TECHNOSERVE
BUSINESS SOLUTIONS TO POVERTY

Smart Duka

The Story of Developing Kenya's Micro Retail Sector

March, 2020

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TECHNOSERVE/SMARTDUKA

Smart Duka
Growing Together

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ACRONYMS

SECTOR SPECIFIC ACRONYMS EMPLOYED IN THE BODY OF THIS REPORT INCLUDE:

BOP	Bottom-of-the-pyramid
CPG	Consumer packaged good
Duka	Swahili word for “shop”
FMCG	Fast-moving consumer good
GDP	Gross domestic product
GRDI	Global Retail Development Index
KES	Kenyan Shilling
NGO	Non-governmental organization
POS	Point of sale
TNS	TechnoServe

INTRODUCTION

TechnoServe

TechnoServe is an international leader in harnessing the power of the private sector to help people lift themselves out of poverty. A nonprofit organization operating in 29 countries, TechnoServe works with enterprising men and women in the developing world to build competitive farms, businesses, and industries. By linking people to information, capital, and markets, TechnoServe has helped create lasting prosperity for their families and communities

Purpose & Objectives

This report was commissioned by TechnoServe in order to tell the story of Smart Duka Kenya –a TechnoServe initiative that works to develop Kenya's micro-retail sector. Specifically, TechnoServe hopes that the narrative communicated in this report will provide a baseline example for initiatives working to bolster micro-retail sectors in developing nations, globally.

Thus, the purpose of this report is to document the state of Kenya's retail economy, the role of the informal sector, the challenges faced by micro-retailers, and the efforts / impacts of TechnoServe intervention. The findings documented in this report are intended to: (1) Define and communicate TechnoServe's role as a global thought leader in micro-retail sector development; (2) Serve as an example of a successful and ongoing intervention in the sector.

This report is also intended to inform stakeholders, including public and private agencies, of opportunities to engage and participate in the development of the informal retail sector

Methodology

This report was created using a mixture of primary and secondary research. First, a review of internal TechnoServe documentation was conducted in order to consolidate TechnoServe intellectual property on its work in the micro-retail space. Following the internal review, desktop research was conducted on external work in the micro-retail space in order to validate and expand on existing TechnoServe insight. Finally, a primary research campaign was conducted in order to gather perspective on the process and outcomes of TechnoServe micro-retail programs. The primary research campaign incorporated individual and group discussions with:

- Duka owners participating in the Smart Duka program, including:
  - Roughly ten one-on-one conversations
  - Four business group discussions with 5-15 members, each
- TechnoServestaff members, including:
  - The East African Regional Director
  - The Kenyan Country Director
  - The Entrepreneurship Portfolio Lead
  - The Senior Business Advisor for Kenyan Entrepreneurship
  - Five Business Advisors for Kenyan Entrepreneurship

EXECUTIVE SUMMARY

Smart Duka Kenya has demonstrated significant results in developing Kenya's micro-retail sector. The initiative leverages aspects of Kenya's retail sector and accounts for the specific challenges facing micro-retailers to produce a tailored yet replicable intervention.

Kenya's retail environment

Complex and fast growing, Kenya's retail sector provides room for formal retail to grow right alongside the established informal sector.

- **The formal sector:** With a formal retail sector valued at ~$88B, Kenya is home to Africa's second most developed retail sector. The sector has earned international recognition for its growth potential and has attracted significant investment (both domestic and international), primarily focusing on the grocery and home goods space.
- **The informal sector:** Despite the established formal sector, it is the informal sector that drives the size and growth of Kenya's retail sector. The informal sector accounts for ~70% of retail sales and ~80% of FMCG sales.

Kenya's informal retail sector is made up of micro-retailers known colloquially as "dukas" in Swahili. Dukas are small, family owned retailers that sell a wide variety of products to an even wider selection of customers:

- **Ownership:** Dukas are primarily owned by women (~60%), youth (~70%), and those acting as sole proprietors (~65%). Duka owners are well educated, with ~86% of owners holding either a secondary or a tertiary education.
- **Products:** Dukas sell mostly food (~54%) and beverages (~17%). Dukas sell small volumes of products, primarily to customers meeting day-to-day needs.

In terms of customers, dukas serve the entire Kenyan population: ~95% of Kenyans frequent dukas for day-to-day purchases. However, dukas have a special focus on BOP communities: the ~55% of Kenyans that live in informal settlements rely on dukas as their primary retail outlet

Duka challenges

Dukas face a number of challenges that inhibit their ability to grow:

- Business management: Although duka owners are largely interested in business training, only ~15% have received it; thus, duka owners often lack knowledge and practices surrounding business management aspects, such as recordkeeping.
- Access to capital: Duka owners are unfamiliar working with financial institutions and very few shop owners have leveraged banks for financial products; thus, access to capital to grow businesses is limited.
- Supply chain access: Dukas operate independently and purchase in small volumes, which means that they rarely qualify for credit purchasing or volume-based discounts

Smart Duka solution

TechnoServe works to address the challenges facing micro-retailers in Kenya through the Smart Duka initiative, which provides support to duka owners along three crucial pillars:

• Business training: The first component of Smart duka is business training, which takes place in a variety of formats and provides duka owners with the baseline business training needed to facilitate growth.

• Digitized enterprises: After providing business training, Smart Duka works to implement digital technologies (e.g., POS systems) to help duka owners improve recordkeeping and communication.

• Collaborative ecosystem: The final step of the Smart Duka initiative is to create a collaborative operating environment for dukas, in which owners operate collectively in groups and are connected to a supportive network of financial, technology, and supply chain partners.

Smart Duka outcomes

Smart Duka has been highly successful in Kenya and has achieved broad ranging outcomes that benefit duka owners and the BOP communities they serve.

• Communities reached: Since 2015, Smart Duka hastrained ~9,000 dukas, reaching ~700,000 customers and ~3.5M family members.To date, 62% of Smart Duka beneficiaries are female-operated business and 63% are between the ages of 18-35. The program has also established 10 business groups, 8 of which continue to operate.

• Growth achieved: Over a 3 year period, specific benefits to participants includea 44% increase in revenue, a 55% increase in profit, and a ~360% increase in employment.

Near-term vision

Based on the approach and outcomes outlined above, TechnoServe is actively working to grow the Smart Duka initiative.

• Increase capacity: The first near-term goal of the Smart Duka initiative is to train 200,000 participants across Kenya

• Reduce costs: In order to facilitate its goals of increasing capacity, Smart Duka will continue to reduce training costs by identifying efficiencies and implementing digital tools

• Strengthen groups:In order to protect the long-termbehavioral change achieved by Smart Duka, TechnoServe continues to search for ways to strengthen business groups

BACKGROUND

Countries across the continent of Africa host a unique retail environment that presents a significant and untapped opportunity for growth in the fast moving consumer goods (FMCG) sector. What makes consumer retail so unique in these areas is the significant role played by informal retail shops, often known as dukas (meaning "shop" in Swahili). Dukas are small mom-and-pop shops ("micro-retailers") that sell basic household items to highly localized communities. Dukas are vital to both micro- and macro-economies, as they reach communities that larger retailers often miss. Globally, it is estimated that micro-retailers sell a total $11 trillion worth of goods annually in developing countries. Further contributing to the uniqueness of this retail environment is the way that corporate and community growth are aligned. Because dukas directly serve and employ those at the base of the wealth pyramid, any growth in retail sales through the informal channel directly empowers the communities that own, work in, and shop at dukas.

Despite the tremendous market opportunity presented by dukas, the informal retail sector is largely untapped by corporate research & investment. As outlined in this report, there is significant potential for community development and financial return from investment in the development of informal retail in developing countries.

This report highlights the retail landscape of Kenya, focusing specifically on the informal sector and dukas that make up that sector. The informal sector in Kenya is representative of other developing nations in that it drives retail in bottom-of-the-pyramid (BOP) communities. However, Kenya is distinct from other developing nations in that its formalized retail sector is relatively developed. Kenya's 30% penetration of formal retail sales is the second highest in Africa, led only by South Africa with 60%. Penetration of formal retailers is estimated to be as low as 10% in Tanzania, 4% in Ghana, and 2% in Cameroon. Thus, the key takeaways and impacts highlighted in this report are likely to be applicable to an even greater extent in nations where the reliance on informal retail is even greater.

Kenya's retail environment

Kenya has a complex and growing retail environment that consists of a developed formal channel, as well as an established informal channel.

The formal channel

Kenya's gross domestic product (GDP) of $87.9B (2018), makes it the 8th largest GDP in Africa and the 67th largest in the world. The Kenyan economy has generated sustained growth of between five and six percent for over five consecutive years and has grown at over 4.5% each year for over a decade.

Retail sales are a primary driver of the Kenyan economy and is a key priority in the country's long-term economic growth plan, Kenya Vision 2030. Together, wholesale and retail sales generates roughly $28B annually, representing ~30% of national product. Kenya's formal retail sector is the second largest in Africa (trailing only South Africa) and grows largely with the nation's GDP. The growth of the Kenyan retail market has been affirmed by research organizations and corporations alike. In the Global Retail Development Index (GRDI), AT Kearney, a U.S.-based global consulting firm, recognized Kenya as being among the top 30 developing countries for retail in 2016 and 2017. Since then, international retailers have either entered or expanded their presence in Kenya:

Representative investments in Kenya's formal retail sector

Company	Nationality	Year	Detail
Carrefour	France	2016	First entrance to the Kenyan market (opened 1 store and expanded to 4 in 2018)
Choppies	Botswana	2016	First entrance to the Kenyan market (opened 12 stores before exiting in 2019 due to the level of competition
Miniso	Japan	2017	Opened 3rd Kenyan storefront and announced a plan to reach 100 stores in Kenya
Shoprite	South Africa	2018	First entrance to the Kenyan market (opened 7 stores
Dogtas Exclusive	Turkey	2018	First entrance to the Kenyan market (opened 1 store
Decathalon	France	2018	First entrance to the Kenyan market (opened 1 store
Tuskys	Kenya	2018	Announced a $30M plan to increase store count by 50% by 2020

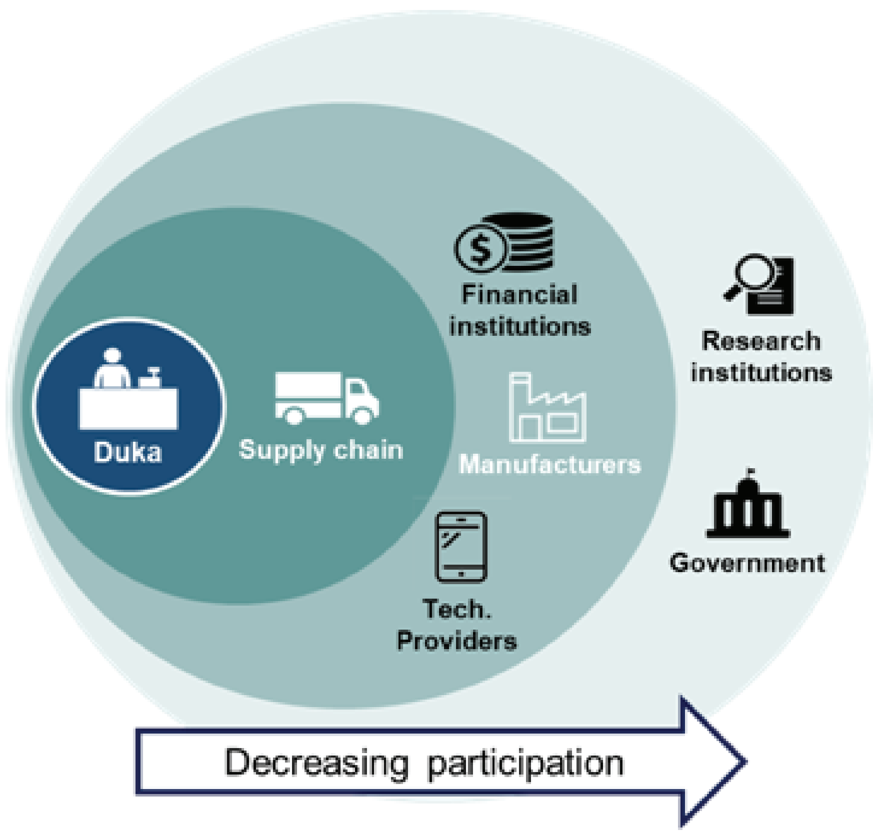
The informal channel

Continued investment by formal retailers into the Kenyan market demonstrates the vitality of Kenya's retail sector; however, the true driver of retail in Kenya is the informal sector. The dukas that make up Kenya's informal sector accounts for ~67% of annual retail sales and ~80% of annual FMCG sales.

The 250k+ permanent dukas (up 5% p.a. since 2016) that make up Kenya's informal retail sales channel play a pivotal role for both product manufacturersand local communities. For manufacturers, dukas provide access to enormous swaths of the population that are otherwise missed by larger retailers. In total, ~95% of Kenyan shoppers buy from dukas. In addition, dukas are the primary source of goods for the 56% of Kenyans (~28M in total) that live in an informal settlement. Thus, dukas provide manufacturers with access to dozens of millions of customers in Kenya alone.

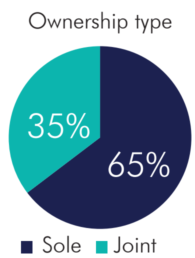
For local communities, dukas provide economic empowerment. Dukas are family owned, which means that they provide owners with means of employment and economic independence. In addition, they provide significant opportunity for employment: the ~250k dukas that operate in Kenya employed ~1.5M individuals in 2019 . Alongside employment, dukas serve as a primary vehicle of credit for their customers: ~10% of all Duka sales in Kenya are done on credit, which is traditionally interest-free. This makes dukas one of the national's largest lenders, collectively.

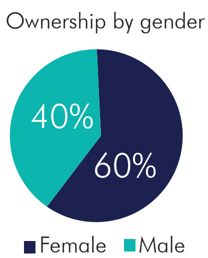
Currently (without intervention), the informal retail landscape is highly fragmented. Duka owners operate independently and work externalstakeholders to varying degrees. Most immediately relevant to the operation of a duka is the supply chain. Duka owners purchase products from wholesalers and distributors, which deliver from manufacturers. Beyond the supply chain, duka owners have highly limited access to financial and technology support –the vast majority of duka owners do not integrate financial or technology solutions. Most remote to the operation of a duka are governments and research institutions. The informal nature of dukas means that they are not registered with governments and are largely under the radar of research institutions.

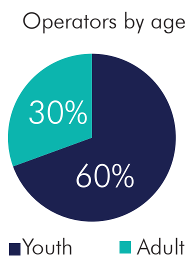


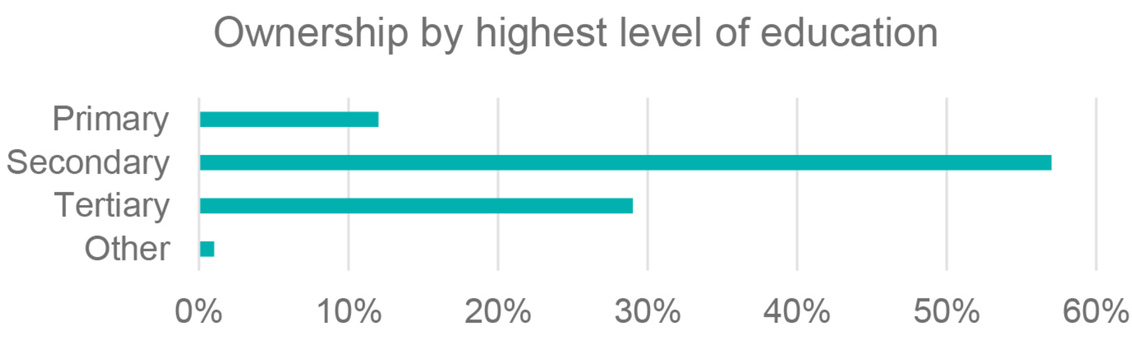
Profile of a duka

The duka is the most popular retail outlet across many African countries. Permanent dukas operate out of a roadside storefront; however, customers do not enter the shop. The front of a duka is caged in steel bars to protect inventory and customers are served through a window. The average duka is ~15m2, with all internal space used to stock and shelve inventory





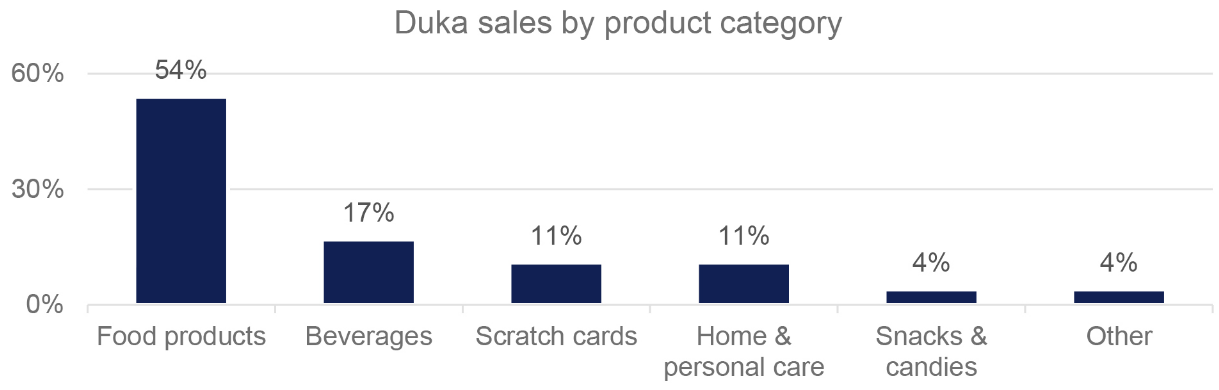


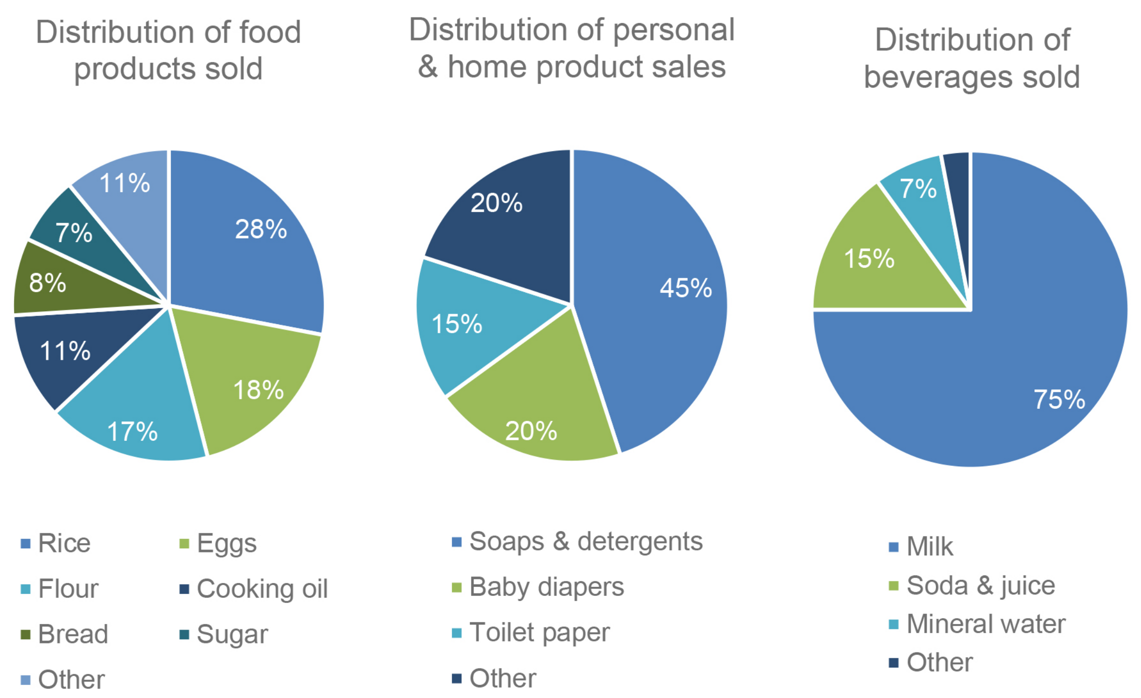


A typical duka stocks between 250-350 different SKUs. Usually packed in small quantities and sold in sachets, this small-volume trade is commonly referred to as the"Kadogo economy" (Kadogo means "small" in Swahili). The front of a duka (especially below the service window) is often laden with goods for children. Candy, snacks, and colorful toys are displayed to entice customers. When a customer steps up to the window of a duka,the owner is hardly visible; instead, customerssee copious household itemspresented on shelves, lining the floor, and hanging from the ceiling. Dukas are crowded but, when organized, are highly efficient at delivering a wide range of products in a small space.

In Kenya, duka owners represent a diverse and well-educated population. The majority of dukas are owned by an individual, most owners are women, and most are under 25 years of age. In terms of education, a plurality have beyond a primary education. In aggregate, duka owners are heterogeneous, entrepreneurial, and equipped to execute their role in the broader economy.

Dukas sell a wide variety of household products; however, the majority of sales are food and basic necessities (e.g., milk, rice, flour, soap) are most common.





Profile of a customer

Dukas attract a highly diverse customer base. As the primary mode of shopping for more than half of Kenya's population, dukas serve all ages and demographics. Colorful products at the front of the store appeal to children, while more practical necessities attract adults. In addition, there is little that defines or separates those who rely on dukas for products; almost every Kenyan frequents a duka to one extent or another.

In terms of socioeconomics, duka customer demographics reflect the BOP communities and informal settlements that dukas primarily occupy. In terms of education, roughly 60% of Kenyans living in informal settlements dropped out of either primary or secondary school. The unemployment for those that did graduate is 40%, compared to 14% overall. Correspondingly, crime rates in informal settlements are particularly high: a study by the Security Research & Information Centre found that 99% of those living in urban Kenyan settlements will have witnessed a crime in the past three months.

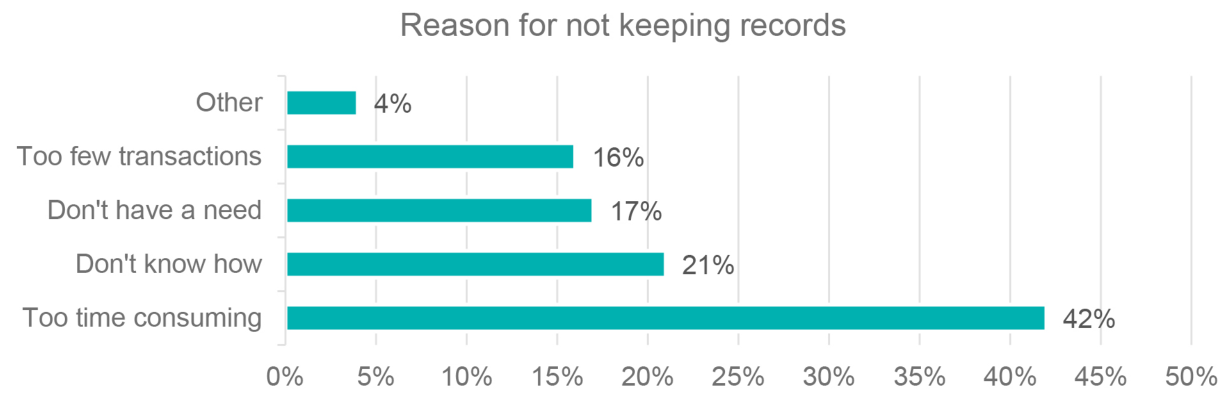
Although duka customer demographics do track those of informal settlements, it is important to remember that 95% of Kenyan shoppers frequent dukas; thus, it is difficult to track or generalize exact demographics. On the whole, dukas are operated by and for individuals at the base of the wealth pyramid; thus, they are uniquely positioned to impact both social and economic conditions in developing areas.

CHALLENGES OF THE MICRO-RETAILER

Although dukas are the primary sales channel of fast moving consumer goods in Kenya, duka owners face a number of challenges that inhibit their ability to grow their businesses.

Business management

The primary challenge that duka owners face is inventory management. Issues with inventory management largely stem from lacking business records. Roughly 63% of duka owners keep business records, and the majority (84%) of those that do update them daily. However, as many as 37% of duka owners do not keep any sales or business records, primarily because they see records as overly time consuming or because they lack the knowledge of how to do so. The lack of knowledge on record keeping stems from the fact that only 15% of duka owners have received any form of business training.



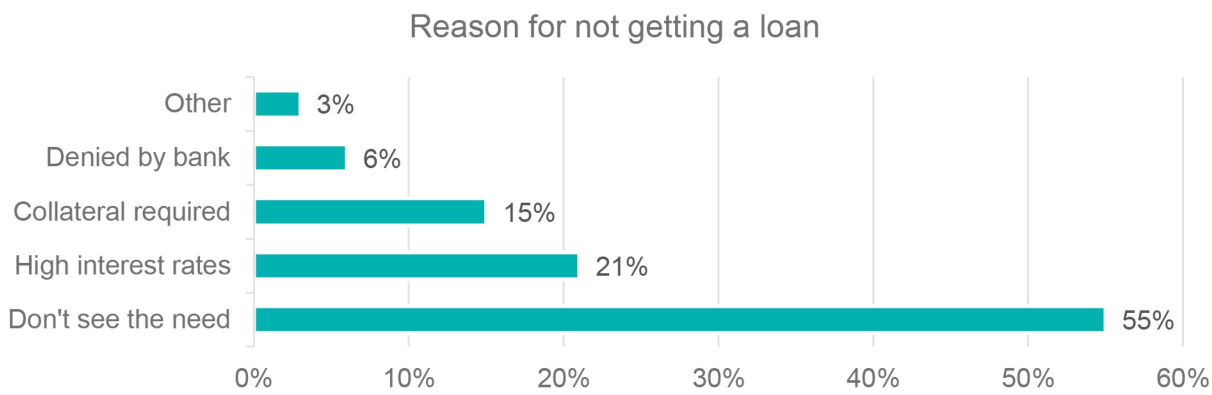
The lack of business records has several consequences. First, it complicates inventory management. Dukas sell fast moving consumer goods and hold very little excess stock (both because of small storefronts and because of the risks involved in holding inventory); thus, they move through inventory quickly. The lack of business records prevents duka owners from restocking items preemptively; instead, dukas purchase supply reactively, which often causes out of stock items.

A second consequence of poor record keeping is that it prevents duka owners from tracking product-level profitability and turnover. Without this sort of detailed analytics, duka owners are unable to optimize product shelving or capital allocation.

Access to capital

A second barrier to growth that duka owners face is limited access to capital. The vast majority of duka owners are entirely self-reliant when financing their operations: 89% of duka owners have a bank account, 80% have cash savings, and 86% covered the cost of starting their duka using their own capital.

Duka owners are highly unaccustomed to borrowing from financial institutions: only 11% of duka owners have taken out a loan in the past year, and only 6% of owners covered the cost of starting their duka with the help of a financial institution. When asked why they have not leveraged financial services in the past, most duka owners cite not seeing the business case; however, 42% could not access financing due to some form of constraint required by lenders.



The average cost of starting a duka is relatively low ($59) and duka owners' financial independence allows them to save, invest, and allocate money to their businesses; however, without financing, they are forced to limit the capacity of their dukas from the beginning. The majority (81%) of those that have leveraged bank loans to support their dukas spent that money on growing inventory.

Once up and running, dukas continue to be limited by a lack of financing. Only 11% of duka owners currently employ others, despite the fact that almost half of owners (47%) consider themselves willing to hire (note, this does not include informal employment, such as duka owners who have recruited friends or family to co-operate shops). This strongly suggests a lack of ability due to either overall demand or available capital.

Supply chain access

A final barrier that dukas face is access, leverage, and insight into the supply chain. Individually, dukas make small and periodic purchases of goods from disparate manufacturers. The majority (90%) of dukas purchase from local wholesalers and distributers, while some (10%) purchase from van sales-people. Some dukas pay cash while others access goods on informal credit; however, nearly all dukas purchase supplies independently. Thus, by purchasing independently, dukas fail to leverage their collective quantity for volume discounts.

In addition, dukas are not accustomed to seeking out opportunities for collaboration in order to achieve efficiencies. Thus, duka owners do not typically participate in any form of information sharing. This lack of insight into one another's operations prevents dukas from sharing strategies and best prac-tices for operating in the informal sector (or even transitioning into the formal sector).

TECHNOSERVE SOLUTION

TechnoServe leverages years of experience in micro-retail to provide a development program for micro-retailers that addresses each of the challenges outlined above.

Smart Duka overview

In November of 2015, TechnoServe worked with the elea Foundation for Ethics in Globalization and the Citi Foundation to create the Smart Duka initiative. Leveraging key takeaways from a similar intervention in La Paz, Bolivia, TechnoServe created the program as a pilot to increase the profitability of 840 dukas in Nairobi, Kenya. Since then, Smart Duka has been joined by Moody's Foundation, the University of California,Berkeley, and MasterCard Center for Inclusive Growth to become a multinational program helping to develop the informal retail sectors of Kenya, Tanzania, Nigeria, and Côte d'Ivoire.

Smart Duka is built on the premise that, although the vast majority (85%) of duka owners have not received any formal business training, an even stronger majority (97%) of owners identify as willing to be trained. Thus, Smart Duka provides a three-pronged train-the-trainer approach to developing the informal retail sector. First, TechnoServe provides individual and group training sessions to strengthen owners' business operation skills. Second, TechnoServe helps to integrate technologies in order to digitize micro-retailers. Finally, TechnoServe connects businesses to one another and facilitates information sharing and cooperation in order to create a mutually productive, collaborative ecosystem.

Duka owners that choose to participate in the Smart Duka program are on boarded by TechnoServe, after which they go through the carefully tested program. After adopting core technologies and best practices from the training curriculum, duka owners are connected with one another in order to continue mobilization beyond the training program. TechnoServe is able to measure the outcomes and impacts achieved from the program using internal metrics and voluntary duka information sharing that tracks each stage of the program's lifecycle

Business training

The primary pillar of the Smart Duka program is business training provided to duka owners in order to teach four key best practices: (1) financial management and recordkeeping; (2) inventory management; (3) merchandising; and (4) customer service.

1. **Financial management and record keeping** is a crucial aspect of improving duka performance. Without sufficient recordkeeping and financial management, it is impossible for duka owners to prioritize or execute investments to grow their business. The first step towards improving financial management is to ensure that duka operators keep thorough and consistent records of both costs and sales. Once duka owners have consistent records to leverage, they can separate business funds from household funds to understand exactly how much the business is spending and earning. From there, duka owners can begin to ensure that business decisions are based on solid financial information. For example, when duka owners look to buy inventory, they should be leveraging data on which products have the highest turnover, which are producing the largest margin, which have the most variable costs, etc.These financial management skills and tactics are among those taught to duka owners in Smart Duka training.

2. **Inventory management** is a complicated aspect of business ownership: store owners will lose customers if they frequently run out of products; however, they lose working capital when products sit in inventory. Smart Duka training teaches duka owners how to leverage business records to inform inventory management by tracking stock levels over time and incorporating that data when purchasing supply. This helps duka owners to maximize inventory by tracking product costs over time, prioritizing high-margin products and staying ahead of seasonal trends in product demand. Proper inventory management also allows duka owners to understand their role in the broader market: by understanding which products are popular and which are not, they can develop a stronger understanding of their customer base and their differentiators as a retailer.

3. **Merchandizing strategies** can increase duka profitability by leveraging both recordkeeping and inventory management in order to guide customers to the right products. Successful merchandizing is about improving the customer experience and enticing buyers to try high-margin items. Smart Duka trains owners to optimize merchandizing by improving storefront aesthetics (e.g., installing adequate lighting, arranging products neatly, displaying prices prominently), prioritizing the placement of specialty products (e.g., hook products, high-margin items, impulse buys), and maximizing the intuitiveness of product organization.

4. **Customer service and promotion** cannot be overlooked as a tool of business improvement. Duka customers tend to operate with a high level of loyalty and, given the high number of dukas to choose from, customer service and promotion strategies can make or break a business. Smart Duka trains owners to think about promotions on a highly specific basis, leveraging target customer demographics to develop "hook" products that will increase product sales, comprehensively. Smart Duka also advocates for dynamic pricing that tracks changes in demand, as well as competitive pricing. Duka owners can increase sales broadly, simply by using promotions to entice customers, while using customer service to cultivate and strengthen customer loyalty.

Smart Duka implements training methodologies through a variety of training platforms, each with its own costs, benefits, and tailored curriculum.

- **Group training** is used in tandem with one-on-one or digital training in order to introduce duka owners to working collectively and build owner cohesiveness. The Smart Duka group training curriculum focuses on a broad range of topics including aspects of business management, profit maximization, supply chain dynamics, etc.

- **One-on-one training** is the most personalized form of instruction under the Smart Duka program. With one-on-one training, a Smart Duka Business Consultant visits a shopfront in order to guide the owner through aspects above. One-on-one training produces the highest degree of long-term change; however, it also entails the highest instruction costs, due to the high number of staff hours required to scale this platform to a high number of program participants.

- **Digital training** provides the same material instruction as one-on-one training; however, it is digitized and delivered over various social media platforms. The Smart Duka digital platform leverages WhatsApp and Facebook Messenger in order to maximize the approachability and interactiveness of the platform. TechnoServe manages participant comments, questions, and feedback through digital responses throughout training sessions. By minimizing staff hours required, digital training is delivered at a fraction of the cost of one-on-one training; however, it also produces a lesser degree of behavioral change, as it is not as intensive as one-on-one instruction.

Digitized enterprises

In identifying the key barriers to keeping financial and business records, duka owners identify time requirements and lack of knowledge as the two primary factors. Smart Duka addresses these two barriers directly by working with duka owners to implement a digital point-of-sale (POS) platform. Specifically, Smart Duka trains Kenyan duka owners on a mobile-based application developed by Buymore. The selected POS application must run on the most basic cell phones and must provide features to maximize time efficiency while minimizing complexity.

By implementing a digital POS platform, duka owners are able to streamline the process of collecting cost and sales data. This increases the share of duka owners that collect business records and provides the underlying data that facilitates each of the four key best practices

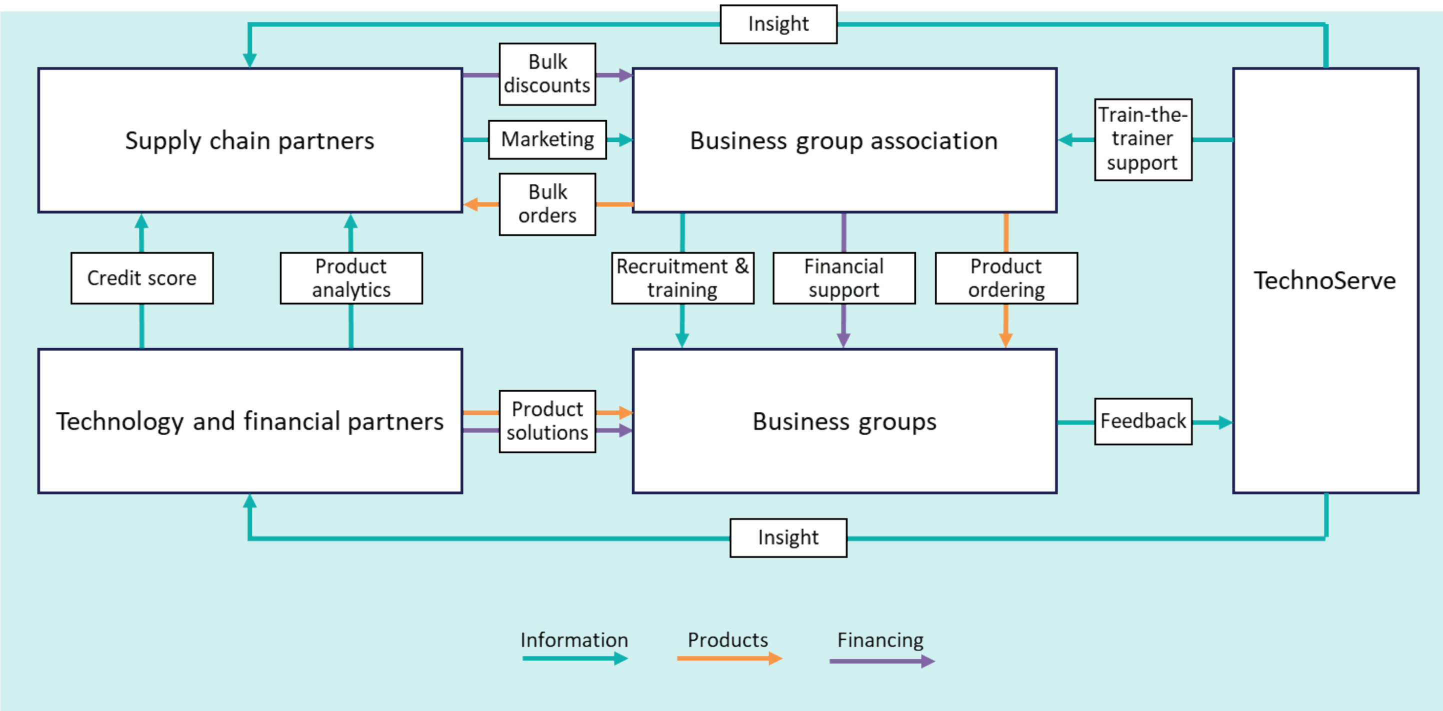
Collaborative ecosystem

Arguably the most high-level and long-lasting component of the Smart Duka program is the creation of a collaborative ecosystem. The primary way that Smart Duka works to create a collaborative ecosystem is through the creation of duka business groups. After participating dukas go through group training, they are encouraged to create business groups in order to work collaboratively moving forward.

This has numerous ways by which business groups facilitate improved business operations for duka owners:

• First, it allows dukas to aggregate purchasing power in order to qualify for wholesaler discounts.
• Second, it allows dukas to participate in table financing, whereby dukas contribute monthly dues and are later able to leverage their business groups for capital loans. This creates financial independencefor dukas by allowing them to leverage their collaborative environment for support.
• Third, it creates a platform for information sharing, which allows participating dukas to stay competitive in their respective neighborhoods by staying ahead of fluctuations of input prices, potential trends in demand, etc.
• Finally, business groups incentivize duka owners to hold each other accountable for implementing best practices. By linking the success of one to the success of the group, it creates an environment where duka owners succeed together.

In addition to creating business groups, Smart Duka intends to create an umbrella association to tie thebusiness groups together. The umbrella association will consists of the leaders of each business group and facilitates continued opportunities for collaboration between business groups. The association will provide additional leverage, continued training, and as-needed support. In terms of leverage, the association can work directly with manufacturers and distributors to achieve higher levels of discounts than any individual business group, given its further aggregated buying power. With respect to training, TechnoServe will continue to provide training to the leaders of the association, who will then provide that training at the business group level. Finally, as far as support, the association prevents each business group from operating as a silo. Depending on the needs of an individual duka, the association can communicate best practices and lessons learnt from business groups and dukas across Kenya.



Partnerships

The Smart Duka program leverages a broad set of partnerships for financial support and in-kind tools, such as technology development, and loan products.

Funding partners

Ecosystem partners

OUTCOME

Since 2015, the Smart Duka initiative has achieved a broad range of outcomes, benefitting supply chain partners, duka owners, and the bottom-of-the-pyramid-communities that dukas serve. TechnoServe has been able to quantify these returns, relative to the requisite investment.

Benefits to participants

Smart Duka produced a range of financial benefits and efficiencies for participants. Since 2015, Smart Duka hastrained ~9,000 dukas, reaching ~700,000 customers and ~3.5M family members. To date, 62% of Smart Duka beneficiaries are female-operated business and 63% are between the ages of 18-35.The program has also established10 business groups, 8 of which continue to operate.

Supply chain partners' primary benefit from the Smart Duka initiativeis the increased demand from duka owners. The overall increase in the number of sales per duka translates directly into increased purchases from supply chain partners. In addition, Smart Duka participants adopt purchasing and sales records, creating higher levels of business predictability, which can increase stock management for manufacturers and distributors as well. Business groups created by Smart Duka also produce benefits for the supply chain. They provide an avenue for marketing from manufacturers to duka owners directly. This avenue leverages relationships created by the fact that business groups often interact directly with manufacturers and regional product distributors.

Financial partners also stand to gain from the Smart Duka initiative. A key component of Smart Duka is demonstrating to duka owners the benefits of leveraging loans in order to facilitate growth. Although this borrowing is currently supported by table financing through business groups, this presents a significant opportunity for financial institutions, as Duka owners have demonstrated themselves to be reliable creditors (97% repayment) with increasing demand for tailored financial products.

Duka owners received the lion's share of the benefits from the initiative. First and foremost, participants experienced a 44% increase in revenue and a 55% increase in profit over a 3 year period. This increase in business performance is primarily a result of individual training and the cost reduction of group purchasing. A survey of group members done by Smart Duka found that 58% of participants now aggregate orders through their groups, with an average volume discount of 9% when buying directly from manufacturers.

Potentially the most critical benefit of the Smart Duka initiativeis the facilitation of capital loans. The survey of business group members found that ~66% of members now have access to loans through their business group, whether through table banking or joint guaranteeing. In addition, those that borrow have achieved a remarkable repayment rate of 97%. This increased access to capital is cited by duka owners as the primary benefit of joining a business group.

The Smart Duka survey of current group members found that, 97% of members identify as having benefitted from their membership. Members cite access to capital as the most salient benefit of joining (32%), followed by product aggregation (24%) and access to training (13%).

BOP communities have also stood to benefit from the Smart Duka initiative. The primary benefit is that, by increasing duka profitability and creating room for growth, Smart Duka participants have increased employment by ~359%. This immediately translates into economic opportunity and stability for the communities that dukas operate in. A secondary benefit to the communities is a trickle-down benefit. Increasing duka profitability generates spending power for owners, which goes right back into the communities they live and work in.

Return on investment

The return on investment (ROI) in Smart Duka varies depending on the level of training provided. Training costs vary significantly between one-on-one programs and training programs; however, those programs also vary in the corresponding expected revenue growth. That said, the average return on a dollar spent supporting the Smart Duka initiative is ~78x.

Revenue upside by engagement tier

Engagement tier	Cost per duka	Expected upside
In-person engagement (Tier I)	~$1,000	~30%
Mixed engagement (Tier II)	~$130	~20%
Digital engagement (Tier III)	~$30	~10%

Return on Investment

	Year 1	Year 2	Year 3	Year 4	Year 5	Lifecycle
Initial investment	$7.0M	$7.5M	$2.0M	$1.5M	$2.1M	$20.0M
Annual smart dukas trained	18,750	36,250	40,000	45,000	60,000	200,000
Total resulting smart dukas	18,750	55,000	95,000	140,000	200,000	508,750*
Annual revenue per traditional duka	23,520	23,520	23,520	23,520	23,520	23,520
Annual upside per smart duka, upon training**	20.0%	18.6%	12.5%	10.0%	10.0%	13%
Upside revenue captured per smart duka trained	4,704	4,375	2,940	2,352	2,352	3,058
Total annual upside revenue captured	~$88M	~$241M	~$279M	~$329M	~$470M	~$1,555M
Return on investment	13x	17x	19x	20x	26x	78x

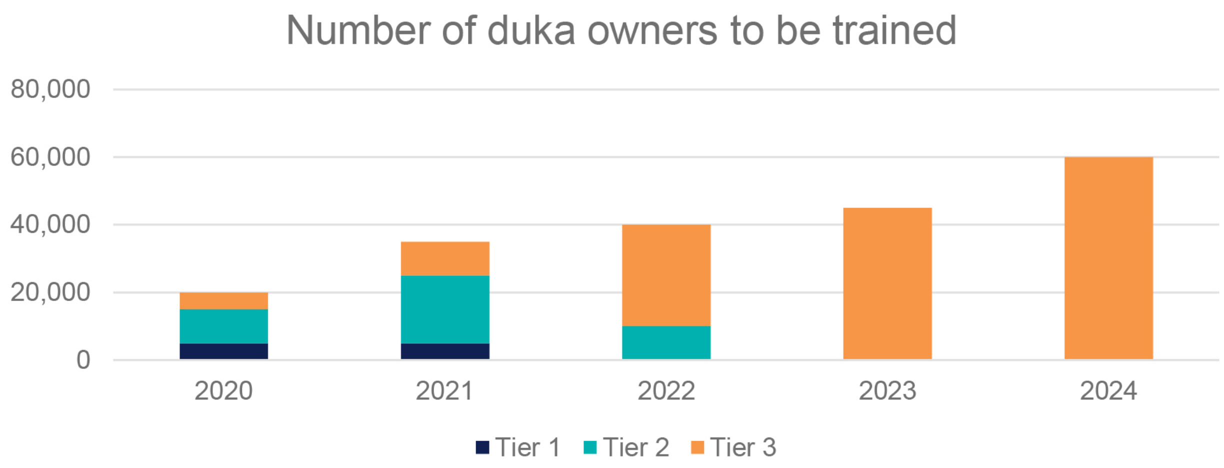
* Represents year equivalents – dukas are double counted across years in which they achieved savings
** Calculated as the average expected return, weighted by the number of dukas trained per tier; does not take into account compounding growth by dukas from reinvestment

NEAR-TERM VISION

Based on the approach and outcomes outlined above, TechnoServe is actively working to grow the Smart Duka initiative.

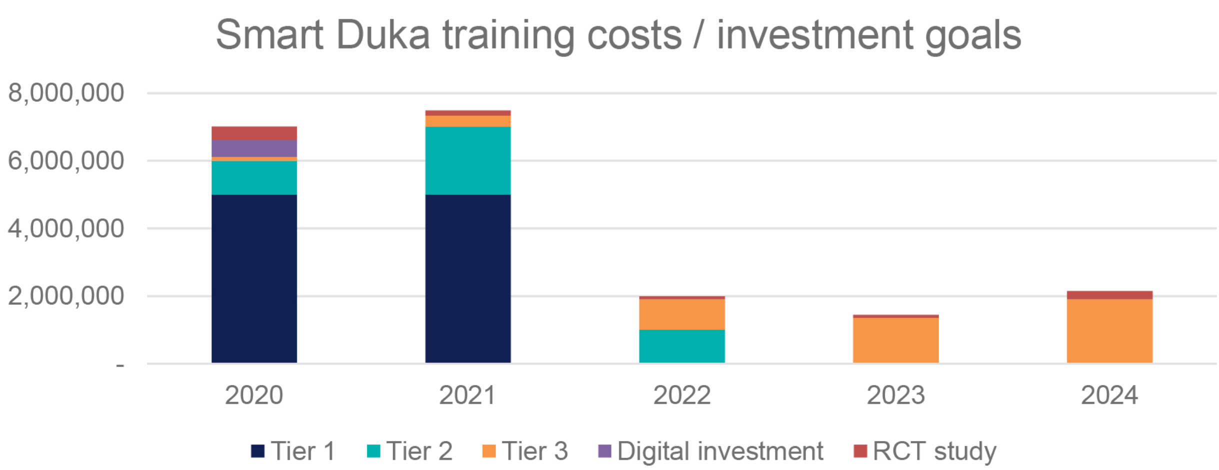
Increase capacity

The primary growth objective for the Smart Duka initiative is to increase its capacity to serve additional dukas. TechnoServe aims to expand the program to cover 200,000 dukas in Kenya within the next five years. In order to accomplish this vision, TechnoServe will scale the program in tiers, reducing costs and increasing ROI incrementally with each tier.



Reduce costs

In order to grow the Smart Duka capacity, TechnoServe will continue to reduce training costs – especially for tier 3, which accounts for the majority of planned trainings. Since 2015, TechnoServe reduced training costs by leveraging digital technologies; however, it is the high costs of one-on-one training that drive forecast implementation costs though the next five years



Strengthen groups

A final near-term objective of the Smart Duka program is to strengthen business groups in order to preserve long-term sustainability with minimal guidance by TechnoServe. 80% of the business groups created by Smart Duka continue to operate under self-governance by members; however, TechnoServe is currently conducting a program to identify best practices in supporting business groups while also minimizing staff hours and costs. Through the business group association, TechnoServe will implement a train-the-trainer approach to continued best practice sharing, and will work to empower association and group leaders to implement programs as they see fit.

In addition to strengthening groups generally, there are specific challenges that business groups face, which present opportunities for improvement through Smart Duka's train-the-trainer model. In order to improve the services that business groups provide to duka owners, additional training is needed to improve group record keeping, investment decisions, member management, and product delivery logistics.

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CONCLUSION

The informal retail sector provides an extremely distinct opportunity for investment, across developing nations. Micro-retailers represent a prominent, driving, and lasting force in developing economies, with unparalleled access to BOP communities. Thus, investment in the informal retail sector provides a truly unique opportunity to empower communities, benefit investors, and grow retail economies. However, despite the tremendous opportunities for social return on investments in the retail sector, the area is highly underserved by international investors and social / economic interventions.

Smart Duka's work in Kenya is a prime example of the potential impact of an intervention in the informal retail space. Smart Duka has been able to achieve meaningful results for program participants and has begun to establish a structured business environment that will continue to yield benefits to participating dukas.

In addition, the work of Smart Duka demonstrates the cross boarder applicability of informal retail interventions. Although Smart Duka is most established in Kenya, the program is active and successful in Tanzania, Nigeria, and Côte d'Ivoire. When establishing or expanding an intervention across national boundaries it is important to tailor tactics and methodologies to national cultural, political, social, and economic circumstance. The narrative and lessons learnt outlined in this report are intended to serve as a "bare bones" outline of broadly applicable principles; however, as with any intervention, it is critical that the program implement various randomized controlled trials and proceed with tactics that are found effective.

TechnoServe has served as a thought leader in micro-retail development and continues to develop its portfolio of programs intended to support entrepreneurs and SMBs in developing retail economies. Through the principles and lessons learnt outlined in this report, TechnoServe will continue to expand the Smart Duka program across national and cultural borders.

ENDNOTES

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