The Impact of Trade Credits in Nanostore Distribution

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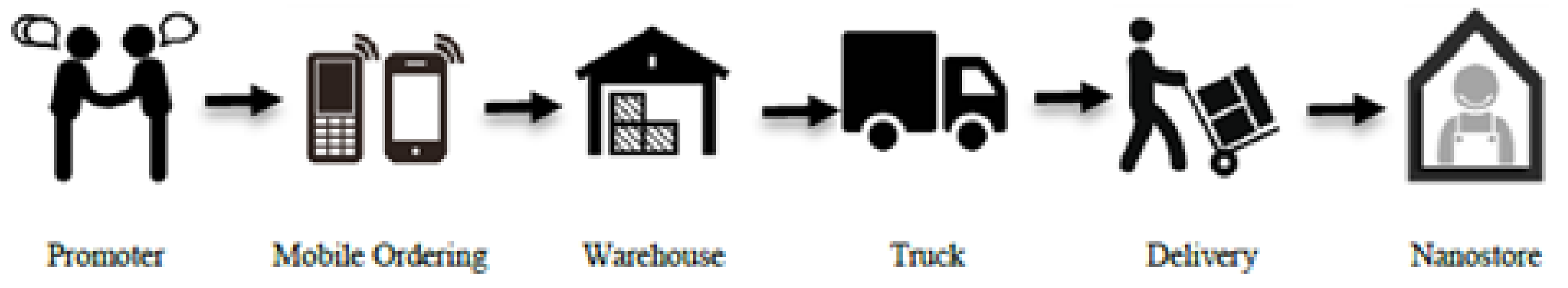
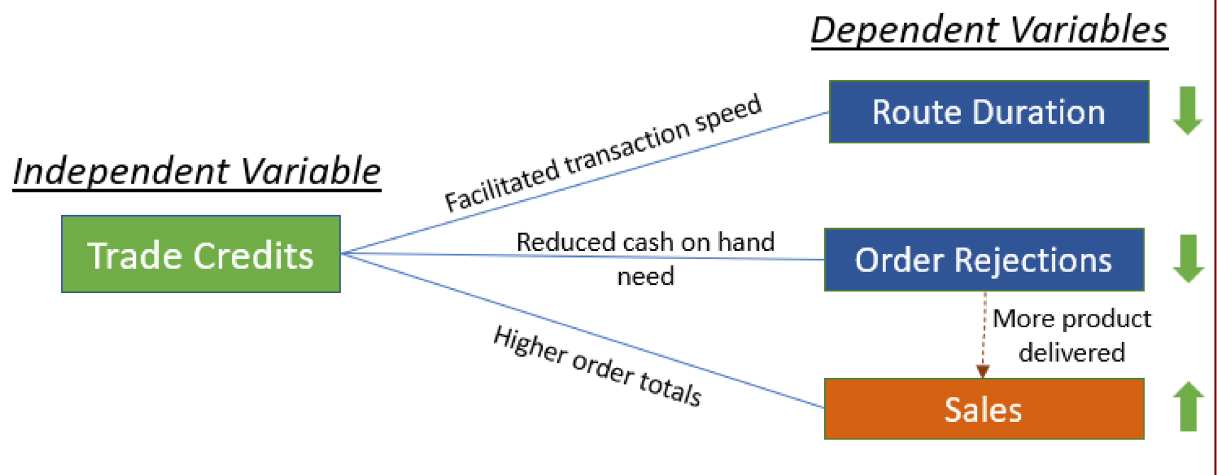
Motivation / Background

- Most of the world population buys its groceries from one of the 50 million mom & pop "nanostores" worldwide.
- Distributors (incl. CPGs like Coca-Cola & Unilever) require cash payment on delivery, prompting nanostores to reject orders and resulting in lower sales and operational inefficiencies
- Some distribution companies have opted to defer order payment by granting a short-term credit to such stores.



Key Question / Hypothesis

- Question: Does the implementation of a credit policy generate a positive ROI for the distributor and/or CPG companies?

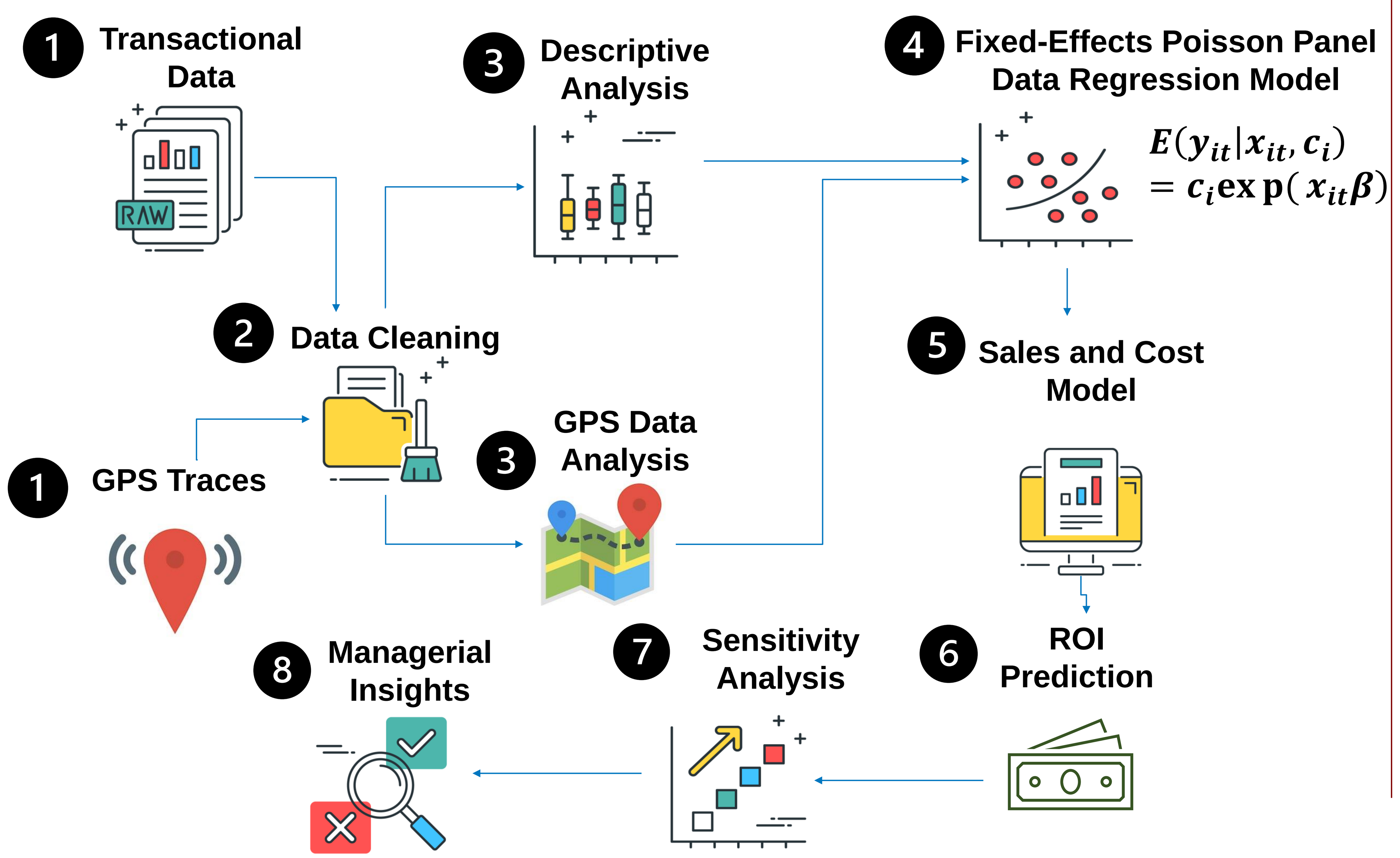


Relevant Literature

Escamilla, R., Mogollon, M., & Fransoo, J. (2020, March). The impact of credits on the efficiency in the distribution to the nanostores. 2020 MIT SCALE Latin American Conference.

Fransoo, Jan C. (2018). 50 Million Nanostores. Reaching 50 Million Nanostores: Retail Distribution in Emerging Megacities. CreateSpace Independent Publishing Platform

Methodology



Results

MONTHLY CREDIT SCENARIO	100%	10%	20%	40%
Additional Profit	148,500	14,850	29,700	59,400
Cost Saving	37,223	3,722	7,445	14,889
Total Benefit	185,723	18,572	37,145	74,289
Financial Cost	50,000	5,000	10,000	20,000
IT Management	20,000	4,000	8,000	10,000
Additional Salesforce Cost	30,000	3,000	6,000	12,000
Default Rate	0.5%	0.5%	0.5%	0.5%
Total Cost	104,167	12,417	24,833	43,667
ROI	**78%**	**50%**	**50%**	**70%**

- We find a 60% increase in sales, 40% decrease in rejections, and 20% reduction in stop duration.
- We further model return on investment, calculating 50-80% per month depending on credit level.

Contributions

- Show the effectiveness of credit policies in alleviating issues common to nanostores & their supply chains.
- Help distributors & CPGs in similar situations to the sponsor company apply a credit policy to their business utilizing project research and accompanying managerial insights.

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