



## Case Study: Aduanera de Nicaragua, Nicaragua

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Aduanera de Nicaragua (“Adenica”) provides a full spectrum of logistics and customs management for major national and international firms operating in Nicaragua. Founded by two partners in 2000, the company initially managed and relied upon one major client. Within a year, however, no new business had materialized and the partnership dissolved. The daughter of one of the initial partners was brought in to transform the business into a competitive business in an insular, low-growth industry. Without industry experience, the only asset the new CEO brought to the business was a new energy and passion.

### **Business Problem**

With official unemployment at above 40%, the second-lowest per-capita income in the Western Hemisphere and a low GDP growth-rate operating in Nicaragua is challenging. This challenging economic environment poses particular difficulties in the customs logistics business, where multiple entities and individuals have the opportunity to extract informal fees on top of official duties and tariffs.

### **Analysis of alternatives**

Faced with virtually no customer base in an industry where scale has advantages, the company’s primary challenge was to obtain new customers and grow the top line, a feat it could achieve in a variety of methods.

*Price vs. Service Quality differentiation* – Adenica’s three major competitors all compete on quality of service, leaving what appears to be limited opportunity for a new player to convince the market that its quality of service would be significantly better. As no other major competitors competed on price, however, this could be an attractive way in which to convince customers to switch providers. On the other hand, if the company did choose to compete on service quality, it would be able to command better pricing from its customers.

*Extend product offering to include financing* – During the import/export process, Adenica’s customers must pay multiple payments to various parties, the amount of which can not usually be determined in advance. Typically, once the logistics provider knows the amount of the payments required, it goes back to the client to obtain this payment. Adenica has considered extending financing for these payments on the spot in order to speed the process, but should it decide to implement this, the company could be at risk of non-payment.

*Expand into neighboring countries* – The types of customers that require import/export services tend to have businesses throughout the region and are increasingly looking for a one-stop shop provider. Providers such as DHL, APL Logistics and ILG are increasingly offering this in the region, although their on-the-ground service in any one country is inferior to the local provider. If Adenica is unable to offer multinationals a solution for their regional needs, it risks losing business to these larger competitors who may still be able to deliver good, if not outstanding, local service. Any international expansion, however, will require significant investment and without local knowledge, the company may not be able to deliver quality service to customers.

### **Action Taken**

Despite the fact that its other local competitors all compete to win business based on quality of service, Adenica was confident that it could provide a level above the standard in the market. Carolina thus chose to go-to-market with a premium-priced, premium-service level offering. In order to provide a product that showed premium features to potential clients, choosing to extend financing to customers was a natural choice. No other competitor was offering this and by providing it, the company believes it will offer customers a more seamless experience and shuttle goods through the customs process more quickly.

Adenica has decided that the investment required to establish the company in multiple countries in the region, however, was too significant for a small, growing company like Adenica to bear. Utilizing the energy and passion of the outgoing CEO, however, the company has been able to work with other import/export customs management firms in the region as a founding member of a consortium that will provide one-stop support to multinationals who operate throughout Central America.

### **Results**

From one client in 2000, the company now has 35 clients and is focused on the largest companies in the country who are willing to pay a premium for quality service. The company's growth has seen the number of employees grow from 55 to 73. Adenica's growth is attributable in large part to the company's financing service, which has allowed it to better control the flow of products through customs and thus its clearance and delivery performance. Given its strategic importance Adenica has carefully managed the credit facilities that underpin its financing offering. The company's bank recently doubled the size of the credit line allowing the firm to significantly expand its financing services.

While it is still early days of the regional consortium of customs management firms, the consortium has made significant inroads at major multinationals. In addition to its Consorcio Logístico Centroamericano, which deals with regional customs and duties issues, Adenica has integrated its operations with a leading international freight business. Adenica now have offices in Miami with representation throughout all of Central America including the key market of Panama.

While it appeared at first glance that there was not an opportunity for another premium-priced integrated services provider in the market, combining premium pricing with a truly differentiated product allowed the company to compete effectively. The company found that the risk of non-payment was minimized given their customers had already self-selected in a premium priced provider and thus were in better condition financially than customers who chose non-premium priced providers.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.<sup>1</sup> Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value create for these four different stakeholder groups by Adenica.

Adenica and the COW-F Framework:

Stakeholder Community	Current Value Offering
<b>Customers</b>	Through its innovative financing offering, the company has improved the customer experience and improved the reputation of an industry that has been plagued by complaints of “added fees” and “discretionary levies”, particularly for international clients. In addition, the company’s proprietary software system has enabled it to better service customers.
<b>Owners</b>	The company is financially stable, has little debt and provides an adequate return to the owners, while continually reinvesting in the business. Family members, including the original founder and Carolina’s brother, are still intimately involved in the business.
<b>Workers</b>	While there is still no professional HR function in the organization, there are examples of individuals within the company who have been trained and promoted into new roles in the organization including the former cleaning lady who is now head of operations. There is a risk, however, that company management is highly dependent on the family who serve in all major roles.
<b>Future Generations</b>	The company has informal relationships with local community and humanitarian organizations. By establishing a zero-tolerance policy for corruption in a notoriously corrupt industry, the company hopes to transform the business environment in Nicaragua in the future.

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<sup>1</sup> The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.