Haute Performance

African Route to Market

A Quiet Business Revolution

June 2017

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Executive Summary

As African markets mature and competition increases on the continent, the customary roles of Manufacturers and Distributors are being challenged.

Manufacturers and brand owners are looking for ways to control their route-to-market more deeply and thoroughly, moving away from a relying on a few regional Distributors to supply local markets.

Technology makes it possible to establish that deeper reach, transforming Distributors into logistics service providers, cooperatively or not.

Over and above technology, such RTM transformations require concerted shifts in mindset and in the activities of all downstream functions, with determined conviction.

Haute Performance has assisted many clients both in executing such RTM transformations and establishing greenfield RTM in the case of new market entry. The proven methodologies and "tricks of the trade" are discussed in the balance of this paper.

Problem Statement

Traditionally, African consumers are serviced by small, informal retailers who in turn rely on "almighty" Distributors for supplying them with the merchandise. A Manufacturer's domestic Route-to-Market (RTM) can consist of only a few major Distributors (1?, 3?, 10?) covering all output volumes.

Almighty Distributors …

…tend to provide three distinct services:

1. **Transport:** They usually own large fleets.
2. **Credit:** They are generally the most cash rich in the value chain, with credit provided via informal arrangements.
3. **Field Knowledge:** They know of all drop points, deep into the field/value chain, including the individuals.

The dependence on a small group of regional or national Distributors can be dangerous for Manufacturers.

In the short term, Manufacturers suffer from "gate-blindness" or lack of visibility into downstream markets. This in turn can lead to unforeseen volume swings, as Distributors reallocate the volumes they control in their regional strongholds, on short notice (or with no notice at all) to other Manufacturers – or to themselves. Brand strength can only maintain the status quo for so long when faced with the dual pressure of competitor pricing and Distributors actively driving supplier switches.

In the long run, over-reliance on large Distributors can be calamitous: The balance of power tilts in favour of those Distributors, who can grow so big as to compete with their Principals and bite the hand that had fed them.

The most iconic example is Dangote in Nigeria, who started one of his businesses as a Distributor for Lafarge WAPCO, and grew sufficiently large to first import cement into Nigeria and then manufacture his own cement in direct competition with his legacy Principal.

Case Example

Through the RTM journey, the client moved from dealing with 3-5 key Distributors to over 1,000 customers consisting of a range of Distributors, Wholesalers and end-Retailers.

It is easy for Multinationals to overlook this risk; roles tend to be very well defined in mature markets and the risk minimal that a transporter begins to compete with its Principal(s). Supergroup or Unitrans are not yet ready to manufacture cement in South Africa, so the benefits of consolidating transport volumes to them (admittedly on an 80/20 basis), come with limited risk of creating a competitor.

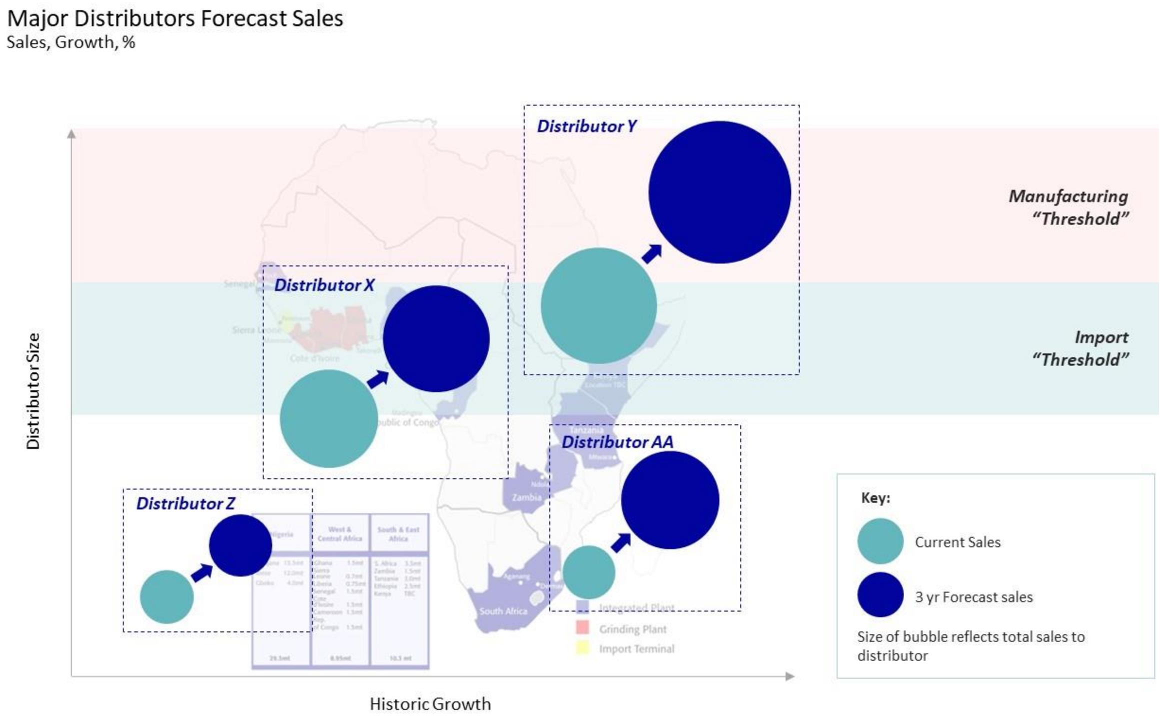
In developing markets however, Distributors tend to be sole proprietors or family businesses who are more entrepreneurial. It can be tempting for them to grow their businesses by moving up known value chains, rather than winning business through providing the same services to adjacent categories/markets.

Despite the overt risks, triggers for changing the Manufacturer-Distributor relationship are often exogenous in nature. Frequently it is changing market dynamics, either through new entrants and/or over-capacity, that lead to the steady-state being challenged. As one Exec has stated it: "*The picture changed. All of a sudden we had to sell!*"

Fortunately, technology offers a potential solution. Every sales point on the Continent (or the Planet for that matter) can be geo-coded, no matter how remote. Mobile telecommunications are ubiquitous, meaning direct contact will all customers is possible. One of the Distributor's key services – Field Knowledge – can now be challenged.

This context applies equally whether a Manufacturer is facing "greenfield investment" (market entry) in a Region, or "brownfield investment" (looking to switch away from an unsuitable/outdated RTM strategy).

Case Example



* Map courtesy of Dangote Annual Report 2014

An assessment of major Distributor volume growth suggests that within 3 years, one Distributor will obtain sufficient size to warrant importing directly, and another to justify moving into manufacturing.

Having assisted multiple RTM transformations on the African Continent, Haute Performance has developed a set of methodologies to facilitate the development of the desired RTM networks. In practice, this entails migrating from the “As-is” state of limited, indirect interaction with Retailers to a “To-be” state of directly interacting with as many appropriately sized Retailers as possible.

While the journey is not without challenges, a strategic revamp of a Company’s RTM not only de-risks the business but provides it with the detailed information to understand market dynamics and grow market share – putting the Company’s destiny in its own hand.

Route-To-Market Toolkit

For every Manufacturer in every market, the optimised Route-to-Market will differ and so will any transition undertaken in that domain. However, there are a number of replicable tools that can be tailored and combined to form a methodology suited to every situation and transition requirements:

1. Understand the playing field

Key to starting the exercise is a detailed understanding of the market and the depth of retailer points. To depart from the above mentioned “gate blindness”, a national census of retail points will therefore provide the cornerstone of the RTM transition.

In the absence of sector registers or directories, a census can prove to be a major undertaking. Generally local agencies are used as they speak the language and can conduct the extensive field work. However, the effectiveness of the census relies on the design of the questionnaire and the phasing of the rollout. A “big-bang” nationwide census can become out of date by the time the final territory rollout begins.

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Case Example

By mapping each sales point in a detailed census, an understanding of market dynamics and market share can be generated.

Tricks of the Trade

Albeit phased, a census tends to be a once-off exercise and the quality of outputs can vary depending on the local agency's employees. It is therefore critical to supplement the outputs of the census with:

- **Bottom up sense checks**: One Client had approximately 8,000 retail points in Uganda. With 37m inhabitants this suggested 4,000 inhabitants per retailer with consumption per head that made intuitive sense and matched with the general consensus at Head Office.
- **Developing data collection capabilities through the call centre**: A call centre can become the critical touchpoint between retail locations and the Manufacturer. It is good practice to roll-out the call centre prior to go-live (and order taking) to validate volumes obtained via the census.

2. Map the current RTM network and set-up the switch matrix

A key output of the validated census information is the picture of the current routes to market i.e. "Who currently buys What from Whom".

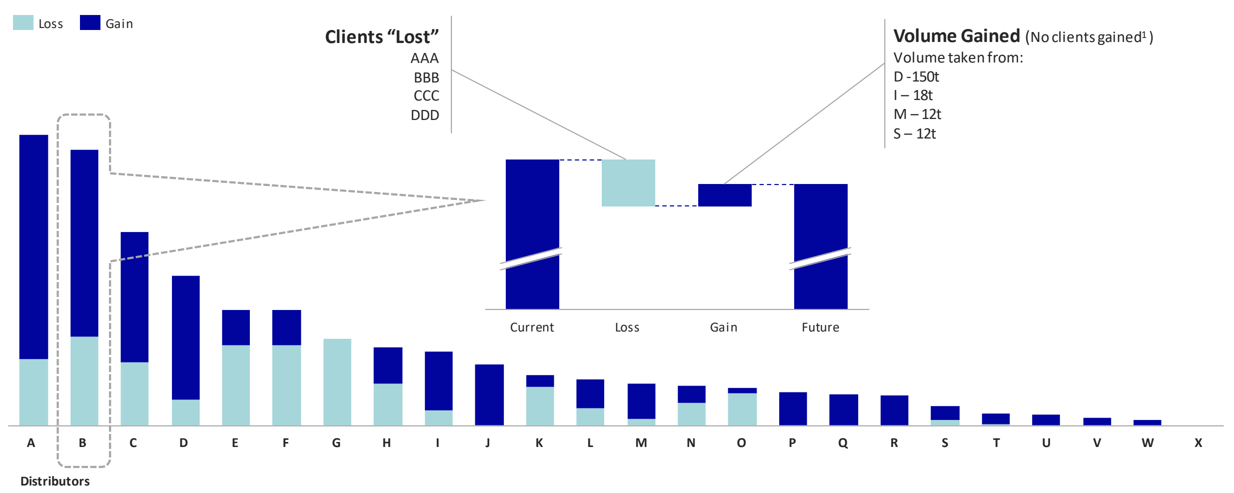
In practice setting up a 2-dimensional matrix with the current players on one axis and the "to-be" players on the other axis allows to set-up the "Form-To" (or "Switch") matrix.

The "From-To" matrix is the key tool for the reallocation of volumes. With this matrix, Manufacturers can begin to reengineer – breaking existing commercial links in the RTM network and replacing them with others more suited to the defined strategy. The objective is to rebalance the volumes, either by reallocating customers to Distributors or by taking on some clients directly.

3. Unpack the economies

Analysis of Distributors economics show that they usually derive more of their profit from transport than from trading. It can therefore be in their economic best interest to adjust their business model towards pure transport. In order to compensate them for any perceived losses, they should be assured that transport volumes and fleet utilisation can be secured in the long run.

Case Example



Both the net and the absolute magnitude of change for the Distributor must be mapped to understand the impact on their bottom line and the management required from the Manufacturer for the change.

Typically, transporters manage their finance on a cash basis; not taking into account depreciation, but wanting to reimburse their loan fully on the duration of the financing contracts. This cash mentality can be a hurdle when negotiating transport rates separately from trading, to transform progressively the Distributors into "pure" Transporters.

There are instances when, due to backhauling and product baskets, major Distributors can have better transportation rates than the Manufacturers. Wrestling volume away from these Distributors inevitably requires an erosion of margin.

By carefully mapping out volume changes, the full economic implications of the transition for each player can be understood and "negotiation scripts" developed.

In discussions of economics, it becomes important to obtain access to vehicle GPS tracking, which is a prerequisite of any modern transport contract. This has the dual role of ensuring that Distributors can be financially rewarded for delivering to further locations, but also that product is indeed being delivered to its intended destination. Geo-tracking provides proof that Distributors are following the agreed upon RTM structure – delivering to those customers that have been allocated to their respective territory. This takes the role of the traditional POD – Proof of Delivery – when Distributors are still operating in a grey area between trader and transporter roles.

4. Plan the transition

While it sounds like a cliché, each transition is different and indeed RTM transitions within regions of a single country may require significantly different strategies. It is vital that transition plans be supported by risk mitigation. The plans should include potential Distributor retaliations and the volume fluctuation tolerances the manufacturing is willing to digest. This plan is best signed off by all internal stakeholders to ensure that everyone is able to "hold their nerve" in what can be a bumpy transition. Yielding to pressure on volume targets and reverting the volumes to the Distributors would result in severe loss of negotiating power for the Manufacturer.

5. Allocate (some) Credit

Credit is the scariest factor and the one that usually puts Manufacturers off. Small retailers tend to operate hand-to-mouth. In the same month, they will exhaust the credit with one supplier (Manufacturer or Distributor) and then switch to exhaust the credit line of another and so on…

Case Example

Understanding the breakdown of margin through the value chain is critical.

There is no magic wand to preventing this behaviour. Provided there is close day-to-day tracking, credit can be selectively and progressively offered (usually just a few weeks to allow the product to turn). Default rates can be analysed and built into the economics. The P&L impact is again limited but it increases the working capital requirements in the country, which is often undesirable.

6. Onboard the players

A Manufacturer's sales force combined with their (sometimes purpose built) call centre are the trump cards with which to start the journey. Typically, outbound call centres will proactively call all clients, taking orders where possible but tracking volumes in all instances, i.e. indirect volumes as well.

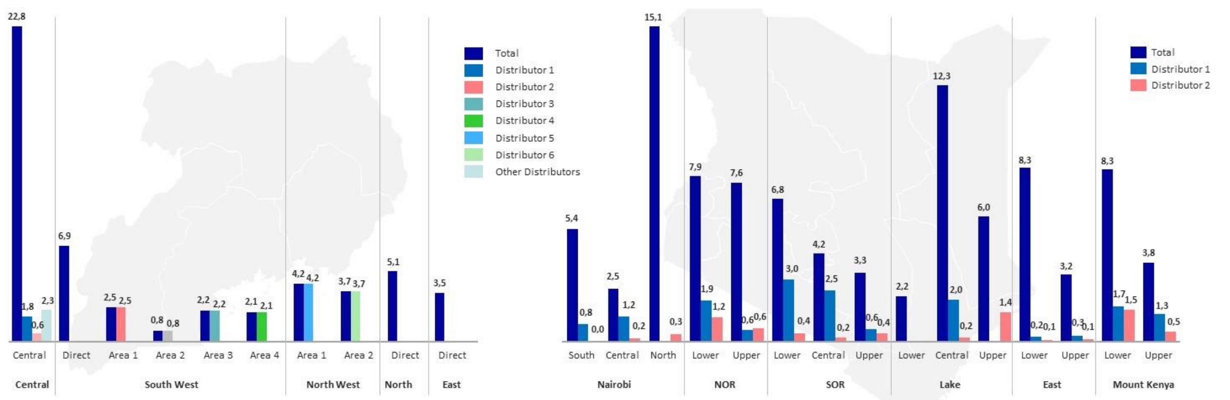
The sales team's role is to encourage retailers to follow the designed strategy through a combination of improved commercial terms, the same or improved service levels and (most importantly) their existing relationship. Our clients have supported the major sales push generally with regional roadshows. Continuity then becomes key and the strategy is reinforced over time through the continued follow-up of both call centre and sales team in the field.

7. Monitor the progress

As they say, the best laid plans of mice and men go awry. Monitoring performance according to agreed upon plans and ensuring volumes fluctuations are within signed-off tolerances levels is vital.

Monitoring requires tracking of day-to-day volumes of all actors against targets. This requires a concerted approach between Sales, the call centre and Logistics to proactively contact direct and indirect customers. It also allows the early identification of unwanted volume swings (from retaliating Distributors…), and effective reactions.

Case Example



In one country (Uganda) Distributors were mostly regional – so one could basically run the RTM transformation region by region – without fearing retaliation in other regions.

In another country (Kenya) the market is structured around very large national Distributors – the idea here was to start with the regions neighbouring the plant (with 10 Ton trucks) that were less interesting for the large Distributors ("proximity retail") – before going "big bang".

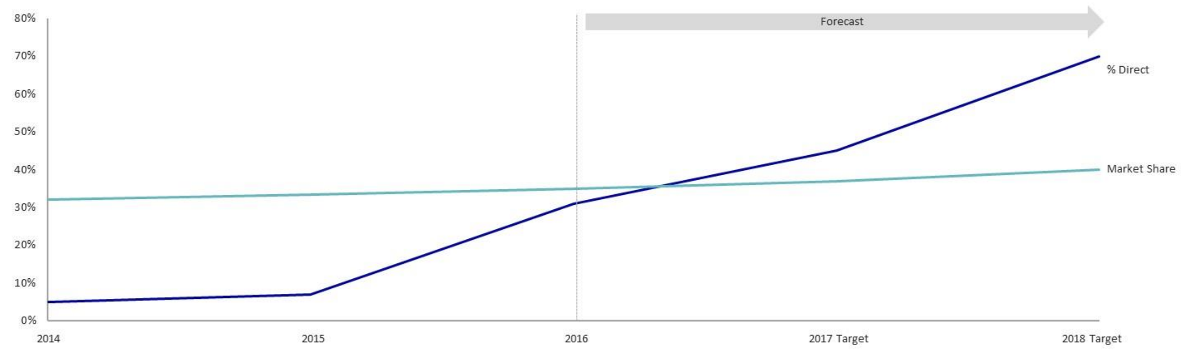
Costs and Benefits

Distributors in the African marketplace fulfil many roles, offering a variety of value-adding services to their customers, like informal credit arrangements and transport subsidised by other backhauling activities in their portfolio; effectively locking-in local retailers.

To combat this, a Company may have to invest additional funds into creating an economically viable alternative that retailers will find attractive. Offering credit comes with the risk of defaulting clients, whilst subsidising transporters' rates to match the landed product price offered by a Distributor will start eating into margin. However, when balanced against the risk of a few Distributors heavyweights controlling the majority of product volume, the loss of margin might be worth it.

Reducing dependency on Almighty Distributors de-risks the business. In addition, by developing a deep understanding and control of where products are being sold to (the last mile retailer, if not to the end user), a Company can accurately monitor its own performance and quickly react to changes in its environment. It becomes much easier to pinpoint market movements and competitor activity. Revenue targets and market share gains can be accurately mapped and managed; and sales forces dually monitored and rewarded. Customer loyalty programmes can be tailored to the end user, and have more impact through scale. The RTM model becomes a competitive barrier to entry.

Case Example



By migrating Distributors to logistics service providers, effectively going "direct" to the retailer, market share increases

Final Words

A Company's Route to Market naturally evolves through its growth life-cycle and in response to competitive pressures. Best-in-class Companies take active decisions to drive this evolution so as to de-risk their business, and structure for growth. The key to effectively managing one's Route to Market is to control not necessarily each delivery point, but rather all information surrounding the customer transactions. Empowered with this information customers can be allocated to Distributors, cost to serve closely managed and progress against sales plans accurately tracked. Ultimately, information is king.

For more information on how to drive your route-to-market initiatives, please contact Haute Performance at *info@hauteperf.co.za* or the authors:

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