COMPANY BACKGROUND

Mexico's Sistema Integral de Abasto Rural S.A.P.I. de C.V., or MiTienda, is a privately held rural distribution company founded in 1999 by José Ignacio Avalos, one of the founders of Banco Compartamos, the country's leading microfinance bank. MiTienda began operations in Atlacomulco in central Mexico as a single distribution center offering non-perishable food and personal care products to stores in surrounding villages, typically with populations of less than 5,000 each. MiTienda focuses on the country's more than 600,000 small-scale retailers in rural markets – where large retailers do not reach.

MITIENDA'S INCLUSIVE BUSINESS MODEL

MiTienda's customers are small-scale retailers in small, rural villages. These retailers face a number of challenges, including small markets and traditional over-the-counter sales formats which further limit sales. With low weekly store purchases, they are unable to take advantage of economies of scale. They tend to have low levels of business knowledge and very limited access to finance. Most of their shops are below ten square meters in size, often integrated into the owners' homes, where they are tended overwhelmingly – approximately 80% – by women. They serve customers with incomes averaging an estimated $4 a day.

MiTienda offers these retailers a distinctive value proposition: affordable door-to-door delivery of individual items within 48 hours, extended payment terms, and business training and advice to improve sales. This is because its growth strategy includes increasing the volume of sales per customer, in addition to the numbers of distribution centers and of retail customers per center.

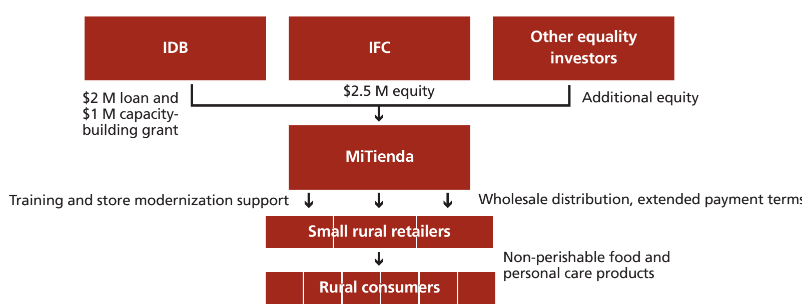
MiTienda's distribution centers are simple, approximately 1,000 square meter warehouses where products are stored. Once or twice a week, sales agents travel six or seven different routes, which typically cover between 620-740 rural stores, taking orders on laptops and synchronizing them at the warehouse at the end of the day. There orders are preassembled in boxes, by hand, for delivery drivers to take out the following day. There are approximately six trucks and six cars for every warehouse.

From a cost perspective, it is also important to note that villages in central Mexico are located fairly close together, which enables MiTienda to achieve operating efficiencies and economies of scale.

MiTienda also keeps costs down by stocking primarily non-perishable food and personal care products in a limited number of SKUs: roughly 1,000 compared with as many as 80,000 for a large retailer like Wal-Mart. Selection is highly customized to local demand and can vary from warehouse to warehouse. MiTienda sales agents, who visit each retail outlet at least once a week, are well-positioned to gather information about what is selling and what is not. In addition, outlets that participate in the company's capacity-building program undergo more systematic demand assessments. As a general rule MiTienda has found that rural Mexican consumers are highly brand conscious, and would rather buy a smaller package of brand name detergent than a larger package of generic detergent. The company carries very few generic items as a result, for now.

MiTienda's single unit delivery helps retail outlets use their working capital more efficiently. The company helps further in this regard by offering extended payment terms of typically seven days to stores with proven track records. Approximately 60% of stores avail themselves of this option. Creditworthiness is assessed by sales agents based on personal knowledge and relationships developed during their weekly or twice-weekly visits. If stores are late in their payments, they cannot get more products – such a strong incentive to repay that the default rate has been less than 0.1%. The single unit delivery and extended payment options are both key differentiators for MiTienda in the rural distribution market, where store owners would otherwise have to travel long distances and pay in cash up front for large quantities of product.

Finally, MiTienda offers retail outlets free training and capacity-building intended to help increase their sales – and by extension their purchases from the company. The company has its own training unit staffed with trainers who typically visit and stay with each participating outlet for a week, helping with accounting, working capital management, inventory management, and product assortment. Trainers often help modernize store design as well, moving from traditional, over-the-counter sales set-ups to shelf displays that increase product visibility. Modernized stores have experienced, on average, 35% increases in sales.



DRIVERS FOR MITIENDA'S INCLUSIVE BUSINESS MODEL

- Market opportunity for efficient commercial distribution in rural Mexico
- Desire to improve the lives of rural families by improving rural supply chain efficiency

MiTienda aims to build a business and improve the lives of rural families by improving rural supply chain efficiency. Four factors create a market opportunity for more efficient commercial distribution in rural Mexico: layers of intermediaries, limited access to working capital financing for micro, small, and medium retailers, high transaction and transportation costs, and poor feedback on the needs of rural populations to food and consumer products companies.

Many small, rural retailers are not yet served by wholesalers. If they are served, it is with minimum quantities of products and no working capital access. In Atlacomulco, for example, where MiTienda's original distribution center is located, 30% of stores are unserved. MiTienda's main competitors are Diconsa, a government entity with approximately 22,000 distribution centers across the country, and local wholesalers. However, these wholesalers do not deliver single units of product and their prices are higher – both of which increase retailers' working capital requirements.

RESULTS OF MITIENDA'S INCLUSIVE BUSINESS MODEL

- 2 distribution centers serving 1,300 stores
- Operational break-even achieved
- 200 stores trained, with an average 35% increase in sales for those undergoing modernization
- Improved product accessibility and affordability

MiTienda has two distribution centers in operation, reaching about 1,300 stores and generating enough revenue to cover operating costs. With $2.5 million in equity from IFC, a $2 million loan and $1 million capacity-building grant from the Inter-American Development Bank, and additional equity from other investors, MiTienda is now rolling out an additional 34 distribution centers over the next six years. Together, these 36 centers are expected to reach 25,000 stores serving 4.7 million households.

For the small-scale retailers in its network, MiTienda's inclusive business model has reduced working capital requirements and, where modernization has taken place, increased sales by an average of 35%. Cumulatively, additional revenues from modernization are expected to reach $200 million by 2016.

At the consumer level, MiTienda's inclusive business model has improved product accessibility and affordability, and offers the possibility to pass on a portion of the efficiency gains to customers. Possible savings have not been measured but are estimated at 2-3%, which is not negligible for customers earning $4 a day.

Finally, the company has begun to create a platform through which other services – such as micro-credit, insurance, and utility bill payment – can eventually be offered. As it develops, this platform is expected to become a major source of both revenue growth and development impact.

IFC'S ROLE AND VALUE-ADD

With overall profitability predicted only in the medium term due to the cost of ramping up, IFC's $2.5 million equity investment has helped MiTienda go ahead with its plans to expand. IFC's investment has also played an anchor role, enabling the company to attract additional investors.

In addition to investment capital, IFC has contributed global retail sector knowledge and helped MiTienda implement international environmental, social, and corporate governance standards.

IFC International Finance Corporation World Bank Group

IFC's Investment:

$2.5 million in equity