

## Distribution Channel Management of Multi Category Food

### Company in Pakistan

The company, founded in 1970, is Pakistan's leading multi-category food company with over 250 different products, across 13 categories. It is present in over 40 countries, across 5 continents worldwide with 4 offices globally.

The company vision is to be a Rs. 50 billion food company in the convenience food segment by launching products and services in the domestic and international markets that enhances lifestyle and create value for our customers through management excellence at all levels. The company core values are:

- Passion	- Accountability
- Leadership	- Teamwork
- People Centric	- Excellence in Execution
- Ethics	- Customer Focus

Brands (around 250 different products)

- Desserts
- Recipe Masala
- Pickles
- Ketchup
- Chutney and Sauces
- Mayonnaise
- Jams
- Salt
- Snacks
- Basic Spices
- Ginger and Garlic Paste
- Scene On

Plant Production

PLANTS	PRODUCTS
Site Plant	Ketchup, Jam, Jelly, Sauces, Mayonnaise
Port Qasim Plant	Ready mix, Spices, Desserts, Snacks
Gujranwala Plant	Ketchup, Spices, Sauces
Nooriabad Plant	Pickle, Salt, Desserts

Distribution Strategy of the company

The company previously had engaged only one distributor in Karachi, Premier Distributor (Mr. Ibrahim Qasim was also on the Board and shareholder of the company, previously he along with family members held approximately 10% shares of the Company). Due to which all the transactions carried with them were posted in the Related Party transactions of the Company.

Disclosure of transactions between the Company and related parties:

		2018	2017
Relationship with the Company	Nature of transaction	(Rupees in thousand)	
Parent Company	Rental income	6,741	-
	Rent charges paid / payable	<u>2,262</u>	<u>9,048</u>
Subsidiary Company	Sale of goods	<u>1,192,151</u>	<u>1,240,042</u>
	Dividend income	-	<u>3,141</u>
Associated Companies	Sale of goods	<u>1,558,144</u>	<u>1,510,548</u>
	Commission expense	<u>45,283</u>	<u>36,888</u>
Staff retirement funds	Expense charged for the year	<u>44,634</u>	<u>37,956</u>
	Payments to retirement contribution plan	<u>93,677</u>	<u>92,735</u>
	Contribution to defined benefit plans	<u>5,785</u>	<u>13,834</u>
Directors	Technical advisory services	-	2,373
<b>Key management personnel compensation:</b>			
Salaries and other short-term employee benefits		<u>786,616</u>	<u>181,299</u>
Retirement benefits		<u>37,853</u>	<u>8,187</u>

- 34.1 Outstanding balances related parties as at year end have been included in trade debts, other receivables and trade and other payables respectively. These are settled in ordinary course of business.
- 34.2 The following are the related parties with whom the Company had entered into transaction or have arrangement / agreement in place:

Name of the Related Party	Basis of association	Aggregate % of Shareholding
ATC Holdings (Private) Limited (Formerly: Associated Textile Consultants (Private) Limited)	Holding Company*	33%
National Foods Dubai Multi Commodities Centre	Subsidiary Company	100%
Pakistan Business Council	Associated Company due to common directorship	N/A
Premier Distributors	Associated Company due to common directorship	N/A
Premier Agencies	Associated Company due to common directorship	N/A

\*It is the ultimate parent company based on control model as provided under IFRS 10.

Premier distributor is working with EBM, Shield, FMCG and other Pharmaceutical companies of Karachi. They partnered with THE COMPANY for long ago and it has a history of almost a decade.

Across Pakistan distribution is decentralized, means every area may have more than one distributor. For example Lahore has four distributors Prince Distributor, Al-Hanif Traders, Prime marketing and one other.

#### Regions

1. Karachi,
2. Hyderabad,
3. Lahore,
4. Gujranwala,
5. Faisalabad,
6. Rawalpindi including Islamabad,
7. Peshawar,

Peshawar is recently added as a region to give it more focus as sales numbers are

encouraging from Peshawar.

#### Distribution Approval Process

RSM level shortlists less than 100 million distributor, approve by head of General Trade.

More than Rs. 100 million and upto Rs. 500 million GM sales / Director and Financial Controller (as per credit management policy) approve it. More than 500 million is approved by CEO.

#### Logistics Management System

The company has implemented LE, which is improving information visibility with respect to

- ✚ Order size
- ✚ Number of orders and
- ✚ Order value

#### Demand Based Replenishment System (DBRS)

Bottom up forecast, month bucket is made such that 1-10, 11-20, 21-30 sales quantities are locked and variation percentage of 20% is allowed. On the basis of these actual sales are conducted and logistics system is aligned accordingly.

SCM considers the capacity constraints, then Marketing is asked for the support. S&OP (Sales and operational) planning then finalizes one month sales number and same is done throughout the year. Forecast for next three and next month is considered. 1st month is locked and 2 and 3 months are open and same is roll over across the year.

Logistics and distribution strategy's most critical decision is secondary sales figures are where. Primary is from the company to distributors, Secondary sales is from distributor to wholesale, retail. The company focus is on secondary sales, all incentives are linked to secondary sales. Distribution model has sales force of the company, Distributor has major input of investment, distribution resource, warehousing. Sales expertise is of the company and not the distributor. First 20 days has 40% sales and last 10 days has almost 60% sales. Last 10 days carries major cost of logistics, high volumes in last 10 days. DBRS was implemented to even out this cost over the month. Secondary sales system is flawed, Sales Flow is being implemented by the company, and actual universe of retail was never validated by the company. 120,000 shops are there in secondary sales system, actual census conducted and the number of shops came after it is 80,000. Google tag has identified it thru tagging of shop and tracking is made by the system accordingly by the company.

#### Hub Distribution for Rural Distribution

Introduction of Hub model for rural distribution, 50% distributors are unregistered after changes by Finance Act, 2019. Sales to registered persons law made it mandatory that you cannot sell more than Rs. 50,000 to an unregistered distributor. Premier Agency was made a hub distributor and rest of the distributor in small area were purchasing from them. Credit management and order management of hub distributor was done by the company and for small distributors it was done by the hub distributor himself.

#### Steps Taken in Karachi to increase Market Share

Sales profile on recipe mix, Karachi has been introduced. Door to door activity and

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consumer trial has been done in Karachi, 7, 8 lacs are conducted in Karachi. Improved our product, distribution, invested in sales force, new talent replaced from the market, social media engaged at a higher level. Google has been contracted with by the company to basically to get information on consumer reaction. The share in Karachi as per sales department was 9% earlier and now it has increased to 12% due to efforts of distribution and sales efforts by the Company.

#### Change in Distribution Strategy in Karachi

The new director sales joined the Company and was given a task to look into this centralized distribution strategy of the Company in Karachi. He developed a team and launched a program for sales career development framework and gave a roadmap for transformation of distribution network as well as sales team. The strength and weaknesses of sales team was analyzed and internal sales team development program was designed. With respect to sales development, internal selling, Category planning and activation CP&A was developed so as to know how much to sell to whom, where to launch product and how to proceed with the sales strategy. The idea was to develop the brain for sales. Planning and execution team were separated, these were made two separate departments and sales function was divided so as to improve the aspect of planning and focus group concept was introduced. The same methodology is implemented by multinational companies in Pakistan and around the globe such as P&G, Unilever and RB. SCM system of Demand based Replenishment System (DBRS) was introduced. Earlier forecast was just taken from the distributor and sales to production operation were aligned as per the final forecast approved by the Board of Directors. Now DBRS demand function (on the basis of utilization by distributors, historical data and economic trends)

generates demand or rolling forecast and it is finalized by Category planning team finalizes it on the basis of prevalent market conditions, seasonal variation is accounted for using forecasting tools, weighted average, etc. For execution of sales RTM (Root To market) theme is developed, such as

- How and when to distribute
- Route
- Planning and
- network finalization

is done by this team. Accordingly, the distribution strategy was changed and the company moved from centralized to decentralized distribution. Zones were developed for distribution of goods in Karachi and in total six distributors are engaged. There are four zones and each distributor is responsible for its own zone.

The strategy was to improve the availability and flow of goods of the company. Sales team for each distributor is different and are on the payroll of the company and their sitting is with the distributor on its premises. Order booker and payment staff is on payroll of distributor but their salaries are reimbursed by the company. Four distributors for General Trade as per zonal distribution made by the company. For Modern trade and Food services (Corporate Clients, i.e. Institutional Sales) separate distributor are engaged.

The decentralized distribution strategy in Karachi is working for the Company and it has been able to increase its sales and bring efficiencies to the distribution system. The centralized distribution was prevalent in the Company for long and it was not able to get the desired sales figures in Karachi. Shan Foods has acquired most of the market and the

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company being a Karachi based Company is not able to make the most out of its infrastructure and sales team due to relying on one distributor in Karachi. Conversely, decentralized distribution strategy is yielding fruitful results and will continue to do so under the framework being followed by the Company.