



**INVENTORY  
MANAGEMENT,  
DISTRIBUTION  
AND PARTNERSHIP  
TRAINING**

**2016**  
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**KENYA CLIMATE INNOVATION  
CENTRE ("KCIC")**



Africa Instore Solutions Ltd (AIS) is a training and consulting boutique based in Nairobi, Kenya. We specialize in developing, structuring and executing retail based solutions for SMEs, development institutions and corporates. Our training objective is to deliver superior business results through people. We provide competency based training solutions tailored specifically to each client need.

Africa Instore Solutions business pillars include:-

1. Capacity Building
2. Business advisory and consulting: retail focused – sales, distribution, marketing and account development
3. Business coast and SME mentorship
4. Product branding

Our professional team of facilitators and consultants come from rich background cutting right across multi-disciplinary functions and industries. Transfer of skill is built on our approach as we seek to assist our clients with impactful trainings that will help their organization grow and evolve. We believe in a participatory and practical approach where the training participants' presence, creativity and resourcefulness is appreciated and utilized. We incorporate pre-visit analysis, plenary presentations, case studies, video presentations, group exercises, as well as real life case studies, to ensure our success in moving everyone from compliance to commitment.

Through our work and experience, we have excellent understanding on the Kenyan retail platform and therefore we appreciate and resonate well with our clients' needs. We are regulated by the National Industrial Training Authority in Kenya (NITA) and therefore strive to always deliver quality advice and training solutions.

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# MODULE INVENTORY MANAGEMENT

## INTRODUCTION TO INVENTORY & DEFINITION

### Definition of Inventory

Inventory simply refers to the list of stocks, or goods and materials that a business holds for the ultimate purpose of sale.

Savvy and successful business owners understand and manage their enterprise inventory while considering this operational function as a critical factor to the success of the organisation. Yet, many entrepreneurs fail to answer basic questions such as “What material items are the winners and losers?” and “How often does my inventory turnover?”. This question holds for any business enterprise be it a giant corporation, multinational or start up. In his book Total Quality Management: A Cross Functional Perspective, Ashok Rao suggests that companies have the ability to increase their profitability 20 to 50 percent or more through careful inventory management.

Inventory management goes beyond purchase of new products or product raw materials. A business owner needs to know what to buy, when to make the purchase and the best competitive price to buy it.

In addition, one needs to track the inventory – manually or through a computerised system and use that information to sharpen the replenishment and inventory management process

## IMPORTANCE OF INVENTORY TO AN ENTERPRISE

1. **Anticipation** : Enterprises can plan to have sufficient materials for peak seasons like Christmas and Back to School seasons when they expect sales to peak beyond their monthly average
2. **Transportation factors**: This mostly affects enterprises which remotely source for their supplies and therefore expect long lead times prior delivery. Such companies in most instances purchase in bulk and hold the stock due to uncertainty of scheduled delivery timelines.
3. **Hedge inventory**: Hedge inventory mostly applies to enterprises which engage in commodities that have specific or regular seasonality and availability. For example agricultural supplies – food. Business owners often buy produce when they are in harvest and hold the stock (eg dry cereals) awaiting favourable market price or to take advantage of the supply.
4. **Buffer stock**: Enterprises that have created a huge demand for their products across large geographical scope usually invest in depots, centres or stores to allow continuous and effective availability and distribution of goods to their customers. Occasionally, should one store/depot run out of stock, the neighbouring centre quickly replenishes the store and thereby minimising out of stock risks.

## HOW INVENTORY AFFECTS PROFITABILITY

This section addresses basic financial statements such as balance sheet and income statements and discusses their relationship with inventory management. Accounting systems divide the financial activities of a company into five types of accounts, as summarised below:

Accounts	Description	Examples
<b>Balance sheet</b>		
Assets	Items of value to the company	Cash, inventory, machinery, buildings, accounts receivables
Liabilities	Obligations of the business	Accounts payables, wages, long term debt eg. loans
Owners' equity	Net worth of the business	Difference between assets and liabilities
<b>Income statement</b>		
Revenue	Income from sales of goods and services	Cash, accounts receivables
Expense	Cost of goods sold	Direct labour, direct material and factory overhead expenses
	General and administrative expenses	All other costs: advertising, insurance, property taxes, salaries and benefits

<b>Revenue</b>		<b>1,000,000</b>
Cost of goods sold	200,000	
Inventory	400,000	
Overheads	200,000	
Total cost of goods sold	(minus)	<u>800,000</u>
General and administrative expense	(minus)	<u>100,000</u>
Net income (profit)		<u><u>100,000</u></u>

#### Summary of Inventory and Financial Statements

- Inventory is an asset on the balance sheet.
  - Raw material used is included as cost of goods sold on the income statement, it offsets revenue, which reduces profit.
  - Inventory on the books is not as good as inventory converted into products and then sold
  - It is important to convert inventory quickly into sales as this provides a positive financial statement
- Therefore, inventory management is not only a physical control issue but has strong financial implications.

#### Group Exercise

Given the following data, calculate the gross margin and net income

Revenue	=	1,500,000
Direct labour	=	300,000
Direct material	=	500,000
Overhead	=	400,000
General and Admin expenses	=	150,000

#### Revenue

#### Cost of goods sold

Direct Labour	_____
Direct Materials	_____
Overhead	_____

	<b>Total cost of goods sold</b>	<b>(minus)</b>
<b>Gross margin (gross profit)</b>		
<b>General and administrative expense</b>	<b>(minus)</b>	
<b>Net income (profit)</b>		

**How much would the profit increase if – through better materials (inventory) management the costs of materials were reduced by 50,000?**

## Group Exercise 2: Analysing Impact of Inventory in Financial Reports

Your team sits on the Board of the Uchumi Supermarkets Limited and you have been presented with the 2014 financial reports below (Also refer to the shared hand-outs). Your team is expected to report on the health check of the inventory levels of the retailer and present to the rest of the board members.

### UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	2014 KShs'000	2013 KShs'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3(a)	2,402,670	2,255,442
Investment properties	4	2,200,000	1,480,000
Intangible assets	5	12,546	21,707
Prepaid operating lease rentals	6	19,201	19,470
Deferred tax asset	8.1	-	71,599
		<u>4,634,417</u>	<u>3,848,218</u>
<b>CURRENT ASSETS</b>			
Inventories	9	1,333,218	1,185,065
Trade and other receivables	10	778,697	435,791
Tax recoverable	8.1	4,938	1,226
Bank and cash balances	26	<u>133,583</u>	<u>104,459</u>
		<u>2,250,436</u>	<u>1,726,541</u>
<b>TOTAL ASSETS</b>		<u><b>6,884,853</b></u>	<u><b>5,574,759</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	12	1,327,133	1,327,133
Reserves	13	<u>2,030,181</u>	<u>1,598,279</u>
		<u>3,357,314</u>	<u>2,925,412</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax	8.1	78,185	-
Term loans	14	<u>99,185</u>	<u>200,000</u>
		<u>177,370</u>	<u>200,000</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	1,876,267	1,845,793
Deferred revenue	16	26,105	12,264
Tax payable	8.1	1,191	1,899
Amounts due to related parties	11	-	16,054
Term loans	14	716,032	180,309
Bank overdraft	26	<u>730,574</u>	<u>393,028</u>
		<u>3,350,169</u>	<u>2,449,347</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>6,884,853</b></u>	<u><b>5,574,759</b></u>

The financial statements were approved by the Board of Directors on 5/9 2014  
and were signed on its behalf by:-

.....*M. Mwangi*.....)

Directors

.....*P. Mwangi*.....)

## MATCHING DEMAND AND SUPPLY

Days of supply can also be used to evaluate how many days of inventory are being carried to support annual sales. Days of supply measures the ratio of inventory on hand to the average daily usage or sales. Assume 6000 units of stock on hand and annual sales of 73,000 units. Determine average daily usage

$$\text{Average daily usage} = \frac{73,000}{365} = 200 \text{ units}$$

Calculate days of supply

$$\text{Days of supply} = \frac{\text{Inventory on hand}}{\text{Average daily usage}} = \frac{6000}{200} = 30 \text{ days}$$

NB: Usage can be expressed in days or sales KShs

From the above example, the number of days of supply that we have inventory at hand is 30 days. This can further be used to advise us that if we set target inventory of 6000 units, we would need to replenish it every 30 days at a daily sales rate of 200. Inventory would turn over once a month, and annual inventory turns would be 12.

This analysis is very helpful as it provides the business owner with insights and data that he should use to determine the operational trade-off between lowering the days of supply to 15 days to reducing the investment and also to 3000 units

### 2.3.1 Factors to Consider in determining optimum Stock levels

- Current customer demand,
- Anticipated trends in consumer demand
- Economic status
- Current and anticipated cost of raw materials and labor
- Storage capacity and costs
- Seasonal concerns
- Technology
- Competing uses of cash and inflation

### 2.3.2 Inventory Dilemma

Inventory Dilemma	
Carrying Too much stock	Carrying Limited Stock
<ol style="list-style-type: none"><li>1. Illiquidity = Holding cash</li><li>2. Risk of obsolescence = dispose or reduce the price of the product</li><li>3. Risk of spoilage = expiry due to short life span especially for fresh food</li><li>4. Risk of shrinkage = Theft, embezzlement and</li></ol>	<ol style="list-style-type: none"><li>1. Unmet customer demand</li><li>2. Brand switching = reduced loyalty by customers</li><li>3. Wastage of resources = labor, equipment</li><li>4. Risk of market entry by competition</li></ol>

## Class Discussion:

*The worst thing is to carry inventory cover. Unless it's wine, it doesn't get better with age. It's basically better to sell it for 10 cents on a dollar than to keep it"*

Richard Baum

**1. What do you understand by 'inventory cover'? Do you agree with Richard Baum's suggestion? Explain...**

## INVENTORY PLANNING AND CONTROL

This section will cover the planning and control of inventory and its role in business and financial success. It will cover the following concepts:

- Order quantities – how much to order
- When to order
- ABC inventory control
- Control and auditing of inventory

### Order Quantities

The objectives of inventory are the following:

- Ensure that all sales are met i.e high levels of customer service
- To minimise the sum of all costs involved

### When to order

The materials managers (who buy inventory) must have regulations and standards that they need to adhere to with regards to when to order and how much to order. The management and control of inventory in any business enterprise is maintained using individual items called stock keeping units (SKUs) with unique unit numbers.

### Below are questions that should guide your re-order level decisions

Levels of stock: Raw Materials

- How reliable is the supply? Are there alternative sources available?
- Are the components produced or delivered in batches?
- Can you predict sales or market demand?
- Is the price steady?
- Are there discounts if you buy in bulk?

Levels of stock: Finished goods

- Demand is certain and predictable
- Goods are produced in batches
- You are servicing a large order

Levels of stock: Consumables

- Keeping stocks of unfinished goods can be a useful way to protect production if there are problems down the line with other supplies eg when dealing with 3rd party contractors

### ABC classification

The ABC classification of items is based on Pareto's Law. The Italian economist who stated that 80% of the country's wealth was owned by 20% of the population, the 80:20 principles. In inventory terms a small % of a group of materials accounts for the largest fraction of impact such as value

So ABC classification means that 20% of the total inventory constitutes for 80% of the value.

Class	Percent of items	Percent of impact
A	20	80
B	30	15
C	50	5

The two rules for control are:

Have plenty of low value items on hand -the C class items as they account for only 5% of the value and could cause production delays.

Focus on reducing the inventory of high value items A, as they are about 80% of the value, they also deserve the highest level of control.

### Control Strategy

Item Classification	Control	Description
A. High Priority	Tight	Complete accurate record
		Regular, frequent review by management
		Frequent reviews of forecasts
		Close follow up
B. Medium Priority	Normal	Good records
		Normal processing
C. Low Priority	Simple	Make sure you have plenty
		Large order quantities

### Control and Auditing

Inventory record keeping must be accurate at all times and errors need to be regularly checked.

There are two basic methods of checking inventory record accuracy:

- **Periodic inventory stock take:** This provides a valuation of inventory as part of the financial statement.
- **Cycle counting:** This is used to improve the processes that affect inventory accuracy and customer service. Is a continuous improvement process. The cycle count frequency is the number of times an item is counted in a year. This should increase as the value of the item increases.

Group Exercise			
Company Hodari Ltd does an ABC analysis of its inventory and calculates that out of 5000 items, 1100 are A items, 1650 are B items and the rest at C items.			
A items are counted once a month			
B items are counted every three months			
C items are counted twice a year.			
Calculate the total counts and the counts per day.			
Classification	No of Items	Count frequency	Number of counts
A	1100	12	
B	1650	4	
C	2250	2	
Total counts			
Counts per day			
			Workdays per year 250



## COMPUTERIZED INVENTORY MANAGEMENT SYSTEMS

Regularly and consistently tracking of inventory is an imperative component to a small business. By having updated information regarding stock levels of raw manufacturing materials and merchandise for sale will enable any organization to drastically increase its bottom line. In addition to the savings benefit by not reordering unnecessary goods, an enterprise will be better positioned to service its customers quickly, as well as navigate any unexpected changes in business, such as a supplier inefficiencies.

Computer systems run on similar principles to manual ones

- They are more flexible and information is easier to retrieve.
- Able to generate stock valuation report or find out how well a particular item of stock is moving.
- Excellent option for a business with multiple stock items

### 2.5.1 Useful features of a computerized Inventory system

- Automatic stock monitoring triggering orders when the re-order level is reached.
- Information is drawn from a uniformed set of data. This therefore suggests that you only have to input the data once.
- Sales Order Processing and Purchase Order Processing can be integrated in the system so that stock balances and statistics are automatically updated as orders are processed.
- Automatic batch control if you produce goods in batches.
- Ability to identify the cheapest and fastest suppliers.
- Bar coding systems which speed up processing and recording. The software will print and read bar codes from your computer.

### 2.5.2 Checklist for computer system

When considering investing in a computerised inventory systems, it is important to factor the following system capabilities

- Ability to carry multiple prices for items
- Ability to incorporate prices in different currencies – key for businesses that import or export
- Automatic updating, selecting groups of items to update, single-item updating
- Using more than one warehouse - primary for those with safety stock in different warehouse
- Ability to adapt to the customer / market changing needs – example change in pack size
- Quality control and batch tracking
- Integration with other packages such as excel for reporting
- Multiple users at the same time

Examples of systems to be used for inventory management usually known as Enterprise Resource Planning (ERP) systems are widely available in Kenya. Examples of systems are Navision or Ebizframe. Although one needs to review business size as well as actual requirements in order to make decision on final choice of ERP.

# MODULE DISTRIBUTION

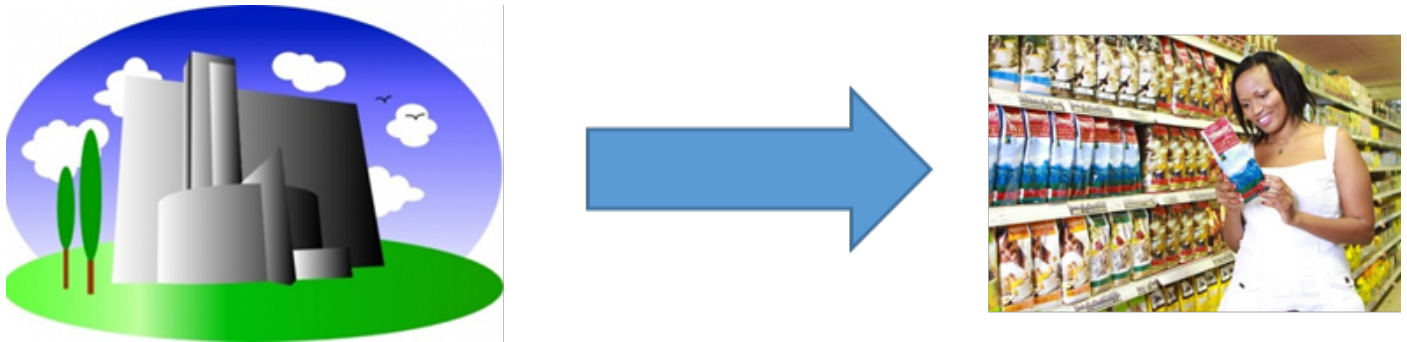
REPORT



## DEFINITION OF DISTRIBUTION

According to Philip Kotler (Philip Kotler, Armstrong Gary 2012), every producer seeks to link together the set of marketing intermediaries that best fulfil the firm's objectives. The set of market intermediaries is referred to as the marketing channel or trade channel or distribution channel. The American Association of Marketing defines distribution channel as the structure of intra company organization units and extra company agents and dealers, wholesalers and retail, through which a commodity, a product or service is marketed."

Simply put, the term 'Distribution channel' refers to a route or pathway taken by products as they flow from the point of production to the point of ultimate consumption.



Distribution means to spread a particular product / good throughout the marketplace such that a large number of people have access to it (available) and they can buy it.

## Understanding Route to Market Framework

Distribution channels are pathways along which products move from producers/processors or manufacturers to the ultimate targeted shoppers or consumers (market). The products generally follow a predetermined route through which information, finance and retail strategies are carried along. While some enterprises reach and deal directly with their immediate customers, others opt to develop a structured distribution channel through which their product flows - through stores in different class of trade (CoT) to reach the shoppers / consumers. This is what is usually referred to as Route to Market (RTM) or Go to Market (GTM).

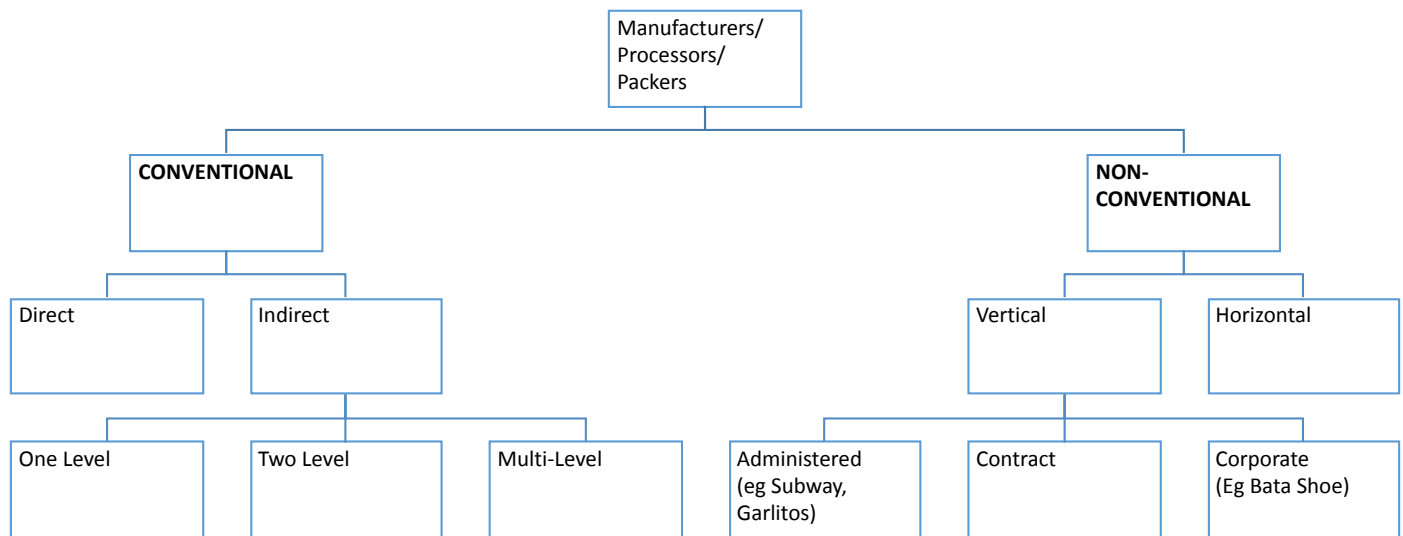
For an effective RTM model, considerable research, effort and investment is required to create a robust and sustainable structure. In addition, it is imperative for entrepreneurs to understand the current market rate fees which the distributors and middlemen charge. These channel margins inclusive of other market related costs such as seeding costs should be considered as they directly impact as part of the gross to net margins of the enterprise.

In summary, the structure and management of the distribution channel / Route to Market are important elements in a company's level of competitiveness

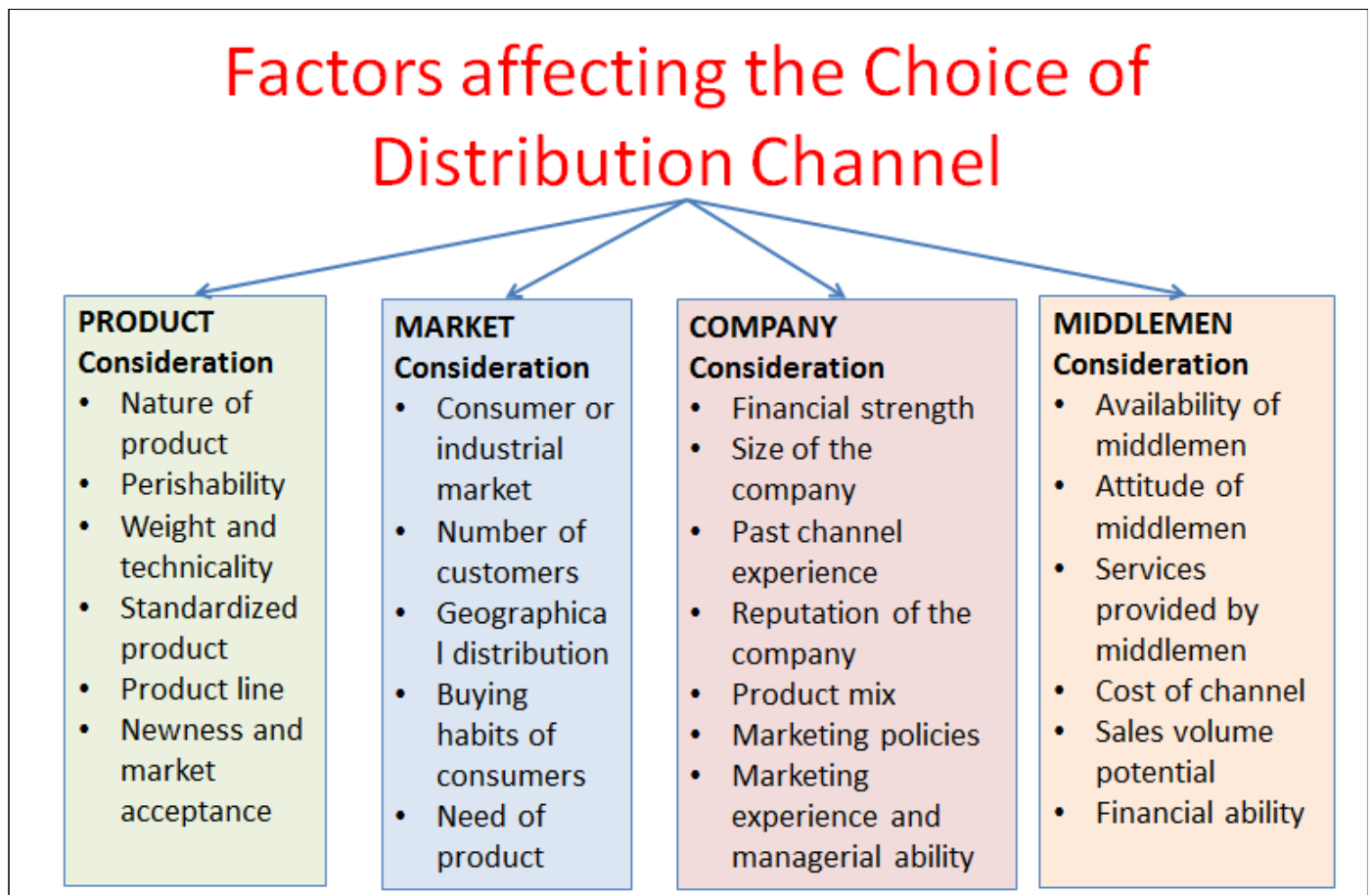
## Role Of The Distribution Channel

1. Reduces transactional costs by routinization of purchasing decisions
2. Acts as a communication agent often guiding consumers in the right direction to fulfil their wants
3. Persuading and influencing prospective buyers to favour a certain product and its manufacturer
4. Offering pre-sale and post-sale services to consumers
5. Transfer of technology to users along with supply of products and playing the role of changing agents eg vertical garden innovation
6. Providing feedback information, marketing intelligence and sales forecasting services

## TYPES OF DISTRIBUTION CHANNELS



## FACTORS AFFECTING CHOICE OF DISTRIBUTION CHANNEL



The choice of distribution model an enterprise should implement is dependent on various factors. What constitutes the distribution channel is the number of middlemen who handle the company's product until the ultimate reach of the product into the consumer/shopper's hands.

Some factors to consider while selecting distribution channels are as follows

- **Product:** Perishable goods have a short shelf life and therefore require speedy movement and a shorter route of distribution. For durable and standardized goods, longer and diversified channel may be necessary. Whereas, for custom made product, for example, Vertical gardens by Ukulima Tech limited, direct distribution to consumer may be desirable.

- **Market:** It is important for any entrepreneur to conduct research on his target market in order to determine the characteristics of both the customers and middlemen present in the market.
- **Middlemen:** The middlemen present in the distribution channel generating the largest sales volume at lower unit costs are generally the most preferred. In addition, middlemen who can offer maximum co-operation in logistics and distribution infrastructure, execution of promotion campaigns and data availability are also considered.
- **Size of business enterprise and Cost:**

The size of the company can also determine the size of its market – the ability to sell and service the market sufficiently. The product –mix influences the pattern of channels. The broader the product line, the shorter the channel.

A business enterprise with substantial financial resources can afford to reduce the levels of distribution. However, a financially weak company is likely to depend on middlemen for its survival.

New SMEs and start-ups rely heavily on middlemen due to lack of experience and limited market intelligence

A organization desiring to exercise greater control over its distribution channel will prefer a shorter channel as it will facilitate better coordination, communication and control.

## TYPES OF DISTRIBUTION – HOW TO MEASURE REACH

In sales management, we often measure distribution is two key parameters. These are:

- Numeric distribution and
- Weighted distribution

### 1. Numeric distribution

The numeric distribution is the percentage of outlets that have specific SKU or portfolio on stock, out of total relevant number of outlets in the market.

$$Dn = \text{Supplied Outlets} / \text{Total Number of Outlets} \times 100\%$$

#### For Example

Recent trade visit by Nyangorora Banana Processors sales team found that Ritoke banana crisps 50g pack is present in 40 mini marts in out of the 120 mini markets in Kisii county. What is the numeric distribution of the 50g pack?

### Weighted distribution

The weighted distribution measures the ratio between total volume of the company that is sold in the market, versus total sold volume of the relevant category.

#### For Example

An independent research agency conducted distribution study and found at least 1 pack of Moto Safi 3 litre gel is present across all Naivas supermarket stores (40 branches). Total volume of gel sold by Naivas that month (including competition) was 200 litres of gel. Calculate Moto Safi 3 litre weighted distribution

## DETERMINING KEY DISTRIBUTION GOALS

The key objective of any start up or SME is to gradually increase sales revenue while creating wide distribution coverage for its brands. The scale of distribution translates to the availability of his products to target consumers / shoppers in the market. Entrepreneurs should strive to create an effective and sustainable distribution strategy that delivers:

- Share growth (value and Numeric) through effective coverage and build on continuous account development and management
- Volume & value growth: Incremental sales ( in terms of quantities sold and revenue generated) through increased presence in market
- Achieve excellent customer service & reach downscale. This is achieved by monitoring In-stock position, ensuring timely delivery lead times and speed to market ( specifically for introduction of for new products in the market).
- Effective 5P execution downscale: Flawless execution of product assortment, pricing, placement, promotions & POSM.
- Product assortment should be classified according to the outlet class of trade eg availability of Blue Band 1kg may be a mandated product assortment ( that must be available) in a mini market but not in a duka or kiosk.
- Pricing across the distribution channel should be informed by the channel margins present at every class of trade ( distributor, wholesaler, dukas and supermarkets)
- Placement refers to visibility of the product in the outlet store ie merchandising. Proper product merchandising provides product awareness and creates strong brand image. Special attention should be given to the space allocated by retailers to the product in respective stores. However, most retailers demand special incentives or margins for a competitive display especially at eye level.
- Promotions vary according to the Class of Trade and can either be in the form of cash discounts or value added packs (VAP). Some wholesalers do not break bulk (opening up packaged unit items eg bale of flour) and therefore promotions target bulk purchase. In supermarkets, for instance, promotions may be either price off or VAPs eg buy 100ml honey get 20ml free
- Point of sale materials refer to brand communication such as posters, leaflets, labels, pop outs which provide key branding information about the products.
- Reduce complexity. Well-structured distribution channels simplify the 5P retail strategies across the channel eg which product size goes to which type of store. In addition, the enterprise saves by having few operational costs associated in dealing with few customers rather than dealing with all the retailers present in the market.

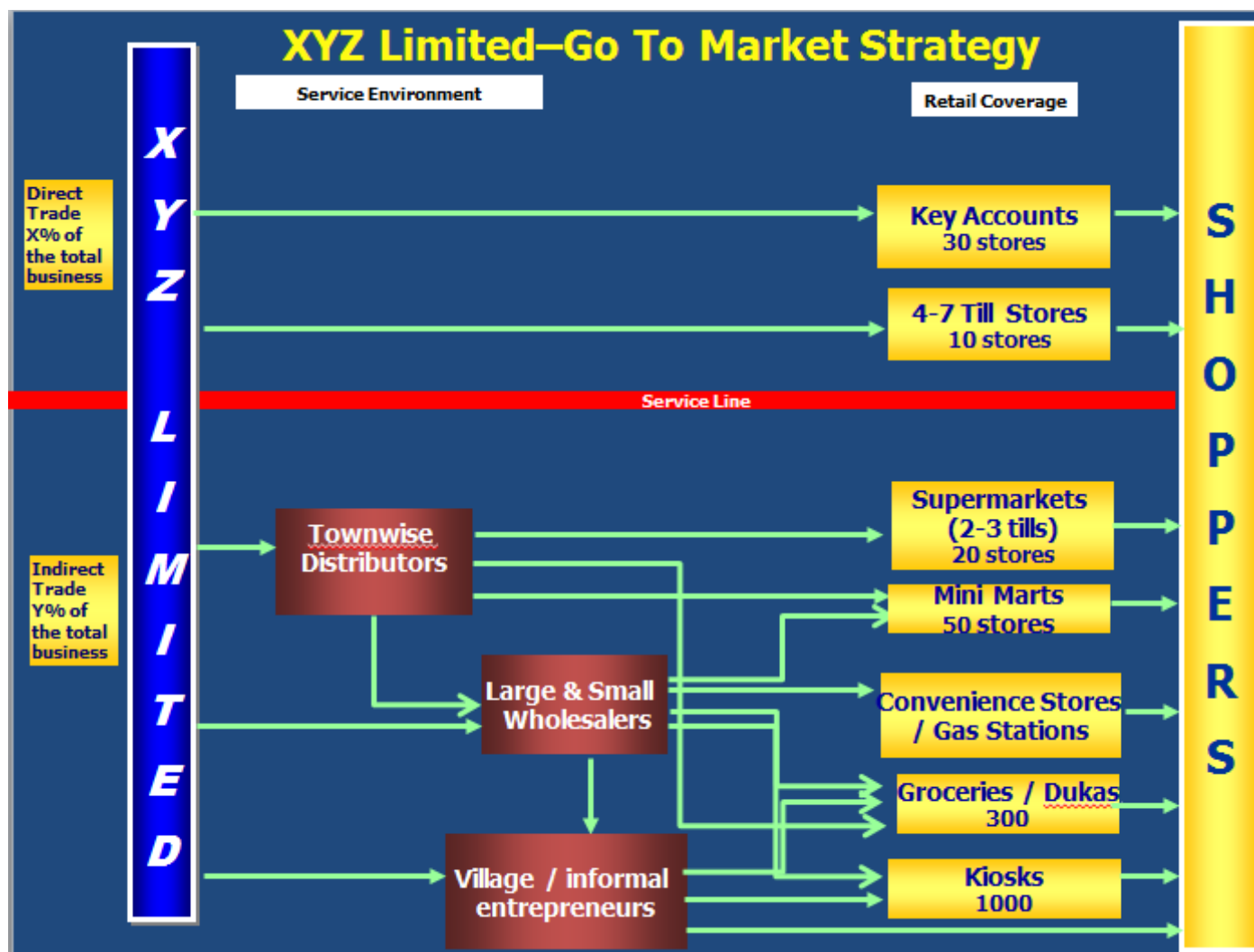
## DISTRIBUTION MODEL FOR SMES AND START UPS

No matter what sector your business operates in, it is important to find the right distribution channel to develop relationships with potential new customers or manage existing customers; this may be determined by the factors discussed in the above section. Most start-ups and SMEs may not have the financial muscle to engage and partner with leading middlemen due to their limitation of credit, cost of trade margins and scalability. With that in mind, the entrepreneurs should explore various innovative distribution options which they can allow create to ensure maximum availability of their products in the markets.

### Distribution Success Story – Read Tough Stuff Hand out

The below highlights the standard distribution model for companies handling fast moving consumer goods. However, looking at the case study of Tough Stuff international, a local distributor of low end solar energy products in Kenya, the company designed and created an innovative distribution model to reach its target market. They introduced solar village entrepreneurs who provided an informal middlemen structure to reach rural markets.

**Figure 1: Example of a Route to Market Model for an enterprise dealing with Fast moving Consumer Goods**



### Key Pointers working with solar village entrepreneurs model – Lessons from Tough Stuff

- Numeric distribution is more important than weighted distribution – priority is to ensure availability downscale across all retail outlets
- The model requires a large pool of partners and therefore attracts costs associated with trainings, account development, communication, etc. For example mpesa model
- Excellent opportunity to create unique and innovative middlemen structure from ‘everyday – ordinary people’. The informal traders who registered as solar village entrepreneurs were ordinary teachers, traders and shop attendants who were motivated by the need generate extra income and believed in the business model
- Need for price control – this was to minimize risk of wholesalers selling directly to the market at the same price points as that for the solar village entrepreneur
- Opportunity for technology advancement– investment in real time systems ( such as smart phone and other hand held devises ) provided the enterprise with relevant market information on the solar village entrepreneurs performance and reach

### GENERAL PROFILE OF DISTRIBUTION / MIDDLEMAN PARTNERS

- Visionary and good business acumen. He should have solid interests in the business
- Shares similar values eg Honesty
- Has good reputation in the market (High moral standing, trustworthy and reliable) and has solid experience in the business
- Has respect for local laws,

- Organization has 'right people', financial and physical capacity
- Looking for growth (dynamic and innovative teams)
- Financial Capability
- Strong local knowledge of target geography – 'a local'
- Possess excellent operational capability

### SERVICES OFFERED BY MIDDLEMEN

Middlemen play a pivotal role by ensuring that the entrepreneur's products achieve maximum downscale reach and presence. Their key mandate is the availability of goods to the highest distribution point. Below is a summary list of the services provided by middlemen to the manufacturer or to the retailer

- Credit
- Dedicated sales force
- Selling pull SKUs
- Delivery
- Merchandising
- New product launch
- Seeding
- Loading inventory
- Execution of Point of sale materials
- Promotion execution
- 5P instore monitoring

### Costs associated with Distribution / Middlemen

Companies willing to partner with middlemen need to be aware to the costs associated with distribution and carrying costs of the middlemen. In many instances, middlemen push the costs to the manufacturer through:- (i) improved margin levels, (ii) demand for regular discounted value plans and (iii) longer credit period. Ideally service costs should be redistributed among the manufacture, middlemen and retailers. All parties will either raise or lower their price based on services paid for. Consequently, the consumer pays the same amount regardless of how the service costs are distributed.

### Important notes for successful distribution

- In-depth study of the market behavior of middlemen: wholesalers, stockists, distributors is key when considering the right partner to collaborate with
- Need to build collaborative partnerships with solid distribution partners within certain frameworks. For the partnership to succeed, it is important that certain KPIs are identified for mutual achievement
- An entrepreneur may increase and maximise market reach with an innovative concept and selling ideas into untapped market area eg solar village entrepreneurs model
- Not all the products of the business must be distributed at the same time. Carefully identify market needs and opportunities and gradually grow your distribution portfolio
- Though seeding exercises may require huge capital investment, these programs provide an excellent platform for an enterprise to introduce their new products in the market.

### Class Discussion: Kathy Honey Ltd Distribution Plan

Kathy Honey limited is a recent start up that buys and repacks raw honey in Nairobi. She sells the honey in 3 SKUs 250ml, 500ml an 750ml. Based on our findings, Kathy honey directly distributes and sells to tier 2 supermarkets. However, she does not have a specific distribution strategy for the general trade. You have been invited by Kathy as a potential investor and partner into her business, below are some of the questions you may need to consider during your discussions with Kathy.

1. What are some of the factors should she consider
2. What are the potential challenges in down scale distribution should she be aware of
3. What are some of the expected costs that Kathy Honey should anticipate
4. Identify some of the key benefits in rolling out distribution to the general trade

# MODULE PARTNERSHIPS



## INTRODUCTION TO PARTNERSHIPS

The adage that two brains are better than one may explain why many business entrepreneurs and corporations create partnerships. However, its not those brains that should work well together, partners' skill sets, values, competitive advantage and resources need to get along too.

There is increased recognition that all parties should benefit from increased collaboration and partnership engagement. The challenges of developing effective partnership program are manifold, and often identifying the right partner is key – by engaging a broader set of skills, ideas, resources and relationship than any one one organisations working alone – can be critical to success and long term sustainability of an SME.

We can therefore define partnerships as the active and consisious efforts to develop collaborative engagements with various stakeholders or business enterprises with an objective of improving business impact for mutual benefit.

### 3.1.1. Collaboration as a business model

Collaboration by definition is the act of working with someone or an organization to produce, create or achieve a specific goal. We do this all the time. For example the various vendors and contractors in our supply value chains and middlemen handling our products in our distribution channels. But what if our business model was not just the result of collaboration, but the act of collaboration?

### 3.1.2. Understanding collaboration strategy

Collaboration by its very nature requires the business enterprise to be honest about its strengths and weaknesses and shifts the discussion from you to all the parties involved in the partnership. It is a 'rising tides lifts all boats' mentality. Creating a business model that ensures that the tides rise is what every entrepreneur should strive for. Tide rising here refers to improvement across various business operational matrices that have been identified by the parties. These may include; an effective and efficient distribution model, improved product distribution reach in the local market and increased product visibility instore which translates to improved sales levels.



## FINDING THE RIGHT PARTNERS

The role of different partners may vary depending on the nature and context of the initiative. In product distribution, partnerships can be valuable in helping to facilitate relationships, ensure the successful implementation and execution of resources, labour and market coverage – and fill in gaps in knowledge

Principles of Identifying the Best Portfolio of Distribution Service providers

- There is a natural flow of pull "product replenishment" – encourage it. Retailers across the distribution model seek the most efficient and effective sources of supply. As business men, they evaluate collaborations which allow them to save on costs and improve on efficiencies which may include; credit, dedicated sales force, delivery, assortment, and availability of stocks. Business enterprises should therefore avoid disrupting the natural flow as this will be ineffective and usually inefficient. However, entrepreneurs can explore services missing in the market and should add them on top of this flow to provide synergy.
- One class of middlemen may not be able to provide all services effectively and efficiently. Each class of middlemen (regional distributors, wholesalers, mini markets, dukas and kiosks) has a role that they play in the market. In some instances, the roles are used interchangeably (example of distributor and wholesaler). However, it is important to note that they may not possess the same skills and expertise. Business owners should carefully try and match the roles of middlemen and their knowledge and expertise with his vision, product assortment range and financial capability.

- Develop new classes of middlemen in case required services are currently not available or expensive. Successful entrepreneurs should take initiative and explore new classes of middlemen for example agencies who are willing to take on additional services and expand their business operations. These new class presents an huge appetite to grow, has a positive attitude towards trying new ideas and they may be generally cheaper to engage with. Business owners should on the other hand be willing and prepared to train and develop an attractive payment structure for the services rendered.

### 3.2.1 How does Collaboration work

Collaboration in partnerships involves focusing on the mutual benefit of both parties and continuously and consistently redefining the value to raise the commercial 'oneness' to a level that competition cannot match or meet. The strategy is key at many phases in a business cycle, but for start-ups that are low on capital and seeking those opportunities for distribution, collaboration can be an essential method for gaining traction, extending reach and – ultimately – gaining competitive advantage.

#### Group Exercise

The Courting game:

**Discuss and outline the key stages involved in the romantic courtship process that a couple goes through prior to making a lifetime commitment to one another in marriage**

**Notes**

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## TIPS ON APPROACHING AND MAINTAINING SUCCESSFUL COLLABORATIVE RELATIONSHIPS

### 3.3.1. Reputational Capital

It helps to have an established reputation in business when entering into collaborative partnerships. Your reputational capital should be a key aspect of what your collaborative partner is buying into.

Entrepreneurs' should not be intimidated and should have confidence and pride when it comes to reputational capital. The business owner needs to promote his/her trustworthiness and present a compelling reason why the business is worth building a long term relationship with.

### 3.3.2. Understand Business Objectives and Goals

A business owner may have top level understanding of the nature of business of his identified potential partner. That is not sufficient enough. He / She must conduct in-depth research and gain deeper understanding of their business objectives and goals.

Neither you or your collaborative partner expects to have a non-value add engagement. It is important to note that if you are not familiar or fully understand the other business, you are not going to offer maximum value and – ultimately- the relationship will not achieve the intended objectives and goals.

### 3.3.3. Choose your business partners wisely

It is important to note that not every successful, trending or leading business enterprise that operates within your industry is a perfect match for your business. Just as in courtship, it is wise to identify partners who have the right chemistry with and whom you believe can achieve greater business heights together. It is not enough for the products and services to have synergy; it needs to be broader than that. An authentic commitment on both enterprises that the business outfits will o all it takes to make the relationship work



and success for the benefit for all parties. Part of the equation entails choosing a partner who understands your own business objectives, appreciates your vision, identifies possible potential and is willing to go the extra mile with you.

#### **3.3.4. Clearly define and lay down expectations from the onset**

When forging a collaborative relationship, there should be no grey areas or room for assumptions. Clarity in communication from the start where both parties clearly outline what their individual expectations are as they begin a contractual relationship is vital.

Key questions individual business owners should ask themselves:

- Why am I interested in forging a collaborative partnership with business X?
- What do I hope to achieve?
- How do I expect it to work?
- What mutual benefits do both parties stand to gain?

#### **3.3.4. Consistently work towards your vision – Patiently**

Do not enter collaborative partnerships with the single aim of quick wins.

Savvy business owners have developed a system that will quickly weed out that are simply looking for short-term gain, which can be obvious from the style of language used in discussions, and/ or your initial actions. Bear in mind that relationships take time to build and should always have a long-term vision.



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