

FORETHOUGHT GLOBAL MARKETS

Distribution Lessons from Mom and Pop

by Carlos Niezen and Julio Rodriguez

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Latin America, dotted with millions of mom-and-pop stores, is a challenging market that sometimes forces global makers of groceries and sundries to rethink their distribution strategies. Lately, the region has also been serving as a classroom. Coca-Cola has exported distribution techniques it learned in Latin America, such as using local wholesalers as distributors, all the way to bigger markets in Asia.

In the developing world, mom-and-pop businesses can be as rudimentary as kiosks on the street. These tiny enterprises charge more than supermarkets and convenience stores, but customers like them because they're close by, they sell products such as cigarettes in individual units, and many customers have social or family ties with the owners. Even with big-box stores spreading everywhere, more than 80% of the developing world's population still patronize mom-and-pop shops. Therefore, these far-flung stores constitute a crucial battleground for global players in fast-moving consumer goods such as soft drinks, beer, cigarettes, and confections.

One corner of that battleground is the mom-and-pop market for soft drinks in Peru. Coca-Cola competes there via its Peruvian bottling partner, the Lindley Group. Lindley encountered a problem that is increasingly common in developing countries: A local discount competitor was undermining prices. Lindley had to cut costs dramatically to compete, so it developed a three-part strategy for serving its 240,000 mom-and-pop customers in Peru:

Turn wholesalers into distributors. The Lindley Group outsourced its entire distribution function to its 70 wholesalers, which had lower costs (and better local market knowledge) than the internal company that had been handling sales and distribution for the group. The wholesalers required a lot of education and supervision. For example, the bottler defined their sales routes, taught them sales management, and helped them use information technology.

Use IT to link and control distributors. By requiring the wholesalers to use its sales IT

system, the Lindley Group was able to receive sales information directly and amass real-time, countrywide data. For instance, Lindley managers could identify the percentage of distributor visits that yielded a sale to a store, as well as sales of each SKU and brand. Lindley could then help the wholesalers improve sales and, if need be, replace ineffective distributors without losing customer information.

Use simple technology. Lindley rented cheap cell phones at about \$18 a month per phone—much less than what its own distribution company had been spending on sophisticated handheld devices. It also helped develop software that enabled the phones to function like such devices and to display data from a server. Before placing an order, a distributor could see, for example, how much of a particular item was in the warehouse. Lindley managers obtained real-time data on whether the distributors were meeting sales targets for each outlet, the right portfolio of products was being sold, and the right promotions were being pushed.

The Lindley Group has grown its sales in the Peruvian mom-and-pop channel by an average of 10% per year since 2005 and has reduced distribution costs by more than two-thirds. Sales and distribution are no longer fixed costs for the company; it now pays according to results, such as sales volume. Coca-Cola, for its part, has adopted Lindley's three-part structure as its distribution and IT model for emerging markets, including big ones in Asia. Coca-Cola Bottling Indonesia is already using the strategy.

Another soft-drink giant has also managed to profit by using Latin America as a classroom. PepsiCo first rolled out its Power of One strategy—which united its soft drinks and Frito-Lay snacks on a single shelf—in Mexico, before it took the concept to other emerging markets whose size and distance from North America require larger commitments of a U.S.-based multinational's resources. In addition, the Frito-Lay unit has used experience it gained distributing and

pricing snacks in Mexico to penetrate mom-and-pop stores in places like Russia and India. For other North American multinationals, the lesson is clear: It can pay to look south before heading east.

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