Global Distributors Collective

Wholesalers for beneficial products: the missing link for impact at the last mile

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Executive summary

Last mile distributors (LMDs) of beneficial products, such as off-grid solar (OGS) products, are key to unlocking the potential impact of these products. LMDs typically serve low-income customers, and to effectively serve their risk-averse customer base, they need to build quality-assured, low-risk value propositions, which entails distributing quality products backed by warranties, after-sales support, and reliable customer service.

LMDs of OGS products – in particular standalone products, like pico-solar lanterns and plug and play (PnP) solar home systems (SHS) – often face challenges in identifying and procuring the products that are best-suited to their – and their customers’ – needs. Indeed, most OGS markets have limited choice of in-country stock of quality products readily available. As a result:

- Many LMDs have to import products from abroad. LMDs that are small and unable to benefit from economies of scale face multiple challenges throughout the value chain, including Minimum Order Quantities (MOQs) that are higher than what they need; three-to-four-month lead times, placing a significant burden on LMDs’ working capital requirements; and limited in-country marketing and aftersales support. This ultimately means LMDs incur higher costs per product that they have no choice but to reflect in their prices.

- Procuring products from in-country suppliers is far less time-consuming and costly than managing an importation from abroad. It is also easier to build a good relationship with a supplier who has a local presence. However, if LMDs limit themselves to products available in-country, they are typically stuck between two non-optimal options: purchasing the few available quality-verified (QV) products, known to be high quality but carrying a relative price premium, and non-quality-verified (non-QV) products, sold at more affordable price-points yet lacking in quality assurance.

In theory, these challenges mean there is a real opportunity for a wholesale model to centralise demand and import a portfolio of quality products in bulk. This would leverage economies of scale, provide a more favourable supplier service to LMDs, and enable them to access and sell a broader range of quality products to last mile customers. Yet, to date, most organisations well-placed to play the wholesale role have not entered the pico-solar lantern and PnP SHS. This is because many are typically unfamiliar with the PnP OGS market (and more generally, with markets of beneficial products that require a push to sell). For these players, entering these markets entails investing in:

1. Understanding end-user demand patterns (particularly challenging given most importers/wholesalers do not have existing links with end-users) to inform sourcing decisions
2. Identifying and building relationships with trustworthy suppliers for this unknown market
3. Identifying likely business-to-business (B2B) customers (such as LMDs, NGOs, etc.) and developing more hands-on processes to serve them than pure import/wholesale would require.

The Global Distributors Collective (GDC) set out to explore what it would take to set up a sustainable wholesale model for standalone OGS products. In partnership with established wholesaler Sollatek Kenya, the GDC launched a pilot in Kenya, running multiple activities to tackle the three challenges outlined above, as seen in Figure 1.

This report summarises the key insights and learnings drawn from the GDC/Sollatek pilot. The report’s objective is to inform the sector on the key success criteria and support needed to launch a wholesale model for quality-assured beneficial products, in the OGS sector and potentially beyond.

1. This would include any players with experience and assets in importation and logistics in Africa; the ability to stock a multi-brand portfolio of products; and willingness to sell to other distributors. For instance, traditional wholesalers and logistics players, particularly those with some experience of working in the solar sector, albeit with e.g. component-based systems; LMDs with a narrow market focus and willing to sell to non-competing distributors; a corporate players with interests in off-grid energy, like Total, able to leverage their vast importation and logistics network.
2. Referred to hereon as “Sollatek”; not to be confused with electronics manufacturer Sollatek UK.
Key challenges

Understand customer demand patterns to inform sourcing decisions

Identify and build relationships with trustworthy suppliers

Identify likely B2B customers and develop well-adapted offerings to meet their needs

Piloted solutions

- Conduct survey to identify best-selling non-QV products
- Run quality testing on these products to develop shortlist
- Run ‘mini market tests’ to collect consumer feedback on how to optimise market-fit of shortlisted products
- Run due diligence on shortlisted manufacturers
- Conduct mapping of LMDs in Kenya selling in-scope products on cash
- Set up new marketing and aftersales offering on imported products

Figure 1: Overview of challenges faced by potential wholesaler players entering the Pico-solar lantern and PNP SHS market and solutions piloted by the GDC and Sollatek

Key insights

Quality-focused wholesalers can unlock a sweet spot offer, bringing value to all players across the value-chain

- The wholesale model enables LMDs to access a broader choice of quality/affordable products, as well as reduce their working capital requirements and time invested in sourcing and procuring products that meet their consumers’ needs
- Manufacturers can unlock new export opportunities, including by improving their product-market fit thanks to wholesalers’ field testing
- In so doing, wholesalers can capture a largely under-served new market of “key accounts”, such as LMDs, for quality-assured products.

However, setting up such a model can be time and cost-intensive even for established wholesalers in the solar sector, due to additional sourcing costs and time, as well as the need to build a dedicated marketing and sales strategy. More specifically, wholesalers can face:

- Higher sourcing costs due to running additional quality testing and market surveys to mitigate the risk of poor-quality products and unproven demand
- Longer delays on importation, due to building new supplier relationships and working with less experienced manufacturers
- Upfront investment and organisational stretch, to set up and run a dedicated sales and marketing strategy.
While the potential impact of wholesale models throughout the value chain is clear, the challenges for well-suited players to take on such a role are also significant. To make this model viable, potential wholesalers need to invest in understanding and working with new suppliers, LMDs and last mile customers. This can represent a significant stretch for their organisation, ultimately requiring (financial) de-risking for their move into the OGS (and other beneficial goods) sector.

Concretely, to tackle the wholesaler challenges identified above, the following support is needed:

- **Develop improved feedback loops throughout the value chain, to help stakeholders (and in particular would-be quality wholesalers) understand end-user demand patterns, by:**
  - Building a specialised market research facility for beneficial goods at the last mile. There could be an opportunity for a dedicated service provider to collect data on customer demand and share insights further up the value chain, to inform product design and sourcing decisions.
  - Facilitating distributor-led exchanges with manufacturers. For instance, one idea discussed with off-grid solar quality assurance entity VeraSol, is to leverage their platform of quality-verified products to invite distributors to propose requests for new product specifications, based on feedback from the field, and enable manufacturers who have produced certified products in the past to engage directly.

- **Identify and build relationships with trustworthy suppliers, by:**
  - Verifying quality at the manufacturer level, rather than at the product level. One option is to connect wholesalers with dedicated service providers able to conduct due diligence on manufacturers in manufacturing hubs, to verify the likelihood that manufacturers can consistently deliver on their quality promise.
  - Building a quality certification program at the manufacturer-level – rather than at the product-level. This would remove the need to quality-test every new product, thus helping reduce costs and enabling the quality-assured sector to more quickly respond to changes in consumer demand.
  - Leveraging existing platforms and product databases, such as the one developed by Verasol, to include more information on manufacturers, such as the countries in which they sell products.
  - Supporting less experienced manufacturers to navigate the exportation process, so wholesalers do not have to take on that burden.

- **Identify B2B customers and develop more hands-on processes to serve them, by:**
  - Conducting comprehensive country-by-country mappings of players distributing beneficial goods, to help wholesalers identify new leads.
  - Funding technical assistance to help wholesalers adapt their value proposition and operational model (e.g., sales incentives, training, marketing materials and payment terms) to quality focused organisations, like LMDs.

We hope that the insights of this pilot will both equip actors that are well-placed to become quality wholesalers to do so, and enable the broader ecosystem to better understand what it would take – and what role they could play – in developing such models. We hope that this can contribute to bringing greater efficiency to beneficial product value chains, and ultimately, providing greater access and choice of beneficial products to LMDs and to their last mile customers.

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3. A report recently published by VeraSol and written by EED on quality in the OGS market came to a similar recommendation. EED (2021), Quality in the off-grid solar market: An assessment of the consumer experience in Kenya.
Wholesalers for beneficial products: the missing link for impact at the last mile

Last mile distributors of off-grid solar (OGS) standalone products report finding it increasingly difficult to identify and procure quality, price-competitive products, due to challenges throughout the value chain. There is an opportunity for a wholesale model to tackle these challenges by centralising demand and importing a portfolio of quality products in bulk.

The Global Distributors Collective (GDC), in partnership with established wholesaler Sollatek Kenya, launched a pilot to explore what it would take to set up such a model. This report summarises the key insights and learnings drawn from the pilot, with the objective to inform the sector on the key success criteria and support needed to launch a wholesale model for quality-assured beneficial products, in the OGS sector and potentially beyond.