



The new consumers in India's villages are ambitious and demanding just like their urban counterparts. And Hindustan Unilever is responding to the change with a distribution overhaul.

# HUL'S BHARAT DARSHAN

by Samir Srivastava

Soon after he assumed his new role two years ago, Hemant Bakshi realised he had an interesting problem on his hands. As Hindustan Unilever's executive director in charge of customer development, Bakshi had to find a solution that had eluded the company for nearly 25 years. It had taken more than seven decades for Hindustan Unilever's famous distribution juggernaut to directly reach a million outlets across the country. But for the next two and a half decades, Bakshi's senior colleagues simply couldn't find a viable way to expand its direct distribution model.

So when HUL chairman Harish Manwani announced on the sidelines of its annual general meeting in July that the company was in the midst of trebling its rural coverage over two years, it set the

cat among the pigeons. This increase in rural coverage will be a big leap, "and to my mind, will be a huge driver of future growth," Manwani had said. "While competitors are closing gaps, we have to continuously create new gaps." So had HUL stumbled upon a new magic formula all of a sudden that would help it crack open the large rural opportunity?

Not really. All that Bakshi's team did was to question something that Lever managers had believed over decades. All along, HUL had operated on a basic hypothesis: Rural markets were at a different stage of evolution from urban markets. As a result, consumers were given limited variety of stock — mostly the mass market and discount brands — and that too in small pack sizes or sachets. That ensured that HUL distributors were

able to keep costs low, rotate their stock and reach even villages with a population of 5,000 people. This way, HUL's distribution machine pushed deeper into the hinterland, till the cost-benefit ratio began to work against the company. At one stage, it found it difficult to expand into villages with less than 5,000 people.

It isn't as if HUL's brands didn't find their way to the 637,000-odd villages in the country. Thanks to the remarkably efficient network of wholesale traders, it invariably did. But then, so did hundreds of other competitive brands. And from time to time, they used higher trade margins to snatch away HUL's business.

There was another issue: availability of credit. Pradeep Kashyap, CEO of rural marketing consultancy MART, says he's seen several instances of shopkeep-

ers offering low-priced brands (other than HUL), if they knew they had to sell on credit to, say, a low income farmer. On the other hand, when a rich farmer came along, a bar of Lux soap automatically comes out of the bottom shelf. "It is crucial for a company to offer credit to shopkeepers. And this can be done only by direct distribution," says Kashyap. Sales through the wholesale channel are seldom done on the basis of credit.

So, here's the most point: Just how did Bakshi's team take the big leap forward?

### The Way It Was

In the past, HUL had relied on its network of 2,700 redistribution stockists and sub-stockists to supply products to stores in large villages. For smaller villages with a population of less than 5,000, its products were sold through wholesalers. Shopkeepers from these villages would travel to these wholesalers and to pick up their supplies as and when it suited them. Sometimes wholesalers known as star sellers would hire a van and do some distribution on their own. At best, the distribution in these villages was patchy and the company had no strategy on whom to cover and whom to leave out.

In the late 1990s, HUL took its first tentative step to expand rural distribution. Through Project Streamline, it created a hub and spoke system and appointed sub-dealers who had the opportunity to serve villages in their vicinity. While the model served the company well, HUL had little or no control over the distribution chain. Smaller regional brands would come along, offer better markups and sell goods on credit and take away a significant portion of business in a short span. Significantly, the shopkeeper who stocked HUL products felt no loyalty to the company and could switch sides overnight.

Starting 2001, it began expanding its reach through Project Shakti, where it used women entrepreneurs in distant villages to stock and sell its brands. Today, it has a vibrant network of 40,000 women entrepreneurs. But Project Shakti was also the last round of expansion in distribution that the company undertook.

With revenues from Project Shakti doubling every two years, Lever knew the next significant opportunity was in rural India. But to get in on the action, it had to fix distribution first.

### Changes on the Horizon

While the new plan was being formulated, Bakshi was on a market visit to a village in Orissa. In his earlier sales and marketing roles, he'd spent many days traveling to far off places and figured he should allow four hours for the 250-kilometre journey. But thanks to a four-lane road, he reached there barely two and a half hours later. It was the same story across the country. The road infrastructure has improved dramatically across the country, making it easier to access remote villages.

The next realisation was no less dramatic: That the buying habits of rural consumers had changed. Many of these consumers actually aspired to buy the same products they saw the city people using. During retail audits, it was seen that even premium fairness creams and shampoos were being stocked. Shopkeepers were figuring out a way to source such products from the wholesale chain or nearby large towns. "When you go there, you see the kind of products customers want they are very different from our expectations of them," says Bakshi. Television had played a crucial role in this transformation. With 22 million TV sets in rural areas, consumers watched the same programmes and ads that their counterparts in cities watched.

In sum, it meant the old theory of building a rural portfolio made no sense. It simply wasn't aspirational. HUL had been supplying only about 100 stock keeping units (An SKU is a specific product with a unique size and type) to wholesalers in rural areas. Clearly, that wasn't enough. The company set about getting its redistribution stockists to start offering as many as 250 SKUs to stores in villages with a population of over 5,000.

The larger assortment of products brought about its own set of challenges. Stockists in smaller towns often couldn't handle the extra complexity. Almost all

were family-run with no desire to invest in technology. HUL had two choices. It could either come up with a new model for rural distribution or adapt its existing model with minor tweaks. It chose the latter.

First, it went about pouring over digital maps for each of the 637,000 villages in the country to look at how far its distribution already took it and where it could reach with additional investment and smarter route planning. Earlier, local sales representatives had sat with the distributor to make that decision. Often a carrot and stick approach was used to get them to go into unprofitable areas.

Today, the decision to expand can be done centrally from the HQ. The company makes use of 'geo-tagging' to understand how far villages are from the nearest highway and how long it would take the nearest distributor to reach them. Plans can now be made in a more methodical manner. A former HUL executive director says that mapping tools have improved significantly since the implementation of Project Shakti, allowing the company to make more informed decisions to expand reach.

Bakshi talks about a village in Uttar



Alok Brahmhatt

**Incredible HUL** Hemant Bakshi is bringing a new understanding of the rural consumer

Pradesh near Garh Mukhteshwar that wasn't being serviced by a distributor. Shopkeepers there depended on a nearby wholesale market to stock up. The distributor didn't go to that village as that would have meant a long detour across a river. Using maps, HUL came up with a more efficient route for the distributor allowing him to service this village as well.

The maps have enhanced HUL's ability to reach out to far-off villages, subject to the quality of roads. For instance, distributors can easily travel 40 kilometres off the main highway in Tamil Nadu while in U.P. and Bihar, 15 kilometres is as far as they'll go. (See graphic on page 41).

But spread your network too thin and the distributor's profitability will go for a toss. This is where another crucial advantage of direct distribution comes in. With the company — and not the wholesaler — controlling what the shopkeeper buys, it is possible to manage the product mix and push more higher-margin products into the market. The added profitability can then be used to get distributors to push deeper into distributing products and also invest in technology.

This is also where the company has differentiated between urban and rural distributors. In urban areas, HUL often partners with its distributors to help them raise capital and maintain their business. Expansion in the larger towns is less important than functioning efficiently as most urban markets are witnessing saturation in demand. Distributors on their part are expected to replenish supplies in stores as and when the shopkeeper asks them to do so. Stock levels for urban distributors are kept at one or two days only.

In essence they've moved from selling to servicing their customers, the shopkeepers. With their cost of capital coming down, the markups the company offers them have also fallen from the earlier 5 percent to 2-2.5 percent. HUL has also moved to reduce the number of distributors in urban areas. In a city like Mumbai, the number of distributors has reduced from over a 100 to five.

In contrast, rural areas are still in the growth mode and distributors are expected to actively push shopkeepers to stock HUL soaps, shampoos and detergents. Pushing products and grabbing store

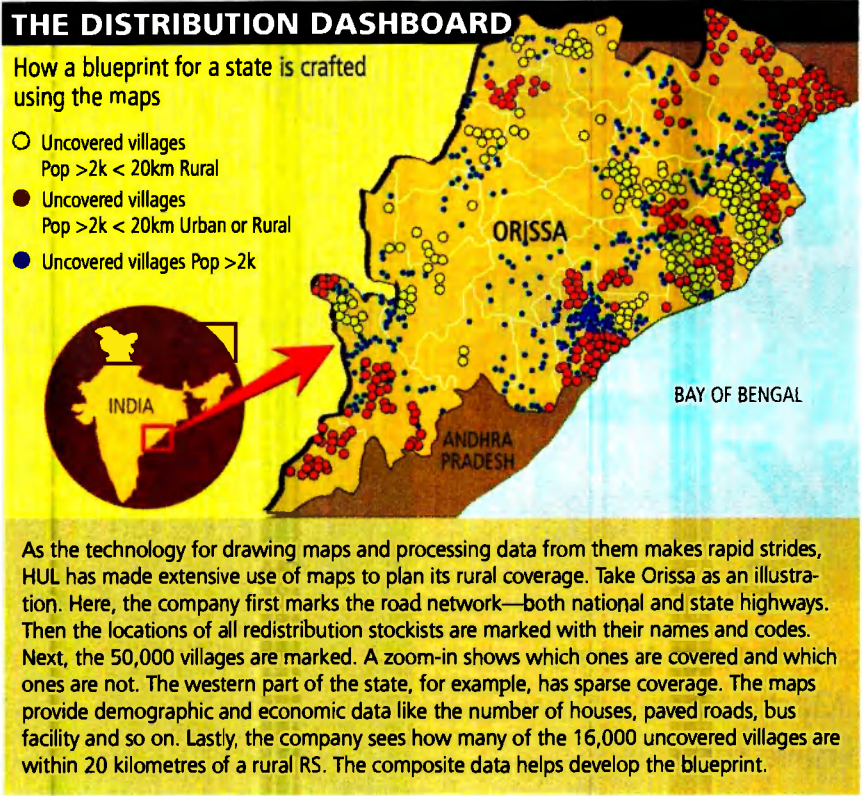
space is still very much the name of the game. Promotion through merchandising and display will play a key role. Add to that the higher cost of raising capital for smaller outfits and the company still offers them healthy markups of 5 percent. Most distributors make about 2-2.5 percent on the goods sold. They usually have two weeks' worth of stock with shopkeepers and one week's worth of inventory, which allows them to turn them over 17 times a year leading to a return of at least 34 percent. This takes care of their cost of capital as well as allowing them to invest in technology. (The company declined to comment on the return on investment for rural distributors).

On their part, distributors are expected to offer the same terms of trade to village shops as the company offers in larger towns. Goods are sold at the same 3 percent markup and no money has to be put upfront as when they were buying directly from the wholesale channel.

In addition to improved maps, HUL is also making use of wireless technology to get real time information on demand patterns and trends. Distributor sales teams



**A New Link in the Chain** 'Shaktiman' Sarat Ku Mohanty of Barisana village in Orissa is now part of HUL's rural push. Here, he is shown packing the products for the day, leaving his home on a sales trip and selling to local shops.



Hemal Sheth

have been given handheld devices. In other places, mobile phone applications are used to key in this data, which is then automatically uploaded. Experts, however, say that the jury is still out on how effectively these devices work on the field.

HUL can now get almost real-time information on consumer behavior and demand patterns, instead of having to rely on its distributors for such data. Bakshi claims he has information coming from a shop in Thane and a village in Orissa almost at the same time. One way to use this would be to craft marketing campaigns for products that are popular in certain regions and districts of the country.

A spike in demand during festivals can also be addressed more effectively. HUL already knows that buying patterns in a village with a population of 1,500 in Tamil Nadu are similar to those of a village in Bihar with a population of 3,000 due to the disparity in income levels. Better demand forecasting has allowed HUL to increase sales in rural stores that have direct coverage by a third, according to AC Nielsen.

Lastly, the company hopes to improve

its product mix and increase sales of higher margin soaps and detergents. With smaller pack sizes, the company has seen that consumers who can afford more expensive brands tend to shift over.

### The Last Mile Challenge

In villages where direct distribution would not be cost-effective, HUL is also making use of its well-developed network via Project Shakti. The 40,000 women, or *Shaktiammas*, make about Rs. 1,000 a month by selling company products to other women as well as shops in their village. (People familiar with the numbers say HUL makes Rs. 500-600 crore a year with this segment growing by 50 percent.)

In expanding its reach to villages with a population of below 2,000, HUL decided to make use of the men folk in *Shaktiammas'* families. This will allow it to service an additional 200,000 villages taking the total to 500,000 villages. Each *Shaktimaan* is given products to sell as well as a sturdy bicycle to take to villages within a 5-kilometre radius. Only 20,000 top performing *Shaktiammas* have been given the op-

tion of having their men folk work with them. The number of products or SKUs they carry is restricted to about 50. HUL had initially estimated it could add about 300,000 stores through this route but has already received suggestions on 400,000 stores that can be added.

Not everyone is convinced that the model is sustainable. K.S. Ramesh, former head of Cavincare, says that the increased volumes are unlikely to make up for the increased cost of distribution. He points to other companies like P&G that use superior marketing to create a pull in the market which forces shopkeepers to go out and stock their models. "The model is probably been forced from the West where there are far fewer outlets and so 100 percent reach is absolutely necessary," he says.

Then again, the products being supplied to rural markets are for the time being low margin ones. They're often sold in small sachets which add to the cost of distribution and reduce margins to 10-12 percent as against the 12-14 percent norm. "I have a tough time understanding how the economics of that will work. Products don't have the kinds of margins needed to justify the travel time," says Hemant Kalbag, a partner at K.T. Kearney who has worked on distribution models.

There is no straight way to assess the economics of this rural push that is designed to bring in 500,000 new outlets under HUL's rural coverage, taking the total number to 750,000. Bakshi says there are several models in play. For instance, there could be a stockist who has to make a small diversion to service a village; or employ people for an extra day to service a village. In either situation the costs would be vastly different. But HUL works on a model where the focus is on keeping the total business of the stockist profitable.

"We're doing the same pioneering work which we did 50-60 years back. And what we did 60 years ago is paying off for us even today. We created brands that remain popular. Consumers are coming into these categories for the first time. This would create the next competitive advantage and a legacy for many years to come," says Bakshi. ■