

Tenda Atacado:

Transforming Business Relations
into Partnerships for Growth



Tenda Atacado and
Opportunities for the Majority
May 2012

PROJECT SUMMARY

“Transformadores” or microentrepreneurs from São Paulo who are part of Tenda’s credit program.





Project implementer:

Tenda Atacado Ltda., São Paulo - Brazil

Opportunities for the Majority Loan Amount: US\$10 million

Challenge:

Microentrepreneurs in the food retail industry face challenges in accessing credit to undertake daily activities or to expand their businesses and in acquiring technical skills to sustainably grow.

Proposed solution:

Expand Tenda Atacado's current credit portfolio to an additional 60,000 microentrepreneurs and engage 6,000 of these clients in a capacity building program. This is expected to help mitigate challenges faced by clients while increasing the company's client base, client retention, sales, and the size of its credit portfolio.

The Opportunities for the Majority initiative (OMJ) promotes and finances market-based, sustainable business models that engage private sector companies, local governments, and communities in the development and delivery of quality goods and services for the base of the pyramid (BOP). Created in 2007 as part of the Private Sector Group of the Inter-American Development Bank, OMJ provides loans and partial credit guarantees to medium and large companies and financial institutions to support the development or expansion of business models that serve low-income populations and to share the risk of entering BOP markets. To reach smaller companies and start-ups, OMJ provides credit to impact investing funds. The OMJ portfolio also includes technical assistance grants that are used for business acceleration to assist pre-commercial models to become investment ready; to conduct needed market research; and to build capacity and transfer know-how.

About Tenda Atacado. Tenda is a leading Brazilian retailer and wholesale distributor that focuses on a cash and carry model in the State of São Paulo. Established in 2001 as a spin-off of Atacado Vila Severini Netto, Tenda is the flagship company of a group of five corporations. Revenues from Tenda stores reached over US\$765 million in 2011.

Brazil's food services and food

retail sector is a strong contributor to the country's economy, both in terms of gross domestic product (GDP) and employment. Data from the Brazilian Association of Bars and Restaurants shows that bars and restaurants contribute to 2.4% of Brazil's GDP. These commercial establishments also account for six million direct jobs in the country.¹

A study by the Brazilian Agency for the Support of Micro and Small Enterprises (SEBRAE) found that 8.37% of the formal micro and small businesses in the state of São Paulo are small cafes or restaurants.² Another study shows that, nationwide, 6.93% of all informal businesses in urban areas with up to five employees fall under the category of "accommodation and food services".³ These micro and small businesses face a unique set of challenges, which include difficulty in accessing credit to finance operations and a lack of technical skills that could drive their businesses past a survival-only mode to a more sustained growth path.

The lack of access to credit is particularly harmful as it leads entrepreneurs to seek loans from "shark lenders" at exorbitant interest rates. Lack of working capital funding also causes logistical challenges, forcing businesses to manage small inventories and make multiple purchases in a single day.

Tenda Atacado, a prominent supermarket chain and wholesale distributor, has focused on delivering competitive prices by purchasing merchandise in bulk from manufacturers, maximizing freight and handling efficiencies, and having stores designed for optimum selling and stocking. This makes the company an obvious choice for food service microentrepreneurs. But while the company's low price offerings has led to gains in market share, the entry of multinationals into Brazil's food retail sector has increased competition and this new landscape has

¹ Associação Brasileira de Bares e Restaurantes. Perfil da Abrasel. Retrieved on April 2012 from: <http://www.abrasel.com.br/index.php/perfil-da-abrasel.html>

² Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE) – São Paulo. (2007). Onde estão as micro e pequenas empresas em São Paulo? Retrieved on April 2012 from: <http://www.sebrae.com.br/>

³ Instituto Brasileiro de Geografia e Estatística (IBGE). (2003). Economia Informal Urbana. Retrieved on April 2012.

pushed Tenda to compete through strategies that go beyond offering low prices. To address these changes, Tenda is shifting its value proposition by creating a deeper relationship with its clients.

Part of this strategy has relied on the provision of credit offered through the company's own card. Between 2012 and 2013, Tenda plans to implement a robust capacity building program for microentrepreneurs to complement the access to credit effort. Through a loan from the Inter-American Development Bank's (IDB) Opportunities for the Majority (OMJ) initiative and a US\$270,000 grant from the Korea Poverty Reduction Fund of the IDB, Tenda will expand its store credit portfolio to 60,000 thousand microentrepreneurs and engage 6,000 of these clients in the capacity building program. The program will focus on beneficiaries in the C and D socioeconomic segments, with monthly incomes from US\$330 to US\$1,320 and a maximum of five employees.

For the company, utilizing the existing platform to expand access to credit and invest in capacity building for its clients is a win-win strategy. While mitigating the problems of microentrepreneurs, Tenda gains by attracting new clients, increasing client retention, sales, and its profitable credit portfolio. As stated by one of the company's managers, "Tenda's objective with this credit program is not to sell to clients, but to create shared value with those that walk into our stores."

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One Tenda Atacado store in São Paulo.


“We are testing a methodology that can be vital for emerging markets and those that invest in the base of the pyramid.”

To obtain important company buy-in, the team in charge of project implementation showcased the growth potential that microentrepreneurs have for Tenda’s business: 1) average individual purchases made by microentrepreneurs are higher than those made for household consumption and 2) sales growth potential, because as their businesses grow, so too will their purchases with Tenda.

To guarantee the successful implementation of the programs, Tenda reached out to organizations that have experience working with the base of the pyramid, specifically in the areas of credit evaluation and capacity building, and that understand the needs of microentrepreneurs and share Tenda’s goal of creating a business model that generates social and financial gains for the company and its clients.

The decision to engage with OMJ was also crucial. The partnership was an important factor in building internal company buy-in and assuring the program’s credibility. OMJ’s multi-disciplinary team





assisted in the structuring of the technical cooperation project and worked to ensure that the improved business model generated strong impacts to those in the base of the socio-economic pyramid. Tenda also believes the programs can be replicated throughout Brazil and Latin America and the IDB is a powerful platform for these scaling up efforts. As one of Tenda's partners in the development of the capacity building methodology, puts it: "We are testing a methodology that can be vital for emerging markets and those that invest in the base of the pyramid."

The credit program will be expanded through Tenda's 16 existing stores and three additional ones due to open in 2012. As part of the company's strategy, transaction fees on purchases made with the store card will be eliminated to attract more applicants. Interest rates charged are competitive with market conditions and a customized collection methodology for late payments has been developed, focused on maintaining clients and agreeing to flexible payment plans.

The capacity building program for entrepreneurs will be piloted in the Guarapiranga store in São Paulo. The store was chosen because it attracts a large number of entrepreneurs and is located in a region with a high density of small food retail establishments. Based on the lessons from this pilot, Tenda plans on making the capacity building program available in all its stores.



Tenda Atacado, a prominent supermarket chain and wholesale distributor

Once the loan structure was

agreed upon and the design of the technical cooperation project was completed, OMJ conducted a robust due diligence of the company. This included a risk assessment of the financial, social, and environmental aspects of the project. Tenda then began taking implementation steps to secure the expansion of the credit program and the launch of the capacity building initiative.

The original credit program presented a number of deficiencies that will be improved with a new methodology, including:

- It relies on credit track records to assess risk and increase credit limits, ignoring in-store purchasing patterns of cardholders and non-cardholders, who could be potential applicants of the credit program.
- Business owners who are in the informal or semi-informal sector do not show proof of sales and profits and thus, the credit evaluation often awards them with lower credit limits than they demand and can effectively pay.
- It relies on the equivalent of the person's social security or business tax ID. Through these variables, the credit system seeks out publicly available information about the applicant (i.e. whether they have delinquent debt records, property ownership, tax returns, etc).

Tenda understands that a system that will allow for the expansion of the credit program must utilize more innovative variables to reach a larger number of entrepreneurs and to create credit profiles that are more reflective of them.

The improved version of the credit program will rely on two main sources of information:

- Tenda's internal database of client purchases. Purchasing behavior is easily tracked for clients paying with the store card. Clients paying with other methods can also be tracked through their social security number equivalent, which is information required to be issued under Brazilian law for official state receipts. Tenda plans on tracking the buying pattern of those that do not request a state-issued receipt, or that do not pay with the store card, by launching a fidelity card for all clients.



- Innovative variables channeled through the updated software and credit scoring methodology will be used. An example of such variables includes cell phone records and assessing whether the individual changed carriers, but maintained the same cell phone number. This would positively impact the credit score as it signals the person wants to be located.

In addition to creating an innovative and more accurate credit methodology, Tenda is cautiously designing a framework that is inclusive and reflects the goal of awarding credit to a population that does not fit the parameters of formal credit mechanisms. With 270,000 clients holding Tenda cards at the beginning of 2012, the new credit scoring methodology will more accurately assess credit risk, so as not to deny credit to those that can meet payment obligations.

For the capacity building component efforts, the objective is to recruit microentrepreneurs to be part of “Entrepreneurial Clubs”, cells of 10 participants who meet regularly to discuss challenges and proven solutions. Other characteristics of the capacity building program include:

- Cells will meet six to 10 times with the assistance of a Tenda facilitator, who will coordinate meetings and guide discussions. Cells are expected to outlive the 10 initial meetings.
- External consulting will be available to offer technical knowledge around specific topics, such as accounting, cash flow management, health and safety requirements of food retail, and labor laws.
- A temporary incentive structure for the program will be set up to promote participation. Participants may be awarded a premium card with higher credit lines and deeper store discounts, for example.
- The program will also leverage existing and available training programs and bring those into the Club forums.

Tenda has built an expansive space in the Guarapiranga store where the capacity building will initially take place. Tenda expects to make similar spaces available in all of its stores, taking advantage of the existing delivery platform it has to reach microentrepreneurs.



One of the 6,000 entrepreneurs who will be part of Tenda's training program.



RESULTS

As part of the loan and technical cooperation agreement, OMJ and Tenda agreed upon a set of financial and social metrics to measure program impact and results. OMJ ensures that these metrics work as a loan covenant and both parties agree on goals and milestones to be reached throughout implementation.

SHORT-TERM RESULTS

A number of results derived from the credit program can be reported since Tenda introduced its store card in 2005, including:

- The portfolio of Tenda's credit program grew from nearly US\$60 million in 2008 to approximately US\$92 million in 2011. The growth rate in the portfolio's size from 2011 to 2012 is expected to be 53%, reaching US\$142 million.
- The value of purchases made through the store card has progressively grown since 2008, reaching US\$72 million in 2011, a growth of 78% when compared to 2010.
- The average purchase amount made by clients with the card is 30% higher than the average purchase made through other payment methods (US\$154 vs. US\$118).
- Since 2008, the average delinquency rate for the portfolio is lower than 7%.
- The loss in portfolio due to default by clients has been a mere 1.5% since 2008.

ANTICIPATED LONG-TERM OUTCOMES

It is expected that both the capacity building program and the expansion of credit will generate business results for Tenda, and social and business returns for microentrepreneurs.

From Tenda's perspective, the company will evaluate if the expansion of the credit program, after the implementation of the new credit methodology, reduces delinquency rates, increases company sales and average purchase amount made with the store cards, and whether it increases client fidelity. Similar results will be measured to assess the capacity building program.

Anticipated impacts for the entrepreneurs include increase in revenue and profitability of their businesses, as well as better cash flow management. For the capacity building program, results will be analyzed around four main areas:

- **REACTION TO THE PROGRAM:** Assessing how well the participants liked the learning process.

Setting financial and social metrics. In 2011 OMJ adopted the Impact Reporting and Investment Standards (IRIS) taxonomy to effectively capture, track, report, and determine the financial, social, and environmental impacts of its loan and grant portfolios. The IRIS library of standardized social and environmental metrics is used to structure targets for loans and technical cooperation projects, in agreement with OMJ clients. In this way, OMJ can ensure that projects are meeting the organization's goal of developing private sector solutions that foster economic and business growth, and alleviate poverty.

- **LEARNING:** Assessing what was learned and what were the gains in knowledge and skills.
- **BEHAVIOR:** Identifying changes in business performance.
- **RESULTS:** Assessing tangible results of the learning process in terms of reduced costs, improved quality, increased production, efficiency, and other business impacts.

LESSONS LEARNED

To date, Tenda has accumulated several lessons from developing the programs.

- Tenda has grown its credit offerings gradually and conservatively, never losing focus of its central retail business. The company initially outsourced the management of its credit program and, once Tenda realized the success and value of this new business segment, it acquired the sub-contracted company and began running operations internally. Companies looking to implement similar models should leverage existing distribution platforms to offer new services, but they should not lose focus of their main business on which such platforms rely.
- Setting up credit mechanisms for low-income microentrepreneurs requires breaking away from preconceived notions and employing innovative strategies to assess risk. To work with the target beneficiaries of the Tenda program, a complete change in attitude is needed to develop an alternative framework that is inclusive, standardized, yet still has a high accuracy rate.
- Recognizing that beneficiaries of the programs may lack technical skills and formal education but have vast business knowledge. As a member of the implementation team puts it, these microentrepreneurs are “make doers”. Any capacity building program designed to assist this group must acknowledge their unique skill mix or else risk failing.
- Achieving internal company buy-in is crucial for successful program implementation. Mobilizing senior management was decisive for the project's viability. The executive director of Tenda's credit department, worked diligently to gain the trust and buy-in of senior management, which is needed for any model's success.

Tenda's distribution network for microentrepreneurs is a valuable vehicle for the delivery of additional products and services that can generate business and social impacts. As Tenda continues to innovate its offerings and leverage its existing platform, the company's experience can encourage other businesses to think about how their strategies can help bring solutions to those at the base of the socioeconomic pyramid.



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1300 New York Avenue, NW
Washington D.C. 20577 USA
OM-IDB@iadb.org
www.iadb.org/om