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# CASE 3 RURAL DISTRIBUTION FOR THE FMCG SECTOR - A CASE STUDY OF HLL

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## Objectives

The case study presented below should:

- help you appreciate the distribution complexities involved in fast moving, low unit value products in rural India,
- enable you to identify challenges specific to rural markets via-a-vis the distribution function,
- enable you to evaluate various distribution options available to FMCG companies,
- lead you to critically analyse the effectiveness of the distribution efforts of the company.

## Responding to the Challenge

HLL is perhaps one of the few if not the only FMCG company, which has identified the challenges of the rural markets, and devised strategies to meet them head on. However, the task is so daunting that it will take considerable time and resources to fully develop the rural market.

### The Distribution Reach

Particulars	HLL	Colgate	Britannia
Retail outlets Services	1,000,000	2,500,000	4000,000
Cities/Towns/villages	50,000	20,000	2,200
Distributors	7,500	2,000	2,500
Rural turnover	50.0%	35.0%	30.0%

Source: NCEAR

**The objective:** The goal of the distribution effort is to reach 2,35,000 villages up from the current 85,000; 75% of the rural population up from 43% today; and a messages reach of 65% up from the current TV reach of 33%. The aim is to increase access, influence attitudes, create a channel to raise awareness of its brands and catalyze affluence in rural India.

## At the Cutting Edge of Competitiveness

To meet the ever-changing needs of the consumer, HLL has set up a distribution network that ensures availability of all their products, in all outlets, at all items. This includes, maintaining favourable trade relations, providing, innovative incentives to retailers and organizing demand generation activities among-a host of other things. Furthermore, although the distribution system is common across most businesses, each of the businesses have, over the years, fine-tuned the system to meet their objectives. The differences, therefore, lie in the manner businesses use an existing distribution network, and the channel players involved therein, to improve their reach and service to their customers and end users. For instance, the distribution model for detergents, personal products and beverages are quite different from each other due to various factors.

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Similarly, the success stories of urban markets cannot necessarily be replicate in rural markets.

In the future a lot of trends are expected to change across the various markets. Companies will have to constantly grapple with these changes and align their distribution systems to stay ahead in the race.

**The evolution of HLL's distribution network:** HLL has followed a strategy of building its distribution channels in a transitional manner; and in different successive phases of the evolution of its distribution system, has penetrated well into the rural market.

### Phase I

The first phase of the HLL distribution network had wholesalers placing bulk orders directly with the company. Large retailers also place direct orders, which comprised almost 30 percent of the total orders collected.

The company salesman grouped all these orders and placed an indent with the Head Office. Goods were sent to these markets, with the company salesman as the consignee. The salesman then collected and distributed the products to the respective wholesalers, against cash payment, and the money was remitted to the company.

### Phase II

The focus of the second phase, which spanned the decades of the 40s, was to provide desired products and quality service to the company's customers. In order to achieve this, one wholesaler in each market was appointed as a "Registered Wholesaler," a stock point for the company's products in that market. The company salesman still covered the market, canvassing for orders from the rest of the trade. He would then distribute stocks from the Registered Wholesaler through distribution units maintained by the company. The Registered Wholesaler was given a margin of 1 per cent to cover the cost of warehousing and financing the stocks held by him. The Registered Wholesaler system, therefore, increased the distribution reach of the company to a larger number of customers.

### Phase III

The highlight of the third phase was the concept of "Redistribution Stockiest" (RS) who replaced the RWs. The RS was required to provide the distribution units to the company salesman. The RS financed his stocks and provided warehousing facilities to store them. The RS also undertook demand stimulation activities on behalf of the company.

The second characteristic of this period was the changes brought in as the company realised that the RS would be able to provide customer service only if he was serviced well. This knowledge led to the establishment of the "Company Depots" system. This system helped in transshipment, bulk breaking, and acted as a stockpoint to minimise stock-outs at the RS level.

In the recent past, significant change has been the replacement of the Company Depot by a system of third party; the Carrying and Forwarding Agents (C&FAs). The C&FAs act as buffer stock-points to ensure that stock-outs did not take place. The C&FA system has also resulted in cost savings in terms of direct transportation and reduced time lag in delivery. The most important benefit has been improved customer service to the RS.



The role performed by the Redistribution Stockist has also undergone changes over the years. Financing stocks, providing manpower, providing service to retailers, implementing promotional activities, extending indirect coverage, reporting sales and stock data, screening for transit damages are some of the functions performed by the RS today.

HLL has grown manifold over the years. In the process, the number of factories and the number of SKUs too have increased. In order to rationalise the logistics and planning task, an innovative step has been the formation of the Mother Depot and Just in Time System (MD-JIT). Certain C&F as were selected across the country to act as mother depots. Each of them has a minimum number of AT depots attached for stock requirements. All brands and packs required for the set of markets which the MD and JITs service in a given area are sent to the mother depot by all manufacturing units. The JITs draw their requirements from the MD on a weekly or bi-weekly basis. This system has reduced inventories and stock-outs to a remarkable level.

### **Operation Bharat - HLL's Rural Distribution Effort**

Since December 1997, HLL has reached out to 35,000 villages, 16 million households, and spent Rs.20 crore. The nuts and bolts of one of the largest sampling exercises in recent times are discussed below.

*It's about nine in the morning at Ambevadi, a little-known village in Kolhapur district of Maharashtra. A small crowd has gathered around a van. A gray-haired, sixty-something Shvambhau mutters a Sanskrit sholka and breaks a coconut. Sweetmeats are distributed. A man prances ahead to decorate the van with a marigold garland. There is loud applause and a cheer as the crowd gets aboard the van. After a bit of a starting problem the van dissolves into the dust clouds. Shyambhau is one of the 1,000 odd promoters recruited by HLL to etch its logo on every country-woman's heart through Operation Bharat.*

Like all big ideas, this one too had humble origins. It grew out of HLL's desire to up the sub-ten per cent rural penetration of Fair & Lovely. For that to happen, trials were a must.

Yet a one-product charge would have cost too much. To spread costs, the Rs. 1,526 crore Personal Products Division (PPD) added a few more goodies. In came hair-care (Clinic shampoo), dental (Pepsodent toothpaste), skin-care (Fair & Lovely) and body-care (Pond's Dreamflower talc) products. And thus was born the Bharat Pack. All the four chosen brands had one thing in common; they were urban hits but rural misses.

HLL toyed with the idea of region-specific packs. For instance, a cold cream could be considered instead of Fair & Lovely in packs meant for the north. Bharat Packs came in eight languages (spoken in the states being covered). The four products came from Chennai (Tamil Nadu) and Silvassa (Daman and Diu). Adding region-specific products would have made an already complicated logistical situation worse.

Another driver for such a massive push was the need to impact the topline. This was exercise was conducted in eight states, which accounted for 65 per cent of sales growth.

Market research available in-house pointed out three barriers these brands faced in the countryside: lack of brand awareness, ignorance of product benefits and complete absence of any first-hand experience of usage. The last, coupled with an aversion to spend money, even on trials, came across as the main obstacle.



Freebies too didn't help. Even give-away - like a free Fair & Lovely pack with soap/detergent brands - did little. The message was clear: any trial inducement should cost as little as possible.

With Rs.20 crone at stake, HLL needed to know more. A pilot was carried in the Kolhapur district of Maharashtra. Detailing was an integral part of the project.

Significantly, the Kolhapur pilot provided framework for arriving at the right price. The pack was sampled at four price points: Rs.5, Rs. 10, Rs.15 and Rs.20 over four weeks. At Rs.5 and Rs. 10; everyone tried the pack. At Rs. 15 and Rs. 20 80 per cent of the villagers bought the pack. The figure dropped to 60 per cent at Rs.20. Roughly 30 per cent of those who bought the pack, came back to buy one (one more) of the sampled brands.

There were two imperatives driving the costing. One, since the repeat purchase was 30 per cent, the absolute number of people buying the pack should be large enough to make the number of repeat users meaningful. Two, the price point-volumes ratio should be as close to the break-even point as possible. The 80 per cent productivity at Rs. 15 achieved both objectives. So Lever settled for that price.

The following three alternatives were tried out by the company:

- The company did not conduct sampling on an individual -consumer basis in the first instance.
- The company conducted community sampling using a bus.
- The company conducted home-to-home sampling using a van coupling these efforts with movie screenings.

In the first case (without sampling), only one per cent showed any intention to buy, which grew to three per cent with community sampling. When approached individually, (as in the third case) 20 per cent appeared keen. Naturally, the team chose the third method.

Also, during the Kolhapur pilot, few women came to the screenings. To attract the women folk, HLL came up with a scheme. With the pack came a lucky coupon for a draw held during the screenings. It was made mandatory for the winner to personally collect the prize (a male member could not collect the gift for her).

With these findings with them the final blueprint was drawn. Starting December, the regional offices (north, south, east and west) would have to be ready to carry out Operation Bharat in the states falling in their regions. The Rs. 15 Bharat Pack was sold from door to door. This was accompanied by screenings of film songs and mythological serials interspersed with ads of Lever products. Close to 160 vans and over 1,000 promoters (sales staff of the distributors or some other private operators) were pressed into operation. The cost: roughly Rs.13 crone. Each van, equipped with a TV and VCR, had six 'promoters'.

Out of the six promoters, one was a driver, four were salesmen and the sixth was the supervisor hired from another agency to keep a-tab 'on the rest of the team. The supervisor was rotated every two months to prevent any liaison between him. and the sales staff.

*Creak!!!! Screech!!!! After a rickety ride along dusty roads, the van halts near a house.. Shyambhau instructs one of his boys to explain the scheme to a lady in the house. "7s madam there? " asks S'hiv the salesman. "Why " asks an apprehensive Vithalrao., the head of the family. "We have this packfor her. We would like her to have a look at it and see ifshe would like to buy it. " Say Shiv (trying to look his best;*



*smoothing out the creases in his uniform). He goes on to explain to Vithalrao about the contents of the pack before telling him that he will be getting it for Rs. 15 as against Rs. 25 if every item was bought separately. Vithalrao looks at the pack and reads the Marathi instructions on it.*

*A sugarcane farmer, he has managed a good crop for the past two years thanks to timely monsoons. Just last year, he had bought a black and white TV, thanks to which the brands on the pack are not altogether alien to him. He buys the pack for his wife and accepts the lucky dip coupon.*

*It satisfied, HLL hopes, Vithalrao's wife will come back for more.*

The rollout, which began in January 1998, was to be carried out at a furious pace. As many as 140 villages (with roughly 400-500 households) were being sampled every day. At this frenzied pace, it took HLL one-and-a-half years to cover the targeted 35,000 villages.

While the overall distribution remained intact, some minor changes/ improvisations had to be made based on the feedback.

For instance, to avoid glitches pulling down the tight schedule, the company had to introduce a Best Practices docket. This was a compilation of simple dos and don'ts. Simple instructions like 'Check the generators regularly' formed a part of the booklet.

Another modification needed was in the type of programmes that were being shown at the evening get-togethers. The idea behind the screenings was to expose viewers to product ads, which interspersed the programmes. This was to build a high brand recall to drive repeat purchase. But in areas with high TV penetration, response to film songs was lukewarm. As against 400 viewers that a screening could draw in a state like Bihar (Which lags in TV penetration), states like Maharashtra and Andhra Pradesh drew only around 75 viewers. That promoted a switch in programming, from film songs to mythological serials.

The progress of the project was monitored in two states: Bihar and Maharashtra. The two states chosen represent two different regions (north and south) and have contrasting prosperity levels.

These sampling exercises were conducted between the months of December 1997 to June 1998, and then again from September 1998 to March 1999.

## **Operation Streamline**

Operation Streamline is one of the major initiatives undertaken by HLL in recent times to penetrate the rural markets. In the case of Operation Streamline, the goods are distributed from the C & F Agents to the Re-distributors, who in turn pass it on to the Star Sellers. Being a cross-functional initiative, the Star Seller sells everything from detergents to personal products, etc.

Operation Streamline opened up a new distribution channel beyond the territories that were covered by HLL's 7,500 odd distributors. In less than two years, it has doubled the company's reach in rural India. Lever's distribution network now covers 60 per cent of the villages (with population greater than 2,000, and having motorable roads.)

Their aim to double penetration levels for their personal care products in the next three years in these markets. The outcome, if its test marketing experience in Maharashtra is anything to go by, is a foregone conclusion. To take one example from that pilot project: penetration levels for its Fair & Lovely cream shot up nearly



three times in just three months of launch of project. Interestingly, there appears to be a convergence around the prescription that HLL has created to crack opens the rural markets.

For the additional 30,000 villages that HLL wanted to reach, it created a superstockiest - sub-stockiest structure.

The super-stockiest in the bigger towns service these sub-stockiest, who are paid 1-2 per cent more margins than the retailers. This is to cover the sub-stockiest's costs in servicing retailers in his area. Since the distributor cannot cover these retailers regularly, these sub-stockiest are essentially stock points. Then, once dealers do the necessary demand creation exercises and as such off takes increases.

### **Indirect Coverage**

Under the Indirect Coverage (IDC) method, company vans were replaced by vans belonging to distribution Stockiest, which serviced a select group of neighbouring markets.

### **Operation Harvest**

The reach of conventional media and, therefore, awareness of different products in rural markets is weak. It was also not always feasible for the distribution Stockiest to cover all these markets due to high costs involved. Yet, these markets are important since growth opportunities are high. The company decided to initiate mobile van operations in a focused manner to create both awareness and point of purchase access.

Operation harvest endeavoured to supplement the role of conventional media in rural India and, in the process, forge relationships and loyalty with rural consumers. Operation Harvest also involved conducting product awareness programmes on vans.

There are 1.2 million urban retail outlets, and another 3.6 million shops in rural areas. Depending on their business objectives, marketer's use varying definitions for what is rural. Whatever be the case, to extend their reach, marketers begin by 'seeding' the new territory, mostly through a brand awareness exercise. As HLL demonstrated with Operation Harvest, this exercise is best done through van operations. During this exercise, vans from HLL and its distributors did the rounds of 30,000 villages giving promotional packs, showing products ads and identifying key retail and distribution points.

### **Cinema Van Operations**

The Redistribution Stockiest typically funds these. Cinema Van Operations have films and audio cassettes with song and dance sequences from popular films, also comprising advertisements of HLL products.

But over a period of time, van operations (usually run by the distributor or a third party) have also been used to regularly service retailers in these smaller markets rather than only making contact with the end consumer.

These successive 'Operations' have enabled the company to reach deeper penetration levels than other companies. HLL recognized early in its rural distribution initiative that market share would be created only when demand is built up through awareness, trial and consistent availability. The company literally had to 'build up' the market village by village in its rural initiative.

Cost-effective distribution solutions were as first attempted by HLL, and many other companies are veering around to that option today. It has been working well for HLL, so others are beginning to experiment with it.



### Discussion Questions

1. How did the marketing objectives affect the design of the distribution system in the above case?
2. The Company is following what it calls a ‘transitional’ evolution of its distribution system. Critically evaluate the effectiveness of the transitions.
3. What are the differences in the distribution efforts in Operation Bharat and Operation Streamline?
4. How effective in your view has been the rural distribution initiative by HLL? What suggestion would you like to make to the company, based on your understanding the rural markets in India?