

Bakhresa Grain Milling Malawi

COMPANY BACKGROUND

Bakhresa Grain Milling (BGM) Malawi is the market leader in flour milling in Malawi. BGM Malawi is part of the Bakhresa Group of companies, a leading industrial house founded by the Bakhresa family in Tanzania in the 1970s. The Bakhresa Group currently operates in Tanzania (including Zanzibar), Malawi, Uganda, Kenya, Zambia, Rwanda, and Mozambique. Its flour milling operations in East Africa make up more than 89% of total sales. The Bakhresa Group also operates food, transportation, and logistics businesses, mainly in Tanzania. It has an annual turnover of more than \$500 million and employs nearly 2,000 people in the region.

BGM Malawi was established in December 2003 and currently has a national market share of 80%. Its flour milling facility is located in the south in Blantyre, the

Country: Malawi

Sector: Agribusiness

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

country's industrial and commercial capital. The company also has branches in Mzuzu in the north and Lilongwe in central Malawi. BGM Malawi supplies to 90% of commercial bakeries, an estimated 75% of small bakeries, and 60% of small retail outlets in the country. In 2011, the company's revenues reached \$86.2 million.

DRIVERS FOR BGM MALAWI'S INCLUSIVE BUSINESS MODEL

- Rising consumption of wheat, at 6% growth annually
- Products and distribution channels are tailored to large commercial bakeries, making it harder for small bakeries and retail outlets to purchase

The primary driver for BGM Malawi's inclusive business model is local market demand for wheat. Wheat consumption has experienced 6% annual growth since 2008 due to improving economic conditions and increased urbanization.

Small bakeries and retail outlets constitute a significant portion of the wheat market in Malawi, yet they are inadequately serviced by large wheat distributors. BGM Malawi opened local branches in the central and northern parts of the country to directly service these customers. Before BGM Malawi initiated direct sales, mom-and-pop retail outlets were required to travel long distance or purchase packaged wheat flour from large, third-party

distributors, distributors of competing brands, and unorganized sources such as informal traders selling by the scoop. Interruption in the supply of BGM Malawi products was a common problem since these retailers were not a priority for large distributors. Now, BGM Malawi branches ensure that small retailers have a consistent and uninterrupted supply of products at competitive prices. The business opportunity in branch-based sales to small bakeries and retailers has been validated by the huge growth in sales that company branches established in 2010 have already experienced. The branch distribution channel already comprises 10% of sales.

BGM MALAWI'S INCLUSIVE BUSINESS MODEL

BGM Malawi sells packaged wheat flour to commercial bakeries, small bakeries and small retailers, and supermarkets under a variety of brands and package sizes ranging from 2–50kgs. Commercial bakeries requiring larger stocks tend to purchase 25kg and 50kg packages. To target smaller bakeries and retail outlets with lower inventory requirements, the company recently launched a 10kg package size.

DISTRIBUTION

The company has four primary distribution channels, two of which serve small retail shops and bakeries:

- Distributors: 60% of BGM Malawi's volume is channeled through five major distributors that resell to small retail shops (90%), small bakeries (5%), and individuals (2%)
- BGM Malawi branches: 10% of volume is sent to company branches that sell to small bakeries and retail shops

Distributors collect packaged flour directly from BGM Malawi's packaging plant in Limbe. 90% of this volume is then sold to small retail shops through distribution outlets located throughout rural and urban parts of the country, each servicing an area of 15–20km. Retailers, which typically purchase 14–35 bags on a weekly basis, are family-owned, employ one to two assistants, and range in size from 30–60 square meters. Small bakeries located in suburban and rural markets throughout the country, but predominantly in the southern region, comprise 5% of the distributors' sales. These bakeries, on average, employ three to four employees and purchase one to two bags of flour on a daily basis.

BGM Malawi branches, the company's newest distribution channel, were initiated as a way for the company to directly reach smaller businesses located too far from Limbe to regularly pick up supplies. Around 200–300 small businesses already purchase from BGM Malawi branches, including small mom-and-pop retail outlets (70%), small bakeries (20%), and small wholesalers (10%). Mom-and-pop outlets tend to be located within a 300km radius of a branch, have 4–10 employees and operate in busy trading areas near fuel or bus stations.

In addition, BGM Malawi salespeople call small retail outlets and bakeries on a regular basis to collect orders. When enough orders have been collected, typically twice a month, it deploys vans from the factory or branches to drop off supplies directly. This occurs most frequently in the outskirts of Limbe and Lilongwe.

The company plans to open six additional branches in all of Malawi's major trading centers over the next three to five years. By that time, BGM Malawi anticipates that 30% of its packaged wheat flour volume will be distributed through its branches.



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BGM Malawi also directly distributes to large commercial bakeries, each of which buys an average of 100–500 bags per week. They account for 20–22% of the company's total volume. While they are not a primary target for BGM Malawi, approximately 1–2% of its packaged wheat flour is distributed to supermarket chains.

Training not only enables these bakeries to be more successful; it also helps BGM Malawi establish brand loyalty and strong customer relationships

TECHNICAL ASSISTANCE

BGM Malawi provides training to small bakeries purchasing either directly from the company or from distributors. Workshops are conducted in rural areas predominantly in the central region, where most small bakeries are located. They are scheduled every six months—after the harvest season when individuals have time to participate. As many as 100 people participate at a time. Elements covered include bakery management, baking processes and machinery, ingredient usage, and basic business skills like sales and marketing. Training not only enables these bakeries to be more successful; it also helps BGM Malawi establish brand loyalty and strong customer relationships. Over the past two years, the company has trained 1,000 people from 200–250 small bakeries.



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In addition to formal training, company staff visit 250–300 bakeries during routine monthly or bi-monthly market visits to understand market needs, monitor sales throughout the value chain to the end customer, and provide input on technical aspects including machinery and processes. Distributors also monitor the bakeries they are supplying, though less frequently and specifically for consumption.

Finally, BGM Malawi sales and merchandising staff visit small retail outlets once a quarter and provide merchandising support including stocking, displays, and point-of-sale advertising. Currently, 200–250 outlets across the country and their 1,800–2,000 staff receive such support.

RESULTS OF BGM MALAWI'S INCLUSIVE BUSINESS MODEL

- Small retail outlets receive an average margin of 10–15% on sales of BGM products and bakeries an average of 20–25%
- Over 1,000 small bakery staff have received business and technical training to date
- Over 1,800–2,000 staff from more than 1,000 small retail outlets have received merchandising support
- 33.6% annual revenue growth in calendar year 2011
- \$9.5 million EBITDA in calendar year 2011
- Recognized as a winner of the G20 Challenge on Inclusive Business Innovation

To date, BGM Malawi has provided over 1,000 small bakery staff with business and technical training. As a result of this training, bakeries are better equipped to produce high-quality baked goods and resell to customers. At the same time, BGM Malawi builds brand loyalty within its customer base. Additionally, BGM Malawi has provided merchandising support to more than 1,800–2,000 staff at more than 1,000 small retail outlets. Bakeries selling goods made with BGM products receive an average profit margin of 20–25%, and

small retail outlets selling packaged flour typically achieve a margin of 10–15%.

As a result of BGM Malawi's inclusive business model, the company has positioned itself as the market leader in wheat milling in Malawi, achieving 33.6% revenue growth and \$9.5 million in EBITDA in calendar year 2011. Bakhresa was recognized for its business model as a winner of the G20 Leaders Summit in 2012.

IFC'S ROLE AND VALUE-ADD

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

Investment Year: 2008

- IFC's loan to BGM Malawi in 2008 helped finance short-term supplier credit, allowing the company to strengthen its balance sheet and reduce refinancing risk.
- The BGM Malawi loan was part of a \$20 million loan to the Bakhresa Group, of which \$7 million to BGM Mozambique established a grain handling and storage facility that increased efficiency of distribution in northern Mozambique, Malawi, and Tanzania.
- IFC's multiple investments have enabled the Bakhresa Group to access longer-term loans than those available locally and to pursue regional expansion. Concurrent support in corporate governance and environment and social standards have improved the Group's risk profile.

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