BETTING ON MAJORITIES

INCLUSIVE DISTRIBUTION MODELS IN LATIN AMERICA

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(editors)

Ediciones IESA

OBSERVATORIO SCALA DISTRIBUCIÓN INCLUSIVA
SEKN
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In memoriam of Henry Gómez Samper

A teacher, a friend, a role model.

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As a prologue

Roberto Gutiérrez

Inequality, like violence or structural racism, are great problems of our time. When social structures are responsible for excluding and generating violence, we have racism without racists, discrimination that benefits a few who do not recognize their privileges, exclusion without assuming responsibilities.

This book is a step in the direction of addressing these problems. By analyzing multiple cases of economic inclusion, the authors point out those paths that we hopefully will travel more in the future. Without economic inclusion there will be no social inclusion. In the capitalist world in which we live, the economic dimension is paramount and, therefore, we need to take it into account when focusing on the social. We cannot and must not continue to "sweep under the rug" the violence, discrimination, racism, classism, and marginalization that we have had since the times of the conquest.

The editors, authors and researchers have made a careful selection of cases among the seventeen examined from the Scala Observatory of inclusive distribution networks. Each of the selected cases illustrates a specific dimension of these distribution networks. Any reader will find in these pages inputs to examine issues such as the participation of women in business initiatives and their differential benefits, or the specificities of the selection and training of personnel for a network to distribute products to populations in vulnerable situations.

Who are these women or other participants in these initiatives? They are people who have had few opportunities for decent work in their lives. In situations like this it is when there is creation of social value. Offering job opportunities to those who have several to choose from does not add value to society. But if the offer is for someone who does not have access to those opportunities, there is a qualitative leap there. It is, then, when economic inclusion arises.

The economic inclusion of populations in vulnerable situations, described in the cases presented in these pages, is valuable for our societies. These steps are some of the many we need to have less inequitable societies. As taking these steps is not the privilege of some actors over others, welcome those who come from the private sector. One of the founders of the Carvajal publishing conglomerate already said in the sixties of the last century, "there is no healthy company in a sick context." Only the participation of many and very different actors will be able to expand the opportunities that today are not available to the majority. The role of those who do recognize their privileges and are able to use them for the benefit of others is critical, and responsible leadership, another topic discussed in this book, can make it a reality.

The description of each case, at the beginning of the chapters, illustrates the complexity of the different realities addressed and allows readers to use these ideas in their own contexts and initiatives. The presentation of the cases, in addition to being attractive, allows us to carry out the inductive process with which readers can approach conceptual discussions about the different dimensions of inclusive distribution networks. This book shows how fruitful the dialogue between cases and ideas, between empirical realities and analytical constructions can be.

It is inevitable to point out these pages' richness of contents. Furthermore, substance and form are two sides of the same coin. We separate them to better understand each one, but they are inextricably linked. In these lines I began by commenting on the pertinence and relevance of the book, two of its successes. To the successes of form, I must also add an allusion to the way in which the research reported here was carried out.

SEKN's collective work is admirable for the interaction that characterizes its researchers' network. Unlike many other academic endeavors in which a set of chapters and contributions is little more than the sum of its parts, in the SEKN network the collective discussions and work prior to publication guarantee overall results that go far beyond the simple sum of the individual activities. That is the case with this book.

A couple of dozen researchers participated in the selection of a sample in which the Scala Observatory invested efforts and resources. Couples or trios carried out the indispensable field work in multiple Latin American latitudes. An Academic Committee was aware of the progress of this work and its analytical reports. And, at least once a year since 2016, there have been research meetings to discuss findings. These interactions give meaning to Borges's words: "The dialogue has to be an investigation and it does not matter whether the truth comes from one or the other." Taking advantage of the inputs that this book offers is a step in the transformations we need as societies. Like this book, it is in your hands ...

Roberto Gutiérrez
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Introduction:
A COLLABORATIVE RESEARCH

Nunzia Auletta
Josefina Bruni Celli
María Helena Jaén

INTRODUCTION: A COLLABORATIVE RESEARCH

Nunzia Auletta, Josefina Bruni Celli and María Helena Jaén

This book is aimed at business people and social entrepreneurs, who are determined to change the order of things, by taking the responsibility of leading companies that generate not only economic benefits for some, but also social and environmental value for most. There are many who believe, and we are among them, that it is not possible to continue "business as usual" by focusing only on economic outcomes. Transforming the state of affairs towards more inclusive businesses requires innovation and entrepreneurial orientation to create new models, organizations and alliances that articulate resources for the sake of social impact.

We present here seventeen for-profit and non-profit initiatives, carried out in recent years with the purpose of developing inclusive distribution networks. These experiences, one from Spain and sixteen from Latin America, were studied by the Observatorio Scala, an effort to generate knowledge about inclusive distribution networks. Our purpose is to show the challenges that these initiatives had to face when devising, designing, launching and scaling their project of serving low-income segments (LIS). We also highlight learnings for future ventures aiming for sustainability through inclusive distribution networks.

The call to put LIS on companies' radars dates back to the mid-1980s. In Latin America, the Peruvian Hernando de Soto[1] was one of the first advocates of reducing suffocating bureaucratic regulation imposed on a majority of informal sector entrepreneurs, as a means to alleviate poverty. More ambitiously, American academic C. K. Prahalad[2] predicted that there was “a fortune at the base of the pyramid” (BoP) to be found by corporations all over the world. Latin American scholars, such as Patricia Márquez and Henry Gómez Samper,[3] argued that incorporating BoP microenterprises into distribution chains would not only benefit society, but also promote greater efficiency in large companies’ operations. Subsequently, the power that downstream distribution would have in promoting social development by fostering “commercially viable and replicable business models”, focused on the participation of low-income consumers, retailers, suppliers or distributors, was highlighted.[4]

The analyzed initiatives conform to one of the most accepted definitions of inclusive business, introduced in 2005 by the World Business Council for Sustainable Development (WBCSD), referring to organizations that “seek to improve the quality of life of low-income communities through their integration into the value chains of companies as customers, suppliers, business partners, and distributors.”[5]

This book combines a variety of research efforts, experiences, and collaborations. Members of the Editorial Committee, as well as several of the authors of the chapters and the studies conducted to examine the organizations, have collaborated with the Social Enterprise Knowledge Network (SEKN)—some of them even from its establishment in 2001. The SEKN network comprises professors and researchers linked to ten business and administration schools in Latin America. SEKN publications cover various teaching cases on large and medium-sized companies, as well as civil society organizations, published by Harvard Business Publishing; academic papers published in prestigious peer-reviewed journals; as well as the following works: *Social alliances in Latin America*,[6] *Effective management of social enterprises*[7] and *Inclusive businesses.*[8]

Why this book?

There has been an increasing effort in Latin America to tackle the reasons why the region remains the most unequal in the world. However, this is the first study that examines and compares various organizations, belonging to different countries and industrial sectors, that have carried out inclusive distribution projects. The analysis of these organizations' successes and failures generates lessons testing the theories of those who perceive inclusive distribution as an expeditious way to reduce the poverty that plagues the region. Most importantly, it will help guide future efforts to find new approaches and delivery structure models that make inclusion their central goal. The challenge is to incorporate the majority of population—that of the poor and indigent—into the growing economy of the region.

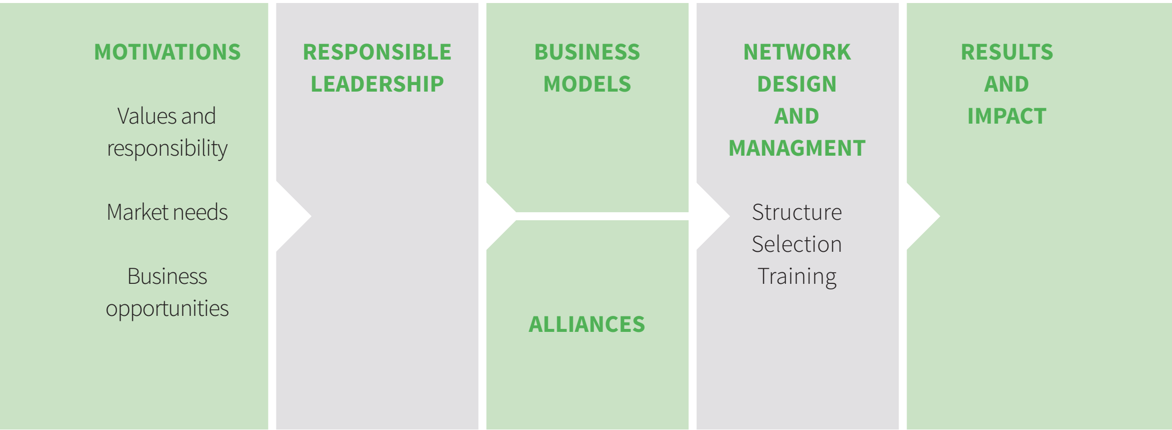
We aspire that this book can become a support instrument in:

1. Examining inclusive distribution management challenges in terms of leadership, innovation, training, and structure;
2. Designing inclusive business and distribution initiatives, through the analysis of a variety of experiences and models developed in Latin America;
3. Identifying and characterizing the organizations and allies that can participate in building an inclusive business and distribution ecosystem;
4. Applying the lessons learned and recommendations regarding management practices, which emerged from the performance analysis of the initiatives studied.

Content structure

The book structure follows the sequence of factors, decisions, and processes that accompany the development of an inclusive distribution initiative. We propose a roadmap (figure 1) to facilitate the manager or entrepreneur in visualizing the key steps to follow, from recognizing their motivations, understanding the role of responsible leadership, designing suitable business models, recognizing potential allies, structuring and managing the network, and evaluating results and impact.

FIGURE 1 ROADMAP



Here is a brief summary of each chapter:

Chapter 1 explains inclusive distribution and its origins, the forces that drive it, and the potential of low-income segments. It also introduces, with a short descriptive summary, each of the 17 initiatives studied and takes a tour of the different distribution models found.

Chapter 2 examines the role played by the founders of the initiatives in their interaction with their stakeholders. It weighs the importance of responsible leadership, and the role of the leader as an innovator in the challenge of achieving sustainability.

Chapter 3 analyzes the role that innovation plays, considering the various components of a business model: value proposition, segments, channels, relationships, resources, activities and key allies, cost structure, and revenues.

Chapter 4 reviews the range of allied, promoter and collaborating institutions that participated in the construction of inclusive distribution experiences and considers the functions they fulfill.

Chapter 5 discusses the decisions that must be made when designing a microdistributor structure. It also presents aspects related to the selection and administration of inclusive distribution channels and the dilemmas of participant segmentation.

Chapter 6 focuses on models that include low-income women in their role as microdistributors, and highlights the personal, family, and economic dynamics that impact women and their potential for development.

Chapter 7 examines the training process and the range of options and decisions that can be applied to develop the necessary competencies for inclusion to be effective.

Chapter 8 presents the main learnings and offers a list of best practices that emerged from the comparison between initiatives, as well as from the observation of the trials, errors and rectifications in the process.

Acknowledgment to the authors of the cases

This work was carried out thanks to a grant awarded by the International Development Research Center (IDRC), the Multilateral Investment Fund (MIF)—part of the Inter-American Development Bank (IDB)—and the Citi Foundation. The opinions expressed herein do not necessarily represent these institutions or foundations or their Boards of Governors.

Each chapter was fed by the collective work of the researchers who collected the data of the cases and systematized them in various documents, among them the Case Studies, the Analytical Cases and the Evaluations, carried out within the framework of the Observatorio Scala project (table 1). For more information about the project and the cases, we invite you to visit the Observatorio Scala site: https://observatoriacala.uniandes.edu.co/es/

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TABLE 1 OBSERVATORIO SCALA CASE REFERENCES

Title	Authors	University	MIF-IDB Scala Initiatives
Banca Comunitaria Banesco: la banca va al barrio (Venezuela)	Nunzia Auletta, Rosa Amelia González and Virgilio Armas	Institute of Advanced Management Studies (IESA) (Venezuela)	No
Chakipi: un negocio inclusivo en busca de la sostenibilidad (Peru)	Vanina Farber	University of the Pacific (Peru)	Yes
Elepha / Shakti (Colombia)	Diana Trujillo and Mariana Mejía	Faculty of Administration, University of the Andes (Colombia)	No
Estilos Masisa: las microfranquicias (Mexico)	Gerardo Lozano and Francisco Layrisse	EGADE Business School (Mexico)	Yes
for&from: la franquicia social del grupo Inditex (Spain)	Ezequiel Reficco and Alfred Vernis	Faculty of Administration, University of the Andes (Colombia) and ESADE Business School (Spain)	No
Fundación Paraguaya: desarrollo de microfranquicias para microemprendedores de bajos ingresos (Paraguay)	Gabriel Berger and Leopoldo Blugerman	University of San Andrés (Argentina)	Yes
Grupo Juvenil Dion: formación de jóvenes para las redes de distribución Inclusiva (Honduras)	Ana Margarita Maier and Rosa Amelia González	Pan-American Agricultural School (Honduras) and Institute of Advanced Management Studies (IESA) (Venezuela)	Yes
Hybrytec (Colombia)	Nathalia Franco and David Schnarch	Faculty of Administration, University of the Andes (Colombia)	No
Kiteiras-Danone: inclusive distribution model in Brazil (Brazil)	Andrés Barrios and Marcos Ferreira	Faculty of Administration, University of the Andes (Colombia) and School of Public Service of Espírito Santo (Brazil)	Yes

Title	Authors	University	MIF-IDB Scala Initiatives
Nutrivida, empresa social (Costa Rica)	Andrea Prado and John Ickis	INCAE Business School (Costa Rica)	Yes
Plan Barrio-Nestlé (Dominican Republic)	Ezequiel Reficco and Roberto Gutiérrez	Faculty of Administration, University of the Andes (Colombia)	Yes
Programa de desarrollo del tendero de Cervecería Nacional, subsidiaria de AB InBev (Ecuador)	Jorge A. Rodríguez	ESPAE Graduate School of Management and ESPOL Polytechnic School (Ecuador)	No
Propaís: desarrollo de microfranquicias en Colombia (Colombia)	María Helena Jaén and Omar Cifuentes	Faculty of Administration, University of the Andes (Colombia)	Yes
Supply Hope-Mercado Fresco (Nicaragua)	Sira Abenoza and Maura Ligia Zelaya Blandón	ESADE Business School (Spain) and Central American University (Nicaragua)	Yes
Tecnosol (Nicaragua)	Andrea Prado and Beatriz Ávalos	INCAE Business School (Costa Rica)	No
Viste tu casa-Colcerámica (Colombia)	Roberto Gutiérrez and Diana Trujillo	Faculty of Administration, University of the Andes (Colombia)	No
Yamaha & Datsun Surinam's authorized service workshops: a micro-franchising experience (Surinam)	Luis Ángel Roa, with special contributions by Carla Panyella	Faculty of Administration, University of the Andes (Colombia)	Yes

NOTES

1 Soto (1992).
2 Prahalad (2006).
3 Márquez, & Gómez Samper (2001).
4 Scala (2017).
5 WBCSD (2016).
6 Austin, Reficco, Berger, Fischer, Gutiérrez, Koljatic, Lozano, & Ogliastri (2004).
7 Social Enterprise Knowledge Network (SEKN) (2006).
8 Márquez, Reficco, & Berger (2010).

CHAPTER 1

INCLUSIVE DISTRIBUTION NETWORKS: ACTORS AND MOTIVATIONS

Henry Gómez Samper
Josefina Bruni Celli
Omar F. Cifuentes

INCLUSIVE DISTRIBUTION NETWORKS: ACTORS AND MOTIVATIONS

Henry Gómez Samper, Josefina Bruni Celli and Omar F. Cifuentes

The relevance of inclusive businesses lies in the fact that they represent a possible market solution to overcome poverty. They have the potential to encourage the participation of the invisible and contribute to empowering those populations that until now have been excluded from markets and their related well-being. They go beyond traditional corporate social responsibility because they are business initiatives that simultaneously produce social value, by reducing poverty, and economic value, by generating profitability for companies.

Inclusive business models are those that connect low-income segments (LIS) with conventional markets, with the potential and aspiration to substantially improve their living conditions.[1]

Inclusive distribution networks (IDN) are a particular form of inclusive business, which specifically encompass "downstream" marketing processes. Inclusive distribution consists of "commercially viable and replicable business models", focused on the participation of low-income consumers, retailers, or distributors.[2]

In IDNs, for-profit and nonprofit ventures build capacity in low-income microentrepreneurs and give them access to finance, develop products and services for vulnerable populations, and develop innovative distribution approaches to reach marginalized or isolated communities.

IDNs are often made up of branded goods and services microfranchises that target low-income consumers. In microfranchise models, microentrepreneurs leverage on the power of the brand and the resources of the organization that drives them, on systems and standards that frame their business practices, and on policies that facilitate knowledge transfer and development of the business over time.

Inclusive distribution assumes that lower-income men and women tend to have an entrepreneurial spirit and that, given the opportunity, they would build businesses capable of lifting them out of poverty. Hernando de Soto, one of the main Latin American proponents of this premise, in his book *El otro sendero*,[3] states that the humblest are highly entrepreneurial, as proved by the buoyant informal economies throughout Latin America. According to de Soto, low-income microentrepreneurs do not improve their condition because the State puts too many barriers to entrepreneurship with regulations that punish micro and small businesses and give advantages to the largest. Thus, it is the State responsibility to create the institutional frameworks for microenterprises to flourish. Deregulation or the creation of regulatory conditions so that microcredit can exist and small businesses can legally function, would be essential public policies in order to enhance the entrepreneurial spirit of the poorest.

At the same time, it is also the responsibility of the private sector to promote initiatives that articulate this entrepreneurial potential, incorporating the most vulnerable into inclusion networks allowing them to take advantage of market opportunities. The companies and social initiatives that enter this field may have different motivations. Some stem from a system of values and leadership that puts social responsibility and the principles of sustainable development first, others arise from the identification of market needs, which can become business opportunities, encompassing previously neglected segments.

Inclusive distribution assumes that lower-income men and women tend to have an entrepreneurial spirit and that, given the opportunity, they would build businesses capable of lifting them out of poverty

In any case, it is worth asking: What are the factors that motivate inclusive business initiatives? What makes inclusive distribution different from traditional models? What kind of organizations are developing these initiatives?

Betting on the excluded in Latin America

The bet of inclusive distribution is to offer microdistributors an income-generating economic opportunity. As they make sales, their ability to save would improve and their microbusinesses would grow, empowering them as more independent economic actors. Both the individuals and their microenterprises would accumulate capacities, improving the well-being of microentrepreneurs, their families and communities. Gradually, individuals would develop entrepreneurial competences, moving up to eventually develop small business, cooperatives, or franchises.

The LIS market in Latin America encompasses 70 percent of the population and is estimated at $590 billion.[4] As this population grows and income improves, its aggregate consumption potential will increase. The high-volume perspective would give companies the opportunity to conceive and build business models with margin structures that previously appeared unviable.

However, LIS in Latin America are a heterogeneous group whose characteristics vary significantly in terms of inequity, informality, and exclusion. Some, like the rural population, may suffer from isolation, lack of basic services and other access difficulties. Others, such as the urban population living in marginalized areas (*barrios*, *favelas*, or shantytowns) are limited in their ability to approach shopping centers due to the lack of infrastructure, safety, or the cost of transportation. Others may be excluded because of discrimination based on gender, race, or disabilities. Finally, there are the underemployed, often technicians and even professionals, who fail to fully contribute their potential to the economy due to underdeveloped markets.

The fundamental role of companies in IDNs

Companies play a fundamental role in the successful development of microentrepreneurship as natural builders of value chains. Microbusinesses in isolation do not prosper, they need to be included in value chains, either as suppliers, distributors or as support entities. Likewise, companies are the ones that most closely monitor the requirements of their own value chains, and as such they represent the actors that can most effectively develop suppliers and distributors.

Large companies are called to play a particularly important role since they have the resources to invest and are designed to reinvest and scale-up their operations whenever they consider them profitable. The key lies in taking advantage of the opportunities available in the LIS, whether to build future markets, strengthen their image or for the other motivations presented in table 1.1. By doing so, they would be helping to forge a more inclusive capitalism that benefits the entire population.

TABLE 1.1 COMPANIES' MOTIVATIONS

Growth potential in BOP markets
Harness collective purchasing power
Cost efficiency advantages
Source of innovation and knowledge
Build reputation, trust, license to operate and survival opportunities
Brand loyalty in growing frontier markets
Recognition of value chain potential as an inclusive economic system

Source: Van der Klein, Chevrollier and Colleé (2012).

During the last decades, social enterprises and business enterprises belonging to the B Corporation* movement have also joined efforts to create inclusive markets. Due to their smaller size, they need to be integrated into collaborative networks to scale-up their initiatives.

Conventional distribution vs inclusive distribution

Conventional distribution channels consist of sets of interdependent intermediaries who participate in the process of making a good or service available to consumers for their use or acquisition. The types of intermediaries that can participate in a distribution channel are:

- Sales representatives or agents who look for customers and have the power to negotiate on behalf of the manufacturer, without purchasing the products.
- Wholesalers or retailers (merchants or distributors) who buy the merchandise and resell it, with ownership transfer.
- Collaborators or facilitators who participate in the distribution process, but do not negotiate the sale of products. These can be trucking companies, independent warehouses, banks, or advertising agencies.

Inclusive distribution has some peculiarities that differentiate it from these conventional models. These include the challenge of penetrating hard-to-reach areas due to distance, narrow routes or safety, the low purchasing power of LIS consumers, the lack of financial capital and training among LIS distributors, and the little access to credit that LIS buyers and distributors have.

On the other hand, in inclusive distribution models, a category of facilitators that is not common in conventional markets was observed: the microfranchise facilitators. These organizations are dedicated to promoting, training and financing the creation of microfranchising networks in which LIS participated as microfranchisees.

* It is a business movement that seeks to build a new economy in which success and financial benefits result in social and environmental well-being. The B companies believe that, if people, companies, investors, academia, public policy, opinion leaders and all who want to join work together, it will be possible to build a “world + B” in which redefines the meaning of success and solves social and environmental problems from Latin America to the world.

In most cases, LIS participated in the distribution channel as sales agents (commission agents) or as microentrepreneurs or microfranchisees. And in all cases, they required financing and prior training, whose costs had to be covered by the organization seeking to set up the distribution or by some financial entity, such as a public or private foundation, or a national or multilateral organization.

LIS participant aspirations were often different, more community-oriented and less commercial, as compared to conventional markets. Indeed, both in urban and rural areas, their communities could be quite isolated from the modern economy, either because access routes were difficult or limited, or because of the lack of communication means and infrastructure.

Conditions also varied widely in LIS communities. Just as in some urban neighborhoods violence and crime threats prevailed, discouraging the creation of new businesses, in others, the population was more stable and prone to entrepreneurship. Some communities, not always the poorest, had microenterprises with a certain trajectory, even with the ability to cocreate or codesign, with larger company representatives, the business model to be developed.

Such wide diversity between one market and another—within the same world of LIS—should serve as a warning sign to those who, with the best intentions, try to apply a "one size fits all" approach to serve a given LIS community without much prior knowledge of its particularities.

Initiatives overview: organization and motivation

The seventeen inclusive distribution initiatives examined in the book can be classified into four categories: multinational or *multilatinas* companies; national companies; social enterprises, and hybrid enterprises.

Multinational or multilatinas companies

Among the studied experiences there are eight multinationals, including three *multilatinas*, with a significant presence in three or more countries. They have financial and managerial resources to support their inclusive distribution projects in a broad way, although some have turned to multilateral organizations to finance part of the projects. One of the main reasons why these companies initiate these projects is to expand the market and serve neglected consumers.

Banesco (Venezuela)

In 2006, Banesco, the largest private bank in Venezuela, created the Banca Comunitaria Banesco (BCB), a business unit seeking to obtain profits from an underserved market segment. It structured its channel through a network of BCB agencies close to marginalized neighborhoods, complemented by non-bank correspondents and promoters, providing services to small businesses in the inner neighborhood. Between 2006 and 2014, BCB granted more than 228,000 loans, with an average 44 percent of clients being first-time receivers of a bank loan. The delinquency rate was very low, less than 1 percent. After ten years of operation, the geographic scope of action of the BCB channel grew from around a thousand LIS neighborhoods in 2006 to more than 8,300 in 2016. That year the number of transactions by non-bank correspondents increased by 32 percent, with a total 400 thousand transactions per month. Of these, 63 percent corresponded to cash withdrawals, 18 percent to deposits and 9 percent to inquiries. In 2016 BCB granted $150 million in microcredits in more than 8,000 LIS neighborhoods in Venezuela and employed 614 people directly. If not for the worsening of the financial and political crisis that Venezuela suffered since 2017, the BCB model would surely have extended to other neighboring countries.[5]

Colcerámica (Colombia)

In 2005, this ceramic production company started Viste tu casa (Dress your home) as a pilot project to evaluate a new line of low-cost products designed for low-income consumers, a market segment that the company was not serving at that time. To do this, it developed a door-to-door sales force with neighbors from popular neighborhoods. At first the salespeople were all women and the company's relationship with them was informal. Then the relationship was formalized and men also began to join the sales team. By 2008, the number of served LIS communities reached 13 locations in five of the country's main cities. As of 2014, the project began to have a positive EBIDTA (earnings before interest, taxes, depreciation and amortization). By 2015 Viste tu casa had benefited 220,000 families.

Danone (Brazil)

Danone, a multinational dairy products company, started the following experience in 2010 in the city of Salvador. The project consisted of developing an inclusive distribution channel to expand the market for Danone products, by recruiting women (*kiteiras*) in low-income areas to promote, sell and distribute the products door-to-door in their community. By 2016, the initiative had spread to other cities and generated an income for more than 2,000 vulnerable women, whose household duties prevented them from obtaining employment. On average, they received R$500 (the equivalent of 63 percent of the Brazilian minimum wage of R$788), working 20 hours per week. In addition to serving as a distribution channel in low-income areas, the initiative served as the company's communication strategy to promote balanced nutrition and, incidentally, empower women by developing their entrepreneurial skills.[6]

Inditex (Spain)

In 2002, Inditex opened, in partnership with the Molí Foundation, its first for&from store, a chain served by people with disabilities dedicated to the sale of company surpluses. Known worldwide for its Zara stores, Inditex offered fashion products at affordable prices, updating its store inventory more than 30 times a year. After offering rebates, a 1 or 2 percent carryover, called excess stock, used to be left in stores. The first for&from store sold €226,000 in 2002; in 2017 there were 17 stores and sales reached €7 million. This initiative has positively impacted the quality of life of employees with disabilities and their families.[7]

Masisa (Mexico)

In 2014, Masisa, the second largest wood panel producer in Latin America, with 11 plants in five countries, launched its microfranchising program. It was intended to add value to the wood boards by creating a network of microfranchisee carpenters. The network was made up mostly of people who until then were informal workers, unemployed or underemployed. The program also aimed to “change the Latin American perception” of carpenters as informal and not trustworthy, reduce furniture and interior design costs, and improve the quality of furniture design, assembly and installation. By the end of 2016, the project had 21 active microfranchisees who had an average monthly income of $1,347 and a total accumulated sale of $567,000.[8]

Nestlé (Dominican Republic)

In 2007, the multinational food company Nestlé started the Plan Barrio in the Dominican Republic with the purpose of increasing sales in the LIS market. To carry out this initiative, the company established areas for a microdistributor (MD) to cover 2,500 homes with a team of 25 community vendors. The MDs also had to organize and motivate their sales force. As of 2012, Nestlé ceased to directly handle relationships with MDs and entrusted that coordination to its authorized distributors. By the end of 2015, Plan Barrio had 112 microdistributors and more than 1,000 saleswomen with an average income of $233 for MDs with less than six months in the program and between $585 and $1,054 for the others. For an innovative company like Nestlé, where new product development is a constant task, having 1,000 saleswomen in weekly contact with the country’s main market segment represented a very valuable asset.[9]

SABMiller (Ecuador)

In 2013, the multinational beer company SABMiller launched the Siembra Futuro (Sow Future) program to strengthen and formalize *tenderos* (owners of small stores), the traditional Ecuadorian channel that accounted for 70 percent of beer sales. The shopkeepers generally had little administrative knowledge and only 10 percent of them had the annual operating permit to sell alcoholic beverages. Between 2015 and 2017, with an investment of $1,200,000, the company trained 9,000 shopkeepers. On average, each store's sales increased by 6 percent for those who did not get the liquor sales permit and 12 percent for the 752 who qualified. By 2017, 2,522 shopkeepers were in the process of obtaining the permit.[10]

Yamaha-Datsun Surinam NV (Surinam)

This initiative started in December 2012 through an agreement between Datsun Surinam NV, the Inter-American Development Bank and Fonds Ontwikkeling Binnenland, a para-governmental regional development organization. Surinam is a rural country with areas that are difficult to penetrate, and where rivers are important communication routes. The project consisted of training mechanics and establishing microfranchises that would operate Yamaha workshops to sell and repair outboard motors in isolated areas. It would benefit both microfranchisee mechanics (through higher income), as well as customers who would no longer have to pay for expensive transportation to travel to the capital city to buy or repair engines. In 2017, 14 workshops offered the maintenance service, through an investment of $1,380,000. The quality of maintenance services improved substantially in the areas served by the project. For Datsun Surinam NV the project meant a growth of 30 percent in the sale of engines and 60 percent in the sale of parts.[11]

National companies

Three experiences refer to national companies with an initial focus on the development of rural markets and local communities.

Elepha (Colombia)

In April 2018, Elepha, a Colombian company, was created with the managerial, organizational, and technical support of Unilever, modeled on its Shakti program. Shakti is a project that was created in India in

2000 with the purpose of distributing Unilever products in rural areas through women. In just six months, Elepha distributed Unilever products in 15 of the 32 departments of Colombia, through 2,783 microdistributors belonging to the three lowest economic strata in Colombia. By December 2018, it projected sales of $600,000 and had plans to expand its coverage. In the future, Elepha plans to sell products from other multinational companies.

Hybrytec (Colombia)

This solar energy company was founded in 2007 as a B corporation, and the following year, Ecos group, an investment fund for renewable energy startups, acquired 50 percent of its shares. Hybrytec served three markets: rural, social and urban projects. For the first, it developed an inclusive distribution channel through microentrepreneurs located in remote areas of the country, who offered the products in hardware and "miscellaneous" stores that sold everything from food to fabrics. Participants capabilities were reinforced through training and interest-free lines of credit, fair prices, and sufficient inventory. The channel had about 30 highly trained microentrepreneurs, 90 moderately trained and 130 who had no stores or installed capacity. They started by selling systems that were worth, on average, $500; after being trained, they sold systems for $4,000. Hybrytec required them to incorporate as a company and comply with administrative and fiscal formalities. By 2015, 40 percent of sales came from this distribution network.

Tecnosol (Nicaragua)

Tecnosol, a solar panel company, started its microentrepreneurs program in 2014 with $180,000 of financial support from the NTR Foundation, the philanthropic arm of the renewable energy company NTR. It trained 49 microentrepreneurs (45 men and 4 women) for the sale, installation, and maintenance of solar panels in rural areas of Nicaragua and neighboring countries. The profile that the company was looking for was people between 20 and 35 years old who lived in rural areas with potential for a solar energy project, with secondary education, basic knowledge of electricity, and a spirit of improvement and self-determination. Upon completion of the training and certification, the microentrepreneurs received credits to sell Tecnosol products and services. In 2015, the microentrepreneurs channel participated in 420 installations; it served about 1,000 customers and sold $503,339—10 percent of the company's revenue. By the end of 2016, 36 microentrepreneurs were still active.[12]

Social enterprises and hybrid enterprises

Six experiences refer to social enterprises and hybrid organizations whose main motivation is to obtain social impact without forgetting the need for economic sustainability.

Chakipi (Peru)

In 2013, the Chakipi pilot project aimed to develop, starting in 2015, the final link of the supply chain in rural areas near Cuzco, with difficult access and low population density. It sought to establish an efficient and self-sustaining network of low-income women to sell products that would improve family nutrition and health. The most productive saleswomen became leaders of sales groups, forming a multilevel network. The vendors bought the products to distribute them door-to-door and in rural markets and shops. The weight limitation of the backpacks and the low supply frequency (once a month) constituted a challenge for the organization. In 2015 women (microentrepreneurs) received a monthly income of $110.

Fundación Paraguaya (Paraguay)

In 2006, this non-profit organization dedicated to microfinance and entrepreneurship promotion started its first microfranchising program. In 2012, the Microfranchise Development for Low-Income Microentrepreneurs project obtained funding from the MIF and the Australian government, at a total cost of $635,000. The project hired a consultant to carry out a market study, together with 15 previously trained collaborators from Fundación Paraguaya (FP). The consultant suggested implementing two microfranchises to which FP added another six. By the end of 2016, the microfranchise program had 7 microfranchisors and 628 microfranchisees, most of them women, with a cumulative sale of $608,833. The monthly per person income of the families involved in the project ranged between $81 and $243 per month.[13]

Grupo Juvenil Dion (Honduras)

In 2015, GJD received support from the MIF-IDB to launch an IDN in which “anchor companies” would act as franchisors of the graduates (franchisees) of the GJD training programs. The project was implemented with young people in a situation of exclusion located in rural and peri-urban areas. Graduates of the training programs would act as products and services distributors for anchor companies in low-income areas. Over two years, they trained 320 young people in beauty and cosmetology and in-home electricity with an investment of $381,918. $22,500 were earmarked for microcredits for trained youth, payable in a period of 12 to 18 months, with interest rates of 2 percent per month. In 2017, 81 young people had undertaken microfinance initiatives, 28 had obtained employment with two of the partner companies of the program, 106 had increased their income by selling services and 40 distributed beauty products. The latter had an average monthly income of $240.[14]

Nutrivida (Costa Rica)

Nutrivida, the first social enterprise in Central America, was founded in 2013 by the Costa Rican food and beverage company, Florida Ice & Farm Co. (Fifco). The purpose of Nutrivida was to address population malnutrition by involving low-income women, heads of households, with little education, and difficult access to the labor market. Fifco sought the support of Muhammed Yunus (Nobel Peace Prize Laureate and founder of the “poor people’s bank” Grameen Bank in Bangladesh), as well as several local non-profit organizations and Costa Rican ministries of education and health. Nutrivida produced fortified food and beverages for a highly competitive market. It was distributed through various channels, including grocery stores and women trained as microentrepreneurs, knowledgeable about nutrition, who would act as agents of change in their communities. After an investment of $1,527,000, the company had a network of 75 microentrepreneurs, had also donated 623,000 servings of food, and had sold 8 million servings of food, mainly through institutional channels (hospitals, nursing homes and schools).[15]

Propaís (Colombia)

In 2014, Propaís, a mixed private law organization made up of 76 partners (9 public and 67 private), started a microfranchise development project with the support of the IDB-MIF. As a facilitator, Propaís did not buy or sell franchises, but rather focused on developing franchising companies through consulting services with external firms and preparing potential franchisees through training in administrative concepts and soft skills. Propaís connected entrepreneurs through microfranchise buying and selling events, facilitating the creation of 70 microfranchises, with an entry fee that ranged from $0 to $10,000. By May 2018, the established microfranchises had sold a total of $581,000.[16]

Supply Hope/Mercado Fresco (Nicaragua)

In 2012, Supply Hope, a North American non-profit organization, started its Mercado Fresco project in Nicaragua. Its main objective was to increase the income of mothers in poor neighborhoods of Managua and Ciudad Sandino, who were forced to bring their children to orphanages because they could not support them. Under a microfranchising model, stores were located in women's homes to sell healthy, preservative-free food products. The initiative started in 2012 with a pilot project of five stores and 10 products. By 2017, it offered 115 stationary and 20 seasonal products in 86 stores. By June 2017, the 86 microfranchisees had an average income of $66 per month and some even reached $200, with a commission of 15 percent of the total revenues.[17]

Distribution models

Distribution models varied depending on their coverage and capillarity and the level of empowerment and autonomy of the channel's members.

Internal sales force (direct distribution)

LIS salespeople work under an employment relationship, receiving a salary plus a sales commission. The ownership of the products is not transferred to the sellers.

> **Colcerámica (Colombia).** Initially, the company had an informal, non-contractual relationship with the vendors who sold the company's ceramics door-to-door in popular neighborhoods, paying them a 7 percent commission on sales. Later, the company decided to formalize those relationship with the promoters and hired them under an outsourcing scheme through another company (Serdan). The employment contract was for a fixed term. This agreement was more organized and transparent for the company, but it also implied constant monitoring of the promoters' practices. In addition to managing the sales force, Serdan carried out recruitment and personnel selection activities. Promoters were paid the legal minimum wage plus commissions tied to sales performance.

Sales representatives or agents (multilevel)

LIS sales representatives receive commissions for the sale or placement of products, without ownership transfer to sellers. Channels made up of sales representatives can be multilevel, where salespeople with more experience or seniority supervise others with less experience and earn a percentage of the sales of the supervised network.

> **Danone (Brazil)**. The company recruited women (*kiteiras*) in low-income neighborhoods through alliances with social organizations and offered selected candidates 36 hours of training to sell and promote Danone products door-to-door. The *kiteiras* made the orders to their

godmothers (supervisors), who transmitted them weekly to a local distributor (a formal non-LIS company). The margin for the local distributor was 37 percent and for *kiteiras*, 30 percent. Additionally, local distributors paid godmothers a sales commission of 3.5 percent. Danone delivered the product to local distributors, who delivered it to the *kiteiras* and they, in turn, personally delivered it to consumers.

Microentrepreneurs (unilevel or multilevel)

The possession or ownership of the products is transferred from the supplier to a LIS microentrepreneur who then resells them to the final consumer. The microentrepreneur can receive the products on consignment or buy them. To buy the products, the microentrepreneur receives a microcredit provided by a financial entity, or non-reimbursable seed capital provided by a foundation or multilateral organization.

Individual retailer model: Chakipi (Peru). The company selected some manufacturers of hygiene and nutrition products and established distribution centers in several small towns close to rural areas. Initially, it provided products on consignment to microentrepreneurs, but later it changed the model to microcredits to buy inventory. The women in the network could request microcredit from Chakipi to buy the merchandise and return it only in exceptional cases. Women entrepreneurs received training to learn how to manage credit and working capital effectively and responsibly.

Multilevel individual retailer model: Nestlé (Dominican Republic). The microdistributors bought Nestlé products at preferential prices and led a team of saleswomen who received these products on consignment and carried out a door-to-door sales in their communities. The average team size was of 12 saleswomen. During the pilot, Nestlé financed the working capital of the microdistributors, but this process created a bottleneck and an unwanted perception that Nestlé's money was a social responsibility contribution and not a credit. This changed in 2012 with the entry of Banco Adopem as a microfinance partner. Adopem Bank not only covered the need to finance, but also took charge of training the microentrepreneurs. Adopem interest rates for microdistributors were two points below its other financial products.

Commercial retail model: Hybrytec (Colombia). The company located hardware and "miscellaneous" stores that sold products spanning from food to fabrics in remote areas of the country. Its goal was to develop them through training and interest-free lines of credit, fair prices, and sufficient inventory. The company maintained an informal relationship with the microdistributors, without contracts or exclusivity clauses. The microdistributors began by selling systems that were worth $500 on average, but after being trained, they were able to sell more expensive systems, up to $4,000. Hybrytec required them to formalize their business, invoice their products, and keep up with taxes.

Microfranchising

The microfranchising model operates with a LIS franchise contract with a franchising company, which grants the rights to use the brand, know-how and processes to operate the business. The franchisee can buy the products or receive them on consignment and resells them under the conditions determined by the franchisor. As with microentrepreneurs, the purchase is made with resources from a microcredit or with non-reimbursable seed capital.

Service microfranchise model: Masisa (Mexico). The company granted microfranchises to carpenters at a cost of $2,500. It trained the carpenters in managerial skills, as well as in technical skills, to make furniture and interior architectures with the MDF boards and chipboards manufactured by Masisa. It also gave them the support of the Estilos Masisa brand, providing them with a tablet with a catalog and samples of products to serve final customers. Microfranchisees' support system comprised advice on design, marketing, and administration, along with a preferential discount on materials bought at Placacentro stores.

Product microfranchise model: Mercado Fresco (Nicaragua). To recruit potential microfranchisees, Mercado Fresco leveraged on other institutions, including 221 NGOs, 396 religious groups, 21 schools, 139 media and 25 political groups. Mercado Fresco, as the franchising company, was dedicated to the management and handling of the business: warehouse, product distribution, accounting, marketing, and microfranchisee training and support. Selected candidates received three days of office training on processes, inventory management, and finance. Each franchisee needed to be certified after setting up the store and two months of visits and follow-up. Each store received products twice a week, distributed with trucks owned by a specialized company. Mercado Fresco required microfranchisees to designate a person to help them run the store and to replace them in case of absence. Stores could only sell Mercado Fresco products and could not carry soft drinks or alcoholic beverages. The cost of implementing the franchise was estimated at $2,000, including training, equipment, inventory, and promotional material.

Multichannel

Multichannel models are a combination of different distribution structures. As in all prior models they require a strong investment in training and developing microcredit and other support services for the LIS distributors. Very often they involved facilitators or social organizations that supported the recruitment, selection, and training.

Banca Comunitaria Banesco (Venezuela). Banca Comunitaria Banesco's inclusive distribution network comprised a multiplicity of channels. The community agencies were small offices that supervised the neighborhood channel, which comprised service bars, non-bank correspondents and promoters. Service bars (5 m2 stalls) operated by a BCB promoter, were located inside pharmacies and small stores, and could open accounts, receive microcredit requirements and offer deposits and withdrawals services. Non-bank correspondents were small businesses within the neighborhoods that offered basic financial services receiving a commission on transactions. They handled an average of 200 daily transactions and received between $10 and $45, which at the time could exceed the minimum wage. The network was complemented by community advisors who often belonged to the community and had the responsibility to identify potential microcredit customers and build up a trust relationship with them. By the end of 2016, BCB had 26 community agencies, 86 service bars with 95 young people working as community promoters and advisors and 314 non-bank correspondents.

Table 1.2 presents a summary of the inclusive distribution model of the initiatives analyzed, as well as the type of organization, its objective and funding entities.

TABLE 1.2 **INCLUSIVE DISTRIBUTION MODELS IN THE EXAMINED INITIATIVES**

Organization	Objective	Distribution model	Funding organization
Banesco (Banca Comunitaria Banesco) (Venezuela)	Expand the market through the push for bankization and the development of microentrepreneurs in LIS communities	Multichannel	Own funds
Chakipi (Peru)	Improve nutrition, health and income of remote rural areas' families.	Microentrepreneurs	MIF-IDB and Clinton Foundation
Colcerámica (Viste tu casa) (Colombia)	Increase ceramic sales by entering the LIS market.	Direct sales force	Own funds

Organization	Objective	Distribution model	Funding organization
Danone (*Kiteiras*) (Brazil)	Develop an inclusive distribution channel to increase sales in the LIS market and contribute to adequate nutrition.	Sales representatives or agents	MIF-IDB and Danone
Elepha (Colombia)	Distribute Unilever products in remote rural areas through empowered and trained women.	Microentrepreneurs	MIF-IDB and Clinton Foundation
Fundación Paraguaya (Paraguay)	Grant training, microcredits and microfranchises to low income people.	Microfranchises	MIF-IDB and Aus-Aid
Grupo Juvenil Dion (Honduras)	Link vulnerable young people to an economic activity.	Microentrepreneurs	MIF-IDB
Hybrytec (Colombia)	Develop an inclusive distribution channel to increase sales in remote rural areas.	Microentrepreneurs	Grupo ECOS
Inditex (Spain)	Expand the market through a better rotation of surplus inventories, and offer employment opportunities to people with disabilities.	Microfranchises	Own funds
Masisa (Estilos Masisa) (Mexico)	Expand the market through the development of an inclusive distribution channel.	Microfranchises	Inadem, MIF-IDB and Fundes
Nestlé (Plan Barrio) (Dominican Republic)	Develop an inclusive distribution channel to increase sales in the LIS market.	Microentrepreneurs	MIF-IDB and Banco Adopem
Nutrivida (Costa Rica)	Reduce malnutrition trough fortified food.	Multichannel	Fundación Mujer and Grameen Bank Costa Rica

Organization	Objective	Distribution model	Funding organization
Propaís (Colombia)	Support the development of microentrepreneurs with the microfranchise model.	Microfranchises	MIF-IDB
SABMiller (Siembra Futuro) (Ecuador)	Strengthen and regularize the channel of *tenderos* (small shops) in order to expand the beer market.	Microentrepreneurs	Own funds
Supply Hope (Mercado Fresco) (Nicaragua)	Ensure LIS communities' access to quality food at affordable prices and give LIS families the opportunity of having sufficient income to support their children.	Microfranchises	MIF-IDB
Tecnosol (Nicaragua)	Expand the solar energy market through the development of an inclusive distribution channel.	Microentrepreneurs	NTR Foundation
Yamaha (Surinam)	Expand the coverage of the engines maintenance service in remote areas.	Microfranchises	MIF-IDB

NOTES

1. Márquez, Reficco, & Berger (2010).
2. Scala (2017).
3. Soto (1992).
4. Hart, & Christensen (2002).
5. Auletta, González, & Armas (2018).
6. Barrios, & Ferreira (2018).
7. Reficco, & Vernis (2018).
8. Lozano Fernández, & Layrisse (2018).
9. Reficco, & Gutiérrez (2018).
10. Rodríguez (2018).
11. Roa Zambrano (2018).
12. Prado, & Ávalos (2018).
13. Berger, & Blugerman (2018).
14. Maier Acosta, & González (2018).
15. Prado, & Ickis (2018).
16. Jaén, & Cifuentes Zapata (2018).
17. Abenoza, & Zelaya Blandón (2018).

CHAPTER 2

LEADING INCLUSIVE BUSINESS: BEYOND PASSION AND WILL

María Helena Jaén

LEADING INCLUSIVE BUSINESS: BEYOND PASSION AND WILL

María Helena Jaén

Transforming the state of things, undertaking, and innovating to generate inclusive businesses, requires responsible leadership, capable of generating role models and values that transcend traditional forms of business leadership.

This chapter tries to answer the following question: Which role can inclusive business initiative leaders play? How did responsible leadership develop in different initiatives in Latin America?

The chapter opens with a brief case portraying the experience of and role played by Gisela Sánchez, founder and leader of the social enterprise Nutrivida in Costa Rica. Then it presents the different leadership roles played by the founders of the studied initiatives in their interaction with multiple stakeholders. Special emphasis is placed on analyzing the roles played in the exercise of responsible leadership, as well as the behavior of leaders as social innovators and managers facing new business and social challenges. Finally, the chapter concludes with the main lessons learned on the kind of leadership required to ensure inclusive business sustainability.

Some of the leadership experiences were drawn from previous SEKN research on sustainable business models which also included upstream value chains. This decision was made in part because leadership is exercised throughout the chain, both upstream and downstream; but also to take advantage of a wealth of information on leadership, documented in great detail in such cases.

CASE GISELA SÁNCHEZ | founder of Nutrivida

I will eradicate malnutrition in Central America.
Gisela Sánchez

GISELA SÁNCHEZ was born in Costa Rica in 1974. She is an industrial engineer from the University of Costa Rica and an MBA from Northwestern University. Throughout her professional career she was Strategic Initiative Manager of the AVINA Foundation, Project Coordinator at the Latin American Center for Competitiveness and Sustainable Development (Clacds) of INCAE Business School and worked as a consultant in competitiveness and corporate social responsibility for companies, civil society organizations and governments of Central America.[1] In addition, she participated in the Central America Leadership Initiative (CALI)—as a fellow of the Aspen Global Leadership Network.[2] She has received many awards, including the 2013 Stephan Schmidheiny Award for Innovation in Sustainability.

In 2015 she received the McNulty Prize Laureate,[3] with the following comment during the award ceremony:[4] Gisela "is no stranger to poor communities: she grew up in poverty and knows how to identify priorities; in her words: The most important thing is to have food on the table" but it is also necessary to "fight for adequate nutrition." During her internship with the Aspen Global Leadership Network, the idea of creating a social enterprise focused on children and nutrition came up. Her reaction was the following: "I thought about what I cared deeply about… children, giving them a good start. The best thing I can do with my life, besides taking care of my own children, is taking care of other children." [5]

Gisela Sánchez and Nutrivida

By 2018, Gisela was Corporate Relations Manager of the Costa Rican food and beverage corporation Florida Ice and Farm Company (Fifco), a position she had held since 2008. In 2011, she founded Nutrivida, the first social enterprise in Costa Rica,* thanks to an alliance between Fifco and Yunus Social Business (YSB). Gisela, as an engineer, had a strong background in the production area and leveraged on her position at Fifco and her strong network to support the project. Not only did Gisela donate $27,000 of her own, but she also promoted the alliance that resulted in YSB providing $1.5 million in seed capital for Nutrivida.

According to INCAE, the idea for Nutrivida arose from Gisela's personal and professional experience and her affinity for sustainability issues.[6] The proposed business model was inspired by the social enterprises created by Muhammad Yunus, Nobel Peace Prize winner and founder of the "poor people's bank" Grameen Bank. In 2011, Gisela developed the Nutrivida business plan and obtained the support of the Fifco Board of Directors to create the company. In that same year, she traveled to Bangladesh to participate in the Social Business Day[7] and talked Yunus into joining the project. In 2012 Yunus accepted the invitation on the condition that the company expanded to the countries in the region with the higher poverty rates. In 2013, Nutrivida started operations in Costa Rica.

Convinced that nutrition was key to overcoming poverty, Gisela decided that Nutrivida's fundamental objective should be the fight against child malnutrition, with emphasis on children under two years of age and pregnant women living in extreme poverty. Inspired by Yunus's ideas, she formulated Nutrivida's mission: "To eliminate malnutrition in poor mothers and children, through the production, distribution and sale of nutritious food at low prices." Nutrivida sought to eradicate undernourishment in Costa Rica and significantly reduce it in other Central American countries and Haiti, while achieving financial and economic sustainability, and reinvesting all the profits in the business to maximize social value.

Since the beginning, Nutrivida's strategy focused on equal gender opportunities, involving women from vulnerable communities in Costa Rica

* In this chapter we focus on the analysis of the leaders of the initiatives. In the introduction and in chapter 1 you will find specific information about the company, its business model, methods of production, food distribution and sale, and operation of the Manu distribution network. For more information on Nutrivida, see Prado and Ickis (2018).

into its distribution channel. A network of women leaders, known as the Mamás Pro Nutrición (Manu network) became a direct sales channel putting them in charge of distributing the products in their communities and educating the population on health and nutrition issues. Beyond being just a distribution channel capable of reaching the company's target market, it was conceived as a channel for generating social impact. The Manu network sought to empower women through job creation.[8]

Gisela Sánchez's philosophy

Gisela's view on leadership is summarized in her words:

> Dream high, as high as you can imagine… work hard… and try to invite and energize as many people as possible. It would be nice to do it yourself, but it is much better if you can inspire other people to join you in order to have a greater impact… Good leaders are those who surround themselves with people who know more than they do… I have a lot of confidence in my team ... I have been learning what I don't know, and I discovered how to fill those gaps.[9]

Speaking of her role in Nutrivida, Gisela commented:

> It is not a project, it is my personal challenge (my call). I am an engineer and I work in the food industry. I have the know-how, the context, the network and the strategic allies to help Nutrivida. I am in a privileged position, [but] at first, I misunderstood the competition in the sector thinking that people would naturally support a social business. But, Nutrivida's products were designed to be attractive on supermarket shelves and other manufacturers were very competitive, up to the point of removing our products. We didn't have a budget for a marketing campaign, and that also cost us a lot ...[10]

As published in the McNulty Foundation website:

> Gisela knows that her mission to eradicate or significantly reduce malnutrition in the region is bold. But she is convinced that this mission is the only ethical path to face hunger in the region. In her words, "No child should suffer."[11]

When referring to her experience and the leadership challenges she faced, moving from the startup stage to the growth and maturity of Nutrivida, Gisela commented on her skills:

> I need skills I don't have; I have to trust others ... I have established a network around Nutrivida of more than 35 NGOs, government institutions and companies, and I have involved many of the Central American partners. Many other people have joined me, without giving money, but offering their skills for free.[12]

At the end of 2018, after handing over the general management, Gisela served as a member of the Nutrivida board of directors and played an active role in the strategic direction of the social enterprise.

In short, Gisela assumed responsibility for leading a for-profit social enterprise aimed at generating social benefits for low-income mothers and children in Costa Rica. But despite all these efforts, by 2018 Nutrivida had yet to achieve its financial sustainability. Gisela's story underlines many of the challenges and dilemmas faced by leaders of companies with inclusive business models and inclusive distribution networks seeking to address serious social issues.

Reflection questions

1. As an entrepreneur or manager interested in inclusive business, what behaviors do you think better describe Gisela's leadership exercise? Do you identify with Nutrivida's leader? Have you lived or are you living similar experiences?

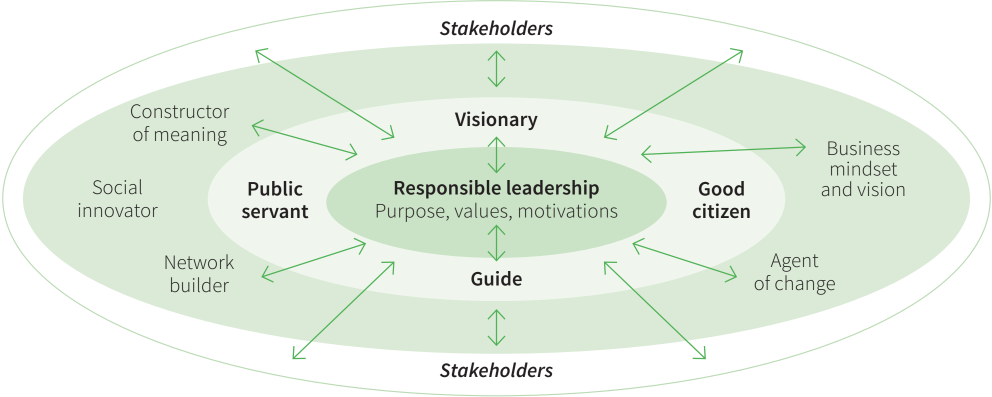
2. Based on Gisela's experience, what leader characteristics or behaviors do you think are key to developing a sustainable business? Why?

Inclusive business responsible leadership

> *Runa was a dream based on our passion for the cause and rights of the Kichwa indigenous communities. But we also wanted to develop an innovative business, with a strong orientation towards collaboration, both within our team and in the communities, and that fostered avenues of cooperation between public and private sectors. We deeply respected the guayusa tradition of the people of the Amazon, but at the same time we were determined to build a successful and true business.*[13]
>
> TYLER GAGE, President of Runa*

Observing the behavior of Latin American leaders of inclusive businesses, multiple roles, that can coexist both in the context of organizations and in a broader vision of stakeholder relationships, stand out (figure 2.1.)

FIGURE 2.1 ROLES IN THE EXERCISE OF RESPONSIBLE LEADERSHIP



Source: adapted from Jaén, Reficco and Berger (2020).

Throughout the chapter we analyze the roles of visionary, public servant, guide, good citizen, change agent, storyteller, meaning maker,

* http://runa.org/

and networker. We continue with a reflection on leaders as social innovators, presenting a leadership dynamic that goes beyond being an agent of change, according to which leaders are seekers of novel and effective answers and practical solutions to social problems. Next, we analyze the business challenges behind the leadership of these ventures, to finally conclude on the type of leadership that is required to ensure the sustainability of inclusive businesses.

The exercise of responsible leadership

We begin with the assumption that leaders have different roles, built on relationships with their network of stakeholders. Thus, it is worth asking how leaders behave so that a complex network of actors (employees, shareholders, customers, suppliers, competitors, peers, family, community and environment) with multiple interests and expectations—sometimes conflicting—work together and collaborate in businesses that create not only economic but also social value. To answer this question, we were inspired by the role models of responsible leadership proposed by Maak and Pless,[14] adopted in 2007 to analyze the case of Anita Roddick, founder of The Body Shop company.[15] We examine the leadership dynamics that are generated in the studied experiences.

Leaders as visionaries

Many of the studied initiative leaders showed a sense of direction, knowing where they wanted to go and connecting people with a shared vision, as displayed in the words of Gisela Sánchez, leader of Nutrivida:

> When one asks what is the fastest way to break the cycle of poverty, one quickly concludes that education is the way to go. However, I want to share with you that there is a step before education and it is nutrition. Nutrivida's mission is to eradicate undernourishment (micronutrient deficiency) in Costa Rica.[16]

Another example is Beth Meadows, leader of the Mercado Fresco (Supply Hope project in Nicaragua), who developed a microfranchise network in the homes of women in marginalized areas to sell food, personal care and cleaning products. Her dream was to offer poor mothers the opportunity "so that they could feed and shelter their children, but also give them a better education and future." She decided to go beyond just philanthropy and "go beyond giving money, as she remarked: "I wanted to develop an experience that would have an impact on giving the opportunity to people without resources to get out of poverty and achieve their dreams." All with long term scalability and sustainability in mind.[17]

From a different perspective, Benjamín Villegas, leader of the Colombian restaurant chain Wok, expressed his vision of the business in a clear and simple way: "Wok is everyone's right:"[18] "Because food is not the only important thing in our trade: our employees, suppliers and customers are our allies and the environment is our home."[19]

Leaders as public servants

Very often inclusive initiative managers behaved as public servants who took their stakeholders and followers into account, and were able to recognize, respect and attend to their needs, with the intention of achieving a common purpose. Beth Meadows reflections in this sense are eloquent:

> I feel blessed by God because he has given me a lot and I feel that he who has a lot has an obligation to give ... I believe that my luck and my path only make full sense if I work now to put my resources—economic and knowledge—at the service of other people.[20]

Gisela Sánchez expressed her vocation of service in this way:

> I thought about what really matters to me. It is the children, give them a chance to get a good start in life. The best thing I can do with my life, besides taking care of my own children, is taking care of other children.[21]

Benjamín Villegas' words summarize very well the role of public servant:

> Being healthy is a matter of respect, first and foremost, towards the people, the customer, the supplier, the community, and the environment. Wok paid the artisanal fishermen of Chocó 10 times the value paid by the intermediary who bought the fish and 57% more than the market average, showing respect for local suppliers.[22]

Tyler Gage, referring to the importance to respond to the needs of Kichwa producers, noted:

> We realized that empowering farmers meant that non-profits would get involved by helping them negotiate higher prices for guayusa, even if it created a headache for the company ... I was well aware of the problems and challenges Runa faced, and had a series of questions that I had not yet managed to answer: Was Runa meeting the expectations of its different stakeholders? Was Runa creating value for Kichwa farmers?[23]

Leaders as stewards

Many of the studied managers acted as stewards by proving to be defenders of values and bastions of professional and personal integrity. They ran the business responsibly and respectfully even in difficult times and protected and preserved what had been entrusted to them. Tyler Gage (Runa) put it this way:

> As a brand that started with the vision of supporting the livelihoods of indigenous Amazonian farmers, our values of transparency and authenticity guide everything we do ... we managed to establish alliances with thousands of indigenous farming families to produce guayusa in a sustainable way, and we put this plant rich traditions at the heart of our business model. Together we had set out on our journey with a

> vision of a future in which commerce in the Amazon will be founded on respectful exchange and healing, not exploitation and greed.[24]

Benjamín Villegas, from Wok, argued: "Putting this plan [Wok's expansion plan beyond Bogotá] into motion is to end the essence of Wok ... opening new points of sale puts at risk the sustainable business model, the artisanal fishing (Chocó fish suppliers) and quality control over local suppliers and employees ... Wok's sustainable supply is not ensured."[25] With this decision, Villegas made it clear that he was not only preserving the sustainable business model but also taking care of artisanal fishermen, their suppliers, at the expense of the economic expansion of the company.

Leaders as good citizens and change agents

The analyzed entrepreneurs share a vocation to produce public goods and are concerned about public health. They have a sense of responsibility and belonging to their community and behave as active citizens. They use their influence to mobilize a complex network of actors to act in a cooperative way to achieve a common purpose. The leader's sense of responsibility appears in Wok's case in which, referring to Benjamín Villegas decisions, the authors point out that he reduced the imports of tuna by developing local suppliers and eliminating it from Wok's menus to reduce the damage caused by industrial fishing to shoals of tuna in the world. Likewise, when, for environmental reasons, Wok only used seasonal fish, betting on the sustainability of local suppliers.[26]

Gisela Sánchez had a clear orientation towards solving the health and malnutrition problems of poor mothers and children. It is no coincidence that Nutrivida was not only dedicated to the production, distribution and sale of nutritious food at affordable prices, but also incorporated women in its distribution chains and trained them as health and nutrition educators.

Several of the analyzed managers behaved as change agents when, as active citizens, they committed to transform the *status quo* in their countries or in certain communities. Luis Martínez, director of Propaís, summarized it as follows:

> I am in this project to build a country … With my work I contribute a grain of sand to the construction of an entrepreneurial country that offers opportunities to entrepreneurs and their employees.[27]

Referring to Wok and commenting on the origins of the company and the renewing spirit of its founders, a blog focused on entrepreneurs pointed out:

> Anyone can have an idea. Even a good one. But not all of us are willing to turn that idea into something real. Something that grows, that involves many people and that makes us feel the same passion that we experience the day we conceive it. That is the way Wok was born …[28]

Leaders as storytellers and meaning builders

The entrepreneurs we studied transmit passion and inspire people with clear and persuasive communication, through powerful stories that give meaning to life and work. This ability to transform business interactions into a story that deserves to be told is reflected in the thinking of Tyler Gage:

> The producers went from being mere suppliers, to becoming partners in Runa's business. When we sell a bottle of our product here in the USA, all of the guayusa leaves that went into this bottle came from native producers in Ecuador. It is a very simple business where each bottle sold generates income and impact for the farmers.[29]

Several of the analyzed managers behaved as change agents when, as active citizens, they committed to transform the *status quo* in their countries or in certain communities

The story told by social entrepreneur Beth Meadows speaks for itself:

> After dedicating my life to franchising, I began to dream of what I could achieve by creating not only jobs for the poor, but also opportunities for the poor to run their own business with the advantages that a franchise system offers. I began to dream about what mothers with the capacity not only to provide food, but also adequate shelter, education and a better future for their children would look like. And I began to dream of Supply Hope, an organization that provides the opportunity to earn a reliable income through microfranchises.[30]

Leaders as network creators

The entrepreneurs in our sample understand leadership as an inclusion platform or network through which they act as networkers, builders and weavers of relationships, in which they position themselves as equals. In the case of Wok, Benjamín Villegas and his team created Mundo Wok as a space to strengthen relationships between suppliers, employees and customers through events and conferences. They also launched an engaging environmental campaign to reduce the use of napkins and straws and replaced fish imports by developing their value chain to include local suppliers.[31]

Beth Meadows raised public and private funds to support cooperation organizations and NGOs projects, aimed at children in countries such as Nicaragua, El Salvador, and Kenya. She carried out some of her projects through churches, she worked in collaboration with the Public Administration in Nicaragua and got financial support from institutions like the IDB.[32]

Gisela Sánchez, a strong believer in alliances, reminded the process of creating the joint venture between Fifco and Muhammad Yunus: "It was hours of meetings and collaborative work with other NGOs, government health officials, food producers, vendors and nutritionists."[33] Nutrivida has worked, among other organizations, with Grameen Bank and the Rotary Club of Costa Rica, Fundación Mujer, BAC Credomatic, Fundación Unidas para Crecer, Voces Vitales, Fundamentes, Proyecto Surí, Sifais, Techo, Lifting Hands, and Fundación Children's House.

The participation of multiple actors in the Runa operation shows the networker character of its founders:

> The objective was to create a guayusa value chain … in a system that would involve Kichwa producers as more than just raw material suppliers; and this had the support of the Ecuadorian government … The cultural identity was reinforced with celebrity endorsements of the company and its products … having them on board has given us a novel and creative means to tell the story of Runa to our target consumers … Runa Foundation had access to institutions such as the MacArthur Foundation, USAID and Planetaction in the United States. The Runa Foundation was financed and supported by CAF (Development Bank of Latin America) in Ecuador. In addition, Runa Foundation had partnered with some governmental institutions in Ecuador, such as the Ministry of Agriculture, Livestock, Aquaculture and Fisheries, as well as with academic institutions such as the University of Pretoria and the San Francisco University in Quito … [34]

Leaders as social innovators

Developing inclusive initiatives to involve vulnerable population in companies' value chain—either as distributors or suppliers—lies at the core of responsible leadership. But this seems not to be enough. For leaders to advance in the transformation of companies, so that they combine the generation of economic benefit with social commitment, they must exercise the roles of responsible leadership but must also act as social innovators. Evidence shows that these leaders gather and organize people, ideas, resources, and tools to achieve practical solutions to social problems.[35] They engage in behaviors that result in the creation of novel and transformative solutions to social problems through the creative use of existing resources and technology, as well as intersectoral and inter-organizational collaborations. The words of Runa's founders show their character as social innovators:

> We are working to innovate in the energy drink category, to offer products that are good for consumers and 100% organic. In addition to delivering an excellent tasting product, we offer trips to the Amazon so that consumers can visit our producers, and we are sharing Ecuador's rich cultural heritage with the global audience through our products … Under the direction of Dr. Florencia Montagnini, Principal Research Scientist in Tropical Forestry at Yale University, Runa Foundation fostered research on how to increase production of certified organic guayusa within the framework of agroforestry systems in the Ecuadorian Amazon.[36]

Runa, based on collaboration with local and international academic institutions, created a new value chain for an unexplored crop while taking care of the environment—the Ecuadorian Amazon—and impacting the quality of life of local communities.

But there are also difficulties in the innovation processes, as the testimony of the Nutrivida's founder reflected: "It took us two years to move from idea to action; it was two intense years." Gisela Sánchez comments that she had already thought about fortified nutritional products when she came across the work of Professor Yunus who spoke of micronutrient fortified yogurt in Bangladesh. "I looked at what he did well and what he could have done better in his social business and learned from both." She added that her research took her endless hours of background reading and benchmarking; she found that poorer people supplemented their staple diet of rice and beans, where possible, with dehydrated soup and a soft drink mix and this refined her thinking in terms of the product line. She commented:

> There were failed prototypes, resource challenges, and closed doors. And then we made a slow escalation in the process of refining successful prototypes, for quality, taste, and nutrition.[37]

Although fortified nutritional products already existed, the novelty of Nutrivida's proposal was to develop its products understanding how poor people supplemented their diet, and to design attractive, good-tasting packages, which contained a fortified formula of higher nutritional value, sold to affordable prices.

Responsible business minded leaders

The analyzed experiences also show that to achieve companies' transformation, create sustainable social value and move forward—without dying in the attempt—it is essential to lead these inclusion initiatives with business-oriented vision and strategies. In the words of the CEO of a Colombian distribution company that incorporates low-income women into its value chain:

> It is clear to me that what I want is to improve the quality of life of poor women in my region ... I started with great enthusiasm and a high level of motivation after having traveled the world and obtained my MBA at a prestigious school in Canada ... I wanted to give back to Colombia all that it had given me ... After many trials, advances, and mistakes, I have realized that it is not enough to have the will and passion, you need a business mentality ...

Claudia Valladares, Vice President of Banca Comunitaria Banesco in Venezuela during the 2006-2013 period, summarizes this approach when referring to the strategy of the bank owner at the time of starting the project:

> I think Escotet was inspired by pure and simple social commitment, in addition to understanding that in the popular sectors there was an ocean of opportunities ... He was very demanding with numbers, with results. He had the patience of an investor to understand that this was a business. Not the big business of private banking, but he did understand that millions of small customers could be equivalent to a traditional bank.[39]

Tyler Gage, speaking about the future and growth of Runa, highlights the commercial and financial challenges of his company. He wondered how to manage the tensions that arose between business growth, profitability, and sustainability. He was challenged to double sales in the USA market in 2017 and understood that to position the brand and improve product distribution they had to substantially increase marketing expenses. He commented that he was aware that he needed to identify opportunities to refine Runa's business model so that it would be sustainable in the long term.[39]

Nutrivida's story shows a determined entrepreneur committed to the development of a social enterprise facing difficulties to prosper. It is an excellent experience to analyze the business implications that the development of a company of this nature brings with it.

> One of the main challenges was to create an organization from scratch and face the commercial challenge of selling a product, which despite being of very good quality and very good taste, was not known to the population, which is why it has been very difficult to sell, and generate a sales volume that guarantees the financial sustainability of the company ... this process has been slow and painful, since after the first three months we believed that we were going to achieve it, but after a while, we had to fight to stay .

The difficulties faced in achieving break-even after five years of Nutrivida's operation invite us to reflect on the necessity of complementing a passionate inclusion and social innovation initiative, with a business thought that supports the decisions. Recalling difficult times for the company, Gisela Sánchez commented that in September 2016, when the accumulated operating loss amounted to $15,000, Fifco's board of directors considered stopping financing the loss generated by Nutrivida. She explained that this moment was a learning experience because she realized that she had set an ambitious goal by projecting that in two years Nutrivida would break even. "Not achieving this goal and facing the possibility of losing Fifco's support were two of the most complex experiences I have ever had to deal with."[40]

Exercising responsible leadership with a business mindset: a key challenge for inclusion?

Our research findings on inclusive businesses and distribution networks in Latin America show that leading organizations and companies that seek to incorporate the excluded population into their value chain is, above all, a leadership challenge. Paraphrasing Pless:[41] it requires leaders who care, who are conscientious from an ethical point of view, open to the diversity of stakeholders—both internal and external—and who know and understand the responsibilities of businesses in society.

We have observed how the management of this type of initiative requires the exercise of ethical and sustainability-oriented leadership. These entrepreneurs are people who see themselves as part of a social system, immersed in a complex society of stakeholders, with multiple interests and expectations. They exercise leadership based on values, build relationships with "others" based on equality and respect, and connect with them through a shared sense of meaning and purpose. They are women and men who have decided to take the risky path of building relationships and who operate as mobilizers to generate commitment and promote social transformations to create sustainable values. They are managers who exercise responsible leadership who seek to break with the *status quo* to advance in the creation of companies that seek sustainability.

The studied initiatives show that these leaders are also managers with novel ideas who try hard to make them work in practice. They go through multiple experiences of trial and error and design activities, services, and products driven by the purpose of responding to social needs. Also, a minimum common factor of these experiences can be identified: leaders face the inescapable challenge of achieving the economic feasibility of their ventures. Why did we come to this conclusion?

At the time of writing, some of the analyzed leaders have continued to direct their business and their philosophy has prevailed in the managment of the company. This is the case in Wok's experience. As remarked in Colombian news (*El Espectador*): "The Asian food restaurant chain has worked for 19 years to become a sustainable business." [42] The text on Wok's website speaks for itself:

> Wok was born in Bogotá in 1998, as a space to reinterpret Asian food and make it available to everyone. There have been more than 15 years of work in which we have learned and disseminated good practices in cooking, agriculture, responsible fishing, and sustainable development. In our menu you will find representative dishes of Japanese, Thai, Vietnamese, and Cambodian food, among others, made, as much as possible, with ingredients from local communities. Because food is not the only important thing in our trade: our employees, suppliers, and customers are our allies and the environment is our home.[43]

We can therefore conclude that Wok's leadership has lasted over time and has managed to consolidate the company's sustainable business model. But this case is not easy to replicate as we observed in several of the studied experiences. Let us start with Tyler Gage case in Runa. In 2017, Gage changed his leadership role in the business and became chairman of the board of directors, while a new CEO, Alexandra Galindo, an executive with extensive experience in the beverage business, was hired.[44] Tyler explains the reasons for this change:

> It quickly became quite clear that bringing in someone else who could run the business on a day-to-day basis, who could provide proven beverage expertise, strong managerial experience, and help grow the organization, was a great opportunity to deepen our business and help us scale-up …

At the same time, it seems that Tyler sees himself as the guardian of the company's philosophy and comments that he will continue to promote it from his new role: "I will focus on telling the story of the brand ... it is the greatest asset of the company."[45] This change of direction raises questions about Runa's business strategy going forward. Will Gage's business vision prevail? Will Runa be able to reconcile economic growth with the creation of value for farmers?

In the case of Nutrivida, Gisela Sánchez purpose was to fight against child malnutrition and to support pregnant women living in poverty. However, the distribution channel she designed struggled to achieve financial sustainability, posing the traditional dilemma between social and economic outcomes.

Beth Meadows, of Mercado Fresco/Supply Hope, welcomed the positive impact on women who were able to operate and maintain the stores (between 80 and 100). However, she was also aware that, after six years of operation, they had not achieved financial sustainability. One of the options she was evaluating was the transfer of ownership of the company to Nicaraguans.

Finally, the leaders of Banca Comunitaria Banesco (BCB) perceived, by the end of 2016, that they had made good progress in their strategy of bringing banking services closer to the low-income population, but recognized that the BCB faced important challenges to scale-up. Not only did they have to respond to the internal tensions over a new business unit in the bank and to the economic, cultural, and security barriers between people from the popular sectors and the bank, but they also had to overcome challenges related to the Venezuelan economic and social crisis.

The portrayed stories describe the dilemmas and challenges business leaders face when betting to solve unavoidable social problems through business means. Most of the analyzed cases show that, despite the responsible leadership focus, the organizations struggle to reach financial sustainability. In other words, responsible leadership appears to be a necessary but not sufficient condition to achieve financial equilibrium. What these experiences of companies with sustainable business models and inclusive distribution networks in the region show us, is that the central question is not new: How to lead ventures that generate social value while ensuring the financial success of companies? There is no right answer, nor is there a unique recipe.

This research shows that the advancement of the transformation of businesses' role in society and the financial sustainability of inclusive business initiatives requires enterprising and visionary people, who are passionate about their cause and have purpose, personal integrity, commitment, resilience, and perseverance. We also found that the exercise of responsible leadership, as well as passion and will, are indispensable but not sufficient conditions. It takes courage to continue innovating, and more courage and determination to rethink and translate dreams to successful businesses.

Much progress has been made in Latin America in developing new businesses that ultimately pursue a fairer and better world. What has been achieved is the result of women and men deciding to play a transformative role in society. They are leaders who have been willing to take risks, innovate, "gamble", and play different roles in the social system where they operate; including the role of entrepreneurs.

We invite you to answer these questions before continuing:

1. As an entrepreneur or manager interested in inclusive business, do you identify with any of the leaders analyzed (Benjamín, Beth, Claudia, Gisela, Luis and Tyler)? Who do you identify with? Why?

2. Evaluate yourself considering the leadership roles discussed in this chapter. What roles do you identify with? Which ones do you currently practice in your company or initiative? What roles do you need to develop to exercise responsible inclusive business leadership?

3. If you are starting an inclusive business, what do you think are the most important leadership roles to make your idea possible? Why?

4. What responsible leadership roles do you think are key for your business to be sustainable over time and to ensure its social and financial sustainability? How does this apply to your experience?

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CHAPTER 3

INCLUSIVE BUSINESS MODEL DESIGN: FROM BASICS TO INNOVATION

Nunzia Auletta

INCLUSIVE BUSINESS MODEL DESIGN: FROM BASICS TO INNOVATION

Nunzia Auletta

Inclusive businesses do not escape the need to design business models that identify market needs and are capable of articulating resources, alliances and activities that generate value for selected customers and beneficiary segments.

In this chapter we share some practical experiences and reflections that show that the effort for inclusion can serve as a catalyst for innovation in business models. We try to address: How can you generate an attractive value proposition for low-income segments? What types of innovation can be introduced?

We start by presenting Banca Comunitaria Banesco's experience in designing an innovative distribution model. Then we review the business model components, highlighting the innovations introduced by some Latin American inclusive distribution initiatives.

CASE Banca Comunitaria Banesco: the bank goes to the *barrio*

We aimed at aligning our corporate social responsibility policy with the business strategy and the community banking project to offer innovative and quality products, services, and channels to traditionally excluded customers.

Juan Carlos Escotet, President of the Banesco Group

In December 2016, Héctor Albarrán, Vice President of Banca Comunitaria Banesco (BCB), the microfinance business unit of Banesco Banca Universal (BBU), was concerned about BCB's inclusive business model sustainability. After ten years of operations and expansion, the time had come to focus on operational efficiency, with attention to a growing cost structure, which demanded the search for synergies with BBU. It was necessary to preserve the identity of the Banca Comunitaria and the business and market knowledge that its staff had gained in serving the low-income customers, a segment that in Venezuela represented about 70% of the population. But at the same time, the BCB business unit had to align with BBU's strategic evolution, with clear market segmentation, a strong investment in electronic channels and an aggressive internationalization process guided by Juan Carlos Escotet, President of the Banesco Group.[1]

BCB, whose main promoter had been Escotet himself, with his vision of combining social responsibility with the potential for expansion to a widely neglected mass market, faced a particularly hostile environment in Venezuela that generated new tensions in its business model.

The BCB model

In its initial stage, BCB had been characterized by rapid growth, but, above all, by a trial and error process aimed at developing a range of products and services designed for clients from LIS and adapting the best microfinance practices worldwide to the restrictions and regulations of the Venezuelan market.

By 2016, BCB was the leading microcredit institution in Venezuela, serving more than 350,000 people in 8,000 low-income neighborhoods or *barrios*, with a 51 percent market share. Its results were encouraging, with more than 45,000 microcredits granted per year and 48,000 microentrepreneurs trained in its training program.

Most of BCB clients (93%) were small shops owners, public transport microentrepreneurs, artisans and providers of personal and domestic services, who declared that access to microcredits had improved their quality of life. There were frequent testimonies such as that of the owner of a small pharmacy: "BCB helped me when other banks denied me credit, it made me grow as a businesswoman, it made me understand my business."

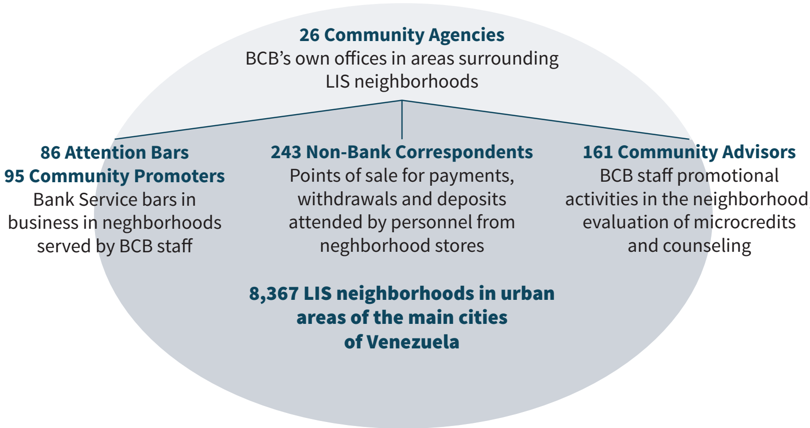
BCB's product portfolio comprised:

1. Community accounts: checking accounts with more affordable entry requirements.
2. Step-by-step savings: designed according to the popular collaborative savings model managed by neighbors in the *barrio*, known as *san*.
3. Microcredits: aimed at promoting growth and formalization of microenterprises, focusing on financing working capital, through a policy of growing amount renewals that encouraged payment and achieved very low delinquency rates.

Additionally, a microentrepreneur training program, offered with allies in each community, was BCB trademark to increasing small business potential for success, with more than 40,000 participants in ten years.

The product portfolio was offered directly in the communities through a unique distribution channel that represented an important innovation in Venezuela (figure 3.1), combining community agencies, service bars installed in small stores attended to by BCB's promoters, community advisors, and BCB point of sales installed in non-bank correspondents located in hard to reach places in the *barrio*.

FIGURE 3.1 BCB'S DISTRIBUTION CHANNEL



The capillarity of BCB's channel had allowed it to compete in a highly regulated environment, not only with other private institutions, but also with the public banking system that granted microcredits, more similar to direct subsidies, which counted with high delinquency rates and a very low level of service. BCB was the only institution with a direct presence in low-income neighborhoods and a close relationship with its customers and non-bank correspondents thanks to its network of 161 community advisers and 98 promoters, young technicians or university students from low-income communities, capable of understanding their needs and culture. Collaboration with community leaders and social organizations, particularly in training activities complemented BCB social impact.

The Venezuelan crisis and tensions in the model

In 2016, the economic crisis that had affected Venezuela since 2013 had been accentuated with a 18 percent fall in GDP and yearly inflation rates above 500 percent. The shortages of basic products such as food and medicines, and the deterioration of public services and utilities (electricity, water and transportation) completed a very complex business environment.

This situation affected particularly BCB's customers, most of them microentrepreneurs with small stores who could hardly replenish their inventory and complained that the amount of the microcredits was scarcely sufficient for their business or family requirements. A particularly affected sector was public transportation unit owners, who commented: "As the prices of vehicles and spare parts increase from month to month, BCB's credit limits are far from meeting our needs."

Operating the BCB distribution network was also affected by the continuous increases in minimum salary decreed by the government in its attempt to lessen the impact of uncontrolled inflation. The cost of the channel, with the intensive presence of advisers and promoters, was increasing, and staff turnover began to affect customer relationships. For their part, non-bank correspondents, whose benefits for participating in the network derived from a combination of transaction fees, greater efficiency in cash management, and increased traffic in their stores, complained about the low real value of commissions and the difficulties of maintenance and replacement of the points of sale equipment.

Albarrán was convinced that he needed to revise the original BCB model. In addition to containing the effects of the crisis, it was important to think in the medium term. Although social impact continued to be fundamental to its mission, BBU's management considered Banca Comunitaria as an additional segment of the market and therefore had to meet the same performance indicators as the rest of the business and thus apply a stricter evaluation of customer's risk. Indeed, BCB had to simplify its banking platform, and generate the basis to continue scaling the model and eventually being able to replicate it in other countries where Banesco operated. The need to be more cost-efficient had to go hand in hand with the evaluation of new service models, combining technological and human factors, to expand BCB's reach and customer satisfaction, as well as its social impact.

Reflection questions:

1. Thinking about your own initiative, what aspects of the BCB experience do you find most useful?

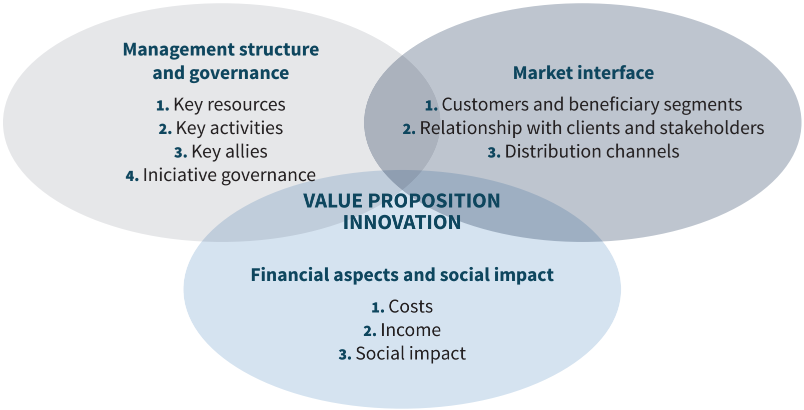
2. What are the main factors to consider when designing an inclusive distribution model?

Business model components

Many managers and entrepreneurs who face the dilemma of developing inclusive business initiatives wonder how to innovate in generating and delivering value to low-income segments. The success of these innovations means offering real solutions for lower-income people by designing models with the potential for scalability and sustainability.

In the field of distribution channels, the context is characterized by LIS consumer's lack of information on affordable options and their benefits, barriers to physical access or geographical distances, and the need to train and organize suppliers, distributors and retailers in order to integrate them into inclusive value chains.

FIGURE 3.2 **INCLUSIVE BUSINESS MODELS**



Source: adapted from Osterwalder and Pigneur (2010) and Joyce, Paquin and Pigneur (2015).

To analyze the innovation processes developed by the entrepreneurs of the experiences studied by the Observatorio Scala, we examine some of them through the lens of the business model canvas proposed by Osterwalder and Pigneur[2] combined with Joyce and Pigneur[3] social canvas. The eleven components of this combined model are presented in figure 3.2 and are organized into four areas of action: value proposition, interface with the market, management and governance structure, and financial and impact factors.

Value proposition innovation

The value proposition combines the set of attributes, benefits, products, and services that are offered to the market. In all the studied cases, innovation in the value proposition is fed by an organizational mission and vision that goes beyond the basic offer of products or services. Different elements of shared value are added,[4] referring to policies and operational practices that can contribute to the competitiveness of organizations and at the same time improve the social and economic conditions of the communities in which they operate.

Innovation in the central offering of products and services presents different degrees. In some cases, we find simple improvements through a certain adaptation of products, more focused on the generation of bundles or combinations of products already existing in the portfolio. This is the case of Danone's dairy products in Brazil[5] or of the popularly positioned products of Nestlé Plan Barrio, in the Dominican Republic.[6]

In other cases, there is an incremental innovation with new formulations and generation of new benefits, such as Nutrivida's food products, designed to offer a high nutritional contribution to low-income consumers in Central America.[7]

Finally, some cases show substantial innovation, which implies the redesign of services and processes, such as the financial products offered by BCB in Venezuela. The scope of the services and management processes developed by BCB explain its impact on extending the coverage of banking services in the country. First, by encompassing a product portfolio that ranged from community accounts to checking accounts with a more affordable entry requirement, to step-by-step collaborative savings. Second, by offering a capillary distribution channel that combined an array of different intermediaries with complementary roles.

From the perspective of inclusion, many initiatives show added value elements designed *ad hoc* to allow customers to better enjoy the core offer. They are frequently presented as training activities, as is the case of BCB courses for microentrepreneurs or Fundación Paraguaya's entrepreneurial education,[8] which complement the banking and microfinance offer. Others appear as advisory services provided to customers, as is the case of Colcerámica Viste tu casa (Dress your home) program (Colombia), which combines the sale of cladding products with the development of small remodeling projects, financing services, programmed savings and support.

Sometimes, value-added elements cover broader aspects of human development and family well-being, such as the "Poverty Stoplight", a multidimensional self-assessment application used as a transversal axis of intervention by Fundación Paraguaya.

The main tensions in the development of value propositions derive from the need to invest in innovation for projects with particularly uncertain and long-term returns. A recent study by Deloitte[9] on a global sample of executives concerned about inclusive growth shows that the emphasis on producing results in the short term is the factor that most negatively impacts the inclusive business initiatives of their organizations.

Market interface

The market interface components are all those designed to understand, communicate, and interact with stakeholders, customers, and beneficiaries.

Innovations in customer and beneficiary segments

Conventional business strategies usually consider low-income consumer segments as a whole, thus failing to understand the differences and particularities that such huge segment may present. But when companies' projects specifically target LIS consumers, this macrosegmentation resulting in the putting of all vulnerable people in the same bag needs to be reconsidered. In inclusive distribution initiatives, companies must go into more detail to capture the diversity of needs, consumption habits, culture, and ability to pay within low-income markets.

In this sense, inclusive initiatives are often established by applying a geographic segmentation through pilot projects that are focused on a clearly delimited test market, be it a rural community or an urban neighborhood, to then advance a process of replication or expansion. For example, Danone *kiteiras*' project started in some communities in Salvador and then replicated in Sao Paolo and Fortaleza. Nestlé's Plan Barrio in the Dominican Republic used a similar strategy.

Other initiatives re-segmented low-income consumers or distributors into different socioeconomic groups, selecting those with a higher purchasing power, which were able to enter a market interaction. Although this decision ended up excluding the most vulnerable groups, it had the benefit of balancing/ensuring the real impact of inclusive business initiatives, as in the case of Estilos Masisa and its network of carpenters.[10]

Another practice consisted in looking at the market in a systemic way, beyond the end user or consumer, including and segmenting the relevant audiences that accompany and facilitate market dynamics, such as community leaders, or other stakeholders. These actors can play different roles in inclusion models, such as key allies, members of the distribution channel, collaborators, or facilitators of the relationship processes with customers and communities. For instance, when the BCB selected its community promoters (members of the distribution channel), it chose them based on both their affinity with the target segments, and their belonging to the same communities where the financial institution operated, offering them the same potential for growth and improvement they offered to their microentrepreneur customers. In the case of Danone, the development of *kiteiras* goes beyond their inclusion in the sales force: their training as entrepreneurs with the participation of partner institutions is emphasized. Likewise, Estilos Masisa, developed its microfranchises for carpenters by taking them to a higher level of professionalization and making them capable of generating added value in the transformation of the raw material produced by the company.

Distribution channel

The design of the distribution channel represents one of the main challenges of inclusive models, as they are meant to serve population of difficult access, either in isolated rural areas or urban neighborhoods that, due to their characteristics of spontaneous urban growth and security problems, are difficult to reach with traditional channels designed for a middle-class market.

In many of the studied initiatives innovation is limited, opting for multilevel retail structures that recruit community members, as door-to-door sales force, coordinated by a structure of microdistributors, promoters or supervisors. Often the channel's participants are women, either because of their central role in managing the domestic economy in low-income segments or of their vulnerability caused by the incidence of poverty, informal employment, or unemployment. This is the case of the structure of Danone's *kiteiras* in Brazil, the microdistributors of the Nestlé Plan Barrio in the Dominican Republic, the Nutrivida's Manu network in Costa Rica, and the promoters trained by Colcerámica.

In most cases, including both corporate initiatives or new ventures, the main innovation resides in designing *ad hoc* distribution channel management and administration systems. However, these initiatives have to face complex learning curves, starting from the definition of the functions of the channel participants (inventory management, transportation, promotion and sales), up to the forms and levels of remuneration and incentives (training, sales commissions, awards and promotion in the chain structure).

One of the critical points is to achieve income levels that fulfill the central promise of real improvement of the standard of living for LIS. In several of the analyzed initiatives, the opportunity cost of informal economic activities represented a challenge for the projects. For example, in Mercado Fresco, a network of microfranchises in homes in Nicaragua, microfranchisees' temptation of taking advantage of the stores to sell any type of product to increase sales was put to the test, with the risk of distorting the concept of the chain and negatively impacting the microfranchise brand positioning.[11]

Additionally, a dilemma in channel design is related to the determination of the desired scope, coverage, and inclusion, in the presence of scalability, efficiency and cost-effectiveness constraints characterizing highly fragmented structures. In some cases, the extension of the scope is achieved by complementing the inclusive channel with pre-existing structures, such as non-profit social service institutions, or traditional stores and small businesses. An example of this were the businesses located in the inner neighborhood—“community partners” or non-bank correspondents—of Banca Comunitaria Banesco. In the same way, Nutrivida achieved its greater reach thanks to the support of institutional or high-efficiency channels such as Walmart.

As for operational processes, there are challenges that have not yet been overcome in terms of achieving economies of scale and system efficiency. In corporate initiatives, for example, inventory management becomes more complex since a differentiated product mix, which cannot take full advantage of the synergies of the core business systems, is required. This is the case of Colcerámica, whose model demands types and variety of products different from the rest of the business.

Likewise, in the case of service sales that require an analysis and profiling of the end customer, the systems must be redesigned with specific parameters applicable to low-income segments, as is the case of the BCB’s credit analysis process to grant microcredits. This has involved a double service structure, based on community promoters (deployed in the neighborhoods) and a call center to check personal references, all supported by an *ad hoc* rating and risk management system.

Innovation through technological solutions, such as personal devices, mobile phones or tablets, used to collect customer data, manage orders, and make payments, could facilitate control and response times. In the case of BCB, progress has been made in the use of technological platforms with the development of specific systems to serve the channel of non-bank correspondents. At the same time, institutions and customers have been encouraged to use online banking applications, accessible from mobile phones that are increasingly present in the daily lives of LIS. As for the distribution of tangible goods, a process of trial and error allows good practices to be implemented in inventory management and other crucial channel activities.

Relationship with customers and stakeholders

The relationship with customers is the way in which the organization decides to serve, communicate, and exchange value with its target segments. The forms of relationship can vary from a purely transactional mode, with short-term vision exchanges, to a more personal engagement, or automated system that generate greater contact efficiency.

Several of the cases present a basic level of innovation, emphasizing on a transactional focus through interpersonal relationships between the members of the channel—sellers, promoters, or microentrepreneurs—and the communities they serve. This is the case of the Mercado Fresco model, which, by using homes as microfranchise locations, benefits from the natural relationship dynamics within families and between neighbors.

Greater innovation is evidenced by the introduction of personal assistance models, in which the purchase process is accompanied by the search for a greater understanding of the client's needs and a personalized advice model, both in the choice of products and in the design of financing mechanisms. An example can be found in the Colcerámica model with its neighboring promoters, who are capable of analyzing the characteristics of homes in need of improvement, and designing the most viable options in collaboration with clients. In some cases, personal assistance becomes the basis to build long-term relationships, as is the case of the BCB, where community promoters not only identify and evaluate microentrepreneurs with the potential to receive microcredits, but also guide them in their business management and growth.

Regardless of the peculiarities of each case, the common aspects that characterize inclusive business models unfold in the field of social innovation, where shared values are paramount to guide the interaction with all stakeholders. It is the set of principles to which organizations contribute as part of their expanded value proposition, which are derived from the business mission, the vision of social entrepreneurs or the leaders of the initiatives. In this way, values such as inclusion, solidarity, community collaboration, acceptance of diversity, conservation of the environment, or improvement of quality of life, are the guides that give purpose to the fabric of relationships. Thus, for example, the cases of Danone, Nutrivida and Nestlé go beyond achieving sales growth in under-exploited segments of the market (business objective), and become mechanisms which improve levels of nutrition, health and social inclusion, based on a shared culture.

Much remains to be done in terms of optimizing the network of relationships, both with clients and stakeholders. In most of the analyzed cases, the use of technological platforms that can promote innovation processes by improving access to products or services, or the levels of efficiency of exchanges, is lacking.

Regarding the potential for innovation, it is important that the sense of social purpose, which stems from the focal organization that leads the initiative, can be nuanced by a greater understanding of what clients and stakeholders want to solve through the exchange. It would be advisable to adopt the "job to be done" approach suggested by Christensen et al.,[12] which emphasizes the design of the value proposition and its delivery on the progress or benefits that customers, users or relevant audiences hope to achieve. The construction of community spaces of permanent connection with real needs and expectations, as well as the promotion of co-creation activities with different internal and external stakeholders of the organization can be catalysts for innovation, discovering new ways of relating, creating shared value and delivering it.

Management structure and governance

The design of inclusive initiatives requires reconsidering the configuration of existing resources, activities, and alliances, introducing in some

> **The common aspects that characterize inclusive business models unfold in the field of social innovation, where shared values are paramount to guide the interaction with all stakeholders**

cases specific governance mechanisms capable of promoting and monitoring, beyond conventional management.

Key activities and resources

The key activities and resources are those which allow the development of the mission of the initiative and the successful generation and delivery of its value proposition. Innovation in the configuration of the value chain and the steps that are followed depend on each business model (production, services or knowledge management) and range from procurement systems and processes, transformation of raw materials, manufacturing, product and service design, technological developments, channel management, and customer service. For each activity it is essential to provide the necessary resources (human, financial, technological, and knowledge) that can be internal or external to the organization.

Production models, as in the case of food companies (Nutrivida, Nestlé, and Danone), present a certain degree of innovation in product formulation, packaging decisions, and portfolio variety. Having the appropriate resources to achieve a good understanding of market needs and to specify it in a design oriented to customers, channel participants, and stakeholders is a key success factor. Some initiatives show a certain discontinuity in the connection with the market or an underestimation of the crucial role of these competencies, with the risk of generating offers that are not very innovative or with little added value. In the case of Nestlé, the effort to generate combos of products to the liking of consumers, for example, generated tensions with the production efficiency point of view that, on occasions, resulted in a change in the offer with consequent complaints from sellers and consumers.

When the design of the inclusive business model begins from the procurement stage, as in the case of Runa, an organic drink producer, it can be seen as an innovative model that follows upstream sustainability principles, having facilitated the development of planting, collection and sale of *guayusa* leaves by indigenous Kichwa farmers in Ecuador, under an eco-solidarity fair trade model.

Service models rely on innovation in *ad hoc* processes that may require the development of platforms and networks. Technology can become a key resource for its proper functioning. Inclusive service models often offer integrated solutions to social problems, as is the case of Fundación Paraguaya, which focuses on microfinance, training and advisory services to microentrepreneurs. These last aspects combine elements of the knowledge management and decision-making models, which are characterized by training and consulting activities, which we find in many of the studied cases, such as Propaís, whose main added value consists in the development of its own franchise promotion process and the knowledge transfer to the involved allies.

Among the main challenges we find the need to develop systematic innovation processes that make it possible to design, test and correct many of the key activities, which cannot always respond to traditional business standards. Thus, for example, the application of inventory management or sales force standards, with typical parameters of efficiency, did not achieve positive results in a case of inclusive door-to-door distribution in rural areas in Peru, rather generating inconvenience and disincentives for women involved in the channel.

The inclusion of suppliers, distributors, allies and support institutions, as key resources within the value creation network, goes through their empowerment and the construction of systems of coordination, knowledge transfer and management that require particular mechanisms of collaboration. The development of sustainable innovations in these models requires the channeling of activities and resources through economic collaboration mechanisms (novelty and complementarity), social (macroculture and knowledge transfer) and environmental (monitoring and joint planning), as well as enabling factors (identity, policies, and organizational capabilities) as posited by Reficco et al.[13]

Key allies

Key allies play a central role in introducing competencies for innovation. They can play multiple roles: providers of products or services;

advisers and consultants in the processes of knowledge transfer and training; certifiers and facilitators in the creation of collaboration networks and connections with other actors; and financiers or promoters in the face of potential investors. Local communities can be considered as a particular type of key ally, due to their potential to participate in co-creation processes that facilitate the promotion and acceptance of inclusive business initiatives in their sphere of influence.

Allies take on tasks and functions that the focal organization could not carry out alone, creating new sources of resources, accelerating learning and mitigating risks. The selection of allies should be made based on clarity of purpose, shared expectations, and complementary skills. In this regard, the most important challenge refers to the alignment of strategies and the compatibility of motivations and interests, which can become a source of synergies, or on the contrary, be the source of insurmountable obstacles.

None of the studied models could have been designed and implemented without the participation of key allies, including a wide variety of organizations: national or local governments, NGOs, universities and training centers, financial institutions, and multilateral development organizations. For example, Danone's network involved the co-financing of the project by the IDB-MIF and the Danone Ecosystem Fund, as well as the search for synergies with the Networks Project of World Vision Brazil and with Aliança Empreendedora, institutions dedicated to reducing social inequity and enabling entrepreneurship.

Most of the cases highlight the effort to forge alliances with local communities, through community leaders (BCB), or the family or neighborhood fabric (Mercado Fresco), creating spaces for communication, negotiation and interaction aimed at the establishment of win-win relationships.

In this way, business models are capable of generating collaborative ecosystems[14] that go beyond the boundaries of each organization to give life to interdependencies between actors, opening a horizon of innovation in the search for new configurations in the creation and capture of value.

The governance of the initiatives

Inclusive business models present several complexities in terms of the activities, resources, and actors involved. This is necessarily reflected in the policies, roles, and procedures, as well as in the leadership responsibilities, structures, and approaches required to implement them.

In the studied cases, we found different forms of governance and structures. There may be, as in the case of BCB, a business unit with relative autonomy within a traditional financial institution, led by a champion with personal commitment who enjoys the support of senior management. They can also emerge as pilot projects within a functional area, as in the case of Colcerámica, born as a marketing area initiative to explore new market segments. In other cases, the initiatives were born from the business responsibility area, to later give life to autonomous entities, organized as social enterprises, as is the case of Nutrivida, where the project leader ended up operating it outside the mother company and with the support of international allies. Likewise, there can be sustainable social enterprises, which originate with the clear vision of developing a model that manages to combine economic and social results, and even environmental ones, as is the case of the Hybrytec company.

When initiatives are born within a corporation, one of the essential challenges consists of finding executives committed to the objectives of inclusion and capable of being engines of innovation and change within organizations. It is a combination of competencies and legitimacy that is essential to navigating an inclusive business initiative and gaining buy-in and support. At the other extreme, when it comes to social entrepreneurs, the challenge lays in obtaining the support of "patient" investors motivated by the mission and putting together a team that combines the competencies to innovate with the coincidence of values. Persevering, through trial and error, in the innovation and development of an inclusive model is a long-term job that requires a flexible government system with elements of ambidexterity.

Financial factors and social impact

In inclusive models, financial aspects, such as incurred costs and income generation, need to be combined with a measurement of the possible negative impacts and benefits generated in the communities served and in the society as a whole.

Cost structure and negative social impact

Each new business model carries its own cost structure, based on the inputs, processes, talent, and technology required. In any case, traditional economic performance indicators such as growth rates, profitability and return on investment should be maintained. However, the cost analysis must be complemented by the possible negative social impact the operation can produce on different stakeholders. Thus, in the cases of inclusive distribution channels that employ women, such as those of Danone, Nestlé, Nutrivida or Mercado Fresco, it would be useful to quantify the opportunity costs of the time dedicated to these activities in competition with traditional family functions or with the potential of jobs with greater personal development.

Incorporating all the visible cost elements as well as adding the less obvious ones, which may be hidden in negative externalities of the initiative, is crucial to establish the true entity of necessary resources and efforts. Designing and using a dashboard for the inclusion model could be a considerable effort, but it would result in a more honest and transparent assessment.

Income and social benefits

The success of an innovative business model lies in the fact that the generated value matches the possibility that someone will appropriate that value or will be willing to pay for it. The generation of a stable income flow must be sufficient to cover all of the operating costs of the model and allow the recovery of the investment in accordance with investor expectations or repayment of financing, when required.

Most of the studied cases present tensions in terms of the return on investment time, and efficiency and effectiveness of the initiatives, calling for a permanent review of the model, its potential for improvement, scaling or replication. This is the case of Danone, where the migration of the initiative from the area of corporate responsibility to the commercial area called for the same business profitability criteria, demanding a higher level of efficiency. Having patient capital has allowed the models to go through their learning curve, but in the long term the business indicators must account for their sustainability.

In addition to the traditional income stream, the studied inclusive business models are designed to generate social benefits, as they are a substantial part of their mission. These social benefits include improvements in the quality of life, such as health, education, standard of living, emotional state, well-being, and compliance with human rights. Thus, for example, the efforts of Fundación Paraguaya, Banca Comunitaria Banesco and Propaís can be measured in terms of their impact on the microentrepreneur business development and improvements in the quality of life of their families.

Although some aspects are easy to measure, such as the number of people or communities reached, others require impact study methodologies that can measure the perceived (qualitative) and real (quantitative) changes, with a before and after perspective.

Innovation on the road to inclusion

In conclusion, inclusive business initiatives need to design unprecedented models, capable of catalyzing the potential for innovation both in the focal organizations and in all the involved stakeholders. Understanding the expectations of the target segments goes through a process of empathy that allows abandoning the philanthropic paradigm oriented to “doing good” and incorporating the sense of what value means for every involved stakeholder. Immersion in cultural and social contexts, empowerment and co-creation are paths to bottom-up generated models, giving life to expanded value propositions with greater ease of acceptance.

The dissemination of technologies accessible to the great majority, such as mobile applications, connectivity, networks, micropayment platforms and crowdsourcing, allows us to think of more agile models, which do not fear trial and error, but rather see it as a fundamental route for achieving greater efficiency and scaling potential. Consequently, it is essential to develop dashboards, which allow timely and transparent management control capable of generating key business social impact indicators. All with a patient vision, capable of staying the course in the long term, traveling the multiple paths that inclusion demands.

The speed and flexibility in innovation can represent a key element for the success of an initiative. The "build, measure and learn" approach, proposed in the lean startup[15] process, characterized by short development cycles, market tests, quick learnings and fixes, can be of great benefit. The application of this methodology to initiatives aimed at social change[16] seeks to overcome the traditional vision of the development of a formal business plan and the long processes of search for financing and research, which can end up diverting attention from the real objectives of the initiatives, lengthening development times and leaving them hooked on assumptions with great risk of obsolescence.[17]

Following this logic, the development of minimum viable products by companies with social objectives would allow to simplify designs, keeping only the core benefits and attributes, with consequent advantages in costs, development times and final sales price to lower income users and consumers. It is worth reflecting that this lean perspective (agile methods) may be easier to apply in new entrepreneurial initiatives, which are faced with a blank canvas, than for large corporations, where there are more complex processes and practices in place.

We invite you to answer these questions before continuing:

1 As an entrepreneur or manager interested in inclusive business, what aspects do you think your organization should consider when designing its new model?

2 What would your value proposition be? Which segments of clients, beneficiaries and stakeholders would it be aimed at?

3 How would you structure your distribution channel? Think of 5 key aspects to consider in channel design.

4 Evaluate your organization based on its resources, activities and key allies. What aspects should you innovate?

5 What performance indicators should you monitor for your inclusive business initiative?

NOTES

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CHAPTER 4

ALLIANCES IN INCLUSIVE DISTRIBUTION

Josefina Bruni Celli

ALLIANCES IN INCLUSIVE DISTRIBUTION

Josefina Bruni Celli

Developing distribution initiatives is a complex task, and is often impossible to accomplish solely with the resources and competences of a single organization. This chapter examines the role of alliances in inclusive distribution businesses, taking into account the types of allies inclusive initiatives may need.

Special emphasis is placed on the range of institutions with which the entrepreneurs may make alliances, which can be divided into two broad categories of promoting and collaborating organizations. Knowing the institutions identified in the experiences of the Observatorio Scala will help inclusive distribution entrepreneurs understand the roles they play in the construction of networks and, consequently, design a better strategy to promote their activities.

The benefits of alliances are highlighted and some warnings about difficulties that entrepreneurs may face in their construction and management are evidenced.

CASE Danone Brazil

In 2011, Danone Brazil created an inclusive distribution initiative to increase the per person consumption of dairy products in low-income sectors in the northeast of Brazil, and at the same time contribute to poverty alleviation.

The initiative employed low-income women to distribute Danone products door-to-door in their communities in the city of Salvador de Bahia, where the company already had some market leadership.[1]

Alliances played a key role in the initiative. At first, in 2010, Danone Brazil developed a project together with Aliança Empreendedora, a Brazilian non-profit organization, founded in 2005, dedicated to helping low-income people to become entrepreneurs. The project, which was called *kiteiras*, conceptualized a microdistribution model based on door-to-door sales.

Subsequently, Danone Brazil had the support of the Danone Ecosystem Fund, who granted EUR 400,000 of seed capital to develop the project. The Fund had been created with EUR 100 million in 2009 by the CEO of Danone global, Franck Riboud, to strengthen alliances in the local ecosystems in which Danone operated.

In 2011, while implementing the pilot experience, Danone Brazil and Aliança Empreendedora hired Véli, a Brazilian organization founded in 2011, specialized in human resources training and career development. Véli recruited the women who would later participate as part of the program sales force and offered them a 36-hour training program.

Danone Brazil also had its traditional vendors, who were still in charge of distribution. In this distribution model, the traditional vendors delivered the products to the *kiteiras*, so that they could make the sale and dispatch door-to-door. In 2014, Danone Brazil signed a contract with Qualikits, a beverage distributor in Salvador, to expand the program's coverage.

To scale the program, Danone Brazil received the support of MIF Scala, an innovation laboratory of the Inter-American Development Bank dedicated to promoting new models of private sector action to solve economic development problems in Latin America and the Caribbean. MIF Scala awarded $800,000 to Danone, who provided a counterpart of $1.3 million.

In the scaling-up phase, Danone Brazil relied on World Vision Brazil, a subsidiary of World Vision International, a non-profit organization founded in 1975, dedicated to reducing social inequities through sustainable and transformative development. This organization had a methodology, known as GOLD, which involved community members in collaborative problem-solving processes and fostered business and income-generating opportunities.

World Vision Brazil also offered training to the *kiteiras* and supported the program expansion process to São Paulo and Fortaleza, the former being Danone's largest market in the country, and the latter its second market in the northeastern region.

Launching the Danone Brazil initiative would not have been possible without the participation of a group of institutions, and the alliances and institutional commitments that supported it and made it commercially viable. The alliances covered various moments, ranging from the formulation and conceptualization of the distribution model, through its financing, start-up activities, its implementation and scaling up.

Reflection questions:

Based on the Danone experience, and thinking of your own initiative:

1. Which partners could help you formulate your inclusive distribution model?
2. Which partners could finance your project in its various stages (initial, scaling)?
3. Which allies could help you in the start-up activities (recruitment, training, infrastructure)?
4. Which allies could help you in the distribution process itself?

Inclusive distribution promoters

Entrepreneurs can partner with a diversity of organizations that play an advocacy role in inclusive economic development ecosystems. Promoters are organizations that play an active role in the creation of inclusive distribution initiatives, but do not act as their direct managers, but rather as allies for entrepreneurs.

Promoting organizations can exercise the following functions:

1. **Social investment.** The promoters provide non-reimbursable funds for inclusive distribution projects. This means that they do not charge for the use of the money, nor do they request the return of the principal.

2. **Technical advice.** Promoter organizations that have accumulated knowledge from previous inclusive business experiences advise entrepreneurs on various topics such as franchise design, network structures, financing models, training, and strengthening the sales force, among others.

3. **Generation of knowledge.** The promoters collect and systematize information on the experiences they finance. They use that information to accumulate knowledge that allows them to advance their efforts to develop sustainable models. This book is an example of these systematization efforts.

4. **Intermediation.** Some promoters carry out intermediation activities to build relationships between franchising companies and microfranchise companies, or between production companies and microentrepreneurs. In addition to forging these relationships, the promoters who mediate advise the parties and accompany them in the construction and stabilization of the relationship.

Below is a detailed overview of the organizations that participated as promoters in the studied cases. This will give the entrepreneur a fairly comprehensive view of the type of institution they can turn to for building partnerships.

International promoters

Multilateral development banks

The MIF, an independent fund of the Inter-American Development Bank (IDB) dedicated to promoting private sector development in Latin America and the Caribbean, has been financing a laboratory of market solutions to the problem of poverty. To that end, it has experimented and taken risks in building inclusive distribution experiences and has systematized the results of these experiences to share the acquired knowledge. The MIF invested $5 million in Scala, to test models of inclusive distribution, with an emphasis on microfranchises.

Development cooperation agencies

Technical development cooperation agencies are government entities whose objective is to support economic development in countries other than their own. USAID from the USA, AusAid from Australia and IDRC from Canada are some of the technical cooperation agencies that, in the analyzed cases, supported trials of inclusive distribution.

The IDRC of Canada contributed to the Observatorio Scala, a grant focused on generating and disseminating knowledge on sustainable inclusive business models, to create distribution chains capable of providing vulnerable populations with profitable business opportunities. AusAid from Australia donated to the Fundación Paraguaya to carry out a microfrachise development project in Paraguay. USAID made it possible for the Hybrytec company of Colombia to build a solar energy service in six small indigenous villages.

International foundations and international business funds

A business foundation is a private non-profit organization that has been created by a private company with which the foundation maintains a close relationship. This link usually has the following characteristics: there is a strategic alignment between the objectives of the foundation and the objectives of the company; the foundation is financed mainly with donations from the company; most of the members of the government of the foundation are representatives of the company. Business funds are similar, with the difference that they do not have such a large administrative structure and are therefore less expensive to administer.

To create its inclusive distribution network in Brazil, Danone Brazil received non-reimbursable resources from the Danone Ecosystem Fund, the social arm of Danone international. This fund is the company's mechanism to co-create inclusive business solutions that generate social and economic value simultaneously. In particular, the fund is dedicated to generating a closer partnership between Danone and microentrepreneurs (small producers and distributors).

Estilos Masisa (Mexico) received resources and technical support from Fundes (Foundation for Economic and Social Development) for its carpentry service microfranchise project.[2] Fundes was created in 1984 by Stephan Schmidheiny, a philanthropist who is also the main owner of Masisa through Grupo Nueva. It currently operates in several Latin American countries where it acts as a consultancy firm dedicated to "promoting the growth and professionalization of MSMEs, allowing them to connect efficiently to the value chains of the different sectors, impacting on economic growth and improvement of services in communities where they work."

Fundes also helped design the SABMiller-Cervecería Nacional storekeeper development program in Ecuador. Based on an investigation, it proposed a training program for shopkeepers and facilitated it in its area of influence.[3]

NTR Foundation is a business foundation of NTR PLC, an Irish renewable energy company (wind and solar energy). It was created as a means of placing non-reimbursable funds to promote the development of renewable energy projects and markets in the world. NTR awarded $200,000 donation to Tecnosol in Nicaragua to train 49 young people who, after being certified in the installation and maintenance of rural solar systems, would form the company's inclusive distribution network.[4]

International non-profit organizations

Some of the promoters of inclusive distribution are non-profit organizations not linked to a large corporation and that may have several sources of funding. They are often led by social entrepreneurs who have a vision about the potential of vulnerable populations to lift themselves out of poverty.

Supply Hope is a North American non-profit organization created by Beth Meadows, businesswoman and social entrepreneur. The organization raises money from private donors and its founder, to give it to non-profit organizations operating in Nicaragua. Beth Meadows was personally involved in the design of the project and in the creation of Mercado Fresco in Nicaragua, with its network of microstores in homes, run by women in popular neighborhoods of Managua. The social enterprise recruits and trains women, grants them lines of credit and accompanies them in the process of founding and stabilizing their stores.[5]

International alliances

In some cases, the non-profit organization is an alliance between two or more actors. For example, the Clinton Giustra Enterprise Partnership (CGEP), is a Canadian-registered non-profit organization founded by businessman Frank Giustra in partnership with the Clinton Foundation. The objective of the CGEP is to seek innovative solutions to poverty in the world. This association designed and financed the creation of Chakipi, a social enterprise in Peru that would be dedicated to operating an inclusive distribution network in that country.

Some of the promoters of inclusive distribution are non-profit organizations not linked to a large corporation and that may have several sources of funding

Multinational company

Multinational companies, through their Corporate Social Responsibility (CSR) areas, can become direct promoters. This is the case of Yamaha, promoting the creation of an inclusive distribution network in support of its distributor in Suriname, Datsun Surinam NV, to replicate the Authorized Service Workshop (ASW) model that Yamaha had already implemented in the Indian market. The main idea was to establish satellite stores to service Yamaha engines reliably and efficiently, while strengthening the entrepreneurial skills of the local population.[6]

National promoters

The national promoters in the analyzed experiences are mainly engaged in intermediating the formation of inclusive distribution networks.

Non-profit organizations

Fundación Paraguaya was created in 1985 by Martin Burt, a Paraguayan social entrepreneur who has since dedicated himself to developing solutions to eliminate poverty. This organization receives resources from a wide variety of sources, including development cooperation agencies, multilateral banks, and national and international private companies. It also generated its own income through its microcredit and intermediation services. For the development of microfranchises, Fundación Paraguaya's has acted as a broker or intermediary.[7]

Another non-profit organization that carried out promotional activities was the Grupo Juvenil Dion (GJD), an NGO created in 1972 by a nun, Sr. Marta Dion. At the beginning, this organization was dedicated solely to the technical and craft training of young people with limited resources. Later, seeing that it was not easy for the graduates of its programs to find employment, GJD expanded its scope to the creation of an employment office, microfinance, and support to establish microenterprises. It was in the context of its effort to form microenterprises that this organization sought the support of the MIF to insert young people, trained by GJD, in distribution chains of private companies located in rural areas of Honduras. GJD's role in its inclusive distribution initiative was to coordinate and promote the project and be accountable to funding agencies; select young microentrepreneurs; manage the training of young people; manage alliances with mayors and accompany young people in their insertion into a network.[8]

National alliances

Propaís in Colombia is an example of a national promoter of inclusive distribution. This organization offers franchisors socialization, training, technical assistance, and commercial support in the sale of franchises. To franchisees, it offers training, socialization, participation in business roundtables, and support for the purchase of the franchise and for its start-up. In short, in promoting inclusive distribution, Propaís plays the role of facilitator, promoter and articulator.[9]

National private company

In one of the cases a private company decided to promote the creation of an inclusive distribution chain but, after managing it as a project, decided to separate this operation from the structure of the company. The new organization, Nutrivida, was created as a spinoff of the Florida Ice and Farm Company (Fifco), a Costa Rican food and beverage company. Nutrivida, an autonomous social enterprise, resulted from the alliance between Fifco and Muhammed Yunus, to contribute in solving the problems of malnutrition in Costa Rica and the region.[10]

Collaborating organizations

Collaborating organizations are secondary actors that provide specific or specialized support to the entrepreneur. Entrepreneurs and promoter organizations rely on collaborating organizations. The latter are characterized by being important, but not essential for the existence of the inclusive distribution network. That is, the entrepreneur can assume (internalize) some of the functions that collaborating institutions provide. However, the fact that the entrepreneur relies on collaborating organizations facilitates the promotion of inclusive distribution networks.

Some of the collaborating institutions provide specific services, for example, training, consulting, or microcredit services. Others are organizations located along the distribution chain. Here we have two subcategories. Firstly, there are distributors that support the entrepreneur in the process of delivering products to microentrepreneurs. Secondly, there are the entrepreneur's suppliers, in the cases of multisupplier models of inclusive distribution. Finally, certain institutions, such as community organizations and government agencies, collaborated with the initiatives in areas that enhanced their access to non-traditional markets. For example, they lent them their infrastructures in remote areas, they legitimized the presence of the company in non-traditional social spaces, they acted as interlocutors of the entrepreneur in those social spaces.

Below, patterns observed in the four categories of collaborating institutions (specific service providers, distributors, product providers in multiprovider models, access enhancers) are detailed.

Specific service providers

The main specific services offered by collaborating organizations are: training, consulting, and financing services for microentrepreneurs.

Sometimes the inclusive initiatives trained their microentrepreneurs, or the promoters trained the entrepreneur or the microentrepreneurs. In other cases, supplier companies offered the training. Such was the case with Procter & Gamble, a supplier to Chakipi in Peru, which trained saleswomen in the use of their personal care products. But the training also came in various cases from organizations specialized in training activities.

Both the initiatives and promoters hired consulting firms. Chakipi, for example, hired Arellano Marketing to carry out a demand study in Peru. The promoter Fundación Paraguaya hired Fairbourne Consulting to carry out a similar study in that country. In the case of Chakipi, the promoting organizations hired a consultant to carry out a pilot project.

Fundación Paraguaya, the promoting organization, offered its own microcredit service; while in the Chakipi case, an entrepreneur delivered his products on consignment to the microentrepreneurs. But initiatives such as Nutrivida and Nestlé, which initially offered donations or microcredits to their microdistributors, replaced these mechanisms with microcredits granted by specialized organizations. In the case of Nutrivida, Fundación Mujer and Grameen Bank provided support for microcredits. Nestlé in Santo Domingo relied on Adopem, S.A., a savings and loan bank. In the cases of Nutrivida and Nestlé, specialized services were more effective in recovering the funds provided.

Existing distributors

The inclusive distribution initiatives often rely on existing distributors to deliver products to microentrepreneurs.

The case of Nestlé in the Dominican Republic illustrates the benefits of collaborating with existing distributors. For Nestlé, having a network of distributors, with a presence throughout the national territory, greatly facilitated the viability of the initiative and contributed to manage the complexity of such a capillary sales force. In the words of Nestlé's Corporate Affairs Manager: "If you don't have a network like this set up, this model cannot be replicated. We have fifteen distributors in the country; if I have to make that investment from scratch, the model is not profitable."[11]

Product providers in multivendor models

Chakipi worked with a multivendor model. It had several storage and distribution centers in Peru that it supplied with products purchased from manufactures such as Nestlé, Santa Natura, and Procter & Gamble, among others. Chakipi conducted its relationship with these suppliers from an office in Lima. These companies varied over time and, although they were important, they were considered interchangeable in its business model. From the storage and distribution centers, Chakipi delivered the products on consignment to microentrepreneurs, who then sold them in the remote areas where they lived.

Access enhancers

Entrepreneurs also rely on government agencies and grassroots community organizations to enhance their access to remote or hard-to-penetrate areas.

For example, Inadem, an agency attached to the Ministry of Housing, Construction and Sanitation (MVCS) of Peru, provided Chakipi with support by lending its facilities in rural areas to the company. Specifically, Chakipi used the Tambos service modules of the Peruvian State in the high-Andean communities, to convene and bring together the microentrepreneurs.

Grassroots social organizations also play an important role in penetration activities. Nutrivida, a social enterprise in Costa Rica relied on four grassroots social organizations to recruit the 111 women to participate as microentrepreneurs in the Red Manu. For its part, Colcerámica in Colombia relied on spaces provided by community organizations in popular neighborhoods to initiate its contacts with women who would later form its sales force. In the first stage of its project, it also used these spaces to store the products to be distributed in those neighborhoods.

Benefits of inter-institutional cooperation and alliances

Inter-institutional cooperation and alliances facilitate the work of entrepreneurs in various ways. Here are some of the most prominent.

Leverage on existing infrastructure

When an entrepreneur enters a market, it is beneficial to be able to leverage on the physical and organizational infrastructures of more experienced organizations. An example of such leverage is that of an entrepreneur with local distributors who already have the physical and organizational infrastructure to move products.

Alliances between an entrepreneur and existing local distributors were frequently observed in the analyzed experiences. This type of alliance gives the entrepreneur the ability to penetrate remote areas with a lower investment than the one required to create its own distribution network.

Hybrytec, a company that sells and installs solar panels, could not find a way to develop small projects in the interior of Colombia. Much of the area was hit by *guerrillas*, the communication routes were poor, and the access costs for the company's engineers made these projects economically unviable. To solve this problem, the company chose to find local entrepreneurs to distribute and install its products. A team from the company began traveling across the country to identify potential local vendors among hardware and small store owners, and finally selected 200 entrepreneurs in different areas of the country. They received annual training from Hybrytec engineers in design and installation techniques for small solar solutions, as well as interest-free lines of credit and technical support from the company.

The Hybrytec case illustrates the advantage of this type of alliance. Thanks to the network of local entrepreneurs, the company managed to open a market in remote areas of the country. When the projects were small, the entrepreneurs, according to their capacity, directly installed the products provided by Hybrytec and received a profit in return. In addition, these entrepreneurs were Hybrytec's business link for larger projects, where the company directly installed the solutions and paid a sales commission to the entrepreneurs. In the words of an entrepreneur from Huila: "They give me clients and I give them".

Suppliers are not the only ones whose infrastructures can be used. Chakipi, for example, partnered with the government to use its remote areas, the Tambos, to bring together women entrepreneurs.

Leverage in specialized capabilities

Entrepreneurs also achieve faster progress in the implementation and scaling of their initiatives when they leverage other organizations for the execution of certain specialized tasks.

The case of the alliance between Nestlé and Banco Adopem highlights this type of benefit. During the pilot, Nestlé financed the vendors' working capital, but with growth this process generated a bottleneck. Also several participants perceived it as a social responsibility contribution by a multinational corporation to a vulnerable group, and therefore as a non-returnable donation. Nobody believed that Nestlé would take anyone who did not repay that loan to court, so defaults skyrocketed. In 2012, with the implementation of Banco Adopem microfinance scheme, this situation changed completely. As Miguel Pérez explained, "we realized that we needed to delegate some activities to specialized entities. Nestlé specializes in development, production and marketing, but we were unaware of microcredit management and savings culture, and we did not have a structure for training—in basic financial, business and sales knowledge—of women entrepreneurs."

Banco Adopem not only covered the need to finance, but also took charge of providing training on the initiatives. In addition to financing inventories, Nestlé needed to train its clients on product placement and display, handling and storage. Nestlé's proposal was aligned with the objectives of its new partner because it had identified that many of its clients were stuck in business models with low capacity to generate income, and had been exploring the possibility of partnering in a microfranchise model supported by a prestigious brand.

Adopem designed credit products with interest rates two points lower than its other products to support the work of microdistributors and their sellers. The loans had equal monthly installments, payable in the short term, and the dealer acted as a withholding agent to ensure repayment. Some of the participating vendors took products in addition to the loan to finance inventory or for necessities such as housing.

In Colombia, Colcerámica found an ally for credit and collection in a gas company. Colcerámica's customers who did not have a gas service suspension with Gas Natural S.A during the previous year, could access a credit to purchase coatings in just twenty-four hours and with minimum requirements. The gas company granted financing to purchase Colcerámica's products and then collected it through the gas service bill.

Financial viability of rural distribution

Governments have always played an important role in rural telecommunication and electrification projects, precisely because serving these areas is not profitable for private companies. And the analyzed cases show that this is no different in the case of inclusive distribution.

The profitability of bringing services to rural areas is affected by the cost side and people's ability to pay. The costs of bringing services and infrastructure to people are higher in rural areas than in urban areas. The length of power lines to reach a person are greater. The amount of asphalt required to reach a home is bigger. And moving construction materials and equipment in remote areas is more expensive and difficult than in most urban areas. On the other hand, in rural areas there is more poverty, which means that residents have less purchasing power than people in urban areas.

To bring electrification to rural areas, Hybrytec (Colombia) relied on public financing. It was thanks to the collaboration of the Colombian government and multilateral funds, who financed with non-reimbursable funds the installations that Hybrytec made in towns and rural schools, that this electrification initiative was possible.

Learning and knowledge accumulation

Collaboration also allows organizations to share accumulated knowledge. This not only avoids reinventing the wheel every time a new project arises, but also saves learning costs, and allows to build up on innovations to advance inclusive distribution.

In the case of SABMiller in Ecuador, the collaboration with Fundes and the development of the Siembra Futuro (Sow Future) initiative, unveiled critical skills for retail microbusiness management. To help develop such skills, the company worked to a good practices manual for the grocer, that was concise, illustrated with images and examples of how to keep track of income, expenses, inventory rotation, and managing the store's merchandising. In other words, Cervecería Nacional codified the critical know-how for the excellent management of a retail microbusiness. This had a high potential for creating social value by sharing this knowledge with shopkeepers in other markets. For example, AB InBev, a company that merged with SABMiller, used the knowledge acquired in Latin America to implement a similar shopkeeper training program in Africa.

Conflicts and difficulties in building alliances

Entrepreneurs must take into account the most common problems for collaboration and alliance building, which tend to stem from four main factors: different perspectives and logics, misunderstandings, financial tensions, and conflicts of interest.

Different perspectives or logic

Sometimes organizations operate with different logics. There are situations in which the belief system that governs an organization differs from the belief system of another organization, which means that perceptions and evaluations do not coincide when the two undertake a joint project. Such situations are fertile ground for conflict.

Coordinating actions between Datsun Surinam (responsible for technical training, implementation and administration of the network of authorized workshops, among other functions) and SFOB (the government body responsible for fiduciary management, reporting and monitoring of the project) was difficult throughout the project. Different perspectives on the program and the roles that each organization had to play led to communication and coordination failures among the actors that resulted in delays. The IDB, sponsor of the project, had to intervene as a mediator. These impasses reduced the willingness of the parties to share information, which negatively impacted the schedules and procedures for the procurement and payment processes.

Conflicts of interest

Business relationships do not always result in a win-win relationship. Sometimes, once the parties have engaged in a collaboration, unforeseen conflicts of interest emerge. In some cases, these differences give rise to ruptures of alliances. In others, tensions can be resolved through adjustments.

In the case of Chakipi in Peru, the microentrepreneurs, aware of the benefits of increasing sales, complemented their door-to-door strategy approaching rural markets and stores. This strategy increased the entrepreneurs' profits in the first three months, but generated unease with the supplier companies, that also sold directly to the same clients, but at higher prices than those granted to Chakipi. This conflict between channels produced the breakdown of some of Chakipi's alliances with suppliers.

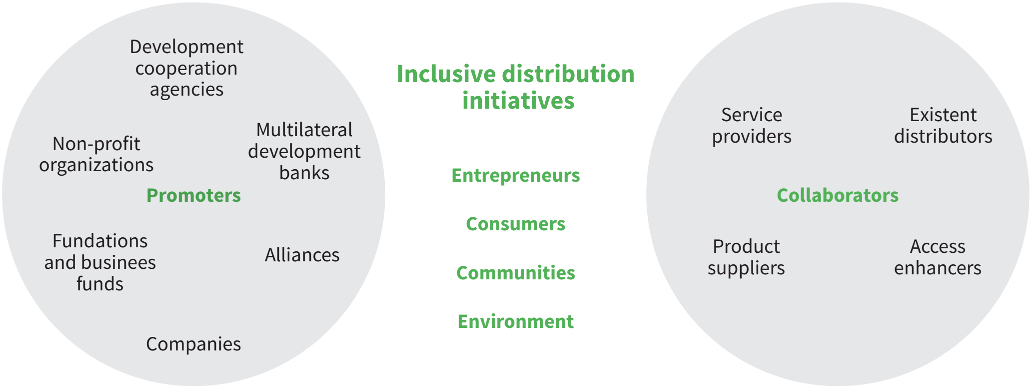
In the case of Danone Brazil, financial tensions arose between Danone, its distributors, and the *kiteiras* (microentrepreneurs). Danone's traditional distributor in Salvador was expected to financially support the channel implementation, pushing it into bankruptcy in 2013. Likewise, in 2014, another distributor, Qualikits, did not break-even, generating tensions until financing was received from the IDB-MIF.

Distributors who had *kiteiras* as customers needed to consolidate their income through higher volumes. Tension grew between distributors and *kiteiras* as a minimum order value was imposed. While in Sao Paulo the average order was $21.85 in the first three months, in Salvador it was $76.50. This imposition was not reasonable from the point of view of *kiteiras*, since most of them did not have the means to cover the costs.

The alliance map

We have seen that the financing, design, implementation, and operation of inclusive distribution initiatives depend on a great diversity of cooperations and alliances with multiple institutions that play different roles. From the analyzed experiences, it is possible to draw a map of partner institutions (figure 4.1) whose work impacts the development of initiatives, the potential for success of the entrepreneurs who participate, as well as the interaction with potential consumers, their communities and the environment in which they unfold.

FIGURE 4.1 ALLIED INSTITUTIONS' MAP



Promoting institutions, international or national, grant non-reimbursable capital to ventures in which the social benefits may be very high, but the private return tends to be uncertain. These investments are considered very risky due to the large number of unknowns that arise, and a lower expected return as compared to other opportunities that private investors may have. They also foster the formation of microfranchises and even create new institutions designed to carry out operational activities in situations where such organizations do not exist.

Collaborating institutions, usually closer to the initiatives, play a fundamental role in increasing the efficiency and scale of inclusive distribution models by bringing pre-existing knowledge, capacities, synergies, and infrastructures to the initiatives.

We invite you to answer these questions before continuing:

1 As an entrepreneur or manager interested in inclusive business, what allies would you consider for your initiative?

2 What benefits and support would you expect from each type of partner?

3 How would internal resources and competencies be complemented by partnerships?

4 What role would allies play in supporting the inclusive distribution system for participants? How would they impact the vulnerable consumers and communities you want to interact with?

NOTES

1 Barrios, & Ferreira (2018).
2 Lozano Fernández, & Layrisse (2018).
3 Rodríguez (2018).
4 Prado, & Ávalos (2018).
5 Abenoza, & Zelaya Blandón (2018).
6 Roa Zambrano (2018).
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CHAPTER 5

THE PARADOX OF SUCCESS: HOW TO SELECT MICRODISTRIBUTORS

Rosa Amelia González

THE PARADOX OF SUCCESS: HOW TO SELECT MICRODISTRIBUTORS

Rosa Amelia González

What differentiates an inclusive distribution initiative from any other is the effort to incorporate people from the base of the socio-economic pyramid as distribution agents. Structuring the channel and selecting its participants poses an important dilemma between the inclusion of the most vulnerable and the operational capacity necessary to achieve the objectives. Some fundamental questions arise, such as: What are the factors to consider when designing the channel model? Is it necessary to discard the poorest segment to make the project feasible? Is social exclusion concentrated only in the poorest segments?

This chapter describes microfranchise models, as a basis for building inclusive distribution networks, which include different segments of the population, with a broader vision of the concept of exclusion. In fact, in Ibero-America, social exclusion does not occur only among the poorest. There are excluded among professionals due to the underdevelopment of markets and among those forcefully displaced due to criminal gangs. Some are excluded by ethnic or class prejudices, or by their cognitive or mental condition. Therefore, there is room to contribute to social inclusion in various social spaces.

CASE ESTILOS MASISA

They are people who live day by day, have a family to support and cannot be left without income for long periods. One does not acquire clients in three or four months; it was natural that many left Estilos.

Olivia Hirata, Supervisor of Estilos Masisa

In 2014, Rafael Ayala, Director of New Businesses at Masisa Mexico, was about to launch the Estilos pilot, a microfranchise initiative targeted at low-income carpenters to manufacture and sell low-design furniture made of Masisa raw material. Estilos was the result of the sum of interests of various actors: the Inter-American Development Bank (IDB-MIF) and Fundes, which were promoting work with diverse organizations to set microfranchises for economic and social development; the Mexican Ministry of Economy, interested in promoting professional growth and offering job and entrepreneurship opportunities to the population base; and Masisa, a private company that was aiming to get closer to the end users of its products.[1]

Masisa was dedicated to the production and commercialization of wooden panels for furniture and interior architecture. It was the second largest company in Latin America in terms of production capacity, owning nearly 200 thousand hectares of forest plantations, and 11 industrial plants located in 5 countries—including Mexico—and operating a network of 332 Placacentro stores, of which a small group was owned by the company, while the others were managed by distributors under a franchising model. The Placacentros were specialized stores that concentrated in one place everything a carpenter needed, such as boards and accessories for furniture manufacturing, cutting and sizing services, edge veneer, and hinge installation. Regarding the business model, Ayala commented: "The work done in the Placacentros is a process that adds a lot of value. However, we felt we were losing an opportunity to obtain greater competitive advantages due to our lack of contact with the final consumer." Ayala also pointed out:

> With microfranchises we could evolve our business of selling boards to one of greater added value, through the development of an inclusive distribution network that would meet several objectives: 1) establish direct contact with the end users, which would allow us to obtain valuable information to adjust our products to their needs; 2) through a training program for carpenters we would have more control over the service of preparation, delivery and installation of furniture and; 3) provide them with a series of tools and services that would make it easier for them to do their work better, faster and cheaper. In this way we expected to reverse the perception of informality and non-compliance that was often associated to carpenters.

At first, the initiative was seen as a sales channel development, and only subsequently, the New Business Direction was created. Estilos was placed under this new structure to grant it had its own space and to prevent the daily operation from hindering the project potential, which aroused concern among some managers.

The next challenge was to define the profile of the carpenters who would participate in the project. Being a project of inclusive origin, they decided to select people who met the following requirements: a) who were living in areas close to the company; b) who had the trade of carpenter or cabinetmaker and already sold furniture, or who were unemployed, underemployed or informal workers with interest and knowledge in furniture design; c) who had a monthly income of less than $825—lower than the average monthly income of the population ($941), but higher than the average income of the poorest 50 percent of the country ($338); and d) that they were willing to change the way they designed, manufactured and installed furniture.

The plans of Masisa, the MIF-IDB and the other allies contemplated starting the project with 50 participants. To recruit and supervise them, Masisa hired an industrial designer, Olivia Hirata, who commented: "It was a challenge to complete the group of 50 people who met the characteristics that were sought." The group consisted of 13 women and 37 men, with an average age of 32 years; had an income of less than $825 per month; 33 had some experience in handling furniture; and 34 a completed career—among which stood out architecture, graphic design and industrial design, while the rest were studying a career, had left it unfinished, had a technical degree or at least had finished high school; 10 were unemployed and 21 were self-employed.

The microfranchisees had access to technical service for the design, assembly, and installation of residential, office and commercial furniture made with Masisa wood panels and chipboards, as well as an average discount of 5 to 7 percent on the purchase of material. In addition, they received training on various topics such as approaching clients, preparing project offers, furniture design, and using design software and administrative programs. Finally, the IDB and Fundes contributed the cost of the microfranchise, then valued at $1,400.

The Estilos operation was located within a Placacentro owned by Masisa. Soon after, the Placacentros services had to be expanded to include the measurement of the place where the furniture was going to be placed and its assembly and installation, tasks that initially fell upon the carpenter who bought the materials. The Estilos microfranchise included all the services that were required to put a functional piece of furniture in the client's home.

Estilos Masisa required a pre-operative investment of approximately $140,000, 65 percent of which was contributed by the IDB. The remaining 35 percent, provided by the company and other partners, included the development of the business model and the market study; the design and registration of the trademark; the diffusion of the program and the call to participants; as well as the development of the operation manual. According to Rafael Ayala: "It was and continues to be a living project that was defined as we understood it. This generated a lot of dynamism and many ongoing changes during the project implementation."

Project leaders commented that the start of Estilos brought 50 new “salespeople” into the store; but the sudden growth in demand caused lack of control and discontent. The Placacentro where it started did not have in inventory everything that was needed, delivery times began to fail and the quality of what was provided to the carpenters was not the best. One of the microfranchisees commented: “At the beginning the main mistake was the lack of quality of what they gave us; if the material comes with original flaws, it is impossible for us to deliver quality to customers.” Olivia Hirata, Estilos Masisa supervisor, added: “I sold the project very well and the promise was not fully fulfilled.” As a result of this situation, microfranchisees began to go to other Placacentros, although that was not planned.

With the passage of time, Rafael Ayala and his team understood that to offer a quality service in a timely manner to the carpenters they had to separate Estilos from the Placacentros. This is how in mid-2016 the first Management Center was created, which integrated a furniture design and engineering unit and an administrative and operational team to absorb all functions not related to customer search, sales, and monitoring. The Management Center offered a comprehensive service for microfranchisees to feel confident in making quality commitments and delivery times to the end customer, without the fear of failure.

Regarding the profile of microfranchisees, Olivia Hirata pointed out that the initial Estilos model “required entrepreneurs to become a jack of all trades; they had to look for customers, design, measure, quote, assemble, install, take care of transport, among other activities.” Among the 50 entrepreneurs there was a huge diversity in profiles. Some were very good at design, but had no idea as how to assemble and install the furniture; others were very good at selling projects, but when it came to getting numbers they failed. Hirata added: “It implied that for each one of them we had to develop different skills … It would have been better to start with fewer people, since we ended up with a very large and heterogeneous group, which greatly complicated the operation of the project.”

After a while, faced with different kind of difficulties, participants began to drop out, and their choice was facilitated by the absence of exit costs, since they had not initially paid for the microfranchise. In this regard, Hirata commented: “It was very difficult to retain a carpenter who belonged to the original low-income profile because they are people who live day by day, have a family to support and cannot be left without income for long periods of time. One does not acquire clients in three or four months; it was natural that many left Estilos.”

The demands related to skill development, along with the defection process, led the Estilos team to redefine the ideal profile for new microfranchises. In Hirata’s words:

> We want to stay and recruit new ones who do see the possibility of a business working with the system we propose. In the Management Center we are going to take care of the technical part, microfranchisees are more concerned with the commercial part. It is valuable for us that they have technical knowledge, but it is more important that they have commercial knowledge and entrepreneurial desire.

Hirata concludes:

> Our profile is still directed to the social issue but not as we had defined it in the beginning. We now see it as an opportunity for microfranchisees to avoid underemployment and create jobs, for installers and other workers. There we do see much more presence of low-income people. We are helping generate new companies and with them an economic expansion that will benefit the population.

By the end of 2016, of the original 50 microfranchisees, 21 remained active. It is worth noting that most of them had previous experience in furniture management and sales, in addition to having studied industrial design or architecture. The average monthly income of active microfranchisees was $1,347. The most successful case reported monthly income above $7,150 and 11 microfranchisees had exceeded the minimum of $825. Together, the 21 microfranchisees had generated $567,000 in accumulated sales.

All microfranchisees entered the formal economy by being registered as individuals with business activity in the Tax Administration System (SAT) of Mexico, which opened the possibility of obtaining bank loans and other benefits. One of the active microfranchisees stated: “My quality of life has changed. I have achieved more stability and emotional calm.” Others commented that the project had changed their self-image, as they now considered themselves an example of determination, struggle, and achievement, as well as a source of pride for their family.

Although the impact on the end customer was unknown, Estilos facilitated access to custom-made furniture, manufactured with high quality standards, better delivery times and reasonable prices.*

Regarding the results for the company, Rafael Ayala commented:

> The company is aware that this is going to take time; we are developing a completely new and very complex market from which we have learned a lot. However, the real commitment of the organization is that the project is strengthened by the social impact that it generates, added to the creation of a new sales channel that has a lot of potential to become equal or stronger than traditional business units.

* For an overview of Estilos Masisa’s evolution, we recommend the following video: Masisa Inspira (July 9, 2015): Estilos Masisa México. YouTube. https://www.youtube.com/watch?v=ZUVfVRFFdYc#action=share

Reflections questions:

1 What are the main factors to consider when designing a distribution model? Why?

2 In light of Masisa's experience: How can economic sustainability and social impact be combined more effectively?

3 What lessons from this experience do you find relevant when thinking about your own inclusive distribution projects?

The challenge of including vulnerable people

In 2014, Mexico had the lowest household income (less than a third of the average) of the Organization for Economic Cooperation and Development (OECD) member countries. It was also the second country with the most unequal income distribution: the richest 10 percent of the population had 29 times the income of the poorest 10 percent, while the OECD average was 9.5 times. One in five Mexicans was poor, compared to the average of one in ten across the OECD. Although unemployment was relatively low (5.2 per cent in 2013), the informal sector accounted for more than 60 per cent of employment, leaving a significant part of the population without social protection.[2] These indicators show the room for potential collaboration to social welfare that a company like Masisa, widely recognized in Latin America for its commitment to sustainable development, could offer.*

Masisa's impact on poverty can be expected to be greater the lower its distribution network participants rank in the population pyramid. However, the trajectory of the Estilos initiative, and others studied by the Observatorio Scala, shows that when structuring an inclusive distribution model, it is often necessary to cover a broader context, in order to operationalize models with potential for success.

Although a person with some capital is not amongst the poorest, experience shows that, in Latin America, people with very small capital usually lack opportunities, even when they have partial or full university studies. In cases such as Propaís in Colombia, Masisa in Mexico and Yamaha in Suriname, all analyzed in this chapter, those who qualified to participate in inclusive distribution networks required technical skills or capital contributions that are not available to the poorest.

* Among the awards obtained in 2015 by Masisa, the following stand out in Chile: "Corporate Transparency: leader in sustainability and leader in corporate governance"; in Brazil: "Most sustainable company"; in Argentina, "Most sustainable company in the country".

The skimming dynamics

The Estilos project is based on the figure of the microfranchise[3] through the systematization and replication of microbusinesses, with the purpose of alleviating poverty. Microfranchises offer additional services to independent microenterprises, as they involve a mentoring relationship between the franchisor and the franchisee. From the low-income population point of view, the interest in participating in an initiative such as Estilos is understandable, due to the expectation of improving income, without any entry cost (thanks to the financing of the acquisition of the microfranchise by the IDB and Fundes) and with the support of a large and recognized company such as Masisa Mexico. From the perspective of the company, the possibility of approaching the end customer and the co-financing of the IDB, Fundes and other allies, also made the project attractive.

Even with the goodwill of all parties, as the project evolved, there was a process of defection of the microfranchisees, with only 21 of the 50 original participants remaining active. The work of Christensen, Lehr and Fairbourne[4] provides some keys to understanding this situation, arguing that

> the best microfranchisors exhaustively test their business models and ensure that the final product or service has a market that is willing to pay. They also carefully select and train their microfranchisees and establish capable management teams. Finally, they offer immediate rewards to microfranchisees for the sale of consumables, rather than durable goods.

As confirmed by the testimonies of the project leaders, the Estilos business model was not fully developed, nor tested, before franchising. Nor was there adequate dissemination of the project to key stakeholders, such as the Placacentro staff where it began, whose collaboration was essential for success. To support their argument, Christensen, Lehr and Fairbourne use the example of Cellular City, a Philippine company that licenses microfranchisees to sell multiple brands of cell phones, prepaid cards, laptops, and accessories, services, and repairs for new and refurbished cell phones. They note that Cellular City developed, tested and corrected its business model by opening a single store and operating it for a year before attempting to franchise.

Most microfranchisors, even those with the most basic business plan, have some sort of selection process; the sophistication of which depends on the complexity of the business. Regarding the selection of participants in the Estilos initiative, a couple of aspects stand out: on the one hand, the incipient development of the business model did not allow the proper identification of the characteristics and competencies that the microfranchisees should have; on the other hand, the complexity of the furniture business leads to the use of a more complex selection model than the one used, for example, in the Nestlé Plan Barrio initiative in Dominican Republic. In Plan Barrio, the microdistributors, all dedicated to selling consumer goods, did not require the technical skills of Masisa's microfranchisees, who had to be able to design and build furniture. The initial lack of clarity on the ideal profile of microfranchisees also negatively affected training efforts, as reflected in Olivia Hirata's testimonial about "jacks of all trades".

Finally, it is important to highlight the aspect of the rewards. The best microfranchises are in the business of selling consumables and not durable goods. The microfranchisee, like any other entrepreneur, makes his decisions weighing benefits and costs. Although they do not necessarily project cash flow or calculate the internal rate of return, they know intuitively that with durable goods they must wait longer than with consumables to make a profit. Consequently, a person will become a durable goods microfranchisee if and only if the time horizon

Most microfranchisors, even those with the most basic business plan, have some sort of selection process; the sophistication of which depends on the complexity of the business

to amortize the costs they must incur matches their expectations—in financial terms, the decision will depend on their discount rate.[5]

When examining the profile of those who remained active in Estilos by 2016, as well as the testimonies of the project leaders, the inverse correlation between patience and poverty is clear. The poorest dealers were often the most impatient and the dropouts, while the least poor were the most persistent. A similar process occurred in the case of Tecnosol, a Nicaraguan-born company with operations in Honduras, El Salvador, and Panama, dedicated to the sale of products and services related to solar energy, particularly in the rural sector. Thanks to funding received from the NTR Foundation, between 2012 and 2013, the company trained 49 microentrepreneurs in Nicaragua, to sale and maintain solar systems in rural areas. As of December 2016, of the 49 microentrepreneurs, the company had contact with 36. José Luis Vilchez, Tecnosol's Special Projects Executive, explained the situation: "They have been isolating themselves for different reasons … Some said 'I thought I was going to sell more', they had high expectations, but later they saw that it was not so easy, although they were certified. And some had spark for the technical part but not so much for the selling part. In the end they said it was not so easy."[6]

Initial investments as an excluding factor

There is a second reason why microfranchise businesses don't always manage to include people at the bottom of the socioeconomic pyramid. Unlike the Estilos experience, where the cost of the microfranchise was financed by the IDB and Fundes, thus facilitating the incorporation of low-income participants, there were cases where the initial investments determined the desertion or self-exclusion of the low-income population.

This is the case of Propaís, which, in 2014, started a project that sought to generate sustainable income for vulnerable and low-income populations through commercial expansion driven by microfranchises. Regarding the profile of the microfranchisees, the project director stated: " … We are looking for a franchisee who wants to give himself completely, whose life project is to dedicate himself to the franchise … That has if not all the resources, at least a part of them to buy the (micro) franchise, that does not need to borrow for the total." If it is taken into account that the minimum capital to participate in the project was half of the microfranchise (valued at $2,300), it is inevitable that the initial investment would become a barrier for the participation of the most vulnerable population, who could only benefit through the jobs created by higher income microfranchisees.[7]

Another illustrative case is that of Yamaha-Datsun Surinam NV. Its project for the creation of a network of Authorized Service Workshops (ASW) in rural areas of the country, contemplated three different levels: 3S, 2S and 1S, according to the capacity of the participants to guarantee certain services. Depending on the level, minimum conditions were required pertaining to infrastructure, parts inventory, equipment, and tools. Once the participants received the training and had agreed to participate in the ASW network, a small investment was usually required for their establishment to meet the required quality standard. This could involve reinforcing structures, installing, or repairing ceilings or walls, stocking up parts, and taking steps to keep motors and parts safe. Funding for these adjustments was not accounted for in the original project. Traditional banks and even microfinance institutions did not have a presence in villages and were not used to working with Maroon (Afro-descendant) and indigenous communities, which led to many initial candidates leaving the program due to their inability to cover these upfront costs.[8]

In 2015, Yamaha Suriname established the Suriname Hinterland Technical Training and Development Foundation (Shttdf), a microfinance institution to address the problem of seed capital. The Shttdf was an independent entity from Datsun Suriname and was financed through a loan from one of the main banks in the country; in turn, it lent money to ASWs at an interest rate of 24 percent. Although originally this funding was effective in reducing churn rates, some ASWs were over-spent by sourcing unnecessary parts, and the Shttdf began to record delinquency rates of around 50 percent. It is important to note that this situation coincided with the economic recession that the country experienced after the fall in the prices of raw materials for export in 2013.

Funders' expectations

From the point of view of companies, one of the mechanisms that makes it possible to move towards inclusive distribution is access to non-reimbursable funds. However, the analyzed cases show that there is a risk that financing institutions may establish as a condition a participant profile that is not easy to meet due to the above mentioned reasons, or a coverage goal that is difficult to meet, given the novelty of this terrain.

All the previously mentioned cases, Estilos Masisa, Tecnosol, Propaís, and Yamaha Surinam, have in common the participation of one or more external allies. These are multilateral organizations (MIF-IDB) or private non-profit foundations that promote economic and sustainable development (Fundes, NTR Foundation).

The IDB-MIF co-financed with Fundes the acquisition of 50 microfranchises and contributed $90,000 (65 percent) to the pre-operative investment of Estilos Masisa. It also invested $1,332,000 (52 percent) on the Propaís microfranchise project and contributed $828,000 (60 percent) to the Yamaha Surinam ASW network project. For its part, the NTR Foundation donated $250,000 to Tecnosol for the microentrepreneurs' training program, of which $180,000 were used for the Nicaraguan initiative.

There is no doubt that the availability of funds and the commitment made with these allies were key to convincing companies to participate and persevere in the implementation of inclusive distribution networks, as reflected in the following comment by Rafael Ayala:

> For Masisa, Fundes and the other allies were the catalyst and those who kept the flame of the project alive. Without their constant sup-

port and drive, this project would not have been achieved. It must be remembered that Masisa had never undertaken a project of this nature and this external engine was important to sell the project within the company and be patient with it until it started to pay off.

One problematic aspect, observed in non-reimbursable financing, is the pressure to set goals that in the end are difficult to manage and meet. In the case of Estilos, the starting goal was 50 microfranchisees, with all the practical difficulties that this posed for the project. The same situation was repeated in Propaís, where a goal of at least 100 established microfranchises was set and 47 had been achieved by 2017. Likewise, although Yamaha Suriname reduced the initial goal from 30 ASW to 25, by October 2017 only 15 were active. As in the case of Masisa, the difficulties in reaching the goal had to do with initial attempts to reach the poorest. The numbers grew only as adjustments were made to widen the inclusion model scope.

Many distributors, higher transaction costs

An additional challenge that is only faced when inclusive distribution networks are successful and become part of the core business, is transaction costs management. Transaction costs are those associated with each exchange, and one of their characteristics is that they are often the same, regardless of the value of the exchange. For example, for a supermarket, the transaction costs associated with selling two products to one person for a small sales value are about the same as selling one hundred products for a much higher value. That means that, for the supermarket, it is a better business to sell to someone who buys one hundred products at a time, than to someone who only buys two at a time.

This is the case of Hybrytec, a Colombian solar energy company. The company envisioned a promising business opportunity due to the existing demand in remote rural regions that do not have access to electricity. However, meeting that demand was a huge challenge due to Colombia's rugged geography and the scarcity of transportation infrastructure. For this reason, in 2009 the company decided to create a network of small local distributors, through training, interest-free lines of credit, better quality products at fair prices, and sufficient inventory. By 2015, the network was made up of more than 200 distributors (independent hardware and shopkeepers, without contracts or exclusivity clauses), who maintained a mutually beneficial relationship with Hybrytec: 40 percent of the company's income came from this network. Local distributors who started out selling systems worth $500 on average, after training sessions and company support were able to sell systems for up to $4,000.

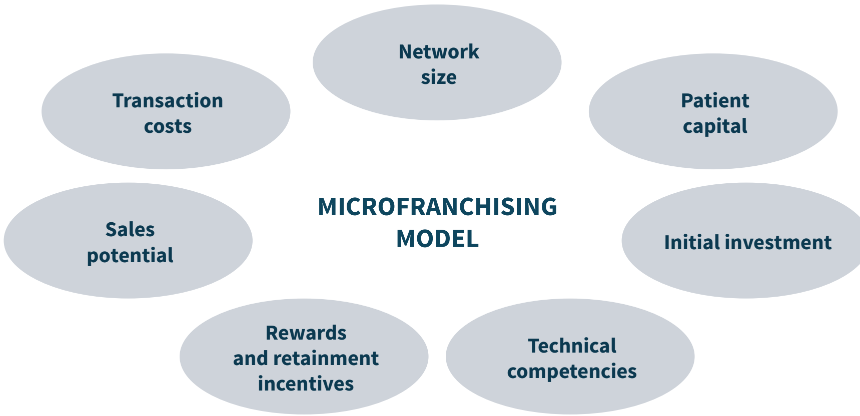
Despite these benefits, managing and monitoring a large number of distributors became a great challenge. On the one hand, there were some reputational risks, since they were the face of Hybrytec in the regions. On the other hand, the costs of maintaining relationships and training processes were growing exponentially, to the point that one of the company executives commented: "I don't know how we could train and manage many more." Given this scenario and in order to grow the business, the company was evaluating the option of focusing its attention on more profitable projects such as the sale of solar solutions to large and established companies in the main cities of the country, since in its opinion that market was still disregarded.

The paradox of success

In summary, designing a microfranchise model requires taking into consideration some key factors (figure 5.1)

Likewise, it is necessary to consider that reaching the poorest segment of the population is not always feasible. As noted in this chapter, in situations where the dealer must provide a technically complex service, such as a carpentry service, or the repair of engines, building a clientele takes time, which requires the dealer to either postpone earning an income, or borrow to finance the operation of the business while building a clientele. The cases showed that vulnerable people are unable to do this because their survival needs are immediate.

FIGURE 5.1 KEY FACTORS IN DESIGNING A MICRO-FRANCHISE MODEL



The cases also showed that, in Latin America, people slightly higher up the pyramid also suffer from lack of opportunity and exclusion. For this reason, even when low-income people deserted or self-excluded, those who remained, even with higher educational levels and slightly higher financial capacities, also benefited from the possibility of leaving underemployment and informality.

Finally, companies must be prepared to handle the "paradox of success". An inclusive distribution initiative is more successful as it scales in number of microdistributors. But dealing with multiple microdistributors is more complex and expensive for a company than dealing with a few midsize distributors, unless the company develops technologies that allow it to lower transaction costs and to train a large number of distributors. Looking into the future, these are some of the main challenges of inclusive distribution.

We invite you to answer these questions before continuing:

1. As an entrepreneur or manager interested in inclusive business, what factors would you take into consideration when designing the structure of your distribution channel?

2. Who are the main actors involved in this design process and how can their expectations and interests be aligned?

3. What are the advantages and disadvantages of a microfranchise model?

4. What characteristics should be evaluated when selecting potential model participants?

5. What performance indicators should you consider to monitor a microfranchising system?

NOTES

1 Lozano Fernández, & Layrisse (2018).
2 OECD (2014).
3 Fairbourne (2006).
4 Christensen, Lehr, & Fairbourne (2010).
5 González (2015).
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8 Roa Zambrano (2018).

CHAPTER 6

EMPOWERING WOMEN THROUGH INCLUSIVE DISTRIBUTION

Josefina Bruni Celli

EMPOWERING WOMEN THROUGH INCLUSIVE DISTRIBUTION

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The hypothesis that women play a critical role in the fight against poverty has led multilateral banks, large companies and foundations to support a diversity of social entrepreneurs and agents of social change, to focus their economic inclusion projects on them. The women inclusive distribution projects seek to empower them and generate a positive impact on their lives, and those of their families.

Many questions arise in this process: How to select women for a greater potential for success? What benefits should be generated for them? What role can families play in this process?

This chapter covers the key factors to understand the models that try to include and empower women and presents lessons learned that can help to persevere and realistically size these initiatives.

CASE Plan Barrio Nestlé

This project changed my life, as well as those of the many women who work with me

Distributor, Plan Barrio Nestlé

In 2006, Miguel Pérez went to live for six months in the Barahona region of the Dominican Republic. His plan was to observe the low-income residents and learn about their consumption habits before designing and launching the Plan Barrio, a new Nestlé project aimed at helping reduce poverty. His team wanted to meet the needs of low-income consumers with quality products and high nutritional value, delivered at an affordable price and in a suitable format; and generate opportunities for vulnerable groups, in the context of the Millennium Development Goals. It also sought to expand the sales volumes of the company, but according to Miguel Vásquez, project manager, "the sale is the result, not the objective."

The Corporate Affairs Manager explained the motivation behind the creation of the Plan Barrio as follows: "By simply making donations we will not have an impact, because that does not generate any type of initiative so that people can improve and become financially emancipated."[1]

From the beginning, the focus was on women. Single or separated mothers, responsible for the economy of their home, would be incorporated as distributors. They were seen as potential sellers because they formed a group similar to the target audience to which the products were aimed, and also because it was much easier for a woman to open the door to another woman, especially in the most dangerous neighborhoods. Plan Barrio was born as a social initiative for low-income women who, in the macho society of the Dominican lower classes, tended to be home income providers.

Plan Barrio began operations in 2007 with a team made up of a manager, a customer relations specialist, and supervisors assigned by territories consisting of 2,500 homes, according to the geographic location of the authorized distributors. The team began by recruiting and training a group of female microdistributors (MD). An MD was a lead salesperson whose role was to organize, empower, motivate, and supply a team of around 20 saleswomen (partners). The vendors received Nestlé product combos from the MDs at a preferential price and sold them door-to-door, alone or in pairs, in an area previously determined by the Plan Barrio team. The MDs delivered the products to the vendors every three to four days and issued an invoice. After making the sales, the saleswomen paid the MDs the money corresponding to the invoices.

Nestlé adapted a product portfolio to a format designed for low-income markets. They were shipped directly from the factory to 11 authorized distributors, located throughout the country, who channeled Nestlé products to wholesalers, grocery stores, and supermarkets. The distributors not only delivered products to the MDs, but also trained and motivated them through an MD manager, who regularly met with them and supported them in placing and securing their orders. According to one distributor, "it's not just placing the order; I have to make sure that this request arrives and, when the MDs are in remote areas, solutions must be found. The manager has the function of monitoring each MD: what is she selling, how much she sells, how many members does she have in her network."

Nestlé recruited new MDs through events called Coffee Afternoons, which were attended by pre-selected women, taking into account the candidate's ability to perform math operations, her ease of expression, and her willingness to assemble a team of at least 10 saleswomen. During Coffee Afternoons, a Nestlé supervisor and a manager from one of the authorized distributors explained in detail the distribution's operating scheme, products and combos, prices, margins and what could be gained with a team of 20 members who worked 20 days a month. The MD's margin was 12 percent for sales made by each partner, and the partner's sales margin was 20 percent for door-to-door sales.

To stock up on an inventory of products and thus be able to start their small distribution businesses, the MDs needed working capital. None had the initial resources, but thanks to an alliance between Nestlé and the Adopem bank, which had a non-profit microfinance project, the MDs could opt for a Nestlé Credit at two points below the market rate. In the words of Nestlé's Corporate Affairs Manager: "If no one commits to these people, they won't be able to do anything either. It is not easy for a person, a single mother, someone without training and without seed capital to start, to get into a business if there is no one to help them. Plan Barrio has that virtue: it allows a person without initial capital to have the possibility of starting a business."

Adopem evaluated the MDs through on-site visits, to approve the credits according to their ability to pay. It also kept Nestlé informed of all loans. Additionally, through its non-profit arm, Adopem trained MDs and salespeople in finance, sales strategies, and inventory management. In addition to bringing the women into the banking system, it offered them financing to buy vehicles and household appliances.

Nestlé interacted with the MDs through a supervisor, an employee who knew the company from the inside and worked cooperatively with authorized distributors and Adopem. Each supervisor served between 25 and 30 MD. They offered cooking workshops, nutrition and health talks, training on Nestlé product knowledge, and they visited them to see if they had a place to store the inventory, if they had the expected number of vendors and to verify if the new candidates were really interested in accessing the initiative. In addition to recruiting, training, and monitoring them, the supervisors advised and supported the MDs. One MD reported: “At first, I felt fearful, insecure. One day Mr. Miguel Pérez visited me and gave me some ideas on how to develop my project. He shared with me how he had thought I could do things. I listened to him and took action.”

At the end of 2015, Plan Barrio had 112 MD and more than 1,000 saleswomen, a figure well below the goal of 4,500 saleswomen that the company had initially established. Saleswomen who had just entered the project or had been in the project for less than six months had an average income of $233 per month; the oldest had incomes in a range between $585 and $1,054. By Nestlé’s calculations, the most successful MDs were “earning ten to twenty times what they were getting from their old businesses.”

The training received by the saleswomen, who did not have opportunities to obtain profitable income or permanent jobs, helped them to move up their jobs, and to manage their own businesses. Some rose from vendors to MDs. Others became employees at Nestlé, the authorized distributors, or Adopem.

Numerous testimonies collected (table 6.1) from MDs, saleswomen and consumers who bought the products at their doorstep, attest to their appreciation of and gratitude to the program for the benefits received.

Reflection questions

1. In your opinion, what are the most relevant characteristics of this program that allow it to serve low-income women?

2. What do women's testimonials tell you about the impact of the program on their lives?

3. What aspects of this experience do you find particularly relevant when thinking about your own inclusive distribution project?

TABLE 6.1 PLAN BARRIO PARTICIPANTS' TESTIMONIES

MDs and saleswomen:

- "I feel very happy because, through the project, my life has changed and the lives of many women who work with me have also changed."
- "Plan Barrio helps us in our self-esteem, it makes us feel important. I speak personally and I think the same thing happens to all the others."
- "As a result of my divorce, my self-esteem was on the ground. I thought I was useless. Yes, I appreciated it and in the meetings and in the workshops I have said and always will say: 'Even if tomorrow I will not belong to Plan Barrio for whatever reason, I will eternally thank Don Pérez because he devised the project that has helped me."
- "When I was alone I didn't have anyone to exchange with. But now that we are in a group, I feel supported because they call me and I call them."
- "I have the peace of mind of knowing that I can take care of my family, that neither I nor my children will be hungry."
- "The loan of ninety thousand was the highest amount I had taken…, it motivated me to continue working intensely. I received loans of five, ten, fifteen thousand, but there I was already forced to take it for that amount because I needed to capitalize for my business ... and cover other commitments. If I didn't have the merchandise, then I couldn't cover those other commitments, but nothing… I said to myself: 'I've had the courage to do other things, why not to do this?' And I am no longer afraid."
- "Before we worked here in the neighborhood, but we barely earned to survive. It was impossible to save anything."

Consumers, who bought from the Plan Barrio vendors:

- "The children in the house, we do not have to leave them alone anymore."
- "It is a very great benefit to receive at home because we do not have to go out to pay for transportation, we do not have to spend time on the street, to be from there to here."

Inclusive distribution networks focused on women

Muhammad Yunus, the creator of Grameen Bank, was perhaps one of the first great social entrepreneurs to discover that focusing on women was key in the fight against poverty. When the nonprofit bank he led began lending money to poor families, Yunus observed that women spent money in a more responsible way than men. Instead of wasting money, they used the resources received on loan to buy chickens or seeds, or to buy merchandise to resale. Yunus also found that debt repayment rates were very high among women, even in situations where there was no collateral. Based on these findings by Yunus, many anti-poverty programs have focused on women.

In Latin America, almost 20 percent of households are single-parent, headed by women, a figure that is growing in low-income segments.[2] On the other hand, the demographic profile of "mothers with births outside marriage ... are young people who have their first child, who are unemployed, have a low educational level and belong to the most vulnerable social strata."[3]

The economic precariousness of households headed by women stems from the fact that they continue to suffer from their traditional disadvantages. For example, in the case of the Dominican Republic, where Plan Barrio operates, female unemployment doubles male unemployment. The main source of income for women before joining Plan Barrio was self-employment; most were engaged in informal retail trade, especially clothing, handicrafts, and domestic services. Working with Nestlé multiplied up to ten times the best possible income available to them.

Honduras, where a microfranchising project led by Grupo Juvenil Dion was implemented, offers another example of how the Latin American market does not produce enough stable economic opportunities for women. Only 42 percent of the economically active female population participates in the formal sector of the economy, compared to 90 percent of the male population; and the official unemployment rate for women is 50 percent higher than the unemployment rate for men. Also, 93 percent of economically active women are underemployed and their wages were below the average. Furthermore, private companies do not hire women in higher paid activities because they are socially assigned to men. In rural sectors, the situation of women is particularly critical. There, their wages are between 32 and 50 percent lower than men's.[4]

Interest and concern for children's nutrition is another reason why several Latin American inclusive distribution projects have focused primarily on women. A significant proportion of children in the Latin American region suffer from anemia or undernourishment, which affects their health and school performance, critical factors in the perpetuation of poverty. Women play a central role in the nutrition of their families: they are aware of the importance of food, especially for the health of their children, and they aspire for them to study and have a better life. Complementing the family income already provided by other family members, with additional income for women-mothers through their participation in inclusive distribution networks, has been considered a way to overcome poverty.

As a consequence, various inclusive distribution initiatives have focused on products that improve nutrition and family health. In the case of Plan Barrio, the objective of the project was to bring women nutritious, high-quality products, regulated by hygiene standards, environmentally sound, and at affordable prices. Nestlé supported the entrepreneurs with training in hygiene habits, home care and nutrition.

The objective of Nutrivida, a social enterprise in Costa Rica dedicated to inclusive distribution, is "to eliminate malnutrition among poor mothers and children through processes of production, distribution and sale of nutritious food at affordable prices." As a complementary objective, Nutrivida "seeks to train women leaders and promote them as sellers of these foods and educators of health and nutrition."[5] For Supply Hope, a social company that finances Mercado Fresco, in Nicaragua, the objective of the inclusive distribution network is "to introduce basic consumer products, with nutritional components, in the low-income market."[6]

IDN characteristics targeting women

Inclusive distribution networks focused on women have the following characteristics:

1. Distribution of goods for the home. Most of the documented experiences focus on the sale of nutritious food, hygiene products and, to a lesser extent, durable products such as home coverings.

2. Point of sale in the home or a nearby location. Two models were found: a) Focused on door-to-door sales in the area where the woman lives; b) Focused on a small store located in the woman's home. Both have as their main characteristic the proximity of the workplace to the home.

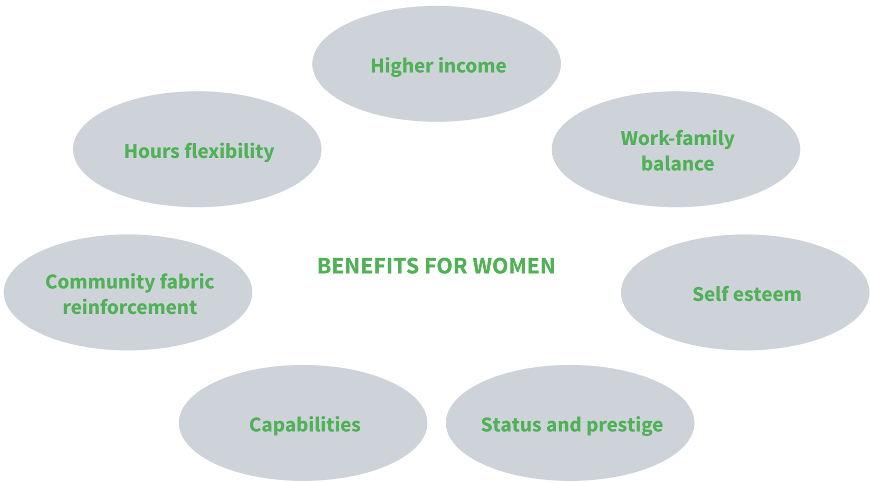
3. Flexibility. In all cases, the woman enjoyed schedule flexibility. In the models where women sold door-to-door, they chose the number of hours they wanted to work. In the small store model, they had a family member who would replace them at times when they were not present in the stores.

Benefits of inclusive distribution for women

Although Latin American women need to improve their incomes, they also need to take care of their children. Inclusive distribution offers women an opportunity to increase their income without moving away from their traditional family responsibilities, while at the same time generating significant non-pecuniary benefits (figure 6.1).

Regarding the economic aspects, a concern in Honduras, for example, has been that the maquiladora companies, which are the ones that pay the best, have been demanding that women work longer hours, which distances them from their children.[7] Furthermore, what led Beth Meadows to founding the Mercado Fresco (Supply Hope) initiative, was the discovery that many children hosted in orphanages in Nicaragua were not orphans. They were there because their parents did not have

FIGURE 6.1 BENEFITS FOR WOMEN



the resources to feed and care for them. Seeing that, Beth decided that the best way to help the children was to create a self-employment project for low-income women that would allow them to be at home, take care of the children, and obtain resources.

It could be said that inclusive distribution benefits women because it allows them to have a flexible working day and take care of their family responsibilities. The Plan Barrio is illustrative. Under it, if a saleswoman decides to work six hours to care for her son, she can do so. She can also, if she wants, dedicate herself to selling the products during an eight-hour shift, six days a week. Whoever sells more products will obtain greater profits. Here, the benefit is that the income for four hours a day for six days could exceed the equivalent of the minimum wage, resulting in the improvement of their economic conditions with a flexible schedule and workload. It is worth noting that the best educated women, or those with professional profiles, were the ones who best knew how to take advantage of the opportunities to access working capital and clients. In general, the main cause of dropping out from the network was not achieving minimum sales volumes that made this activity attractive, or because it involved walking long distances in a given geographic area.

Beyond economic impact, participating in inclusive networks also conveys emotional and integration benefits:

1. Self-esteem. Women, given their socially disadvantaged condition, their isolation, and their vulnerability to the greater physical strength of men, are often insecure, sensitive and have low self-esteem. The training they receive, the community of mutual support they build, and the prestige they acquire through their participation in inclusive distribution networks raise their self-esteem. Some companies, such as Supply Hope, offer women psychological support to boost their self-esteem.

2. Status and prestige. Vendors acquire status within the community due to their presence, visibility, entrepreneurship, nutritional knowledge, and mobilization capacity. Their higher income increases the respect and admiration for them from the social and family fabric.

3. Capabilities. The training received by women who participate in inclusive distribution networks open up the possibility of continuing to do business, even if the initiative is terminated. In particular, the training they receive in the management area can be replicated in any other business. Many of the personal skills acquired also increase their employability in the formal sector. For example, after the cessation of Chakipi, an inclusive distribution experience in Peru, women continued to be motivated to keep selling door-to-door on their own, working with wholesalers or factories in small towns. They could do this because they knew how to plan their sales and had a portfolio of clients.

4 Strengthening the female community fabric. Women highly valued the interaction provided by inclusive distribution networks. In the words of a distributor of the Nestlé Plan Barrio: “Before, I felt isolated… I had no one to share my problems with. Now that I am part of this team, I feel supported. They call me, and I call them when any problem arises.”

For them, leaving the house was an important opportunity to socialize, since they spent many hours of the day isolated in their domestic spaces carrying the burden of their households. It was a moment for conversation, sharing experiences, and learning from each other. Sometimes, though, the need for social interaction can affect the success of an inclusive distribution business model. For example, in the Chakipi project, it was found that clients did not appreciate the service provided by door-to-door saleswomen, because for them traveling to a town center to do their shopping meant an opportunity to meet other women and build community. In that same project, it was also found that for women entrepreneurs who acted as distributors, the distribution centers and meeting places were transformed into true social clubs where they shared their stories, experiences, and aspirations.

Women overcoming barriers

In a context where the macho culture may predominate, husbands do not tend to support women; they even come into conflict with them when they see them empowered with their projects. In the case of Mercado Fresco, the company tried to ensure, through psychological interviews prior to the concession, that the woman received the support of the family. However, husbands continued to be one of the main barriers: 30 percent of women withdrew due to a problem of machismo. In some cases, the man did not approve of the woman working, in others he stole products from her. In the worst cases, the experience caused couple conflicts.

In the ideal situation, families would support women in their work. But in several cases, extended families living in the same house were found to steal products without paying or telling. Some women lost their working capital, with great negative impact for those whose had received a loan to purchase the merchandise. The incorporation of spouses and other family members, in defined support roles, could help to visualize the initiatives as a family project, reducing the risks of conflict.

Credit management is presented as another critical factor to overcome. Women sometimes gave clients loans which they failed to pay back. In these situations, the women ran the risk of being unable to pay their own debt with the financial institution or with the company that had given them the initial batch of merchandise on consignment.

Family conflicts, non-payment of debts, and the destruction of working capital undoubtedly impacted the potential for the retention of women in inclusive distribution networks. In the case of Mercado Fresco, the turnover and dismissal rate of women has been high despite the high level of support that women received in the project. Between 2014 and 2016, 230 franchises were installed, but only 84 were still operative in 2017. Women who dropped out tended to be the most vulnerable, while the most educated tended to perform better.

Learnings about the inclusion of women

Enterprises that aim to include women in their value chain must be conceived considering family life: entrepreneurs are women with multiple responsibilities who cannot dedicate too many hours a day to this activity. In rural areas women may allocate between two and three hours. In urban areas, up to six hours.

For women to successfully join as distributors, these projects require a relevant investment in training, support and monitoring. Combating desertion involves generating the income levels required to live off the initiatives, encouraging family support and developing management skills, especially in the most vulnerable segments.

Designers of inclusive distribution projects must set realistic goals. Goals based on strong assumptions such as low turnover, ability to maintain a line of credit, and six to eight hours of work a day, lead to non-compliance, disappointment by those who implement and finance projects, and rapid abandonment.

Implementers should be patient and assume that breaking even with low-income women may take longer than anticipated. It must be accepted that the potential for scaling-up may be slower and that this process may require revisions and redesigns at different points in the initiatives.

It should also always be remembered that these projects are undertaken not only for their pecuniary benefits, but also for the indirect benefits they bring, as well as for the contribution to sustainable development they imply. Comparing them with parameters of profitability and return on investment with other projects in the commercial departments can generate tensions that put inclusive models at risk.

We invite you to answer these questions before continuing:

1 What are the main reasons for including women in inclusive distribution models?

2 What aspects must be taken into consideration to attract and retain women as active members in these distribution structures?

3 What are the main benefits for women and how do they contribute to the social impact of these initiatives?

4 What are the barriers that need to be overcome and how should they be faced?

5 Thinking about your own initiative, what role could women play? What learnings could you replicate from the analyzed experiences?

NOTES

1 Reficco, & Gutiérrez (2018)
2 Cienfuegos (2014).
3 Castro, Cortina, Martín, & Prado (2011).
4 Instituto Nacional de Estadísticas (Honduras) (2016).
5 Prado and Ickis (2018).
6 Abenoza, & Zelaya Blandón (2018).
7 Kennedy (1998), Agelas (2019).

CHAPTER 7

THE CENTRAL ROLE OF TRAINING IN INCLUSIVE DISTRIBUTION

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THE CENTRAL ROLE OF TRAINING IN INCLUSIVE DISTRIBUTION

Henry Gómez Samper and María Carina Monroy

When undertaking an inclusive distribution project, many questions regarding the training processes arise. What should be the purpose of the training? What competences should the instructors have? What content should the training have? How long should it be? What modality and methodology should it be based on?

This chapter examines how organizations that sought to develop inclusive distribution initiatives managed the training of microentrepreneurs, microfranchisees, and the sales force they required to implement their project. We start by presenting a brief case of SABMiller's experience with shopkeepers in Ecuador, which shows a complex process in which they had to change the training service provider three times in just four year.

Then we explore the different decisions that each organization must make regarding training in order to specify the objectives, calibrate the capacity of those who have to deliver it, determine the content and duration, as well as the modality and methodology to be used. We conclude with a set of lessons that emerge from the analysis of different organizations' experience with training.

CASE SABMiller Tenderos in Ecuador

Cervecería Nacional has been caring for us who have stores to train us for free in customer service. It is beneficial for my well-being, my family and the community. It is the first time that I have received this support, it is an example for other companies.

Shopkeeper in Ecuador[1]

Cervecería Nacional (CN), founded in 1887, was acquired by the multinational SABMiller in 2005. By 2017, 70 percent of sales were made through shopkeepers, mainly informal businesses located in popular neighborhoods throughout Ecuador, 90 percent of which lacked the required permit to sell alcoholic beverages issued by the Ministry of the Interior. When, starting in 2010, regulation became much stricter, failure to comply entailed the payment of fines and the closure of the premises that repeated the infractions, which affected shopkeeper's working capital and resulted in fewer orders for CN.

Otherwise, the stores were also affected by the shopkeepers limited managerial skills, although they were often perceived as leaders in their communities. In this context, SABMiller started the "Tenderos" (shopkeepers) Development Program in 2013, with the purpose of developing the critical management skills of a microbusiness, advising the shopkeeper on obtaining the annual operating permit and complying with regulations related to the sale of alcoholic beverages.

Training was crucial to the success of the project. For this reason, Fundes, a recognized entity in the development of micro and small companies in Latin America, was hired to be in charge of the training, which included four components:

1. Responsible shopkeeper: make the shopkeeper aware of the importance of moderate alcohol consumption and compliance with the norms on the sale of alcoholic beverages to minors.

2. Sustainable shopkeeper: develop a life project, which will set the goals of the shop, manage income and expenses, and assign a salary to the shopkeeper.

3. Excellent shopkeeper: expand the store's products and improve customer service.

4. Leader shopkeeper: support the grocer in generating change in his community.

The trainings were carried out in the specific areas of influence of Fundes and the shopkeeper received a kit (calculator, apron, brochure and logbook). Periodically, the shopkeepers received feedback on achievements.

CN was very satisfied with the results of the training, but considered it too expensive. Hence, in 2015, it dispensed with Fundes services and hired Secap (Ecuadorian Professional Training Service), a public entity attached to the Ministry of Labor. This way, it was able to expand the geographical scope of the program, although some components were eliminated, reaching 1,933 beneficiaries.

New challenges arose. The absenteeism of the shopkeepers increased, since attending the training sessions meant not attending to their businesses. In 2016, CN opted to hire a new company with an in-store training format, in which each "tendero" received four sessions of approximately 45 minutes each. The "leader shopkeeper" component was excluded and the program focused on a specific region of the country, with 2,820 beneficiaries.

In 2017, the program was implemented on a large scale in 20 cities, with 4,248 beneficiaries. It offered in-store training, with an emphasis on formalizing shopkeepers and administrative skills, store inventory, customer service, and income and expense control.

In short, both CN and the shopkeepers benefited from the program: the management of the stores improved, many were formalized, and beer sales increased; furthermore, CN created a manual of good practices for the grocer, thus codifying the knowledge for the management of a retail microbusiness. However, it was exhausting and costly for the management to carry out, in just four years, three changes of the organization in charge of the training.

Reflection questions:

1 Considering the experience of Cervecería Nacional, what aspects would you take into consideration when developing a training program?

2 Under what circumstances should third party training be contracted?

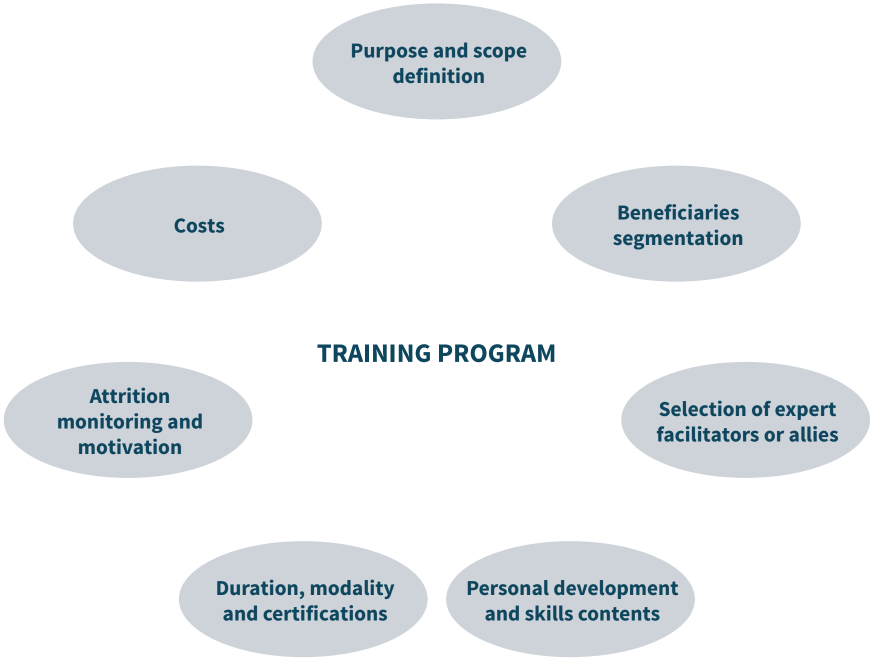
3 How would you motivate participants to join the training sessions?

Training model design

A fundamental factor for inclusive initiatives success lies in the development of knowledge, skills, and personal characteristics of the participants in the distribution structures. Differences in levels of education, in technical capacities, and even in attitudes and values can become insurmountable gaps if they are not addressed in a structured way.

Although the design of each training program may be different, in all cases it is necessary to consider some fundamental components (figure 7.1). Understanding each of the steps to follow and adapting the training process to each case and target audience, are essential for the successful integration of LIS people into inclusive distribution initiatives.

FIGURE 7.1 **COMPONENTS OF A TRAINING PROGRAM**



The purpose of training

Knowing the training needs is the essential starting point for designing a model with potential for success. By keeping this in mind and weighing up the training with its cost, it is possible to decide whether to hire a third party to support this endeavor. In the selection of the ally it is important to share the same vision of scope and results to achieve.

In some cases, it becomes clear that the company promoting the initiative had not sufficiently pinpointed the purpose. In CN Plan Tenderos, the management was successful in turning to the organization known as the most competent in Latin America to support it in formulating its content, but it was carried away by the ambitious scope of the training plan that Fundes proposed.

Similarly, Estilos Masisa, in Mexico, had faced difficulties in clearly defining the training needs to convert carpenters into microfranchisees and decided to follow the recommendation of the MIF-IDB representatives to raise the initial number of carpenters to be trained to 50, unleashing desertion. Even after modifying the carpenter profile to recruit, the microfranchisees stated that they found it difficult to deal with administrative and customer service issues, which they previously did not handle (**see chapter 4**).

For its part, Tecnosol did not have the experience of building a solar energy distribution network in rural Nicaragua, and the extensive training plan that it undertook ended up being unsustainable.

Other cases achieved a greater impact, thanks to a segmentation process that made it possible to differentiate the training offer according to the type of beneficiary. Hybrytec, a Colombian company in the renewable energy sector, focused on the rural areas and chose microentrepreneurs who operated small hardware stores and other businesses, offering them differentiated training according to their skills in three categories: megawatts, kilowatts and watts—the first being the most qualified. This resulted in the construction of solid relationships, which were managed according to both parties' needs, interests, and capabilities. Incentives were generated in entrepreneurs to promote and improve their relationship with customers. It also led to further business formalization and a higher level of sales. In the words of the president of Hybrytec, Colombia: “Local distributors started by selling systems that were worth, on average, $500. After the training sessions, they sold systems for $4,000. Now they have better criteria and are capable of designing more complex systems that represent a more comprehensive solution for customers.”

The fact that organizations such as Colcerámica in Colombia, Danone in Brazil, Mercado Fresco in Nicaragua, and Nutrivida in Costa Rica had to build their inclusive distribution project with people with very little education, led them to focus a large part of the sellers’ training on how to motivate them towards their personal development, communication skills and leadership. With all the resources available to Danone management, in training the door-to-door saleswomen known as *kiteiras*, they turned to no less than two institutions at a time for support. Nestlé, another multinational with extensive resources at its disposal, began training its saleswomen with its own staff and that of its authorized distributors, but soon had to contract financial matters with its ally, Banco Adopem.

The training had a positive impact. The Nutrivida salespeople improved their self-esteem, their ability to handle stress, their communication skills, and their family balance, and gained personal satisfaction by becoming agents of change in their community. For Nestlé’s microdistributors, it meant greater empowerment, as the lessons learned enabled better working conditions. For those trained in Mercado Fresco, psychological support turned out to be much more important than expected to address personal development problems (some related to marital issues), although the women showed resistance to this assistance, claiming that they did not need it. For large companies like Danone and Nestlé it meant entering new market niches, which, otherwise, would have been difficult to reach. For Colcerámica, it also meant delaying the entry of new competitors, since training helped build trust and create common objectives, values, and principles with community organizations, in addition to improving its customers’ homes.

Ability to provide the required knowledge

It is often thought that the main barrier to overcome is the little training and the learning limitations of those to be trained. However, it is equally important to assess the capacities of the organization and its allies to impart the necessary knowledge in an attractive and motivating way for the beneficiaries. Whether done internally or through partner institutions, the success of the training process depends on the real value that it delivers to the participants.

In the MAS (Sustainable Agribusiness Model) projects carried out in different regions of Colombia,[2] participants invariably expressed doubts about whether it was worth dedicating time and effort to the training workshops, even though attendance increased as they were presented and promoted. Interestingly, in this case no significant differences were found in the learning of relatively technical concepts of cleaner production by farmers who had not completed primary education, compared to those with university education, which can be attributed to a design capable of standardize training regardless of learners' starting point.

In the case of the CN, when the training of shopkeepers passed from Fundes to Secap, the rate of non-attendance and desertion increased, raising questions about the value perceived by the participants in different experiences.

Banca Comunitaria Banesco was the organization that used the largest number of institutions to develop its extensive training plans, mainly aimed at microentrepreneurs to whom it granted credit. They comprised five universities, several civil society organizations, two government bodies offering courses or workshops, a chamber of commerce, and Microsoft from Venezuela. However, BCB decided to train its own employees in the channel, the community advisers, with internal staff.

In Brazil, Danone had to complement face-to-face training with the virtual modality on a massive scale, to avoid the absence of *kiteiras*, who could not neglect their multiple responsibilities at home. The experience of this and other organizations seems to suggest that the problem of absenteeism can be related to the difficulties of integrating this process in the day-to-day life of the beneficiaries, rather than a lack of motivation or education of the trainees.

One aspect of training that seems to motivate those undergoing technical training and personal development is certification. Few institutions, except for those that collaborated with Banca Comunitaria Banesco, Grupo Juvenil Dion, Propaís and CN granted certifications.

Training contents

The analyzed organizations—except for the Inditex franchised stores, where people with mental disabilities were only trained to perform as salespeople—invariably focused the content of their training (table 7.1) on matters related to business management, such as money management, inventory, and the relationship with the client. But technical contents and soft skills are often part of core training.

TABLE 7.1 CONTENTS OF TRAINING PROGRAMS

- Business management: administration, finance, strategy, marketing, technology, inventory management, customer service, sales, legal aspects.
- Technical content: engine repair, solar panel installation, carpentry, hairdressing, electrical repairs, cooking, nutrition.
- Soft skills: leadership, communication, personal development and self-esteem, coaching.

Some—Estilos Masisa, Hybrytec, Tecnosol and Grupo Juvenil Dion—necessarily had to dedicate an important part of the training to technical matters. The microentrepreneurs, to whom BCB granted loans, received workshops on personal growth, finances, strategy, marketing and technology, mainly contracted to third parties. For community advisers, whose basic training was, to say the least, precarious, the range of topics was broader: how to enter the community, how to engage with processes, and how to approach communities. Ethics topics were also taught, as young people handled large sums of money on the street. However, a financial principles week was taught first, to fill gaps in administration, accounting, and costs.

Danone, Nutrivida and, at the beginning, the Plan Tenderos of the CN included in their training programs topics such as leadership and communication, self-esteem and personal development. Colcerámica hired a specialist in these issues to train promoters, which allowed building a relationship of trust with community organizations that had initially been reluctant to the initiative.

Mercado Fresco, in addition to how to run the business and personal development, offered psychological and legal assistance, despite the objections of the participating women to psychological assistance. Estilos Masisa, after failing to retain several of the members of its first cohort of carpenters microfranchisees, recruited people with a higher profile, and complemented the training on prospecting clients, preparing project offers, furniture design through the use of software, and various administrative matters.

Such a range of topics suggests that there are some—such as soft leadership and communication skills—widely recognized in manager training, and others, such as self-esteem and personal growth, that correspond to strengthening the individual's ability to integrate into a more inclusive society.

Several of the analyzed projects used trial and error to develop their training plan. When trying to serve an indigenous community and establish a relationship of trust, understand their needs, and obtain acceptance for the installation of solar energy, Hybrytec appointed a group of technicians with social sensitivity to live with the inhabitants, even bathing with them in the river, which generated personal gratification to the technicians knowing that their work was of service to the community.

Nestlé's Plan Barrio trained its vendors in sales strategy, cooking, health, and knowledge of the product to be sold. But when it came to familiarizing them with financial matters and microcredits, they ended up transferring the role to their ally, Banco Adopem.

Duration of training

Clearly, the duration, time, and location of training must be given careful attention. CN shopkeepers were often absent from the training sessions given by Fundes and Secap because they could not abandon their business. The same was the case with Mercado Fresco microfranchisees, who could not leave the store unattended or neglect their responsibilities at home.

The first training plan of Nutrivida's Manu (pro-nutrition moms) network had a duration of six months. The company soon realized that it encouraged absenteeism and was too long and expensive, and it shortened it to just a couple of days.

Building an inclusive distribution project means empowering people who for years have been on the margins of society and often cultivating in them a culture of greater effort and motivation to achieve. In such circumstances, it may well be that, in the case of some projects, the duration of the training—or at least the accompaniment and monitoring—should be indefinite.

Modality: face-to-face or online

Blended learning, which combines face-to-face training along with that delivered through electronic means, as well as the measurement of individual learning, is gaining more and more validity in recognized management schools in Latin America. When developing a training program, it is important to evaluate and include institutions that can show experience and capabilities in blended learning modalities.

Building an inclusive distribution project means empowering people who for years have been on the margins of society and often cultivating in them a culture of greater effort and motivation to achieve

Some analyzed organizations made use of blended learning, due to its advantages, such as greater time flexibility, reduction in the number of transfers and lower costs in relation to face-to-face training. Banca Comunitaria Banesco found that the training offered to community advisers was being affected by security problems and high transportation costs. This led to the replacement of face-to-face training by virtual training in asynchronous mode, with the focus of monitoring learning and complementing areas of weakness through videoconferences with spaces for interaction.

Danone, to expand its *kiteira* development program to 2,000 women, commissioned the production of videos and implemented the virtual training plan through a closed group on Facebook, a common space for many participants.

Learning methods

Most of the analyzed experiences, including those where the organization turned to third parties, apparently used the traditional methodology to deliver the training: talks given in workshops with face-to-face interaction. This methodology can be expensive—as the experience of CN and Nutrivida show—and create difficulties in terms of care and assistance. Some organizations, such as Nestlé, Hybrytec, Estilos Masisa, Tecnosol, and Yamaha Surinam, decided to involve their own staff as facilitators, to both cutt costs and foster a more direct contact of the participants with the experience of working in the company and its culture.

Only Yamaha, in Surinam, a country that depends on water transport and only 20 percent of the population has access to roads, resorted to the learning-by-doing training methodology, which is considered in many cases more effective and measurable, in developing skills. The training, given together with their local partner Datsun, lasted just two weeks: the first to understand the operation, assembly and disassembly of the outboard motors and the function of the propeller, as well as to interpret the manuals that came with the motors, mostly in English, a language unknown to Surinamese mechanics. The second week focused on managing the microfranchise, developing administrative and customer service skills, topics for which Yamaha and Datsun personnel apparently did not have the competences required to apply the methodology. They then resorted to an expensive specialist in coaching, a method that consists of accompanying, instructing or training a person or a group of persons, with the purpose of meeting goals or developing specific skills.

The learning-by-doing methodology is usually taught to small groups of about 10 to 15 people. It usually requires the use of exercises, such as how to develop a business plan using the canvas tool, prepare a financial report, or distinguish between fixed and variable costs. This methodology was used successfully in Colombia by the RedES-MAS program.

Overcoming desertion

In the analyzed experiences, training played a fundamental role, and it is a fact that companies invested enormous financial and organizational resources in training. Although the results did not always have the desired scope, the management of the initiatives considered that the training provided by both internal resources and third parties invariably generated benefits, measured in most cases with business indicators. The more obvious, measured by for-profit companies, were increase in sales, tons of products shipped, number of consumers served and improvements in corporate image.

On the other hand, participants of training plans benefited from acquiring new skills that gave them access to new sources of work and higher incomes. Numerous testimonies manifested by young people in a vulnerable state, mothers of families turned vendors and supervisors, microfranchisees and microentrepreneurs, corroborate this. This is the case of Nancy, owner of a pharmacy and non-bank correspondent of Banca Comunitaria Banesco, who stated: “They have been with us in every way. First they trained us to better manage our business and become correspondents. Then they gave us credit for the business and to improve security ... Banesco is like family to me.”

Desertion and absenteeism led companies and other actors involved in training to change the way they implemented it. In some cases, the company changed suppliers. In others, the duration and content were changed, or the virtual training modality was used.

Each model must be constantly monitored, to track the value perceived by the participants. As programs are tailored to needs, time constraints and dedication, and provide easy-to-use tools in their businesses and lives, beneficiaries will remain motivated to attend and complete their training. Granting certifications and certificates of participation, especially from recognized training institutions, can be a highly appreciated added value.

In addition to the phenomenon of dropout, measured in all programs, better measurement indicators remain to be developed regarding individual learning (skills and knowledge) and personal development (attitudes, values, and behavior). However, testimonies abound of how the training impacted the personal and family sphere. This is the case of women microentrepreneurs trained in nutrition issues, who took these skills to other areas of their lives, changing habits both in their kitchens and when shopping for the family.

We invite you to answer these questions before continuing:

1 Thinking about your own initiative, do you think you should design a training process?

2 What resources and skills are required to be able to promote a successful training process? Does your organization have these competences?

3 How would you evaluate and select potential allies in the training processes?

4 How would you identify the training needs of the channel's participants?

5 What training models and solutions do you consider viable? List five needs or gaps and how to overcome them.

NOTES

1 Cervecería Nacional Ecuador (2013).

2 Van Hoof, Duque, Gómez, Méndez, & Orduz (2019).

CHAPTER 8

A PATH FULL OF LEARNING

Josefina Bruni Celli
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A PATH FULL OF LEARNING

Josefina Bruni Celli and Nunzia Auletta

Almost two decades have passed since the publication of the first studies on the possibility that large companies and other organizations in Latin America sought to alleviate poverty through the creation of inclusive businesses.[1] Initial efforts followed the route envisioned by C. K. Prahalad in pursuit of the fortune at the base of the social pyramid.[2] Time and again, multilateral organizations have called on governments, companies, and academia to accelerate their attention to the reasons why the region remains the most unequal in the world.

The experiences analyzed by the Observatorio Scala had different degrees of success in achieving the inclusion of vulnerable populations in their distribution chains and the simultaneous assurance of economic sustainability. Their levels of social impact were also different. None were easy to develop, and none promise to find the fortune once hoped for at the base of the social pyramid. However, the most successful experiences not only show that they were worth the effort, but represent a way forward to get the majority of the population closer to the benefits of a modern economy. From the successes and failures of organizations and initiatives, lessons that can guide future efforts have been obtained.

In this chapter, we present these findings, beginning with two critical factors regarding the ways to successfully reach the most vulnerable segments of the population, known as last-mile efforts, and scaling considerations essential to produce the desired social impact and business results.

Finally, we propose a development path of inclusive distribution initiatives, highlighting the critical success factors, and present recommendations that can support managers and entrepreneurs who wish to design and develop new inclusive initiatives.

From the last mile to scaling-up

Achieving the effectiveness and efficiency of inclusive distribution models depends largely on the design of the last mile and the scalability of the models.

The capillarity of the channels, that is, their ability to serve the more difficult-to-reach consumers downstream, located in marginalized areas of large cities or remote rural settlements, calls for solutions rooted in local communities. It is necessary to overcome security problems typical of areas where crime or the absence of the State can create a hostile context for market exchange. Likewise, it is necessary to innovate in logistical processes to reach remote areas that are difficult to access with conventional means.

In both cases, the solution is to understand the dynamics of the communities to be served, their behavior patterns and culture. The experiences showed that LIS distributors are protagonists in the process of reaching the last mile and serving consumers who are part of their immediate social fabric. There potential springs from their proximity, because they share the same values and speak the same language. A language that managers and entrepreneurs of inclusive initiatives need to learn.

Overcoming the cultural gap has been attempted in different ways. In the case of Hybrytec, the company's managers lived with indigenous communities while developing solar energy distribution systems for them. Colcerámica turned to the alliance with Ashoka to help them

> **Achieving the effectiveness and efficiency of inclusive distribution models depends largely on the design of the last mile and the scalability of the models**

connect with residents of marginalized neighborhoods. Banca Comunitaria Banesco included bank executives' immersion visits in popular neighborhoods in its model, to overcome tensions between the vision of traditional and inclusive businesses.

Understanding the reality in which you want to intervene facilitates the identification of key allies in the community, and the gaining of the support necessary to overcome security and logistics barriers, generating real value for all participants and increasing effectiveness. However, by anchoring the models to the social reality of the participants and beneficiaries, the solutions may end up being too tailored to each community, making the models difficult to replicate or scale, putting their efficiency at risk.

Among the potentialities that Prahalad, Hart, Christensen[3] and other academics saw in companies, as agents capable of empowering vulnerable populations, was the natural tendency of the business institution to scale initiatives efficiently and profitably. If companies make their LIS businesses profitable, then those businesses will scale-up, and have a higher impact on alleviating poverty.

While the scaling-up process may be natural, doing profitable business with low-income sectors is not obvious. Entering that market takes companies out of their comfort zone. It requires new ways of operating, new technologies, new ways of organizing, new ways of collaborating with other private entities and government entities, and new "ecosystems", socio-technical environments that must be developed.

The bet of the IDB-MIF and IDRC with the SCALA project was to create, through "social innovation", the institutional framework or ecosystem necessary for inclusive distribution networks to flourish naturally. Many of those who have led these experiences worked hard trying to build the ecosystems that would give sustainability to inclusive supply chains.

However, the most important limitation for scaling-up is profitability, a relative concept based on the return of inclusive projects and opportunity cost of capital. The studied organizations and initiatives show that the returns of inclusive businesses undertaken by large companies tend to be low or moderate, especially when compared to core business indicators, which may have restricted the flow of investment to these projects.

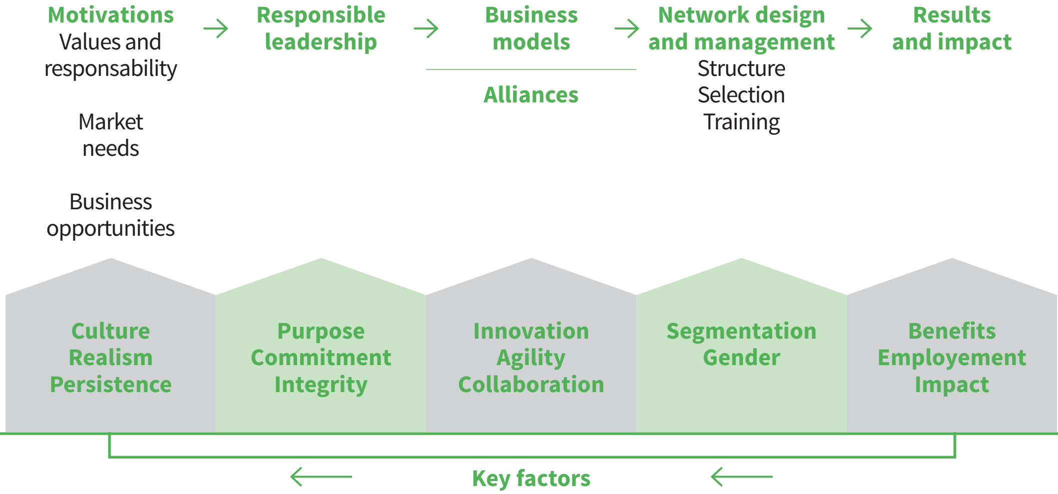
How to lower opportunity costs of investing in inclusive businesses continues to be a challenge that will possibly require more experimentation in the development of investments with social impact or mixed ecosystems, based on public-private collaboration. Public-private partnerships, or, better yet, those that incorporate academia, are mechanisms that have the potential to lower the opportunity cost of private investment through public funding or regulation.

In Latin America there are more and more examples of joint projects between government, business, and academia.[4] Such collaborations, which date back to the 1950s,[5] tend to be more efficient, effective, and transparent, once the parties trust each other and agree on values, and make it possible to form mixed, sustainable, and entrepreneur-friendly ecosystems. This is something that will have to be considered as the next step to advancing in the objective of scaling up inclusive distribution.

A path to inclusive distribution

The sequence of chapters in this book touches on the different stages to consider in developing an inclusive distribution model. This suggested path has been enriched by the findings of some key factors that can influence each step (figure 8.1) and which are explained below.

FIGURE 8.1 KEY FACTORS IN THE ROUTE



Culture

Companies must avoid tensions between managers who manage projects that carry social and environmental purposes, and those who serve the main business. It is essential to share values and purposes throughout the organization, as well as to inform about the benefits that inclusive businesses bring to both the company and society.

Realism

Promoting the creation and development of inclusive businesses is a complex task and requires achievable goals and specific performance indicators. Setting realistic goals for scope and potential for scaling is even more important when trading in markets where habits may be less well known, where the cultural gap is great, and where returns look uncertain.

Persistence

Sustained efforts over several years, by companies that have adequate managerial and financial resources, may well make the contribution of inclusive businesses to their companies rise progressively. It is necessary to understand the differences between conventional and inclusive models in order not to disappoint expectations and maintain efforts over time.

Leadership

The conduct of inclusive business initiatives requires the exercise of responsible leadership in a society of active and involved stakeholders. This leader, in addition to will, must feel for the cause, and have a sense of purpose, personal integrity, commitment, resilience, and perseverance, as well as the ability to innovate, rethink, and land their dreams in terms of successful businesses. They lead through the exercise of roles as visionary, public servant, guide, good citizen, agent of change, builder of meaning, and networker explored above.

Innovation

Companies must invest efforts in innovation in models and processes, as well as in products and services, striving to generate value propositions tailored to the needs and expectations of the beneficiaries or participants of the channel. Developing and implementing technological solutions can increase the scope and lower management costs, supporting the scaling or replication processes of the models.

Agility

The organizations that had the best results on their path to sustainability were those that designed agile business models, with simple projects open to trial and error, characterized by flexibility and with space for experimentation. Many initiatives were born in the field of existing organizations and were able to combine business vision with social purposes, taking advantage of company resources and processes, to generate value and measure effectiveness.

Collaboration

None of the studied organizations carried out their inclusive distribution project on their own. The alliances took place in multiple areas and at different stages of the value chain such as financing, design, start-up and operation, as well as in support processes such as training. The development of capacities for coordination and alignment of objectives proved to be a key factor in this area.

Segmentation

In Latin America, people who are a little higher in the social pyramid can also suffer from lack of opportunities and exclusion. At the same time, they may have more suitable conditions and capacities to develop within entrepreneurship and microdistribution models. The segmentation of the participants in the distribution channel in some cases emerged from the revisions of the model, favoring groups with different socioeconomic conditions.

Gender

Efforts aimed at favoring women and training them as entrepreneurs can contribute to gender parity and improvement of family conditions. For women to successfully join as distributors, a large dose of training, accompaniment and monitoring is required, as well as a good understanding of family dynamics and the responsibilities and commitments that women must balance.

Benefits

Sponsoring inclusive businesses—with an emphasis on the development of distribution channels—can generate benefits for companies in terms of social and environmental impact, as well as in market perception, improvement of the business climate, and corporate image. All highly valued attributes when it comes to defending the interests of the company in a society that is not free from future threats.

Employment

The search for benefits by companies has produced, in a substantial number of cases, favorable results in the labor market. Improvements in the working conditions of sales forces, empowerment of women, and opportunities for microenterprises and microfranchises inserted in the network produce positive results not only in employment opportunities, but also in the economic independence of the participants.

Impact

The benefits perceived by companies are not exclusive to them. They translate into better nutrition, health, housing, and quality of life for the millions of persons they are targeting, helping to raise their self-esteem, and the prospects of a dignified life, more prone to social peace. Beyond the direct impact on the participants of the distribution models, there is evidence of the positive effect on their communities in terms of a broader and better product and service supply.

Best practices

Here are some best practices for organizations looking to develop inclusive distribution initiatives that are both economically sustainable and socially impactful. These are organized into three major critical areas: thought, financing and action.

Recommendations regarding thought

The approach to inclusive initiatives is facilitated to the extent that we cultivate strategic thinking and avoid perception biases towards different actors.

1 *Cultivate strategic and business thinking*

Deploying strategic thinking is key to the success of inclusive distribution initiatives. This means investing time and resources in analyzing competition and business risks, in identifying who would be negatively or positively affected by the project, in pointing out opportunities, and in taking into account the strengths and weaknesses of the organization and its leaders and management teams. It also means doing a market study, formulating a business plan, developing a product portfolio, having an implementation plan, specifying metrics to monitor the performance of the distribution network, evaluating the results of that measurement, and taking corrective measures.

The above sounds obvious, but there were business initiatives in which wishful thinking ruled over strategic thinking. Non-profit organizations are the ones that most frequently make this mistake. Wanting to do good is not enough. To do good you have to survive (achieve economic sustainability), and to survive you need to think strategically, have a business vision, know the market, plan, evaluate, and adjust.

2 *Be aware of perception biases*

Every time you have a great idea and want to put it into practice, it is good to carry out an analysis of perception biases that could distort our reasoning. People often ignore evidence that contradicts our preconceived notions. Strategic decisions made because of biases of this type can lead to different or contrary results to those expected. Below is a list of some of the biases observed in the initiatives reviewed that future entrepreneurs should avoid.

Biased thinking about consumers

Companies often redesign their products for low-income markets with more modest presentations or simplified versions that are less expensive than products originally intended for markets with higher purchasing power. This formula has worked for many consumer goods, but there is an important fact to be aware of: the poor are demanding buyers. They expect high value for money. Improving the price-product ratio is not enough for this customer. Delivery, sales service, and after sales service also need to be taken care of.

This research, like others conducted by SEKN,[6] has found that LIS are particularly demanding in situations where they are purchasing durable goods. As they are comparatively expensive goods that require loans and installment payments, these purchases constitute sacrifice, commitment, and expense of high significance for this segment of the market, where family budgets are limited.

In the case of Colcerámica, for example, the fact that consumers were more selective than expected when buying, implied that more training was necessary for the sales force. Initially, the training was carried out by the coordinators themselves; then a "trade marketing" team had to take charge of training in the different lines of Colcerámica. In the words of a company executive: "It is not easy for other companies to enter this market. The issue is not the product. This market requires a lot of patience and consistency to create trust and legitimacy in the members of a community. Knowledge about these consumers is not easily acquired."

Biased thinking in training

Offering an opportunity should not be thought of as sufficient for a low-income person to take it with enthusiasm. The life situations of the poor strata are complex and that is something that must be analyzed with great care. One of the areas affected by this complexity is training.

Despite the great training efforts in the various programs, desertion and absenteeism of the participants turned out to be high. The distances and the cost of transportation, women's family obligations, and the obligations of microdistributors, who had no one to leave in charge of their businesses, were some factors that forced companies to redesign and adjust their training programs, to finally adapt them to the particular situation of the participants.

Biased thinking about the included distributors

Do the people you want to include really want to participate in the network? Are the participation conditions realistic? Can these people really participate in the way it is planned and designed? These are matters that must be researched carefully. Family situations, merchandise thefts, risk distribution, credit commitments, the extended time required to set up a business and start receiving income, the difficulty of preserving working capital at times when a family need is faced, and the margin-effort relationship were among the factors that reduced the interest of low-income people to participate or remain in inclusive distribution networks. Time must be invested in deeply understanding the willingness of microdistributors to assume many of the burdens and risks that the opportunities offered to them may imply.

Biased thinking about whom to include

There was some tendency in the observed cases to think that social inclusion mainly meant very low-income people, many of them located in rural areas. In practice, implementers had to move up the pyramid a bit, towards less vulnerable people who were also low-income and victims of exclusion.

This decision was due, in many cases, to the fact that this group has greater possibility, disposition and capacity to participate in the distribution networks under a sustainable model for the company. As Olivia Hirata from Estilos Masisa explained: “It was very difficult to retain a carpenter who belonged to the original low-income profile because they are people who live day by day, have a family to support and cannot be left without income for long periods of time. One does not acquire clients in three or four months; it was natural that many left Estilos.” The microentrepreneurs who remained in the program had more training, with at least a few years of higher education. Furthermore, it should be taken into account that, previous to the opportunity provided by Estilos, many of them had been in situations of unemployment and underemployment.

3 *Be realistic with the desired returns*

The economic sustainability of a business depends on two things: 1) that the flow of resources generated by that business allows the financing of its operations; 2) that the business owners are satisfied with the economic return generated by the activity.

Regarding the cash flow, it usually allows a business to survive without going into debt or undercapitalize, but often it does not allow it to grow. A non-profit organization can use this criterion to keep its doors open. However, even in such a case, it is desirable to generate some surplus to reinvest in growth.

The second criterion is the opportunity cost faced by the investor. Here we can think of two extreme situations. On one hand, we have a wealthy person who decides to donate capital to an initiative without expecting any income or pecuniary return. That investor is assigning, from the financial point of view, an opportunity cost close to zero to that capital. At the other extreme is the investor who decides to risk his capital, putting it in a business, in the hope of receiving pecuniary gains. The opportunity cost of the latter investor is what he could be earning by placing his money in another more profitable investment.

Between these two extremes there can be mixed situations. For example, private donors may not have the expectation of receiving a financial return, but still want the initiative in which they are investing to generate enough resources to finance other social initiatives. This was the case of Nutrihuevos, a company that worked with Fundación Paraguaya, which did not expect a financial return on its investment in microfranchises, but did expect to finance, with the returns from that project, other sustainability projects. Similarly, Hybrytec, being a B Company, was committed to generating social and environmental return, as well as economic.

Another mixed situation, which sometimes brings complications, is one in which there is a donor, and at the same time, an investor seeking return. This can occur, for example, when the State puts a part of the resources without asking for financial returns (but only social impact), and the private sector puts the other part with the expectation of receiving financial returns. In these public-private partnerships, serious misunderstandings can occur if there is no clear and transparent agreement from the outset on the extent to which the private partner can benefit from the public contribution once operations begin.

We can say that when the inclusive distribution operation is not for profit, it will be economically sustainable if it at least breaks even. And in the case in which investors with expectations of return put their resources in the initiative, the economic sustainability will depend on whether the returns on the investment are equal to or greater than the opportunity cost of capital from the investors' point of view.

The key for anyone embarking on an inclusive distribution initiative is to clearly fit into this range of possibilities and be realistic in doing so. A finding in the cases where large companies undertook this type of business is that, in general, inclusive distribution projects were not as profitable in financial terms, but they generated benefits of another type: market intelligence, development of new markets, reputation, and corporate image.

Privileging the economic objective over the social objective to achieve certain returns can, in many cases, undermine the *raison d'être* of some of these projects, especially those that have set ambitious goals in terms of social impact. The tension exists, and it can only be alleviated through technological advances and social innovations.

Interesting developments have been proved able to counteract this situation. One of them is the emergence of the B Company model.* In this type of organization, the company extends the fiduciary mandate to give equal priority to economic, social, and environmental objectives in a binding manner. These companies no longer pay attention only to the financial interests of their shareholders and the economic

* B companies are for-profit companies certified by the B Lab as organizations with a high socio-environmental impact. B Lab is a global non-profit organization that promotes the development of these types of organizations. B Lab certifies a company based on the following criteria: 1) it has developed a business case, which shows how being a B corporation brings economic benefits; 2) has involved the organization leaders of and its board of directors in the process of becoming a B company; 3) has transparently measured its social and environmental impact, as well as the quality of its corporate governance in terms of mission, ethics, accountability and transparency; 4) it has a legal structure aligned with the mission of the company; 5) the company verifies and reports its performance to B Lab.

gains achieved. There are more than 60,000 companies in 60 countries that rigorously measure and generate action plans to also improve the social and environmental generated impact. More than 2,600 companies in the world also decided to be certified as B Companies and make a change in their statutes to protect their business purpose of triple positive impact: economic, social, and environmental. It is anticipated that as the millennial generation acquires greater investment capacity, the creation of B Companies and other business entities that aim at welfare and social change will increase.

The legal obstacles that exist in Latin America when it comes to modifying companies' bylaws have prevented many of them from switching to the B System. However, the concept has been well received, and in 2018 there were 401 known B Companies in the region.[7] Countries such as Colombia have introduced legislation to promote them. One of them is Hybrytec, which is included in the present study. These companies have implemented significant improvements in their business practices related to their workers, customers, community, governance, and the environment.

Recommendations regarding financing

The different sources of financing for inclusive initiatives have particularities that must be taken into account.

1 *Funding with patient capital*

In cases where the funds come from private investors, the latter must assume a "patient" position, that is, they must approach inclusive distribution businesses with a long-term vision and avoid thinking about short-term returns. Inclusive distribution continues to be an unknown territory, which requires continuous experimentation in the development of successful technologies and organizational and managerial formulas. As happens when developing a new product or a new market, these initiatives must be undertaken with the required patience. The exercise of patience can mean spinning-off the project from the traditional structure of the company, as happened with Nutrivida (Costa

Rica), or separating it from the commercial departments, as happened in the case of Danone (Brazil) and Nestlé (Dominican Republic).

2 *Go to social impact funds*

One way to find patient capital is going to social impact funds. Impact investing represents a growing global industry, driven by investors committed to generating social and environmental impact, along with financial return. In 2012, the Forum for Responsible and Sustainable Investing reported $3.31 trillion in US assets, held by 443 institutional investors and 272 money managers. The report indicates that 72 percent of the companies surveyed for their commitment to social impact reported results with higher profitability and lower volatility than with conventional investments.

Another source, the Global Impact Investing Network (GIIN), in its 2018 Survey, notes that the impact investing market is diverse and dynamic.[8] The report is based on responses from 229 investment organizations, including fund managers, banks, foundations, financial development institutions, pension funds, insurance companies, and family offices. Respondents to the survey manage more than $228 billion in impact investing assets, a figure that gives an idea of the "floor" of the size of the impact investing market.

Many of the studied organizations turned to IDB-MIF funds, which had the sole purpose of opening the opportunity for trials aimed at making impact investments. They also turned to private funds. For example, Hybrytec, in Colombia, received financing from Grupo ECOS, a Swiss investment fund whose focus is to support Latin American startups that promote sustainable development through renewable social energy initiatives. Danone obtained funds from the Danone Ecosystem Fund, and Masisa received funds from Fundes (Foundation for Economic and Social Development). Likewise, the Grupo Juvenil Dion most likely turned to the Social Investment Funds, the predecessor of impact investments, which in Latin America has offered financial assistance to social organizations, managed by the private sector through different governments since the 90s.[9]

3 *Be aware of the dangers associated with non-refundable funds*

Non-reimbursable funds often make it possible to start projects that target low-income sectors. However, working with non-reimbursable funds comes with several challenges. There is a risk that the promoting institutions that grant them impose non-feasible goals. The administration of these funds is often highly bureaucratic and consumes many administrative resources. When they are used to provide working capital to microdistributors, there is a risk that situations will develop in which recipients assume these donations as plain gifts that can be used to meet family consumption needs, and not only as seed capital, leading to their unforeseen waste.

Recommendations for action

When implementing the initiatives, aspects related to the structure, the management of the network and the articulation of the actors must be taken into consideration.

1 *Start lean*

The cases that had the greatest difficulties in reaching a financial situation close to sustainability were those that from the beginning generated a complex organizational structure. It is recommended that inclusive distribution initiatives be rather started as projects. Projects have lighter cost structures and are more flexible, allowing more room for experimentation. Mounting entire operations often set-back necessary adjustments that are frequently faced in businesses that focus on new or little-known territory. It is only after the model has been consolidated, under the project modality, that the initiative should be incorporated in the form of a company or independent venture.

2 *Serve and optimize the network*

Inclusive distribution networks are successful to the extent that they are carefully managed. That requires at least three types of actions: maintaining a motivated and cohesive sales and distribution team; being aware of tensions between management, distributors, and sellers; looking for ways to reduce transaction costs.

Keeping the sales and distribution team motivated and cohesive involves several aspects. One is to offer a good service to the distributors, and, as we saw above, facilitators in the channel may play an important role. Another key aspect is to ensure an income distribution that is attractive to all parties in the channel.

Tensions between the company, distributors and vendors cause the dropout of network participants. A problematic situation that occurred in some cases was one in which microdistributors competed with traditional small stores channel that carried similar products. This generated conflicts that ended-up in certain suppliers or retailers abandoning the inclusive network.

Working with many microdistributors has the particular challenge that each transaction, be it large or small, carries a fixed cost in terms of effort and administration. A small order carries a higher fixed cost ratio than a large order. One of the practices used to reduce transaction costs has been the use of product combos. On the other hand, the use of information technologies is an area that is only now beginning to be explored to reduce transaction costs and make inclusive distribution more efficient.

3 *Ensure the commitment of internal and external actors*

There are some key roles in the success of inclusive models, either because of their active role in the processes or their potential to create consensus within the organization.

Cultivate the role of the facilitator leader

A key role for the success of inclusive distribution projects is that of the manager who serves as a link between the company and low-income communities or entrepreneurs. In the case of Hybrytec, the technicians involved in its social initiative played this key role, by ensuring that the projects were adapted to the needs and lifestyle of the indigenous populations served. These technicians had full-immersion experiences to get closer to the communities and better understand them. This procedure facilitated the acceptance of the technology by the population and their commitment to maintain the equipment in time.

In the case of Nestlé in the Dominican Republic, the *gestor* played a critical role. This figure was the direct connection between the network of authorized distributors and the microdistributors. There was a manager for each area determined by the distributor, and his role went beyond offering customer service for distributors and having regular meetings. The manager also had the function of training and motivating them. He was also the one who placed and secured the orders for all the microdistributors.

Playing the role of liaisons or network managers requires not only good technical knowledge, but also good personal and communication skills, and the ability to empathize with users. These qualities are hard to find in the job market, but they are so important that companies must invest time and effort to recruit people with this profile.

Involve company managers in the initiative

The commitment of company executives is critical in inclusive distribution initiatives for several reasons. They are the ones who can help overcome the resistance to this type of trials that often develops within an organization. They are also the ones who establish the commitment to social impact generation within the organization and open spaces for experimentation and patient capital.

Sell the project within the company

Managers of other departments, not involved with low-income sector projects, often do not fully understand, or approve, company's decisions to sustain them. Invariably, the profitability of an inclusive distribution project is lower than that of one aimed at conventional markets. Hence, some managers question the company for insisting on keeping these efforts and even wonder if, in the end, it might affect the overall profitability of the core business, and their own prospect of receiving performance incentives. It is worthy to plan internal communication campaigns, and other kind of alignment activities to ensure commitment to inclusive distribution projects.

4 *Invest in training and calibrate it carefully*

Training is one of the aspects that has the greatest impact on the possible success of an inclusive distribution project. To calibrate the training, companies must make decisions in at least five different areas, namely the purpose of the training, the content of the training, its duration, how to deliver it and, finally, whether to carry it out internally or delegate it to partner organizations.

In several studied initiatives, training was challenged by the defection of the distributors who were initially enrolled. Excessive length, distances from training centers, content regarded as useless, and poorly trained trainers were some of the contributing factors. The companies were adjusting their training through blended training, often focused on specific work skills more valued by the participants.

Learning by doing

Despite the training challenges that the organizations invariably faced, only one of them (Yamaha) resorted to the learning by doing methodology. Most chose to hire costly consultants who delivered the training through keynote presentations in variable-attendance workshops, which rarely managed to retain the participants' attention. Realizing its ineffectiveness, many initiatives shortened the duration of the training or resorted to the online mode, with some difficulties in the assimilation and measure of learning.

The learning-by-doing methodology is cost-effective with only 8 to 10 participants, a number much smaller than the size of the groups that the organizations studied sought to train. It requires prior preparation by the instructors, such as the preparation of exercises on the topics covered by the training, and monitoring the completion of the exercises by each participant. However, engaging each participant in carrying out the exercises and other activities in the workshops, while it improves applied learning, may also generate a peer-to-peer competition effect, that is not always desirable.

A successful example of this method, where more than 7,000 companies in Mexico and 400 in Colombia have participated, was aimed at improving the economic and environmental performance of small and medium-sized enterprises (SMEs) through cleaner production. The environmental agency assumes the cost of the program and benefits by reducing the cost of monitoring compliance with the regulation. Large companies invite a chain of 10-12 SME suppliers to participate in the program. Each SME appoints one or two managers to learn the methodology. First, they carry out exercises that allow each participant to identify inefficiencies in the use of water, energy and raw materials by their company, and the cost that they imply. Then each SME develops a project to correct that source of inefficiency that it considers a priority—for example, how to reuse water for other operations, replace several refrigerators with a "cold room", or determine how to convert waste (steam, excrement, containers) into by-products or inputs for other companies. The facilitators in charge of the workshop accompany each company in the design and implementation of its project.

In the first group of chains that participated in the program in Colombia, the cost of the investment required for each project, borne by the company, was recovered in an average of 14 months. Regarding the environment, the 400 participating companies have prevented pollution equivalent to the amount of waste, emissions and discharges generated by a city of 30,000 inhabitants. And the companies that lead the chains have more competitive suppliers.

5 *Leverage on existing resources*

Governments throughout Latin America are committed to promoting public policies that tend to reduce social inequity.[10] Hence, it is in the primary interest of governments to support projects that promote inclusive distribution.

Develop government-company-academia agreements

One of the most effective ways to carry out projects that require changes in people's minds and the development of their capacities, such as those that concern this study, are government-business-academia agreements. However, none of the experiences analyzed by the Observatorio Scala used this tripartite model of financial and managerial support.

In the region there are an increasing number of examples of joint projects between government, business, and academia.[11] Such collaborations, dating back to the 1950s,[12] tend to be more efficient, effective and transparent, once the parties establish trust and agree on values, making it possible to form mixed, sustainable and entrepreneur-friendly ecosystems.

In these agreements, each of the three parties makes an indispensable contribution to carry out the project. Governments provide the financing, due to the social or environmental value that the project can offer. Companies often contribute to project financing and provide credibility by ensuring that the agreement is viable and can be managed in the scheduled time.

Academic partners provide knowledge on how to find solutions to overcome the great problems that afflict society, such as poverty, environmental degradation, and social inequity.

Academic institutions are eager to participate in the development of projects with high social value. Professors and researchers, in addition to leading training workshops with state-of-the-art technologies, generate publications based on the research they carry out to show that the project has achieved its objectives, especially when it requires innovation. Moreover, as showed in cases such as those that concern us in this study, they are willing to offer follow-up and accompaniment to the actors for the necessary time. The publication of research results in peer-reviewed journals, sought after by any internationally recognized academic institution, and guarantees a contribution to the knowledge of, for example, how to build inclusive distribution networks. It is time to take advantage of this relevant resource.

Leverage existing dealer and credit evaluator platforms

The case of Colcerámica clearly shows how a company can leverage another, such as Gas Natural in Colombia, to develop credit lines with clients. In this case, the gas company had already in place a collection system, which provided reliable information on the customer's payment pattern. This saved the company the costs of credit profiling in popular neighborhoods, where people were not commonly in the banking nor had prior credit rating.

On the other hand, the alliances with local distributors gave companies penetration capability in remote areas with a lower investment than that required to create their own distribution network. The Hybrytec case illustrated the advantage of this type of alliance. It has been thanks to the pre-existing network of local entrepreneurs that the company has managed to open a new market in remote areas of the country.

Delegate specialized activities: work with allies

It is recommended that companies that take on the challenge of inclusive distribution seek allies and delegate some specialized activities, especially those activities that have to do with financing to consumers or distributors. This is especially important when the financing activity is not part of the company's core business. The Nestlé case illustrated how an alliance with Banco Adopem, which had a community banking project, allowed each of these organizations to contribute to the inclusive distribution project what it did best.

Leverage information technology

Information technologies played an important role in monitoring project performance and enhance customer service. Danone, for example, used information technology and performance indicators to track sales frequency and averages, inventories, and sales force rotations, and to facilitate distance training for distributors. In turn, Banca Comunitaria Banesco opted for the incorporation of electronic channels to increase its coverage and make customer service more efficient and timely.

New technologies are destined to play a huge role in making inclusive distribution viable in the future, and it is possibly the next frontier of exploration. The costs associated with managing many small distributors (transaction costs) remain a challenge to the economic viability of these projects. Information technology, digital platforms, and applications, based on cell phones or handheld devices, may have a central role in the near future not only in reducing cost but also in increasing coverage and services.

A look to the future

We close this book with a message of satisfaction for the effort of the Observatorio Scala in supporting and documenting experiences in Latin America.

These seventeen organizations, pioneers in the development of inclusive distribution, have learned a lot over the years. The valuable lessons gathered may contribute to the knowledge of how to build organizations that generate increasing social value, with the required impact to face the challenges that the future holds, in an economically sustainable way.

We hope that the SEKN network and researchers from Latin America interested in researching inclusive business and distribution networks continue to do so. The longer we take to find ways to reduce the social inequality that prevails in Latin American society, the greater the social, economic, and political gap that awaits us. The most privileged sectors will be able to enjoy the unstoppable advances in technology and quality of life; but the excluded will be subject to increasing social decay and environmental degradation. Hence, governments, companies, and academic and research institutions need to work together to promote social innovation, the diffusion of new technologies, and the creation of ecosystems that result in a society of progress for all.

The bet with the excluded in Latin America has not yet been won, but there are more and more entrepreneurs, in companies and social initiatives, committed to the principles of responsible leadership and sustainable development.

We hope that this book provides a better understanding of the path to be developed and encourages those who still have their project in the drawer to actively engage in its design, development, and execution. For our part, we will continue, from all the institutions that participated in the Observatorio Scala and from the SEKN network, promoting research, training and dissemination of knowledge, to accompany them on a path full of learning and long-term satisfaction.

NOTES

1 Van Hoof, Duque, Gómez, Méndez, & Orduz (2019).
2 Prahalad (2006).
3 Hart, & Christensen (2002).
4 Van Hoof, Duque, Gómez, Méndez, & Orduz (2019).
5 Fiszbein, & Lowden (1999).
6 Bruni Celli, González, & Lozano (2010).
7 *Portafolio* (2019).
8 Global Impact Investment Network (2018).
9 Siri (1996).
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11 Van Hoof, Duque, Gómez, Méndez, & Orduz (2019).
12 Fiszbein, & Lowden (1999).

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BETTING ON MAJORITIES

INCLUSIVE DISTRIBUTION MODELS IN LATIN AMERICA

Betting on majorities: inclusive distribution models in Latin America is a step in the direction of addressing the problems of inequity, violence or structural racism. By analyzing multiple cases of economic inclusion, we point out paths that hopefully we will travel more in the future.

Betting on majorities presents a careful selection of cases of inclusive distribution networks. Each of them illustrates a specific dimension of these distribution networks. The reader will find on these pages inputs to examine issues such as the participation of women in business initiatives and their differential benefits, as well as the specificities of the selection and training of personnel for a network to distribute products to populations in vulnerable situations.

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