

CONCEPT PAPER:

WHOLESALE, RETAILERS AND COMMISSION AGENTS SERVICES IN CARICOM

1. Overview of the Regional Sector

Throughout Caricom wholesalers, retailers and commission agents provide an important intermediary service to consumers across the region. These businesses ensure that manufactured goods are distributed to the ultimate consumers when they need it. In many countries in Caricom these entities remain the largest domestic or indigenous businesses with significant spill over in many areas of the local economies of the Caribbean.

a. Commission Agents

Typical commission agents in Caricom represent manufacturers from Europe and to a lesser extent Asia, USA and South Africa. Commission agents represent their principals on a permanent basis and will typically have an agreement with principals on warranties, geographic territories, customers, pricing policies, payment terms, customer order process and delivery. Commission Agents will not take title to goods but secure orders for a principal for an agreed commission.

Commission Agents in the Caribbean are mainly involved in the sales of hardware, textiles, pharmaceutical, electronics, transport equipment etc. In the evolving age of telecommunication, commission agents in the food business are largely limited to major commodities such as flour and rice trading. With more and more manufacturers having direct access to a wide range of possible customers across the globe, the numbers of commission agents are in decline.

In Caricom the largest concentration of commission agents are in Barbados. Commission agents in Barbados provide a portal for suppliers outside the region to penetrate the smaller island markets. These commission agents typically work on 7.5% to 10% commission paid by the principal. They are assigned a territory with the responsibility to vet and appoint customers. Sales representatives from commission agents will visit customers (wholesale merchants) once or twice per year to secure orders for their principal. These orders are shipped directly to the wholesale merchants with a commission paid to the agents when the wholesale merchants remit final payment.

b. Wholesalers

The broad category of wholesale merchants covers both wholesalers-distributors (representing over US\$100 million in sales) to small general wholesalers and “cash and carry” specialising in a limited range of products. These merchants have in common a business model that involves primarily buying products for resale to retailers, other wholesalers or entities buying for business use.

Distributors – The typical distributor in Caricom represents both domestic and foreign manufacturers. Distributors have the ability to buy in bulk and provide a reliable route to market through an extensive network of retailers. The typical distributor provides the following service to their principal:

1. Local marketing and brand management.
2. Warehousing and logistics services in market
3. Multi channel local sales team.
4. Management information system.
5. Prompt payment to principal while financing sales to the trade.
6. Business Management to capitalise on opportunities.

Good distributors are prized by principals as a virtual extension of their business and an effective tool to develop key territories. A well managed distributor provides the entrepreneurial energy for growth and development. A profitable well financed distributor is also an important ally to finance the expansion of any business.

Good distributors maintain inventory, provide credit and quick deliveries, allowing local retailers to reduce their inventory and the cost of financing their business. The service provided by distributors in marketing, merchandising and promotion are all important roles in supporting retailers and developing the consumer business.

The typical distributor will take title of goods and work on a gross profit margin of 20- 30 %. From this gross profit distributors cover finance cost, overheads and operations cost, trucking cost, salesmen commission, spoilage and obsolescence. In Caricom distributors are the primary suppliers of goods to government, government agencies and statutory organisations.

Throughout Caricom there are more than 150 major distributors with many distributors operating as part of such major enterprises as Neal and Massey, Grace Kennedy, Goddards Brothers, Ansa Mcal and Brydens,

General Wholesalers – General wholesalers across Caricom are primarily involved in the purchase of goods from manufacturers and distributors and the resale to other organisations either for their own use (e.g. hotels and restaurants etc) or to retailers. Most general wholesalers operate in a limited geographic area allowing for purchasers to have a mix/variety of products in their order. Many wholesalers will specialize in areas such as haberdashery, textile, beverages or food.

In Caricom general wholesalers provides an essential role in breaking bulk and supplying small convenient stores and groceries in rural and inner city

communities. These wholesalers will provide limited credit to small retailers and institutions (typically seven days from delivery) and are key players in the commercial life of the community. In most countries general wholesalers are heavily concentrated in the heart of the commercial trading zones of major urban centres.

General wholesalers typically operate on a gross profit of 8-15% focusing on volume and low overhead to ensure profitability. These wholesalers typically avoid expensive sales force and delivery services. While some general wholesalers will offer delivery service; many combine the role of deliveryman and salesman or simply charge extra for delivery.

Cash and Carry Wholesalers- This form of wholesaling is increasingly seeing a blurring of the lines between a retailer and wholesaler in the Caribbean. In the past the main points of differentiation between a general wholesaler and a cash and carry was the fact that the latter does not offer credit or delivery services and work on an average gross profit of 5% to 10%. However, in recent times Cash and Carry operators are now targeting consumers who would like to buy in bulk. This has led to the dramatic increase in wholesale clubs and club store operating on similar lines to cash and carry wholesalers but blurring the role of retailers and wholesalers.

c. Retailers -

Retailers in Caricom provide the modern day market place for consumers to acquire goods they need. All across Caricom this sector has seen dramatic growth with the expansion of supermarket style retail format and the modern pharmacies. While the number of retail pharmacy chains are few across Caricom the growth of retail chains have shifted the traditional economic power in many countries from distributors to retailers. In this process the trend is consistent with the trends of our neighbours to the North. Chains such as Supercenter, Consolidate Foods-Super J/Mega J, Hi-Lo, Super Plus, Progressive, Rams, TriMart,

Sovereign, Tru-Valu and Marketplace are all shaping the face of the Caribbean retailer.

In addition to the supermarket format many of our petrol stations (Sol, Shell, Total, and Texaco etc) have converted to a convenient store format to offer easy shopping to consumers in Caricom.

In Caricom the modified department store format remains active in stores such as Cave Shepherd in Barbados while regional retail giant Courts now dominate the furniture and consumer appliance trade.

In Caricom retailers have significant cost of operation in the supply chain related to inventory, real estate, utilities, taxes, obsolescence, security, theft and people cost. While margins differ on categories the overall average gross profit earned by retailers is in the region of 25-50% with the smaller convenient stores closer to the higher end of the gross profit.

2. Future for the Regional Trade Sectors

In Caricom the future of commission agents is in decline as modern communication and travel makes it easier for manufacturers to deal directly with regional wholesalers and distributors. In the area of providing goods and services to governments however, commission agents remain vibrant. This is a direct result of the importance of relationships and politics in the decision making process and the need for hands-on representation in the bidding process that characterise securing orders from governments.

In Caricom today, advance telecommunication, international banking relationships and travel is making the role of commission agents redundant. Today their participation in the commercial life of most countries is limited and

they will become increasingly marginalised in the future only offering standard service.

While commission agents are in decline many of these agents have morphed into full service distributors who take title to goods supplied by manufacturers and marketers at home and abroad. Many distributors have grown with trading to dominate the domestic business landscape across Caricom. Today the largest non-financial business entities indigenous to Caricom have at their core a distribution company.

Across Caricom and the greater Caribbean the strength of distributors is only dissipated today by the growth in large retail organisations that can bypass the distributor and buy in large volume directly from brand-owners and manufacturers or major regional wholesalers in North America. These retailers are becoming a significant force in Caricom and in many instances the import rules allow them some latitude in importing goods that do not strictly conform to the packaging and other import regulations. The future of distributors is assured however, as manufacturers seeking a multi channel approach to the distribution of their goods will continue to depend on effective distributors to represent them in the future. These distributors have a comparative advantage in local knowledge, relationships and capital that will ensure their relevance to Caricom's commerce in the future.

The general wholesalers in Caricom have seen their numbers decline over the years as consumers shift their shopping pattern from small grocery shops to the supermarkets. In addition as the road network and communication improve distributors are increasing their direct penetration into many communities previously served exclusively by wholesalers. While businesses operating exclusively as general wholesalers are declining in numbers in Caricom it is unlikely that this group will disappear entirely. Many wholesalers have evolved their businesses into entities that offer both retail and wholesale shopping.

The continued growth and prominence of Caricom retailers is a direct result of the increasing sophistication and economic prosperity of the average Caricom resident in the past 25 years. The growth of affluent urban communities along with better internal transportation has given consumers unfettered access to all the brands and goods advertised on the many cable TV channels beamed into the homes of consumers. Retailers across Caricom have responded to the demands of consumers, in the process transforming the retail landscape from small corner “mom and pop” stores with limited variety to the new “mega” stores with the latest brands and a huge variety of product offering. The future appears to be one of greater consolidation for the retail sector and the continued growth of well financed chains.

3. A policy Framework for the Caricom Trade Sector

Across the region the distributive and retail trade is largely represented by the local Chamber of Commerce. In the countries with a vibrant manufacturing sector the influence of the distributive trade is severely constrained by protecting the rights of local manufacturers. In many countries in Caricom where tourism and construction are the main engine of growth, the distributive trade generally plays a more prominent role in Government policies. In the future regional governments must ensure that the rules and policies of the state support these businesses because of their contribution to the economic life of its citizens.

Wholesalers and retailer across the region play an important part in the development of the region in the following areas:

1. They act as the primary distribution centre to efficiently feed the population and cover basic needs.

2. These businesses are the genesis for most of the significant indigenous capital formation to reinvest in their home country.
3. The well established businesses in this sector provide a reliable source of government revenue in value added taxes, consumptions taxes and duties.
4. These businesses offer a significant source of local employment.
5. These businesses act as a primary supplier to restaurants and small hotels and other service providers that are at the core of the important tourism industry across the region.
6. Most wholesalers and retailers today provide an important route to market for many farmers who no longer rely on the traders/higgler from the traditional open produce market to purchase all their production.

In recognising the important role played by retailers, wholesalers, distributors and commission agents across the region Caricom Governments and leaders need to enact polices that ensures the continued vibrancy of the sector and its growth.

There is a new interest by many international companies such as Price Smart, in the opportunity in the wholesale and retail sector in the region. The dominating organisations in Caricom however, remains Caricom owned businesses. Many of the larger businesses in the trade sector experience significant challenges during generational changes in ownership or during periods when equity is needed for expansion. To ensure proper funding for these organisations in the region access to capital is essential. This requires both the expansion of the equity market across the region and access to a well developed financial services sector that allow for efficient working capital financing.

In support of trade service sector regional governments needs to provide a supporting policy framework that does the following:

1. Simplify customs entry procedures to make the interaction with Customs less of a hassle to the industry and utilise opportunities for automation. In the region more governments need to address the issue of customs modernisation in a move to improve service, efficiencies, productivity and government's ability to monitor this important sector.
2. Reduce or eliminate prohibitive custom duties that are regularly avoided by unscrupulous players but victimize legitimate businesses that needs to compete with them. Smugglers across the region focus on high value items with high duties. One good example of this is the area of alcoholic beverages and tobacco. While most governments and their citizens intuitively see this area as worthy of increase taxation the results in many case is a reduction in government revenue. The reason for this is that the margins for smugglers increase significantly creating new competition for legitimate importers who pay duty.
3. Review rules that restrict the sales of alcoholic beverages to small retailers who are involved in sales for off-premise consumption.
4. Revise price controls regulations that force distributors and retailers to operate on unrealistically small margins. Many of the laws governing the margins for products under price control are outdated. In the competitive environment that now exists in the region, consumers have a wide choice that act as an effective valve to regulate pricing.
5. Provide the trade with a one stop centre to handle food safety, label regulations and standards and measure etc. This is an area that needs to be overhauled as varying organisations now regulate this area often in direct conflict on rules and policies. Significant savings can be achieved with

consolidation while providing the trade with a well funded organisation that can properly regulate standards and consumer safety.

6. For many of the business to achieve their full potential it is clear that an injection of management talent is needed. This help to mentor the next generation of business leaders as well as to share best practises and new technologies. Easier movement of skills across the region will help in this regards as often times the expertise brought in are recruited in Europe or North America at significant cost and limited long-term benefits.
7. Appoint one standard authority across Caricom with a standard of certification across Caricom that ensures that approval in one territory automatically guarantees entry across all markets in Caricom. Caricom integration suggests an opportunity to reduce bureaucracy and improve efficiencies across markets. The multiplicity of rules and regulations in this small region provides a significant opportunity for simplification and rationalization.
8. Simplify the movement of bonded products across the region to allow the region to benefit from extra-regional trade between North and South and East and West. The Caribbean is uniquely positioned to facilitate this type of trade. Investment in technology with online customs clearance will go a long way in facilitating this move and a more flexible frame work for the movement of bonded goods for intra-regional trade.
9. Create a regional stock market that allows trade organisations across the Caribbean to raise capital in the regions. This is particularly important in the smaller countries in Caricom where local capital formation is limited and major wholesalers and distributors represent the greatest concentration of capital. In such countries it is difficult for capital to be raised without going outside the country to get access. A regional stock market will allow more organisations to benefit from capital injection without ceding ownership in a

manner that create an over concentration of distribution and retail ownership across the region in any single entity.

10. Venture capital funds for Caricom should target this sector as a vibrant opportunity for investment especially during periods when these businesses go through generational changes as well as consolidations for greater efficiencies and expansion.
11. The trade sector in Caricom is a significant user of cash. Management of cash flow is an important skill set for businesses operating in this area. Countries with punitive monetary policies that results in high interest rates create significant shock to the stable operation of the trade sector. While Government's and regional central banks continue to exercise their prerogative in areas of interest rates it is important that attempts are made to minimise sudden dramatic increases in interest charges.
12. The stability of regional financial institutions and access to cash through these institutions is important to the stability of the trade sector. The countries that provide Export Import Banking facilities provide an important advantage to members of the trade sector operating in this sector. With the sector exposed to the high risk of unsecured credit from customers and the working capital needs a good policy is to allow inexpensive access to credit and credit insurance for the sector.

The wholesale, retail and distributive trade in Caricom remains vibrant and in Caricom and will continue to provide a key role in the economic growth of the region with the great support from Government and Regional Institutions.

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