

Inclusive food distribution networks in subsistence markets

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12.1 Introduction

Traditionally, poor communities are structurally denied access to resources, capabilities, and opportunities (George, McGahan, & Prabhu, 2012). This is particularly detrimental in the food sector, where market barriers prevent low-income communities from eating healthily (Drewnowski, 2004). Since the new millennium, the private sector has been called on to develop initiatives combining market principles with social and environmental factors to help poor communities (United Nations, 2000). A business response to the previous situation has been to implement “inclusive business” strategies, whereby subsistence marketplaces are not seen simply as a segment to sell to, but rather, as a strategic partner to cooperate with (Viswanathan & Sridharan, 2009). By implementing these initiatives, both private organizations and poor communities create meaningful synergies and shared values which support inclusive growth (George et al., 2012).

The food sector has not been indifferent to this trend, and different initiatives to transform food value chains by developing inclusive food distribution networks for subsistence markets have been developed. For example, Gomez and Ricketts (2013, p. 140) suggest the implementation of what they call a “modern-to-traditional” typology, in which “domestic and multinational food manufacturers sell through the network of traditional traders and retailers.” Using this approach, food organizations gain access to a wider range of consumers located in isolated markets, while low-income consumers obtain access to an increased processed product offer with low prices. However, the implementation of such initiatives for the food market is not an easy task, requiring the alignment of the region’s food offer (Wrigley, Guy, & Lowe, 2002), consumers’ food preferences (Ali, Kapoor, & Moorthy, 2010), and the company’s logistics skill set (Baindur & Macário, 2013).

Regarding the region’s food offer, poor communities are commonly found in dispersed locations with limited access to public utilities (e.g., electricity and sanitation) and restricted development of private institutions (e.g., banks) (Viswanathan, 2013). As a consequence, these poor communities are left commercially excluded, and informal networks that provide a limited food product assortment (e.g., non-perishables) at higher prices emerge (Viswanathan, Rosa, & Ruth, 2010).

Consumers' food purchasing preferences are influenced by the social context (Shaw, Mathur, & Mehrotra, 1993). For example, subsistence consumers' uncertain income and lack of infrastructure often make them buy their food and grocery products from nearby marketplaces, "mom-and-pop stores," on a daily basis (Veck and Veck, 2000; Sabnavis, 2008). Price is considered a core factor in food choice, followed by taste and freshness (Steenhuis, Waterlander, & de Mul, 2011). In addition, consumers in subsistence marketplaces have particular exchange dynamics, based on their social capital, which are central to the development of business models that are effective and appropriate for such consumer needs (Viswanathan & Rosa, 2010).

Organizations aiming to serve subsistence marketplaces require a customer-driven approach supported by an efficient distribution and retailing network to serve these markets (Ali et al., 2010; Baidur & Macário, 2013). For example, construction (CEMEX) and technology retail (Casas Bahia) companies serving subsistence marketplaces have had to reformulate their business strategy, including developing particular products, implementing microloans schemes, and developing a new distribution system (Prahalad, 2005).

This book chapter presents an exemplar case of an "inclusive business" model for the food retailing sector. In particular, the case describes how French multinational company Danone developed a partnership with public (IDB) and social (World Vision and Aliança Empreendedora) organizations to develop a food retailing initiative—Kiteiras—with positive impacts for business, communities, and individuals.

12.2 Case description

12.2.1 *The situation*

In 2010, Danone Brazil launched a strategy to increase market share in the north-east of the country, involving low-income households (Lozano, Giacomini, Camara, & Borges, 2012). This region reflects the national trends of poverty and high gender inequality in the Brazilian labor market (IBGE, n.d.). With 3.7% of people below the poverty line of US\$1.9 a day—representing over 7.7 million people (World Bank, n.d. a)—and a GINI index of 51.3, Brazil has a high gap in wealth distribution (World Bank, n.d. b). This situation is exacerbated when analyzed from a gender perspective. The country's unemployment rate among women (8.7%) is higher than that seen for men (5.9%), but 62% of women develop their activities in informal jobs with little income and no social benefits.¹ Some of the reasons for the unemployment gap between men and women are attributed to a lack of qualifications for vacancies due to early school dropout, linked to pregnancy, gender discrimination, and flexible schedule requirements needed to attend to family obligations (Castro & Abramovay, 2002).

¹ This refers to the population over 14 years old who are unemployed and often rely on the informal market.

12.2.2 Origin of the initiative

In 2010, the sustainability department of Danone together with Aliança Empreendedora (This is an NGO whose mission is to enable access for low-income people and communities to develop as entrepreneurs, promoting social and economic inclusion, and development.) designed the Kiteiras initiative to develop a microdistribution channel that employs only women from low-income neighborhoods to promote, sell, and distribute the company's products door-to-door in the communities in which they reside. The initiative's women-only focus responded to (1) cultural frameworks that mean women are in charge of family nutrition; (2) work barriers, described in the previous section, that women face; and (3) the community-based approach of the initiative.

At the time of the Kiteiras initiative's origin, direct sales models that included door-to-door microdistribution were very successful in the cosmetics market (e.g., Avon and Natura), but they had not been proven in the food market yet. The initiative was expected to make the company reach a new consumer base at a lower price, while providing women with a new income source, and consumers with access to a nutritious product. Danone's Sustainability Department presented the initiative to *Fonds Danone pour l'Ecosystème*, a company department that promotes intrapreneurship, and obtained an initial investment of €400,000.

12.2.3 The Kiteiras distribution system

Six processes take place in the Kiteiras distribution system. The initiative's financial model involves product markups along the distribution system. A description of the processes is now presented.

Mobilization: This process involves marketing activities to enhance neighborhood interest about the Kiteiras project and Danone products. These activities cover not only media communications, through community radio and mobile sound trucks, but also community activities such as visits to churches and bazaars.

Recruitment: This process involves the recruitment and engagement of interested women into the Kiteiras initiative. These women fill out an application form and start participating in training programs. Women identified with entrepreneurial skills, or experience in sales, can be directly selected as "godmothers." In this role, they are able to recruit and manage their selling group and act as intermediaries in the communication between the Kiteiras, which also refers to the women participating in the initiative, and the distributor in a particular location.

Development: This process involves Kiteiras' career development within the initiative across five stages: consume, sell, indicate, care, and lead. The first stage, "consume," presents Danone dairy products to the Kiteiras, detailing nutritional aspects. The second stage, "sell," presents basic sales lessons. The third stage, "indicate," offers basic training to help the new Kiteiras select appropriate dairy products for their customers' needs. The fourth stage, "care," offers basic training to monitor customers and their family. The fifth stage, "lead," offers basic leadership training to bolster women's confidence and help in sales pitches.

Along the career path, women take part in a 36-hour training program, developed by Aliança Empreendedora, involving different workshops to develop their capabilities around three main themes: entrepreneurship, nutrition, and life. Women start by being a consumer of Danone's products, and once they receive training and start to sell, they become Kiteiras.

As Kiteiras, these women are not employed by Danone or the distributor with which they work. They receive commission on sales and are referred to legally as individual microentrepreneurs by Brazilian legislation (Brazilian complementary Law 128/2008, available at: http://www.planalto.gov.br/ccivil_03/leis/LCP/Lcp128.htm). Then, those women who show leadership skills in the field develop a training program to become godmothers.

Sales: This process involves the product exchange process. Every 2 weeks, the local distributor provides product catalogs to Kiteiras. These catalogs are updated every 3 months based on shopper insights and local sales analysis. In each neighborhood, the Kiteiras, led by the godmothers, make door-to-door sales. Payment can be done either by cash or credit card. All sales orders are reported to their godmothers, who in turn inform the distributor in order to arrange product delivery.

Product delivery: This process involves transporting products to customers. The sales orders are placed each week by godmothers with the local distributor. Godmothers group the orders and send them to Danone, which then delivers the products back to the Kiteira, who in turn delivers them personally to customers.

Given that dairy products are perishable, the product delivery process needs to adhere to strict deadlines. Danone provides products to the distributor at least 20 days before the expiration date. The distributor cannot keep the product for more than 3 days in storage before making deliveries to Kiteiras. Once the products are received, they have to deliver them right away to customers. When a Kiteira has a big number of customers, she can keep part of the product in her own refrigerator for a maximum of one day. Once delivered, if the product is damaged in transit or is close to expiry, customers can return the product to Kiteiras for replacement or refund.

12.2.4 The pilot

The Kiteiras pilot started in 2011 in Salvador (in the state of Bahia), one of the biggest cities of the northeast region. At the time, Danone and Aliança Empreendedora hired Veli, a human resource consultancy, to do the mobilization and recruitment processes in Salvador's low-income neighborhoods.

By January 2013, the pilot had 210 women involved who were trained to sell around 22 tons of dairy products per month, generating an average monthly income for them of R\$269 (approximately US\$81). At the time, the average product markup was 55% for distributors and 25% for Kiteiras. Distributors paid an additional 3.5% as a selling commission to godmothers for their group sales.

The pilot's positive results motivated Danone to escalate the initiative from being a corporate social responsibility program from the sustainability department to a social innovation program led by the commercial department.

12.2.5 Roll out of the initiative

The escalation phase started in May 2013 with many challenges, due to difficulties in applying traditional distribution management practices among the Kiteiras. For example, the Danone distributors aimed to increase Kiteiras' sales quotas. However, the Kiteiras' customers were those embedded in their social network, making it difficult to obtain new customers and increase sales quotas in the short term. A solution was to make Kiteiras see themselves as entrepreneurs, assuming not only the sales but also storage of a small amount of products in their homes, which would take a long-term capabilities building program. As a result, the expected daily sales of the commercial department were never reached, some distributors went bankrupt, and some Kiteiras became indebted, due to them missing product expiration dates, and decided to leave the program.

In 2014, Danone signed a contract with a new distributor, Qualikits, a former beverages distributor from Salvador. The owner was from a traditional family that worked in this business and wanted to do something with a social impact. This distributor inherited a diminished salesforce of Kiteiras with only two godmothers from the previous distributor. To recruit more sellers, the sales markup scheme was changed: the local distributor markup decreased from 55% to 37% and the Kiteiras' markup increased from 25% to 30%.

In a period of 3 months, the new distributor developed a network of 350 Kiteiras and two godmothers, who were selling around 31 tons of dairy products per month. Although the initiative was economically sustainable, these results were below the commercial department breakeven point (about 450–500 Kiteiras, each selling an average of 80 kg of products per month). Danone's commercial department, which then controlled the initiative, requested its termination.

12.2.6 Escalation of the initiative

Despite the termination request, Danone's sustainability department saw an opportunity in the Multilateral Investment Fund Scala program. This program, developed by the IDB, aims to promote the economic empowerment of low-income individuals through distribution networks based on microfranchising (Fomin, n.d.) The initiative was selected by Scala and received US\$2.07 million in funding and advisory services to escalate the initiative to 2000 Kiteiras nationwide. The escalation phase started at the beginning of 2016, with the implementation of several changes to the business model:

1. The sustainability department resumed the leadership of the initiative again, while the commercial department focused just on the sales processes, improving catalogs, mapping geographical distribution, and commercial intelligence operations.
2. Danone developed an alliance with World Vision Brazil, an organization that was working in the same location as the Kiteiras initiative, with the program "Groups of Local Development Opportunities" to promote collaboration among community members. World Vision recruited Kiteiras at community centers, employing people already trained by their REDES program. (The REDES program constitutes initiatives to develop income by training in economic activities such as cooking and handicraft.)

3. Aliança Empreendedora developed a career development blended program for Kiteiras, mixing classroom and virtual training via closed Facebook and WhatsApp groups.

12.2.7 Results to date

By the end of 2016, the Kiteiras initiative has promoted entrepreneurial capacity and generated income opportunities for 2100 vulnerable women that could not work otherwise due to family duties. They were selling around 144 tons of products per month, not only in Salvador but also in Fortaleza and São Paulo. (São Paulo is Danone's biggest market in the country, and Fortaleza is the second biggest market in the northeast region after Salvador.) In addition, despite the decline of the consumption of yogurt in Brazil from an annual growth of 19.7% in sales in 2012 to 3.9% in 2017 (Alvarenga, 2017), the initiative promoting yogurt consumption among low-income consumers reached 9 kg per year in 2016 (from an original 3 kg year per consumer before the program started) and introduced Danone products to new city areas where the company did not previously have a presence.

Nowadays, the Kiteiras make an average of R\$500 (the minimum monthly salary in Brazil is R\$788) working 20 hours a week. These women have developed their sales and entrepreneurial capacities running their own businesses, which allow them to manage their time between work and family. Moreover, due to their promotion of a healthy lifestyle and related products, these women have built and strengthened their community ties. As one expressed:

My life changed for the better, because before I had to wait for the end of the month to receive money, and working as a Kiteira I can receive every week. That makes a huge difference to me.

Others explained:

It's good because each week we get some income.

And:

[The program represents] the possibility to help my husband at home, financially.

12.3 Contribution

Over recent decades, the supply chain activities of the food industry have gained importance (Maloni & Brown, 2006). These activities play a major role in national economies, influencing aspects such as food costs, access, and quality, impacting in turn people's quality of life (Dujak, Segetlija, & Mesari, 2017). This case shows how Danone's Kiteiras initiative has created and developed a consumer centered inclusive distribution channel for subsistence marketplaces. Some of the lessons this case shows are now discussed.

12.3.1 Implementing effective cross-sector partnerships between private companies and NGOs for community development

The Kiteiras initiative demonstrates how private, social, and business organizations can complement each other to enhance their social impact, which will attract interest from peer institutions worldwide wishing to introduce similar initiatives. Developing partnerships with experienced organizations in community development and training allowed Danone to access the expertise to understand community motivations and acquire the local legitimacy needed to create the Kiteiras inclusive distribution network.

The program's legitimacy has resulted in effective recruitment processes and reduced turnover rates. The challenge in this process has been to align the different interests of each actor. For example, in the pilot phase, while Danone aimed to reach a new market with a high-quality service, Veli and distributors aimed to recruit and put into operation as many Kiteiras as possible, and Aliança Empreendedora aimed to build Kiteiras' entrepreneurial capabilities. To manage this situation, the initiative created a core team with representatives from all organizations to develop the managerial decision protocols in the field. The aim of this core team was to integrate the decision-making processes of the different companies and institutions into a single group, avoiding conflicts and improving communication.

12.3.2 Using customer knowledge as competitive advantage

With the evolution of consumers' food choices and desire for convenience, the retail market for food and grocery is changing (Ali et al., 2010). In subsistence marketplaces, companies need to develop alternative logistics systems that can adapt their operations to particular consumer preferences and infrastructure deficits (Baindur & Macário, 2013). In this context, companies' food supply chains for poor communities are striving to achieve end-customer value and satisfaction, while also improving performance outcomes for the firm (Kozlenkova, Hult, Lund, Mena, & Kekec, 2015).

The Kiteiras initiative enabled Danone to use Kiteiras' local knowledge and community access to develop new marketing strategies aligned with end-consumers' interests. Danone's distribution system normally operates outside the community. Once inside the community, goods delivery is the responsibility of Kiteiras, who have knowledge of the whereabouts and routines of their clients or can negotiate more flexible schedules to deliver products to them. Thus, Kiteiras' knowledge of the subsistence marketplace dynamics and consumer preferences has become the company's competitive advantage. As Day and Wensley (1988) affirm, competitive advantage must manifest in customer value but be based on a balance between customer and organizational perspectives.

12.3.3 Using technology to increase the escalation efficiency of inclusive distribution models

Innovations in the supply chain require a collaborative approach from the different participants and actors, as each organization is dependent on the success of their network partners (Arlbjørn & Paulraj, 2013). For this reason, any innovation in one part of the supply chain, either technological or not, must take into account the capabilities of the other parts. Danone implemented a technological innovation for serving subsistence marketplaces.

First, given the increasing number of Kiteiras who are part of the program—the goal was 2000—Danone implemented a management system that collects, analyzes, and reports information about delivery requirements, operations, and computerized cargo processing. This system provides the initiative actors with key performance indicators such as number of sales, frequency of sales, average value of sales, stock keeping units sold, turnover from the salesforce, and new Kiteiras registered.

Second, given the difficulties Kiteiras have attending the different workshops—due to their family obligations—Aliança Empreendedora developed career development blended-learning workshops using mobile apps such as YouTube, Facebook, and WhatsApp. Many of the women involved were already using these applications for their personal interactions. As a result, the company and Kiteiras obtained a new efficient and flexible communication channel with customers, which gave them information to understand their demand patterns and needs.

12.4 Conclusions

Despite intense interest in the collaborative supply chain, researchers know little regarding the collaborative process through which resources are combined and shared across supply chain networks (Fawcett, Fawcett, Watson, & Magnan, 2012). As companies initiate collaboration in the supply chain, they enter a balancing cycle that involves learning how to increase commitment and build capabilities while dealing with actors that resist collaboration and enabling factors/agents (Fawcett et al., 2012).

In the case discussed in this chapter, we hoped to shed light on how the capabilities of a multinational company, NGOs, and a local community can be merged to generate an inclusive distribution system for subsistence marketplaces—one that combines different operations at different scales with economic and social benefits. The Kiteiras business model enabled Danone to gain access to a new market of poorer consumers, thereby increasing Danone's distribution network and consumer base. In addition, the nature of the program benefits poor women in vulnerable conditions that cannot work regular hours, including them in the formal labor market and, in this way, recomposing their self-esteem and improving the quality of their children's nutrition, thus contributing to the social development of the community.

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