

***oikos Sustainability Case Writing Competition 2006***

***1st Prize***

**HINDUSTAN LEVER (B):  
THE REALITY CHECK**

Wolfgang Amann, Aileen Ionescu-Somers and Ulrich Steger  
IMD – International Institute for Management Development

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## HINDUSTAN LEVER (B): THE REALITY CHECK

*Research Fellow Wolfgang Amann and CSM Program Manager Aileen Ionescu-Somers prepared this case under the supervision of Professor Ulrich Steger as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.*

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MUMBAI, INDIA: JULY 5, 2005, 14:10. Sharat Dhall was bringing his senior colleagues up to date on Project Shakti. He outlined the results obtained so far and detailed the challenges. He had been a brand manager at Hindustan Lever Ltd (HLL) before taking over from the former manager, Kthalli Srinivas, in February 2002. At that time, the project was in serious trouble since the women were earning little and consequently dropping out of the scheme. HLL was, however, able to learn more about the situation in the remoter villages. For example, Vijay Laxmi from the village of Aregudem near Hyderabad was one of the new direct-to-home sellers. She often hosted her SHG group's meetings, in which she took a leadership role, at her home. She kept the HLL products neatly stored in a corner of her sitting room. Her daughter, who was more literate with numbers, did her bookkeeping. Pratik Pota commented:

When I started with this project, I thought that the problem of training these women was practically insurmountable. Many seemed timid, and none had ever done anything like this before. For example, it is quite amazing to see how confident Vijay Laxmi has become, given the practice.

Vijay Laxmi, however, commented:

I am delighted to have had this training, but the amount of income generated from this is almost not worth the effort: between Rs 100 and Rs 150 a month. Given a choice, I would prefer HLL to set up a production unit in our area that would give jobs to our children and us.

In another village, the local schoolteacher's wife also sold HLL products, which were clearly on display for any visitor to see. She remarked:

It all started off well in November, but now that we are in May and it is harvest time, people do not have time to think about HLL products. And neither do I have the time to travel very far to find new customers or to stock up at the MACT. The only way of doing it is to go on foot.

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The fluctuation in SHG sales throughout the year was an element of concern for HLL (refer to **Exhibit 1** for a typical sales pattern). With these fluctuations and low level of transactions, it was difficult to see how the company could scale up quickly. There had to be strong rational reasons for villagers to purchase from SHGs and that meant reducing the margins so that the group could compete with the local retailer. Increasing the overall number of individual transactions was indeed a challenge. There was also a stigma attached to door-to-door selling, so the women waited until the SHG got together to sell the products. Besides, there was no transport for door-to-door selling--it had to be done on foot.

### ***Glimpses of Hope***

The good news was that a few months into the experiment the retailers had not noticed a decrease in their business as a result of the SHGs' new involvement in selling HLL products, but it was an important aspect to monitor. Although the retailers had not as yet objected, most probably due to the low level of transactions, what would happen if the transactions increased? The overall impact on HLL sales was undoubtedly positive. The consumption of HLL brands in the district had increased by 17% in six months. Simultaneously, the local consumers showed a dramatic increase in awareness of several brands that were previously almost unknown to them. For example, Red Label Tea, for which awareness had increased from 0% to 35%.

Continuing with this momentum presented a challenge, since the SHG women, who devoted only part of their time to selling HLL products (and wove or farmed the rest of the day), did not have the time to do the type of brand awareness building and hygiene education that the Star Sellers could do in the traditional system.

### ***Changing The System Or Giving It Time to Take Off?***

It was clear to Sharat and his predecessors that the success of the model depended on being able to create significant enough earnings for the women to retain their interest and grow through their involvement and effort. In order to overcome the obstacles and increase the women's earnings, one or both of the following steps had to be taken: a) increase overall sales, and/or b) increase margins.

An analysis of the low sales showed that selling directly to consumers was difficult and was taking time to become established. The reasons for this were:

- 1) consumers were used to purchasing from retailers and needed a good reason to change;
- 2) consumers preferred to go to retailers because they stocked a greater range of products;
- 3) self-employed women (SEs) were reluctant to go to consumers' homes to sell the products.

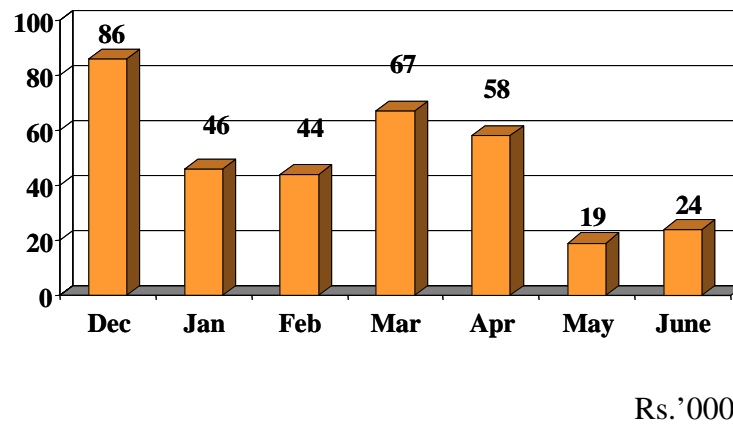


It was clear that the bulk of purchases in the village took place at retail shops. Yet, the model, as it stood then, did not allow sales to the retail trade, because the MACTs, as an intermediary, received 3%. This prevented the SHGs from selling to the retail trade. As a concept, MACTs were not prevalent in most parts of the country--there were some in Andhra Pradesh where the project was launched--so it did not make sense to keep them as part of the broader Shakti model. But should the MACTS be discarded from the value chain? After all, they fulfilled a necessary service role. Or did they?

Removal of the MACTs could result in an additional margin being available for the SEs, which could increase their earnings as well, since theoretically they could earn a higher margin on the same turnover. But, once again, weren't MACTs valued for their support and didn't they contribute to the development of the local community as well? Did HLL really need to expect resistance? Or further setbacks? What other means were available to HLL to revamp the business model? Or did the company just have to wait patiently until the new system took off of its own accord, since all innovative projects take some time before they start flying?

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**Exhibit 1**  
**Shakti Progress: Typical Sales Pattern across Seasons**



Source: Company information

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