

Micro-distribution models in Africa

Coca-Cola's Manual Distribution System



The role of large businesses in sustainable enterprise development through inclusive business models

- One of the greatest contributions large corporations can make to development and poverty alleviation is through expanding economic opportunity through business linkages/ base of the pyramid models/ inclusive business models ... but to-date this has not been a core part of the CSR debate, let alone an area that has been rigorously evaluated and reported on

Jane Nelson, Harvard Kennedy School



Poor progress against achieving the Millennium Development Goals (MDGs)

-  Eradicate extreme poverty & hunger
-  Achieve universal primary education
-  Promote gender equality and empower women
-  Reduce child mortality
-  Improve maternal health
-  Combat HIV/AIDS & other diseases
-  Ensure environmental sustainability
-  Develop a global partnership for development

The Problem

Why the need to be involved?

- Campaign launched by UK PM – July 2007
- Facilitated at this stage by DFID & UNDP
- UN declared 2008 "a critical year of action on MDGs"

How can the private sector contribute better?

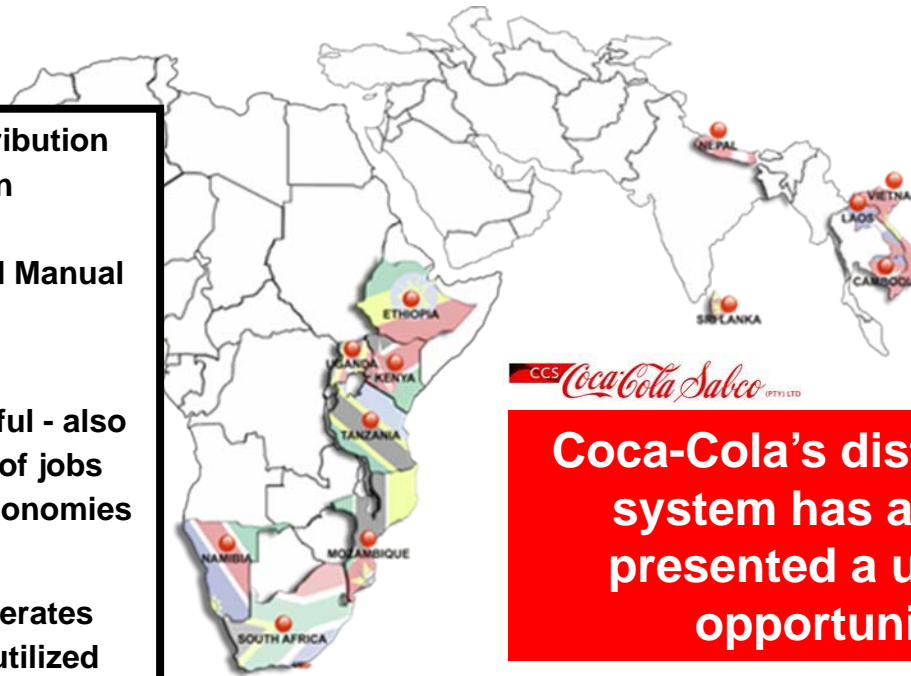
The Business Call to Action (BCTA)

- ❖ Aims to accelerate progress on the MDGs during 2008
- ❖ The private sector is crucial to the Call to Action. To achieve the MDGs a bigger global effort is needed and the private sector is crucial to this and has been challenged to play a more active role
- ❖ This is about using your *core business model* to support MDG achievement & not only philanthropy or traditional CSR
- ❖ TCCC BCTA commitment made in London on 6 May 2008



Finding the right fit for the Coca-Cola system

- Coca-Cola Sabco developed a distribution model in early 2000's in East Africa in response to the challenges of emerging/developing markets, called Manual Distribution Centers (MDC's)
- While being commercially successful - also creates new businesses, thousands of jobs and much needed income in local economies
- It's a core business model that generates between 50%-95% of volume where utilized



- About CCS:
 - 12 countries
 - 25 Plants
 - 9700 employees
 - 290 million consumers

CCS *Coca-Cola Sabco* (PTY) LTD

Coca-Cola's distribution system has always presented a unique opportunity

- Similar models now also being implemented by other bottlers in North & West Africa & in Asia, meaning the impact is growing exponentially



What is a MDC?

Independently-owned low cost manual operation created to service primarily an emerging urban retail market where classic distribution models are not effective or efficient



- Central point in territory for warehousing of product, with manageable coverage area and defined customer base (typically 150 outlets)
- Distribution of product is mostly manual to keep costs at a minimum
- Outlets served typically low volume outlets with high service frequency requirements and limited cash flow requiring fast turnaround of stock
- Providing new and viable entrepreneurship opportunities in emerging markets with multiple benefits for surrounding communities and Coca-Cola



Enhancing the model – The BCtA commitment*

- The initiative presents two key opportunities:
 1. To better show the wide ranging impact of the System (the multiplier effect) already in place through the MDC system
 2. To specifically focus on maximizing the socio-economic or development benefits of the MDC concept through a focused research project, pilot and the creation of a best practice model for replication
- Through a learning by doing (Learning Laboratory type approach) – Create an enhanced MDC model that maximizes the socio-economic benefit building on the commercially viable & successful model
- Create learning in the space of inclusive business models



The specific commitment ...

- Coming from a base communication at the time of 1,800 MDC's, employing over 7,500 people:
- Coca-Cola aims to enhance this distribution network above and replicate this model in key African countries over the next three years to create:
 - Between 1,300-2,000 additional independent distribution businesses
 - 5,300 - 8,400 new jobs
 - Generate new revenue of between US\$320 million and US\$520 million in local economies
 - Additionally a specific focus on enhancing the business and development impact of the MDC system, investigating and implementing opportunities identified through a research project with the International Finance Corporation (IFC) and the Harvard Kennedy School

* At the Business Call to Action event in London on 6 May and widely communicated in the media



Project Phases & Key Milestones

<p>Phase 1</p> <p>Scoping & support of 6 May BCTA event</p>	<p>Phase 2</p> <p>Core Research & communications re progress at key events. Also development community involvement through convening</p>	<p>Phase 3</p> <p>Learning Lab phase, further stakeholder engagement & best practice model building</p>	<p>Phase 4</p> <p>Rollout of enhanced model for new & existing MDC's</p>
<p>Nov 07 – May 08 (Completed)</p>	<p>June 08 – Dec 08 (completed)</p>	<p>Jan 09 – Sep 09 (work-in-progress)</p>	<p>Oct 09 onwards</p>



Phase 1: The IFC/HKS research

- **TCCC engaged with the International Finance Corporation & Harvard Kennedy School to investigate the mechanics of the Manual Distribution System to enable a secondary analysis of its current & potential socioeconomic benefits.**
- **Sample selected from Ethiopia & Tanzania as two contrasting markets where the model has been implemented from early 2000s.**
- **Took place during summer 2008 with interviews taking place with Manual Distribution Centre (MDC) owners & their staff.**
- **Merely represents a snapshot in what we see as ongoing action research.**



The IFC/HKS research phase

- **Primary data collected by Harvard Kennedy School Graduate student, working with IFC advisors, during July in Tanzania and Ethiopia**
 - Sample consisted of 21 MDCs in Ethiopia & 28 MDCs in Tanzania across a spectrum of high, medium and low performing MDCs
- **Key study objectives:**
 - Provide an overview of the mechanics of the MDC model from a business perspective
 - Based on these findings, make recommendations on how to measure the model's development impact
 - Provide recommendations for improving the business and development impacts
 - Research findings to feed into a pilot project to guide TCCC in its commitments towards the BCTA
- **Research not a means to itself, but part of a longer-term learning process**



The HKS/IFC research – some key data points

<p>Generating Economic Opportunity</p>	<p>Ethiopia: 75% of owners are “new business owners” 80% of owners rely on MDC as sole income source An average of 3.9 people are employed by each MDC Tanzania: 32% of owners are “new business owners” 20% of owners rely on MDC as sole income source An average of 6.9 people are employed by each MDC</p>
	<p>Ethiopia: 80% of staff and 95% of owners indicate they “make more money now” than before Tanzania: 92% of staff and 50% of owners indicate they “make more money now” than before</p>
<p>Promoting Women’s Economic Empowerment</p>	<p>Ethiopia: 19% of owners and 8% of staff are female 32% of MDCs employed at least one female Tanzania: 35% of owners and 5% of staff are female 42% of MDCs employed at least one female</p>
<p>Catalyzing Human Development</p>	<p>Ethiopia: 80% of owners and 90% of pushcart operators report receiving training</p>

Source: Interviews with MDC owners and staff (n=21 in Ethiopia, n=28 in Tanzania)



Three Key areas of development contribution identified in the research

Creating economic opportunity	<ul style="list-style-type: none">• 651 & 412 MDCs created in Ethiopia & Tanzania respectively• Over 6,000 jobs• Income for broader support of dependents
Catalyzing human capital development	<ul style="list-style-type: none">• Qualitative feedback that basic business skills have been developed• Daily coaching by sales staff
Promoting women's economic empowerment	<ul style="list-style-type: none">• 19% & 32% women MDC owners in Ethiopia & Tanzania in sample• 10% of employees• Qualitative feedback on at least equal number of couple's run MDCs



Key Opportunities identified

- **Targeted recruitment** - Improvement in owner recruitment, incentives & supervision & management process to enhance core business success. Investigate the role of women & first time business owners in the network.
- **Financing, credit and financial services** - possibly in partnership with financial organizations, create model options for optimizing both business & development objectives
- **Capability development and training** - Expand & enhance provision of business skills, training, life skills & further education opportunities through a curriculum based approach.
- **Social products** - Explore options for using the distribution model to distribute products with social or development benefits.
- **Explore options for social marketing.**

Research also exposed strong link between business success & development success. Therefore, development enhancements should not serve to undermine the core business model and jeopardize its sustainability.



In summary - progress since initial commitment ...

○ Since we made our initial announcement to scale-up the program:

- Over 500 new independent distribution businesses, or MDCs have been established
 - Over 2,500 new jobs have been created in these new MDCs
 - As many as 300 additional businesses in our system in Africa have been identified that mirror the MDC model's engagement of local entrepreneurs to distribute our products
 - Our research project in partnership with the IFC and KSG, Harvard has been completed
 - We have begun gathering data on the current rates of female ownership of MDCs
 - We have been active advocates for the Business Call to Action
 - We are responding to the research report's opportunity identification through our next Learning Laboratory phase in 2009





Dar es Salaam MDC owner Lillian Kessy with Coca-Cola Kwanza Area Sales Manager Yassin Hussein. The close relationship and routines to create the context for success between the bottler staff and the MDC owner is a critical success factor. Through the MDC network Lillian was able to recover from a crushing financial situation in 2007 to now run a successful business from which she is able to educate her daughter Angel also in the picture.



The MDC concept has given Stella Msangi the opportunity to work while at the same time caring for a young family. Stella employs four people and has thereby created a stable income for them and their families.

Both Stella and Lillian participated in the IFC/HKS research project in Tanzania and will benefit from the ongoing learning laboratory.