

HUL Finds New Buddies for its Rural Shakti

FMCG co to ally with telcos and banks for distribution in outreach to Bharat

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In a bid to viably cover each of India's 6.38 lakh villages in which some 775 million people reside, Hindustan Unilever (HUL) has initiated discussions with top telecom and banks & financial services companies to create a joint distribution model. The maker of Lifebuoy soaps, Surf detergents and Dove shampoos plans to ride on the progress made by its alternative distribution channel called Project Shakti to penetrate deeper into rural India in a cost-effective manner.

HUL, which hopes to have a million outlets by end-2011, up from 5.50 lakh last year, has unveiled a blueprint titled Gateway to Rural: Beyond FMCG. Says Hemant Bakshi, executive director (sales & customer development), HUL: "Since all of us (HUL, banks and mobile service providers) are incurring high costs in the quest to go rural, it makes a lot of sense to partner and work out win-win deals. HUL will play a key role to be an enabler in reaching these markets."

HUL has initiated a pilot project with India's largest bank, State Bank of India, in Maharashtra and Karnataka. HUL's Shakti Ammas — women who sell HUL's consumer products in rural India — have doubled up as customer service providers and opened around 1,000 accounts for rural folk. If this exercise proves scalable, HUL plans to roll it

Rush for Rural Reach

RURAL OUTLETS

2009	2.5 lakh	
2010	5.5 lakh	
2011	10 lakh*	

* Projected

out across the country over the next 12 months.

Banks, which are being pushed by the regulator to become ambassadors of financial inclusion, are also grappling with how to look beyond the conventional branch model to penetrate deeper in a viable manner.

HUL's Shakti model could help banks take products like insurance and mutual funds to non-urban folk. This would not be too different from what ITC's rural model for farmers, the ITC e-Choupal, is attempting. Insurance companies are reportedly keen to ride on the extensive network ITC's e-Choupals have built with the farming community.

The common strand that binds banks, mobile service providers and fast-moving consumer goods companies like HUL is that they all have to drive deeper into rural markets to keep the growth coming. Recently, for instance, SBI and Bharti Airtel entered into a joint venture to provide affordable banking services to the unbanked.

Sharing Costs Makes Sense ►► 25

Sharing Costs Makes Sense

►► From Page 1

Airtel's 1.5 million retailers and distributors across India will play a key role in taking these services upcountry.

The phenomenal reach of mobile service providers would have convinced IUL to start talking with them (although Bharti Airtel may not be one of them). It is unclear at the moment whether IUL will form separate rural distribution joint ventures as a business model or sign revenue-sharing agreements.

Says Jagdeep Kapoor, chairman, Samsika Marketing Consultants: "IUL need not reinvent the wheel when it can use the existing reach of other companies in remote rural markets. Collaboration would be cost-effective in



speeding up reach and lowering costs."

Adds Anand Mour, vice-president, Indiabulls Securities: "Sharing costs with companies that have different business interest seems feasible to reduce the cost per consumer reached."

The Indian rural market is expected to grow more than 10-fold to become a \$100-billion opportunity for retail spending in the next 15 years,

according to market research firm The Nielsen Company. The rural market is currently worth about \$9 billion in consumer spending in the FMCG space annually.

The study also showed that in more than half of the largest FMCG categories, rural India is now contributing more to growth than urban parts. One of the key drivers of this trend appears to be the unprecedented growth of smaller packaging options in rural India.

IUL, which gets more than 40% of its sales from rural markets, has been selling premium products such as Dove soap and Ponds anti-ageing cream in smaller stock keeping units to reach roughly 70% of India's population that resides in rural areas.