

Moderna Alimentos S.A.

COMPANY BACKGROUND

Moderna Alimentos S.A. (Moderna) is Ecuador's leading miller and marketer of wheat flour. The company has been in operation since June 2009, when it was formed by the merger of Molino Electro-Moderna S.A., Molinos del Ecuador S.A., and Grupo Moderna. Each of these companies had more than 12 years of experience in Ecuador's wheat and flour market. The merger gave Moderna immediate control of 39% of the market; combined the companies' reach to different regions and customer groups nationwide; and generated competitive advantages like the ability to negotiate full cargo vessel shipments and consolidate port handlings and internal freight. This

has resulted in lower costs and greater affordability for customers at the base of the pyramid.

Headquartered in Quito, Moderna operates three wheat flour mills located in Manta, Riobamba, and Cajambe. Its trademark brand, Ya, is Ecuador's leading wheat flour brand. Additionally, Moderna produces and markets bakery products, and manages a chain of 13 bakeries under franchise in Quito. Today, Moderna is owned by the Correa family with 36.6%, Seaboard Corporation and Continental Grain Company with 25% each, the Lopez family with 10.6%, and investment fund Fondo País Ecuador with 2.8%.

MODERNA'S INCLUSIVE BUSINESS MODEL

Moderna reaches approximately 75% of Ecuador's nearly 6,000 small bakeries with its flour products. These bakeries come in two forms and sell their products in two different ways:

- Individual bakers bake bread in their own homes to be sold at open air markets. Because their volumes tend to be smaller, they sell directly from baskets as they walk through the markets.
- Small bakery stores are typically operated by two or three people, usually family members, who bake and handle sales. They are slightly more formal than the individual bakers because they have their own stores; however, these stores tend to be very small, approximately 40 square meters, with baking activities taking place in the rear and sales taking place in the front.

Moderna's approach is to supply bakeries with flour together with yeast, sugar, flavorings, and other essential ingredients as part of a "one-stop" package. In addition, Moderna provides extensive training sessions on efficient usage of flour, including the correct proportions and temperatures to use for baking bread. The company has deployed four training sites and offers training on the bakeries' own premises. It conducts periodic workshops on a variety of topics, such as bakery, pastry, business management, taxes, and even self-esteem. The company has 10 technical assistants who make an average of 400 client visits per month, and remain on call to support clients with production concerns and product development.

The one-stop package and technical assistance create business value for the bakeries in its client base. They also provide Moderna with a direct marketing channel that allows the company to establish and maintain

direct relationships with its clients. Moderna flour is not the least expensive brand in the Ecuadorian market, but small bakeries choose it over other brands for consistent quality, convenience, and opportunities for technical assistance.

Moderna's preferred method of distribution is direct sales and delivery. Moderna serves more than 2,700 bakeries this way in the country's two largest cities—Quito and Guayaquil—and most of the country's Andean region. In other markets, wholesalers comprise a large portion of Moderna's sales, and serve more than 1,500 additional bakeries. Wholesalers are serviced by Rey Ventas, a Moderna subsidiary.

Through the direct sales and delivery method, salespeople from Moderna or one of its exclusive, independent distributors visit bakeries weekly to review inventory and outstanding payments and place orders for delivery the following day. Deliveries are typically made weekly or bi-weekly, depending on the bakeries' storage capacity, and "emergency" deliveries can also be made if additional needs arise. The flour is delivered by truck, with the majority of customers receiving five to ten 50kg bags per delivery. Sales are made on credit for seven days, with payment expected on the salesperson's next visit. Credit is not used as a sales tool.

Whether a given bakery is served by Moderna staff or those of its exclusive, independent distributors depends on geography and security factors in the market. For example, in sparsely populated rural areas, highly dispersed and hard-to-reach bakeries are better served by independent distributors with the appropriate distribution models, and who can deliver other products at the same time. In cities like Guayaquil, informal settlements pose security challenges, and bakeries there are better served by local distributors.

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DRIVERS FOR MODERNA'S INCLUSIVE BUSINESS MODEL

- Consumer preference for the cachito bread rolls sold by small bakeries
- Small bakeries consume over 90% of flour used for baking (baking, in turn, accounts for approximately 70% of the total flour market)
- Stability, loyalty, and profitability of the small bakery segment
- Rising demand for flour, at 3–4% annually

The overarching driver for Moderna's inclusive business model is market opportunity: Ecuador's approximately 6,000 small bakeries account for more than 90% of flour sales in the country. The company has found these small bakeries to be stable, loyal, and profitable customers. They tend to switch products infrequently because of the cost involved in adapting their baking methods. Furthermore, their demand for flour is rising, at a rate of 3–4% annually. One in 20 small bakeries, on average, grows into a medium-sized business.

Demand for flour at the small bakery level is further driven, in part, by consumer preferences.

The country's best-selling baked product is the cachito—a bread roll similar to a croissant sold primarily by smaller bakeries. Industrial bakeries do not produce cachitos, reinforcing small bakeries' competitive advantage. At \$0.30 for three, cachitos are well within reach of the average Ecuadorian consumer and small bakeries can sell large volumes, fueling demand for Moderna flour. While most bakeries sell on a cash basis, some have expanded into small convenience stores offering credit—further heightening the appeal for consumers at the base of the pyramid.

RESULTS OF MODERNA'S INCLUSIVE BUSINESS MODEL

- Over 10,000 individuals at more than 5,000 small bakeries have received business and bakery training
- 20% compound annual growth in revenues since 2009
- \$17.4 million in EBITDA in 2010

Moderna currently supports more than 4,200 small bakeries with critical ingredients, convenient ordering and delivery methods, technical assistance, and credit—contributing to their business stability and success, and helping to fuel a significant leap forward in the bakery business in Ecuador over the years. In total, over 10,000 individuals at more than 5,000 small bakeries have been trained.

As a result, Moderna has become the largest player in the flour market in the country, well-known to all experienced bakers. Revenues have grown at a compound annual rate of 20% since the merger in 2009. In 2010, EBITDA reached \$17.4 million.



IFC'S ROLE AND VALUE-ADD

Given the challenging economic environment in Ecuador, private sector companies are finding it increasingly difficult to raise financing. This includes strong and viable companies like Moderna. In 2010, IFC invested \$8 million in debt to help improve Moderna's competitiveness in the production and commercialization of wheat flour, and to extend its product mix to other staple food products such as pasta and bread.

IFC's investment is also acting as a catalyst, attracting other international financial institutions that can co-finance the investment program. For instance, IFC's participation has helped mobilize additional long-term debt from the Inter-American Investment Corporation.

Finally, through a partnership with the Global Alliance for Improved Nutrition (GAIN), IFC is supporting Moderna to develop a new commercial business model capitalizing on the company's experience in nutrition to benefit infants from underserved, low-income families. Through the IFC-GAIN Challenge Fund, IFC is contributing project management, project monitoring and evaluation, and knowledge of low-income market dynamics and incentives.



IFC's Investment:

\$8 million in long-term debt financing