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¹ For the "Technological resources
and innovation" seminar

² For the "Business life" seminar

(liste at november 1, 2008)

MAKING GLASSES AFFORDABLE FOR INDIA'S POOR

by

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May 21st, 2008

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Overview

There are hundreds of millions of people in rural India who need glasses to be able to see normally. However, they have problems with getting them for a number of reasons. These include the need to go to a hospital in a city to have an eye test, their total lack of financial resources and their fatalistic attitude to life. In the course of a co-operative programme carried out with Indian hospitals, Essilor discovered this area of deprivation. It subsequently designed a very low-cost production chain, a distribution network which used mobile vans and a convincing sales talk, all of which enabled Essilor to sell glasses for just a few dollars. This operation has been in place for two years and it seems that the business model has proved to be justified. Even though the scheme is still on a small scale and has a turnover of only tens of thousands of dollars, this initiative has still managed to arouse a great deal of interest amongst many people in the business community. What is emerging is an economic business in its own right.

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TALK : Patrick Cherrier & Jayanth Bhuvanaraghan

Patrick Cherrier : Our talk is about entry into a very specific market ; the Indian rural population. For Essilor, whose business is producing corrective ophthalmic lenses, it is a vast market not only because the population is enormous, but also because the people badly need help to correct their sight. However, it is a difficult market because the financial resources available are very limited. The offer, therefore, has to be adapted accordingly. In 2004, Essilor created a department to manage this sector. Jayanth Bhuvanaraghan, the Managing Director of Essilor India who was behind this initiative, will outline India's geographical situation and the market. He will then present the strategy developed to execute Essilor's plan, and discuss the results obtained and future directions.

Jayanth Bhuvanaraghan : India is a huge country which is divided into thirty-one states. The total population is more than one billion one hundred million, 54 % of whom are less than twenty-five years old. The economy is currently growing at 8 % per annum. In thirty years' time, India will be one of the leading world economies alongside China and the United States. Politically, India is a democracy. It is a young country and a promising one in terms of development and private initiative.

The population is divided geographically into six hundred large cities, more than five thousand medium-sized cities, and nearly six hundred and forty thousand villages. There are twenty-two official languages and more than one thousand six hundred dialects. There are numerous local characteristics which are particularly prevalent in the countryside.

A promising rural market

The rural population is approximately six hundred and fifty million. In a few decades, people's attitudes have changed from being resigned, fatalistic and satisfied with their lot, to being much more pro-active in an attempt to benefit from a higher standard of living and to acquire what other, more advantaged populations already have. They are now open to innovations and new products.

Nevertheless, this population still does not have a significant income although its overall wealth is increasing as witnessed over the past ten years by the continued reduction in the number of people on very low incomes. The average daily wage of a working person is one dollar, in other words about forty rupees, which is enough for a family to live on, but minute by any standards.

Clearly a company like Essilor will not reap large profits in this sort of market. However, acquiring a substantial market share would appear to be a promising strategy in the long term. In these circumstances, it seems appropriate to build a structure on a limited scale, but one which is capable of establishing itself in the market and functioning in an economically stable and sustainable way.

Awareness of brand names

The huge size of this market and the fact that it is broken up into hundreds of villages means that it is impossible to have the products everywhere. As a result, unlike in the cities, there is scarcely any direct competition between the products. In order to sell, a producer simply has to be present in the field and have a good sales technique.

Over the last few years, the rural market has changed a great deal with regards to its behaviour and aspirations. It is increasingly characterised by a demand for products adapted to local needs – consumers no longer buy from city scrap heaps and even less from foreign countries – and an awareness of brand-name products. Less well-off consumers often prefer to buy a very small quantity of a well-known, good quality product rather than a second-rate product. A company, known for its sanitary products, managed to gain a huge market share

very quickly by changing its packaging to individual, single sachets of shampoo which were very small and avoided storage problems.

Although the majority of this market is illiterate, it is nevertheless quite developed. People know how to use technological products whether they are literate or not. There is a proliferation in the use of mobile telephones. Internet booths and cybercafés are multiplying, and people are starting to get used to borrowing money, especially if needed for health reasons.

The market for glasses

Sight is a major health problem in India. In rural areas, there are a lot of blind people. There are two major causes for visual problems ; cataracts and uncorrected problems with refraction. Essilor's core business is the latter (including problems related to myopia (nearsightedness) and hypemetropia (long-sightedness)). That is why we are interested in this problem.

A study carried out on four thousand children in rural areas in the state of Mahabubnagar between 2000 and 2001 by a specialised institute showed that uncorrected refraction errors accounted for 61 % of the case group. This is considerable number. Generally speaking, in India there are eighty million corrective lenses for a population of more than one billion. This is a very small ratio. The untapped market is substantial.

In 2004, Essilor carried out a study with the Aravind Eye Hospital. This hospital, which specialises in eye problems, has a close partnership with Essilor. The study's aim was to gain a better understanding of the problems which until recently had prevented a large number of Indians gaining access to eye treatment, or even simply buying a pair of glasses when necessary. The answer was overwhelming : 78.2 % replied that the problems were a lack of a patient support system and time constraints.

In practical terms, patient support and the time necessary to have a pair of glasses made costs at least six dollars, which is a large sum for villagers. For a rural dweller, a hospital consultation in a city takes at least one day in the best-case scenario even if the return journey and the consultation can take place on the same day. It is customary in India for a patient to be accompanied on this sort of journey, and so this visit necessitates a second person, the equivalent of a second day. Lastly, as the time necessary to make the correction requires at least two visits to the hospital (one visit for the eye test, and one visit to choose the appropriate glasses), the entire operation takes four days, and as many as ten days if the village is far from the city and if travel time on its own is one day. Based on a daily, individual wage of one dollar, the time constraint costs the equivalent of four dollars which are effectively 'lost'. If one adds on transport costs of about two dollars, the total amount comes to six dollars.

The study concluded that it was essential to find a means of providing our service to the areas where people in need of our glasses lived. We designed the Mobile Refraction Van Project (MRVP), a project capable of transporting our optical services by van to rural inhabitants.

The MRVP

In practical terms, the MRVP is made up of a van equipped with the necessary diagnostic instruments for relatively simple cases, a stock of corrective lenses and frames, lens edging and mounting instruments and a team of six people including a driver and a co-driver, two ophthalmological assistants, a salesperson and a person to manage the schedules. This team is chosen locally so that its members speak the local dialect. The team travels with the van twice a month over a twelve-day period and follows a pre-designated timetable. On average it stays two days in a village.

Currently, four vans are operating in four different areas. The first was launched in June 2006 and covers the rural areas of Karnataka in southern India ; the second followed in December 2006 and circulates in a part of the Uttar Pradesh region in northern India ; the third began in

April 2007 and operates in Tamil Nadu, a state in the south of the country ; and the fourth has just started and covers the Maharashtra area in western India.

Between June 2006 and April 2008, our teams visited 755 villages, assessed the sight of 64,882 patients, wrote 41,813 prescriptions, and sold 8,681 frames and 17,362 lenses.

The average price for a complete service which includes the ophthalmological assessment and a set of frames and a pair of lenses is five dollars, compared to the six dollars necessary just for the travel and time had this service not existed. Some services cost as little as three dollars fifty. It is therefore a very economic system.

A very small project but a project which works

Today, sale volumes are still small, but very low operational costs mean that our profitability is reasonable. This is a relatively small project for Essilor, but it has created strong local interest. We are contacted by opticians or hospitals which want to take part in our project as sponsors. The business therefore will grow. One of our main aims for the coming years is to add another fifteen new vans to the existing number of vans, to circulate in other poor regions in India.

DISCUSSION

Question : *You said that people are blind because of refraction problems which have not been corrected. I do not understand how this is possible. With the occasional exception, blindness is the result of other causes.*

Patrick Cherrier : In India, the word 'blindness' generally also means people with very low vision due to uncorrected refractive errors.

Jayanth Bhavaraghan : Since most rural inhabitants do not have eye tests and damage is often very progressive, some people do not realise that they can hardly see anything any more. In India, there are a large number of people who are almost blind and who do not know it.

The Logan model for glasses ?

Q. : *How do you manage to sell glasses for just a few dollars in India whereas they sell for several hundred dollars in western countries ?*

P. C. : Firstly, the lenses which we sell in this scheme are much less sophisticated than those we sell in the West or in Indian city centres, parts of which seem identical to western cities. These lenses merely have the necessary properties to carry out simple corrections. They do not have an anti-reflection layer, but just a varnish for protection from scratches. Furthermore, the frames are basic and are made in China at an unbeatable price. Generally speaking, the entire production and distribution chain is exclusively in countries which have very low wage costs. We make virtually no profit per unit – we hope to make profits on the volume.

B. J. : I emphasised that rural Indians liked to buy products with a brand they know. Therefore, one has to give them a choice even if this might entail a slight additional cost. For example, we offer different frames which vary in colour and shape as well as price. Depending on what the client chooses, the final price ranges from \$ 3.50 to approximately ten dollars. Our concern to reduce costs as much as possible has not led to a uniform and unattractive product.

Q. : *How is your lens production organised ? It is not easy to put a production line for highly sophisticated lenses next to another line for lenses which are more simple.*

P. C. : We do not produce them in the same production unit. As a result, technically speaking, there is no problem. Generally speaking, Indian engineers are very imaginative in their ability to reduce costs. We have benefited from this as much as possible.

Q. : *In the end, your production is the equivalent of a low cost concept in the glasses sector. Will it mirror what is happening in the car sector with the Logan car, in other words low cost production designed for poor countries but whose products end up on our markets ?*

P. C. : It is not one of Essilor's strategic aims. In developed countries, we have production and distribution methods which work well, and which we do not think need to change.

Q. : *To reduce costs, I imagine that you avoid employing expats.*

P. C. : Generally speaking, no Essilor subsidiary abroad employs expats. It is a necessary prerequisite for a positive financial balance in these sorts of operations. As far as the functioning of the company is concerned, we do not have any particular need for them : in most of the countries where we are present, there are a large number of high quality people to employ.

An unusual idea from the field

Q. : *The structure of the talk gives the impression that the idea of the MRVP comes from a deductive, 'top-down' analysis ; in other words, an analysis of the situation of India in general, the identification of the immense rural market, a more precise analysis of this market and the implementation of a solution. On the other hand, the talk mentioned a preliminary co-operative scheme with hospitals which served as a basis. Does the idea of the MRVP come from the top or the bottom ?*

P. C. : Jayanth put the relevance of this project in the context of the domestic situation in India. However, in practical terms, our idea started out from the bottom : Essilor had been working with two important eye hospitals, the Aravind Eye Hospital and the Sankara Nethralaya hospital, for a long time. They are Essilor's clients. These hospitals organised travel in vans to rural areas to diagnose cataracts. Initially, we asked them if we could go with them in their vans with the aim of providing a pair of glasses : they were happy for us to go because they did not know how to do this. This helped us to understand the rural market better. To understand more, we conducted a market study carried out by students who had contacts with these hospitals. Finally, we designed our own project and the lay-out of our van. Now we can travel around by ourselves.

B. J. : Furthermore, we continue to work with these two hospitals. They have the advantage of being able to provide medical services in addition to correcting refraction errors. If needs be, they can therefore complete the service we offer and provide comprehensive care to patients, especially in detecting cataracts and transporting patients awaiting operations to hospital.

A development in tune with local life

Q. : *Your aim is to have about fifteen additional vans in the coming years and yet you are only able to reach a few hundred villages out of the hundreds of thousands of villages which exist in India. You have validated your model with regards to its economic, managerial and medical aspects. Could you not have greater aspirations ?*

P. C. : We did indeed validate our model. But simply because we validated it does not mean that it is easy to implement. It is particularly difficult to recruit people who are prepared to adopt a travelling lifestyle. We also wanted to be as sure as possible that we could control our financial growth, because the profit for each operation is tiny, and consequently there is little room for manoeuvre.

Q. : *According to your figures, you have carried out sixty thousand eye tests and only sold eight thousand pairs of glasses. How do you explain this discrepancy ?*

B. J. : It is true that we should have sold a great deal more. From a medical point of view, it would be logical to sell at least twenty or thirty thousand pairs of glasses. If the current ratio is low, it is partly for a financial reason (the price is still high for a large section of the population), but above all for reasons related to the attitude of the population. Even when they try on the glasses and agree that their sight is much better, people are not necessarily motivated enough to buy them. They have always lived without glasses and they think that they do not need to change their way of life. When people want to read the newspaper, they borrow glasses from neighbours and give them back afterwards. They do not feel that they need to keep them any longer than that. All the same, we have noticed that our visits make people think. This is why we organise our trips to go back to villages where we have been previously.

Q. : *Has your initiative inspired other people or competition ? Are you worried that local people, who may be able to offer even lower prices, may infringe on your market ?*

P. C. : We have virtually no competition in the rural market but this would not be a problem in any case. Firstly, from a strictly competitive point of view, our position in India in the market for glasses is excellent because we have a majority market share and our credibility is very solid due to our collaboration with the two hospitals which have excellent reputations. In this context, competition is stimulating without being too worrying. But importantly, because of the immense size of the Indian market, others who are interested in the rural market would go elsewhere, and not where we are at present. They would contribute towards helping the population realise the benefits of correcting their sight when it is necessary. This is such a huge task ; Essilor is very small and needs help to do this !

Along the same lines, we should point out that we are launching a complementary initiative to that of the MRVP, which aims to establish opticians in the villages on a long term basis. With help from our hospital partners, we have created a school to train villagers to become opticians. We have also perfected a micro-credit system so that they can open a shop at the end of their training. This training period will be short, lasting about six months, but will enable them to sell glasses correctly in order to correct common myopias or hypermetropias. Today, India needs at least one hundred and fifty thousand opticians. We are not robust enough to solve this problem in a few months or a few years !

Q. : *Is micro-credit really adequate to open an optician's shop ? How much does such an installation cost ?*

P. C. : Two or three hundred dollars is necessary to buy the equipment to solve simple problems, but there are very many cases.

Social conscience : business and shareholders

Q. : *I do not understand whether Essilor sees this as a humanitarian or economic project...*

P. C. : I do not think that you can draw a distinction between these two aspects with respect to our activities, whether in relation to this project or Essilor's activities in general. At Essilor, regardless of the project, our main concern is to provide a service which improves people's lives, as exemplified by our slogan 'seeing the world better'. In this sense, the humanitarian dimension is always present. This is obvious when we try to set up joint programmes. Some people concentrate purely on earning the largest amount of money as quickly as possible. Since they do not share our concern for improving people's lives, they do not understand a number of our managerial practices which are implicitly associated with them, and collaboration cannot work properly.

However, at the same time, we do not believe that it is possible to improve people's lives in the long term without either an internal economic balance in the company or without people paying for the services which we provide. We have learned that when we give glasses to people from poor countries, a large number of them quickly try to sell them to others.

Furthermore, if they do this without any medical competence, it can often result in tragedy both in terms of the patient's health and in social relationships, because the buyer feels deceived if the glasses are not adapted to his personal needs. In fact, the act of paying for a service serves to help one to use that service correctly. I think that this is true across the board.

Regardless, this project aims to be financially sustainable. We are aiming for around 10 % of the EBIT (Earnings Before Interest and Taxes). This is a paying service which Essilor has perfected based on the specific characteristics of this market. This is the basis on which our shareholders will give us the means to develop this scheme on a large scale and sell it to the poorest populations.

Q. : *Your profit ratio here is lower than in your other activities, and the total profit is almost nothing for an international group : it is currently between six and seven thousand dollars per van in other words thirty thousand dollars in total ! Is it possible to manage such a project in the same shareholder structure as your other activities ?*

Q. : *Listening to you, you are very discrete or even modest because at this stage it is an operation which has a social conscience. Medium-term profit forecasts clearly show this with several tens of thousands of dollars at best. At the École de Paris, the managers of Danone have often talked about operations which are also bordering on social work – even though they are also concerned that they should be balanced economically. They do not hesitate to talk about their operations and advertising this fact. 'After all,' they say, 'if we do something good, we might as well let people know.' Is your discretion linked to concern about the reaction of your shareholders who might say that this is not the heart of the business and that they should not follow this path ?*

P. C. : Our actions were explained to our shareholders and presented to our financial analysts. Both were able to ask questions so that they could understand what we would be doing. We are not trying to hide this operation from anyone and even less so from the financial community. Our discretion is most likely a consequence of company culture.

Having said this, it is clear that this activity is not at all similar to the activities of the rest of the group, and cannot be assessed using the same criteria. This is why we hope to place it in an independent subsidiary which will have its own shareholding structure. Indian opticians who want to contribute to the development of their country may be interested. This will also make it possible to integrate external institutions into the governance, such as the hospitals we mentioned, which want to take part in the project but do not intend to become part of the shareholding structure of the Essilor group itself. If we have a separate structure, we will be able to give them a rightful place.

India, China and the others

Q. : *In many developing countries, one of the difficulties in putting forward a project and making it work consists of obtaining the co-operation or at least the goodwill of the authorities in that country. Were you given support by the Indian authorities ?*

P. C. : Generally speaking, in India we came across a country which was especially civic. The relationships with the two hospitals and with the administrative authorities were excellent and concentrated on the improvement of the health of the population.

Q. : *Currently, whenever one talks about India, one thinks about China and vice versa. What differences do you see between these two countries ?*

P. C. : The Chinese market is also immense and, on the face of it, has characteristics which are similar in terms of production and distribution costs and the profit model : the profits per unit are small but they take involve very large volumes. However, in practical terms, the challenges are much more different.

B. J. : Generally speaking, a market made up of a poor but very large population exists in many countries in the world. However, there are not many experiences or business models from which we can learn. Academic institutions have hardly explored this field. Thus we are learning from our own experiences as we go along.

Presentation of the speakers :

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