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INTERNATIONAL

Logistic Summit & Expo

México 2013

Centro Banamex > Ciudad de México

abril 17-18

SERVICIO AL CLIENTE

Cadenas de suministro que sirven a los clientes en la base de la pirámide

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Supply chains to serve customers at the base of the pyramid

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AT THE UNIVERSITY OF MICHIGAN

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Emerging markets growth and improving access

- China, Brazil, India, Russia, Mexico, Turkey, Poland, Venezuela, Argentina, Indonesia, South Africa, Thailand, Romania, Egypt, Ukraine, Pakistan and Vietnam will be key contributors to revenue growth
- Other developing countries such as the East Africa region, Nigeria and some countries in LatAm are also projected to grow rapidly
- This growth will come from millions who gain access to consumer products they have not previously used
- This growth will require
- **Optimal price points** for multi segment markets
- **Distribution systems** to serve those segments that are currently under-served
- **Creative information exchange platforms** to learn about consumer demand and inform consumers about products

Comparing OECD and emerging markets

Factor	OECD countries	Developing countries
Price elasticity	• Price is important but not the only order winning attribute	• Steeper price elasticity due to affordability constraints • Pricing is a key strategic differentiator
Distribution systems	• Few large distributors with nationwide coverage • Relatively low markups in distribution	• Very fragmented distribution market • Few or none with nationwide coverage • High markups in distribution
Information Exchange	• Well developed information exchange platforms that communicate product information to consumers and bring back consumer side demand information • Strategic information platforms decoupled from physical flow	• Skeletal information exchange platforms • Strategic information platforms often coupled with physical flow

Source: Adapted from Yadav and Smith 2012

Market segmentation, multi-segment branding and pricing

- Country as a market segment: Charge a single price to all customers in a given country
  - Easy to communicate and implement
  - Lower coordination costs, fewer SKUs, simpler supply chain
  - Inefficient and does not create best growth opportunities

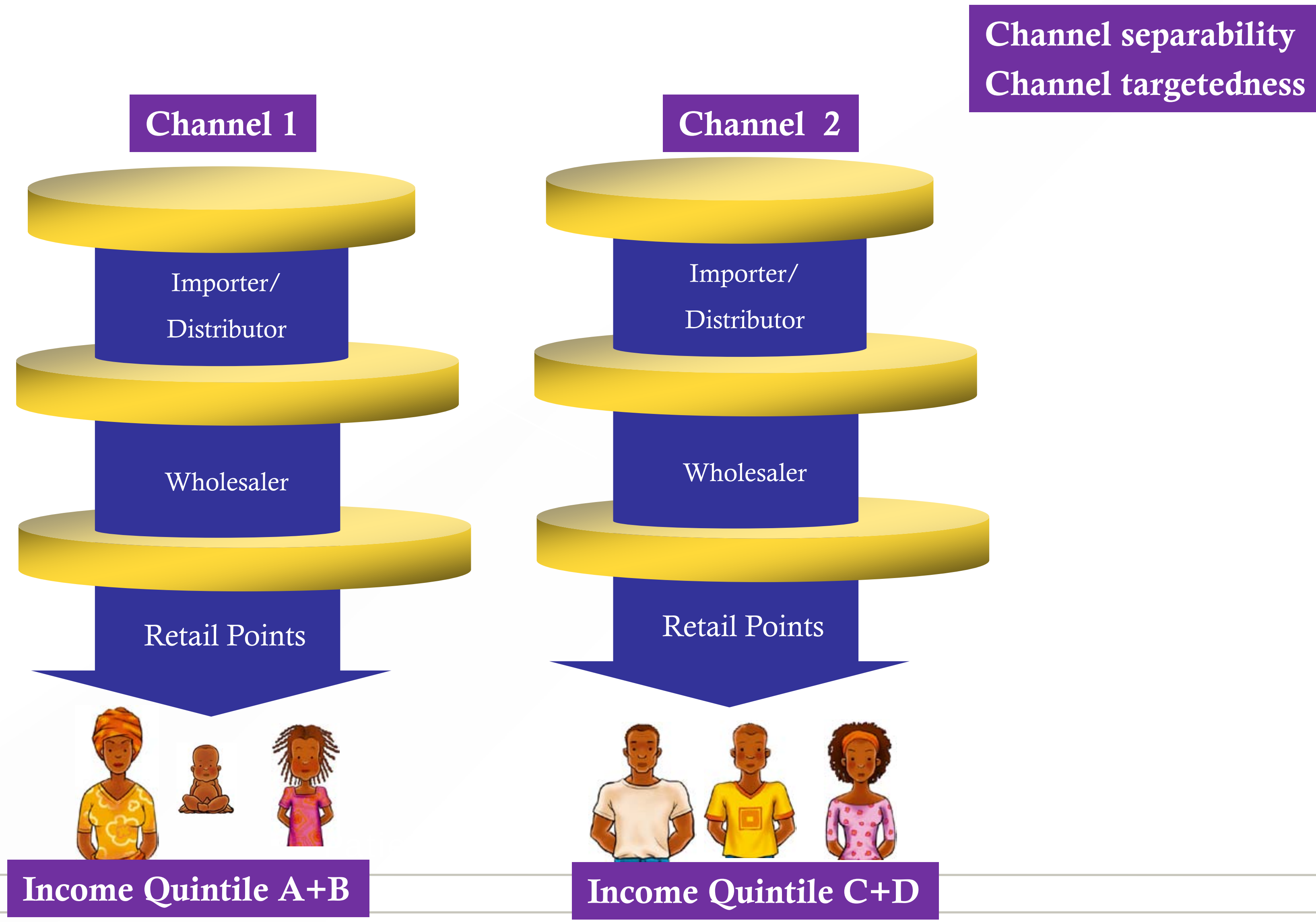
- Socio-economic groups as a market segment : Charge prices based on willingness to pay for each segment (with brand or SKU differentiation)
  - Potential to achieve higher sales (and profitability)

Treaty of Westphalia is not a natural choice for a market segment for pricing

Multi-segment pricing and distribution channel inertia

- In some instances pricing for emerging market growth requires a paradigm shift from a Low Volume High Margin to a High Volume Low Margin Business Models
- Distribution channel has to change and adapt for this
- It requires changing the Incentive/Margin Structures for Distributors, and Toying with Trade Margins
- Understanding distributor's risk return tradeoffs

Leveraging channel separation and target reach

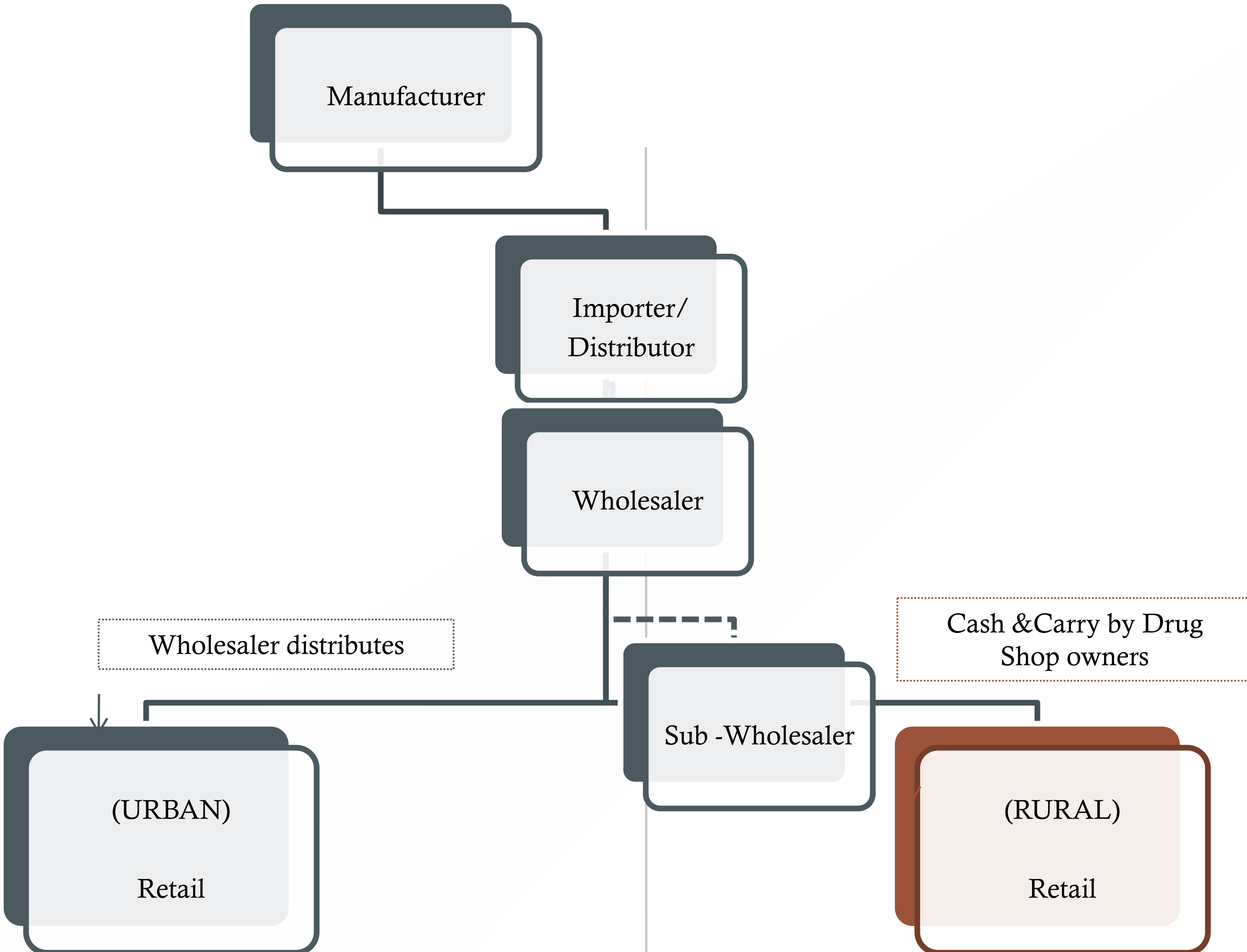


Leveraging rural urban poverty divide

- Natural geographical separation in income and willingness to pay provides an opportunity for segmentation and pricing
- Rural and regional concentration of poverty in some middle income countries.
- Poverty in China is largely concentrated in rural areas.
- In India the highest concentration of poverty is in select central and eastern states.
- In Brazil the North Eastern region has much higher poverty (38%) as compared to the South East (9%).
- **Often the supply and distribution systems in the poorer regions are very different and disconnected from the supply systems in the richer regions**.
- This creates natural wedges for segmentation and pricing

Distribution

Basic structure of distribution in low and middle income markets



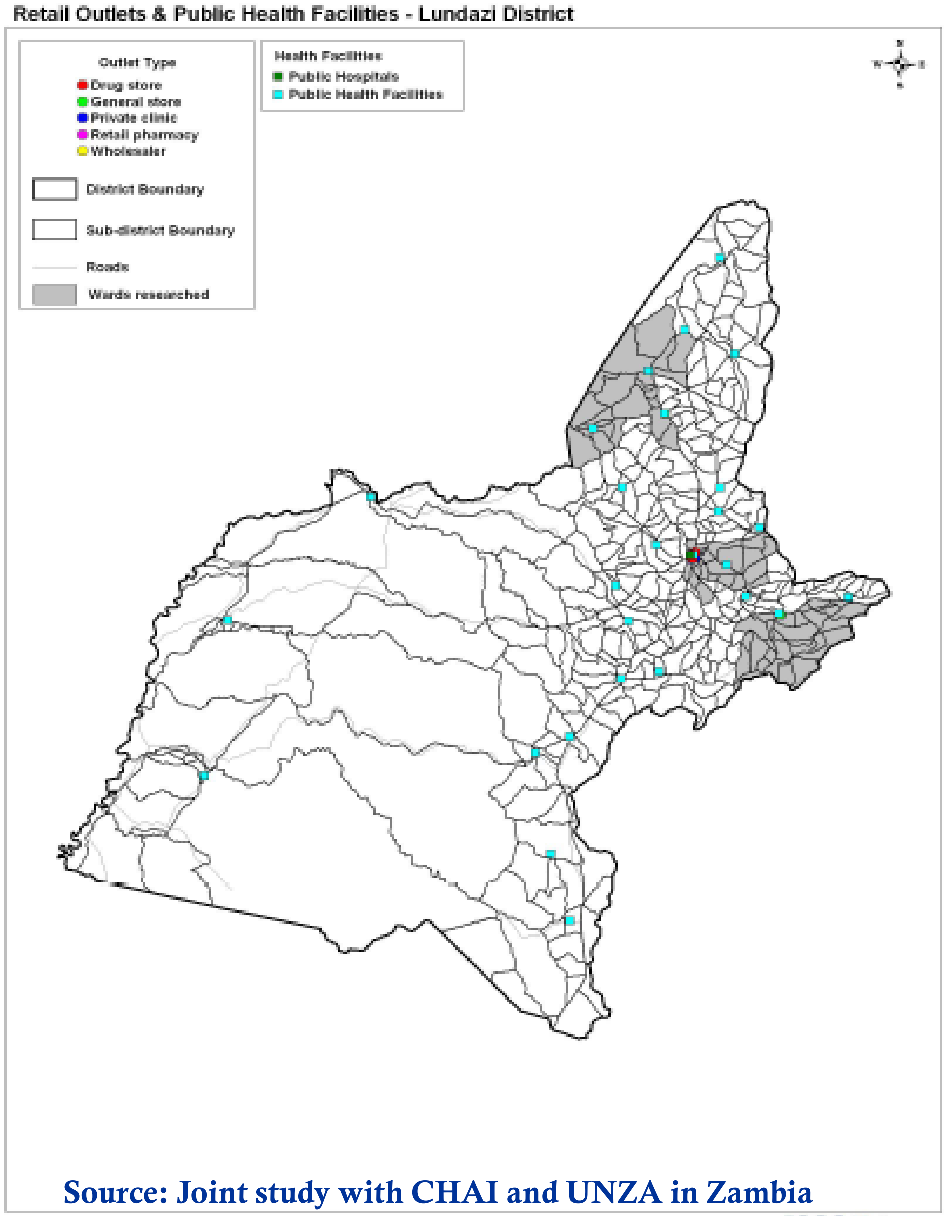
Channel Markups (especially retail markups) are high in developing countries

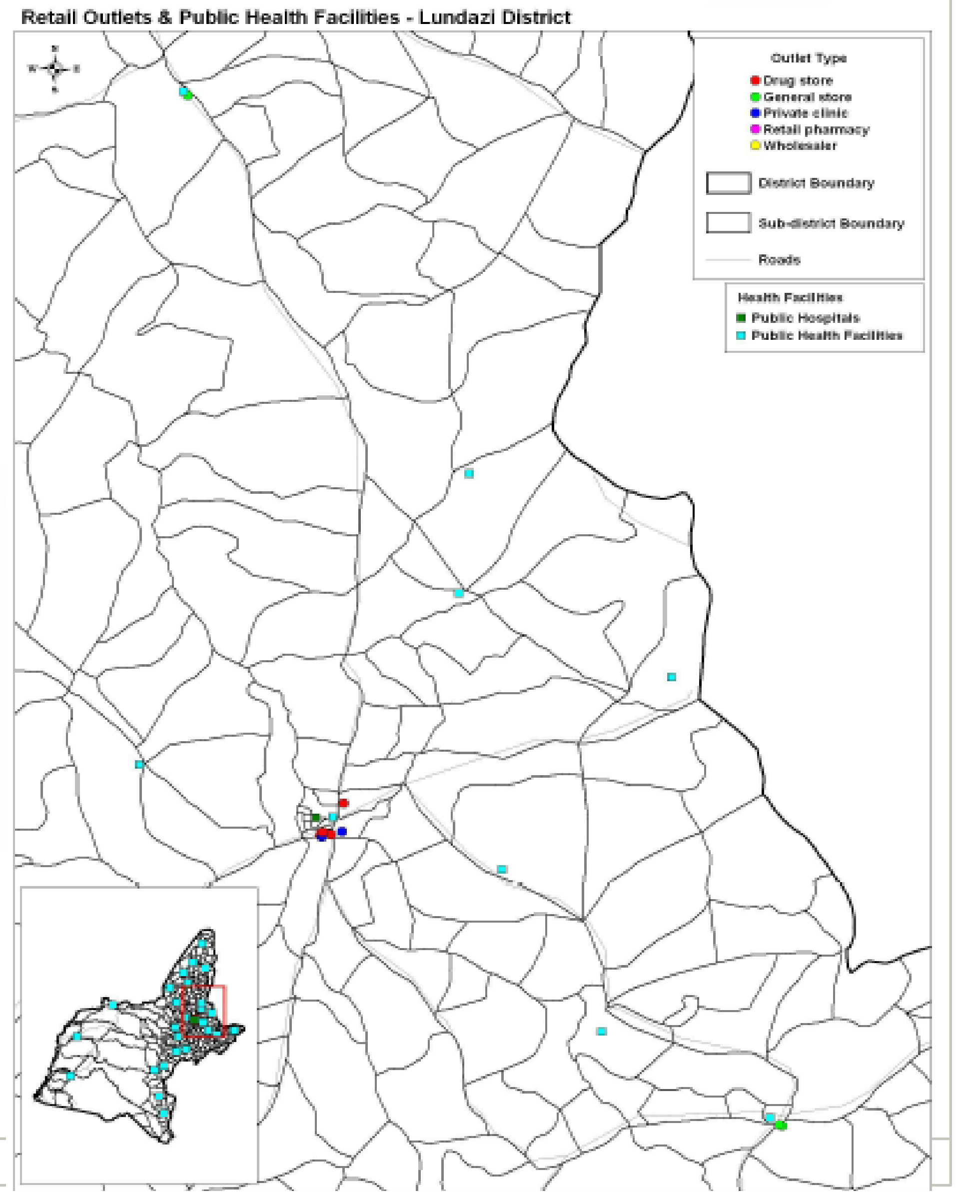
Cost of doing business is higher?

OR

Excessive profit taking?

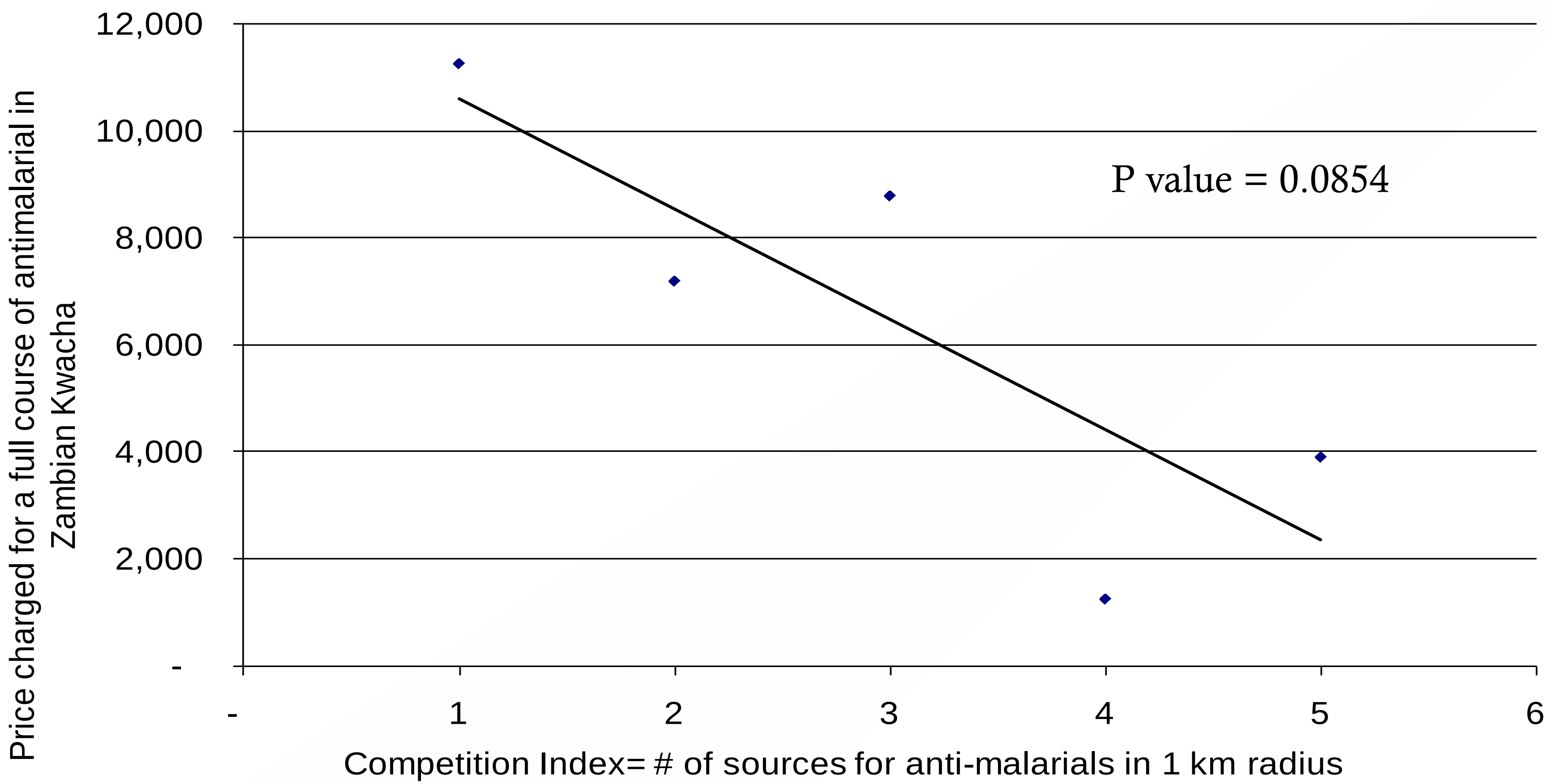
Understanding retail competition (or lack of)





Source: Joint study with CHAI and UNZA in Zambia

Retail competition impacts retail margin



Study of over 100 outlets in 4 districts in Zambia

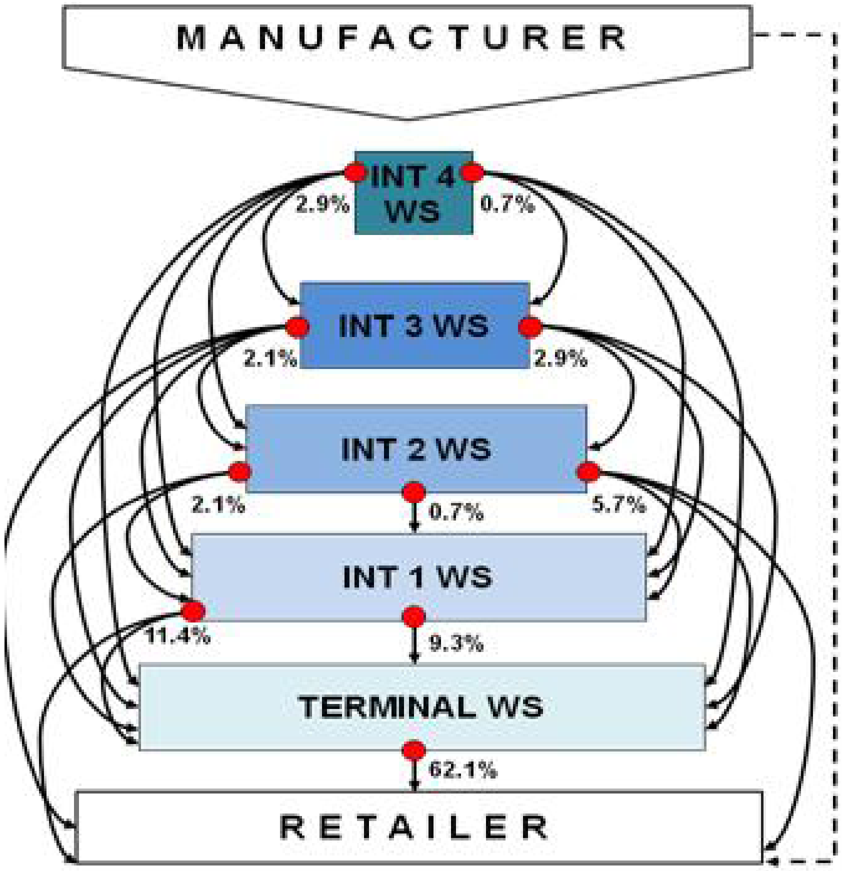
Learning to working with new retail formats

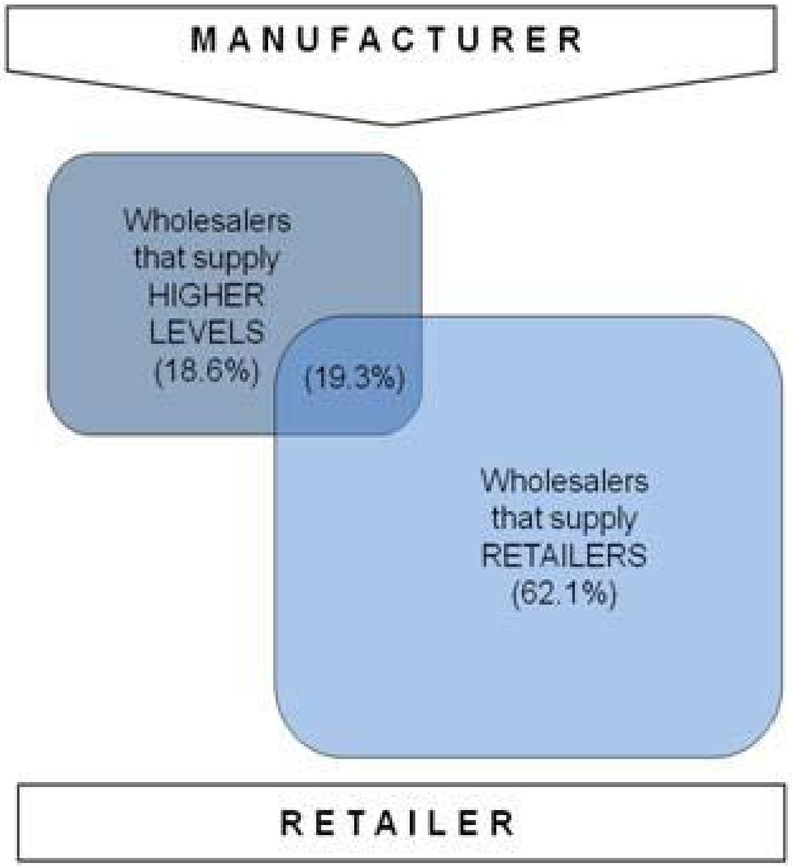
Small kiosks and small general stores are the predominant retail formats for many consumer product categories

Different supply chain structures are needed for serving such retail formats

Intermediaries and disintermediation challenges

Number of intermediaries in the channel (e.g. UGANDA)





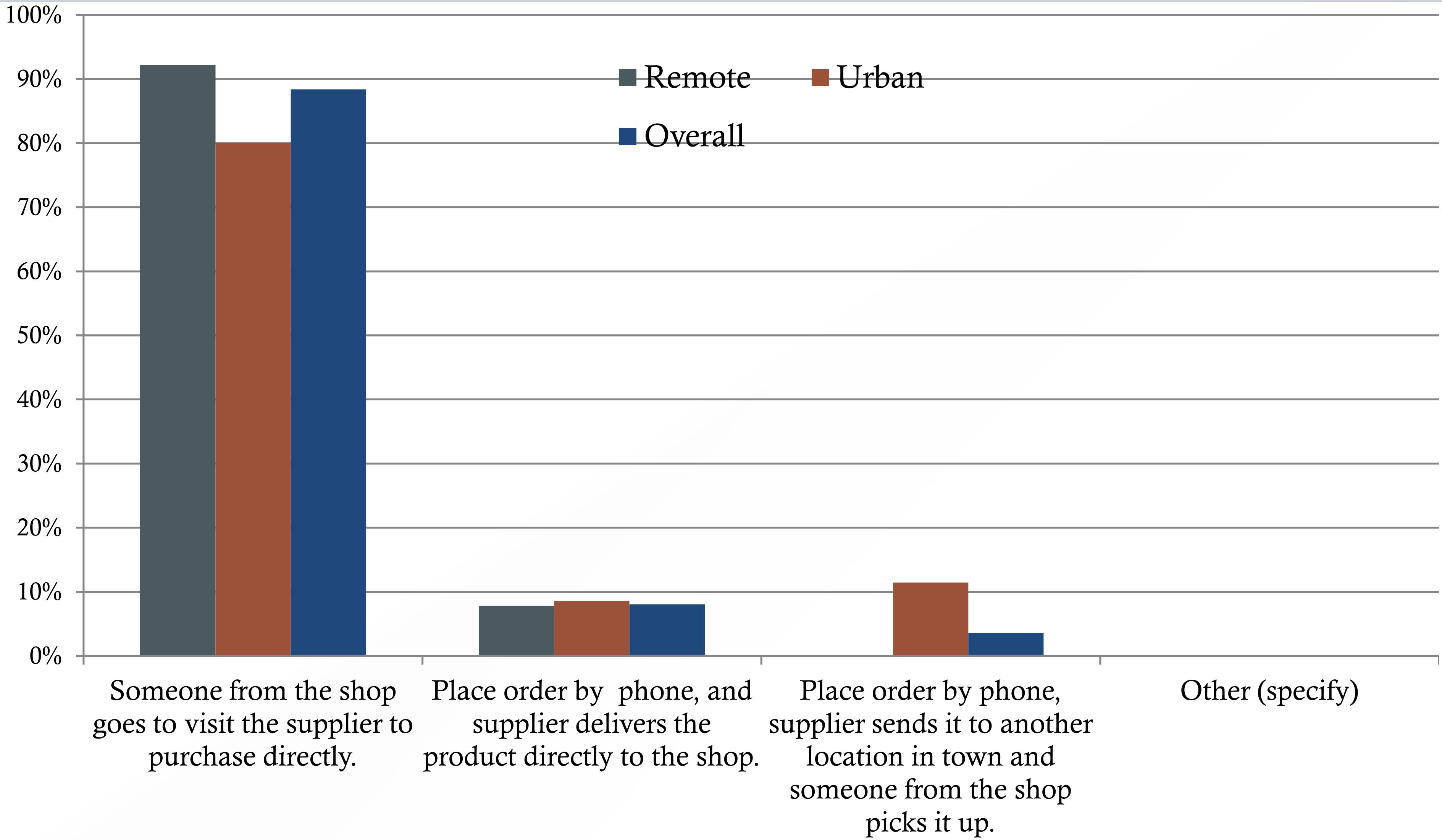
Source: ACT Watch

Number of intermediaries in the channel

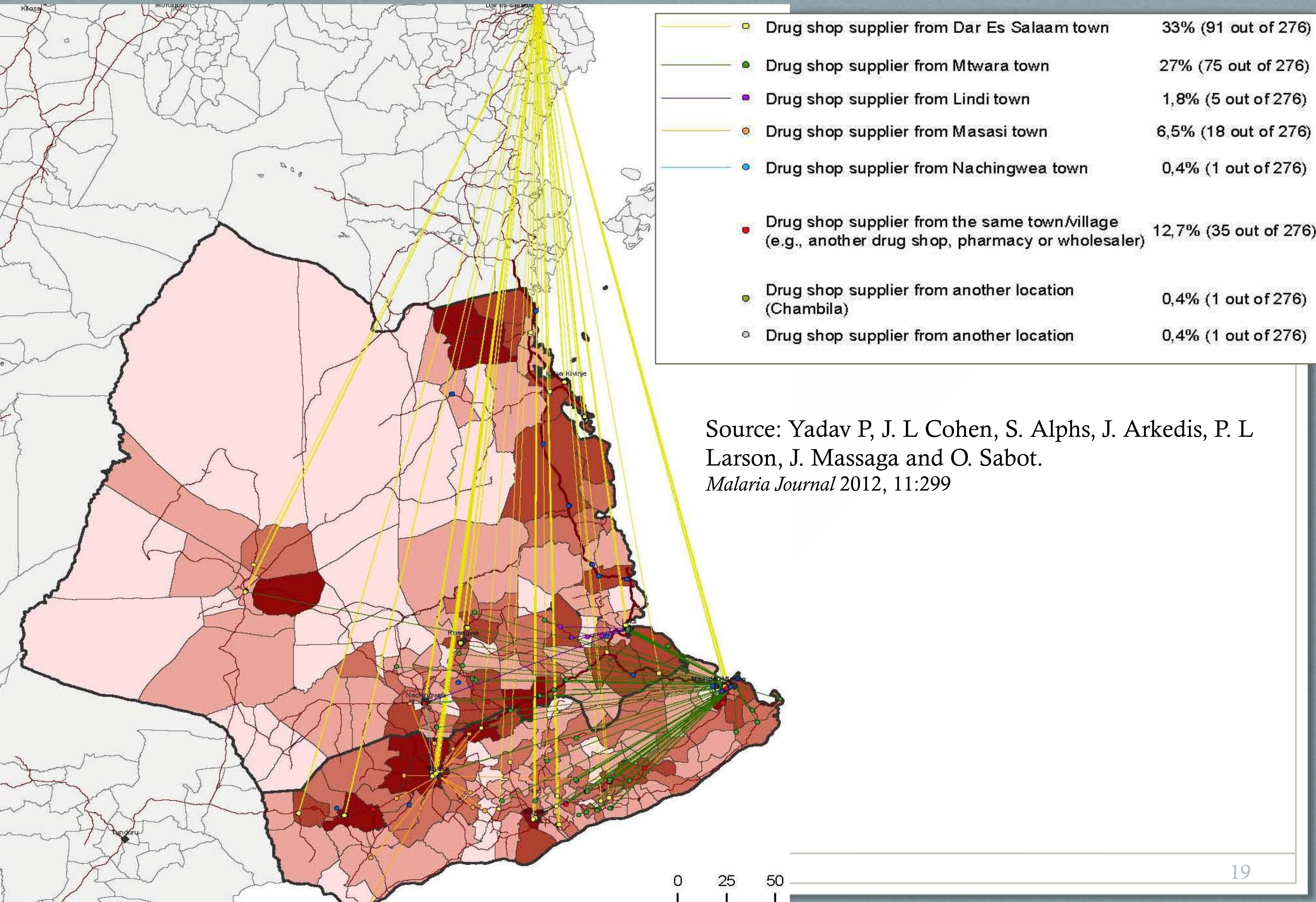
	Benin	Cambodia	DRC	Nigeria	Uganda	Zambia
Maximum number of steps from factory gate to retail outlet	5	4	6	5	6	4
Typical number of steps from factory gate to retail outlet	2-3	1-2	2-3	3	3	2-3

Source: ACT Watch

How do small retailers obtain their stock?



Source: Yadav P, J. L Cohen, S. Alphs, J. Arkedis, P. L Larson, J. Massaga and O. Sabot. *Malaria Journal* 2012, 11:299



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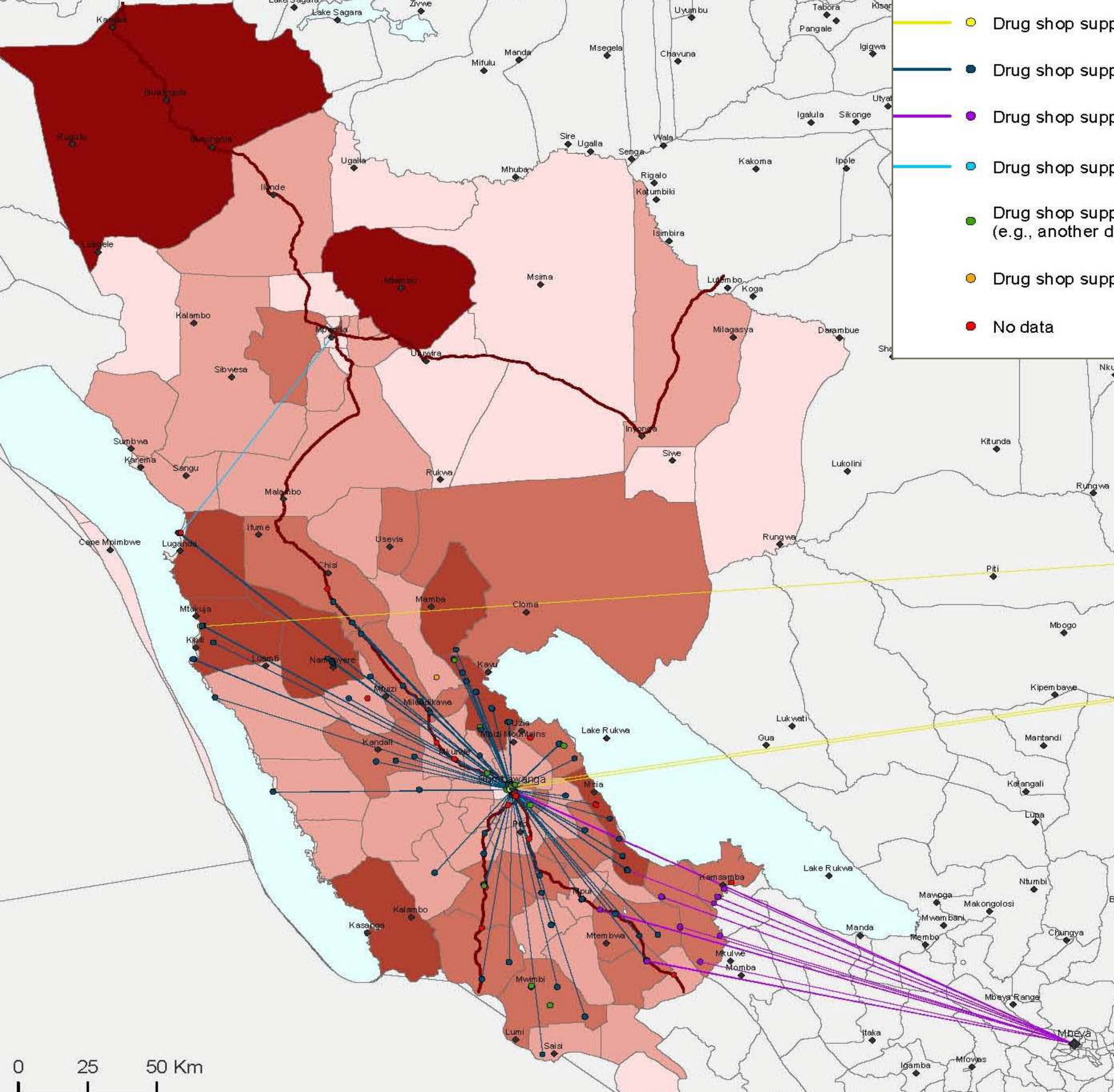
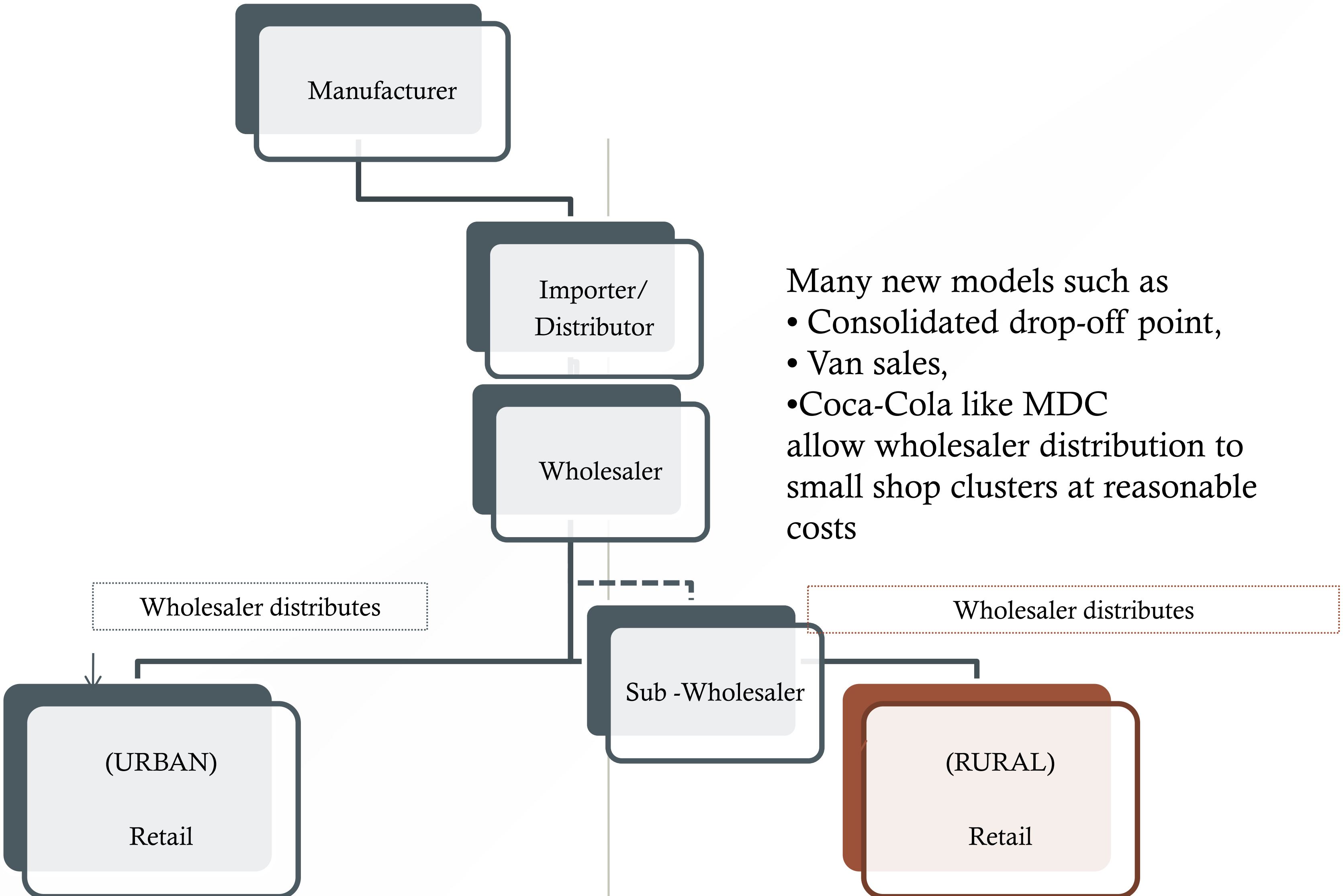


Source: Yadav P, J. L Cohen, S. Alphs, J. Arkedis, P. L Larson, J. Massaga and O. Sabot. *Malaria Journal* 2012, 11:299

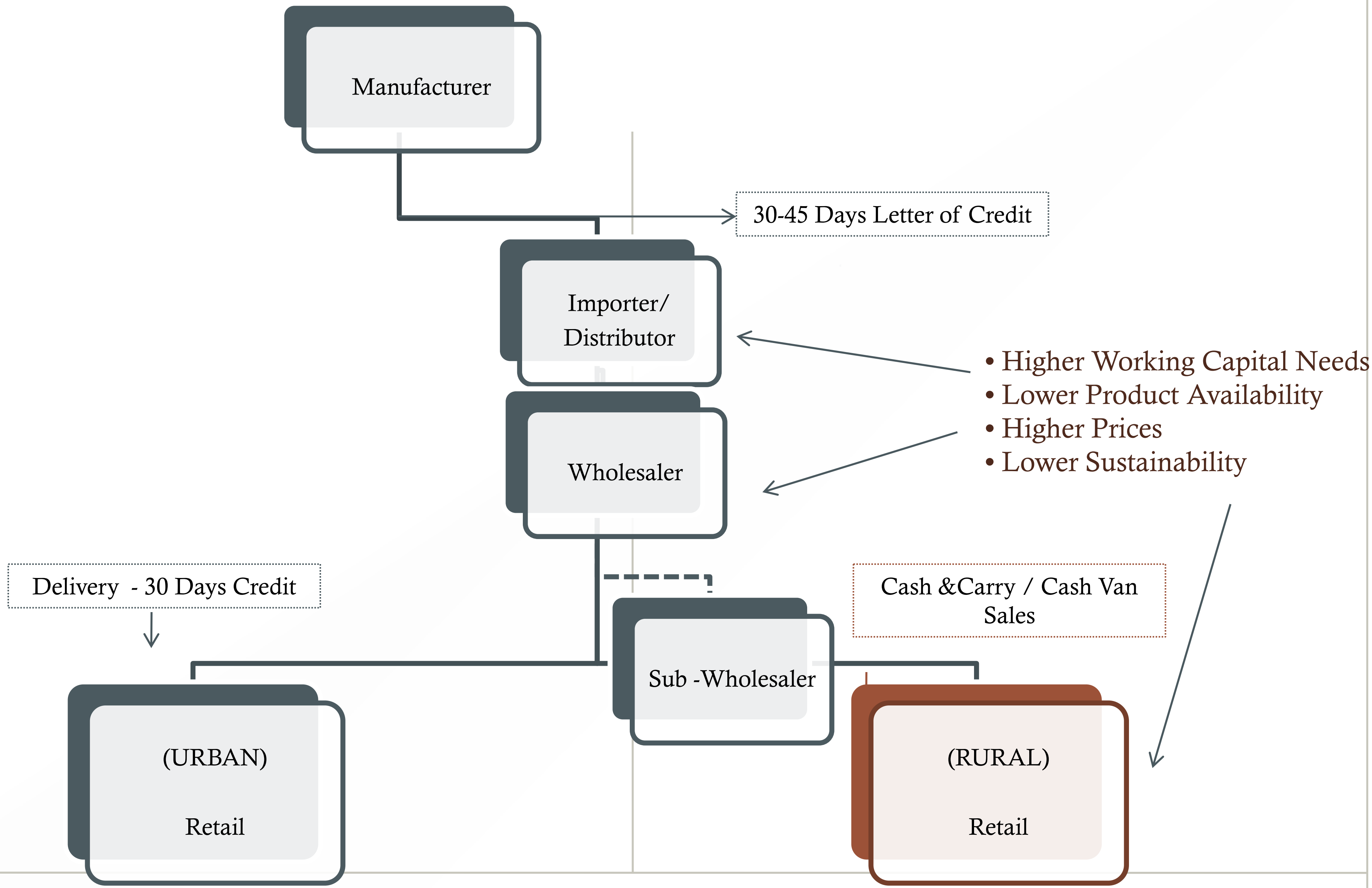
Incentivizing wholesalers to distribute to underserved markets



Many new models such as
• Consolidated drop-off point,
• Van sales,
•Coca-Cola like MDC
allow wholesaler distribution to small shop clusters at reasonable costs

Problems with credit flow

Lack of working capital in the overall system



Access to capital constraints at the retail level

- 81% of shops surveyed indicated that they did not have enough money to operate their business

n=17 *Multiple responses allowed	Percent
I cannot keep the shop in good condition	41%
I cannot stock enough quantity of each medicine	33%
Inability to sustain business (loss of business, loss of revenue)	11%
Failure to meet customer expectations/loss of customers	7%
I cannot stock some more expensive items	4%
Difficulty paying staff salaries	4%

P. Yadav, L. Smith & S. Alphs 2012. Enhancing Access to Medicines through Innovations in Working Capital Financing for Drug Shops. Technical report for SDSI, MSH

Access to capital constraints at the retail level

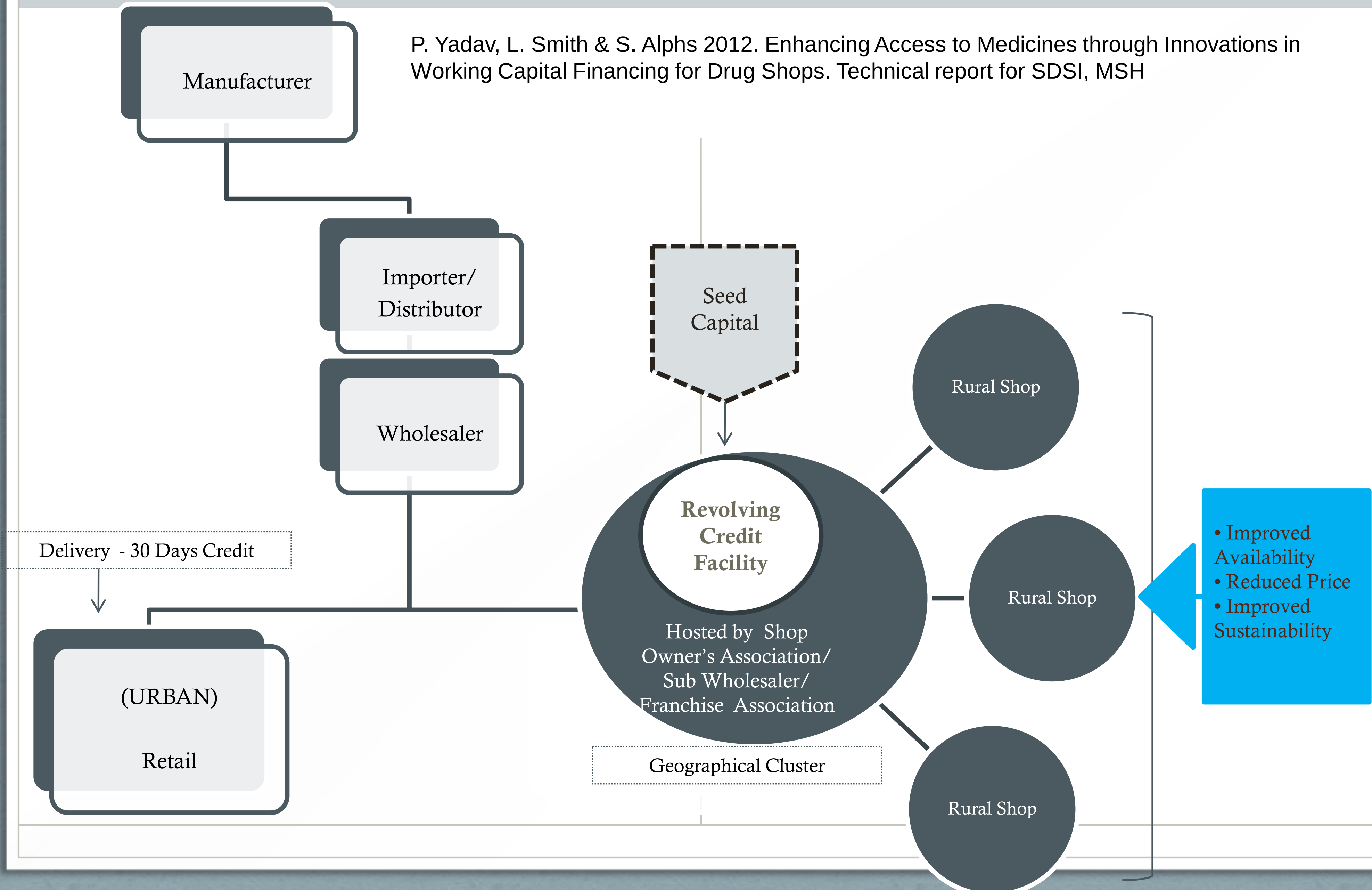
	ADDO (n=21)	ADS (n=12)	Class C (n=3)
No, the supplier never sells anything on credit to me	48%	25%	0%
Yes, credit is offered on most or all products	24%	58%	67%
Don't know	14%	0%	33%
Supplier offers credit, but the shop does not accept it	9%	17%	0%
Refused	5%	0%	0%
Sometimes credit is offered on new or promotional products	0%	0%	0%

P. Yadav, L. Smith & S. Alphs 2012. Enhancing Access to Medicines through Innovations in Working Capital Financing for Drug Shops. Technical report for SDSI, MSH

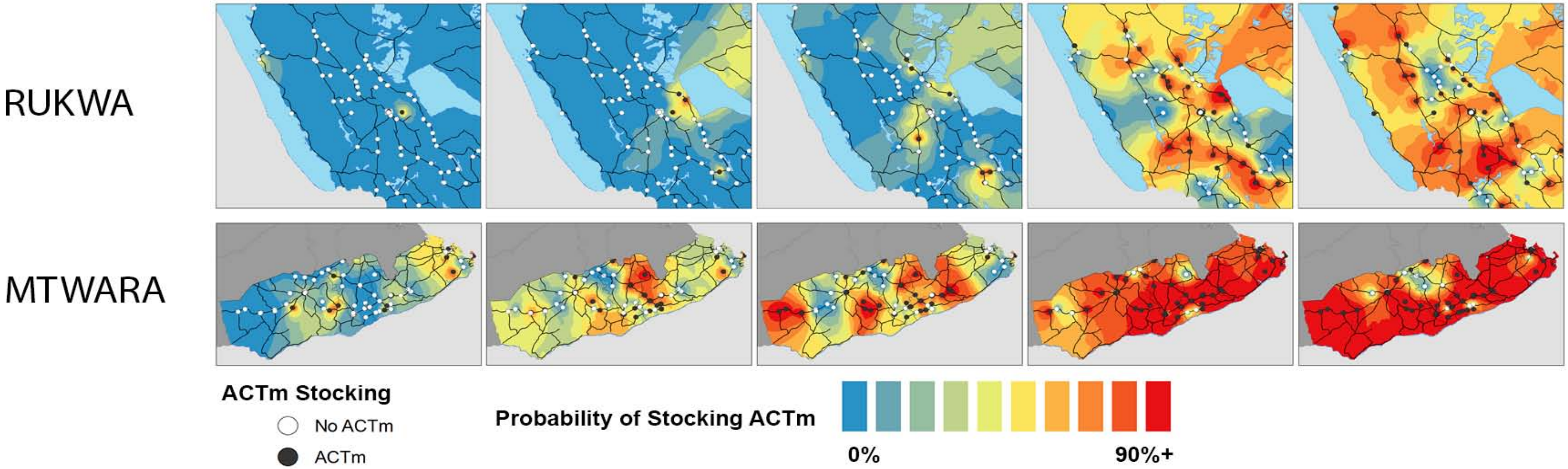
Ways of addressing credit problems

Create a better working capital credit mechanism for retail

P. Yadav, L. Smith & S. Alphs 2012. Enhancing Access to Medicines through Innovations in Working Capital Financing for Drug Shops. Technical report for SDSI, MSH

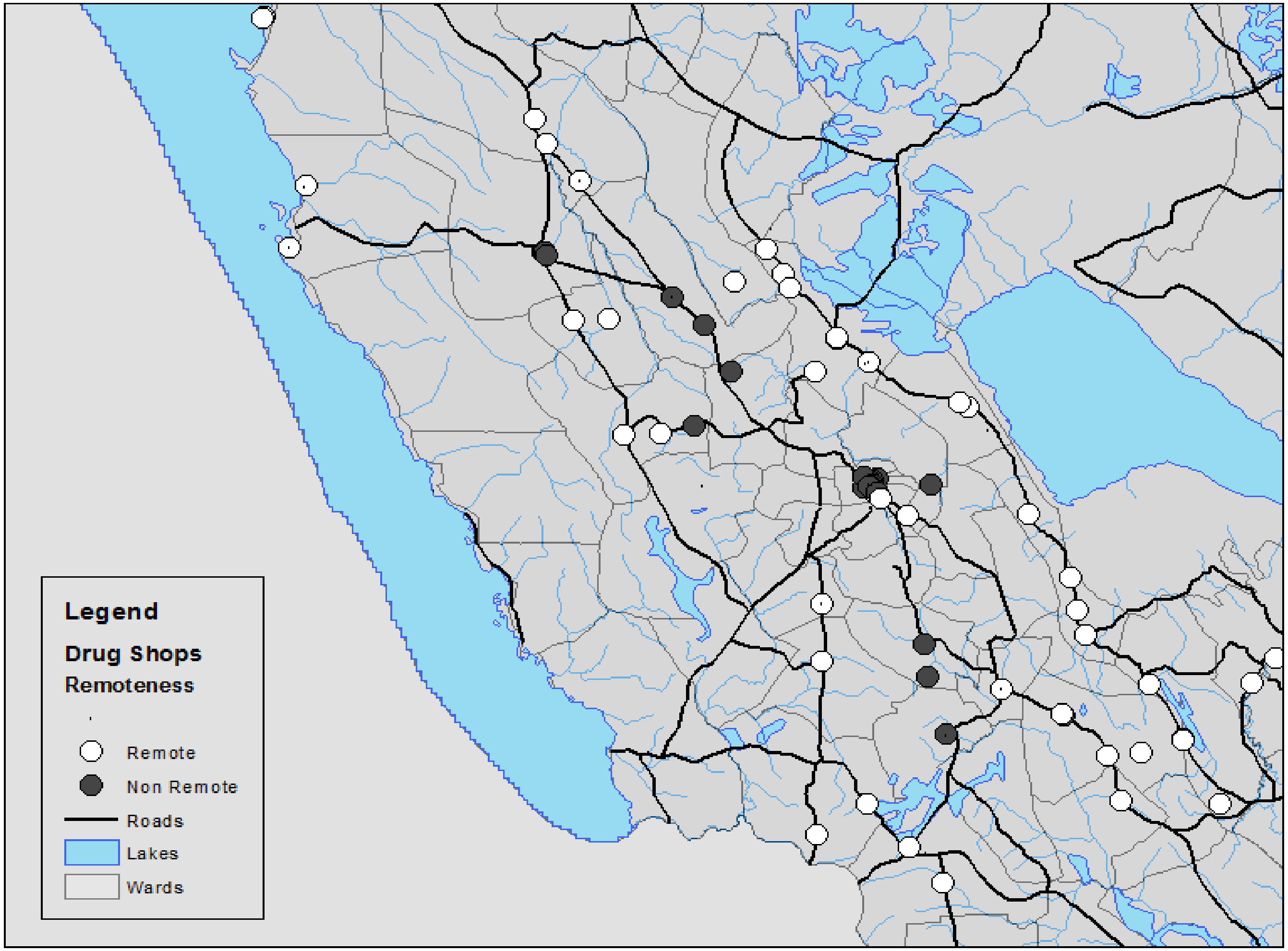


Understanding what impacts product availability



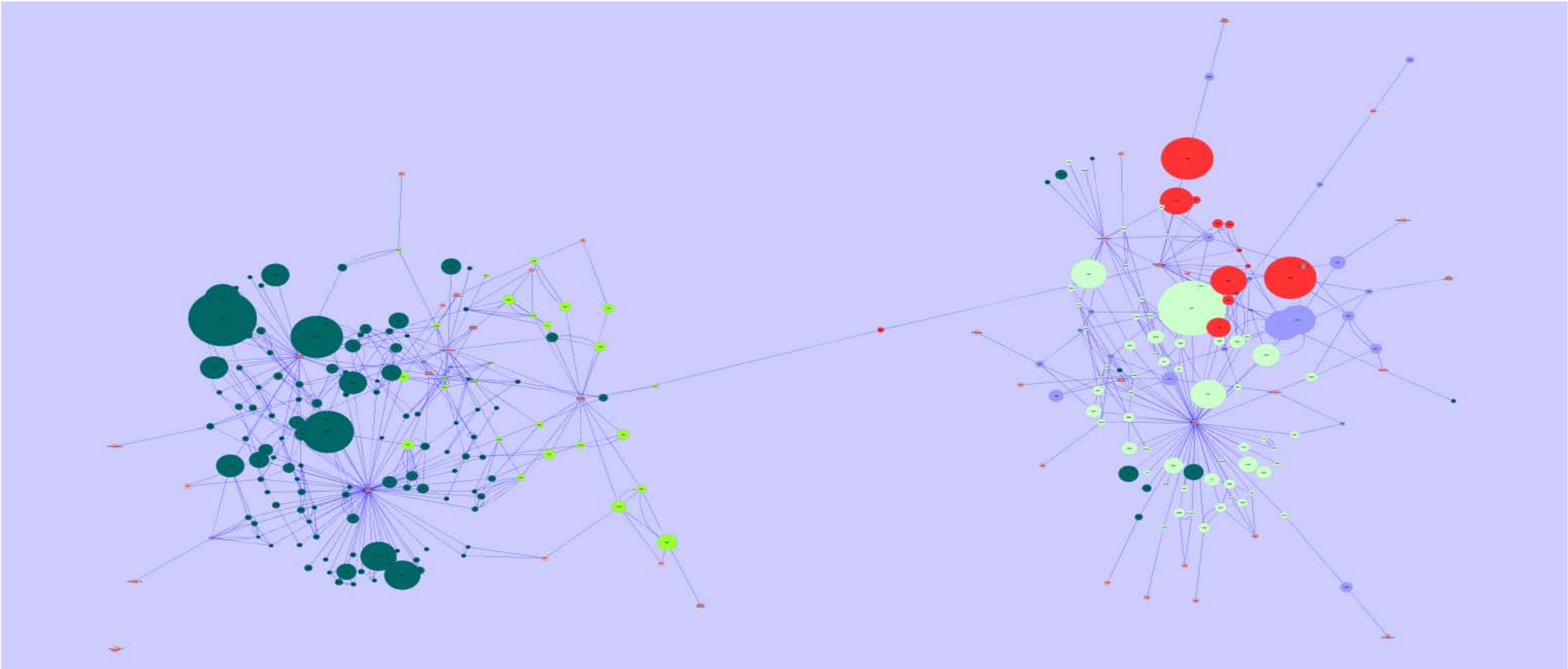
Source: Yadav P, J. L Cohen, S. Alphs, J. Arkedis, P. L Larson, J. Massaga and O. Sabot. *Malaria Journal* 2012, 11:299

Understanding road, trade networks and product availability



Source: P.S. Larson, P. Yadav, J. L Cohen, S. Alphs, J. Arkedis, J. Massaga Stocking Patterns, Market Competition, and Customer Demand of Subsidized ACTs in Private Drug Shops in Tanzania. 2012

Understanding retail competition and product diffusion in a network



Competition/Wholesaler Network. Colors represent city of supplier, size represents degree of centrality (number of connections each shop has with other shops through perceived competition)

Source: P.S. Larson, P. Yadav, J. L Cohen, S. Alphs, J. Arkedis, J. Massaga Stocking Patterns, Market Competition, and Customer Demand of Subsidized ACTs in Private Drug Shops in Tanzania. 2012

Developing a successful distribution and access strategy for developing country markets

Pillars of a successful developing country distribution strategy

1. Select "market tailored" multi segment price points (brand or SKU differentiation) based on analytics
2. Create an environment for innovation in distribution
3. Understand credit flows in the distribution system
4. Learn to work with new retail formats
5. Leverage new models for supply chain information collection
6. Create partnerships to enhance reach and to share risks