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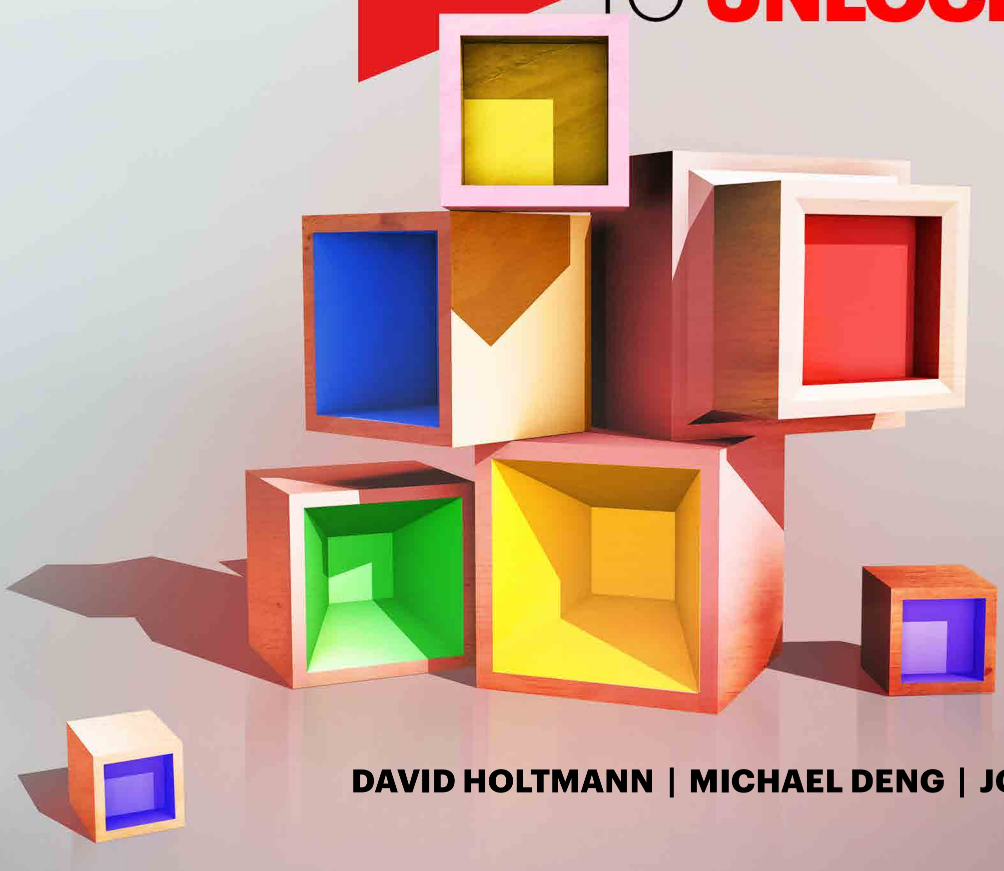
DISTRIBUTION DEBUNKED TO UNLOCK GROWTH



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WHEN IT COMES TO EXPANDING INTO EMERGING MARKETS, CONSUMER GOODS MULTINATIONALS CAN'T GO IT ALONE.

They're not infallible; in fact, they need local help more than ever, particularly from distributors already on the ground. Just as they have realized acquiring and partnering with smaller, local companies is essential to meeting local consumer desires, they must shed their "build it yourself" mentality when it comes to distribution.

Instead, they should look to build an ecosystem of local partners who can help them penetrate these markets. Route-to-market matters more than ever—and "ecosystem" needs to rapidly become more than just a buzzword in any large consumer goods company expanding its presence around the world.

THE STAKES ARE HIGH, WITH AT LEAST 60 PERCENT OF GROSS DOMESTIC GROWTH EXPECTED TO COME FROM EMERGING MARKETS IN THE NEXT FIVE YEARS.[1]

TO GROW… LET IT GO

The direct-to-store model—relying on their own assets and infrastructure for distribution—remains the preferred choice for *Fortune* 500 multinational consumer goods companies operating in emerging markets. In fact, up to 64 percent of sales in emerging markets are made through the traditional trade channel[2] (points of sale which tend to be smaller and have a smaller drop size than the modern channel). Yet, local players—both established and new—are capturing most of the available market share.

Over the last five years, local players in emerging markets have outperformed multinationals by 25 to 35 percent.[3]

While the direct-to-store model's proven in-house distribution network might provide a high level of control, reliability and quality, it may not always be the best choice. Due to the complexity of distribution in emerging markets, the high cost-to-serve can outweigh the benefits of a direct-to-store model. Furthermore, demographics, per capita income, price sensitivity, consumer behavior, value propositions, purchasing power, and storage and logistic capabilities/capacities can vary dramatically from region to region, or even within cities. Where there is a high density of small shops, or in rural areas with a typical old town center, it can be challenging to reach and serve these stores in a cost-efficient manner.

One reason for the success of regional players in emerging markets is that they have been able to crack the code on how to serve the traditional trade channel more effectively than their multinational competitors.

THEIR SECRET: LOCAL DISTRIBUTORS.

While multinationals' strengths lie in areas such as research and development, marketing, branding and production, local distributors can provide indispensable value through knowledge regarding local market peculiarities including product positioning, tax, legislation, talent and consumer preferences. Moreover, they better understand the local suppliers, wholesalers and the dynamics between them.

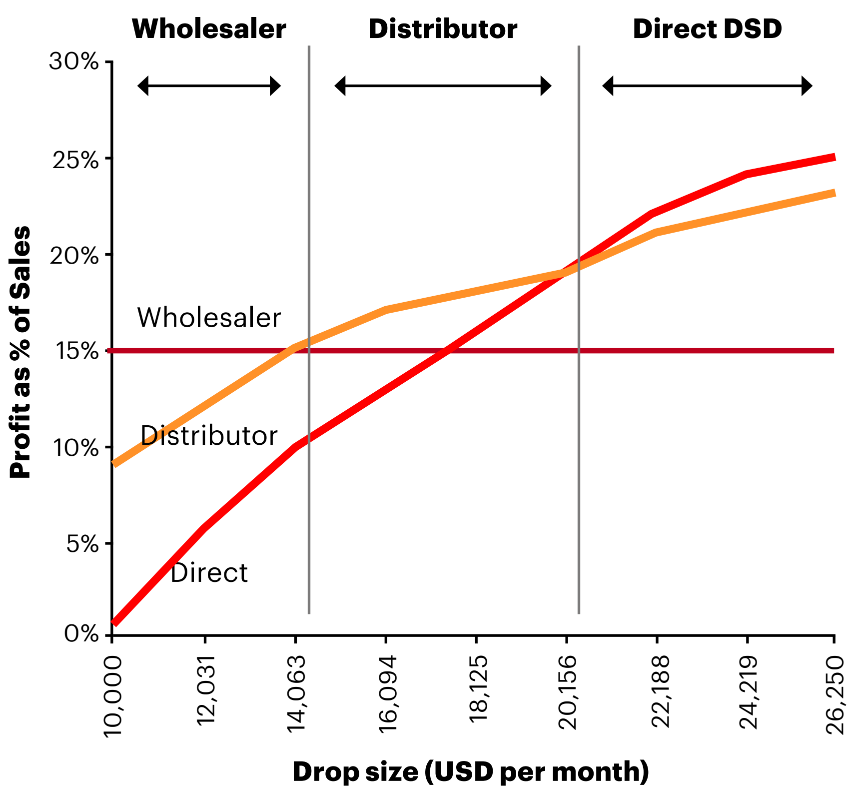
THE DISTRIBUTION **DECISION**

It is important for multinational consumer goods companies to identify where and when a direct-to-store model would be most appropriate and where and when leveraging local distributors would be more effective.

Local consumer goods players partner twice as much with distributors as multinationals in emerging markets. In doing so, they overcome size limitations and enable flexibility in their assets. By over-relying on a direct-to-store model while under-leveraging local distributors, multinationals are missing out on the 25 to 35 percent growth that locals have achieved. (See Figure 1)

FIGURE 1

Illustration of drop size as a key factor for route-to-market model decision-making



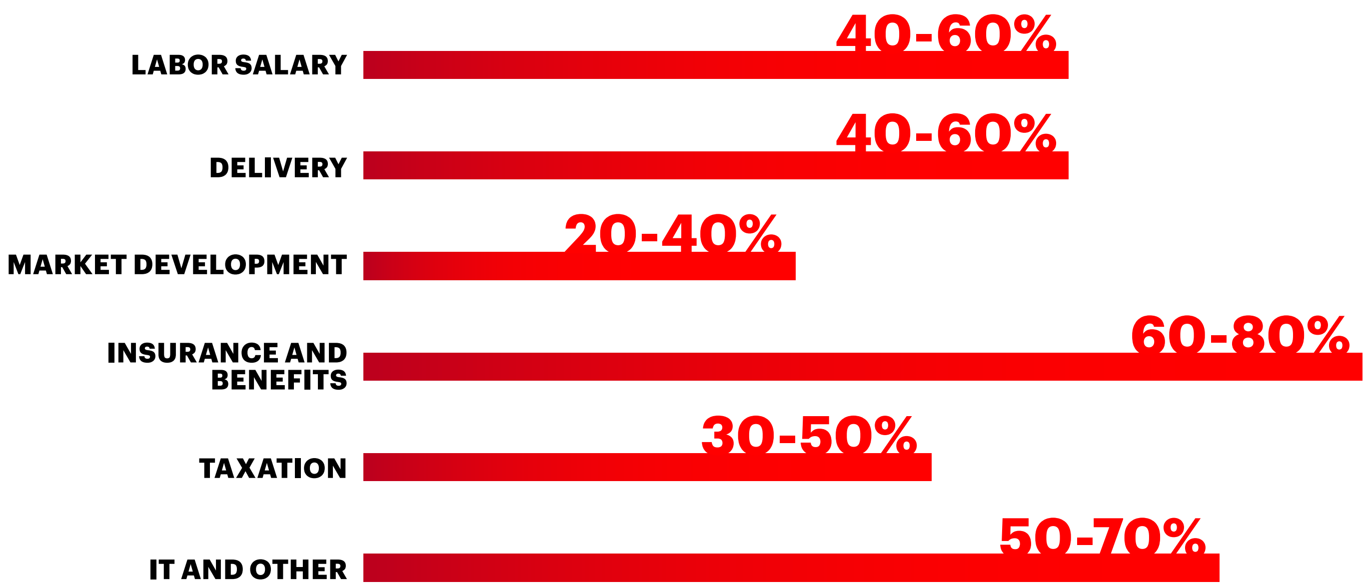
Source: Accenture Strategy research

Further, we have seen that on average a distributor's overall cost-to-serve is 30 to 60 percent that of multinationals' "do it yourself" (DIY) approach.[4] (See Figure 2 for a breakdown by key cost items)

FIGURE 2

The Cost Advantage of Distributors - China

Typical Savings by Category (as % of Direct Selling Equivalent Cost)

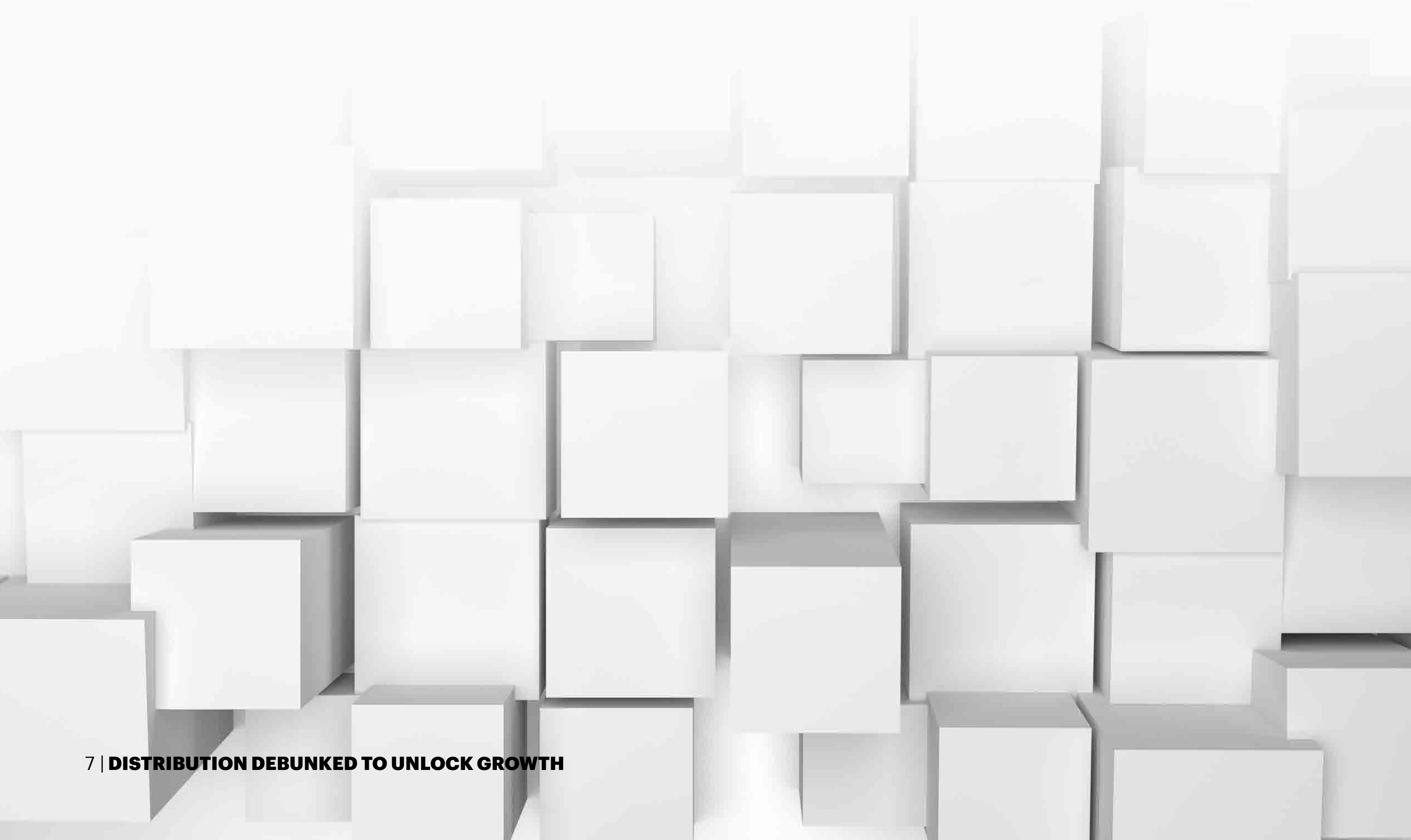


Source: Accenture Strategy experience from client engagements

Being unable to find a suitable local distributor is often cited by multinational consumer goods companies as a reason for choosing the direct-to-store distribution model. However, some companies are overcoming this challenge by "growing their own distributors." One large multinational consumer goods company actively looks for potential local distributors and teams with them to help them grow into regional and even national providers—sometimes even helping them expand to other countries. For the best results, multinationals need to determine the optimal mix of their own capabilities and those of local distributors. Local distributors offer much more than simply a means to distribute products. As such, investing in these distributors can provide substantial benefits for multinational consumer goods companies.

By extending its partnerships with local distributors, one multinational consumer goods company in China was able to serve 3.5 to 5.7 times more stores, as well as achieve a 15 to 30 percent growth in sales and an 11 percent increase in gross profit.[5]

One multinational recognized that the distributors available to it were typically small, single-owner businesses that often dissolved when the owner passed away or became unable to run the business—making it difficult to establish long-term strategic partnerships—and the cost of replacing such distributors was significant. To address this challenge, the multinational established a program to provide funding for the children of its distributors to attend university. In doing so, it helped equip the children to take over the business from their parents. Further encouraging loyalty, the multinational recognizes the best performing distributors and invites them to an annual sales conference to help them feel part of the brand.



We have mentioned examples showing how distributors have become more strategic partners. As such, we have seen that over the last five years, multinational consumer goods companies that strategically aligned with distributors grew 25 to 60 percent above the market.[6] The alignment must be done in a way that considers the distributors as part of the company, such as an extended commercial arm of the business. Through such a tight integration, local distributors can provide multinationals with access to previously untapped points of sale and new consumers.

OVER THE LAST FIVE YEARS, MULTINATIONAL CONSUMER GOODS COMPANIES THAT STRATEGICALLY ALIGNED WITH DISTRIBUTORS GREW **25 TO 60 PERCENT ABOVE THE MARKET.**

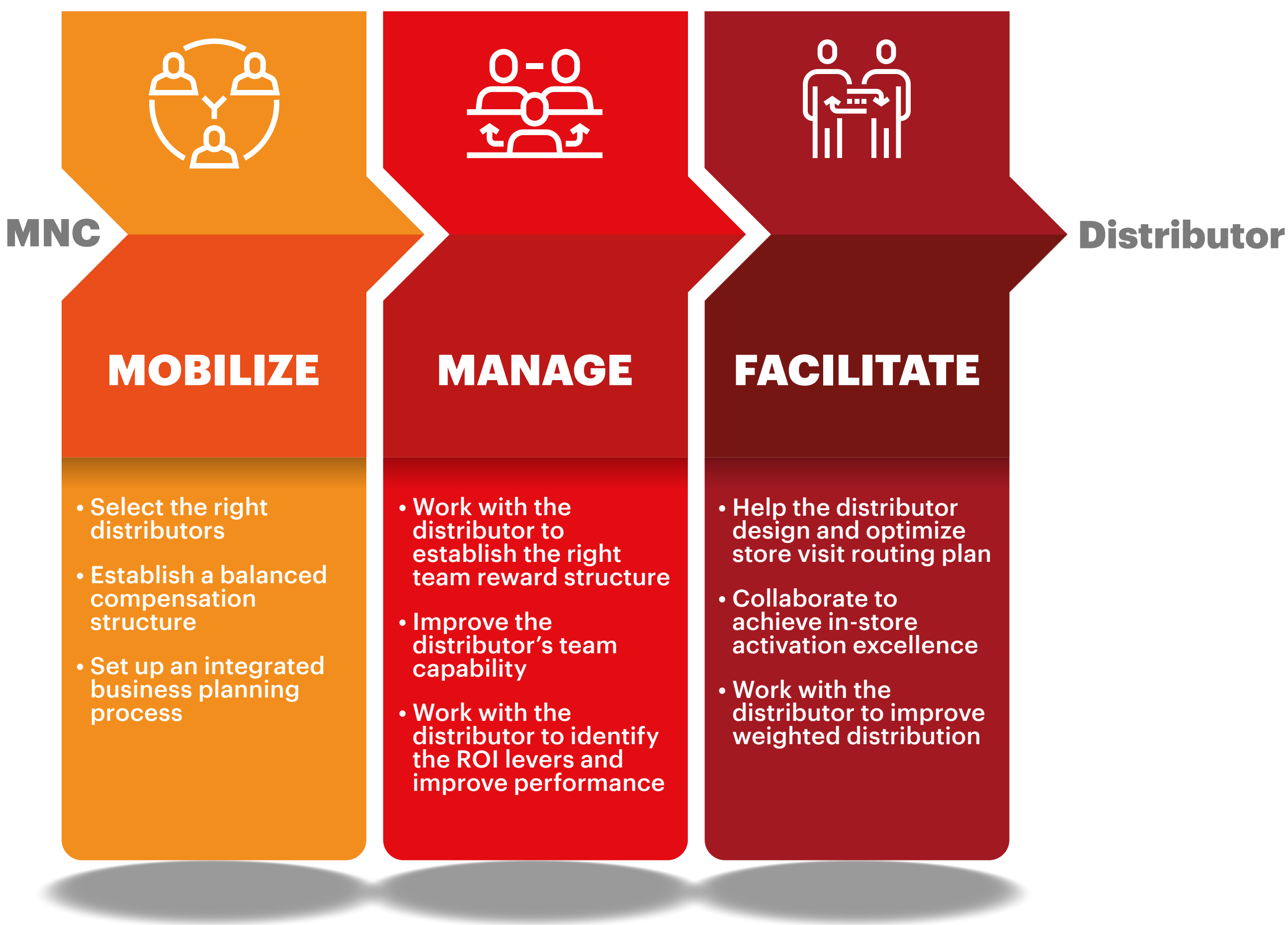
A BRAVE NEW MODEL

To help capture the growth opportunities in emerging markets, multinationals can adopt an Integrated Distributor Engagement Model (IDEM) that integrates their route-to-market strategy with the capabilities of local distributors. (See Figure 3)

An IDEM model can help multinationals select the right distributors, establish a balanced compensation structure for them, and implement an integrated business planning process. It includes working with the distributors to determine appropriate reward structures and capabilities, as well as return on investment levers and performance improvement initiatives. The model also helps local distributors to design and optimize a store visit routing plan and achieve in-store activation excellence. Route-to-market champions also place the distributor strategy high on the C-suite agenda and continuously review and adapt their partnership model.

Some distribution leaders make route-to-market execution part of their training and meet regularly with their own and third-party distribution forces. Others evaluate and select technology investments in collaboration with key clients and distributors. Still others have established a rotation program where employees from multinationals work at distributors and vice versa, thereby fostering unity as well as knowledge-sharing and markedly improved communication and operations.

FIGURE 3
Integrated Distributor Engagement Model



Source: Accenture Strategy

UNLOCKING GROWTH

There is a significant growth opportunity for multinational consumer goods companies in emerging markets. However, local players are capturing the lion's share of these opportunities. One reason for their success is the effective use of local distributors.

Where complex and challenging market conditions make the cost-to-serve for multinationals using a direct-to-store distribution approach (with own assets) outweigh the benefits, local distributors can help increase reach, reduce cost-to-serve and enhance agility—effectively becoming an extended commercial distribution arm of the business. Local distributors can also provide multinationals with access to previously untapped points of sale and new consumers.

To realize the full benefits that local distributors can offer, they should be considered as strategic allies that provide local market access and knowledge, and their operations should not be considered or managed separately, but rather in a holistic, end-to-end manner within the overall business, including budgeting, planning, operations and strategy. Concrete action plans on how to enhance their local distribution capabilities should also be developed. Such plans could include credit and co-funding arrangements for distributors, training for distributors, expansion plans to help distributors reach new regions or countries, and sharing product knowledge with distributors. By enhancing local distributors with digital capabilities and tools, reach can be increased exponentially and the cost-to-serve reduced even further.

TO CAPITALIZE ON THE FULL BENEFITS AVAILABLE IN EMERGING MARKETS, MULTINATIONALS SHOULD RETHINK THEIR ROUTE-TO-MARKET STRATEGIES AND ADOPT AN IDEM.

THESE ACTIONS, WHICH LEVERAGE THE CAPABILITIES AND EXPERIENCE OF LOCAL DISTRIBUTORS, WILL HELP INCREASE THEIR REACH, REDUCE THEIR COST-TO-SERVE, AND ENHANCE THEIR AGILITY.

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NOTES

[1] Accenture Strategy analysis of Euromonitor data, 2017.

[2] Accenture Strategy estimates based on insights from market analysis, 2017.

[3] Accenture Strategy estimates based on insights from market analysis, 2017.

[3] Accenture Strategy estimates based on insights from client experience.

[4] Accenture Strategy insights from client experience.

[5] Accenture Strategy estimates based on insights from client experience.

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