

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

FIFTH TRIMESTER (Batch 2017-19)

END TERM EXAMINATIONS, JANUARY 2019

Course Name	Rural Sales & Distribution (RSD)	Course Code	MKT510
Max. Time	2 hours	Max. Marks	40 M M

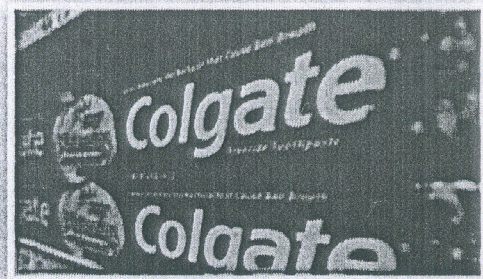
INSTRUCTIONS:

Kindly read the article thoroughly to answer the following questions:

1. Why do you think the youth entrepreneur was chosen as a channel partner? Who else could have been chosen in their place. Why?
Marks: 10
2. What were the key success factors of project 'DISHA' / 'Colgate Rural Entrepreneurship' model?
Marks: 10
3. Do you think this model is sustainable and scalable? Can it be replicated by other players? Give arguments to support your choice.
Marks: 10
4. Which product categories and players can replicate this model for rural distribution? Why?
Marks: 10

Debrief

Colgate Palmolive, the world's leading manufacturer of oral care products, dominates the Indian oral care industry with a market share of more than 62%. The word 'Colgate' has become synonymous with 'toothpaste' for most consumers in India, especially those in the rural Indian context.



As the leader, Colgate faces the major challenge of expanding the market which will ultimately result in increased business for all players.

The urban market is more or less saturated with most consumers in this segment already using oral hygiene products in one form or other. In the rural context, however, there is scope for growth, as over 30% of the population of 780 million still uses traditional methods of oral care. Colgate's rural coverage reaches down to villages with a population of 5000+ through direct distribution channels but it is unviable to penetrate further. An increasingly active competition is putting further pressure on Colgate. Large powerful corporations like Hindustan Unilever are getting ready for a tough fight with their 'Pepsodent' brand, while smaller regional players like 'Anchor', 'Ajanta' and 'Amar' are cashing in on religious sentiments with vegetarian toothpaste, increasingly segmenting the market further, and in the deep interiors the fight against lookalikes, fakes and spell-alikes has made a heavy dent in Colgate's market share.

The big challenge, Colgate executives stated to their agency - COLGATE RURAL SALES TEAM – was that the remaining un-penetrated villages with populations of less than five thousand inhabitants account for 85% of the rural population of India. "The major portion of the non-using oral care segment lies in the less than 5000 population village strata," said Sudhir Langer, Manager, New ventures at Colgate, "and current methods and forms of accessing this stratum of rural population are not commercially viable models."

These smaller villages would have little economic development, with a small proportion being affluent and the majority at the bottom of the pyramid. In this stratum, people would typically have to travel out of the village for the purchase of many necessities; periodically visiting Haats¹, shops at nearby larger villages or the block town. Low per capita usage in these small villages fosters an environment where there is inadequate scale for return on investment and which makes regular access untenable for existing direct distribution channels. The brief to COLGATE RURAL SALES TEAM executives was clear: create a model or program that can viably and sustainably address the critical issues facing Colgate at this point of time.

Deliberation

The COLGATE RURAL SALES TEAM team absorbed the brief. One team member decided to start with a holistic understanding of the oral care industry, the levels of rural penetration and other issues dogging the industry as a whole. He prepared a report for the team, a summary of which is given below.

Oral Care Penetration Figures

Particulars	India	Zones
<hr/>		

¹ A "Haat" is a temporary market that is set up at regular periodic intervals in various specified localities in rural and semi urban India. There are about 42,000 periodic markets in the country, having highest concentration in North India.

After much deliberation within the COLGATE RURAL SALES TEAM team, several issues emerged to be addressed while conceptualizing a model:

- As the traditional retailer driven/ sales force model had proven to not be cost effective at lower population strata, a lower cost model would have to be developed. This would not necessarily be a low opportunity model, but it would be unlikely to meet traditional margin expectations. Further, the proposition of overcoming physical coverage issues in the vast remote areas of rural India would be unattractive to a distributor. These factors called for a channel partner who would be rural in residence and orientation, as well as having low economic expectations.
- The main functions of a channel partner would be to buy the products from the company at an approved rate and sell them to the next channel/consumers, while also promoting the brand at different levels. Identification of appropriate candidates became the next challenge.
- The ideal channel partner is one who promotes the brand, communicates brand messages, sells the product and, thereby, earns a reasonable living. An advantage of this type of dedicated channel partners is that the company gets a loyal brand ambassador with social standing in the local community.
- The team at COLGATE RURAL SALES TEAM wondered whether the channel partner could work through a 'support' model, where Colgate would provide training, products, margins and promotions while the channel partner sells the products and earns his living. This could be viewed as a new business venture for the channel partner, despite being fully supported by the company and provided a fixed stipend, as earnings would be largely through the margins earned and the business created.
- Being external in nature, this channel would not entail any on-going liability to the company. However, some initial investment in partner development would be required and these costs would be spread across the total personnel deployed over the duration of the initiative. Being from a social sector organization, rural youth channel partners would have the capability to act as 'brand ambassadors' independently in the rural environment, reducing risk for the company.
- In this scenario, the company gains with deeper brand penetration and access to unreached markets, allowing the brand to strike back at fakes and duplicates. At the same time, the partner can start his own business selling company products, earning his livelihood while being respected as the company man in the area. A win-win situation; creating value for all.
- In the Indian, and even global, context, presence in the BOP sector is the single largest remaining market opportunity which any company can address today.

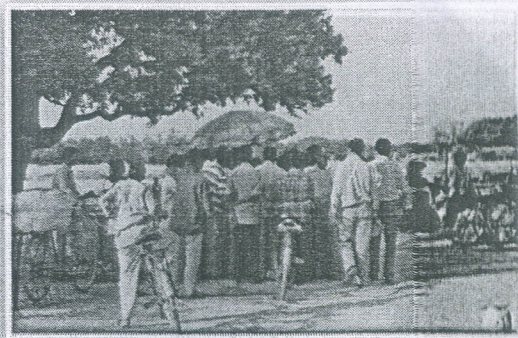
The Search for a Channel Partner

The GOI, after Independence, initiated national level youth-based organizations, such as the 'Nehru Yuva Kendra Sanghathan', with a social focus to channelize the rural youth's energy into productive areas. Training was provided, along with short employment contracts, to suitable high potential villagers. This became a launching pad for various social welfare and cultural initiatives.

Over the years, a significant resource pool has been created. These trained youth, oriented towards the rural population, are now on the lookout for alternate livelihood possibilities.

Model Development

To sustain the entrepreneur interest in the business an initial stipend of Rs 1500/- per month was fixed. This is reduced, on a sliding scale, over time as the business grows, but is not completely eliminated to retain some degree of control over the entrepreneur.



Roadblock and way out

Post roll out, first time hiccups and ground realities had to be taken into account while refining the model. The pilot implementation phase had encountered three major roadblocks:

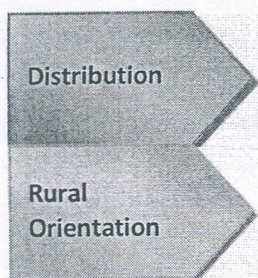
- Channel partner motivation and retention was an issue over time. During the initial phase of operations, earnings rise very slowly and reducing the stipend before the business is established would lead to exit by the channel partner. In order to maintain a sustainable earning potential and to keep the partner motivated, COLGATE RURAL SALES TEAM introduced the concept of a monthly stipend payable on reducing scale. As business volumes build to attractive levels, the stipend is reduced in a calibrated manner to Rs 1200/- but not withdrawn totally. This continued payment ensures control over the channel partner is retained.
- Correct identification of youth is required to ensure that their income expectations are consistent with the lower earnings available as a channel partner. The profile to be targeted to avoid duplication of efforts and resources are from needy lower middle income homes, who have a small family to support, earn less than one thousand a month currently and have an education of up to 12th class.
- A major challenge will be to retain Channel partner 'buy in' over time as demonstrated through increasing investments as the business grows and observing total loyalty to Colgate only. The continued stipend will work to prevent the shifting of loyalties.

Size and scale of Model

The model was implemented across 28 districts with 240 entrepreneurs working full time for Colgate. It took roughly 18 months for COLGATE RURAL SALES TEAM to operationalize this model in the field.

Impact of Model: characteristics enhancing viable access of the BOP market

This model addresses the following issues:



- The model created a viable distribution structure for Colgate in the below 5000 population villages to access BOP segment as desired
- The new distribution setup could be integrated into regular channels without any alteration of margin structures
- The 'Cash and carry' system ensured a no risk business for Colgate
- The model recruited manpower from local areas providing livelihood opportunity to Villagers through a sustained corporate partnership.
- Increased entrepreneurship possibilities were creating by setting an example, without displacing the rural youth