

# **Marketing Channel Strategies in Rural Emerging Markets**

Unlocking Business Potential

By Benjamin Neuwirth

## **EXECUTIVE SUMMARY**

In his landmark book “The Fortune at the Bottom of the Pyramid,” C.K. Prahalad describes the profits that can be earned by selling products to “Bottom of the Pyramid” customers. While there is truth to this, companies face unique challenges when operating in the rural regions of emerging markets where many of these customers live. For example, the consumer population is dispersed over a wide geographic area, transportation infrastructure is often poorly developed, and many consumers have sporadic and extremely low incomes.

This paper examines these challenges from a marketing channel perspective. The fundamental question is: How can companies entering into rural emerging markets design a marketing channel strategy that meets the needs of customers and allows for the long-term profitable success of the business? I begin answering this question by examining common challenges that companies operating in this environment face. Each challenge is accompanied by examples of companies that have solved the problem in a unique way. Then, I develop a generalized framework for designing marketing channels in rural emerging markets. Finally, I apply the framework to d.light Design, a company that manufactures and sells solar lanterns in India and Africa and that I worked at in the summer of 2011.

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## INTRODUCTION

The majority of emerging market nations continue to have largely rural, agrarian-based economies.<sup>1</sup> In India alone, of the one billion residents counted in the 2001 census, roughly 720 million people lived in rural areas.<sup>2</sup> Delivering products and services into this market presents both unique challenges and enormous opportunities for companies.

In his book “Fortune at the BoP,” author C.K. Prahalad challenges corporations and entrepreneurs to realize the enormous profit potential that lies in emerging markets. Prahalad writes:

If we take nine countries – China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa, and Thailand – collectively they are home to about 3 billion people, representing 70 percent of the developing world population. In PPP terms, this group’s GDP is \$12.5 trillion, which represents 90 percent of the developing world... This is not a market to be ignored.<sup>3</sup>

While there may be profit potential, the question remains as to how companies can successfully tap into it. This paper examines one particular part of this question: How can a company attempting to enter a rural region in an emerging market with a new product or service and an unknown brand make a profit? This paper will examine the above question from a marketing channel perspective.

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<sup>1</sup> Vital Wave Consulting, *10 Facts About Emerging Markets*, <http://www.vitalwaveconsulting.com/pdf/10%20Facts%20about%20Emerging%20Markets.pdf> (2008).

<sup>2</sup> 2001 Indian Census, [http://censusindia.gov.in/Census\\_Data\\_2001/India\\_at\\_glance/rural.aspx](http://censusindia.gov.in/Census_Data_2001/India_at_glance/rural.aspx), (2001).

<sup>3</sup> C.K. Prahalad, *Fortune at the Bottom of the Pyramid* (New Jersey: Pearson Publishing, 2005).

In their book “Marketing Channels (7<sup>th</sup> edition),” authors Anne Coughlan and Erin Anderson give the following definition for a marketing channel:

A marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption.<sup>4</sup>

The nature of rural emerging markets makes building a successful marketing channel challenging. The population is widely dispersed, transportation infrastructure is poor or non-existent, household incomes are low and sporadic, and traditional methods of creating brand trust and awareness will not work.

I propose that an entering company needs to design marketing channels that both successfully deliver products to customers in a capital-efficient way, and that *unlock* the latent desire that customers have to purchase and receive those products. In this manner, not only are transporters and warehouses part of a successful marketing channel, but so are entities that educate customers about products and services they may not know they need, as are the financial programs that help customers finance their purchases. This means that, in the rural emerging market context, Coughlan and Anderson’s definition of marketing channels should be extended to include the “interdependent” organizations and programs that enable customers to use and consume in the first place.

This paper begins by examining the unique challenges that a company will face

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<sup>4</sup> Anne Coughlan and Erin Anderson, *Marketing Channels (7<sup>th</sup> edition)* (New Jersey: Prentice Hall, 2001), 4.

when building a marketing channel in rural emerging markets. Each challenge is discussed and examples are given of companies that have solved the challenge in creative ways. Then, I present a framework that new companies can use when they are in the process of building their own marketing channels in rural emerging markets. Finally, I apply the framework to the case of d.light Design, a company that manufactures and sells solar lanterns in rural emerging markets. I worked at d.light Design in the summer of 2011, and the issues I witnessed while working there were the inspiration for this paper.

It should be noted that while I include examples and data from rural emerging markets located all over the world in this paper, the majority of the examples come from India, the market with which I have the most familiarity.

### **CHALLENGE: DISTRIBUTION NETWORK DESIGN**

When a company decides to sell its products and services in a rural emerging market, one of the most important decisions it will make is the design of its distribution network. As Chopra and Meindl write in their book “Supply Chain Management”, “An inappropriate network can have significant negative effects on the profitability of the firm.”<sup>5</sup> While a company operating in a developed market needs to carefully consider its distribution network design in order to achieve profitability, companies operating in rural emerging market face particular challenges because of the low density of the population and poorly developed transportation infrastructure.

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<sup>5</sup> Sunil Chopra and Peter Meindl, *Supply Chain Management (Fourth Edition)*, (New Jersey: Prentice Hal, 2010), 78.

The majority of populations in emerging markets continue to live in rural areas. In India for example, according to the 2001 census, 72% of the country’s population resides in over 600,000 villages. Of those villages, 85% have less than 5,000 people in them, meaning that 612 Million people in India live in low-density areas.<sup>6</sup> As a consequence of the low population density companies may be faced with continuously escalating inventory holding and transportation costs as they are forced to stock and manage sales points in thousands of villages to meet customer expectations for product availability.

Exacerbating the problems associated with product distribution into low population density areas, rural emerging markets also often have poorly maintained transportation infrastructure, if indeed the infrastructure exists at all. The problems of transportation in rural emerging markets has to be experienced to be understood, so I will offer several anecdotes from India in place of hard statistics:

- While in India I traveled by car from Varanasi to Shahganj in the rural district of Jaunpur. The road connected several large towns and small cities, and although the road was officially described as being “paved,” the road was actually in horrible disrepair. It took me 5 ½ hours to travel 100 kilometers, which is an average speed of 18 kilometers per hour.
- While completing market research in another rural district, I was asked to travel to a large village several kilometers away. However, when it was ascertained that I was traveling by car the invitation was rescinded due to the

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<sup>6</sup> Pradeep Kashyap and Siddhartha Raut, *The Rural Marketing Book*, (New Delhi: Dreamtech Press, 2005), 190.

impassability of the village “road” to anything but motorcycles and bicycles.

- In his book “In Spite of the Gods”, author Edward Luce described his voyage by car to a village not far outside of Delhi, the most metropolitan Indian city: “The village is about a three-hour drive from Delhi along potholed roads that are chock-a-block with scooters, bicycles, donkey carts and antique tractors.”<sup>7</sup> (See Exhibit 1 for an example of the traffic conditions in rural Indian villages)

To further confirm the lack of good transportation infrastructure in India, Pradeep Kashyap writes in “The Rural Marketing Book” that “68 per cent of the rural market [in India] still lies untapped primarily due to inaccessibility,”<sup>8</sup> and C.K. Prahalad offers further insight beyond the borders of India when he writes more generally that “access to distribution in rural markets continues to be a problem.”<sup>9</sup>



**Exhibit 1. Women with donkeys carrying bricks blocking traffic in a rural Indian village.**

<sup>7</sup> Edward Luce, *In Spite of the Gods*, (New York: Doubleday, 2007)

<sup>8</sup> Kashyap and Raut, p 189

<sup>9</sup> Prahalad 2006

Based on the above predictions of continuously escalating inventory costs and impassable transportation infrastructure, it may seem an insurmountable task to distribute a product or service in a rural emerging market. While many companies have failed at distribution in this context, others have succeeded, and we can learn from their distribution network designs. The key points companies should focus on when designing their rural distribution networks in emerging markets are as follows:

1. The company should choose the distribution network model that is appropriate for the product or service it is selling.
2. While continuing to meet the customer’s needs, the company should aggregate consumer demand into central locations as much as possible in order to decrease inventory and transportation costs.
3. The company should consider taking advantage of rural entrepreneurs (RE’s) to facilitate last-mile product delivery and sales.

Let us now examine a few examples of successful distribution models. In this paper I focus on distribution network design for fast moving consumer durable (FMCG) products like food products and cosmetics, and for consumer durables like consumer electronics. It is important to note that no matter what type of product or service a company is selling, the distribution network must be tailored to meet the needs of the business and its customers.

#### *Fast Moving Consumer Goods: Hub-and-Spoke*

Consumers of FMCG products expect fast response time; that is, when a consumer decides to either eat a snickers bar or wash their laundry with Nirma detergent, the

consumer expects their desired product to be available immediately for purchase. This means that a company entering into a rural emerging market with an FMCG product needs to make the product available at the local village level. While stocking FMCG products in widely dispersed villages will drive up inventory costs, Chopra and Meindl suggest that this may indeed be the correct strategy. They write:

Distribution networks that carry local inventories are suitable for products with high demand, especially if transportation is a large fraction of total cost. These networks incur higher inventory cost but lower transportation cost and provide a faster response time.<sup>10</sup>

Some companies do indeed choose to stock many small village shops with their products. For instance, Hindustan Unilever Limited (HUL) claims that its branded products are available in 6.3 million retail outlets in India<sup>11</sup>, and HUL's competitor Nirma claims that its products are available in 2 million retail outlets<sup>12</sup> (See exhibit 2 for an example of a typical retail store in rural India). HUL and Nirma, however, have very strong brand names in India and sell products (like shampoo sachets) that cost one or two rupees and that have high and constant demand. For a company entering a rural emerging market, whose FMCG products will likely have less immediate demand, I recommend using a hub-and-spoke model to supply villages. Colgate took this approach while determining how to best reach small villages in rural India with

its oral care products. The company had experimented with stocking retailers in very small villages, but found that its traditional sales force-driven model was not economically feasible in geographically dispersed villages with low levels of demand. Colgate decided to hire local entrepreneurial youth to distribute its products in villages and at weekly markets called *haats*. The youth bought Colgate products with cash from a local distributor, and then biked within a 10 kilometer radius selling the products to villagers. Although Colgate payed the youth a small stipend, they received less margin than a professional sales person would have and they reduced Colgate's inventory costs.<sup>13</sup>



**Exhibit 2. A typical retail store in a rural Indian village.**

Other FMCG companies have had success with the hub-and-spoke (with the spokes being local entrepreneurs) model as well. Coca-Cola has successfully employed the hub-and-spoke model in multiple rural emerging markets. In Africa, for instance,

<sup>10</sup> Chopra and Meindl, p 101

<sup>11</sup> Doug Baille, *Unilever in India*,

[http://www.unilever.com/images/ir\\_Unilever-in-India\\_tcm13-113961.pdf](http://www.unilever.com/images/ir_Unilever-in-India_tcm13-113961.pdf) (November 2007)

<sup>12</sup> Information from the Nirma Corporation:  
[http://www.nirma.co.in/dist\\_reach.htm](http://www.nirma.co.in/dist_reach.htm)

<sup>13</sup> Benjamin Mathew and Amit Mookerjee, *Evolution of a Sustainable PPP Model in the BOP Market*, (Internal MART document: August 2008)

Coca-Cola set up “Manual Distribution Centers” in which “an independent person was given the rights to distribute Coca-Cola products within a defined radius”<sup>14</sup>. Similarly, in India local entrepreneurs sell Coca-Cola using “all possible means of transport, ranging from trucks, auto-rickshaws, cycle rickshaws and hand carts, to even camel carts in Rajasthan and mules in hilly areas, to transport its product from the nearest hub.”<sup>15</sup> (See exhibit 3) As Colgate and Coca-Cola have shown, the hub-and-spoke model for FMCG products works well because it addresses the inventory cost and transportation infrastructure issues that are associated with distributing products in rural emerging markets while also providing for good product availability at the small-village level.



**Exhibit 3. An auto-rickshaw delivers Coca-Cola in a rural Indian village.**

*Consumer Durables: Aggregate Demand in Population Centers*

Some companies mistakenly believe that the rules for FMCG products apply to consumer durables as well. These companies distribute

<sup>14</sup> Business Call to Action, *Coca-Cola in the developing world*, [http://www.youtube.com/watch?v=CW4-QUBZ\\_gQ](http://www.youtube.com/watch?v=CW4-QUBZ_gQ)

<sup>15</sup> Kashyap and Raut, p 221

TV’s and fans to retailers in villages in order to get the product close to the customer and facilitate a sale. Despite their best efforts, companies selling durables in villages have generally failed. As Xavier and Swaminathan write in *Business Line* about the Indian consumer durables market:

For example, for fans, for which 53 per cent of the residential segment’s sales are from rural areas, only 4.7 per cent came from the 7,208 rural outlets. For colour television sets, rural areas account for 26 per cent of the total sales but only 4.4 per cent happened through the 2,244 outlets in rural areas.<sup>16</sup>

Xavier and Swaminathan go on to identify that rural consumers prefer to buy consumer durables in large towns and cities because of the better prices they receive, and because of the better product variety that is available. I saw this phenomenon in my own travels in India as well. While walking through the rural Kerala backwaters, I asked a local resident if he bought his TV on the island he calls home. He said no, that he takes a 1.5 hour boat ride to buy electronics when he needs them. According to C.K. Prahalad, the rural poor possess the same sentiment in Brazil, where “BoP customers desire the same merchandise as top of the pyramid customers.”<sup>17</sup>

In addition to meeting the consumer’s needs for variety and value, companies should sell consumer durables in large towns and cities for distribution network design reasons as well. Consumer durables have lower and more varied demand than FMCG products. In order to handle the higher variation in consumer durable sales, but also

<sup>16</sup> Francis Xavier and V. Swaminathan, “Durables to Doorsteps”, *Business Line: Praxis* (July 2003): 52-56

<sup>17</sup> Prahalad 2006

meet the customer's expectation of being able to see and trial the product, demand from a larger population of customers should be aggregated into a central purchasing location. In addition to towns and cities, companies in India can consider selling their products in weekly *haats* which attract up to 4,000 consumers at a time from multiple nearby villages.

One problem with the demand aggregation model is that while many consumer durables can be easily picked up by customers in a central location, some products require technical installation onsite. In this case it may make sense to have some selling locations more geographically dispersed to facilitate the response time that customers expect when they buy the product. SELCO, a startup company that manufactures and sells solar light systems for houses, has 25 "Energy Service Centers" distributed throughout different districts in rural India. Despite the increased cost of inventory caused by warehousing product in such a dispersed manner, SELCO is close to breakeven.<sup>18</sup>

The last insight for companies entering rural emerging markets with consumer durable products is the recent rise of rural "hypermarts" in some countries (see exhibit 4). While these large-format stores are located in rural areas, they provide many products and services and cater to a large number of consumers in the surrounding towns and villages. One example of such a store is ITC's *Choupal Saagar* in India. The Choupal Saagars can often be found on major roads in rural areas, and they sell everything from clothing to fertilizer to

motorcycles.<sup>19</sup> These stores are effective at aggregating rural consumer demand and companies should consider selling their consumer durable products in them.

## **CHALLENGE: DISTRIBUTION NETWORK LOGISTICS**

Once a company entering a rural emerging market has determined what type of distribution network it should use, as described above, its next challenges lies in creating an effective distribution network on the ground. The problem the company will face, however, is that the logistics capabilities it needs may not currently exist in the market, or, if they do, that the companies providing logistics capabilities may be highly disorganized and ineffective. To add to the problem, the company will also be under pressure to keep its costs low in order to facilitate the low prices that rural customers need. As C.K. Prahalad writes, "Because BOP forces an extraordinary emphasis on price performance, firms must focus on all elements of cost."<sup>20</sup>

If the company already had ensured product demand in the market, it would be able to build out a custom distribution network with relatively low risk. Eveready, maker of batteries and flashlights, did this in India. To reach deep into rural markets, Eveready procured 1,000 vans and 44 warehouses and began distributing to 600,000 retail outlets.<sup>21</sup> Because Eveready has 80 percent market share in flashlights in India, the large expenditures needed to build the distribution network could be made with relative assurance that there would be buyers when an Eveready van pulled up to a small

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<sup>18</sup> Yale School of Management Case Research and Development Team, *SELCO 2009: Determining a Path Forward*, <http://nexus.som.yale.edu/design-selco/?q=node/94> (2009)

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<sup>19</sup> Ali Farhoomand, *ITC E-Choupal: Corporate Social Responsibility in Rural India*, (Hong Kong: Asia Case Research Center: 2008)

<sup>20</sup> Prahalad 2006

<sup>21</sup> Kashyap and Raut, p 198

village in rural India (and in fact I saw  
Eveready flashlights being sold in many

small Indian villages).



**Exhibit 4. A hypermart in rural India.**

However, if a company does not have a product and brand that already enjoys immense pull from the market, it is risky to build out an expensive custom distribution system before the first product has been sold. As Kashyap at MART, a leading rural marketing consulting firm in India, says, large companies are “incurring huge costs” to distribute their products into rural areas of India and they are finding it challenging to “design a distribution model that is cost effective.”<sup>22</sup>

Another option the entering company could consider is building a distribution system by hiring existing distributors and logistics companies. In rural areas of emerging markets, however, this strategy comes with its own set of perils as the existing distribution and logistics companies

will likely be highly unorganized and inefficient, not to mention that the entering company may have little opportunity for recourse should the distributors it hires renege on their contracted promises.<sup>23</sup>

A good example of the problem of building out a distribution system from existing distributors and logistics companies comes from the pharmaceutical industry in India. While there is growing demand for medical drugs in rural India, the industry has struggled to supply this demand because of the inefficiency of their distribution network made up of private clearing and forwarding agents and small retailers. Eric Langer and

<sup>22</sup> Kashyap and Raut, p 192

<sup>23</sup> According to the IFC and World Bank, India is ranked 182<sup>nd</sup> in the world (2<sup>nd</sup> to last) in contract enforcement. The World Bank, *Economy Rankings*, <http://www.doingbusiness.org/rankings> (June 2010)

Abhijeet Kelkar give three reasons for the pharmaceutical industry's problems in India:

The main hurdles include the highly fragmented nature of the distribution network, limited advancement in regulatory reforms, and presence of strong resistance from lobbies of traders involved in the supply chain of pharmaceutical products.<sup>24</sup>

When pharmaceutical company Cipla attempted to break out of the existing distribution network and deliver its asthma medicine directly to customer's homes, the trader's lobby boycotted Cipla and stopped stocking its drugs in retailers. Cipla was forced to stop its distribution network innovation and give in to the trader's lobby.

I propose that a company entering for the first time into rural areas of emerging markets should if possible *not* attempt to build custom distribution networks or piece together a complete distribution network from existing private logistics firms. Instead, in order to keep costs low and increase the probability of success, the entering company should as much as possible *piggyback* on top of successful distribution networks that either have already been built by companies or that already exist in the local society. Piggybacking has been identified in the academic literature as a good alternative to building a new distribution network. Vern Terpstra and Chwo-Ming J. Yu write:

Piggybacking is a non-equity arrangement wherein one producer markets the products of another producer. The first producer – the carrier in this case – performs as a distributor in marketing the products

of the second producer – the rider. The fact that the rider's products are being distributed by another producer may bring important benefits to the rider as compared with using a regular distributor.<sup>25</sup>

Terpstra and Yu go on to explain that the rider chooses to piggyback to take advantage of the carrier's distribution network and local knowledge, while the carrier joins in the relationship to add the rider's product or service to its portfolio. The authors give the example of Whirlpool piggybacking on top of Sony's distribution network in Japan in the 1970's, a partnership that increased Whirlpool's sales and allowed Sony to offer better product selection to its customers.<sup>26</sup> More recently, in India the Energy and Resource Institute (TERI) found that piggybacking their solar light distribution on "existing infrastructure and entrepreneurial networks" lowered the cost of their supply chain.<sup>27</sup>

The key attributes a rider company entering into a piggybacking relationship should look for are:

1. The carrier has a proven distribution network that reaches deep into rural areas
2. The carrier has a long-term interest in allowing the rider to piggyback on its distribution network.
3. The carrier uses a distribution model that will be effective for the type of product the rider is providing (as discussed in the previous section)

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<sup>25</sup> Vern Terpstra and Chwo-Ming J. Yu, "Piggybacking: A Quick Road to Internationalization", *International Marketing Review* Volume 7 Issue 4 (2001): 52-63

<sup>26</sup> Terpstra and Yu p 59

<sup>27</sup> Rehman, Kar, Raven, Singh, Tiwari, Jha, Sinha, Mirza, "Rural Energy transitions in developing countries: a case of the Uttam Urja initiative in India", *Environmental Science and Policy* Volume 13 (2010)

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<sup>24</sup> Eric Langer and Abhijeet Kelkar, "Pharmaceutical Distribution in India", *BioPharm International* (September 2008), 2-5

The second point is important if the piggybacking relationship is going to last beyond an initial trial phase. The “interest” can be either profit-motivated (for a company) or social welfare-motivated (for a NGO or local trade organization).

It should be noted that the rider company will likely not be able to use a pure piggybacking model for their distribution. A majority of product movement logistics may be handled by a large corporate partner, however the rider may still have to set up local warehouses to supply the carrier with products in a timely manner. Or, in another example, the rider may not be able to find carriers in some markets that it feels are necessary for business success, and so the rider will have to organize its own distribution in those markets.

Below are three types of piggybacking relationships a new company seeking to distribute its products in rural emerging markets can form. The company should choose the type of relationship that best meets its needs.

#### *Corporate Partnerships*

Just as Whirlpool did with Sony in Japan, an entering company can partner with a corporation that has an existing distribution network in the target geography. One example of this in an emerging market is the partnership between Sara Lee and Godrej in India. Seeking to enter the India market, in 1995 Sara Lee partnered with local conglomerate Godrej to market and distribute its products. Another example of a successful corporate piggybacking relationship is Proctor & Gamble and Indian consumer goods company Marico Industries. Seeking to distribute deodorant, detergent, and diapers into rural India, Proctor & Gamble formed a “distribution

alliance”<sup>28</sup> in 1999 with Marico in order to capitalize on the Indian company’s distribution network.

While the above two examples involve large companies, new and/or small companies can also piggyback on the distribution networks of established companies in emerging markets. My analysis of d.light Design later in the paper provides a good example of this.

#### *Local Non-Profit Organizations*

In addition to corporate distribution networks, rural emerging markets often play host to numerous formal and informal local non-profit organizations that reach active networks of rural consumers. Many companies are finding that engaging these local networks provides excellent access to rural consumers at very low costs. The most famous example of this is Hindustan Lever Limited’s (HUL) Project Shakti. Under this initiative HUL has partnered with womens’ Self Help Groups (SHG’s) in rural villages in India. The SHG’s have been set up by the government and NGO’s to empower women through collective savings and entrepreneurship. HUL wanted to reach deep into rural India where villages have less than 2,000 residents, but HUL’s standard distribution network could not do so in a cost-effective manner. On the other hand, local SHG’s were looking for new entrepreneurship opportunities. HUL delivers products to individual women (called Shakti Ammas) in the SHG’s, receiving cash on delivery. The women entrepreneurs then sell direct to consumers and small retailers in their local area.<sup>29</sup> The

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<sup>28</sup> “P&G Snaps Pact With Marico,” *Business Standard*, 30 November 2002 <http://www.business-standard.com/india/news/pg-snaps-pactmarico/119441/>

<sup>29</sup> MART consulting and Hindustan Unilever, *Project Shakti: Women’s Empowerment* (2005)

Project Shakti initiative currently employees 45,000 women entrepreneurs and services three million consumers in 100,000 villages.<sup>30</sup> C.K. Prahalad wrote about this initiative:

The SHGs and the direct distribution system we have described, such as Shakti Amma, represents an extraordinary innovation that both cuts costs and risks for the firm and at the same time creates and empowered group of new entrepreneurs with sustainable, rising income opportunities.<sup>31</sup>

Another great example of using local non-profit organizations to distribute products and services is from Ekagon, a startup company based in New Delhi, India. Ekagon delivers customized agriculture advice to farmers in rural India via their cell phones. In order to sign-up the farmers, Ekagon piggybacks on local farmer's federations and other farmer organizations. Once a farmer's federation has agreed to work with Ekagon, the federation appoints member farmers in local villages to be the salespeople for Ekagon. In return for the service, Ekagon shares revenue with the farmer's federation.<sup>32</sup>

The above cases show the increased sales that companies can capture by engaging with local non-profit networks. It is important to note that both HUL and Ekagon partnered with organizations that had something to gain from the partnership as well (in both cases it was additional

revenue). In my interviews I heard about partnerships that were not successful because the local non-profit did not have enough to gain from the piggybacking relationship. Before entering into a piggybacking relationship the rider company should determine that the carrier non-profit will gain enough from the relationship to stick with it for the long-term.

#### *Business-to-Business Sales*

The last piggybacking model I will discuss is very cost efficient but comes with several important drawbacks. A company seeking to distribute its products in a rural emerging market can initiate a large sale of its products to another company, non-profit organization, or government. Once the carrier is in possession of the products, they can distribute them in the rural areas as they see fit. KickStart International, maker of water pumps for poor farmers in rural Africa, operates part of its business using this model. Once KickStart has manufactured the water pumps, it ships them to the carrier organization and receives cash on delivery. This model is efficient because KickStart only has to manage the business-to-business relationship, and not the distribution network.

The downsides to this model is that it is hard to track how the downstream customers are receiving and using the products, and the rider company may not gain access to market insights in the same way that a company operating on the ground would. For example, while KickStart recommends that the non-profit organizations that buy its pumps sell the products to the end consumers, they have no way to verify if the pumps are sold, or if they are given away for free. KickStart was founded with the philosophy that purchasing a product has more of a transformational effect on a rural consumer than receiving a product for free,

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<sup>30</sup> Unilever, *India: Creating Rural Entrepreneurs*, <http://www.unilever.com/sustainability/casestudies/economic-development/creating-rural-entrepreneurs.aspx> (2005)

<sup>31</sup> Prahalad 2006

<sup>32</sup> Vijay Aditya, CEO of Ekagon, interview held in New Delhi, August 2011

and the company worries that its social mission could be diminished by product giveaways.<sup>33</sup>

## CHALLENGE: AFFORDABILITY

One of the key issues that may prevent rural consumers in emerging markets from making a purchase is lack of substantial and consistent household income. By better understanding the size and patterns of earnings in rural emerging markets, companies can design both products and purchasing schemes that help unlock the enormous purchasing potential of populations in rural emerging markets. The most famous example of success in this area is the single-serve sachets of fast moving consumer goods (FMCG) products such as shampoo and laundry detergent that are available in even the deepest rural areas in India. While a traditional bottle of shampoo may be too expensive for a rural customer to afford, they can often afford the Rs.1 price of a single-serve amount of the same shampoo. Hindustan Unilever (HUL) was a leader in the sachet revolution and now single-serve sachets of shampoo make up 70 percent of HUL's shampoo sales in India.<sup>34</sup>

There are two income patterns that are characteristic of the rural poor in emerging markets. The first is simply a lack of substantial household income. As C.K. Prahalad points out, much of the rural population in emerging markets makes up the BoP; or those people who subsist on less than \$2 USD per day (I will refer to BoP in this paper as BoP). According to Prahalad, this level of the income pyramid currently contains 4 billion people. The other income pattern that characterizes the rural poor, and

perhaps the less well-known one, is the sporadic nature of a person's earnings. As the authors of "Portfolios of the Poor" write, "households are coping with incomes that are not just low, but also irregular and unpredictable."<sup>35</sup> The book goes on to explain the reasons for this as follows:

In the villages, farmers earn the bulk of their income during two to three peak harvest months, earning nothing during troughs. Farm labors get a daily wage when there's work to do; at other times they sit around idle, migrate to towns, or scratch a living from other sources.<sup>36</sup>

I gained personal experience with this phenomenon as well while traveling through rural India. One farmer I spoke with in the Indian state of Uttar Pradesh said that he grows 2-3 crops per year, and that he earns Rs. 10,000-15,000 per crop. Assuming an average of Rs. 12,500 earned for each of the three crops, the farmer earns a total of Rs. 37,500 per year, or \$833 USD per year, and he earns it intermittently.

Although consumers in rural emerging markets clearly have low and sporadic incomes, it would be a mistake to assume that these consumers necessarily desire to purchase "cheap" products. Instead, as Prahalad writes, the consumers are very brand-conscious and are motivated to buy quality goods. However, at the same time, they are by necessity very value-conscious.<sup>37</sup> The challenge for companies entering this market is to offer consumers high-quality products and brands while also offering

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<sup>33</sup> Charlene Chen, Program Manager at KickStart International, interview held in New Delhi, August 2011

<sup>34</sup> Kashyap and Raut, p 159

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<sup>35</sup> Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven, *Portfolios of the Poor* (New Jersey: Princeton University Press, 2009)

<sup>36</sup> Collins, Morduch, Rutherford, and Ruthven 2009

<sup>37</sup> Prahalad 2006

prices and payment schemes that fit with the income levels and patterns of the population.

There are five price and payment schemes that have been used successfully by companies in rural emerging markets. Companies should choose the affordability scheme that the best meets the financial needs of both the target consumers and the company itself.

### *Small and Cheap*

As was described above in the case of Hindustan Unilever's shampoo sachets, offering quality branded products in smaller package sizes allows consumers to make a purchase even when they have very minimal funds available. Another company that has implemented a "small and cheap" scheme is Coca-Cola. In Kenya, when Coca-Cola saw its sales slumping because of inflation, the company came out with a smaller and cheaper version of its product to address affordability concerns.<sup>38</sup> Similarly, in 2001 when coke introduced a smaller and cheaper product in India priced at Rs. 5, per capita consumption of Coca-Cola doubled in the market by 2003.<sup>39</sup>

The "small and cheap" scheme seems to work best for FMCG products that can be consumed by customers immediately. While there has been a lot of work done by Paul Polak and others to promote "affordable engineering" when designing consumer durable goods for emerging markets, even if the durable goods are relatively inexpensive, they may still cost too much immediate and spontaneous purchase by BoP consumers.

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<sup>38</sup> George Ngigi, "Coca-Cola targets low income consumers with mini-bottles," *Business Daily (Kenya)*, 25 August 2011, Article can be found here: <http://www.afrika.no/Detailed/20728.html>

<sup>39</sup> Jennifer Kaye, "Coca-Cola India" (Tuck School of Business at Dartmouth, 2004)

### *Small-Payment Financing*

A payment scheme that has worked well for some companies selling consumer durables is small-payment financing. Casas Bahia in Brazil, seller of electronics and other consumer durables, has built a successful business using this model. The company allows customers to make small installment payments over a period of months, and over 90 percent of sales are financed in this way.<sup>40</sup>

While it could be assumed that BoP consumers would be very risky to finance, with a high propensity for default, Casas Bahia has managed to make a successful business out of it. The key to the company's success lies in the training that Casas Bahia employees receive and the relationship that the company forms with its consumers. Employees are taught how to assess the credit risk of a potential customer, even when the customer may not have a formal credit score. Employees may ask questions about livelihood and income, and may even follow-up with technical questions about a particular job to determine if the customer is telling the truth. Employees are also taught how to "tweak" consumer's desires if it is determined that Casas Bahia cannot finance an expensive product for the consumer. The employee will help the consumer understand that they must purchase goods that are in their budget. It is estimated that around 16% of potential Casas Bahia customers are denied financing by the company.<sup>41</sup>

Casas Bahia further reduces the risk of financing poor consumers by forming a

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<sup>40</sup> Prahalad 2006

<sup>41</sup> Sami Foguel and Andrew Wilson, "Casas Bahia: Fulfilling a Dream" (University of Michigan Business School, 2003)

permanent, physical relationship with the customer. When a customer buys a product from Casas Bahia on credit, they are given a physical “passbook” that reminds them when and how much they have to pay. The passbook is designed to fit in a shirt pocket and offer a constant reminder of the Casas Bahia bill that needs to be paid. When the monthly payment is due, customers actually walk in to a Casas Bahia store to make the payment. This in-store interaction further cements the relationship between Casas Bahia and its customers.<sup>42</sup>

If a company operating in a rural emerging market decides that customers will need to buy its products on credit, the following lessons about how to avoid customer defaults can be derived from Casas Bahia’s experience:

1. Carefully screen customer credit-worthiness using in-person interviews.
2. Prevent the customer from overextending themselves financially on your products.
3. Design a payment plan that is manageable by BoP customers.
4. Create a customer-payment system that constantly reminds customers about the requirement to pay their bills.

### *Self Help Groups*

Another method that companies have found to work well in reducing the probability of default among BoP consumers is the concept of a self help group (SHG). SHG’s were initially made popular by Grameen Bank’s microfinancing program in Bangladesh as a way to help poor consumers (and almost always women) save money and obtain credit from financial institutions. In the SHG model, individual women in the group take out small loans, and the entire group is responsible for making sure the loan is paid

back on time. If one woman defaults on her loan, the entire SHG is penalized. Because of the close social contact of the women, and the resulting peer pressure to be responsible with money and pay back loans on time, SHG’s have proven to be a successful model for lending money to the rural poor.

According to Dean Karlan and Jacob Appel in their book “More Than Good Intentions,” SHG’s decrease the risk of default by BoP customers for three reasons:

- *Determining credit worthiness.* Most consumers in rural emerging markets will have no credit history. The SHG model passes on credit screening to women in the local community who will likely know the wealth and trustworthiness of a potential borrower best. The SHG is incentivized to screen carefully because if one women defaults on her loan, everyone pays.
- *Encouraging payment.* SHG membership also places pressure on women to actually pay back their loans once they have received financing. SHG members will have good insights into the daily workings of an individual in the group, and if it is noticed that one borrower has stopped working, or is spending excess money on frivolous items, the SHG can intervene.
- *Collecting on defaults.* If a SHG member actually does default on their loan payments, in rural emerging markets the financing institution likely has no way to singlehandedly track down the individual and demand payment. In the SHG model, the group can more easily find the delinquent member. In addition, the SHG may actually pay the individual’s loan in order to avoid a

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<sup>42</sup> Foguel and Wilson 2003

penalty being placed on the entire group.<sup>43</sup>

Companies can tap into the power of SHG's to increase sales in rural emerging markets. A company that has had success with this is CEMEX in Mexico. CEMEX is one of the largest producers of cement in the world, and while the company has a very successful business in supplying formal construction, it also wanted to build a robust business in the "informal" sector. In Mexico, the rural and semi-urban populations often build additions to their house with concrete when they have the money to do so. While many women were saving money for construction costs, CEMEX found that most of that money ended up being spent on things like emergencies, clothes, or school fees.<sup>44</sup> To combat this trend and increase its sales, CEMEX created a program called "Patrimony Hoy." The core of the Patrimony Hoy program is the formation of SHG's made up of three women, or "socios." Once a SHG has been formed, the women go to a CEMEX store together and fill out an application. Then, the SHG is responsible for making weekly payments to CEMEX, with each woman in the group taking a turn as the payment collector. As the SHG makes payments and builds its creditworthiness, CEMEX delivers building materials on credit to the women.<sup>45</sup>

CEMEX's Patrimony Hoy program takes advantage of the Self Help Group dynamics to increase sales and decrease financing risk for the company. In addition, the SHG model helps women save money to improve their homes, an activity they were

previously having trouble following through on. The SHG model is appropriate for companies with products and services that may be too expensive for the rural poor to afford immediately, and for communities in which long-term saving is handicapped by local culture practices. Following is a different affordability model that achieves similar results.

### *Layaway*

For companies seeking to sell relatively expensive goods in rural emerging markets, offering layaway programs is being recognized as a successful model to facilitate sales. In a layaway program, the customer commits to wanting to purchase an item, and then pays for the item over time in small installments. Once the total purchase price of the item has been paid, the customer receives the product. In this way the company forms a payment relationship with the customer without actually extending credit to the customer. For this reason, layaway may be a good affordability option for new companies that do not yet have access to the capital or financing needed to extend credit to customers.

KickStart International, a company that sells water pumps in rural Africa, has found success with a layaway program when selling products to individuals. According to Charlene Chen, a program manager at the company, many potential customers say they want to buy a water pump, but that they can't afford it immediately because of the sporadic nature of their incomes. In addition, Ms. Chen reports that in Kenya there is a culture in which if person is asked for a personal loan, and that person has cash on hand, the person must almost always say yes to the personal loan. This cultural tendency makes saving for large purchases hard. KickStart combats these challenges by

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<sup>43</sup> Dean Karlan and Jacob Appel, *More Than Good Intentions* (London: Dutton, 2011)

<sup>44</sup> Anne Coughlan, "CEMEX: Targeting the Low-End Housing Market in Mexico" (Kellogg School of Management, November 2007)

<sup>45</sup> Prahalad 2006

offering a layaway program for its water pumps. By working with M-PESA, a mobile banking service in Africa that allows customers to bank from their mobile phones and retail outlets in rural areas, KickStart allows customers to pay for water pumps over time when they have access to capital. KickStart has found that while it takes a farmer on average one year to buy a water pump after expressing interest when paying through normal methods, farmers that use the layaway program buy the water pump on average only two-and-a-half months after expressing interest.<sup>46</sup>

### *Don't Target the BoP*

The last affordability option I will discuss is actually a customer targeting strategy. Some companies entering rural emerging markets have found success in focusing their marketing and sales strategy on relatively wealthier individuals in the underdeveloped areas. These individuals could be farm owners, business people, or government employees. It is a mistake to assume that all people in rural emerging markets have the same level of income and prosperity. In reality there is an enormous range of incomes in these areas. Companies that don't have excess reserves of operating capital and that need to start selling products quickly would be smart to begin their business by targeting customers that have a need for their product, but that also are relatively wealthy and that have the immediate means to afford their product. I will discuss this further in the paper when I examine the case of d.light Design.

One startup company that has found success in targeting relatively wealthier customers is Tecnosol in Nicaragua, maker of rural electrification systems. The company focuses its sales efforts on

wealthier people in underdeveloped areas. As an investment officer at the firm that provided tecnosol with startup capital said, "Tecnosol taught us a lesson. It is not always necessary to go after the poorest people first – there are often many customers who are willing to pay higher amounts even what would be considered underdeveloped areas."<sup>47</sup> SELCO, maker of rural electrification systems in India, is finding success with a similar strategy. SELCO's Chief Financial Officer explained this by saying:

We have still not reached those customers who are there at the BoP, and we have to keep on doing these innovations in terms of products as well as making these products affordable to poorest of the poor....But if you just ask us can we break even with the current same set of products and with the same set of customers, yes, must be another 3 or 4 years.<sup>48</sup>

While many companies want to target BoP customers both because of the sheer size of the market and because of the social good that will come from bringing those customers into the market, for companies with relatively expensive products and limited capital, this may not be a realistic first goal. Rather, those companies should focus on building a business with customers who can more easily afford their current product offerings and then develop plans to target true BoP customers later.

### **CHALLENGE: LACK OF BRAND TRUST**

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<sup>47</sup> Prahalad 2006

<sup>48</sup> Yale School of Management Case Research and Development Team, *SELCO 2009: Determining a Path Forward*, <http://nexus.som.yale.edu/design-selco/?q=node/97> (2009)

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<sup>46</sup> Charlene Chen, August 2011

Any company selling products and services to consumers must first establish trust with the consumer. For a company like Coca-Cola in the United States, this is easy because the Coca-Cola brand is well known and trusted by the entire consumer population. In addition to the Coca-Cola brand, consumers in the United States will trust a new product offering from Coca-Cola because the country's government enforces laws that guarantee product safety and prevent fakes from being sold. The situation is very different for a company entering into a rural emerging market with a new product or service and an unknown brand. Not only will consumers be less aware of many brands, they will also have less innate trust in new brands because of their lack of access to information and because of the plethora of fake and poor-quality brands being offered in the marketplace.<sup>49</sup> This is not to say that rural consumers are not brand-conscious. As C.K. Prahalad points out, the poor are actually "very brand-conscious" and seek out the brands they know well and trust.<sup>50</sup> The challenge for a company entering a rural emerging market with a new product or service is to establish trust in its brand so that consumers will buy it.

Professors Arjun Chauduri and Morris Holbrook define brand trust as "the willingness of the average consumer to rely on the ability of the brand to perform its stated function."<sup>51</sup> As described above, in rural emerging markets it is challenging for companies to build this trust with

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<sup>49</sup> According to the "The Rural Marketing Book," fake brands are "rampant" in rural India and offered by "fly-by-night" operators who frequently shutdown and change locations. (Kashyap and Raut)

<sup>50</sup> C.K. Prahalad 2006

<sup>51</sup> Arjun Chauduri and Morris Holbrook, "The Chain of Effects from Brand Trust and Brand Affect to Brand Performance: The Role of Brand Loyalty" *Journal of Marketing* (April 2001)

consumers. Brand trust is essential, however, for the success of a product or service. Chauduri and Holbrook go on to say:

Brand trust and brand affect contributed to both purchase loyalty and attitudinal loyalty, which in turn contributed significantly to market share and relative price, respectively.<sup>52</sup>

Analysis by the rural marketing consulting firm MART in India has also shown that when trust is established with rural consumers, they become "brand sticky"<sup>53</sup>, meaning they are resistant to switching to new brands, further contributing to a company's long-term success in the market. A good example of the power of brand trust in rural emerging markets is Bimbo, the largest bakery in Mexico. C.K. Prahalad reports that the Bimbo brand is so highly trusted in Mexico that Bimbo delivery men are often allowed by shopkeepers to open their stores to stock them with bread and collect cash.<sup>54</sup> Companies entering rural emerging markets with un-established brands should recognize that one of the keys to their company's success will be building trust with rural consumers.

I propose that for companies entering into rural emerging markets with unknown brands, the best solution to this problem is to *piggyback* on an existing known and trusted brand or local entity. In their paper on piggybacking, Terpstra and Yu describe how the rider company benefits when an established carrier company lends its brand to the rider. They give the example of the Whirlpool brand being introduced to Japanese consumers in Sony stores: "Sony

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<sup>52</sup> Arjun Chauduri and Morris Holbrook, April 2001

<sup>53</sup> Kashyap and Raut, p 162

<sup>54</sup> C.K. Prahalad 2006

also has a strong service operation and reputation in Japan. Whirlpool was now able to benefit from this association too.”<sup>55</sup> This solution to establishing brand trust with rural consumers is similar to how I propose startup companies should partially solve their distribution problems. Given this, companies entering into rural emerging markets may want to seek out piggybacking relationships in which the carrier lends both its brand name and its strong distribution network to the rider. Just like with the distribution network solution, however, brand piggybacking will not solve the entirety of a company’s brand-trust problem. There may be critical geographies in which there is no compatible brand off of which to piggyback, and some facets of brand trust, such as delivering a working and durable product, cannot necessarily be solved by a partner. Despite these shortcomings, piggybacking on a trusted brand can boost a company’s chance and rate of success.

When seeking out a trusted brand to piggyback off of, the rider should look for the following attributes:

1. The carrier does not already brand a competing or substitutable product (for example, if a company is producing a shampoo product, they wouldn’t want to enter into a piggybacking relationship with Hindustan Unilever, which sells competing products.)
2. The carrier’s brand is compatible with the brand image the rider is seeking to instill in consumers.
3. The carrier has a long-term commercial or social interest in allowing the rider to piggyback off their brand.

The third point is important if the piggybacking relationship is going to last. As with distribution network piggybacking, the “interest” can be either profit-motivated

(for a company), or social welfare-motivated (for a NGO or local trade organization).

Broadly, there two types of brand-piggybacking relationships a company entering into a rural emerging market with a new brand can form.

### *Commercial Brands*

Just as Whirlpool did with Sony in Japan, an entering company can piggyback on a company that has a trusted brand in the target geography. A famous example of this in an emerging market is Coca-Cola’s entry into India in 1993. Although Coca-Cola’s brand is strong worldwide, the company wanted to quickly gain brand equity in the Indian market. To accomplish this, Coca-Cola purchased local beverage brands that were popular in India like Thums Up, Limca, and Citra. Thums Up, in particular, is known as the most trusted brand in India.<sup>56</sup> Coca-Cola, and its subsidiary brands, is now thriving in India.

For a company with limited capital that is unable to purchase a popular local brand when entering a rural emerging market, the next best option is to seek association with a trusted local brand. One way to do this is through product placement at trusted small retailers. Due to the lack of education and trustworthy information in rural emerging markets, small retailers are trusted brands in themselves and have inordinate power in helping consumers decide which products to purchase. In addition, due to their proximity in the local community, consumers and retail shop owners often form close relationships, further cementing the power of the retailer in product recommendation. Startup companies like Tecnosol and KickStart International have found success by stocking their products in select local

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<sup>55</sup> Vern Terpstra and Chwo-Ming J. Yu, 2001

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<sup>56</sup> Jenifer Kaye, 2004

retailers. KickStart, for example, uses a process to identify the best local dealers in the company’s geographic region of interest.<sup>57</sup> Similarly, Tecnosol “uses a sophisticated network of nine dealers” in Nicaragua to sell its rural electrification systems.<sup>58</sup> Both KickStart and Tecnosol gradually give retailers more inventory to stock as the retailer proves that can successfully sell their products.

Companies seeking to build brand trust in rural emerging markets can also piggyback on the brands of trusted corporate retailers, similar to what Whirlpool did with Sony in Japan. In rural India, ITC is a trusted brand that operates large hypermarkets called “Choupal Sagaars”. When a consumer sees a brand stocked in a Choupal Sagaar, the brand receives the consumer’s trust because of its association with ITC. Bharat Petroleum, the second largest oil company in India and a trusted brand among consumers, also has rural retailers that stock consumer brands. When providing products to these retailers, many companies go so far as to co-opt the trusted “Bharat” brand name and put it on their own product packaging (see the top right of exhibit 5). Piggybacking on the trust that rural consumers place in local and corporate retailers can provide much needed credibility and trust for a new and unknown brand.



**Exhibit 5. An apron with the Bharat Petroleum brand on the package.**

#### *Local Non-Profit and Individual Brands*

Companies entering rural emerging markets with new brands can also gain consumer trust by piggybacking on the trust that they place in local non-profit organizations and local citizens. ITC, for example, chose to piggyback on the reputation of prominent farmers when it started its e-Choupal initiative to extend its distribution channel deep into rural communities in India. As C.K. Prahalad describes, rural farmers in India may at first have been hesitant to trust the ITC brand. Prahalad writes, “For generations, the Indian farmer has been betrayed by institutions, individuals, and even the weather. Trust is the most valuable commodity in rural India.”<sup>59</sup> ITC combated this mistrust by appointing a “Sanchalak”, the prominent farmer, in every village to which the

<sup>57</sup> Charlene Chen, August 2011

<sup>58</sup> Scott Baron and George Weinmann, Case on E+Co and Tecnosol (The University of Michigan Business School, December 2003)

<sup>59</sup> Prahalad 2006

company extended its services. The Sanchalak ran ITC's local agriculture purchasing, information, and distribution business. While rural farmers possessed deep distrust in traditional crop purchasing agents because of years of mistreatment and corruption, the farmers trusted the Sanchalak because he was one of their own. By extension, ITC became a trusted brand in the rural communities.

ICICI bank in India has taken a similar piggybacking approach to ITC in building brand trust in rural areas. ICICI uses women's Self Help Groups (SHG's) to extend banking into rural communities. Prior to ICICI's program, commercial banks were not trusted by some rural consumers due to their past experiences with untrustworthy bank agents. In helping proactive women form SHG's that would then take out group loans, ICICI was able to increase its business by piggybacking off of the trust placed by women consumers in the Self Help Group institution. Furthermore, once a woman has proven her ability to form multiple SHG's, she is brought on to ICICI's payroll in order to facilitate the further extension of ICICI's business and brand in the rural communities.<sup>60</sup>

### **CHALLENGE: LACK OF EDUCATION**

Rural consumers' lack of education in topics like hygiene, health, and modern agriculture practices also poses challenges for a company's marketing channels in an emerging market.. Often times, before a company can begin sales of its product or service, the company needs to educate consumers about the benefit the product or service will have on their lives. Companies should consider this activity as an exercise in unlocking latent need for their product or service, and it should be considered just as

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<sup>60</sup> Prahalad 2006

important as branding and distribution. As Pradeep Kashyap , founder MART, writes: "For a brand to establish itself, the company needs to educate rural consumers, develop their interest through interactive communication, encourage their desire to own/use new products and deepen their confidence in the brand through live demonstrations."<sup>61</sup> C.K. Prahalad agrees when he states simply: "Education of customers on product usage is key."<sup>62</sup>

Several companies have shown great success in unlocking latent product need through the education of rural consumers. These companies often partner with local government and non-profit organizations who are also seeking to educate rural consumers. One example of a company that has followed this model is Hindustan Lever (HUL) in India. HUL began its program when the sales growth of its hand soap brand Lifebuoy was declining. At the same time, HUL's CEO was pushing forward an initiative to differentiate HUL products from competitors by focusing on health benefits. Diarrhea is a large health concern in India; the country accounts for 30% of the 2.2 million deaths worldwide that occur annually from the disease.<sup>63</sup> The best prevention against diarrhea is regular hand washing with soap. HUL set out to determine if it could increase sales of Lifebuoy by educating rural consumers about the benefits of washing their hands with soap. During focus groups, HUL found that most Indian consumers associated cleanliness with the absence of dirt, and they were not aware that bacteria could reside on hands that otherwise looked clean. Working

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<sup>61</sup> Kashyap and Raut

<sup>62</sup> Prahalad 2006

<sup>63</sup> Mindy Murch and Kate Reader, "Selling Health: Hindustan Lever Limited and the Soap market" (The University of Michigan Business School, December 2003)

with marketing company Ogilvy & Mather, HUL designed a program to educate consumers about the dangers of invisible bacteria, how bacteria causes diarrhea, and how the bacteria can be killed using Lifebuoy hand soap. HUL then partnered with schools and doctors in rural villages to spread its message about the dangers of diarrhea-causing bacteria. According to HUL, the company targeted students in schools because, “through them we are reaching out to the mothers, the elders and their parents, because [the students] are the ones who are most educated in the family.”<sup>64</sup>

Another common health problem in rural emerging markets is drinking untreated, dirty water. WaterHealth International (WHI), producer of community-owned water treatment facilities, places a large emphasis on educating potential customers about the dangers of drinking untreated water. WHI does this by partnering with local non-profit organizations that go into rural communities and speak with residents about the benefits of drinking treated water. WHI’s education initiative has the dual effect of creating healthier people and increasing business for WHI’s clean-water products. After the completion of an education initiative in a rural Indian village, followed by the installation of WHI’s product, the head of the village said, “I feel as if I have given a new lease on life to my village. By drinking good water, they will enjoy good health and live a good life.”<sup>65</sup>

When a company is educating consumers about a product that will benefit them in some way, it is important that the company use explanations the consumer can empathize with. For example, TERI produced a cooking stove for the rural Indian market that significantly reduced the

amount of black carbon released from cooking fires. Women in rural India face damaging health effects from inhaling black carbon produced by indoor cooking fires. When TERI first released its cooking stove, the organization attempted to explain to women the health benefits they would receive from using the product. This message did not resonate with the women, however, because their families had been cooking over open wood fires for generations, and they couldn’t believe that there was something wrong with this activity. TERI changed its education tactic and began speaking to women about the amount of time it takes to boil water over an open flame. Because TERI’s stove was much more efficient than an open wood fire, it produced more heat and boiled water faster. Women in rural India spend much of their day preparing food and drinks, and the time-saving message resonated with them. After changing its educational message, TERI began to see adoption of its stoves.<sup>66</sup>

Based on the evidence about the important of consumer education presented above, I recommend that companies entering rural emerging markets with new products and services do the following:

1. Interview consumers to understand their current understanding level about the benefits of the product or service.
2. Design education initiatives that help consumers understand the benefit of the product or service in terms that they can relate to.
3. Partner with local non-profit organizations to spread the educational message.

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<sup>64</sup> Murch and Reader 2003

<sup>65</sup> Faheem and Purkayastha, 2010

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<sup>66</sup> Abhisheek Kar, Interview in New Delhi at TERI headquarters, August 2011

## **CHALLENGE: AFTER-SALES SERVICE**

An important component of marketing channel design that many companies in rural emerging markets overlook is providing quality after-sales service to customers. In his paper “What Does ‘Product Quality’ Really Mean?”, David Gavin describes the importance that consumers place on after-sales service:

Consumers are concerned not only about a product breaking down, but also about the elapsed time before service is restored, the timeliness with which service appointments are kept, the nature of their dealings with service personnel, and the frequency with which service calls or repairs fail to resolve outstanding problems.<sup>67</sup>

Companies should consider after-sales service an important component of building a consumer’s trust in the company’s brand. Although the activity takes place after a purchase has already been made, if a company’s after-sales service is poor, customers will likely not purchase the company’s products again and will tell other potential customers about their bad experience. C.K. Prahalad explains that “because word of mouth through existing customers is a primary driver of new buyers, quality and service satisfaction takes on an added importance.”<sup>68</sup>

While clearly important, providing quality after-sales service to customers in rural emerging markets poses the same set of challenges that product distribution does.

The cost of shipping in spare parts and replacement products, along with the cost of maintaining repair staff, is high due to the geographic dispersion of demand and poor transportation infrastructure. Companies have found, however, that good after-sales service is expected by consumers in rural emerging markets and that providing quality service can increase consumers’ trust in a company’s brand. Tecnosol in Nicaragua is a good example of this. The company focuses on offering excellent service, and “technicians travel any length to reach a customer”.<sup>69</sup> This includes sending repairmen into rural areas by horseback if that is what is required to reach a customer’s location. WaterHealth International (WHI), producer of water purifying technology, also places and emphasis on after-sales service. While it franchises out its technology to local community organizations, WHI mandates that it must be contracted to provide service for the water purifying facilities to ensure that consumers always receive quality water.<sup>70</sup>

Companies can choose among several methods for providing after-sales service. TERI, for example, chooses to educate retailers and repairmen in rural areas on how to repair their products, and then supplies these partners with spare parts.<sup>71</sup> Many cities and towns have repair shops that consumers already take their broken products to, and a company can work with these shops to provide service (an example this can be seen in exhibit 6). While this method may improve the timeliness of repair and reduce employee salary and transportation costs, the

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<sup>67</sup> David A. Gavin, “What Does ‘Product Quality’ Really Mean?” (Sloan Management Review, Fall 1984), p 32

<sup>68</sup> Prahalad 2006

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<sup>69</sup> Prahalad 2006

<sup>70</sup> Hadiya Faheem and Debapratim Purkayastha, “WaterHealth International: Providing Safe Drinking Water to the Bottom of the Pyramid Consumers” (ICMR Center for Management Research, 2010)

<sup>71</sup> Rehman, Kar, Raven, Singh, Tiwari, Jha, Sinha, Mirza, 2010

quality of the after-sales service experience that customers receive cannot be explicitly controlled. On the other hand, Tecnosol, as described above, sends employees deep into rural areas to make product repairs. In contrast to TERI, Tecnosol is guaranteeing that its customers receive a quality after-sales service experience, but the company also faces higher costs from its operations.



**Exhibit 6. A repair shop in rural India.**

Given the importance of after-sales service for building and maintaining a consumer's brand trust, I recommend that a company choose the after-sales service option that will best meet the needs and expectations of its customers. In addition, it is critical that companies take the cost of providing good after-sales service into account when designing their marketing channels and when deciding on the size of the market they want to serve. As will be seen in the case of d.light Design, growing product distribution beyond a company's

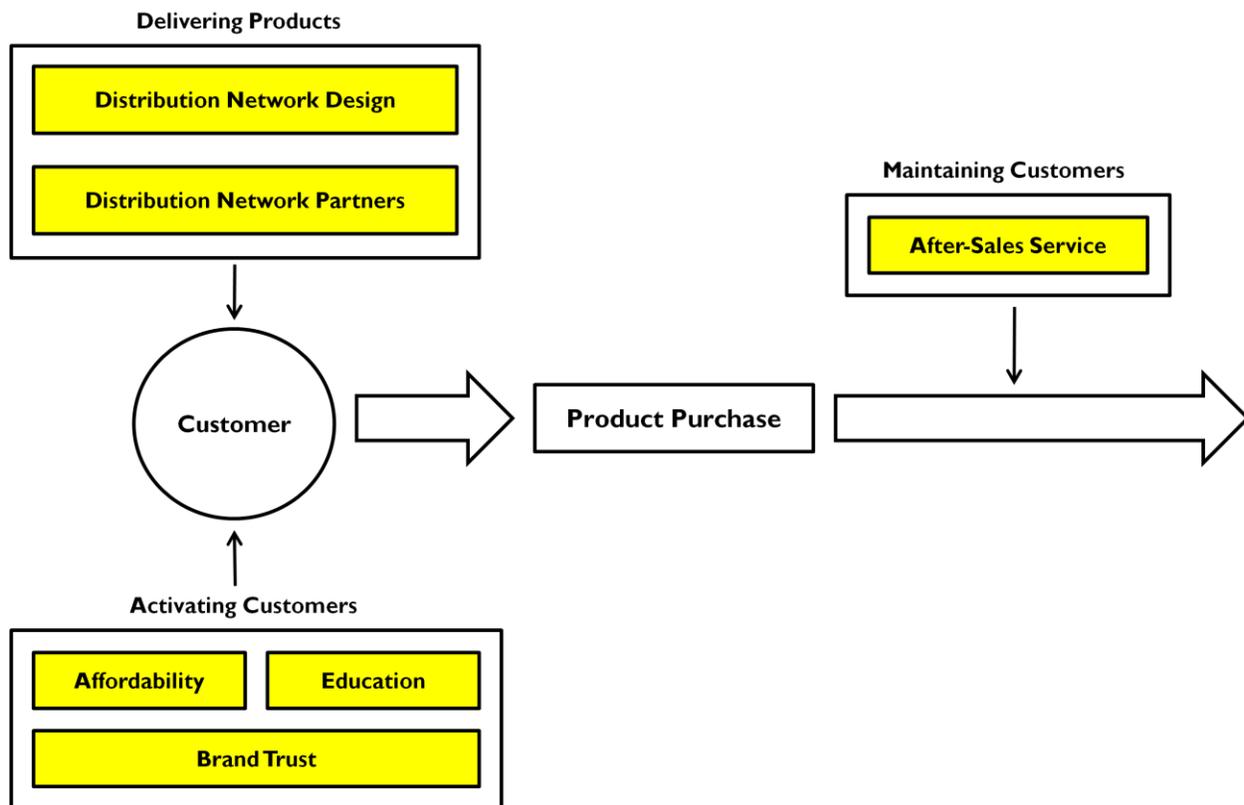
ability to provide timely and effective after-sales service will create discontent among consumers and retailers and tarnish the company's brand.

### **A FRAMEWORK FOR MARKETING CHANNEL STRATEGY IN RURAL EMERGING MARKETS**

As I have described in the sections above, there are several activities a company with a new product or service and an unknown brand in the region needs to take while building their marketing channels in a rural emerging market. The resulting marketing channel will consist of multiple "interdependent organizations"<sup>72</sup> working together to enable a consumer to derive value from a company's product or service. The framework I propose for building marketing channels in rural emerging markets (seen in exhibit 7) is centered on the needs of the consumer and focuses on *activating customers, delivering products, and maintaining customers*. Customer activation and product delivery are required to enable consumers to purchase products, while maintaining customers is required for the consumer to derive long-term value from the product or service. By building a marketing channel that can perform these activities effectively and in a cost-efficient manner, a company entering a rural emerging market with a new product or service will greatly increase its chances of succeeding in the marketplace.

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<sup>72</sup> Anne Coughlan and Erin Anderson p 4



**Exhibit 7**

Although I have described many of the individual points in the framework in detail above, I will outline them again now to provide a central checkpoint for companies.

*Activating Customers*

Before a consumer in a rural emerging market will even consider purchasing a product or service, the consumer needs to be enabled to make the purchase. A company’s marketing channel must include organizations (either the company itself or partners) undertaking activities that unlock the latent desire in the consumer to make the purchase. Below are the customer activation activities that should be included in the marketing channel.

Education

Consumers in rural emerging markets often lack knowledge about topics like banking, modern hygiene practices, and modern agriculture practices. Companies should perform first-hand interviews and ethnographic research (or partner with rural marketing research firms like MART in India) to determine how consumers currently perform the targeted behavior or function, and to learn what gaps in knowledge consumers currently have. Then, the company should design education initiatives targeted at the rural consumers and partner with local non-profit and governmental organizations to deliver the company’s message.

Affordability

Consumers in rural emerging markets have low and sporadic incomes, often subsisting

off of less than \$2 USD per day and earning their incomes from periodic agriculture harvests. While some companies have struggled to sell products into this market, others have cracked the affordability challenge and thrived. Entering companies should consider the type of product or service they are selling, the financial needs of the target consumer, and the financial needs of the company itself when formulating their payment scheme strategy. Strategies that have worked well for companies in the past include shrinking traditional products to decrease their price, offering consumer financing, partnering with women's Self Help Groups, layaway programs, and targeting consumers in the area who have higher and more consistent incomes.

### Brand Trust

Due to a lack of credible information and a plethora of fake and low-quality products offered to them, consumers in rural emerging markets will be hesitant to trust new brands when they are introduced into the marketplace. Despite this challenge, building a credible brand is essential to the success of a product or company. In addition, once a brand gains trust in a rural emerging market, it will more than likely retain that trust due to the brand stickiness of rural consumers. Companies entering into this market with unknown brand have found piggybacking on established and trust brands to be a successful strategy for gaining consumer trust. Entering companies can choose to piggyback on commercial brands like Coca-Cola did with Thums Up, or they can choose to piggyback on the trusted local leaders and non-profit organizations, like ITC e-Choupal does with the prominent village farmers.

### *Delivering Products*

Along with activating customers, a successful marketing channel must deliver products or services in an effective and capital efficient manner. Important considerations when making product delivery decisions include:

### Distribution Network Design

Many companies entering into rural emerging markets have struggled to design distribution networks that both deliver products to where consumers seek to purchase them and that are cost effective for the company. This is challenging because rural populations are widely geographically dispersed, and because rural transportation infrastructure is either poor or non-existent. Based on these challenges, I recommend that entering companies match their distribution network design to the product they are selling. If a company is selling fast moving consumer goods, the products need to be placed at the village-retailer level. To get products to these retailers, entering company should mimic Coca-Cola's distribution network design and use a hub-and-spoke model in which the company delivers products to a central distribution point and then independent entrepreneurs purchase the products and deliver them into the villages. If a company is selling consumer durables, product demand should be aggregated as much as possible into population centers to decrease inventory and transportation costs. Consumer durable companies do need to keep in mind, however, that they may need to maintain a local presence close to rural consumers in order to provide installation and after-sales service.

### Distribution Network Logistics

In rural emerging markets, operating a distribution network can be even more challenging than designing one. This is due to poor infrastructure, highly fragmented distribution industries, and a lack of accountability displayed by warehousing and logistics firms. As much as possible, companies should piggyback on effective distribution networks that have already been built by corporations or that already exist in the fabric of society. Entering companies can either partner with established corporations to distribute products and services through established networks, or they can focus on business-to-business sales and allow companies and organizations established in the target regions take complete ownership over distribution. Companies have also found distribution success by partnering with local non-profit organizations like women's Self Help Groups and farmer federations. To enable its own long-term commercial success, the entering company (the rider) needs to ensure that the established organization (the carrier) it is piggybacking on has a long-term commercial or social interest in partnering with the rider.

### *Maintaining Customers*

#### After-Sales Service

After a customer in a rural emerging market has been has purchased a product, the customer may eventually need additional assistance from the company if the product breaks or requires regular servicing. Offering quality after-sales service is an important but often overlooked activity that companies need to consider when they are constructing their marketing channels in rural emerging markets. If a company does not continue to ensure a good experience for customers after they have purchased a product, the company will eventually see a

drop in sales as customers look elsewhere for their next purchase and tell their neighbors and friends about their bad experience. Companies can provide after-sales service either through their own employees or by partnering with local retailers repairmen. Companies should choose the option that best meets the needs of their customers, and should carefully consider the cost of providing after-sales service when determining the size of the market they want to roll their product out to.

### **NOTE ON THE SOCIAL FUNCTION OF COMPANIES OPERATING IN RURAL EMERGING MARKETS**

To this point in the paper I have not explicitly discussed the social value that can be created when companies operate in rural emerging markets. Many business people, scholars, and social activists, however, have noted the social good that can be created when companies bring new products and services into these markets that help local consumers improve their lives. As C.K. Prahalad wrote:

For the BOP consumer, gaining access to modern technology and good products designed with their needs in mind enables them to take a huge step in improving their quality of life.<sup>73</sup>

While many of the large companies I have mentioned in this paper began business by operating at the "Top of the Pyramid" and have only recently focused on BoP consumers, all of the smaller companies described in this paper were started explicitly with the dual goal of creating profits and creating social good in emerging markets. The road to success has been challenging for these comparatively small

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<sup>73</sup> Prahalad 2006

companies as they struggle to operate in difficult markets with limited capital. During the summer of 2011 I spent three months working at one such company called d.light Design. Following is the story of d.light and its search for effective marketing channels in India.

## D.LIGHT DESIGN IN INDIA



**Exhibit 8. A rural Indian family with their d.light lamp.**

### *d.light Design Background*

d.light Design was founded in 2007 by Stanford Graduate School of Business students Sam Goldman and Ned Tozun who met while taking the Stanford d.School course “Entrepreneurial Design for Extreme Affordability” (Sam is pictured in exhibit 9 with one of the original light designs). In the course students are challenged to design affordable solutions to problems in emerging markets. Before business school, Sam had spent several years in the Peace Corps in Africa and discovered that many people still used kerosene lamps for light at night. Kerosene lamps are used for light by people without reliable access to utility-supplied electricity all over the world. While the lamps do provide some light, the light’s power is weak and the lamps are dangerous

to use and expensive to refuel.<sup>74</sup> After months of consumer insight research and prototyping, Sam and Ned finished the class with a solar-powered LED lamp that provided better light than kerosene lamps and that was relatively inexpensive.



**Exhibit 9. Sam Goldman, co-founder of d.light Design.**

d.light Design exists today as an international corporation and has received financial backing from venture capital funds like the Acumen Fund. The company’s headquarters are in San Francisco. Lamps are manufactured in Shenzhen, China, and sales offices are located in New Delhi, India and Nairobi, Kenya. d.light currently produces three products.

- **S250.** d.light’s most powerful light. It has 4 brightness settings, a separate solar panel, and can also charge cell phones. The light takes ten hours to fully charge

<sup>74</sup> Govindasamy Agoramoorthy and Minna Hsu, “Lighting the Lives of the Impoverished in India’s Rural and Tribal Drylands”( Human Ecology, 2009), p 513

and then can provide bright light for six hours. The S250 retails for \$35 USD.

- **S10.** The S10 is marketed as the most affordable and best performing solar lamp on available on the market. It has a built-in solar panel and is designed to perform well in many different usage scenarios. The light takes ten hours to fully charge and then can provide bright light for eight hours. The S10 retails for \$15 USD.
- **S1.** The S1 is a bright, ultra-small, and ultra-affordable solar light. It has a built-in solar panel and its appearance is designed to appeal to young students who will use the light for studying. The light takes ten hours to fully charge and then can provide bright light for four hours. The S10 retails for \$9 USD. (See exhibit 10)

Besides the product features, all of the lights come with a product warranty of up to one year. The lights are designed to last for three to five years, and the rechargeable batteries need to be replaced about every two years.



**Exhibit 10A The S250.**



**Exhibit 10B. The S10.**



**Exhibit 10C. The S1.**

#### *d.light Enters the Indian Market*

When d.light entered the Indian market, it began its sales and marketing efforts in Uttar Pradesh (UP), a large state in northern India that appeared to have favorable dynamics for the company and its affordable, solar-powered light products. UP is a large, mostly rural state in northern India in which most of the 200 million residents do not have reliable access to utility-provided electricity. One internal d.light survey found that even UP residents that did have grid-electricity connections often received less than eight hours of electricity per day. In addition to the states problems with electricity, many residents in UP live in extreme poverty. The annual per-capita GDP of UP in 2006 was Rs. 13, 262, or \$294 USD per year (\$1.10 USD per day)<sup>75</sup>. The majority of UP's labor force is employed in the agriculture sector.

d.light first attempted to enter the market in UP by selling its products to consumers through small electronics retail shops located in villages. The retailers often had stores with no more than 100 square feet of total space. d.light supplied these retailers

<sup>75</sup> "District-Wise Development Indicators Uttar Pradesh", Economic and Statistics Division of the State Planning Institute, Uttar Pradesh, published in 2008

through a network of third-party warehousing and distribution logistics companies (See exhibit 11). The warehousing companies would store d.light product inventory in UP and then ship the products to retailers when the retailers' stocks were low. d.light undertook almost no consumer education and marketing efforts in UP to create demand for its products.



**Exhibit 11. A rural retail store owner with a d.light product.**

Shortly after product distribution began using the third-party warehousing and distribution logistics companies, things began to go wrong. The rural retailers were geographically dispersed and were selling very small numbers of d.light products every month.<sup>76</sup> The cost of shipping sporadic and small orders to the dispersed retailers overran the warehousing companies' profit margins on the transaction, and the warehousing companies stopped fulfilling retailer requests for more lights. Retailers became frustrated as they could not order any more d.light products and faced stock

<sup>76</sup> Some retailers reported selling about five d.light products per month. This information was gathered using in-person interviews in the summer of 2011.

outs. Their frustration grew when some customers who had purchased d.light products returned to the retailers with defective lights and demanded free product replacement as guaranteed by their warranties. Retailers would often replace the customer's light free of charge and then have to wait months to receive a replacement light from the warehousing companies, if they received a replacement at all. When retailers became fed-up with d.light they would begin pushing consumers to purchase other lamps.

While d.light's rural retail distribution network was collapsing, the company also entered into a partnership with Nippo Batteries, one of the largest sellers of batteries in India. Under the partnership agreement Nippo agreed to stock and sell d.light products in its retail outlets. Although d.light products were made available in Nippo retail outlets, the partnership stalled as both organizations realized that Nippo sales representatives were unable to effectively sell d.light products. d.light executives attributed this failure to the different skill set needed by sales representatives to sell a consumer durable product like d.light versus a fast moving consumer good product like a small battery.<sup>77</sup> With both its rural retailer and Nippo Batteries marketing channels failing, d.light realized it had to rethink how to sell its products to rural consumers in Uttar Pradesh.

#### *d.light Tries Again in Uttar Pradesh*

After shutting down the failed small retailer and Nippo Batteries networks, d.light looked for new marketing channel partners to work with in the Indian state of Uttar Pradesh (UP). It found one such partner in FINO, the

<sup>77</sup> Based on in-person interviews with d.light Design India executives in July 2011

largest branchless banking network in India.<sup>78</sup> FINO serves millions of customers through its network of small kiosk banking locations in rural India. Despite its success in this venture, FINO executives feared that its business would soon get supplanted by mobile phone banking initiatives being pushed by large Indian banks. FINO began looking for other ways to capitalize on its extensive and robust rural distribution network. The company saw potential in d.light's products and the two companies signed a partnership agreement in 2011. By August 2011 FINO had purchased thousands of lights from d.light, and was pushing them into rural areas through its distribution network.

d.light also signed a partnership deal with Bharat Petroleum (BPCL), India's second largest oil company. BPCL sells petrol and cooking gas (called LPG) in every part of India and is a well known and trusted brand among Indian consumers. The partnership enabled d.light to sell its products through BPCL's 281 LPG retailers in Uttar Pradesh. In India, cooking gas is not delivered to houses by pipe like it is in much of the developed world. Instead, cooking gas is distributed in metal cylinders to customers that have been authorized to purchase the gas. LPG retailers are actually independent franchises owned by local businessmen who are given the right to distribute LPG cylinders in a fixed geographical area. Customers receive their LPG cylinders either through home delivery or by going to the LPG retail store for pickup (see exhibit 12). LPG retailers also sell "Beyond LPG" products. Beyond LPG is a program run by BPCL to expand the company's revenue streams beyond low-margin oil products. Beyond LPG products are stocked and sold at LPG retailers and include things like

cooking stoves, pots and pans, aprons, tea, and crackers (See exhibit 13).



**Exhibit 12. Customers picking up LPG cooking gas from a BPCL retail store.**



**Exhibit 13. Beyond LPG products in a BPCL retail store.**

BPCL executives decided to include d.light products in its Beyond LPG initiative because they saw consumer need for solar lamps in rural areas and because the products tie in well with BPCL's new "energy conservation" branding. BPCL executives also have sales targets they are required to meet for the Beyond LPG category, and they believe that selling d.light products will assist them in reaching their targets. Although LPG retail store owners do not have Beyond LPG sales targets, they

<sup>78</sup> "About FINO", <http://fino.co.in/>

reported feeling immense pressure from BPCL executives to sell as many Beyond LPG products as possible.<sup>79</sup>

LPG retail store owners order d.light products through an internal website. Once ordered, the lights are shipped from d.light's warehouse and can take fifteen to twenty days to reach the retail store. The retail store owners are considering selling d.light products in three different ways:

1. **Bundle with the first LPG cylinder.** When a consumer buys his first LPG cylinder, he also has to buy complimentary products like a cooking stove and a gas connection pipe. Many retailers bundle other Beyond LPG products in this transaction as well.
2. **Sell in the retail stores.** The retail store owner will display d.light products in his store and generate sales when customers come into the store to pick up their LPG cylinders.
3. **Sell through delivery men.** Around 50% of BPCL customers have their LPG cylinders delivered to them at home. BPCL may have the men who make the LPG cylinder deliveries also attempt to sell d.light products to these customers.

When I stopped working at d.light in August 2011, BPCL LPG retailers had began to order d.light products and sell them. Some retailer store owners had sold lights in their stores, while others had taken the initiative to promote and sell the lights in schools and other public venues. While this was happening, d.light was in talks with BPCL to co-brand its products with the "Bharat Petroleum" name, something that other Beyond LPG products have done. The medium-term goal for d.light was to push all 281 BPCL LPG retail store owners in UP stock d.light products and to provide

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<sup>79</sup> Based on in-person interviews with BPCL executives and BPCL retail store owners in July 2011

promotional and educational materials to LPG retail stores that currently sold the products.

## **D.LIGHT DESIGN INDIA AND THE FRAMEWORK FOR MARKETING CHANNEL STRATEGY IN RURAL EMERGING MARKETS**

Additional clarity about the marketing channel decisions made by d.light Design India can be gained when viewing them through the framework for marketing channel strategy in rural emerging markets developed earlier in this paper. In the below sections I will review d.light Design India's marketing channel strategy in the areas of distribution network design, distribution network logistics, brand trust, consumer education, affordability, and after-sales service. Although d.light has made large positive strides in its Indian marketing channel strategy, I argue that the company still has several weaknesses it needs to address before robust and sustainable product sales will be achieved.

### *Delivering Products: Distribution Network Design*

d.light began its business in Uttar Pradesh selling products in small rural retailers. While this strategy brings the products closer to the consumer, research presented earlier in this paper showed that companies have not had success selling consumer durables in small rural retailers. Rural consumers want the same breadth of options and the same low prices for consumer durables that urban consumers receive, and they are willing to travel to urban centers to get them. In addition, the higher inventory costs and slower product turnover associated with consumer durable products also indicates that consumer demand should be aggregated into larger population centers. As

the research presented earlier predicted, d.light was unable to successfully sell its lights in small rural retail outlets.

d.light's new marketing channel partners offer different types of distribution networks. Bharat Petroleum's LPG retail network is composed of urban and rural retail centers in which a large amount of consumer demand is aggregated into a single store. The framework would predict that, all other things being equal, selling d.light products in LPG retail stores should be successful. The case of FINO is less clear. Although FINO has built a robust rural retail network of small banking kiosks at which d.light products will be sold, it remains to be seen whether rural consumers will be willing to buy consumer durables from this network, or whether aggregating demand for consumer durables in high-population locations is a more viable solution.

#### *Delivering Products: Distribution Network Logistics*

When it first entered Uttar Pradesh, d.light attempted to build its own distribution network out of third-party warehousing and logistics vendors. However, due to low product turnover and the high cost of transportation in rural UP, the distribution network failed. D.light then attempted to piggyback on the distribution network of Nippo Batteries, but due to incongruence in the sales methods used to sell fast moving consumer goods and consumer durables, that venture failed as well.

d.light has now formed two piggybacking partnerships that appear to be going well. The partnership with FINO is business-to-business and requires relatively little work from d.light other than business development activities at the corporate level. Although, as discussed above, it is not clear

if FINO's distribution network design will work well for d.light's products, FINO is committed to d.light because of a disruption FINO is facing in its core business. The partnership with Bharat Petroleum (BPCL) is a classic corporate piggybacking relationship in which the carrier (BPCL) takes responsibilities for distributing and selling the carrier's (d.light) products. In this particular relationship, d.light is responsible for supplying BPCL with its products and providing promotional support. BPCL is committed to its partnership with d.light because of its desire to add additional revenue streams and because of its branding message about energy conservation.

Although d.light has effectively piggybacked on existing distribution networks, the company faces additional distribution networks cost related to order response time. Due to the poor transportation infrastructure in UP, it currently takes d.light fifteen to twenty days to fulfill a product order from a BPCL retailer. The BPCL retail store owners have said they want their orders fulfilled in three to five days. In order to get meet this request d.light is going to have to build local stocking points in UP and incur additional warehouse rental and inventory costs. My suggestion to d.light is that they use these local stocking points to serve orders from multiple partners in order to spread the costs across multiple marketing channels.

#### *Activating Customers: Brand Trust*

During the company's initial entry into Uttar Pradesh, d.light did a poor job of building brand trust with consumers. Not only did d.light not piggyback off of a trusted brand in the region, the company also angered local retailers. As explained earlier using the case of KickStart International, in rural emerging markets consumers have access to

limited product information and retailers have tremendous power over which brands consumers will trust. Partially as a result of not building its brand trust with consumers in UP, d.light faced poor sales in the region.

More recently d.light has made the good decision of piggybacking off of the trusted FINO and Bharat Petroleum brands. Bharat in particular is very trusted by Indian consumers and d.light should continue pursuing opportunities to co-brand its products with the “Bharat Petroleum” name.

#### *Activating Customers: Affordability*

Although d.light is designed to provide good product value at an affordable price, many consumers in UP will still struggle to buy the company’s products due to the extreme poverty that they face. When d.light was selling products through small rural retailers, the company was placing its products in small villages in which the poorest people are likely to live. As could be expected, many of these people were unable to afford even the least expensive d.light product.

In partnering with FINO and Bharat Petroleum, d.light is taking the affordability strategy of targeting consumers who have relatively higher and more consistent incomes. FINO customers have bank accounts, meaning that they have some financial resources available, and BPCL customers can afford to buy LPG cylinders, which are expensive compared to other cooking methods (most people in India continue to collect free firewood for cooking). While d.light may not be able to immediately achieve its goal of aiding BoP consumers with its current partnering strategy, the strategy will help the company to break even at which point it can more confidently target BoP consumers.

#### *Activating Customers: Education*

Consumer education is the area in which d.light’s marketing channel needs the most immediate work. Consumers in rural India are not aware of high-technology products like solar lamps, and they also lack an understanding of why solar lamps are better than traditional kerosene lamps. In order to grow consumer demand for its products and therefore grow its sales, I recommend that d.light make a concerted effort to follow in the footsteps of companies like Hindustan Unilever and educate its customers about their latent need for the d.light products. In my discussions with d.light executives in India I heard concerns about the costs that could be associated with educating a large number of consumers in UP. Just like WaterHealth International did in India, I recommend that d.light partner with non-profits in the area to spread the message about the dangers and expenses of kerosene and the benefits of solar light.

#### *Maintaining Customers: After-Sales Service*

Just as with consumer education, d.light has not yet made a concerted effort to define an after-sales service plan for its customers and partners. My recommendation is that d.light provide its marketing channel partners and local repairmen with spare parts and instructions on how to fix its products. d.light products are fairly simple and modular, meaning spare parts are easy to swap in for broken parts. In addition, Bharat Petroleum retail stores employ repairmen to assist customers with LPG cylinder and stove issues, and these repairmen could be easily trained to repair d.light products as well.

## CONCLUSION

Companies that enter a rural region of an emerging market to sell a product or service will face myriad challenges. Dispersed populations, sporadic incomes, and low education levels are just a few of the many problems that companies will have to address to be successful. In this paper I suggest that the key to building a successful marketing channel in a rural emerging market depends on a company's ability to activate customers, deliver products, and maintain products. Of course, merely performing these activities is not enough, if a company seeks to be profitable in the long-term, the activities will have to be performed with an eye towards cost effectiveness and economic return.

The framework I introduced for marketing channel strategy in rural emerging market is meant to help companies navigate the challenging operating environment. By educating consumers, designing creative affordability strategies, and building brand trust, companies will be able to unlock rural customers' latent desire to consume. By designing appropriate distribution networks and constructing trustworthy distribution channels, companies will be able to make products available when and where rural consumers expect them. And by providing effective after-sales service, companies will be able to maintain positive customer relationships and continue to gain brand trust.

Although the challenges for companies entering into rural emerging markets are great, the opportunities are even greater. I see the opportunities being present in three broad categories:

- *Profits*. As C.K. Prahalad argues, there is an enormous market at the "Bottom of the Pyramid" that has barely been

tapped. Although individuals are poor, the aggregate spending power of this group is enormous. Furthermore, the needs of these consumers are just beginning to be met, meaning there are large, profitable opportunities available for companies willing to make the investment.

- *New Business Models*. Beyond profits, companies entering rural emerging markets have the opportunity to develop new types of business models that have never existed before. ITC, for example, placed computers in rural farmers' homes to facilitate its commodities supply chain. Amul dairy cooperative organized millions of farmers into a supply chain that provides high quality and low-cost milk to Indian consumers, and the cooperative is now entering other countries as well.<sup>80</sup> One Acre Fund has a uniquely decentralized organizational structure that has allowed it to grow rapidly and successfully distribute farming tools to thousands of customers in rural Africa.<sup>81</sup> Many of the markets these companies operate in had no established recipes for success, allowing the companies to innovate new business models and create unique competitive advantages.<sup>82</sup>
- *Social Good*. Consumers in rural emerging markets have traditionally not been included in the formal market economy that is much of the developed world's success is based on. By extending the market's reach into these

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<sup>80</sup> Pankaj Chandra and Devanath Tirupati, "Managing Complex Networks in Emerging Markets: The Story of Amul" (Indian Institute of Management – Ahmedabad, 2002)

<sup>81</sup> Andrew Youn, Speech at the Kellogg School of Management, 2011

<sup>82</sup> Idea suggested by Professor Sunil Chopra, conversation at the Kellogg School of Management, September 2011

regions, companies that offer high-quality and trustworthy goods and services will be enabling rural consumers to capture value they otherwise wouldn't have. Beyond just purchasing goods, many companies also employ rural consumers in their supply chain and promotional initiatives, further extending the benefits that the regions receive.

Finally, I would propose an area of study related to this paper that should be further invested in. Recently, more entrepreneurial companies like d.light Design have entered rural emerging markets with the dual goals of making profits and providing social good. These companies have the potential to make a large impact, but often struggle to design and execute on good marketing channel strategies. In addition, these companies are usually funded by grants or venture capital and have limited financial resources with which to act. I recommend that further research be done on how these companies can best deliver products and activate consumers in rural areas of emerging markets. Attention should be paid to the different marketing channel challenges that exist in various regions of the world, with on-the-ground data collection performed. The outcome of the research would be frameworks for social entrepreneurs and investors to use when deciding whether it makes economic sense for a company with a product or service to enter a particular rural emerging market.

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