

Alquería S.A.

COMPANY BACKGROUND

Alquería S.A. is Colombia's third-largest dairy company engaged in the production and marketing of a wide range of Ultra High Temperature (UHT) dairy products. Founded in 1959 by Dr. Jorge Cavelier, Alquería is still majority owned by the Cavelier family. Dr. Cavelier saw an opportunity for a more modern approach to milk processing and was the first to process raw milk in the Colombian market.

With revenues of \$307 million in 2011, over 3,500 employees, and more than 6,000 farmers and third party suppliers, Alquería is one of the leading dairy producers in Colombia. On a national level, as of 2011 Alquería controls 13% of the milk market, and leads the UHT market with a 25% share. Colombians consume around 140 liters of milk per year, making Colombia the second largest consumer market in Latin America, after Costa Rica.

Country: Colombia

Sector: Agribusiness

IFC's Investment: \$15 million in long-term debt financing and \$5 million in equity

Alquería owns production plants in four of Colombia's major cities—Bogotá, Medellín, Cali, and Santa Maria—and additional distribution centers in the cities of Bucaramanga, Villavicencio, Cucuta, Ibague, and Neiva. Each plant serves as headquarters to one of the four business units under which Alquería operates. Alquería also has a minority ownership in DASA, a joint venture with Danone, which produces and markets yogurt products under the Danone brand.

DRIVERS FOR ALQUERÍA'S INCLUSIVE BUSINESS MODEL

- The majority of milk producers in Colombia are small-scale; supporting them underpins Alquería's ability to secure raw milk at competitive prices to sustain its growth plan
- Demographics and cultural preferences favor small-scale retail

On the supply side, Alquería focuses on small-scale dairy farmers because they comprise the majority of milk producers in Colombia. The company's success depends on their success: to remain competitive and grow, Alquería must work with them to increase volumes and enhance production quality.

On the distribution side, traditional, small-scale retail outlets continue to be Colombia's most important channel. According to AC Nielsen, there are around 500,000 such outlets (on average, one store per block) compared to 5,440 supermarkets or minimarkets. In the past year, traditional stores and supermarkets experienced growth over 15% each (15% and 16% as of June 2012, YoY, respectively).

The continued success and growth of the traditional channel is reinforced by demographic factors. About 70% of the Colombian working population earns a minimum wage, getting paid on a bimonthly or even daily basis, which makes small, frequent purchases more convenient. Only 15-18% of the population own a car, making it difficult and expensive to reach supermarkets. Furthermore, small shops provide credit and retail prices that are on average only 3% more than in supermarkets, making them relatively competitive given their accessibility to people at the base of the pyramid.

ALQUERÍA'S INCLUSIVE BUSINESS MODEL

Alquería does business with low-income populations on the supply side as dairy farmers and on the distribution side as retailers.

SUPPLY CHAIN

Alquería sources 99% of its milk from about 6,500 independent farmers: 1,000 of these farmers supply the company directly, for approximately 48% of its total milk supply. Over two-thirds of these direct suppliers produce less than 200 liters per day — considerably less than the international average of 400 liters per day for a medium size farm. Most of them produce approximately 80 liters per day with an average of 15 cows, on farms of fewer than 20 acres each. It is important to note that more than 80% of milk producers in Colombia are of this type, and large farms with production over 10,000 liters per day are very few.

Another 5,500 farmers in Alquería's value chain supply the company indirectly, for approximately 42% of its total milk supply. These indirect suppliers tend to be smaller, producing as little as 10 liters per day. The company reaches them through intermediaries such as cooperatives, independent tanks, and other intermediaries with their own trucks and refrigerated tanks. These intermediaries facilitate the collection and payment processes with smaller farmers, particularly in remote, rural regions.

Alquería does not have long-term supply contracts and relies on strong relationships with farmers to maintain supply chain security. The company leverages its well-established reputation for paying on time and consistently off-taking milk, even when the market is flush. It also offers various forms of technical assistance. Through a dedicated supply chain management team, the company provides advice and assistance with:

- Appropriate feed rations
- Clean milk collection procedures
- Bulk procurement of fodder and fertilizer, which helps keep production costs down
- Microcredit financing

To date, Alquería has provided COP 54 million in financing directly to small farmers who are ineligible for commercial bank loans. This program was implemented recently and will grow in importance.

DISTRIBUTION

Alquería has a robust distribution network reaching over 140,000 points of sale (mom-and-pop-stores). In Colombia, small-scale retail outlets such as corner stores and kiosks continue to be the leading distribution channel and account for 69% of Alquería's sales, while supermarkets comprise only 20%. Because UHT lasts longer than pasteurized milk and does not rely on refrigerated systems, storage is easy and affordable for these small-scale outlets.

Alquería reaches small-scale outlets in a variety of ways. The most important is pre-sales, which account for over half of its revenues. Every morning, company staff visit small-scale outlets nationwide, taking orders to be delivered the following day. In Bogotá, 150 pre-sellers visit approximately



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80 shops each, taking orders equivalent to 1,520 liters. To facilitate this process, the company has developed a mobile application that will allow orders to be uploaded and transmitted through cellular phones. Depending on location, deliveries are made anywhere from three times a week to once a day by third party transporters using trucks, carriages pulled by motorcycles, and small trolleys that support canteens and very small shops.

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Payments are made directly to delivery personnel on a purely cash basis. For safety reasons, Alquería has made express service arrangements with local banks. This arrangement allows delivery personnel to make frequent deposits, skip the customer line, and promptly continue their delivery activities.



A new distribution strategy targeting very small towns and remote areas is micro-sales. Introduced in 2009, micro-sales now account for approximately 5% of total revenues and continue to grow. In this model, Alquería selects one person in a specific locale to serve as an independent distributor to small retail outlets in that area. Each person must meet screening criteria such as being married or receiving the recommendation of a local priest. His or her home serves as a warehouse, and Alquería sometimes provides financing for a motorcycle or small truck to use for deliveries.

RESULTS OF ALQUERÍA'S INCLUSIVE BUSINESS MODEL

- Distribution linkages with 140,000 small retail outlets that earn on average 5% on sales
- Distribution linkages with 690 small, independent distributors who earn on average 3.5% on sales
- Direct and indirect supply linkages with more than 6,000 mostly small, independent dairy farmers
- \$307 million in revenues and \$30 million EBITDA in 2011
- 25% market share in UHT milk

Alquería supports micro-enterprise development and employment through distribution linkages with 132,000 small retail outlets ranging from mom-and-pop stores to kiosks to coffee shops. These outlets earn, on average, 5% on sales of Alquería products. Some of these outlets are, in turn, served by 690 small, independent distributors affiliated with the company — these distributors earn an average of 3.5% on sales of its products.

On the supply side, Alquería sources from approximately 6,000 mostly small, independent dairy farmers — providing a stable and reliable income that compares well with alternative activities such as cattle ranching. Purchasing totaled \$140 million in 2011. In addition, through its technical assistance efforts, Alquería is helping small dairy farmers increase and improve the quality of milk production,

thereby stabilizing and enhancing their incomes and supporting job creation on their farms.

By offering technical assistance, Alquería is also facilitating a change in mindset for these small producers rather than viewing their businesses purely as means of survival, they now see growth potential. They are recognizing the benefits of shifting to more professional approaches that raise their incomes and improve quality of life for their families.

Alquería's efforts have earned it market leadership in UHT milk with a 25% share, and second position in the milk market overall with a 13% share. In 2011, the company generated \$307 million in revenues, reflecting 170% growth in the past five years. During the same period, Net Income increased to \$9 million from \$1 million and EBITDA increased to \$30 million from \$10 million.

IFC'S ROLE AND VALUE-ADD

IFC's Investment: \$15 million in long-term debt financing and \$5 million in equity

Investment Year: 2010

- In 2010, IFC provided Alquería with long-term financing in the form of \$5 million in equity and \$15 million in debt
- IFC's investment is enabling Alquería to increase milk sourcing by increasing volumes from current suppliers, bringing additional dairy farmers into the supply base, and helping new dairy farmers to emerge

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For more information, visit ifc.org/inclusivebusiness and alqueria.com.co