



Warehouse for Consignment Distribution

Feasibility Study July 26, 2004

Conducted by:

Dawn Carr

University of Notre Dame M.B.A. Summer Internship Program

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Executive Summary

The following document was prepared as a result of a two month analysis on a new program that would be sponsored by Catholic Welfare and Development. This idea, Warehouse for Consignment Distribution (WCD), is a development program that would serve to enable entrepreneurs in impoverished communities and townships. A study was performed to determine the requirements CWD must meet in order to make the proposed idea a viable and sustainable program. This document outlines the resources and issues that must be addressed in order to make WCD successful. It recommends that CWD take at least one year to implement a test market of no more than five entrepreneurial partners before going forward with a full distribution program. A knowledgeable Program manager with retail experience must be hired in order to implement the test market.

Also noted, there is a lack of information provided on industry and marketplace analysis. This information is not readily available and, due to the time constraints of the analysis team, little information was found specific to the South African market. It is not certain that research documents on buying patterns in townships exist, which is another reason to begin this project with a test market.

The WCD would be a warehouse for second hand clothing distribution. Supplies will come primarily from donations and will be sold only to selected partners in impoverished townships. It is not a retail center. WCD will choose its entrepreneurial partners through a selection process and those partners will chose to buy products from WCD because of the deep discount pricing methods. WCD is unique because of its job creation aspect. Entrepreneurial partners should be chosen from communities that have strong Savings programs. These partners must meet specified criteria, including participation in the Micro-M.B.A. program.

Operating the WCD will be the most difficult challenge of the program. There is a finite donation supply among the limited amount of individual donors. In order to guarantee that there is enough supply, alternatives must exist. It is recommended that WCD not rely on any donor for more than ten percent of its total donor supply. Donor supply is based on many different factors, including local economics, natural disasters, and any changes in demand requests. These factors are highly uncertain and WCD must ensure that those partners, who are dependent on the program for their livelihood, will gain adequate access to supplies.

The final conclusion is that this project has a good probability for success in a test market scenario. However, there is a low probability for success for any greater initiatives due to the lack of guaranteed supply and complexity of such issues. It is most important that a good program manager is identified and that time is taken to implement the test market. A suggested alternative to this program is to open CWD-owned retail centers in various communities. This idea can be further explored if test market proves unsuccessful for WCD.

Company Overview

Company Description

The Warehouse for Consignment Distribution (WCD) is an economic development program that will provide income generation and access to retail goods to impoverished communities and townships. When developed, the WCD will be a warehouse consisting of primarily donated items. Local entrepreneurial partners can purchase these goods at low cost and sell them to their respective communities for a fair profit. The warehouse will be owned by CWD and located in Cape Town. Entrepreneurs will be identified from specified communities and would then run their own stores in the selected communities. While entrepreneurs will own their specific business, the Program will set requirements that the entrepreneurs must adhere to in order to continue to participate in the program. These requirements are designed specifically to ensure the sustainability of the program and will be detailed later in this document.

Purpose Statement

The purpose of the Warehouse for Consignment Distribution is to provide economic opportunities to communities in the impoverished communities through job creation. The entrepreneurial partners will also provide a community benefit by providing easier access to goods for those living in the communities.

Market and Products

The market need that WCD will address is to provide access to low cost retail goods to needy communities. However, WCD will do so by providing access to local entrepreneurs and not through Catholic Welfare and Development owned retail shops. The Program, therefore, serves as a job creation opportunity for members of struggling communities. This method also prevents the need to “re-brand” the CWD welfare image that could otherwise impede demand, because the CWD name will not be attached to any of the retail outlets. Partners will establish their own names to their respective stores.

The target customer for WCD would be entrepreneurs in developing communities. There must be a level of trust between the Program and the entrepreneurs in order to make this project work. In addition, there must be trust between the entrepreneur and members of the perspective community. As a result, it is recommended that the initial target customer come from communities in which CWD has a strong relationship and in which there is a successful Savings Program. A preferred option would be to have the Savings program, themselves, own the shop. This would provide more accountability for the store. However, the complexity of ownership would need to be further analyzed.

The products that will be sold at WCD would consist of clothing, shoes, and bric and brac. The initial resources and contacts will be transferred from the existing Noah Store in Woodstock. Other items would be obtained through private donations from individuals and through donations from retail stores. Donations should be solicited through different channels than those used for the CWD charity programs so as not to create conflict in resource management or allocation. In addition, WCD should have an avenue to purchase low-cost goods, in the event that there is low supply.

WCD is to remain a distribution center. Retail centers require more capital and resources that may prevent WCD from being financially viable and sustainable. It is also important to note that the success of this program would be based on the selectivity of entrepreneurial partners. These partners must meet the specified requirements (outlined in the Partnership Strategy section– page 9) in order to ensure that WCD will be sustainable. In addition, WCD should provide resources to assist in making the entrepreneurs successful, since this is the primary purpose of the program. It is not in the vision for WCD to compete with its entrepreneurial partners.

Objective

The objective of WCD is to assist in economic sustainability in low income communities. As such, WCD should act as a business, based on business (not charitable) principles and require the same from its entrepreneurial partners. Long term, WCD could grow to include more than second-hand donations. There are opportunities for WCD to connect with other CWD programs – such as the beading program, sewing program, men’s program – and serve as a distributor for the goods created in these programs.

There are currently no known programs that operate in this proposed way. The lack of information means that an adequate exit strategy should exist to protect CWD. Therefore, it is recommended that the initial program include only second-hand donations and involve as little start-up costs as possible. This information will be further outlined in the following pages.

Products and Services Description

Description

The WCD is a warehouse for second hand clothing distribution. Supplies would come from donations and would be sold only to its partners. It is not a retail center. WCD will choose its customers through a selection process and those entrepreneurs will chose to buy products from WCD because of the deep discount pricing methods. WCD is unique because of its job creation aspect. It is not simply a charity shop. Instead, its main goal is to produce business-minded entrepreneurs within the townships. As a result, WCD is a development program. It is the hope that eventually the entrepreneurial partners will become independent of WCD and run their own businesses by purchasing products from other sources. It is encouraged that they use their shops to also showcase products and crafts from other places and, especially, from artisans in their communities. The following is the proposed initial structure of the WCD program:

- A specific community is identified based on its need and CWD affiliation. It is suggested that the initial communities be part of the Savings program.
 - Example: Rural communities with limited access to shops that have strong savings programs.
- A person is selected as the entrepreneurial partner for the specific community. It is suggested that preference be given to Savers. These people tend to have stronger ties to the community as well as the support needed to make this work. Also, members of

the Savings community may be able to use those resources to help with any upfront capital needed. The person must be able to show that they have the resources to pay the upfront costs (initial purchases from WCD and Micro-M.B.A.) and that they could manage the transportation efforts needed to the WCD on the given days. They should complete an interview process to show their interest and dedication. There may also be an opportunity to make this an entire Savings community the owner of the store.

- After selection, the entrepreneurial partner must sign a contract stating the parameters of involvement. The specific parameters are listed in the Partnership Strategy section (page 9).
- WCD should be open to its entrepreneurial partners on designated days. Initially, it is suggested that this be one to two days per week. WCD would spend the additional days for inventory control, pick-up/delivery services, and other administration needs. This should cut costs by limiting the number of workers needed.
- The pricing strategy of the WCD should be based on a reasonable price that the entrepreneurial partner could expect to sell the given merchandise. WCD price for the merchandise would be one-half this estimate in order to account for the final markup.
- The entrepreneurial partners must meet with the WCD mentors on a monthly basis. These would be group meetings in which the partners could share their experiences with each other. It is suggested that these meetings take place on a day in which the WCD would be open so that the partners are not making multiple trips.

Market Comparison

WCD is principally competing for suppliers and not for customers. The biggest challenge that the program must face is its donation supply. This will be an ongoing challenge and it is important that the Program Manager have very solid plans in place for donation supply. It is very important to note that the WCD program **MUST** have adequate supply for its partners. These partners are depending on WCD for their livelihood and we must be able to meet the demand. This may mean that WCD may need to purchase goods from second-hand dealers or work through other arrangements with manufacturers to purchase products in order to supply goods. ***This issue, if not addressed, would make this program unsustainable.*** Please see the Operations section for more information.

As a result, our principal competitors are charity organizations as well as second-hand shops. Charity organizations such as the Salvation Army receive donations through welfare marketing strategies. They actively seek donations and promote the use of these donations through their welfare programs. The WCD is unique in its value proposition because it seeks to use the donations in order to create jobs. The uniqueness in this development could be used as a marketing strategy for donations through major sponsors as well. Retailers, such as Foschini, may be more willing to give to WCD due to the uniqueness of the organization. As well, there may be opportunity for additional publicity, since this program could prove to be very successful in job creation. The success of this program can also be very easily measured, which means that donors can solidly see the impact of their donations.

Stages of Development

The WCD will be the first of its kind in South Africa. Since there are no direct competitors to gauge the availability of donations and the successfulness of a distribution network, it is highly recommended that WCD start with a test market group in order to get the data needed to determine if there is a sustainable market.

Currently, there are a minimal number of available donations through the Noah store. Donations from Mr. Price average about 200 items per month. In order to be a distributor, it is suggested that a warehouse have about 3 times the amount of needed merchandise on hand. The current amount of sellable donations does not meet this requirement. Another important obstacle to overcome is identifying the correct program manager. The success of this program is dependent on hiring a manager with retail and/or second-hand shop experience. Ideally, this person would also be knowledgeable in distribution centers.

It is suggested that WCD use the first year to test the concept in a few communities. During that time, they should also work to solicit enough donations and make the necessary relationships within the community to sustain a larger program. This time would give more insight as to the sustainability of the project with little cost to CWD. ***It is highly unlikely that this project can survive on individual donations.*** The segment of the South African population able to donate quality goods is extremely low. It is anticipated that this segment would be saturated within one year and the amount of excess goods received from this community after this time would be minimal. This project must have dependable sources of supplies, preferably from major retailers. More information is provided on this topic in the Operations section of this document.

Marketing Strategy

Target Market Strategy

The target markets for the WCD program would be vulnerable communities that demonstrate a need for retail centers and that have the greatest potential for finding trustworthy entrepreneurs. Some suggested requirements for the target market are:

- Areas with strong and established Savings programs. These areas should also have demonstrated levels of independence. This would include establishing business hives, community centers, etc.
- Communities where CWD's development programs play a bigger role than its welfare programs. Members of these communities may have different expectations of a relationship with CWD and be more willing to work within the defined parameters.
- Areas that have little access to major discount chains. It may prove difficult to gain retail donors if the retailers believe that the entrepreneurial partners are stealing business away. Therefore, these partners should sell goods in areas where there are no major retail channels within close access.

There is some data in developed nations (U.K. and U.S.A.) that suggest impoverished people are less likely to purchase second-hand goods. No research has been conducted in South Africa as to the likelihood of purchase. However, with the high unemployment rates, it can be inferred that there are a subset of people who simply cannot afford to purchase from retail chains. While these people may prefer to purchase from major chains, they cannot do so. This subset would be considered the target end consumer and it is important that the community selection process consider these consumers.

Pricing Strategy

Since the overall goal of WCD is to create local entrepreneurs, the WCD program is not an income generating program for CWD. Pricing should be no more than one-half the estimated final value of the product. For instance, shirts sold for R10 to final consumers should be sold to partners for no more than R5. The ambiguity of the pricing strategy requires a competent program manager with adequate retail experience to make responsible pricing decisions.

In any case, the average price of goods at the currently opened Noah store is R5. Based on this estimate, the WCD could expect the average price of its goods to no less than R2.50. This, again, is dependent on inventory selection.

Distribution Strategy

WCD goods will be distributed only through entrepreneurial partners. There will be no retail aspect to the WCD. Customers will be responsible for any delivery costs associated with their purchases. For large purchases, the customer can arrange to have one of the delivery service providers transport the goods. However, the cost of that arrangement would be incurred by the customer. WCD could choose to manage the delivery service. However, it is recommended that customers independently contract with the service providers to deliver products on days that their services are not needed with WCD. This removes administration work from WCD and, again, fosters independent job creation.

Communication Strategy

In order to generate awareness of this new program, it is important that WCD, with the help of CWD, spend ample time explaining the program to possible benefactors. By doing so, WCD would be able to gauge the interest and potential success factors of such a program in a given community. Partners will be responsible for their own advertising and promotions.

Once WCD has been established, ongoing communications with partners should be done during WCD open hours. This can be done through posted flyers or at the mentoring meetings. Communications should include any known dates for specific new merchandise (e.g., new shipment of Mr. Price goods) and should be provided at least one week in advance (if possible) to allow partners ample time to arrange transportation.

This strategy should be successful because it creates one central place of communication. It would also require partners to visit WCD frequently in order to find out about specific shipments. This will also benefit the partnership. Partners should also be encouraged to submit satisfaction surveys and recommendations. By doing so, the partners are encouraged

to take responsibility for their business. It would also aid WCD in its direction for donor solicitations and inventory management.

Partnership Strategy

It is in WCD's best interest to ensure that its partners are successful. It is also imperative that the partners meet all requirements (Micro M.B.A. program, mark-up restrictions, selling zones, etc.). While mark-up restrictions can be observed simply by talking with consumers during any visits to the Savings program, ***it is impossible to ensure that all products purchased from WCD will be sold only in the designated township.*** This limitation may be of particular concern to major retailers and should be addressed at length. Having these rules is important, however, because it gives WCD the necessary authority to terminate the partnership relation much more easily. Suggested parameters are as followed:

- All products purchased at WCD must be sold only in the designated community.
- Products purchased at WCD may be sold at a price no more than double the price purchased at WCD. Example: A shirt purchased for R 2 cannot be sold for more than R 4.
- All entrepreneurial partners must complete the Micro M.B.A. program, including monthly follow-ups with the WCD mentors. The cost of this program could be partially subsidized through the WCD program. However, it is advised that the entrepreneurial partners pay some portion of the course in order to ensure dedication.
- Partners must purchase products from WCD at least twice per month. This is to ensure that partners are not hoarding merchandise and are thoughtfully managing inventory. If the end goal is to produce entrepreneurs independent of WCD, this lesson is imperative. It also allows WCD to monitor its partners more closely.
- Partners must respect the WCD. They must do their part to keep the store clean and orderly.

An identification card should be given to all partners. This card must be shown upon entering the shop to lower the probability of shop-lifting and damage from non-authorized patrons. Partners should also be required to renew their agreements at the end of the year.

Partnership termination should be expected to occur quite frequently. This could be due to lack of funds to purchase goods, poor management by partners, or lack of compliance to the designated regulations. It is, therefore, important, that a partner waitlist be managed and maintained. This waitlist should also include potential demand in the designated areas. It is important that potential demand be monitored because it directly correlates with inventory needs of WCD. It is also important to ensure there is enough revenue from the partners to cover operating costs.

It is suggested that partners be placed into categories based on potential market size and the competitive landscape. At a very high level, the categories could be township size and the relative proximity to three or more retail stores. This type of categorization could be used to help select the number and category of new partners. It would also provide valuable information as to which areas are most receptive to the WCD model.

Operations

Operations Strategy

By far, Operations is the most challenging section for WCD. Based on economic data, it is safe to assume that there are more than enough potential partners. However, the issue that WCD would face would be running a distribution center in a cost effective manner.

Distribution centers need ample, reliable supply for their customers. Location, though not as big a concern for distribution centers than for retail centers, is important because it is likely that the partners will not have access to transportation. Location should also be conducive to donors and should have ample security. Because WCD partners are particularly vulnerable, it is important that the program have very solid options for supply. The current options available are individual donations, retail donations, and discount purchase.

Initially, individual donations could supply the upfront inventory needed. However, this is not a long-term option. Individual donations can become saturated very quickly – particularly since WCD will be competing with many charity organizations. In addition, individual donations are seasonal and tend to peak during spring and fall. A large percentage of these donations may also prove to be not sellable due to the condition of the items or simply the type of items received. Because of this issue, there will be disposal considerations of unusable goods.

Retail donations are important to make this sustainable. Specifically, consistent retail donations are most important. An example is the current relationship between the Noah shop and Mr. Price. Mr. Price regularly donates 200 items per month – and has been doing so for at least three years. WCD must have a variety of potential sustainable donors. It is suggested that no one donor account for more than ten percent of the total inventory because donations are cyclical and cannot be guaranteed. Retail donations will require much upfront work for the Program Manager to establish the lasting relationships needed for the supply of goods.

Even with individual donors and retail donations, it would also be imperative that WCD have relationships with discount sellers. There are second-hand importers; however, the current South African import taxes would most likely make this option unfeasible. It would be worthwhile to discuss with retailers an option to purchase overstock, slightly defective, and clearance items for low cost. This option is a must. ***Donations cannot be the only method of supply and there should be some additional option for WCD.***

Scope of Operations

Some considerations for the WCD operations are:

- While donations may be delivered by the donors, WCD must be prepared to pick-up items, if needed. This means that there should be a scheduling process designed for pick-ups, transportation to do so, and drivers. The most cost efficient way to do this in the beginning may be to contract these services to persons who have the necessary vehicles for picking up the merchandise.

- Once merchandise has been picked-up, a process for delivery must be designed. This is a critical time for pilferage, since the items have not been inventoried. Therefore, a limited number of trustworthy people should have access to these items. Preferably, pick-ups and deliveries should be done on a day in which WCD is not open for access by its partners.
- When a delivery is made to WCD, it must be inspected and sorted. Donations that cannot be used at WCD should then be subcategorized into donations that could be used by other CWD charities, donations that should be trashed, and quality donations that cannot be used (e.g., diving equipment). Those going back to CWD charities should be picked up by the appropriate charity. Those that should be trashed must be delivered to waste management sites. Those not being used must be housed and either sold or donated to other charities.
- Sellable donations must then be inventoried and priced. Someone with retail experience must be present in order to price and categorize these inventories appropriately. Placement is important in this type of store. If items do not appear organized, partners will use WCD as a rummage sale and the administration costs associated with cleaning and pilferage will increase substantially.
- WCD should be open several times per week for entrepreneurial partners. There should be a cashier available as well as someone to replace stock and keep inventory in order. In order to prevent pilferage, some type of inventory system should be kept so that WCD will know the items sold.
- Return policies and lay-away policies must be established beforehand. It is recommended that there be no returns allowed for WCD. Lay-aways should also be discouraged because of the need for necessary storage and the administrative costs incurred for such items.
- Entrepreneurial partners can contract delivery services for their items, if needed. The drivers could be the same as those used by WCD. However, the services provided would be an independent contractual agreement between the partner and the delivery service. WCD would not pay or incur any costs associated with deliveries. Money would exchange between the two parties involved.

Development

Development Strategy

Several times in this document, it has been mentioned that there needs to be ample time given to the start-up phase of this program in order to have any opportunity for success. This section describes, in more detail, the things that need to be done before the program launches.

It is suggested that this project need a minimum of one year start-up time.

- Actively seek donations within the community. **Timeline:** ongoing – but, anticipate until Month 8 to have enough sellable donations to begin test market.
- Find storage to house donations. **Timeline:** Month 1
- Create budget for test market and estimate costs. **Timeline:** Month 1.

- Identify Program Manager. This person must have strong retail experience. **Timeline:** Can be done simultaneously with donation solicitation but must be completed before any other actions can take place.
- Establish retail partners and determine alternate methods of ongoing supply for WCD. **Timeline:** Ongoing
- Identify volunteers to help with test market. This includes WCD mentors for the entrepreneurial partners. **Timeline:** Months 6-7.
- Determine location for WCD. It is suggested that containers be used initially for WCD due to the cost effectiveness and portability of the units. **Timeline:** Month 8.
- Get any necessary licenses or approvals for selling goods. **Timeline:** Should be done once location is secured, but before the location is finalized in case there are any zoning issues.
- Hire resources for WCD to help transfer goods from storage to WCD and begin inventory process. **Timeline:** Months 8-7.
- Determine number of initial entrepreneurial partners for test market. This is somewhat dependent on the number of donations, but should not exceed five. **Timeline:** Month 7.
- Identify the specific communities that will be included in the test market and begin communicating the program to the Savers of the specified community. **Timeline:** Month 8.
- Solicit applications and select partners for the WCD. This includes holding the Micro-M.B.A. program **Timeline:** Months 9 and 10.
- Launch test market program. The test market should complete one full seasonal cycle so that the various levels of supply and demand cycles can be seen. **Timeline:** Months 11-15.

Development Expenses

Please see the Proforma Income Statement attached to the end of this document for a detailed account of the projected income and expenses for the test market. Expenses that should be calculated into the initial start-up costs include:

- Public relations and marketing materials for donation requests
- Program manager salary
- Storage facilities for donations during the initial start-up phase
- Rental cost of WCD. If containers are used, also include conversion costs
- Transportation costs to pick-up donations
- Transfer costs to move items from the storage unit to the final WCD location
- Salary costs for those involved in the inventory process once goods have been transferred from the storage unit to WCD
- Costs associated with the entrepreneurial selection process (ie, travel costs, administrative costs, salary costs for time spent in the communities, any subsidy costs for Micro-M.B.A. program)
- WCD supplies (i.e., hangers, boxes, tags, racks, cashier boxes, showcases, shelves, signage, receipt books, inventory books, calculator)
- Security costs, including anything or anyone used to protect merchandise.

Management

Management Team and Organizational Structure

The suggested initial organization of the WCD is the following:

- WCD Program Manager – This person must have some retail experience – preferably second-hand shop experience. They should understand pricing and inventory control issues. The primary job would be donation solicitation or purchase, inventory control, entrepreneurial partnership selection, employee/volunteer selection, and any other issues associated with this program. This is a full-time job, as the program manager should be involved in every aspect of the WCD and should be in the warehouse everyday.
- Delivery service providers – These persons would be responsible for pick-ups and would also be responsible for delivering any marketing materials (such as flyers) on given days. These persons could also help sort and take inventory. They could also be contracted out to entrepreneurial partners who may want large items delivered to them.
- Cashier/Warehouse manager – This person would be responsible for the money during the days that the WCD is open. They would give this money to the Program Manager at the end of the day. The cashier would also assist with the overall tidiness of the warehouse.
- WCD mentor – This person could be a volunteer who has some entrepreneurial or retail experience. His job would be to facilitate the monthly meetings with the partners. His job would not necessarily be counseling, since the idea is to get the partners to help themselves and become independent of WCD.

Conclusions

After careful analysis of the potential success of WCD, the success probability for such a program is low. Most likely, it is below 50%. The reason for this stems primarily be:

- lack of experience in the market for this kind of distribution management system
- small number of potential donations from the market, given the wealth distribution of the Cape Town area
- inability to control partners, which means that there can be no guarantee that the items purchased through WCD would benefit the given communities

Although these major challenges do exist, there is the possibility for success, if the appropriate time is given to address these issues. Because of the lack of data in the market, the best method to determine the viability of this project would be to conduct a test market with no more than five entrepreneurial partners. A program manager with retail experience should be temporarily hired for this time. By doing so:

- little costs would incurred – only those costs outlined in the development section
- donations would be used regardless of the outcome of WCD, because excess donations could be given to CWDs welfare programs

An alternative to WCD would be to reestablish a second hand retail store in a prominent location. This shop should be run by someone with retail experience, as well. If the test market proves to be unsuccessful, the Program Manager could take over this project. Job creation could also stem from this idea by giving partial ownership to a shop manager. In this way, CWD can better control the shops with minimal supply stress. This option should be better investigated, if the test market proves unsuccessful.