Coca-Cola SABCO

COMPANY BACKGROUND

The Coca-Cola Company (TCCC) is the largest non-alcoholic beverage company in the world, manufacturing nearly 500 brands and serving 1.6 billion consumers a day. In the 200 countries in which it operates, TCCC provides beverage syrup to more than 300 bottling partners, who then manufacture, distribute, and sell products for local consumption. Its bottling partners are local companies owned independently, or either partially or fully by TCCC.

Coca-Cola SABCO (CCS) is one of TCCC's largest bottlers in Africa, operating 18 bottling plants and employing more than 7,900 people in Eastern and Southern Africa. Headquartered in South Africa, it is 80% owned by a private investment group, Gutsche Family Investments, and 20% by TCCC.

COCA-COLA SABCO'S INCLUSIVE BUSINESS MODEL

The Coca-Cola Company utilizes a wide range of distribution methods to ensure that consumers around the world have access to its products. In East Africa, CCS has adopted a manual delivery approach working with small-scale distributors to deliver products to small-scale retailers in densely populated urban areas. These distributors previously had limited economic opportunities and were unemployed or underemployed, working part-time or in the informal economy. As many as 75% of the distributors in Ethiopia and 30% in Tanzania never owned a business before. Most of the retailers they serve are kiosks or small stores serving neighborhood customers, and have enough funds and space to manage a few days' supply at most.

The Manual Distribution Center (MDC) approach was first developed as a pilot with 10 MDCs in Addis Ababa, Ethiopia, in 1999. By 2002, the company had implemented the successful model on a broad scale throughout its markets in East Africa. SABCO utilizes the following approach when establishing new MDCs:

- **Assess the need for MDCs**: First, CCS collects detailed data on every retail outlet in the target area. This information is used to develop a beverage demand forecast and determine whether a new MDC is needed, ensuring that MDCs are introduced in areas where they are likely to thrive.
- **Recruit MDC owners**: Next, SABCO sales managers identify and recruit candidates they believe would be good MDC owners. Successful candidates must plan to be directly involved in the business on a full-time basis and have a strong work ethic, access to a suitable site, sufficient funds to support start-up costs, and good relationships with the surrounding community.
- **Define MDC territory and customer base**: Once a new MDC has been identified, CCS gives that MDC exclusive access to the retail outlets in a defined geography based on a map that CCS provides. The exact size of the territory is based upon the terrain and anticipated volume of the retail outlets it will service. Ideally, each MDC services an area 1 kilometer in circumference, reaching a maximum of 150 retail outlets.
- **Provide limited start-up guidance and support**: MDC owners are responsible for financing the start-up costs of their MDC including business licenses, pushcarts, rent, initial stock of empty crates and bottles, and beverage supply. Occasionally, CCS offers credit for crates and empty bottles, which represent some of the biggest start-up costs, though this is less frequent today than when the model first started. Owners hire their own staff, though CCS guides them on staffing numbers and salaries.

Once new MDCs have been established, the most critical success factor in the model is regular training, monitoring, and communication. The level of interaction with CCS staff largely determines how well MDCs perform.

There are two regular points of contact for each MDC, which are the Area Sales Manager (ASM) and the Resident Account Developer (RAD). ASMs are full-time Coca-Cola SABCO employees who manage 10–20 MDCs each, which they visit daily or every other day to monitor supply and inventory, adherence to CCS standards, and overall business performance. The RAD, typically a part-time CCS staff member based in the same neighborhood, develops retail accounts, regularly monitors and manages in-store beverage placement and productivity, and generates orders as needed. They also visit their local MDCs daily to check stock and ensure routes are followed.

Through this interaction, MDCs are regularly coached and supervised on warehouse and distribution management, account development, merchandising and customer service, which is helpful since more formal training occurs less frequently. They and CCS staff have access to a set of management tools SABCO has developed to track inventory, sales, market competitiveness, and overall business performance.

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DRIVERS FOR COCA-COLA SABCO'S INCLUSIVE BUSINESS MODEL

- Increase sales and facilitate delivery in areas hard to serve with conventional trucks
- Enable small but frequent deliveries to retail outlets

In many countries, Coca-Cola primarily uses traditional distribution models in which large quantities of product are delivered via trucks or other motorized vehicles to large retail outlets. Yet in much of the developing world, such as East Africa, where road infrastructure, retail markets, cost implications, and customer needs differ, other distribution methods have been developed—ranging from bicycles to boats.

Thus, Coca-Cola SABCO's MDC model was born out of this business need to adopt its delivery model to local infrastructure, customer needs and market conditions. Through the MDC model, SABCO has been able to more effectively and efficiently reach small-scale retail outlets located in densely populated urban areas where truck delivery is challenging. It has been able to improve sales and customer service by providing outlets with access to smaller, more frequent deliveries of product.

RESULTS OF COCA-COLA SABCO'S INCLUSIVE BUSINESS MODEL

- Generated company revenues of US$420 million and improved customer service
- Created entrepreneurship opportunities for 2,200 new MDC owners and over 12,000 jobs
- Enabled MDC owners and staff to support over 41,000 dependents and invest in health, education, and housing
- Built human capital through business and customer service training

The MDC model has helped CCS increase sales by improving customer service to small retailers compared to the traditional model of distribution. Providing retailers with regular interaction and constant access to products, the MDC model enables them to carry less inventory and purchase more on a demand-driven basis, addressing some of the financial and space limitations they face. In Ethiopia and Tanzania, more than 80% of the company's volume is now distributed through MDCs. MDCs are CCS' core distribution model in Kenya and Uganda, where they are responsible for 90% and 99% of total volume respectively. They account for 50% of volume in Mozambique and have been used to a lesser extent in Namibia and elsewhere.

The MDC model has had development impact in three broad areas. First, the MDC model creates new opportunities for entrepreneurship and employment in the formal sector. As of the end of 2008, Coca-Cola SABCO had created 2,200 MDCs in Africa, generating over 12,000 jobs. Three-quarters of MDC owners in Ethiopia and one-third in Tanzania reported that they were first-time business owners who previously held only part-time jobs, or worked in the informal sector. MDC owners and employees support an estimated 41,000 dependents. With the income they receive from their MDCs, they are now able to invest in housing, health, and education for their families, as well as create job opportunities for relatives from the countryside.

Second, the MDC model has created new economic opportunities for women, both as MDC owners and employees and as SABCO managers and sales staff. Across East Africa, the MDCs have created entrepreneurship opportunities for close to 300 women. In Ethiopia and Tanzania, samples showed that 19% and 32% of MDCs, respectively, were owned by women. In addition, couples own a high proportion of MDCs jointly, many of which are managed by the women.

Finally, the MDC model has helped develop human capital. The training SABCO provides to ensure that the business is successful benefits the MDC owners and staff members who receive it even after they leave the Coca-Cola system, helping them qualify for higher-skilled jobs and more lucrative business opportunities.

IFC'S ROLE AND VALUE-ADD

IFC investment has played an important role in enabling Coca-Cola SABCO to expand and modernize its operations in Ethiopia, Kenya, Mozambique, Tanzania, and Uganda—particularly in Ethiopia, where it was considered a pioneering investment in a country perceived to be highly risky. In 2002, IFC provided a $15 million loan, equity of up to $10 million, and $12 million in bank guarantees in Ethiopia and Tanzania. IFC also helped address challenges associated with banking requirements in Ethiopia by facilitating dialogue with government officials.

With this initial investment, the IFC played an important role in discussions to scale up the MDC model at that time and helped to create an inclusive business model that would later become the core business model in East Africa. In 2007, on behalf of the Coca-Cola Company, IFC conducted research to assess the MDC model in Tanzania and Ethiopia and generate recommendations for improving the model's business and development impact moving forward. This research alerted SABCO to the ongoing opportunity and impact of training, financing and women's empowerment in inclusive business models such as the MDCs.

IFC International Finance Corporation World Bank Group

IFC's Investment:

$80 million in long-term debt financing across multiple projects