

# Fact Sheet

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“ Bringing healthy affordable nutrition to the BOP”

## A Danone Initiative

As nutrition is a basic, universal need, food companies logically count among the first category of businesses that can benefit from the opportunities at the Base of the Pyramid (BOP) income segment, while simultaneously contributing to socio-economic development. According to the Standard Bank Group Economics Report (2005), in South Africa, food expenses typically account for at least 60% of total spending in the poorest 20% of households<sup>1</sup>. The socio-economic benefits of good nutrition are huge and go far beyond the fulfilling of a biological need. Well-fed people are healthier, leading to lower medical expenses, and well-fed children do better at school, thereby increasing their prospects for succeeding economically in the future.

This fact sheet will focus on an initiative by Danone Clover to contribute to better nutrition in the lower income segments through the production and distribution of a customised yoghurt specifically developed for the BOP market. Danone's initiative has not only involved a marketing effort in a segment of the population not traditionally drawn to yoghurt, it has also helped create dozens of successful new micro-entreprises.

### Situational information

#### a. Corporate ID

Based in France, Groupe Danone (“Danone”) is organized around two core activities: fresh dairy products and water. Danone is the largest supplier of fresh dairy products (including yoghurt, cheese, and dairy desserts) in the world, with a market presence in more than 150 countries and employing almost 100,000 people. The company's Evian, Volvic, Aqua, and other water brands make it the second largest producer of bottled water in the world (behind Nestlé)<sup>2</sup>.

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“Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon”

Winston Churchill

<sup>1</sup> BALLIM Goolam, et al., Profiling low income earners and their expenditure in South Africa, Standard Bank Group Economics report, 24 May 2005, p12

<sup>2</sup> Source: <http://www.hoovers.com/danone/>



#### Key figures (worldwide):

- No. of Employees: 100,000
- Turnover: 13bn Euros in 2007

channels. This approach differentiates Danone's BOP product from many other BOP initiatives, which generally involves offering the same product through a modified business model (discounted prices, different type of packaging, different distribution channels, etc...).

## 2. Reaching the BoP – the business case for Danone

The business rationale for Danone to reach out to the BOP market has economic as well as socio-political dimensions.

First of all, Danone has a stated objective to provide affordable nutrition to the greatest number of people<sup>8</sup>. From a business perspective, the BOP income segment represents a large underdeveloped market for dairy products : by its own estimates, the potential market one of 13.2 million people with an average monthly income of around R 2400 (ca USD 300<sup>9</sup>). Developing a taste for yoghurt in this income segment, especially among young children, is therefore likely to ensure steady market growth over a long timeframe, and firmly places Danone in a potentially profitable position in terms of market share and revenue.

In addition to this business rationale, developing a sustainable model to tap into the BOP market also forms part of the larger social and political project of transforming the economic landscape in South Africa. Properly targeted initiatives need to empower formerly disadvantaged persons through the creation of new businesses and contributing to Broad-based Black Economic Empowerment (BBBEE). At this level, reaching out to the BOP income segment is also about placing Danone in the social arena and further entrenches its image

In 1996, Danone entered the South African market after partnering with the local South African dairy company, Clover. In 1998 Clover's yoghurt business spun off into Danone Clover. There was a special emphasis on promoting the local yoghurt market, to double yoghurt consumption and to introduce Clover Danone brands into more homes. The merging of Clover, the established and trusted South African brand, and Danone, has resulted in the creation of a recognisable brand with a proven global presence and local expertise.

### b. Case background

Deficiencies in micronutrients are widespread around the world, and particularly common in the lower income segments of the population. The cost of a balanced diet is mostly too high to be affordable for these sections of the population, and poor education often limits awareness on the general importance of healthy nutrition. In South Africa, an estimated 30 million people are at risk of micronutrient deficiency, particularly in vitamin A, zinc and iron<sup>3</sup>. Children are particularly vulnerable at this level: it is estimated that about 40 % of all children in South Africa are affected by iron deficiencies<sup>4</sup>.

Public health authorities have responded to the issue by introducing a national food fortification programme in 2003, requiring milling companies to add a cocktail of micronutrients such as iron, zinc and folic acid in the processing of maize and wheat flour, which are the main staples in South Africa<sup>5</sup>.

Evidence seems to suggest that the programme has already delivered tangible results within a very short timeframe: certain types of birth defects reportedly dropped 40% in a matter of 18 months following the introduction of the food fortification programme<sup>6</sup>.

Traditionally, yoghurt is not part of the staple diet of low-income South Africans, whose intake of dairy products at most involves fairly low quantities of milk and butter. Dairy companies in South Africa, including Danone Clover, have historically mostly catered for medium to higher income group levels<sup>7</sup>.

However, Danone's established history as a pioneer of social responsibility arguably gave it a natural inclination to explore the possibility of building a market for yoghurt in the lower income segment. Interestingly, the strategy was to develop a customised product, labelled Danimal, which would be sold exclusively to that income segment, and through non-traditional distribution

3 GLOBAL ALLIANCE FOR IMPROVED NUTRITION, New global alliance brings fortification to the poor, Media release, 12 June 2003

4 Source: DANIMAL website. [http://www.danimal.co.za/?q=product\\_knowledge](http://www.danimal.co.za/?q=product_knowledge)

5 GLOBAL ALLIANCE FOR IMPROVED NUTRITION, New global alliance brings fortification to the poor, Media release, 12 June 2003 <http://www.who.int/mediacentre/news/releases/2003/prgain/en/index.html>

6 KAHN Tamar, Food additives cut rate of birth defects, Business Day, 12 June 2008. Also available on [http://www.businessday.co.za/articles/topstories.aspx?](http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A783655)

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of a socially responsible firm.

As a global company, Danone can also draw from its own experience and initiatives in other countries, most notably Bangladesh where a similar concept of developing a customised product for the BOP market was introduced successfully<sup>10</sup>.

The challenge is to find a way of developing this market in a sustainable and mutually beneficial manner.

### 3. Challenges

In order for Danone to meet its objective of “providing affordable nutrition to the maximum number of people that earn less than \$4 a day”, the company was faced with several types of challenges ranging from dietary habits to distribution networks and product pricing.

- **Dominant dietary habits:** The typical South African diet, especially in lower income groups, is rich in carbohydrates and poor in dairy and vegetables. Generally, even babies are fed a diet of solid food and due to either the lack of resources or awareness, people (specifically children) suffer predominantly from the deficiencies such as anemia, marasmus, obesity and other nutrition-related health problems. Since yoghurt is not generally part of the staple diet for South Africans, the challenge for Danone is to encourage a shift in taste and eating habits. This challenge is one of the main reasons why the main focus is on school-going children whose taste and eating patterns are not fully shaped.

- **Distribution and storage:** High price and a weak cold chain mean that wholesalers and other retail stores in low-income areas rarely sell yoghurt as part of their regular stock<sup>12</sup>. Consumers in these areas therefore need to add the cost of transportation to the purchase of yoghurt, which acts as an obvious deterrent. Faced with this issue of how to bring its product to the BOP consumer, Danone opted for setting up a distribution channel from scratch rather than acting through the existing network of retailers and wholesalers already present in low income areas. The need to maintain a “cold chain” during transportation and storage of standard yoghurt is another challenge that

Danone addressed by ensuring that a yoghurt product could be stored at room temperature, for a period of time, eliminating cold chain issues altogether.

- **Pricing:** The retail cost of most brands of yoghurt effectively places the product out of reach for the BOP: individually packaged single portions of yoghurt typically retail for about R4.00 a unit. Danone’s challenge was to enter the BOP market with an affordable and relevant product and at the same time keep their offering financially viable. In addition, Danone examined the relative prices of other groceries that BOP consumers purchase and price the yoghurt in line with these products.

### 4. The response: The Danimal Project

Addressing the challenges outlined above, Danone kicked off with the Danimal Project in Soweto. The aim of the project was to bring an affordable, nutritionally valuable yoghurt option for consumers in the lower-income segments. Danimal was launched at R1.00 in February 2005: this affordable price, combined with the practical dimension of the “one coin” formula, proved to be a great success in encouraging sales.

This section will briefly describe the product, the business model and the outcomes of the initiative as they have been measured so far.

**The product:** Danimal is the result of intensive market and scientific research to conceptualize and develop a customised offering to the BOP. As mentioned, the nutritional deficiencies identified in the staple diet of most South Africans led Danone’s R&D department to develop a yoghurt specifically reinforced with Daniboost, a combination of vitamin A, zinc and iron<sup>13</sup>. From a marketing perspective, the target group is children from 3 to 10 years of age. This is an age group to which nutritional deficiencies can have the greatest chances of being reversed.

**The Business model<sup>14</sup>:** In conceiving its distribution channel to the BOP market, Danone chose to develop a system of door-to-door sale through a network of female members of the community, which soon came to be known as the Daniladies. Initially the project was piloted in Orange farm near Soweto in July 2005, with a start-up team of 30 Daniladies, after which several other areas were covered such as Kagiso, Katlehong and Tembisa in Gauteng province<sup>15</sup>. Crates of Danimal yoghurt are delivered to a collecting point by truck, after which the Daniladies take over as micro-distributors within their communities, becoming proximity door-to-door retailers. The Daniladies were provided with basic equipment such as cooler boxes, carts and uniforms.

## The News on the BOP

### From UNDP:

“Creating Value for All: Strategies for Doing Business with the Poor” sets out to demonstrate the effectiveness—both for social progress and for wealth creation—of inclusive business, that is, sustainable business opportunities that are good business and benefit low-income communities. [www.growinginclusivemarkets.org/](http://www.growinginclusivemarkets.org/)

### From the SNV-WBCSD Alliance:

SNV Netherlands Development Organization (SNV) and the Inter-American Development Bank (IDB) conducted the first regional mapping of more than 500 top Latin American and Caribbean companies operating in 13 countries.

Available on:

<http://www.snvla.org/>

### From the World Bank:

The publication Development Outreach examines the realities of private sector operations involving low-income communities and the potential risks and benefits for local development

Available on:

<http://www1.worldbank.org/devoutreach/>

7, 8 & 9 Source : PRETORIUS Maria, DANONE presentation, BOP lunch, Bellville, June 5th, 2008

10 KRISHNASWAMY Ranya & PFITZER Marc, The role of the food and beverage sector in expanding economic opportunity, Economic opportunity series, J.F. Kennedy School of Government, Harvard University, 2007, pp31-33

11 & 12 PRETORIUS Maria, DANONE presentation, BOP lunch, Bellville, June 5th, 2008

13 Source: [www.danimal.co.za](http://www.danimal.co.za), Product knowledge.

14, 15, 16, 17 & 18 PRETORIUS Maria, DANONE presentation, BOP lunch, Bellville, June 5th, 2008

Once the initial phase of the project had been greeted with success, the simple micro-franchise concept was enhanced in 2007 by introducing a mentoring dimension in the form of a Danimama who acts as a main distributor in a particular area and serves as a rallying point for advice and coordination<sup>17</sup>. The Danimama also came as a necessary response to factors such as the growth in the number of Daniladies and the day-to-day management obstacles encountered, including lack of storage, capital, and education.

**Outcome:** The success of the venture can be measured in sales and the social impact. Growth in sales was spectacular and almost quadrupled between the initial phase started in 2005 and the end of 2006. However in the current environment of high inflationary pressure, Danone was left with little choice but to raise its price per yoghurt cup from R1.00 to R1.30 in October 2007 which resulted in a dramatic drop in sales. In terms of its social impact, the project has now created 286 Daniladies, and 35 Danimamas. Several of these micro-entreprises are succeeding beyond expectations, with some individuals reaching sales figures of over 700,000 rand/year and providing employment to several people.

## Conclusion

The Danimal project can clearly be described as a definite success. Within the space of three years, Danone has created a new market for a specially developed product, and successfully helped launch dozens of micro-entreprises.

Compared to other BOP projects, Danone's approach involved significant capital investment in the form of research and development, market studies, and the setting up of a distribution network in the target market areas. This level of commitment is arguably a reflection of Danone's long established tradition of social responsibility and corporate culture.

One open question remaining turns around the issue of market segmentation and differentiation. While segmentation makes sense during the initial phase, it remains to be seen how sustainable the Danimal initiative can remain in its current form. Commercially and philosophically, there is perhaps a choice to be made about whether to keep the BOP market differentiated from the rest or aim to integrate it into the mainstream business models. In one way, Danone in a near future may face a dilemma: in order to become truly universally available and have a real large-scale health impact, it may have to consider

distributing Danimal through regular retailing networks. This could however compromise the success of the Daniladies and reverse gains made so far for them in terms of socio-economic upliftment. The challenge will be to find a balance between those considerations.

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