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Sustainable distribution in emerging markets – African perspective

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Abstract

The paper focuses on studying the impediments for new entrants into emerging markets from a perspective of the African economies and proposes a conceptual framework for a sustainable distribution system. While there is a lot of research on emerging economies, African markets have remained relatively untouched, even more so from the distribution perspective. Furthermore, the speed at which business transformations are happening in these markets, requires academic research to keep pace with such changes. The paper proposes four broad impediments to distribution and a set of sub-dimensions - i.e. political and security, cultural, ethnic and economic diversity, infrastructural gaps, channel structures and governance, to name a few. The proposed conceptual framework defines the strategic interventions, namely, connecting with the masses, inclusive growth, leveraging existing networks and financing micro enterprises to build a sustainable network in the African markets. The methodology for the study is an integrative analysis of existing literature, case examples and personal experience on entry strategy consultancy[1] in Africa and other emerging markets.

Keywords: sustainable distribution; African emerging economies; channel profitability; multilevel distribution; inclusive growth; micro financing.

Introduction

Global markets have witnessed huge shifts following the crisis in Europe, while the US economy show no signs of improvement. Countries like India, China, Russia and Brazil which were the prime movers of world economy in the late 90's and 00's have been experiencing a decline in actual GDP growth rate. This has encouraged companies to enter the African markets as part of their sustainable growth strategy. This paper addresses the impediments faced by new market entrants into Africa from a distribution standpoint. Findings from this paper contributed to the body of research on African emerging markets by suggesting a conceptual framework for setting up a sustainable

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distribution system. The framework proposes four strategic dimensions to ensure effective distribution in the African continent, namely, connecting with the masses, inclusive growth, leveraging existing distribution networks and financing micro enterprises. The recommendations are based on the innovative practices in distribution that have helped successful companies in these markets and the underlying strategies that have improved the overall cost to serve and hence sustained channel profitability. New entrants in the context of the paper refers to both - companies which are first timers to a country, as well as companies already operating in a country, but expanding into new markets within the country or launching new variants, brands or product lines and therefore need to realign their distribution system for a different customer base. For example, Coke entering Botswana for the first time would be a new entrant in a new market, whereas, Coke which has a presence in Kenya launches a new cola drink in a small package size targeting the rural bottom of the pyramid (BOP), necessitating distribution expansion and realignment, is an example of the later.

Existing literature on emerging economies has revealed various nuances of these markets compared to the developed world. Mahajan, Pratini and Wind (2000) and Dawar and Chattopadhyay (2000) have reasoned that the sheer scale and size of multinational enterprises (MNE's) should propel the companies to enter emerging markets. But the bigger challenge for the African continent has been the level of preparedness of the small, under-developed and impoverished nations to support and enable the entry of the big brands. The issues are even more complex reaching the last mile customers in the rural hinterlands given the heterogeneity of customer base, available infrastructure and the level of acceptance, with the prevailing awareness and safety levels. The findings of Karnani (2007) suggest that running a viable business in the rural bottom of pyramid (BOP) markets is most challenging. Further, seminal work of Hoskisson, Eden, Lau and Wright (2000) on Transaction Cost Theory (TCT) stressed the importance of high transaction costs in emerging markets against developed markets, suggesting that MNEs planning to enter African markets will need to adopt differential strategies to earn profits. Research done on emerging markets and BOP customers (Prahalad and Hammond, 2002; London and Hart, 2004) indicate that firms need to operate with a different perspective to be successful. The lack of a strong legal framework increases the overall risk of doing business due to corruption and security issues (Nelson, Tilley and Walker, 1998). Researchers who have worked on Resource Based Theory (RBT) argue that firms would need to create strategic tradability around resources to sustain competitive advantage (Penrose, 1959; Barney, 1991; Oliver 1997). Sheth and Sisodia (2001) propose a new set of marketing mix elements – acceptability, affordability, accessibility and awareness (4As) as more relevant for emerging economies. Dadzie *et al.* (2012) have compared the elements of marketing mix i.e. product, price promotion and place and the 4As in an African market (Ghana) and proposed that the later definition explains market performance impact more adequately. Their find-

ings also support a contemporary approach in marketing strategy for emerging markets, driven by demand aggregation based on the 4As, rather than demand differentiation. Thus, a summarization of extant literature on the emerging economies suggest that on one hand the new entrant is challenged with a huge entry barrier, whilst on the other, opportunities for growth and sustainability point towards the markets in Africa.

The paper begins with context setting, by stressing the impact of African markets on global economy and current body of knowledge from a marketing strategy perspective. It is followed by the methodology section and subsequently the impediments to effective distribution for new entrants. Further, the paper focuses on the critical success factors through case study examples leading to a set of propositions and recommendations for a sustainable distribution framework. The paper concludes with a section on implications for managers associated with these markets and scope for future research.

Methodology

Methodology adopted for the study is an integrative analysis of existing literature; case examples of successful companies in the emerging economies; and personal experience on entry strategy advisory in Africa and other emerging markets by the lead author. The case studies chosen for analysis are – P&G's corporate social responsibility (CSR) initiative in Africa; Nestlé's "*Shared Value Creation*" and inclusive growth approach in Equatorial African Region (EAR); Mars Inc., sustainable cocoa farming in West Africa (Ghana and Côte d'Ivoire) under the iMPACT project streamlining the upstream supply chain; GZIs success story in West Africa; Avon's success story in Venezuela and Brazil; Polar Beer, Nestlé & Coke's multilevel distribution strategy in Venezuela; and Unilever's Project Shakti, ITC Ltd.'s *e-Choupal* and India Post's rural India focus. The reason for selecting case studies spread across emerging economies in Africa, Latin America and Asia is because the challenges faced by the MNE's in tackling the business environment in non-African countries bear a similarity with the African markets in terms of the 4As, though to a varying degree.

Impediments to distribution

Business environments in the emerging markets, be it Africa, Asia or Latin America, has always posed challenges for new entrants or incumbent companies expanding into untapped territories. Sheth (2011) in his seminal work on the impact of emerging markets on marketing has identified five broad market characteristics, namely, market heterogeneity, sociopolitical governance, unbranded competition, chronic shortage of resources and inadequate infrastructure. In the context of Africa, our research findings reveal four basic di-

mensions (Sarangi and Mishra, 2013) challenging distribution, which are discussed below.

1. Macro Factors

a. Political & Security: Political and security risk is a key macroeconomic variable evaluated by companies, while deciding on entering new markets or expanding business presence. However, macro factors are a bigger impediment for a company entering a new market compared to an incumbent player. From a new country perspective, this is explained as 'administrative' distance between the two geographies on account of political hostility and dissimilarities (Ghemawat, 2001). African markets have always been known for political unrest, military coups and lawlessness. The coup in Sudan followed by the undisputed rule of President Bashir; 43 years long dictatorship of Col. Qaddafi in Libya; civil wars in Sierra Leone; bloody coups in DRC and Ethiopia are a few standing examples of political unrest in Africa. Poor security and legal infrastructure also makes it difficult to reach certain demand pockets within the rural and urban markets due to increased crime rate. For example, the lead author while evaluating a distribution tie in Tanzania for a leading cookies exporter from Oman, experienced the following anecdotal evidence.

"I do not share any detail pertaining to cash transactions with vendors, even to the second in command in the company. I also keep changing my vehicles and route regularly and all the vehicles that I use are fitted with bullet proof glasses. I consciously decided to take extra precautionary measures after I was robbed at gun point just a few yards outside my office."

The above factor prevents new entrants from even looking at markets with high security and political risk.

b. Policies, Taxes & Legislations: Emerging markets have traditionally been considered protectionists, by imposing legal and commercial restrictions. Countries like Uganda, Burundi and Rwanda have been friendly to MNEs in terms of external policies. But the experience of retail giants in Kenya has been mixed, with both South African Metro Cash & Carry & Lucky 7 exiting the country after a brief period; though Nakumatt (started by a Kenyan national of Indian origin) has grown over the years with presence in 4 countries (Kenya, Rwanda, Tanzania and Uganda), numbering about 40 stores and reported turnover of $ 450 million in 2012[2]. Some of the commercial restrictions faced by companies are in terms of no-entry on vehicles in specific areas during certain time periods of the day to multiple tax levies at different entry points (legal or locally imposed illegally) and the need for multiple licenses and permits to do business. A classic example is experienced in Ghana where local trade associations levy taxes for doing business in local markets. Such associations are typically headed by Ohemma's or market queens who control prices, quantity of sale and who sell (Oritz, Campbell and Hyman,

[2] http://www.bloomberg.com/news/2013-04-08/kenya-s-nakumatt-seeks-50-million-for-new-africa-store-openings.html

2010). As a result, reach and penetration especially for the rural hinterland is a concern.

c. Information: Market intelligence on size of markets, consumer buying practices and preferences, logistics infrastructure, different service providers, and commercial terms for agreement are essential for a company to expand its distribution set up. For example, Vale, the leading mining company during its project phase in Mozambique had to resort to the assistance of procurement market intelligence consulting firms based in India for advisory on contract structure, service providers and supply chain risk mitigation strategy[3]. Another example which can be cited is how the fishermen from the coastal areas of the state of Kerala, India could not sell their catch due to lack of information on market timings. But with the telecom revolution, this problem was solved as they got information on their mobile phones and reached the ports at the right time to sell their catch to the traders (Craig and Douglas, 2011). Thus, firms seek reliable information on connectivity - roads, railways and air; courier service providers; cargo handling agencies; market research firms; insurance service providers; warehousing infrastructure and cold chain services, to name a few, which is challenge for the under-developed and impoverished African markets.

2. Diversity

a. Culture and Ethnicity: Africa is the second largest continent and the second most-populous (after Asia) with 54 individual countries. A comparison with Asia (44 individual countries) indicates that the continent is more fragmented in terms of political borders, diverse cultures and languages. The Maasai's of Kenya and Tanzania, Tuareg of North and Western Africa, and Bambuti from Central Africa are stand out examples of indigenous groups with distinct culture and societal practices[4]. For example, the Baganda tribe of Uganda and Kikuyu of Kenya are so different in their cultures that demand patterns widely vary, increasing the number of SKUs (stock keeping units) for the channel. The complexity is reflected in the number of Bantu speaking tribes inhabiting the East African region - Baganda, Banyoro, Batoro in Uganda, Kikuyu, Akamba, Meru, Embu, Taita, Giryama, Digo in Kenya and Pokomo, Chagga, Yao, Segeju, Zaramo in Tanzania[5]. Given the diversity in the ecosystem in terms of primary occupation, vegetation and food habits, the consumer buying behavior is radically different across tribes and regions. For example, from Maasai's (the cattle grazers) to the Kikuyu's (farmers) ; Buganda tribe in the west bank of fertile Lake Victoria to the native Africans in the Darfur region of Sudan; and the pygmies of Central Africa, the diversity in culture poses a formidable challenge to serve a heterogeneous consumption pattern.

[3] Personal experience of lead author

[4] http://education.nationalgeographic.com/education/encyclopedia/africa-human-geography/?ar_a=1

[5] http://www.elateafrica.org/elate/history/bantumigration/bantuintro.html

b. Economic: With cultural and ethnic diversity, economic disparity is also very high, be it the urban or the rural markets. A sharp contrast between the emerging economies in Asia and Latin America, as against the African economies is in the concentration of BOP and non BOP customers in urban areas and the hinterland. Be it the slums of Dharavi in Mumbai or the "Barrios[6]" (Cerrutti and Bertoncello, 2003) in Caracas, the disparity in disposable income is huge. The marketer has to reach out to segments with a daily income of less than 2$ to those earning 20$ or more, with varying choices of brand, pack size and buying frequency. In contrast, the concentration of higher income groups in cities like Nairobi, Kampala or Dar Es Salaam is mainly restricted to specific localities and the disposable income divide in the urban slums are not as significant. For example, the challenge for a marketer is lesser to distribute in the Mathare and Kibera slums of Nairobi since choice spread is limited. As far as the hinterland is concerned, the economic conditions are similar within the rural markets given similar employment opportunities and income levels.

3. Market Structures

a. Spatial: Density of population and demand concentration determines channel viability. Given the topography of Africa and high dispersion of population, channel design is complex. The average density of population in 2010[7] (persons per square kilometer) across Africa was 33.3 as compared to the world average of 50.6 and the least developed countries at 39.1. Countries like Botswana (3.4), Namibia (2.6), Angola (15.7) are far below the average, whereas there are countries with a fairly high population density i.e. Egypt (78), Morocco (79.1), Ghana (101.1) and Kenya (70.5). Thus, depending on target country, the distribution strategy will vary.

b. Channel Structures and Governance: Marketing channel structures and their governance are distinctly different in emerging economies. Organized formal channels with two level structures to specialist distributors (Ireland, 2008), brokers and consignment agents coexist. Case example of rural Nigeria (Borno and Jos Plateau region) reveals two distinct types of markets (Porter, 1993) – Kunnu and the rural periodic ones (similar to village *"Haats"* in India). While Kunnu's are interior bush type markets specializing in sale of beer and cooked food and form an integral part of the social set up; rural periodic markets are for conventional buying and visited by wholesalers from neighboring commercial centers. While the village heads and elders are responsible for the governance of Kunnus, periodic markets are more formal and have vendors from far flung areas. Similarly in Ghana, trade associations governed by local market leaders (Ohemmas) determine the channel structure and governance. Thus, companies need to be innovative to overcome the chaos while distributing in these markets.

[6] Unplanned shantytowns in Venezuela

[7] United Nations, Department of Economic and Social Affairs, World Population Prospects: The 2012 Revision

c. Infrastructure: Infrastructure continues to be the greatest bottleneck in building efficient and organized distribution systems. Sheth (2011) appropriately explained infrastructure inadequacy, an emerging market characteristic, as:

"Infrastructure includes not only physical roads, logistics, and storage but also market transaction enablers, such as point-of-sale terminals, and basic banking functions, let alone credit cards. It also means lack of communication, information, and transaction technologies, such as telephones and electricity. While the large metro areas may have adequate infrastructure, in general this is not the case in the rest of the market."

In addition to the above, cold chains, concrete market buildings, health and sanitation facilities are some of the other infrastructural gaps, more so in the Sub-Saharan West African region of Mali, Benin, Niger, Côte d'Ivoire, Burkina Faso, Togo and Senegal. Availability of clean drinking water on a sustainable basis, endemic electricity shortages and access to domestic and cross border markets for trade impede overall growth prospects in the region (Heaps et al., 1999). For example, electricity demand per capita ranges[8] from around 48 kWh per capita in Burkina Faso to 290 kWh per capita in Côte d'Ivoire, compared to an average of 500 kWh per capita for Africa which is only 20% of world average at 2000 kWh (Gnansounou, 2008).

d. Domain Knowledge and Skills: The paper focuses on skill gap in people resources as an impediment for distribution in contrast with many other researchers highlighting the non-people based resource inadequacy. In order to design, operate and sustain an efficient distribution system, domain knowledge on supply chain processes i.e. order management, inventory management, warehouse management, purchase order generation and processing, vehicle tracking and working capital management are some of the core skills required by the intermediaries. In addition, soft skills on team management and communication (both written and verbal) are critical considering the cultural and language disparities, especially for MNEs due to the cross national channel linkages (Mehta, Anderson, Dubinsky, Polsa and Mazur, 2010). For any new entrant to operate efficiently, availability of skilled manpower is imperative.

e. Technology: The role of technology cannot be ignored to design cost effective and agile distribution systems. Barring a few countries in the African continent i.e. South Africa, Egypt and Kenya, technology adoption, especially automation systems in distribution is very limited. Some of the impediments faced by new entrants are:

i. Technology awareness and support system availability (hardware and software vendors, service providers for maintenance and upkeep)

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[8]https://www.google.co.in/url?sa=t&rct=j&q=&esrc=s&source=web&cd=6&cad=rja&uact=8&ved=0CEEQFjAF&url=http%3A%2F%2Fwww.wartsila.com%2Ffile%2FKenya%2F1278534299437a1267106724867-Africa-yearns-for-electricity.pdf&ei=pt4cVPHuBMG0uATKsYJA&usg=AFQjCNHfoijYcY5u_C_sQfL2Ya2AJzk92w

ii. Financial ability to invest by the intermediaries

iii. Willingness to invest by intermediaries due to increased accountability and inability to engage in wrong practices

iv. Channel viability

4. Financial Adequacy: Financial adequacy has been analyzed under two broad heads. Firstly, access to capital is nothing but funding from different financing institutions i.e. banks, NBFC's[9] (Non-Banking Financial Companies), micro financing agencies, Non-Governmental Organizations (NGOs) and other Government and Semi Government bodies. Secondly, the paper also lays thrust on the viability of setting up a distribution network and the returns on investment given the high transaction costs and diseconomies of scale. Companies can succeed in markets only with a sustainable channel structure which is not just profitable, but also generates enough returns to sustain economic downturns and other external disruptions (e.g. famine, civil wars, political unrest).

1. Access to Capital: Except for a few of the relatively advanced countries i.e. South Africa, Morocco, Egypt and Tunisia that boast of a strong growth in the services sector with an organized banking system, the rest of the continent lacks an efficient and accountable financing system. Sporadic efforts have been made by governments and international bodies from time to time, but have failed due to corruption and mishandling of funds. However, the situation has improved over the last 5 - 7 years in oil exporting nations like Nigeria, Angola, Algeria; and high growth countries like Ghana, Kenya, Uganda and Cameroon (Leke, Susan and Wamelen, 2010). The challenge therefore lies with the new entrant in identifying reliable sources of funds to set up the network.

2. Channel Profitability: As an outcome of the impediments discussed in the paper so far, channel viability is a big question mark. More so, sustaining profitability and investing in the channel with a long term view is a greater challenge. The new entrants not only has to ensure that all its intermediaries make desired profits, but also meet the strategic goals, in terms of market share, distribution reach and service levels. Hence, costs to serve has to be optimized while reaching out to a widely dispersed and heterogeneous customerbase.

Critical success factors – case examples

After having discussed in detail the challenges faced by a new entrant, we analyze selected case examples of successful companies and their critical success factors.

[9] NBFC's are companies registered under Company's Act 1956 of India engaged in the business of loans and advances, acquisition of shares, stock, insurance business, or chit business, but does not include agriculture or industrial activity; or the sale, purchase or construction of immovable property

- *ColaLife's innovative distribution model in Zambia*[10]*:* ColaLife is a non for profit organization started by Simon Berry and his wife Jane with a noble cause of distributing simple medicines i.e. oral rehydration salts and Zinc supplements to the most remote areas in developing countries. However, the difficulty was in reaching the hinterland with a manageable distribution cost. ColaLife realized that they needed to be innovative and had to leverage an existing distribution network which was already established and running efficiently. Thus, it partnered with the network of Coca-Cola in Zambia as the first trial and post its success, ColaLife is currently working in Tanzania as well.

What ColaLife did differently was coming up with an innovative packaging solution (AidPod) for the anti-diarrhea kit – Kit Yamoyo, which would use the unused space in the Coca-Cola crates. AidPod was designed as a wedge-shaped container that would fit inside the unused space between the necks of the bottles in a crate. The design also kept in mind the usability of the kit as a container for mixing the solution and storing it in a hygienic manner for future use, by replacing the lid. Besides, the pack size, which was earlier designed for 1 liter of water, was reduced (based on appropriate dosage) to fit the kit. The kit also provided a level indicator showing the amount of water to be added to aid the illiterate mass in the target markets. In order to make the network sustainable, Simon and his team also incentivized the local micro-enterprises (wholesalers make on an average of about 20% profit on the kits), that were stocking and selling Coca-Cola. Without investing on any monitoring and tracking platform, the model has made best use of mobile technology using an SMS-based system to track delivery confirmation and initiate payments to the local sales outlet who confirms delivery and the intermediary who delivered the AidPod.

Figure 1. Yamoyo Kits packed in Coca-Cola crates

[10] http://www.colalife.org/about/colalife-about/

Figure 2. Yamoyo Kit used as a cup and storage device

ColaLife example is a demonstration of reducing cost to serve by leveraging on existing networks (that of Coca-Cola) and bi-directional (Vachani and Smith, 2008) distribution of products for two organizations using the same channel. Bi-directional distribution in this example includes delivery of both Coca-Cola crates and Yamoyo Kits to the point of sale and collection and/ or initiation of payments to the channel and claiming special offers on next purchase for the kits.

- *P&G's approach in Africa*[11]*:* P&G has adopted a Corporate Social Responsibility (CSR) route in Africa to expand its presence in the region. The company targeted two products (sanitary pads and packaged water) to expand and increase awareness in countries with 60% demand being for unbranded products (Sheth, 2011). With the help of NGOs they reached out to more than 15,000 school children distributing about 3.2 million sanitary pads way back in 2008, thus popularizing the *Always* brand. The initiative had the motive of 'Always Keeping Girls in School' and provided each girl from the target schools with free pads for every month in each school term. In addition, the girls also received education on issues of feminine hygiene, puberty and menstrual protection. As an outcome of this program, enrolment of girls increased in both primary and secondary schools in the selected areas.

[11] http://www.proudlyafrican.info/Kenya/Procter-and-Gamble-Top-Corporate-Company.aspx#

For packaged drinking water *(PUR)*, P&G tied up with NGOs and distributed free sachets in schools with unsafe water sources. An awareness drive was also carried out on the importance of drinking purified water and educating on low cost *PUR* technology that purifies up to 10 litres of contaminated water with one sachet[12]. Since the inception of the program in 2007, P&G has reached more than 400,000 children with the free samples.

The success story of P&G is a classic demonstration of bringing inclusive growth by engaging the community and driving away suspicion and preconceived notions about international companies and brands. As a subsequent step, such initiatives also provide a platform to build a scalable channel to reach the last mile customers by appointing some of the village representatives as sales agents and distribution points.

- *Mars partnership for African Cocoa Communities of Tomorrow (iMPACT)[13]:* Mars Inc., the leading chocolate producer with a turnover of more than $33Billion USD and presence across 21 countries has adopted sustainable cocoa production and sourcing in West African countries of Ghana and Côte d'Ivoire. Termed as iMPACT (The Mars Partnership for African Cocoa Communities of Tomorrow) addresses the environmental, economic and social needs of cocoa communities in Ghana and Côte d'Ivoire, which account for about 60% of world cocoa production. The project has been implemented through a strategic alliance with partners Africare, International Cocoa Initiative (ICI), International Foundation for Education and Self-Help (IFESH), Rainforest Alliance (RA), Sustainable Tree Crops Program (STCP) and the German Federal Ministry for Economic Cooperation and Development (BMZ).Since 2008, iMPACT has reached out to 26 farming communities in the Western African region contributing to healthy living, education, training and enhancing farming skills, improving the financial management and land improvement programs, thus resulting in sustainable cocoa farming and inclusive growth for the firm. This initiative has not only promoted the brand Mars globally, but also reduced the entry barriers of doing business in Ghana and Côte d'Ivoire establishing a strong upstream supply chain for cocoa sourcing. Specific health awareness initiatives on usage of mosquito nets, AIDS awareness campaigns, clean drinking water and sanitation has significantly reduced incidences of water and insect borne diseases among the communities. The Vision for Change program, which is targeted at bridging gender gap has empowered women through greater participation in cocoa productivity training programs, reduced school dropout rates and improved earnings. Project iMPACT has been able to transform lives of cocoa farmers in the Western African region by providing them with a profitable, socially rewarding and environmentally sustainable source of livelihood.

[12] http://growinginclusivemarkets.org/media/cases/Developing%20Countries_P&G_2008.pdf

[13] http://www.giz.de/fachexpertise/downloads/giz2011-en-mars-impact.pdf

- *GZ Industries (GZI), exploiting the underserved African market[14]:* GZI is a leading aluminium can manufacturer based in the Western African nation: Nigeria is riding on the growing demand for beer and canned soft drinks in the continent by countering all odds. The company supplies more than 1.2 billion cans annually to global firms in Nigeria i.e. SABMiller, Heineken, Guinness and Coca-Cola with a further capacity addition of 600 million cans through the second factory. As a part of its growth story in Africa, GZI has invested $100 million USD in a new factory in Kenya with a capacity of 450 million cans, which is their first foray outside of Nigeria. The company has attracted investment from Nigerian investment and financial advisory firm Verod Capital, the private equity arm of Standard Chartered Bank and London Stock Exchange-listed investment group Ashmore. GZI has overcome all odds in terms of skilled manpower availability, taxes and legislation issues, low consumer buying power, governance and security concerns by creating job opportunities for the local youth in Nigeria. GZI realizes the potential of the African market in terms of demand for beer and soft drinks, since the birth rates in other parts of the world have slowed down significantly, whereas population growth in Africa is on the rise. Most African countries depend on can imports, which GZI terms as "*air being imported into the continent*" and has faced all odds by training local youth and creating jobs. While power disruptions, road infrastructure and funds have been some of the detractors, GZI has leveraged their understanding of the local culture, language, and environment to their advantage. The case of GZI stands out as an example of creating sustainable and inclusive growth in the Western African region, which is now being replicated in Kenya and progressively to other parts of the continent.

- *Nestlé's "Shared Value Creation" and inclusive growth approach in Equatorial African Region (EAR)[15]:* Nestlé has adopted the approach of '*Shared Value Creation'* as the strategy to build presence in EAR. Some of the initiatives planned to expand coverage and creating friendliness with local population are:
  - Improving awareness on nutrition, health and wellness of school children through the Global Healthy Kids Program in Mauritius, Kenya and Mozambique.
  - Improving quality of milk and helping stakeholders across the entire value chain, especially the 179,000 farmers engaged in the program. This program has been implemented in partnership with the East African Dairy Development Board in countries like Kenya, Uganda and Rwanda.
  - Uganda and Tanzania are one of the leading coffee producing countries in Africa. Nestlé has partnered with the Uganda Coffee Development

[14] http://www.howwemadeitinafrica.com/nigerian-aluminium-can-manufacturer-cashing-in-on-demand-for-drinks-in-africa/37226/

[15] http://www.Nestlé.com/Asset-library/Documents/Media/news-and-features/2010-july/EAR-Press-Release-250610.pdf

Authority (UCDA) and the Tanzania Coffee Research Institute (TACRI) to improve the coffee sector as a whole. The project aims at sharing best farming practices in terms of improving productivity characteristics; higher disease resistance and better quality.

o Nestlé has targeted women entrepreneurs in DRC by providing assistance to start micro establishments that would sell Nestlé's products. This initiative has been running under the banner 'The New Hope Project'. Thus, by empowering rural BOP customers, Nestlé has not only set up a distribution network for itself, but has also given an impetus to demand.

All the above initiatives in EAR define the inclusive growth strategy of Nestlé to reach the rural BOP. With the initiative aimed at improving coffee productivity, Nestlé is able to ensure backward linkages for coffee sourcing and at the same time improve overall economic conditions of farmers and branding for its products.

- *Multilevel distribution in Latin America – Case examples of Avon, Polar Beer, Coca-Cola, and Nestlé:* Avon, a global cosmetics brand has been a huge proponent of multilevel distribution in its go-to-market-strategy. To penetrate into the middle class and BOP customers in Venezuela, the company appointed direct sales representatives with extended services i.e. personalized credit and delivery (Ireland, 2008). The strategy was immensely successful and later the company adopted the same model in Brazil.

Polar Beer exploited the model of multilevel marketing to reach the slums (which were otherwise difficult to reach given the road conditions and security issues) in Caracas by appointing the truckers as distributors. They further empowered the dwellers by giving refrigerators stocked with beer to be sold by housewives, thus creating huge entry barriers for competition (Producto, 2000). Coca-Cola also replicated the model of Polar Beer, by distributing coke stocked refrigerators and appointing housewives as retailers to sell its products (Ireland, 2000). Going a step further, Nestlé exploited the street peddlers in Venezuela to sell its wafer cookie, Maxicocosette and within no time got access to a well-entrenched network of several thousands (Ireland, 2008).

The common link that connects all the above success stories in Latin America has been to avoid upfront investments required for setting up a channel, while engaging the community in difficult areas and leveraging on the existing network.

- *Unilever's Project Shakti in rural India*[16]*:* To increase its penetration in rural India and establish a strong presence among rural BOP customers, Unilever launched Project Shakti in the year 2000 in the state of Andhra Pradesh. The model was based on promoting women entrepreneurs in rural India through micro-financing. The company adopted a tiered network – from Car-

[16] http://www.hul.co.in/sustainable-living/casestudies/Casecategory/Project-Shakti.aspx

rying & Forwarding Agent (CFA), followed by Rural Distributors (RD) at district level and finally the Shakti Dealers (SD) in the remote villages. Unilever also appointed Rural Sales Promoters to monitor the performance of SD's, providing them with training and advise on a regular basis. The model has been successfully implemented across 15 states in India and has supported 45,000 female Shakti entrepreneurs by 2010. The differentiator of the model is door-to-door delivery by SD's in remote villages at any time of the day.

Unilever has extended Project Shakti to Kenya and Nigeria, after launching in other Asian countries, i.e. Bangladesh, Vietnam, Sri Lanka and Indonesia. The success of Project Shakti has been the ability to arrange micro finance for the rural entrepreneurs and mobilize momentum through Self Help Groups (SHG).

On similar lines of Project Shakti, Department of Posts and the Government of India has collaborated with private entrepreneurs in remote villages (Vachani and Smith, 2008). The department takes special care in appointing these entrepreneurs so that they enjoy credibility in the village. The post offices operate from the local set ups without any significant investment. In addition, they also offer other services like opening savings accounts, selling insurance policies, and payment of utility bills. Very similar to the Department of Posts model, is the *e-Choupal* initiative run by ITC Ltd. in India. *E-Choupal* is a technology enabled procurement platform for commodities like soya bean from farmers directly by ITC Ltd, at a fair price determined by commodity markets. The farmers are also provided education on farming best practices through a terminal installed at the Sanchalak's (recruited by ITC Ltd.) home in the village. Therefore inclusive growth and rural entrepreneurship has been a very successful model for penetration into rural markets as analyzed in the success stories above. However, the strategy adopted to reach out to territories characterized by high criminal activity or difficult terrain has been a bit different. Companies have resorted to appointing specialist distributors (Ireland, 2008) to tap such markets. P&G penetrated the slums in Caracas through such distributors by providing them exclusive rights. Similarly, in Zimbabwe social networking has been a very successful strategy to reach out to the BOP segment, through women clubs and buying clubs (Chikweche and Fletcher, 2012).

The study of the success stories of firms spread across various parts of Africa and similar markets across the globe as benchmarks lead us to propose the following set of propositions in the context of a sustainable distribution system in African markets for new entrants. The recommended propositions do not differentiate between the average African consumer and the BOP customer, since challenges faced by the firms are not radically different. In fact, many of the initiatives run by the firms have led to raising income levels and buying power of the BOP customer to a stable income source.

P1: Leveraging existing distribution networks with minimal upfront investments is critical for a sustainable distribution network.

P2: Inclusive growth leading to an increase in livelihood opportunities shall trigger demand growth and acceptance of branded products within the customer base.

P3: Multilevel distribution for both the urban and rural markets will be critical to increase reach and create entry barriers for competition.

P4: SHGs, NGOs and micro financing institutions will play a pivotal role in building sustainable distribution.

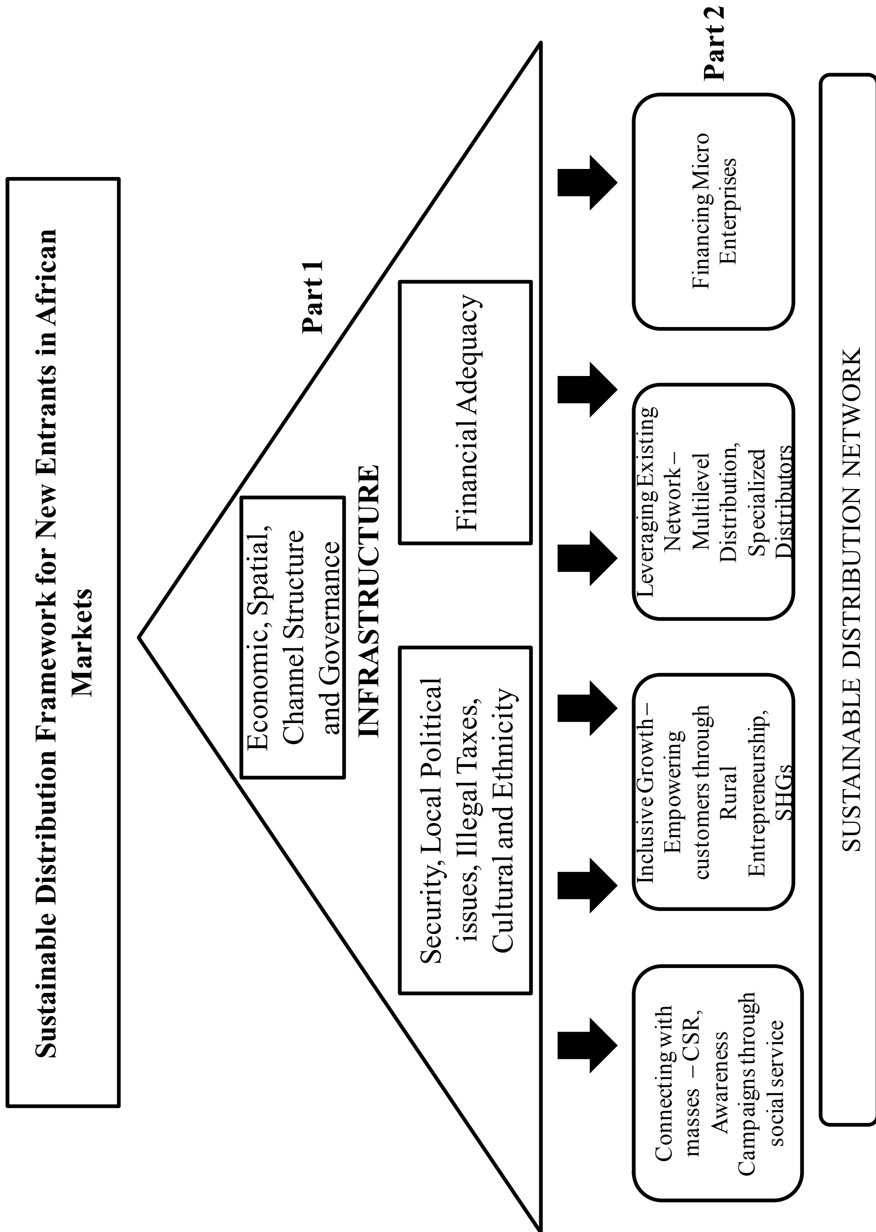
Sustainable distribution framework for African markets

This paper so far has identified some of the potential impediments faced by new entrants in African markets and discussed the critical success factors of a few successful companies. Based on the findings, a conceptual framework is proposed in this section. Furthermore, the authors elaborated how the framework shall help new entrants to address the various impediments and assist in setting up a sustainable distribution system for the African markets. The framework does not differentiate between the BOP and average African customer and is generic in nature. However, the focus of the paper is more on developing a conceptual model and empirical testing of the framework is not within the scope of the study. The recommended framework is discussed below.

The framework has two parts – Part 1 categorizes the various impediments into four groups (Economic, Spatial, Channel Structure and Governance; Security, Local Political issues, Illegal Taxes, Cultural and Ethnicity, Infrastructure; and Financial Adequacy); and Part 2 summarizes the four broad strategies to be adopted to address the challenges, resulting in a viable and sustainable distribution network for the new entrants.

The strategic intervention of connecting with the masses through social development programs and CSR initiatives creates the acceptability and awareness among the uneducated and suspicious customers and works in the direction of building a customer base, which otherwise would be antagonistic to the new product and/or service offered. This strategy is applicable more for the first time entrant in a market, since the existing company is expected to have built a certain level of awareness and acceptability for its own brand.

Figure 3. Sustainable Distribution Framework for African Markets



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Inclusive growth as a strategy reduces the barriers to entry as it provides a source of livelihood and the entrepreneurs grow with the company. On the whole, it contributes to the affordability and accessibility through access to the last mile customer, both in the slums of urban areas and rural hinterlands. The SHGs over the long run also serve as the conduits to build the desired skills and domain knowledge to run the channel effectively. GZI in Nigeria has addressed this concern by employing local youth and investing in training and skill enhancement as it realizes that in order to meet the domestic demand for aluminum cans in the fastest growing region in the world, sustainability could be addressed only through inclusive growth. Similar is the case with the iMPACT initiative of Mars, Nestle's drives in EAR or Unilever, ITC, Coca-Cola and Polar Beer in other global markets outside of Africa.

Leveraging the existing networks (the case of ColaLife in Zambia or Nestle in Venezuela) increase the efficiency of the channel by reducing the cost to serve and initial capital outlays. This in turn enhances the affordability and expands the targetable customerbase for the company. Multilevel distribution as a strategic approach depends on the existing networks in place and hence provides a multi-dimensional approach to serve specific customer segments depending on the market structure. Tribal and hilly terrains of the hinterland, crime infested urban slums, bush markets and Kunnus are some of the typical examples.

Low population density and a spread of target customer base requires greater channel reach. While leveraging existing networks addresses the issue to a certain extent, it does not solve the problem in totality. The example of Shakti dealers and the entrepreneurs of Department of Post, stress the need for funding of the micro-enterprises in the initial stages. Hence, the role of micro-financing institutions is critical to promote a sustainable distribution network. As our study reveals low success rate of micro-finance in Africa, companies targeting such markets may as well need to evaluate alliances with these companies and serve as bank guarantors for the appointed entrepreneurs. Alternately, larger MNEs may also consider starting subsidiary businesses in micro-financing. Mahindra and Mahindra Financial Services, an NBFC from Mahindra group is a classic example of rural financing to enhance the sales of tractors (a product category that Mahindra group has interests in) in rural India.

On the whole, the framework addresses most of the short-term impediments to successful distribution in African markets. The issues pertaining to overall infrastructural growth – roads, railways, telecommunication, health and sanitation and technology adoption would remain as long-term imperatives, to be addressed by overall economic developments of the region.

Managerial implications

There are a few takeaways from the paper for managers currently doing business, considering expansion or those evaluating market entry in the African continent. The first take away is the challenges that a new market entrant would face to distribute its products and/ or services in the African continent. Though the impediments identified are not specific to an industry or product category or a target country, through specific examples the issues are explicitly explained covering four broad categories and eleven sub categories. The second take away is the critical success factors of firms, which have harnessed these impediments through different go-to-market strategies ranging diverse markets and cultures, namely, Ghana, Nigeria, Côte d'Ivoire, Zimbabwe, Rwanda, Zambia, Kenya, Uganda, DRC, Tanzania andVenezuela to name a few. The strategies drawn from a wide selection of case studies spreading across the African continent and other emerging markets have addressed not only the distribution challenges and overall cost to serve the end customer, but also in generating employment opportunities and thus a sustainable growth model by overcoming fundamental issues like low purchasing power, health and sanitation, education, water and power. The last and the most important takeaway from the paper is the recommended conceptual framework for a sustainable distribution system for new entrants targeting the African continent based on thorough analysis of impediments and success factors in varying contexts. The framework provides a directional path for the managers by suggesting the specific initiatives to address concerns ranging from capital, socio-cultural, economic and environmental issues in setting up a sustainable distribution structure. The paper attempts to contribute to the overall body of research on the African markets, which has yet to attract the attention of a larger pool of academic research, despite being the future growth driver of global economy.

Scope for future research

There is ample scope for future research as far as the theme of the paper is concerned. Firstly, the framework proposed in the paper is conceptual in nature and has not been tested empirically. Besides, since the approach is case study based and given the dynamic nature of markets, the framework may not be exhaustive. Therefore, the framework and the propositions listed in the paper can be taken up for future study and empirical testing. Secondly, the framework is generic (not specific to a country or service or industry) and hence there is a scope to do research on specific markets in a target industry (Business to Business or Business to Customer). Though the study has tried to capture the nuances of the various regions within the African continent and has also extended to similar markets in Latin America and Asia, one of the limitations of the study could be insufficient coverage of a few specific coun-

tries and the underlying challenges. This could also be considered as an area of future research by specifically testing the framework in those countries.

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