

Institute for
High Performance

Hindustan Unilever: Scaling a cost-efficient distribution and sales network in remote markets

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Case Study

A large, close-up photograph of a hand reaching out from the right side of the frame towards the left. The hand is illuminated by warm, golden light, suggesting a sunset or sunrise. In the background, the Taj Mahal is visible, its white marble structure and domes reflecting in the water of the reflecting pool. The sky is a clear, pale blue.

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Consumer goods companies have been among the first to make headway in low-income markets of emerging economies. Yet they face an uphill battle once they get beyond cities to often-remote rural areas, where distribution and sales networks capable of profitably supporting operations of necessary scale are difficult to build. With "Project Shakti," Hindustan Unilever has answered this challenge through a blend of strong local connections and changes to its organizational structure.

Impact of the inclusive business initiative

Through Project Shakti, Hindustan Unilever (HUL) markets and sells its health and beauty care products to low-income consumers in rural Indian villages. Such villages often lie entirely outside the reach of mainstream media, and they cannot be reached cost effectively through the usual marketing channels, such as retail stores or online shopping sites.

To reach consumers in villages, HUL has recruited local female entrepreneurs—Shakti Ammas ("Shakti" – power and "Amma" – mother)—across 15 states to act as salespeople and brand-builders. HUL's products are delivered to central locations where Shakti Ammas purchase the goods and from there to thousands of villages.

Shakti Ammas generate income under a commission-based model. They earn approximately Rs. 2000-3000 (US\$41 – \$59) a month, double or triple a typical village income they would likely have earned before joining HUL. HUL also offers Shakti Ammas free courses on hygiene. These courses help Shakti Ammas market HUL's products, but more importantly they also help them understand how to stave off diseases in their villages through better hygiene.

Recently, Project Shakti has expanded its operations to include men (Shaktimaan) as part of its distribution network. These Shaktimaans are all husbands of Shakti Ammas. Their employment not only boosts household income; it has also helped to improve the retention rates of Shakti Ammas—an increasingly critical factor for the long-term sustainability of Project Shakti.

With 45,000 Shakti Ammas and 26,000 Shaktimaans, HUL today reaches an estimated 3 million rural households a month through this initiative.

Barriers to scale

Infrastructure deficit: Poor physical infrastructure made it difficult to use HUL's well-established urban distribution network to support its Project Shakti operations in rural locations.

Negative incentives: Many low income families participate in government-led initiatives that guarantee rural employment. While Project Shakti workers generally earn more, they are not paid every day like those employed by the government programs. Thus, retaining workers who have immediate cash flow problems became more difficult for Project Shakti.

Institutional deficits: Many of the household products HUL planned to market with Project Shakti were already available in rural villages, such as shampoo and soaps – though usually of a lesser

quality. The company therefore needed to rely heavily on its brand to promote its products. However, brand building was made more difficult by the absence of traditional media and advertising channels in rural villages.

Strategies for success

Consistently ensuring top leadership participation in the project: HUL's chairman and board remained heavily involved during the 15-month pilot stage. Managers presented monthly progress reports to the board during this phase and HUL's supply chain leads were also expected to provide support upon the request of a pilot program manager. After the pilot phase, six projects—including what became known as 'Project Shakti'— were identified by the board as potentially viable, scalable and worthy of further investment. For the next three years, the six managers, or venture leaders, appointed to oversee a given project continued to present to HUL's board once every three months. Drawing on a standardized set of 3- to 6-month performance benchmarks, the board was able to assess each project and determine its viability while also quickly shelving projects that were not scalable. Only two out of the six ideas made it to the market. One was for Pureit, a water purifier; the other was Project Shakti.

Designing unique metrics and making adjustments to organizational structure: One of the keys to Project Shakti's success has been the design of metrics to ensure that the initiative is continually aligned with HUL's strategic priorities. For the first three years of the project – the pilot stage – HUL's focus was on determining the scalability of the initiative. Accordingly, financial targets – for example, profit



growth – were not considered important metrics during this phase. Instead, the company examined three-to-six month targets on sales volume and the number of villages where the project was operational.

Next, the company focused on the sustainability of its Shakti Amma network. It hired a new layer of managers, each of which was responsible for 2,000 Shakti Ammas. Their performance was measured according to the average income level of the Shakti Ammas in their network; their access to credit from alternative sources, such as self-help-groups to fund their business; and the ability of Shakti Ammas to generate revenue in addition to their HUL business (for example, by selling mobile phone credit to villagers)—all of which are critical to the network's sustainability.

Following the sustainability phase, HUL instituted a two-fold change to their organizational structure in order to improve cost efficiency and capability development. At the ground level, HUL hired a third-party contracting firm to

oversee capability development. During this phase, each manager from the contracting firm provided localized attention to 400-500 Shakti Ammas, and their success was measured based on sales growth and improvements in the women's sales techniques. HUL also developed a management team at the state level. These managers were assessed on typical financial indicators, such as revenue growth and profitability, and were specifically tasked with driving cost efficiency by standardizing the project's operations.

Using technology to design a flexible rural supply chain and sales network: Customer data on low-income rural Indian populations is extremely limited, and their tastes and preferences are notoriously diverse and hard to determine through traditional customer surveys. As a result, HUL built a GPS and density mapping technology to design its rural supply chains and sales network. The population density and the distance between villages play a key role in determining the number of Shakti Amma and Shaktimaan recruits, their placement, and the volume of the product the supply chain needs to handle.

With seasonal migration a common occurrence in rural India, the ability to continue to map population density quickly is a key competitive advantage, and a critical factor in building a flexible rural supply chain.

"Having seen Project Shakti from inception, I recall many instances when this project could have been shut down or veered off-course; and it was only the deep belief in the organization, from the chairman to the salesman in the field, that it was the right thing to do... that it was nurtured when it was small. Today it is an integral part of our business."

–Hemant Bakshi, Executive Director, Home & Personal Care.

Company information

Hindustan Unilever (HUL) is India's largest fast-moving consumer goods company. HUL currently offers over 35 brands in India spanning 20 categories including soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream and water purifiers. It's estimated that HUL has sold products to two out of every three Indians.

The company has over 16,000 employees in India and recorded an annual turnover of around Rs.217.36 billion (approximately US\$ 4.53billion) in FY2011-12. HUL is a subsidiary of Unilever, which holds about 52 percent of equity in HUL.

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