



Nilima Achwal. May 7, 2010.

## Getting BoP Products in Consumers' Hands—MFIs and Micro-dealers Can Help



Anyone with experience working with the BoP knows this: the poor are hard to reach. Living in isolated settlements on the outskirts of cities or in far-flung rural villages, it is no easy chore to reach a BoP member - physically or in marketing - to sell a product.

How, then, can we get cutting-edge products and innovations in the hands of those that need them the most? We know there is no lack of products; there exist solar lamps, water filters, and mosquito nets galore. Why, then, have we not already solved the developing world's energy and clean water crises, with malaria a faint memory of a darker past? Along with low prices, the clincher lies in effective distribution and the equally important task of winning hearts and minds.

### UNDP

Microfinance institutions (MFIs) seem to be prime candidates for partnership for companies that want their products to reach the far corners of the BoP. A recent [Monitor study](#) shows that borrowers - who often have an irregular cash flow - have a huge and surprising preference for products sold on credit - 72% of those surveyed would buy a product on credit, as opposed to 14% that would buy without credit. Additionally, loan officers frequently visit borrowers' homes and have a deep understanding of their needs and preferences. They are also present at village meetings, where they are able to show how certain products work and make sales.

MFIs can have some incentives in distributing others' products. Though revenue goes back to the company, if borrowers buy the products on credit, all interest will accrue to the MFI. Additionally, the company may offer some commission to the MFI or to loan officers for selling the products. That said, the product should still align as closely with the MFI's mission as possible. MFIs may be reluctant to offer non-functional products (TVs, cabinets) that do not contribute to borrowers' livelihoods-it increases MFIs' credit risk. Even more importantly, the sales/distribution process *must* be as unintrusive as possible to the MFI's current processes-to the

underpaid, overworked loan officers who already deal with stressful issues every day, selling outside products may be low on the priority list.

There are varying degrees of MFI involvement; MFIs can be a. sales agents, having loan officers sell the products directly, b. micro-dealer facilitators, employing borrowers to be salespeople in their own communities c. customer order aggregators, letting loan officers just take product orders, d. consumer financiers, where the MFI agrees to offers loans for the borrowers to buy the products, or e. simply customer/marketing data providers.



### [Rediff](#)

There have been several companies to capitalize on MFIs' ready-made distribution networks to the BoP in India. Here are a few insights we can draw from them:

- **Loan Officers Must be Able to Transport Products Easily:** Loan officers are meant to carry cash, and maybe a notebook. When the commissioned loan officers at ACCESS Microfinance Alliance (AMA) sold Hindustan Unilever water filters on credit, they had to start using auto-rickshaws to transport the products, which was expensive and non-scalable.
- **There's Low Working Capital at MFIs:** AMA soon found that they did not have enough working capital to keep a sufficient inventory of the \$45 water filters. Often, it

makes more sense for MFIs to sell products on credit, without buying the product itself. Inventory can simply be delivered free of cost to the MFI for sale and/or distribution.

- **Sales Must Not Need Follow-Up Service:** The water filters had an *after-sales service requirement*-they had to make sure customers replaced cartridges regularly, which was very hard to monitor. Similarly, when SKS, the largest MFI in India, partnered with one of world's largest phone manufacturers, SKS initially sold 1,500 mobile phones in 2 weeks! Unfortunately, there were repeat technical problems, rendering the phones difficult to use for many buyers.
- **Protect the MFI's brand:** At SKS, since loan officers were the face of cell phone sales, borrowers' frustration with their mobile phones translated into deteriorating relationships with their loan officers, threatening SKS's core loan-making business! Borrower-loan officer relationships are *key* to MFI business. Borrowers often choose their own loan officers based on trust and good feeling towards the officer as an individual and are quick to even migrate with the loan officer if he or she switches MFIs. Borrowers are even more likely to pay on time if they are close to their officers, and they feel guilty about paying late and "letting the loan officer down." For this reason, borrower-officer relationships must be protected at all times.
- **Don't Create an Entirely New Supply Chain:** MFI Moksha-Yug Access (MYA) noticed that 1 in 8 of their borrowers rolled *agarbattis*, or the incense sticks used in many Indian homes. The MFI gave borrowers raw materials and paid them a weekly wage to roll *agarbattis*, and then sold the product to a large *agarbatti* company. Unfortunately, the MFI was ill-equipped to handle a whole new supply chain, including distributing raw materials, collecting finished products, and most importantly, managing workflow. There was lot of attrition and the hourly wage structure de-incentivized the women to be efficient at rolling as many *agarbattis* as possible.

What seems to work, then, when utilizing MFI networks for distribution? Cosmetics company Emami teamed with Spandana, an MFI with 3 million customers, and created a different model of distribution. Spandana selected certain **micro-dealers**-borrowers of the MFI-who got sales training, picked up inventory from a Spandana branch, and sold cosmetics to other villagers for commission of 10-12%. Spandana received 6-8% commission in addition to the interest on the loans taken out to buy the products.

The product choice was almost ideal; they are high margin, repeat-purchase, non-perishable, low ticket price items that require little marketing skill. The MFI did not require a large amount of working capital to keep an inventory and they were easy for micro-dealers to carry. Loan officers spent very little time on the project. And although cosmetics may not contribute much to borrowers' livelihoods, Spandana was creating a sustainable mode of income for the micro-dealers.

Cosmetics are a fairly easy sale; they are visually appealing, they denote social status, and people know what they are and how to use them. Products with indirect benefits (like water filters and insurance), however, may be less appealing.

Interestingly, the study shows that Indian BoP consumers have a lot of interest in non-productive items (TVs, cupboards), little interest in products that are functional and contribute to income

(fertilizer, livestock), and even less in those that have an indirect benefit, even if it is for their health (water filters, solar lanterns, insurance). This means that **sale of most "good-for-you" items should include an intensive marketing strategy, complete with community outreach or help from village heads in making those products appealing.**

[VisionSpring](#), which sells eyeglasses to the BoP, is an excellent example of capitalizing on local knowledge to sell a functional product. (See [case study](#) by my colleague [Ted London](#).) VisionSpring selected qualified villagers to be vision entrepreneurs, or VEs, trained them in basic eye screenings, and provided them with a "Business in a Bag," the materials and information they needed to make sales. These VEs were well-known and trusted by the other villagers and were able to sell about 14 eyeglasses per month.

When they exhausted their networks of friends and family after a few months, the VEs took a door-to-door strategy in neighboring villages, approaching the heads of the villages first, and then asking for two or three referrals. In this way, the salespeople were an integral part of the local communities and were careful to win the trust of people in new villages by first gaining the approval of the village heads.

As this case shows, distribution is not merely about transportation and infrastructure-in the BoP, a feeling of personal trust cannot be understated in its importance in household decision-making. Speaking of his neighborhood VE, one goldsmith, a happy customer of VisionSpring glasses, declared: **"I am grateful that this has created livelihoods for poor rural youth like Chandra...whom people here trust more than any stranger who comes and then leaves."**

The key is to foster a deep connection and relationship with a large network of BoP consumers, with the help of MFIs, micro-dealers, and other means. MFIs can provide valuable pathways to penetrate the depths of the BoP, especially because of BoP consumers' predilections for credit, but it is important to protect the processes that support the original product, the micro-loan.

Also, using micro-dealers (related or not to MFIs) can facilitate the distribution process, as well as employ and empower individuals. And applying insights from field results of different distribution methods heightens a company's probability of success and the probability that a much-needed product will end up in the hands of a consumer that may once have been far too isolated to even dream of owning it.

Source: <http://www.nextbillion.net/blog/2010/05/07/getting-bop-products-in-consumers-hands>