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QUESTIONS FROM WEBINAR 2: Marketing nutritious products to the base of the pyramid

The questions in this document are from Webinar 2 of a series on marketing nutritious products for the BoP. Speakers included: Lucie Klarsfeld McGrath, Senior Project Manager at Hystra, Marti van Liere, Director Maternal, Infant and Young Child Nutrition at GAIN, Clémence Boulle Martinaud, Nutrition Projects Manager at GRET Professionals for Fair Development. The webinar was hosted by the Practitioner Hub for Inclusive Business and facilitated by Hub Editor Caroline Ashley.

For more information about the webinar, the recording, presentation and resources, [visit the event page](#).

CORPORATE FMCGs and BRAND

What if the product was a special branded product of a multi-national? Do you have any examples of the cost structure? For example, does Danone have better margins for BOP products because of brand awareness? e.g. do they get any uplift in turnover because the brand is associated with a premium brand as compared to an SME?

Hystra: For new nutritious products for infant, specifically addressing the base of the pyramid (e.g., not premium brands, but they could be a lower priced product by the big players), we extrapolated the “real costs of distribution and marketing” of the relatively small players we studied (~10,000 meals/day), to what they would be “at scale”. “At scale” also means once their brand is known (whether it originally came from a large or small player). Our estimates for such products’ distribution and marketing margins, at scale, would be in the 40% range (out of customer price), versus around 25% for more typical FMCG (chips, soap etc) because you would still need quite a bit of promotion, as the infant population changes very quickly and you need to reach new parents all the time; and as those products still have a slower shelf rotation than more usual FMCG that everyone can buy.

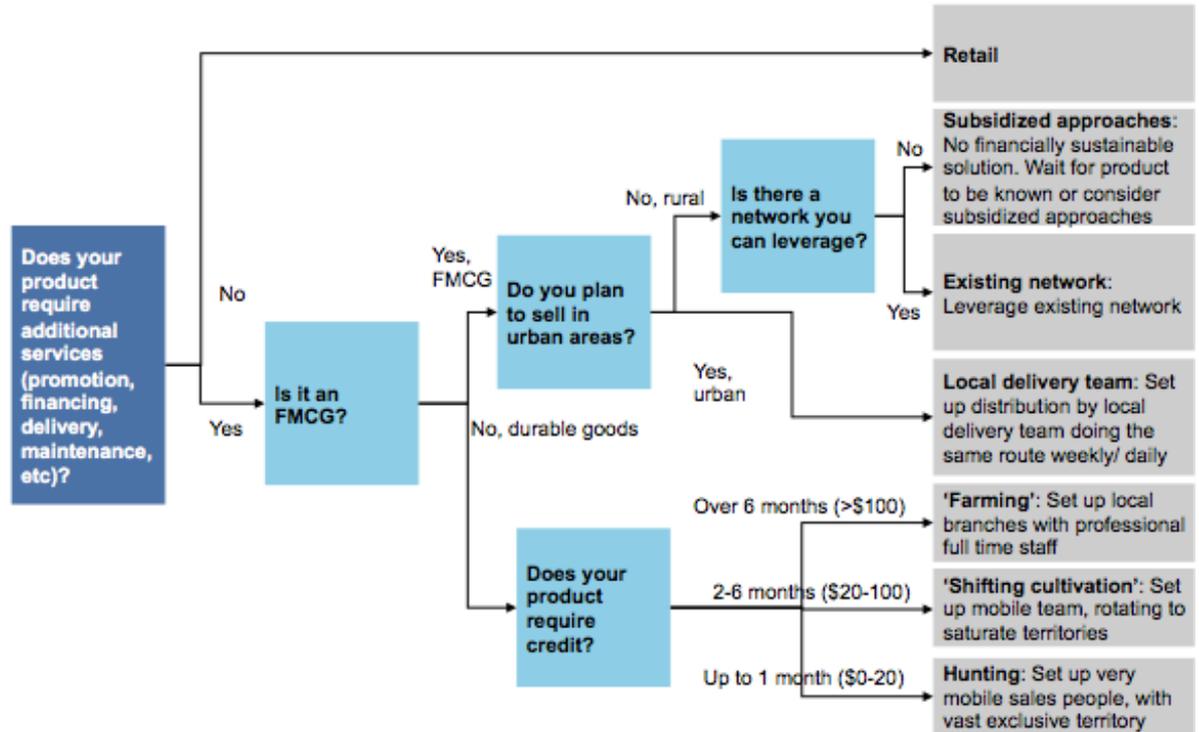
Hystra’s decision model suggests brand is less important in rural areas. Is that really the case in today’s hyperconnected world, where rural folks are quite aware of global brands?

Hystra: Great question. It’s not that brand does not matter, it’s just that the economics are the first and foremost question there. The lower density, and often lower purchasing power which further shrinks the pool of potential clients you can get in a given rural area, makes it more difficult to build a sustainable distribution channel.

That being said, then yes, brand does matter there as well. We’ve actually updated this decision tree to also incorporate “durable goods” (e.g., solar lanterns, water filters etc) and not just consumer goods; and as you see on the graph below, the first question is indeed: “does your product require additional services”, including “promotion” – whether in urban or rural area (see graph below – for more information on the models for durable goods see our report [Marketing innovative devices for the BoP](#)).

GAIN: Branding matters everywhere. Just look at the case of Omo or Blue Band, which are known throughout rural areas in Africa.

Choosing the most appropriate distribution network depending on your product and the local environment



SMES, CASH FLOW AND FINANCE CONSTRAINTS

How can SMEs capitalise on sales force when cash flow is not guaranteed/stable? I have seen some companies partner with social finance organizations for up-front capital to the sales force essentially to help with cashflow

GAIN: Indeed the breakeven period for SME's is much longer than for larger FMCG companies. This is indeed a challenge for a viable and sustainable business model, if cash flow is low. There are several solutions, though not easy:

- 1) cross-subsidising by other product categories that the company is selling (can be different type of product, e.g. maize grit for animal feed or beer brewers)
- 2) external inputs from social investors or partnering with NGO's or social marketing organisations who are then responsible for the generic nutrition behaviour change.
- 3) identify an institutional buyer that orders bulk (for govt distribution or a NGO program) for which no marketing investments are needed, allowing higher returns to the company that can be invested for the retail marketing

Bulk buyers are great clients and good business. I sell whole milk that is pasteurised and homogenised, having a sales force for this is something I would wish to learn about

Hystra: More information about salesforce are available in the Hystra report [Marketing for the BoP](#)



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I think I saw in your presentation that rural areas with no pre-established networks essentially are very difficult to get a successful sustainable model reaching them, yet these are most likely the most vulnerable and those who need products the most, what to do then?

With higher costs, do they (SMES) really breakeven?

Hystra: In the short-term they can, thanks to institutional sales and/ or cross subsidies with other products (e.g., non-fortified flour sold to industrial clients). The pure “fortified complementary food” business line on its own would take longer to break even.

GRET: Yes, but diversification of range of product, of distribution channels and of funding is key to breakeven in this niche market. Let’s take one example of the study, the Nutri’zaza social business that has been created in 2013 in Madagascar. The company built its business plan with the ambitious challenge to reach breakeven point within 5 years. In that objective 3 distribution channels have been developed with specific fortified complementary food products 1. Baby-restaurants and door-to-door delivery of ready-to-eat-porridge in vulnerable urban areas; 2. Traditional retail with 35g sachet of fortified infant flour (and diversification of range); 3. Institutional sales. To support company development, 4 partners (1 NGO, 1 industrial partner, 2 investment funds) invested in the capital of the company and Nutri’zaza received a grant funding from AFD (Agence Française de Développement) to cover cash-flow. Business plan is built considering a progressive decrease of the grant until 2018. End 2016 (3 years of activity), Nutri’zaza performed well on the 3 distribution channels and reached breakeven point including the grant. Next 2 years Nutri’zaza’s objective is to breakeven with a 0% grant.

When you say cash flow from other products, are you talking about products of the same type (eg. porridge and MNP) or a different type of product that is more profitable?

Hystra: The one company we saw doing this was Milkkuat in Indonesia (then a Danone brand). Their product is a fortified dairy product for children 3-12. Their margin on the basic version sold at 1000IDR is much smaller than on their premium product (nicer packaging, larger format, slightly more fortification), which in effect cross subsidizes their sales. But there is no reason why companies selling porridges and MNPs could not use the same strategy!

GRET: you can also imagine to cross subsidy your sales with 1 product only but adapted in terms of packaging and distribution to different types of consumers. For example, in many countries where Gret supports SME’s, 1 fortified complementary food is locally produced. Then a social marketing strategy is developed to make it affordable and available for the population. As an example, Nutri’zaza sells “Koba Aina” fortified infant flour in the form of ready-to-eat-porridge to most vulnerable populations with lower purchasing power (through doo-to-door and baby restaurants) and the same product in the form of 35g sachet of flour to be cooked (through retail) to population with higher income. Prices and margins are different to enable cross subsidizing.

GAIN: see previous comment: infant porridge producers we worked with also supplied maize grit to animal feed companies or beer brewers. Millers produce fortified and non-fortified flours and can produce fortified infant porridges as well.

Can you really compare SME and FMCG? Those are two different things.

Hystra: We used FMCG data points to show how much more expensive it is to sell not so known, nutritious products to low-income clients (we have seen that this remains true whether done by big brands or SMEs).



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GAIN: Indeed their way of working is different, though the business principles are the same.

Have you seen MNCs acquiring successful local brands in the past? Could you talk a bit more about your experience in terms of the interplay between existing MNEs and nascent/established inclusive businesses (market dynamics)?

Hystra: There has been discussions between various players, but no investments we know of (in the space of infant complementary foods). That being said, some collaborations have taken place; e.g., Danone developed a partnership with GRET NGO on their Nutrimad project to improve marketing of Koba Aina product in 2007 – 2008. Then Nutri'zaza has been created in 2013 to sell Koba Aina.

GAIN: Interest has been expressed in one case where an MNC was interested in buying out the local brand to reduce competition. We have also observed that MNCs reduced their prices in response to a successful positioning of a local brand in the market, or followed the local brand with the small-size packaging, or reacted by trying to influence relationships with distributors or retailers, to reduce access to shelf space by the local brand. This is all part of the competitive game, and though seemingly unfair, it is also a sign that the local brand is successful.

SCALING

I'm curious to hear from your analysis the average time it has taken for products that are brand-known and those that are not well known to be introduced and taken up by consumers, such that social enterprises are able to break even. A key point about this timing is that these periods often are much longer than the length of grants, which highlights your points about leveraging sales approaches and distribution channels.

GAIN: I do not believe there have been any such comparative studies, as brand recognition is also not the only factor influencing consumer uptake. Yet, in Cote d' Ivoire, the local brand Farinor was very well-known (especially in Abidjan). Therefore, the new product Nutribon, has continued to use this brand to build on brand awareness.

Your point about the duration of grants being shorter than the time needed for break-even is indeed true, and one of our conclusions in our Working Paper series : <http://www.gainhealth.org/programs/maternal-infant-and-young-child-nutrition/#resources>

GRET: Well good question, in the case of Koba Aina, well-known by population, promotion has been started by GRET in the early 2000 combined with nutrition education. However to breakeven, the question of brand-awareness is not the only performance lever. In the case of Koba Aina, brand is already well-known however the challenge is not only to make it known by potential consumer but mainly to convince them to buy it and trigger trial.

Generally speaking, are the numbers presented here from programs at scale or from pilot small scale studies? If at scale, what is the numbers of people reached on average?

Hystra: The companies we looked at sold at least the equivalent of 10,000 complementary food meals per day. Not pilot anymore, and the most successful we could find at the time in that space, even though that's still small compared to the needs in their respective countries!

GAIN: there is huge variability in the different projects. For instance the project in Bangladesh where BRAC sells micronutrient powders (MNP), produced by one local company through their network of



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45,000 community health workers is currently selling 4 million MNP sachets per month. This is a ten-fold increase from 2 years ago.

FINANCING

What have been and how have differing financing mechanisms affecting the success of sales approaches?

Hystra: Very good question but we did not study this specifically unfortunately!

GRET: In the case of Nutri'zaza, the grant funding from AFD was used to hedge cash-flows. Nutri'zaza got then a bit more flexibility to invest in sales mechanism, test distribution channels.

GAIN: GAIN has given grants, but companies were also required to invest their own resources or were able to obtain bank loans. We have also provided technical support to companies receiving credit from a social investment fund.

There seem to be a lot of up-front costs associated with building a salesforce, marketing, etc. before any revenue starts coming in. How do companies find the capital to do this?

Hystra: Nutrifaso and Nutrizaza started as NGO programs (and Nutrifaso still is, while Nutrizaza raise funds as a social enterprise). PKL started as a self-funded local company, and got a grant from GAIN, then looked for social investors and bank loans. e'Pap is a self-financed South African company. BRAC in Bangladesh is an NGO, which received a grant for the additional resources needed on training, monitoring and promotion. Milkuat was a new product developed by Danone Indonesia. Naandi Water (selling water so a little bit of an outlier here) started as a program by Naandi Foundation and then became a social business/ joint venture between Naandi and Danone.Communities. The other micro-distribution programs we had studied earlier and that fed in our data for this study are also a mix of MNC funded programs (e.g., Unilever Shakti ladies in India or Danone Semilla in Mexico), NGOs (e.g., Living Goods) or impact-investor funded social businesses (e.g., JITA Bangladesh).

GRET: answer similar to previous question above about AFD grant to hedge cash-flows and enable investment. Partnering is key to start this kind of business. As these companies get a social impact, then partnering with institutions and public sector is key. Local Private sector has a key role to play with these actors and needs interconnection with them. For some information, you can read GRET position paper on the [PPP to fight malnutrition](#).

RURAL AREA CHALLENGES

What about having own shops in rural areas? Is it an option?

Hystra: The various options for selling nutritious foods in rural areas are:

- piggybacking on an existing (health related) network, whenever possible (preferred option if it exists)
- else, go through existing retail and do point of sales promotion (e.g., once per month show explaining the product) – but when we (Hystra) did the research we did not find anyone who had managed to make it sustainable (caveat: products and brands were new and needed a lot of promotion/education then –in a more mature market this should work better!)



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- else, create your own shops as you suggest, to sell these new products and do the necessary promotion etc- but we haven't seen any company sustainably setting up their own chain of branded shops in rural areas, to sell new products requiring promotion

Hence, as mentioned at the end of the webinar, our recommendation for newcomers without an existing door to door network to piggyback on in rural areas, would be to start in urban areas where the economics will be easier, to increase the chances of success of your pilot; and go to rural areas, through retail with additional punctual point of sales promotion, once your product and brand are already better known.

Or, the other alternative is to use institutional channels (gov purchase etc, who then distribute the products for free via their health system – but be careful about your branding not to destroy your future market!) to reach those areas!

It was discouraging to hear the nutritious food cannot be sold profitably in rural areas without a subsidy to the private sector.

GAIN: The lessons to be drawn from the webinar should not be interpreted as black and white, that there is no profitability at all. We may not have given sufficient attention to all types of nutritious foods, because the majority of the case studies we've discussed were actually targeting specially formulated for children 6-23 months, as a complement to breastfeeding. These products have specific quality and safety requirements which add considerably to the cost, for which it is difficult to achieve a viable business model based on small scale production and distribution. However, there are other categories of nutritious foods: for instance fresh foods (fruits and vegetables), milk-based products (yoghurt, cheese), as well as fortified flours, which have different requirements and for which some of the barriers are more easily overcome.

Selling in rural areas in Kenya has been possible through smaller units and affordable prices as well as being near them as much as possible. we call it the "ndogo ndogo economy".

GAIN: yes, we have also seen that smaller units (single portion sizes), and even choice of several units to fit the purchasing power of the consumers, works well. For instance for the micronutrient powders, it is helpful to be able to sell single sachets, pouches of 10 sachets (dose for 1 month) or boxes with 60 sachets (ration for 6 months). This is by the way an example from Vietnam.

Hystra: We have seen this for "more widespread FMCG" but not nutritious complementary foods that require a lot of promotion and explanation (or at least not sustainably). I would love to learn more about your model! What is the name of the company?

THE EXAMPLES IN THE REPORT

Can you please provide me more information on Milkkuat?

Hystra: see the report on 'Marketing nutrition to the BoP' [access it here](#)



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Did any of the company working in the rural use already established social network in selling their products?

Hystra: BRAC used its existing network of community health workers (who are established trusted women).

Was there any incentive for sales force and mothers?

Hystra: Yes, varying by project. See chapter 3 and 4 on marketing and compliance in the [report](#)

Did they use Patent medicine vendors in their sale strategy?

GAIN: what is very important with regard to the products that are specially formulated for children 6-23 months, is to follow the guidelines of the International Code for Marketing of Breastmilk Substitutes. This Code, which is supported by most countries, and subsequent World Health Assembly resolutions, indicate that it is not allowed to promote infant products through health centres. http://www.who.int/nutrition/publications/code_english.pdf

Hystra: not in the projects we studied

Did the earning power of the community people have any effect on the number of sales? inclusive of the cost of the product

Hystra: Great question. We've seen that parents are ready to pay more for nutritious food for their 6-24 month children, if they're convinced of their benefits (up to 5 to 8 times the price of un-fortified flour), in the limit of 5% of the household income. So, in "too poor" communities, indeed, sales will be limited...

GAIN: earning power or purchasing power has of course an influence on who can afford to buy products. Yet it is not the only factor to impact the decision to purchase a product, as indicated by Lucie above. In a study in Cote d'Ivoire price was not identified as a barrier to utilization by respondents in a survey, yet the product appeared to have greater visibility and utilization among the non-poor – so perhaps the information did not reach the poor to the same extent.

How does this product affect already established traditional feeding patterns of foods for children?

GRET: Regarding the products sold through Nutrifaso and Nutri'zaza (see Hystra report), they are infant flours (needing to be cooked for at least 10 minutes) to be prepared at home and porridges sold ready to eat, both are complementary food products. They have to be taken in addition to breastmilk from 6 months. Before launching any of these products, various studies have been made by GRET locally (on nutrition habits, locally available raw materials, competition surveys, distribution networks surveys...). Especially among mothers and fathers of children 6-24months: nutrition status; feeding habits, perception and expectations on complementary feeding survey... Thus, the products are locally developed, with mainly local raw materials, and they are adapted to the child's nutritional requirements, the dietary habits of the populations, international quality standards and populations with low-income. GRET has experienced that it is difficult for poor families to prepare meals of sufficient nutritional value using the local raw materials. Thus, these products, adapted to local feeding patterns are offered as a solution to families.



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GAIN: In the case of complementary feeding, it is important to ensure the child is getting used to many different local foods and ensure sufficient dietary diversity to help fulfil its nutritional requirements for optimal growth and development. Unfortunately, there is ample evidence nowadays that indicates that local foods / diets alone do not suffice to fulfil all nutrient requirements (Osendarp et al. (2016) Food and Nutrition Bulletin DOI: 10.1177/0379572116655239). Fortified complementary foods can then be a useful and important addition to the local foods being fed.

SPECIFIC MARKETING & DISTRIBUTION QUESTIONS

Why is shelf display material an incentive to retailers?

Because it helps them sell by giving visibility to the products! Retailers actually often ask new brands to provide them with these tools (also because they are used to receiving such materials from more established brands)

Please also try to explain the specific restrictions on placed on infant food by WHO. What is and what is not allowed in ATL/BTL?

GAIN: What is very important with regard to the products that are specially formulated for children 6-23 months, is to follow the guidelines of the International Code for Marketing of Breastmilk Substitutes as well as national legislation. This Code, which is supported by most countries, and subsequent World Health Assembly resolutions, indicate that it is not allowed to promote infant products through health centres. http://www.who.int/nutrition/publications/code_english.pdf. Please be aware of the fact that national legislation can be different: either more or less strict than this Code.

This year at the World Health Assembly, a resolution was adopted concerning **Guidance on ending the inappropriate promotion of foods for infants and young children**, which provides further clarity: <http://www.who.int/nutrition/topics/guidance-inappropriate-food-promotion-iyce/en/>

In 2010 GAIN had published a report, prepared by a global expert group: the Maternal, Infant and Young Child Nutrition Working Group, which based on expert's advice has interpreted the international Code guidelines, for application to complementary foods, which are NOT breastmilk substitutes, but are needed to complement the nutritional needs on top of breastfeeding.

<http://www.gainhealth.org/wp-content/uploads/2015/02/Working-group-paper-on-Complementary-Feeding.pdf>

Retail outlets can effectively provide the complementary food, but do not provide a platform for one-to-one communication about other aspects of optimal feeding or other nutrition topics, including things like hand washing.

Hystra: Absolutely true... To effectively sell through retail, (and to be able to insist on those aspects), our recommendation is to combine a retail network with point of sales promotion, e.g., once per month have a sales person/ promoter there explaining the product benefits. Optimally, private players would be able to combine this marketing with public interventions that would raise awareness on the importance of these other nutrition-related topics... (I say optimally because these partnerships are not easy to set up!)

GAIN: this is true, though the packaging of many products include recommendations for preparation, including hygiene recommendations such as handwashing with soap prior to food preparation.



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How are the impacts of the (nutrition-related) education programs associated with the sale of the product measured in the medium/long run in your research?

Hystra: Very good question. Unfortunately our research was more “looking at what exists and comparing what works at one point in time” – we could only review this type of information when the companies we analysed had it. Milkuat in Indonesia, then a Danone brand selling a dairy products for children 3-12 year old, had done quite a bit of research on the link between their school programs and their sales – but the smaller brands selling infant food had not at that stage, unfortunately.

GAIN: very important question but I believe there are no studies available so far. Alignment of product promotion, with generic nutrition education or behaviour change communication is very important, in order to strengthen public health messages and not to confuse caregivers.

Is there any significant impact in the name of the nutritious product to the consumer?

GAIN: If I understand your question correctly, you wonder whether the product name (not only the brand) influences a consumer’s decision to use it? I believe so, and often the product name is being tested with consumer panels. Yet again, there are national and international guidelines to be followed as product names should not include implicit claims which are not allowed under the International Code of Marketing of Breastmilk Substitutes or national legislation. For instance: a product in Mozambique had to change its name from Superbebe (Superbaby) to Vitamais.(more vitamins)

It has taken many years as a social entrepreneur to build a nutritional product that still does not get support from the large players. Institutional markets are fairly well closed shop if you are not in USA or Europe.

Hystra: Good point Rose. Your product e’Pap is actually a great example of a local brand that has found alternative “local institutional markets”, as schools and hospitals make up a large proportion of e’Pap sales.

GAIN: Yes, it is not easy to enter the institutional market, not only because of economic barriers, but especially because of QA/QC barriers. Any producer/ product will be audited by the institutional buyer according to very strict (international) product safety and quality criteria, and on price. This compliance is important when foods are being transported and distributed to vulnerable groups under circumstances of high temperatures, challenging storage conditions. The price aspect unfortunately does not take into account support of local economic development, or environmental aspects.

Are donors willing to pay for promoting a specific brand of product?

Hystra: It depends on donors’ strategies. The Children Investment Fund Foundation (CIFF) for example, is open to partnerships with specific private players.

GAIN: Donors may not want to engage in promotion of one specific brand or product, which is also not necessary and can be avoided by promoting a non-branded product category. There are however examples of favouring certain brands or products, in the case of RUTF or MNPs, where established companies have a very strong position in the institutional market, which is more difficult to enter for new-comers.

In some countries, it is a problem to market direct to moms on complementary nutrition. How do you do this with door to door models?

GAIN: Firstly I would like to note that complementary foods are not the same as breastmilk substitutes. Complementary foods are important to 'complement' breastmilk, but not to replace it. Children after 6 months of age need that complement to grow and develop. Secondly I would like to refer to what is mentioned above on the guidelines of the International Code for Marketing of Breastmilk Substitutes as well as national legislation. Because there was quite some confusion as to what is allowed for complementary foods, the World Health Assembly has adopted a resolution in May 2016 concerning **Guidance on ending the inappropriate promotion of foods for infants and young children**, which provides further clarity: <http://www.who.int/nutrition/topics/guidance-inappropriate-food-promotion-iyce/en/>

Are there many examples of ICT (mobile) being used for BTL marketing - not on the side of the sales force but of the consumer?

Hystra: More and more social businesses (not only in nutrition) use ICT as a tool to communicate with their clients, e.g., conduct consumer satisfaction surveys. Acumen Fund for example runs what they call "lean data" SMS or voice surveys for their investees, interviewing their clients. Other social businesses run it themselves. We've seen it used more as a tool to follow up on clients than as a marketing tool to gain new ones, though.

GAIN

Is GAIN considering funding the development of improved traditional complementary feeding? (see <http://www.fao.org/nutrition/education/iyce/en/>)

GAIN: Yes, GAIN is also working with women groups in India, Ethiopia who are producing more 'traditional' CF, but selling it in the community or to the public distribution system. In all projects, and notably Indonesia we promote diverse complementary foods ('colorful plates versus rice-white plates')

Did any of the examples combine demand from public sector (in addition to consumers buying themselves)?

Hystra: Great question. Yes, all the companies in the report selling complementary foods had at least some part of institutional sales, either to international buyers (e.g, the world food program) or to local health centers or schools.

GAIN: GAIN has worked in several States in India, working with a semi-government company in Telangan as well as women groups in Rajasthan, Bihar and Karnatka who produce fortified supplementary foods, who sell their products to the Integrated Child Development Services – the largest public delivery system worldwide.