

## **BRINGING LOW-INCOME CONSUMERS INTO THE MARKET IN COLOMBIA: HOME IMPROVEMENTS THAT MAKE A DIFFERENCE**

***Roberto Gutiérrez***

Ana Delia Ibarra, a 40 year-old mother of three, is one of 80,000 Community Mothers who work in poor neighborhoods in the cities of Colombia. Back in 1986, when President Virgilio Barco created the Community Homes day-care program, many of these women were already organized to care for children — their own and those of other mothers. Ana was able to join the program in 1996 because she had her own house, a high school diploma and experience with children. She brought together 20 of her neighbors' children, but although she was an experienced childcare provider, she faced typical difficulties such as financial deficit, criticisms and lack of formal training.

As a girl, Ana and her family moved to Bogotá from the faroff city of Palmira for better opportunities. She lived with her mother on the outskirts of the city even after she was married and had children of her own, until a friend of her husband Noel offered the family a lot in Usme, a neighborhood of some 250,000 residents on the fringes of Bogotá. Recalls Ana, "We paid a third of the price and the rest in monthly quotas. When we finished the payments we moved close by and began construction." The family laid the foundation and, two years later, raised the house in slabs and later added other material piece by piece.

Ana's day care functioned on the first floor of her house; there were two rooms, a kitchen and a bathroom with plumbing but no tile. The upper floor was halfway constructed. In early 2006, a Bogotá Health Department visitor said she would have to tile the bathroom and kitchen for "hygienic reasons." Since 2001, the health department had been promoting such improvements, and daycare facilities that did not meet hygienic standards were shut down. Ana, like the other 670 Community Mothers of Usme, didn't have the income to upgrade their homes and they would be visited again in six months.

In February 2006 social worker Haidy Duque, who had worked for 11 years in Usme with women seeking refuge there from Colombia's long-lasting internal war, arrived to Ana's Community Mothers cooperative with an offer. Ceramics of Colombia (Colcerámica), a branch of the Corona Company founded in 1952, invited them to participate in a project to improve their housing. Ana and her colleague Patricia Abril accepted.

### **An offer long in the making**

In the beginning of the 1990s, Colcerámica enjoyed a monopoly position in the market. The company's different businesses such as tiling, porcelain toilets and faucets were managed as one business and were offered on the market as distinct brands which, according to Carlos Espinal, director of Mass Marketing, "we would continually invent to compete with ourselves." The marketing of products with the Corona label, with high technical and design specifications, was geared to middle and high-income groups; the Mancesa label was geared to the lower-middle and lower-income markets.

When Colombia's government lifted most of its trade restrictions in 1991, foreign companies entered the market with better prices for the middle and lower segments. Colcerámica's participation in the market diminished. To recuperate lost terrain, in 2000, the company decided to manage three independent business units. Tiling remained with the Corona name, but the company sought to offer a new product with lower design specifications at a very low cost, launching the Ibérica line in 2003.

More than particular product characteristics had to change in order to achieve a low cost with Ibérica; for one, the portfolio of products within the line had to be austere and efficient. Its value proposition was different from that of Corona; according to the Sales Director of Ibérica, "It's a product with an excellent ratio of quality and price, with no publicity, no marketing, made for purchasing in large volumes." Part of the strategy was to separate the outlets of the two brands; local wholesale and large retail stores were used as channels to attend to strata 2 and 3 (the Colombian Department of Statistics classifies the population in six socio-economic strata; the highest income earning Colombians belong to level 6), and where the Corona brand was sold at a lower price, the product was collected and offered as the Ibérica brand. Local wholesalers were in charge of having the product closer to the final consumer. Several other **internal changes** were required to lower the cost; for example, Ibérica orders were consolidated and sent by the bulk to distributors in 15-ton trucks. Transportation of small orders was limited to the high-end product lines.

The Ibérica line allowed the company to compete in the lowest income segment of the market. By 2006, the Ibérica line was so successful that sales surpassed production capacity. Nevertheless, the growth goals of the company kept the directors attuned to new business opportunities.

Carlos Espinal was put in charge of developing a market for Ibérica. To avoid the problems faced by other companies entering this segment, Carlos contacted Ashoka to identify a social entrepreneur who could facilitate contact with potential consumers. This multinational organization has invested in social leaders, since 2003, in an initiative called *Full Economic Citizenship* that develops capacities and opportunities so that citizens may participate in the global economy. Ashoka's mediation role was not immune to the problems of lack of confidence between business people and social entrepreneurs. Among Ashoka's fellows, Haidy Duque liked the proposal. She thought the Colcerámica products would improve the living conditions of the women she worked with and, furthermore, she knew Corona to be a socially responsible organization. The Corona Foundation was one of the best known corporate foundations in the country, part of its work being with grassroots organizations.

Three months later Haidy and Carlos set to work to create a friendly **external environment** to Colcerámica and its Ibérica line. They understood that "a social entrepreneur must continue his or her activity in order to develop a hybrid value chain, and to join knowledge and action to construct a model." The first actions were to choose a location and study its housing issues, to understand very well the cultural and political context in which they were to operate, and to identify where the project could begin with a certain amount of guaranteed success. Because of her experience, Haidy suggested Usme, where the entire population belonged to strata 1 and 2. Using student interviewers, they gathered basic information with 80 surveys in the area. Having determined the potential market, Ashoka and Colcerámica were convinced of the viability of the project. For Carlos, "the contact with Usme was excellent. The only thing I missed was bringing people from marketing here to undermine the idea that executives won't get their feet muddy."

For low-income consumers, buying materials from traditional merchants meant buying more than they wanted, paying in cash and doing all the work oneself: design, purchase, pick up of material, and all the labor. Haidy and Carlos devised several options to change the way in which the company related to its final customers. A new model for selling Ibérica products to low-income citizens was proposed, but it created uproar within Colcerámica's sales force. In the new model, a community promoter offered the product directly at the home of the low-income consumer, providing advice and a variety of payment alternatives. Colceramica's professional sales force expressed its doubts about the capacity of unskilled women to become knowledgeable in product characteristics and in sale processes. However, community members as sellers were in a much better position to overcome three barriers: the lack of income of consumers, their belief that they could not bring about their own development, and the barrier of entering the home of a potential consumer.

To create a new channel, Haidy and Carlos thought of the possibility of setting up a cooperative among community leaders, extending beyond the already-existing daycare cooperative. Yet, while Colcerámica wanted to formalize everything, the community held informality as the norm. In discussing the project with the community, they identified organizational and administrative strategies that, while informal, could be effective. For Carlos: "we became more relaxed about the issue of formalization when we had more contact with people. I met a woman who managed a lending chain for years; she managed a lot of money and everyone had confidence in her. There weren't any papers nor contracts."

After six months of work, Haidy and Carlos held a community meeting to present the model. According to Haidy, "It was the moment of truth: they challenged us for proposing cooperatives. The community said that if they already had their organizations, why should we create new ones?" Carlos recalls, "After hearing the community leaders I asked myself, who are the experts here? We hadn't recognized the real value of the contribution from the community. We had been cocky, and we needed to be more humble." The meeting also served to identify other interests of the participants that could be contrary to those of Colcerámica. For example, one attendee expressed the following: "Two years into this and I'll get to be elected to the city council." The team concluded, "In order for this to work we need to find an intermediary point between being naive and arrogant."

After the meeting, Carlos and Haidy defined the elements of the model: the product, easy financing, communications, community participation and custom design. They also decided to use existing networks in the community. With community's input, they named the project "Your House Made New, Step by Step" and defined a vision: "to provide options to low-income citizens to reach the personal dream of improving their homes through collective support, to commercialize ceramic tiles and to improve the quality of life of communities." Furthermore, something more than tiling would remain in the community: strengthened management skills in their organizations.

Women only were chosen to be promoters for three reasons: they were more sensitive to the idea of home improvement, they had the time necessary to carry out the sales work, and they encountered less resistance when they offered products door to door (e.g. "issues of suspicions and jealousies"). Their responsibilities included visiting clients, advising them, measuring spaces and quoting the price of products, closing the sale and following up on payments. The women had a good sales argument: "Who doesn't want their house to look nice?"

The income for the sales promoter was 7% of sales and it was estimated to reach, on average, US \$94 per month. In December 2005, the first group of promoters visited the factory where Ibérica was produced. There they became convinced that the product was indeed new, produced for their community, and that it was not in fact leftover materials from other production lines.

To structure the "Your House" program, community organizations (COs) were selected that could manage promoters (including their selection, support, supervision and payment, under criteria defined by the company), administer money from sales and exhibit the products. Each CO received a 3% commission on sales. The first group consisted of three local city council associations (*Juntas de Acción Comunal*) and one Community Mothers association. On December 19, 2005, these four organizations in Usme, together with seven promoters, began sales using a database of prospective clients that had been collected during promotional events in the community.

While the selling hurdles were just beginning, other internal adjustments had to be implemented. For example, procedures that had been established to pay all of Colcerámica's suppliers had to be changed. For the ISC outlet, the promoters provided a service for which they should be paid in cash every two weeks. Colcerámica was accustomed to pay its suppliers by check or transfers to bank accounts in periods of 30, 60 or 90 days.

### **Initial operation based on internal adjustments and the creation of an ecosystem**

Much had changed within Colcerámica to launch the Ibérica line and sell it through a group of community promoters; and a great deal of organization had happened beyond Colcerámica's boundaries. The first sales came after the company had a product line to offer and after it had taken its time to design with a specific community how to make its offer available.

The promoters delivered concrete business orders to the community organizations, which in turn passed on the orders to the factory. During the following six months, sales doubled those from the previous month. In the beginning of "Your House", the monthly demand of materials from the COs (an average of 760 square meters) was a decisive factor for Colcerámica as it determined how to deliver the products to clients. When it received an order, the factory generated a purchase order from one of the Ibérica distributors in the area. The high capacity of the factory didn't allow it to respond directly, since the orders weren't sufficiently large enough to program an

independent run. And since the roads in the outskirts of Usme were narrow and unpaved, the large trucks that were part of Colcerámica's fleet could not be used for delivery.

Distributors received 6% of the purchase price from the factory. Once the factory sent the delivery order to the distributor, the client could pick up the product at the distributor's point of sales. Each distributor managed its own factory orders independently, based on its own sales. "Your House" would function under this scheme of distribution and inventory control. Investment in logistical aspects was basic and if the program didn't succeed, Colcerámica could abandon it with minimum loss and without reducing sales of the Ibérica line.

At first, Colcerámica did not issue credit to clients; it did, however, freeze the price of the product from the moment a client began to make payments, but it only delivered the product once the product had been fully paid. Nor did the company, or anyone under its control, interact with the client. Colcerámica offered a lot of flexibility to its community clients, both in terms of forms of payment as well as product. Soon, Colcerámica agreed to give Community Mothers credit and to deliver the product when 50% of payments had been made, since this group had fixed incomes that made them more prone to pay their monthly quotas.

In the first semester of 2006, "Your House" went from being a pilot project to becoming a company program in the Marketing Area. Until that point, the costs of the pilot had reached \$40,900. In March of that year, the Usme Service Center was created with the objective of supporting the work of promoters and the COs, and to generate confidence among people. The company wanted to show the population that it supported the program and that it had a physical presence in the area; people could go and see the products even though purchases should be made through a promoter. The idea was that the Service Center would also become the place where training in handling and installation of ceramic products took place. An employee was transferred there as a Service Center Auxiliary and two others worked as Sales Coordinators, responsible for accompanying promoters and COs. At the time, the team at Colcerámica had constructed, together with the COs and the promoters, a manual called Associative Norms to regulate interactions. The rights and obligations of COs and Colcerámica were defined there.

Soon after, financing became a critical element. Different forms of financing were considered, among them small consumer credits. Because of the difficulty in access to these credits, and thanks to the newly acquired knowledge of the market, management of the tiles company approved extending credits to all clients once they had paid for 50% of their materials. Managing Director Reinaldo Aragón did not place a maximum amount on these credits, but he established that they would cease financing when unpaid credits reached 1% of those issued: "with this population, if you take care not to exceed [clients'] payment capacity, the credit risk remains low; people are willing to pay and they pay."

Towards the end of 2006, greater access to credits resulted in the triplication of sales from previous months. During the first five months of the year, the promoters had sold \$16,500 worth of products; and the program closed the year with total sales of nearly \$88,400, including sales through the Service Center that had recently been opened in the Agua Blanca district in Cali. The experiences of the communities in Usme differed from those of Agua Blanca. As one promoter in Usme pointed out, "thanks to the work with Colcerámica in our organizations and communities, new ties were created and capacities were developed through training and administration of the program." Although the promoters in Cali also recognized gains, the social entrepreneur who coordinated work with COs there said, "when it came to Cali, the model was already set up; there was less joint construction than there was in Usme and, as a consequence, the company had more control."

The sales outcomes and the payment behavior of clients in the pilot phase showed the "Your House" program's growth potential. The majority of clients finished paying off materials in 8 months, rather than the foreseen 12 months; and 23% of clients in 2006 began new projects in their homes (i.e. return clients). As the program grew, more organizational adjustments were required.

## **Growth of the Program**

In 2007, the "Your House" program was structured as a new sales outlet for the Ibérica brand. The name of the program, "Your House Made New, Step by Step," was maintained for communities and the company called the

sales outlets Ibérica Service Centers (ISCs). These centers were administered jointly by sales and marketing; the former had the responsibility over levels of sales and the latter was in charge of making strategic decisions. Adjustments were necessary in different areas of the organization. For example, within the ISCs it was necessary to guarantee the delivery of a uniform product for a minimum of three years, whereas traditionally the product was taken off the market after just two years.

Diego Ángel, who was named Chief the ISC outlets, organized the sales coordinators according to zones, defined a sales objective in each and made coordinators responsible for the sales performance of promoters. Any problems in the interaction with the community, in the COs or in daily operations were taken up by the ISCs. The centers collaborated with the promotion and the organization of orders; they provided an institutional presence, despite being far from the more removed neighborhoods. Clients could see product samples there, not having to depend solely on traditional catalogues, and could get information about probable delivery dates and existing mechanisms of finance.

The ISC grouped together the orders from different promoters, which were done via COs, and the factory could better plan its production and delivery of greater volumes. The increase in sales generated orders of larger volume of certain product references, but those references that did not reach a minimum volume to be produced independently, had to be collected by the plant from excess production of other orders. In these cases the turnover for orders took longer than traditional distributors, but ISCs were informed.

Ángel also considered specific plans to expand the production capacity of the Ibérica brand. Colcerámica had attracted the attention of a variety of players for its model directed at low-income populations. For example, the company received an offer from the InterAmerican Development Bank to finance a new oven that would allow the company to double its capacity. The offer caused concern for several directors, who questioned the risks of having made the model public and given it visibility before assuring its sustainability.

As sales grew, Colcerámica tackled the issue of developing the distribution chain to respond to the growth of the model. A great difficulty was that Ibérica's strategy had been developed along the lines of "delivering the product and nothing more", and the distributor had been considered as the client. The company had repurchased from distributors during 2007, in spite of the overhead costs that this implied, and delivered to them using large 15-ton trucks. The discussion about how to deliver the product close to consumers' homes required convincing the Logistics Department, among others, that it was possible to do things differently. The final distributor was eventually discarded to reduce costs and pursue a profit margin similar to that generated by Ibérica in other channels.

Colcerámica started to invest in expanding the ISCs in each location by using a smaller transportation system to get the product there. The ISCs assumed the role that the distributor previously played, but as part of Colcerámica. Since customers had not opposed picking up the product at the point of sales of the distributor, getting to the ISC, located in the same neighborhood, did not inconvenience them. Given that communities were already familiar with the company, in a period of about two years the ISCs could even sell directly to the community. Each ISC would administer its own inventory, plan its own requirements for future periods, place orders with the factory and receive them without intermediaries.

As the expanded ISCs managed inventory, they needed specialized personnel and machinery, as well as larger storage facilities. Within Colcerámica this meant another shift; as inventory control became more decentralized, it could become obsolete if it was not adequately managed. Good demand estimates and coordinated efforts with COs were the keys to high inventory turnover, so they could keep product lines going for three years; and the larger ISCs could anticipate the need for some orders before production of the reference ended. While the scheme implied investments in larger ISCs, and probably the quantity of references had to be diminished, these changes would result in shorter delivery time. By strengthening its ISCs, Colcerámica attempted to resolve once and for all the problem that it would have when "Your House" reached 36 cities; although the solution would take time, would require greater investments and could risk "cannibalizing the market" with traditional distributors.

As the discussion around distribution issues to achieve greater scale waned, dilemmas about other aspects of the program took center stage. One of them had to do with the working relationship with sales promoters. Some

financial modeling gave the company assurance that if they needed to hire them, the program could still be economically viable. However, the preferred option was to help promoters create their own cooperatives.

On another front, there were a number of difficulties in the development of the ISCs; one main issue was that of financing. At the end of 2007, "Your House" had loaned \$700,000, of which Colcerámica financed 96%. To work with other financiers, according to Ángel, "would have been more difficult and slower than what was budgeted." For the financial area of the company, this situation was a latent risk since working with these communities was notably informal and because providing credit was not its line of business.

In December of 2007, ISC outlets had achieved and even surpassed sales forecasts. In one year ISC outlets were opened in 13 localities in five cities (Bogotá, Cali, Medellín, Cartagena and Barranquilla), with a direct sales team consisting of 183 promoters bringing 2,300 families into the program. The Ibérica brand sold 134,000 square meters in addition to the 14 million square meters sold through other channels during the year. According to more optimistic projections, by 2010 "Your House" would sell 1 million square meters monthly and would have an oven with the capacity to produce 1.5 million square meters per month.

In Usme, Colcerámica sold 20,000 square meters of Ibérica products during 2007, but the potential sales according to the company were 45,000 square meters monthly. However, working dynamics of COs take much more time than traditional commercial dynamics. This was a big consideration for the goals that were established; to fulfill them meant opening an ISC every two months and beginning sales two months later. However, growth for the tiling business was on its way; and the experience had opened avenues for the company to think about new markets for its faucets and porcelain toilets and sinks. An encouraging sign came from community leaders who asked the company for offerings of these products that would suit them. They surely appreciated the Ibérica line and they were willing to make more home improvements if Colcerámica offered them a good deal.

## **Coming full circle**

From the start of Colcerámica's explorations with low-income citizens, the company struggled to reconcile the "formal" world of conventional business with "informal" practices common to communities. These efforts entailed the parallel creation of a new business model and an ecosystem for it to thrive in. The design and development of a new product was the starting point. Several changes to the logistics systems came later; billing, paying and distribution systems were adjusted to a different way of doing business with citizens who had not been in Colcerámica's radar in the past.

The input for a number of changes in Colcerámica's systems came from community members. The partnerships that have been established do not rely on a formal contract and the company has given up, to its advantage and that of others, part of the control it used to have. Colcerámica and its partners have created the conditions for "Your House" to flourish, no small feat where a climate of distrust between companies and low-income citizens prevails.

The socially inclusive strategic network that has been created includes heterogeneous parties who share responsibility for performance outcomes and are aligned by incentives that generate win-win relationships. "Your House" is inserted within the core value chain of Colcerámica and it is of central importance to the social entrepreneur who mediates between company and communities, to COs, to sales promoters and to consumers. The established collaborative arrangements allowed Colcerámica to create a new market by leveraging the existing social infrastructure and expert field knowledge, and by externalizing some of the costs of doing so.

A lot of positive changes in the lives of promoters and among the families who bought the products have been witnessed. Community organizations are building capacities along the way. Economic and social aspects have changed for the better, and quality of life has improved.

Since March 2006, Ana Delia Ibarra has participated in "Your House" both as a promoter and as a client. As a promoter, she brought in 37 Community Mothers who like herself, faced pressure from the health department to raise their hygienic standards through tiling. With the proper renovations achieved as a result of the program, the daycare centers continued to serve 481 children. For Ana, this meant nearly doubling her income. As a client she

finished tiling her kitchen and continued with her bathroom. According to Ana, "We have benefited from all of it... training, development of values; one becomes enriched as a person and learns many new things."

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