CHOOSING THE RIGHT TYPE OF SALES FORCE FOR SELLING CONSUMER PRODUCTS IN THE LAST MILE

A social enterprise selling consumer products to customers at the bottom of the pyramid needs to make similar choices as any other business when it comes to how to distribute the goods to the consumers. The enterprise can try selling through brick and mortar shops, recruit a salesforce or both. The most appropriate model depends on the enterprise's products and where the customers are located. In an urban setting, the cost per customer acquisition is low regardless of what the product might be because customers are concentrated and brick and mortar stores like supermarket chains or other independent stores are available. However, most social enterprises, as well as corporates serving BOP such as Unilever, Nestle and Coca Cola, do not find the majority of their customers in cities. According to UN statistics, 60% of Africa is rural, with the rural population heavily skewed toward lower income inhabitants.

Selling through Brick and Mortar outlets

The retail sector in Africa consists mostly of small retailers such as dukas and kiosks rather than formal stores or supermarkets. As there is little availability of supermarket chains outside cities in Africa (Kenya's largest supermarket chain Nakumatt has only 53 stores across Kenya, Tanzania and Uganda), suppliers have to deal with a large number of small retailers. Most of those small shops are run by local entrepreneurs, lack electricity connection and offer only products that the store owner believes will have the fastest turnover.

Typical retailers in rural Kenya

FMCG goods dominate the rural retail, so social enterprises offering nutritional products can opt to distribute the same way that Unilever and Nestle do. Durable goods are less prevalent in rural retail and the higher the price point, the more difficult to make products available through brick and mortar because the owner-entrepreneurs will be unwilling to make the investment necessary to stock.

Additionally, each small shop is likely to have very little turnover of any individual product line, therefore, suppliers need to deal with hundreds of such stores to achieve any meaningful distribution in the last mile. Big conglomerates do it as they have the scale and sophisticated systems necessary to service as many distributors, an ability much more rarely exhibited by smaller companies. For this reason, solar products, cook stoves, mosquito nets, water purifiers and other durable products that social enterprises focus on are often sold via in-person selling. For example, MKOPA, the Kenyan social enterprise providing pay-as-you-go solar home systems, signed up more than 3000 small retailers in its first year of operation. However, the logistical complexities supplying that many stores, as well as the very low productivity per shop made MKOPA switch completely to a commission based salesforce.

Selling through a sales force

There are two basic models for operating a sales force: an in-house salaried sales force and a commission based sales force of sales agents who are not the company's employees. The internal sales force is dedicated to selling the company's products and can be controlled centrally but is more costly. By virtue of their dedication to a single product, the in-house salesmen are typically better trained and knowledgeable.

The commission based model, on the other hand, is light in terms of overhead cost but generally implies less dedication and focus from the sales representative due to multiple product lines that s/he is selling. One famous example of the commission based salesforce model is the Avon model which is utilised in Africa by the social enterprise Living Goods.

In principal, there is no right or wrong model when choosing between a salaried vs. a commission based salesforce, rather one or the other becomes more appropriate depending on the following factors:

1. Control

An in-house sales force is controllable – the enterprise can train salespeople as much as it feels necessary (many companies have tests that employees must pass in order to be allowed to work) and will have a say in a their route plan, what kind of customers they meet with, how they behave, etc. It is also important to note that a salaried employee is part of the company's hierarchy and can be held accountable for not implementing instructions.

In contrast, a commission agent is an entrepreneur – s/he is remunerated per sale and often has to invest their own capital to buy the goods they later sell to the end customer. As there is no guaranteed salary, commission agents do not feel employed and see the company's instructions as recommendations rather than obligations. They can carry a portfolio of different brands and have a natural incentive to focus on the best-selling product. A commission agent places their own interest above any specific company interest.

Social enterprises who decide they need to control over where and how its product reaches the last mile must invest in a salaried salesforce. This model is also appropriate when entering new markets where the brand and product are not known and the company might find it difficult to place its products with independent agents.

2. Type of product sold

2.1. Complex vs simple

A dedicated, salaried sales force is appropriate when ***information*** is critical for the process of selling: for complex or customized products, the customers have to be educated about the qualities of the product and convinced it is right for them. The salesman needs to have the knowledge and willingness to spend time on each individual customer. As commission agents are very conscious of the opportunity cost of their time, they will be much less inclined to spend time on customer education. The agent model is typically better for selling easy to understand, fast turnover products that do not require very engaged customer interactions.

Sometimes, the product itself might not be complex but might appear so to the consumer because the product category is unfamiliar to them. That is often the case for solar products in rural Africa. The product is a simple LED bulb or radio powered by a solar panel rather than a battery, however the customers do not understand solar energy and may not trust it will work. In order to sell such products, the sales force first needs to engage in non-selling activities (such as market demonstrations, education) which commission agents would be unwilling to do as they do not bring immediate revenue.

Growing awareness among customers (i.e. product category becomes mainstream) can result in ability of a company to change from salaried to commission based salesforce. This phenomenon was observed by d.light, the solar lighting focused social enterprise, as the solar energy became increasingly more familiar in Kenya. The company employed an in-house sales team which was doing a lot of customer education but with time, a growing number of independent agents became active in areas where solar lighting became trendy. Therefore, it can be assumed that with innovation, especially in the last mile, the first mover has to invest in an in-house sales team to raise awareness about the product. d.light's extensive marketing activity in Kenya between 2012 and 2014 served as a catalyst for the BOP solar market and made entry easier for other brands or trading companies.

2.2. Expensive vs. low-priced

A higher price product implies higher margin for the selling company. With higher margin, two things can happen: 1) company can invest in salaried salesforce overhead or 2) the company can cede a high per unit commission for a commission based salesforce. As a result, companies selling expensive products can afford to choose between the two salesforce models.

B2B products are usually expensive solutions designed for other companies (e.g. IT or supply chain solutions, industrial products, etc.). B2B salesforces are often in-house as the products are complex and expensive. Insurance is an example of an expensive B2C product that is sold via commission based agents as the commission is lucrative enough to motivate the commission agent to spend the time and effort explaining the benefits to the consumer.

Low price-low margin products can be sold by commission agents who carry a portfolio of brands. These products should be sold via an in-house salesforce only if the salespeople can turn sufficient enough volumes to justify their overhead cost. This is more likely to happen if the products are simple or familiar to consumers (e.g. mosquito nets).

3. Distance to the consumer

Most customers at BOP in Africa live in remote rural areas with big travel distances between the villages. These travel costs increase the cost of customer acquisition significantly, a particularly problematic issue for companies selling lower-priced products with lower margins. In an commission model, the agent spreads the travel cost across multiple product lines, besides carrying a variety of products increases the likelihood of executing multiple sales when the agents travels to meet customers in their homes. For example, Living Goods sells at affordable prices (i.e. with lower commission) but its agents carry a portfolio of high demand products, from hygiene related products, to medicines to solar lanterns. In the case of MKOPA which sells high value solar home systems, MKOPA compensates its agents with a certain cash amount to cover travel expenses with every sale the agent makes. For an in-house salesforce, the travel costs are covered by the company and taken out of its margin, which can be sustained only with high agent productivity.

Based on these categories, the below table summarizes the most appropriate salesforce given certain product and customer conditions:

	Complex (Unfamiliar) Product	**Simple (Familiar) Product**	**Remote Consumers**
High Price/Margin	Salaried (can also be sold via commission if agents are well trained and compensated) E.g. cook stoves, solar home systems	Salaried or Commission E.g. mobile phones	Salaried or Commission based
Low Price/Margin	**?** E.g. medicines, solar lanterns	Commission based E.g. mosquito nets	Commission based

The most difficult products to place in the last mile are low price products which are complex or unfamiliar to customers. The commission/margin achieved per unit sold is low, therefore the sales volumes needed to cover a salesforce expenses are high. Yet, it is difficult to sell high volumes when the customers are unfamiliar with the product – at BOP, people have no disposable income and are not willing to invest scarce resources unless they are absolutely certain the product will work and deliver. Salespeople have to engage in customer education and revisit a potential client multiple times before they can convert him/her. This is a time consuming and energy intensive selling process that yields low returns per unit to the commission agent or the company selling the product. The selling process is made even more difficult if customers are remote and there are high travel costs added to the profitability equation.

If a company finds itself in such situation, one possible solution is to try to move its product from the "Complex" to the "Simple" category by engaging in mass customer education. In its first 4 years of operation in Africa, d.light adopted this strategy and used extensive radio marketing campaigns to reach out to customers and educate them on the benefits of solar energy. d.light believes that this strategy has resulted in the high solar adoption rates observed in Kenya (approaching 50% in-home adoption across d.light's target customer segment) compared to other countries where such campaigns were not implemented. Another successful strategy implemented by d.light was to partner with the charity SolarAid, which executed multiple customer education campaigns in schools across Kenya, Tanzania and other African countries.

Hybrid Sales Forces

The difficulties of selling in the last miles have been faced with creativity by social enterprises in the field who have blended the 2 salesforce models, as well as brick and mortar selling. MKOPA sells via a commission based salesforce (the solar system is worth approx. $150 which is a high price/high margin product in the BOP). However, MKOPA trains independent agents as well as an in-house salesforce and compensates them with both commission and salary-resembling incentives. A similar approach is taken by Off-grid Electric (another solar home systems provider). d.light has recruited brick and mortar distributors and in-house salespeople and used radio and partnerships to facilitate sales.

A commission-based salesforce can be used to extend the reach of an in-house salesforce and share the target sales volume burden. A group of commission agents can be assigned and managed by an in-house (i.e. salaried) salesman giving one sales target to the whole team. In this way, remote rural areas where trust and follow-up visits are required can be targeted by localised independent agents who can help the in-house sales manager distribute product deep in the last mile while keeping the costs down.

In order for a hybrid sales force to work smoothly, a clear delineation of tasks and responsibilities between agents and salesmen is necessary. Roles can be divided in a variety of ways and the remuneration structures for salaried sales representatives and commission agents can vary depending on the model selected.

Category	Possible Divisions of Labour
By product	Independent agents sell established, low-price products, salaried salesmen sell high-engagement, education-intensive products (e.g. home systems)
By geography	- Agents sell in established markets where volumes are high, employees activate in new markets - Agents are recruited locally in remote markets where travel costs are too high for employees, employees sell in high-potential, densely populated markets
By activity	- Employees focus on specific activities (e.g. market activations, savings group sales), agents do the rest - Employees activate markets, agents do follow-ups

Conclusion

Distribution remains the biggest challenge to consumer products focused social enterprises, a business reality not too different in the case of non-socially focused companies. A good exercise for a social enterprise startup is to map its products against existing products based on complexity and price rather than product category and learn from how similar products are sold by big corporates. In such an analysis for example, one might find that pay-as-you-go solar systems can borrow a lot from insurance products when it comes to last mile distribution.

Solving the distribution question requires an excellent understanding of your customers and their environment and where your route to market fits into it. Whichever mode of selling is chosen, it is crucial that you are flexible to adapt or completely revamp this model if the underlying circumstances change. The BOP market is constantly evolving and innovations in financing and technology, as well as competition, can quickly change the rules of the game. Staying alert and close to the consumer is the only way for social enterprises to stay relevant and deliver the promise of improving people’s lives at an affordable price.