these markets. This is especially true for larger corporates which are rendered less nimble by their sheer size and expectations of scale, and for firms operating in more mature markets such as India where they face greater competition. There are two reasons for slow growth: first, building last-mile channel partnerships is time-taking and each new channel partner only brings in incremental scale; and second, as firms learn from their experiences in these markets, business model adaptations and even pivots are common, which also require time.

Unilever's acclaimed Shaktiamma program – which is widely celebrated as a success story of last-mile penetration – was launched nearly 15 years back. Novartis's Arogya Parivar Program and Tata Tea's Gaon Chalo Abhiyaan broke-even several years after launch. Figure 8 shows a typical effort versus return trajectory that firms can expect while operating at the last-mile in emerging markets.

Figure 8: Need for a long-term view in last-mile markets



Source: Intellecap primary research & analysis

When it comes to thriving in last-mile markets, the race is not to the swiftest but rather the most patient – so a long-term view is essential to success. Firms must invest in building a focused and differentiated last-mile strategy as opposed to extending their existing strategies to these difficult markets – but with the caveat that last-mile strategies must eventually get integrated with mainstream market approaches for scale and sustainability. Partnerships are integral to success as well – and firms that realize that partnerships in last-mile markets go beyond task delegation and involve investments in partner identification and capacity building will go further.

Finally, like all other markets – last-mile markets are being disrupted by technology much faster than we once imagined. E-commerce giants such as Amazon and Flipkart are building an arsenal of logistical infrastructure and partners to reach rural areas with populations of less than 50,000. Digital finance is changing the face of consumer financing and introducing unlikely channel partners to the mix. Once futuristic innovations such as drone deliveries, and automated and unmanned e-tailing kiosks are proven technologies in the search for business models – and seem poised to hit even last-mile markets within the next decade. Governments are doubling-down on bridging the roads, power, and telecom infrastructure gaps that make last-mile markets so difficult to reach and service. As a result – the very nature of last-mile markets is changing rapidly. Predicting what they will evolve to is no mean task – but the firms that reach them today will be ready with the insights and consumer base to adapt to these new realities.

Intellecap's consulting and research arm has deep expertise in building and scaling businesses in rural and urban last-mile markets. We have worked across 25+ countries in South Asia, South East Asia, and Sub Saharan Africa. We help our clients win in new and untapped markets by combining 15 years of market insights with a wide network of 1,000+ organizations such as NGOs, MFIs, cooperatives, and VLE aggregators that can act last-mile partners. We have developed and implemented last-mile strategies for clients including Unilever, Tata Consultancy Services, RB (formerly Reckitt Benckiser), Bosch, and Eureka Forbes amongst others. To know more about our Last Mile Practice, and speak with one of our experts – please write to us at info@intellecap.com

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