

Mi Tienda:

Establishing an Integrated
Rural Supply Network in Mexico



Mi Tienda and
Opportunities for the Majority
May 2012

PROJECT SUMMARY



Mi Tienda promoter at a store in South-Central Mexico. Mi Tienda supplies basic grocery products to stores in the region.



Project implementer:

Mi Tienda, Mexico

Opportunities for the Majority

Loan Amount: US\$2 million

Challenge:

Mom-and-pop grocery shop owners, many of them women, who face an inefficient supply chain, lack access to credit, and have limited formal education in rural Mexico.

Proposed solution:

Mi Tienda provides door-to-door supply of grocery and basic products, as well as financing for merchandise purchase and business expansion to stores in rural communities with up to 5,000 inhabitants. The company also offers a comprehensive training and assistance program to stores that participate in the company's affiliation program, which has the goal of improving their operations, productivity, and returns. Stores incur no costs to affiliate, but are expected to increase purchases from Mi Tienda and adopt the company's image. Mi Tienda plans to establish 25 distribution cells in central Mexico, through which products and consultation services can be delivered to 25,000 stores.

The Opportunities for the Majority

initiative (OMJ) promotes and finances market-based, sustainable business models that engage private sector companies, local governments, and communities in the development and delivery of quality goods and services for the base of the pyramid (BOP). Created in 2007 as part of the Private Sector Group of the Inter-American Development Bank, OMJ provides loans and partial credit guarantees to medium and large companies and financial institutions to support the development or expansion of business models that serve low-income populations and to share the risk of entering BOP markets. To reach smaller companies and start-ups, OMJ provides credit to impact investing funds. The OMJ portfolio also includes technical assistance grants that are used for business acceleration to assist pre-commercial models to become investment ready; to conduct needed market research; and to build capacity and transfer know-how.

Mi Tienda was conceived with a social mission by a group of highly respected entrepreneurs led by José Ignacio Avalos, one of the founders of Banco Compartamos, Latin America's largest microfinance institution. Mi Tienda supplies basic grocery products and provides consultancy and training services to rural microentrepreneurs in the central-south region of Mexico.

According to World Bank statistics, 22% of Mexico's nearly 115 million inhabitants lived in rural areas in 2010, with over 60% of this population falling below the rural poverty line.¹ These communities mostly rely on subsistence agriculture and have few alternatives for income generating activities. Small mom-and-pop shops, or "tienditas", that sell basic grocery and home products represent an important source of livelihood for many families in rural Mexico. With more than 800,000 mom-and-pop stores throughout the country, this distribution channel contributes to approximately 27% of the total US\$74.5 billion retail sales in Mexico.² These stores cater mostly to the D and E socioeconomic groups, "giving consumers the opportunity to purchase small quantities or individual units of basic goods, satisfying immediate needs without a large cash outlay."³

However, these businesses, many of them owned by women, face a myriad of challenges, including an inefficient supply chain and a lack of access to credit to finance operations and expansion. Oftentimes, micro-entrepreneurs travel long distances to supply their stores and must purchase items in bulk to access low prices. This causes stores to have an inadequate mix of products, leading to long product turn-over cycles and less revenue. Transportation costs and the loss in productivity because of time spent away from the business also impact stores, as many of them are in remote locations, far from distribution centers and retailers. The inefficiency of the rural supply chain is compounded by credit constraints, which are driven by information asymmetries, high interest rates, and bureaucracy, hindering growth for micro and small entrepreneurs.

Aware of these deficiencies, a group of social entrepreneurs set out to establish Mi Tienda. The company supplies small retail stores with competitively priced grocery and basic products, employing a door-to-door delivery model. Mi Tienda was conceived with the goal of

¹ The World Bank Group. Retrieved from: <http://data.worldbank.org/indicator?display=graph>

² Global Agriculture Information Network. (2010). *Mexico Retail Sector Report 2010*. Retrieved from: www.fas.usda.gov/gainfiles/200611/146249534.pdf

³ Ibid.

benefiting low-income families by improving supply chain efficiency, and increasing the sales and productivity of shop owners through the provision of training and consultations. In 1999, Mi Tienda set up its first distribution center in the city of Atlacomulco, in central Mexico, to test its proposed model and collect data that would inform the company's expansion plans.

Based on the successful implementation of the company's original distribution hub, a US\$2 million loan from Opportunities for the Majority (OMJ), an Inter-American Development Bank (IDB) initiative, was approved in 2009 to help finance the expansion of Mi Tienda to 25 distribution cells, with the goal of reaching 25,000 micro-entrepreneurs. OMJ's involvement, which helps enable the expansion of Mi Tienda, seeks to increase access to products, capacity building, and credit to the poorest in Mexico, while fostering a business model that can be replicated and scaled in Latin America.

A positive implication of the expansion of Mi Tienda is the development of an efficient distribution platform that can be used for the delivery of additional goods and services that have both business and social benefits. With a well-established model, access to enhanced products and services such as fortified foods and insurance, can become more widespread in rural Mexico and improve the livelihood of underserved populations.

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Associates of Mi Tienda visiting one of the affiliated stores.

To assess the financial viability of the model and to evaluate the intended social impacts of Mi Tienda, the OMJ team conducted a robust due diligence process of the company's financials and its current and planned social and environmental practices. The team also worked to structure the loan to maximize the impact of OMJ funds throughout the expansion of Mi Tienda. Expansion plans were based on an analysis of the target market, including an assessment of locations the company should enter, and the lessons learned from the pilot distribution hub.

The market analysis led to Mi Tienda's rural distribution model, which includes:

- Focus on communities with populations with up to 5,000 inhabitants, as well as semi-urban communities where distribution centers are located and neighboring zones.
- Expanding business operations by opening distribution cells close to one another to increase economies of scale and operating efficiencies.
- Employing a door-to-door delivery model, with weekly store visits by sales representatives, thus saving storeowners time and transportation costs.
- Supplying stores with small quantities or even a single unit of products, permitting small cash outlays by business owners, efficient management of inventories, and improved merchandise mix for the stores.
- Extending 7 to 12-day commercial credits to stores, allowing them to expand inventories and sales.



One of the most important features of the company's strategy was the creation of the Mi Tienda affiliation program. The program relies on a commitment from stores to increase purchases from Mi Tienda progressively and, in turn, the company agrees to provide stores with a series of support services. These services include consultations to improve sales, training modules around management skills, financing programs, and modernization and upgrading of stores' infrastructure to create a common corporate image. While participation is voluntary and business owners do not incur costs to join the program,

they are responsible for costs associated with upgrading the store and its image. Mi Tienda, while providing free of charge consultations, gains from increased sales derived from the affiliates' commitment to increase purchases from the company and from the overall growth of stores due to improved management skills. Mi Tienda's objective is to affiliate one third of its total client base.

The experiences gained since 1999 from Atlacomulco also helped shape the expansion strategy. This first distribution cell showed that:

- Mi Tienda should maximize sales of individual distribution centers by targeting additional clients in existing routes, minimizing fixed costs associated with the centers.
- It was necessary to formalize the credit and the affiliation programs to ensure the establishment of a homogeneous distribution network that provides customers with a certain level of service, product mix, and store convenience.
- The affiliation program was key to the company's success, as purchases from affiliated stores were nearly double those from non-affiliated stores.
- Demand for the affiliation program increased and, as Mi Tienda only affiliates one store in a 1.5-kilometer radius, recruiting affiliated stores had to be well thought out to maximize impact.
- Rapid expansion of the company was necessary so that Mi Tienda could establish a centralized procurement process, lowering costs and passing those onto micro-entrepreneurs.

By 2004, Atlacomulco had become a profitable distribution cell, with sales totaling over US\$2.5 million, putting Mi Tienda in the right position to expand operations.

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With the experiences from Atlacomulco, Mi Tienda began expanding its operations with the financial and technical assistance of OMJ. To secure the successful set-up of additional distribution centers, Mi Tienda invested time and resources to ensure that the services it delivered to micro-entrepreneurs through its retail distribution chain were useful and impactful.

As part of the institutionalization of and improvements made to the affiliation program, interested stores now go through the following phases:

- Affiliation promoters conduct an in-depth diagnostic to assess inventory levels and mix of products, sales, infrastructure, credit access, and other business characteristics that guide the consulting work of Mi Tienda with each affiliated store.
- An introductory course on the roles and responsibilities of both parties in the program together with four training modules is completed. Training modules focus on cash flow issues, understanding customer demands, inventory management and display, and customer service techniques.
- Mi Tienda affiliation promoters conduct monthly store visits to assess if learned concepts are applied and to provide additional assistance.
- After the completion of all training modules, Mi Tienda assists in the modernization and upgrading of stores. This entails making products more visible and accessible to customers. Storefronts are also painted with Mi Tienda's colors and logo. While stores are required to pay for material costs, Mi Tienda advises them through the process, assists in negotiating prices with suppliers and providers, and offers furniture and new equipment at cost if needed.
- Throughout the different phases of the affiliation program, stores also have the option to access different financing programs for merchandise purchase and business expansion.



The institutionalization of the affiliation program has allowed Mi Tienda to form a network of stores, where clients can expect a certain level of service, a good mix of products, and a comfortable shopping environment. The company also worked to standardize its credit program and now offers three financing mechanisms to its clients:

- **Commercial credits:** seven to 12-day interest free credits available for all clients for the purchase of Mi Tienda products, with financing amounts averaging around US\$98 per client.
- **Modernization credits:** Larger credits offered to affiliated stores to finance upgrading of furniture and store image. These credits have flexible payment terms determined based on the client's credit capacity and store requirements, with financing amounts averaging US\$630. Additionally, stores that modernize receive a one-month interest free credit to purchase inventory to fill in the additional shelving space resulting from the upgrade.

By early 2012, Mi Tienda had six cells in operation with one more due to open within the year. Mi Tienda associates travel 60,000 kilometers each week to visit more than 6,000 clients, including nearly 750 affiliated stores, to offer them 1,200 product options and access to credit.

As Mi Tienda continues to expand its operations, the company is taking advantage of the newly developed distribution platform to offer additional products to rural communities. Mi Tienda has introduced cell phone terminals in stores to sell prepaid mobile phone cards and has also enabled stores to sell assistance and insurance plans through these mobile terminals. Stores can now offer shoppers' medical and ambulance assistance plans, as well as burial insurance.

These new products could have a significant social impact in a population that lives on the edge of poverty, where unforeseen events and emergencies can lead to debt cycles and deplete the little assets families have accumulated. Mi Tienda is now looking to provide electronic wallets and other banking services that could further benefit these communities.

The company is taking advantage of the newly developed distribution platform to offer additional products to rural communities



Mi Tienda and OMJ have established

a set of social and financial metrics to determine program success and to effectively track the project's impact on beneficiaries. These business and social targets are part of the contractual agreement established in the loan, ensuring that the project fulfills OMJ's mission of creating models that bring solutions to those at the base of the socioeconomic pyramid.

SHORT-TERM RESULTS

Since its inception, the establishment of Mi Tienda's distribution platform has resulted in the following:

- Sales totaled almost US\$10 million in 2011 and are expected to reach US\$15 million in 2012.
- The number of affiliated stores has nearly doubled from the beginning of 2011 to 2012, with the program offering training and consulting services to 743 stores.
- Many of Mi Tienda clients make use of the company's commercial credit program. In March 2012, over 1,200 clients had credit lines for the purchase of merchandise, totalling US\$120,000 in financing.
- Affiliated stores have higher average purchases than non-affiliated stores and stores that undergo modernization increase their purchases from Mi Tienda by 30%.

A study of the impact of Mi Tienda's business model on rural markets performed in Atlacomulco also showed that:

Setting financial and social metrics. In 2011 OMJ adopted the Impact Reporting and Investment Standards (IRIS) taxonomy to effectively capture, track, report, and determine the financial, social, and environmental impacts of its loan and grant portfolios. The IRIS library of standardized social and environmental metrics is used to structure targets for loans and technical cooperation projects, in agreement with OMJ clients. In this way, OMJ can ensure that projects are meeting the organization's goal of developing private sector solutions that foster economic and business growth, and alleviate poverty.

- The entry of Mi Tienda into the market lowers competitors' prices and stores paid 3% less for products. This benefit is transferred to store owners through increased profits and to shoppers through lower priced goods.
- Speculative practices from wholesalers in the region decreased as Mi Tienda provides a steady supply of goods to the market.
- The door-to-door delivery service provided by the company saves storeowners time and money previously spent traveling to purchase supplies.

During OMJ visits to oversee project implementation, beneficiaries also mention that by purchasing from Mi Tienda they can offer clients a better product mix and access favorable financing to make their purchases. In addition to tangible sales increases and improvements to the appearance of stores, beneficiaries often mention that, though some have run their stores for over twenty years, the affiliation program provides them with their first opportunity to talk about their businesses and the challenges they face.

ANTICIPATED LONG-TERM OUTCOMES

As Mi Tienda continues to expand its operations to reach 25 distribution cells, anticipated long-term results of this rural supply network and the affiliation program include increased sales, client retention, and an expanded client base. Mi Tienda also expects to achieve greater economies of scale with an increase in the number of distribution cells, which will lower cost of goods sold and continue to transfer savings to storeowners and final clients. It is also expected that the access to credit and the affiliation program will continue to positively impact storeowners by increasing their sales and profitability, generating higher incomes to raise their standards of living. OMJ will continue to track indicators around these anticipated outcomes, including the number of female clients, earnings of Mi Tienda clients, company sales and gross margins, among others.

LESSONS LEARNED

From the implementation of Mi Tienda's first distribution cell to its ongoing expansion efforts, the company has gathered several key lessons:

- A well established distribution platform can unleash new ideas for products and services that were previously impossible to deliver. Though Mi Tienda's main business is the sale and delivery of grocery items, the company recognizes the great potential of its supply chain to deliver products and services that can have a substantial social impact, while at the same time generating business earnings for themselves and the small retailers they service.
- Barriers to entry do not always render a business idea unfeasible. While many companies in Mexico refrain from working in rural areas due to a perceived lack of profits, Mi Tienda saw the challenges in rural areas as an opportunity and formed a model that serves these low-income populations.
- Training programs can have a large impact on beneficiaries. The lack of education and skills of storeowners meant that simple, but carefully developed training modules have a large impact on beneficiaries. Companies implementing similar models should take advantage of this low hanging fruit.

OMJ hopes that the lessons accumulated by Mi Tienda and the broader implementation of this innovative distribution model can serve as resources for other companies looking to employ similar solutions to underserved populations.



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