Title – Dia Dia of Venezuela  
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What is Dia Dia?  
Dia Dia is a daily needs market chain founded by Jose Vincente Aguerrellere, to bring the efficiency of super markets to the base of income pyramid in Venezuela.

Dia Dia Business Model.  
Before Dia Dia -  
1. More than 80% of Venezuelan population ended up buying groceries from a street vendor, a Bodega or a Changarro – A small store near house meant to serve majority of daily needs, despite the existence of super markets.  
2. Super markets were one way stops for daily needs of people with stable income, but people at the base of the pyramid could only have access to super markets once or twice a month.  
*Combination of the convenience of a Bodega with the efficiency of a super market gave birth to Dia Dia.  
a.) Dia Dia has the proximity of a local store  
b.) A Dia Dia manager is someone from the immediate community.  
c.) Super markets have aisles divided by categories, Dia Dia has counters/assortments according to needs.*3. Poor do not have the luxury of time, wastage of time roughly translates to them as a loss in daily income, therefore Dia Dia stores are closer to the communities of people belonging to the base of the pyramid, generally in the most convenient location of the neighborhood.  
Dia Dia translates to “day to day”.  
4. Prices are similar to supermarkets, the main attraction of Dia Dia is convenience. Dia Dia stores discourage the continuous struggle between high and low prices. Instead of engaging in discount practices, they have standardized the prices.   
  
Why don’t hard discounts work in developing economies?  
Hard discounts are usually provided at the cost of surplus hoarded throughout the year, therefore there is an unstable wave of high and low prices. The population belonging to the strata of unstable income needs a fixed monthly budget to gauge the demands monthly or weekly.   
Hard discounts = low prices, the only way to have low prices is promotion of private labels. Private labels usually strike as spin-offs of famous brands. The risk factors associated with private labels overcome the lure of lower price for the people at the base of income pyramid. Money invested in private label items is quite often, wasted, emerging customers need the security of fixed budget and trust factors.   
  
Starting a business in Emerging markets.  
The concept of venture capital, the concept of sweat equity and the concept of legal framework, are somewhat absent from the market structure of an emerging economy. Grocery retailing needs multiple stores, which in turn needs professional capital. But the whole concept of professional capital doesn’t usually exist in a developing economy.  
So a question arises, how do you compensate for risk factors and how do you reward the upside?  
Dia Dia raised $5m for 80% of the company that according to the founder “was doomed to fail”, as there was no equity to hire talent into the company. Thus, they created an option to buy half of the company at the original price.

Emergence of Mercals.   
Mercals were government subsidized hard discount stores targeting the same problems as Dia Dia.  
On a scale of 1-10 in terms of cost, if the prices at Super Markets related to 9, prices at Dia Dia were 10 and prices at Mercals were 2-3. In terms of price Dia Dia could not have competed with Mercals.  
But, the problems associated with Mercals were -  
1.) Due to extremely low prices, their customers were basically shop owners stocking up their own stores.  
2.) Low prices created an unnecessary turmoil in terms of crowd management. Mercals were soon synonymous to long waiting lines.   
3.) Transportation costs.  
4.) Uncertainty and improperly stocked.  
  
Economics of Dia Dia.  
1.) Dia Dia worked on the principal of turning inventory faster than payments. Thus, when the time of payments came, they already had their monthly revenue at hand.  
2.) They focused on shorter inventory time and thus reduced the cost of warehouses.   
3.) Due to lack of financial capital in the market, Dia Dia started acquiring stores with comparable convenience of locality and comparable inventory time.  
4.) Centralized supply chain, took out at least 10 days of inventory time.  
5.) Margins were low, returns were pretty good but the internal cashflow of the company was not good enough to open new stores without acquisition.  
6.) Majority of cash flow for growth came from the commercial terms of suppliers. Payment terms were longer than inventory terms.  
7.) Dia Dia had small stores and therefore for putting a new product on the shelf, you need to take another product out. The cost of an unwanted product on the shelf is huge.   
8.) The unstable political conditions in Venezuela contributed to slowing down the growth of Dia Dia.  
  
Bouncing back from Bankruptcy.  
Dia Dia made the mistake of buying starkly different decentralized business of 29 stores, their largest acquisition at the time. The stores were bigger and had 90 days of inventory time (instead of 20 days), the concept of turning inventory faster than payments diminished.  
Dia Dia had to request government to close down 20-30 Mercals, and government thought that the request for closing down of stores was an attempt at destabilizing the government.  
Dia Dia went bankrupt, but soon raised 1.5 million dollars from committed investors and fixed the problems internally.   
  
Political Risks.  
After 6-7 years in operation Dia Dia occupied more than 7% of the market and served to 30% to 40% of Venezuelan households. The failure of Mercals was evident. Venezuela at the time was facing a period of scarcity, Dia Dia’s president along with 42 other employees were detained under the pretext of a government meeting. Dia Dia was accused of hoarding goods, after the state media broadcasted the state of their warehouses just before the daily transportation of stock.  
Venezuelan Government needed to find scapegoats for scarcity and less impact and market occupied by Mercals. After an elongated period of struggle, involving a push from the community to release the employees and the president, communities pressured the government to bring Dia Dia back in operation.