

**DIRECT SALES AND INCLUSIVE DISTRIBUTION NETWORKS: SIMILAR MEANS,
VARIED RESULTS**

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Abstract:

Introduction: Inclusive business (IB) is the name given to the economic activities developed by companies through the participation of vulnerable population in their value chains (as consumers, suppliers, or distributors). Companies maintain their profit motive but they allow the participation of the bottom of the pyramid in the generation and capture of value (Márquez et al., 2009). Some questionings around IB highlight the need of developing indicators to differentiate business that makes significant social contributions from those that are not changing inequalities. Direct Sales (DS) is a distribution channel used by many companies to commercialize their products through the participation of women heads of households and other vulnerable populations. The purpose of this paper is to analyze DS with the perspective of IB to identify evidence to establish the boundaries between IB, and business that are not allowing value capturing for the poorest.

We analyze the DS by showing their marketing strategies and the innovations needed to ensure timely provisioning and easy transactions. Then we study all the actors involved on the channel by understanding their socio-economic profile, the role played in the channel, their value generation, and value captured by each one.

Literature review: Inclusive business are the explicit effort made by companies to involve low-income residents in their value chain (Marquez et al., 2009). These efforts have the potential to create innovative businesses models through the integration of social initiatives, and the development of sustainable and scalable models (Ishikawa & Stradberg, 2009). Distribution has been a controversial inclusion modality due to the informality through which various companies link low-income residents. So, the potential of Inclusive Distribution Networks, made up of micro-distributors that allow the company to reach consumers at the base of the pyramid, are now the object of study. (IDB, 2014).

Methodology: Inclusive distribution is not a topic that has been deeply analyzed. Furthermore, the application of related theories has not been proven for the specific Latin American context.

Consequently, the case study was an ideal method to gather information and develop an analysis of how inclusive distribution works (Maxwell, 2008). We developed a multi-case analysis to identify causal explanations about practices and innovations needed to develop a DS business. We selected two comparative cases to apply indeep interviews, one from Colombia and the other one from Argentina. Then, we content analyze the information and we categorized our findings to identify innovations in the value chain, actors involved, and evidence of generated value.

Results and Contributions: By comparing traditional channels and DS, we identified new processes and requirements necessary to guarantee the distributions. DS companies build partnerships with local transportation businesses, and with local money transfers enterprises, that become key components on the inclusive distribution network. In terms of value generation and capture, we identified several actors with varied indicators of improvements. In some cases, people supporting local transportation of merchandise represent low-income citizens who develop their own business to support the DS. Zone leaders, women in charge of organizing the sellers team on their region, showed leadership skills and empowerment. However, we did not find evidence of social value related to the sellers, most of them women household heads. These sellers normally develop direct selling as an extra-job, because the incomes related to these activities are not enough for them to live. The low perceived value that they manifest in the interviews is supported with high levels of turnover. The compensations systems are based on sales awards, most companies deliver free products to their best sellers. Products that do not represent a real contribution on the quality of life improvement. Other important characteristic identified, is the possibility to develop different product portfolio supported on the same distribution channel.

Implications: In this work we define a conceptual framework to characterize the DS as a novel distribution channel. On one hand, this framework let identify collateral benefices as the use of this channel to create new local business or to distribute complementary products. On the other hand, we identify some innovation in the management of the supply chain, that permits a horizontal integration supported on the development of DS distribution channel. Nevertheless, our study is limited in the number of companies studied, in consequence it is not possible to generalize yet. One of the main study drawback is the lack of information. The companies using DS as only distribution channel are very protective with the qualitative and quantitative information and in

most of the cases, there is not data or it is concentrate in one person. In addition, the absence of a base line to study the economic and social situation of the women before they become DS sellers does not allow identifying the improvements in the quality of life or the social implications of DS in the communities.

Keywords: Direct Sale; Inclusive Business; Value Chain; Social Innovation.