SANITATION AS A BUSINESS

The journey so far... Half yearly report and ways ahead....
The main objective of this report is to assess the present status of Sanitation as a Business, Sheohar after 9 months of existence and various ways forward.

Let us elaborate the present status of SaaB in terms of its deliverables by IGS in three broad contexts

1. **Number of entrepreneurs identified to promote Sanitation in demand driven mode.**
2. **Number of toilets/Sanitation products sold by IGS to gauge the market condition prevalent.**
3. **Other procedural deliverables achieved.**

**Entrepreneur’s identification process.**

The foremost objective of SaaB is to identify 5 entrepreneurs in the district and empower them conceptually, provide them with marketing support and orient them towards demand driven approach. The main hypothesis that there exists a favourable and broad market for the entrepreneurs to sustain a partial livelihood can be inferred somewhat explicitly from the landscape study done prior to the implementation phase.

IGS’s journey.

In the beginning there were two kinds of people IGS contacted

1. **People who were already into sanitation sector, constructing toilets for different government schemes.**
2. **People who were working for the government but due to financial or some other reason had abandoned their job.**

The first kind of people didn’t understand the concept of selling toilets and to be honestly neither did we. At that time we thought that since there’s a wide market for toilet construction, established by our landscape study, the sales of toilets in good numbers wouldn’t be that difficult. However we focussed on service oriented endeavours.

Eventually we understood that just services to construct toilets is not enough to penetrate the market because in context to Sheohar we found people willing to contribute in terms of labour and local resources to minimize the cost. The local masons were skilled enough to
satisfy the aspirations of the local people and hence the redundancy of our entrepreneurs. Other parameters that affected our approach are well awareness about subsidy, reputation of the existing entrepreneurs working with the government department.

The second kind of people disillusioned by the subsidy driven approach agreed to work with. Here we must admit that at that point of time we were not able to position our brand differently from the PHED approach in people’s perception, hence we were unable to generate enough demands for our entrepreneurs. The obvious result was although they were in formal agreement with IGS; somehow they dropped out from the scheme of things.

**Paradigm shift in IGS approach**

Till October’2013 the sales of toilet figure was nil. But the important factor was that we realized may be thousands of reasons why service centric approach didn’t and wouldn’t work specific to Sheohar in the specific given time frame if it is not backed by credit/subsidy linkage. IGS observed most of the households had something to offer in kind and hence our conceptual entrepreneurial services were redundant in nature. Hence the obvious culmination was to roll out a low cost physical product which can be seen, felt and touched.

The ring structure was our only available option and we started to construct the same at our doorstep to get hands on experience on the production and economic facets of the structure. We envisaged that the business model we are asking our entrepreneurs to adapt should be a production center of a kind where he/she would be able to produce (to maximize the margin) all the products required for toilet construction in bulk and then promote the same.

Number of toilets/Sanitation products sold by IGS to gauge the market condition prevalent

Gaining this conceptual clarity IGS now had the challenge to implement the same to gauge the market condition prevalent. Given the scope of the project SaaB, we just intended that our production center serves us with the following

1) **Economic information about the production of different products**
2) **Its demo-effect i.e. we should be able to communicate effectively and with conviction that the production center with proper promotion around it is a sustainable business model for the entrepreneurs**.
Hence we asked partial contribution from one of our identified entrepreneur to set up a production center in our office premise. And the rest as they say is history. Slowly but steadily we generated sales of different products and within the initial two months we observed that the profit margin was good enough to sustain a small unit of 5 people (refer to the calculations below).

**Other procedural deliverables achieved**

Some of the other deliverables that we achieved with the help of Water for People in the process are

1) Designing of catalogues
2) Designing of Handbills
3) Designing of banners
4) Designing of Audio aid etc
Ways Ahead

At this juncture on the basis of our field experience and discussion with stake holders we feel the following could be our logical way ahead.

1. **Diversification/expansion in our project area**
2. **Loan to the potential entrepreneurs to adapt one stop shop**
3. **Bring to the foray a portable, easy to assemble, low cost toilet model.**

**Diversification/expansion in our project area**

It is being observed that focussing in Sheohar is very important due to its backwardness in terms of sanitary delivery mechanisms available there but it is also very important to expand and experiment in one or two other districts devoid of specific constraints namely “subsidy propaganda “and “affluence” .

To elaborate the above

Subsidy propaganda-In one hand, it is the major motivating factor for people to construct toilet. But on the other hand subsidy seems to be the biggest deterrent and maximises the lead time. Hence we need to identify one district where there is little awareness of the same and try out our mechanism and how it works out there and hence get a comparative and holistic data on the effectiveness of our business proposition.

**Affluence-** This parameter will be tested and would be important to bring out the following analogies relative to Sheohar

1) **How relative affluent class with limited exposure to subsidy reacts to our quality centric service /product oriented better sanitary delivery mechanism?**
2) **The market behaviour towards our so-called business oriented entrepreneurs and would challenge the effectiveness of our/entrepreneurs marketing approaches.**

The identification of those districts can be done after thorough introspection on the part of IGS based on their perception and experience and/ or can be suggested by Water for People based on their prerogatives.
Loan to the potential entrepreneurs.

Let us 1st understand the maths related to our much hyped one stop shop, (assuming we are clear beyond an ounce of doubt that we need to have a physical product and for the time being it’s going to be rings for tanks and other complementary products with sustainable profit margin), then the basis of their requirement and then why it would be a good idea to invest in this approach.

Broad business plan (without minute details, not within the scope of this report)

For sustainable partial livelihood we are assuming the minimum requirement of an entrepreneur is as follows, per month

<table>
<thead>
<tr>
<th>Sr. no</th>
<th>Head</th>
<th>Amount in Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Office and site rent</td>
<td>10000</td>
</tr>
<tr>
<td>2</td>
<td>Office maintenance expenses</td>
<td>2000</td>
</tr>
<tr>
<td>3</td>
<td>Staff salary – 4 in number</td>
<td>20000</td>
</tr>
<tr>
<td>4</td>
<td>Own income</td>
<td>20000</td>
</tr>
<tr>
<td>5</td>
<td>Marketing approaches</td>
<td>5000</td>
</tr>
<tr>
<td>6</td>
<td>Miscellaneous</td>
<td>5000</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>62000</td>
</tr>
</tbody>
</table>

Hence the total requirement in one year is Rs (62000*12) =Rs 744000

Now let us calculate the number of ring structure he/she has to sell and the maximum investment he has to make in order to achieve this minimum threshold level.

From our 1st hand experience of workshop in our office premises we present the calculation as below

To construct 74 Rings and 15 slabs we require the following

<table>
<thead>
<tr>
<th>Sr. no</th>
<th>Material</th>
<th>Costs on 2013 in Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1 qtl coil</td>
<td>5000</td>
</tr>
<tr>
<td>2</td>
<td>Labour and mistry(6days)</td>
<td>4800</td>
</tr>
<tr>
<td>3</td>
<td>Cement</td>
<td>3500(12 bags)</td>
</tr>
<tr>
<td>4</td>
<td>Sand</td>
<td>1700(1 gadi)</td>
</tr>
<tr>
<td>5</td>
<td>Gitti</td>
<td>4000(1 gadi)</td>
</tr>
<tr>
<td>6</td>
<td>Transportation and miscellaneous</td>
<td>2000(approx)</td>
</tr>
</tbody>
</table>
Now the current market price of a Ring is Rs 350 to Rs 400. Hence the total cost of the 74 rings produced at doorstep is Rs (350*74)=Rs 25900 to Rs 29600.

Similarly the cost of the slabs come to Rs (550 to 600/slab*15) =Rs 8250 to Rs 9000.

Hence the total amounts to Rs (25900+8250) =Rs 34150 min to Rs 38600 max with investment of Rs 21000.

And similarly other sanitary products if constructed in bulk at doorstep do have tentative margin of 20% min as per our experience (seen in case of doors).

From the above calculation it is evident that to earn a profit of Rs 744000 the entrepreneur needs to invest a minimum of Rs (21000/17600*744000) =Rs 887728 in the whole year.

Total number of sales to be generated is (887728/21000*74) =3128 rings and (887728/21000*15) = 634 slabs every year.

Now if we break this down in layman’s terms we get the following

1) Total investment required Rs 887728 in one year.
2) Total 3128 rings and 634 slabs to be sold.
3) Each sales executive needs to sell 65 rings and 13 slabs per month which comes down to selling of 7 to 10 double cement ring tank structures.

Apart from these products we would encourage the entrepreneurs to take up all the activities that would help and support them to enhance and supplement their earnings.
### Profit/loss projection and proposed loan repayment structure (an overview).

Entrepreneur 1

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Investment source</th>
<th>Investment amt</th>
<th>Projected turnover (as per our calculation above)</th>
<th>Allocation</th>
<th>Loan repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>loan</td>
<td>1st half: 450000</td>
<td>2nd half: 450000 (invested corpus)</td>
<td>Business corpus expenses nil</td>
<td>nil</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>825000</td>
<td>375000</td>
<td></td>
</tr>
<tr>
<td>Year 2</td>
<td>Business corpus</td>
<td>1st half: 450000</td>
<td>825000</td>
<td>375000</td>
<td>nil</td>
</tr>
<tr>
<td></td>
<td>Own contribution</td>
<td>12273</td>
<td>22500</td>
<td>nil</td>
<td>22500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22500</td>
<td></td>
</tr>
<tr>
<td>Year 3</td>
<td>Business corpus</td>
<td>1st half: 450000</td>
<td>825000</td>
<td>375000</td>
<td>nil</td>
</tr>
<tr>
<td></td>
<td>Own contribution</td>
<td>24545</td>
<td>45000</td>
<td>45000</td>
<td>45000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>45000</td>
<td></td>
</tr>
<tr>
<td>Year 4</td>
<td>Business corpus</td>
<td>1st half: 450000</td>
<td>825000</td>
<td>375000</td>
<td>nil</td>
</tr>
<tr>
<td></td>
<td>Own contribution</td>
<td>36818</td>
<td>67500</td>
<td>nil</td>
<td>67500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>67500</td>
<td></td>
</tr>
<tr>
<td>Year 5</td>
<td>Business corpus</td>
<td>1st half: 450000</td>
<td>825000</td>
<td>375000</td>
<td>nil</td>
</tr>
<tr>
<td></td>
<td>Own contribution</td>
<td>49090</td>
<td>90000</td>
<td>nil</td>
<td>90000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>90000</td>
<td></td>
</tr>
</tbody>
</table>
Proposed Model of financial intervention.

After two meetings with CSOs, individual follow-ups and thorough discussion with existing private entrepreneurs we believe that financial incentives are needed to push them into this approach.

**Step 1**

Loan of Rs 450000 with 0% interest is offered to an entrepreneur for 5 years.

Let’s understand how this investment can actually translate into desirable results as stated above.

As per the assumption and calculations illustrated above this corpus is enough for an entrepreneur to start up and do business for 6 months and would generate a surplus of Rs 37500 which can be used for all the H.R and operational expenses.

For the next 6 months the corpus then can again be utilized to achieve the same result.

**Step 2**

Next year onwards the entrepreneur would be asked to repay the loan in specified quantum i.e. may be 10%, in the 2nd year, 20%, in the 3rd year, 30% in the 4th year and 40% in the final year.

This can be a feasible model because it is expected that the 1st year would be the toughest year in terms of sales while with increased experience, enhanced confidence, honest intention and steady income, repaying the total loan without interest by the end of fifth year wouldn’t be a very difficult task.

**Step 3**

End to End handholding support would be provided by IGS to ensure the projections are actually achieved.

The number of entrepreneurs to fit into the scheme of things and fund arrangement for them is a matter of serious brainstorming and heavy discussion between Water For People IGS and similar agencies and hence is beyond the scope of this conceptual document.

**The basis of requirement of entrepreneurs adapting one stop shop.**

One of the primary objective as well as a potent indication of the usefulness of the project “Sanitation as a Business” in Sheohar is the establishment of entrepreneurs/dealers in Sanitation sector, purely market and demand driven, along with attitudinal or behavioural orientation towards moderate self –efficacy in marketing, innovation, management, risk-
taking and financial control. In this context IGS’s role is limited to identification of such enterprising individuals, initiate them to market and demand based approach thereby act as a catalyst in the transformation of methods i.e. from supply driven to a sustainable and bankable demand driven process.

Now if we go back to the months of August to September we were struggling then to sell a single toilet. Apart from many a reason, one of the important reason was that we were trying to sell a concept and hoping that there were enough customers who would require our one stop services i.e. Buy the complete package of toilet construction. But we found out this segment of customers are not much and in most cases people did have something to contribute may be in terms of masons, labours, bricks sand etc. Hence it became extremely difficult for us to involve any individual or create any specific work for our so-called entrepreneurs. (Actually this reason was the single most deterring point for our identified entrepreneurs then).other reasons of struggling were lack of faith in us shown by customers as we were new with limited/negligible branding, greater lead time as we had nothing to sell on the spot etc. All these made us realize that we need some kind of tangible product and ring structure along with its advantages was the available option.

The other important thing that we realised is that we cannot strengthen the value chain of a conceptual product. The way we see it is to develop multiple, multilayered products each with its own margin of profit. Sanitation as a Business does not have to be a service centric endeavour rather it can be simple product selling affair e.g. In Sheohar selling of doors for toilets can be a good business proposition and if one sells enough quantity he can earn sizable amount from that also.

### Important to invest in this model

The whole concept of promoting entrepreneurs in demand driven mode revolves round the concept of delivery mechanism of high quality sanitation services and products.

Understandably this is only possible because here we have the privilege to use consumer’s money to the full vis-a-vis the consumers have the choice to reject. The procedure is difficult in comparison to subsidy driven mode but as all indicators and previous experience in Total Sanitation Campaign suggests, it is sustainable in the long run and hopefully, a more potent mechanism to achieve wider sanitation coverage as well as bring about behavioural change in people to actually adapt better sanitary practices due to its superior orientation

This model, to be successful, requires right balance of Push and Pull in marketing terms (push by entrepreneurs and pull by demand generating activities endorsed by payment from
the consumer) which if achieved will obviously culminate into behavioural change in the consumer. However subsidy driven mode emphasises more on Push strategy and hence there has been a gap in the desired outcome.

An alternative model to the Ring/ A portable, easy to assemble low cost toilet model. This alternative solution can revolutionise the rural market as we perceive it today. Our limited knowledge/exposure to new technologies in the domain of toilet construction has rendered us helpless and hence seeking guidance and help from the donor/technical agency.

**Credit Models to be explored from IGS point of view**

It is being explored that if we can give credit support (may be in kind to ensure its utility in sanitation) to our entrepreneurs so that they can further extend it to the customers and generate more sales thereby fulfilling the objective of maximum sanitation coverage.