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## LOW-INCOME FEMALE ENTREPRENEURSHIP: WHEN BUSINESS IS THE PRIVACY

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### Abstract

**Objective of the case:** to foster discussions about the management challenges faced by entrepreneurs at the beginning of their operations, taking into consideration various retail business models.

**Methodology/approach:** a case study for administration teaching purposes based on a real-life venture engendered in a business incubator.

**Main results:** InSense, a business developed by Grazi, a low-income entrepreneur, faces a number of management challenges as the company grows, namely: prejudice associated to its line of products, poor reliability of logistics partners and burgeoning Chinese competition offering low priced, poor quality products. Those adversities, coupled with the entrepreneur's lack of managerial experience and the emerging sales channel conflict, led her to assess the need to reshape the business model.

**Theoretical/methodological contributions:** develop the student's capacity to solve management problems of high and medium complexity in the context of a venture with potential for scalable growth.

**Relevance/originality:** the case fosters discussion regarding electronic commerce strategies, logistics solutions, confrontation of the Chinese competition, supply and sales channels.

**Social/management contributions:** to help students appreciate the difficulties of the initial process of entrepreneurship by looking at the peculiarities surrounding running a developing business.

**Keywords:** Entrepreneurship. E-commerce. Operations. Retail. Sales channels.

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## 1 INTRODUCTION

Graziela Cartesani, better known as 'Grazi', was born and raised in the São Mateus district in the western part of the city of São Paulo, Brazil. With a population of around 330 thousand inhabitants, the neighborhood is renowned for its street-based commercial activity and presence of street vendors. Located 22km from the city center, São Mateus is a peripheral neighborhood.

Grazi's mother, a housewife and her father, a metro train operator had always encouraged her sister Tatiana, nine years older than Grazi, to read. In turn, the elder sister made a point of introducing the younger one to the world of literature.

When she was 13, Grazi asked her parents to enroll her in a theatrical arts course because she dreamed of becoming an artiste. She had a thirst for knowledge, great curiosity and a desire to grow and build her life into something meaningful. She wanted to complete her higher secondary education in a private school, to get access to a good quality education. However, her family did not have enough money to invest in education, so, for financial reasons, she ended up searching for one of the better public schools.

She chose a school that she considered to be 'compatible' with her artistic profile and sat the entrance exams for the Carlos de Campos State Technical School which offered courses such as Interior Design, Visual Communication, Nursing, Building, Modelling Clothing, Diet and Nutrition and Cooking.

Entering higher secondary education made a big change in the young girl's life, as she was immediately encouraged and required to be the protagonist of her own actions and choices, and that led her to get a job as a means to acquiring greater financial autonomy and freedom. Her first job was in a children's buffet where she worked seven days a week. During her last year of high school, she decided to abandon that exhausting routine and found a different job, because she could see that at the pace she was going she would never achieve her dream of going to university.

### 1.1 THE BEGINNING OF AN INTERPRENEURIAL TRAJECTORY

At age 18, in her quest for a better salary and more regular work hours, she took a job in a fitness gym with an exclusively female clientele. Her intention was to be able to pay for a preparatory course, prior to sitting a private university entrance exams. In her own words:



“My dream was to study; my life’s dream was to take the course in Advertising and Publicity at the EPP, but I did not have a cent to my name, far less my parents. I knew the process would be very difficult, because I had chosen an elite, leading faculty. I had always studied in government-run schools. Paying for the preparatory course was just the first challenge. If I were to pass, I would still have to find a way to pay the monthly fees. But that’s how I am: persistent, obstinate. So, I decided to go ahead and see what happened.”

During the first months of her new job, the young woman began to discover more of the female universe, something she had hardly experienced herself in her young life. Although the place was ostensibly dedicated to physical exercise, topics related to female sexuality often came up in conversations and Grazi frequently heard about the problems and difficulties women had to face, including their lack of courage to go into a store selling sensual products for adults, and their confessed curiosity about such products. According to Grazi:

“Normally business opportunities are associated to solving other people’s problems; not mine. I needed 593 Brazilian reais to pay for my enrolment in the preparatory course. That was my headache. So, to get over it, I decided to solve the problem of the women at the gym by selling them sensual products. If they did not have the courage to go to a store selling adults-only products, then the products would come to them, and I would pay for my enrollment in the course.”

At that time, in mid-2010, Grazi’s financial situation was fairly delicate: the salary she got from the gym did not cover her expenses and she already had a few debts. With just 100 Brazilian reais in hand, she decided to increase her debt by borrowing another 200 reais from her father. On her Saturday off, she woke up early and went to the Brás district in the central-western part of the city, well-known for its concentration of stores with accessible prices, and there she spent the entire 300 reais on sensual products. She had no prior experience in such business and was hardly familiar with the products, so she based her purchases on her feeling as to what might be attractive to the women at the gym.

On the following Monday she announced her products to the women at the gym and by Wednesday they had all been sold bringing her a return of 600 Brazilian reais. Seeing how lucrative it could be, she delayed her enrollment in the course and the repayment of her debt to her father, and instead purchased more goods.

Up until then, Grazi had not realized that her business was about to begin. The word spread rapidly that there was a young woman selling erotic products and reached beyond the walls of the gym. In a very short time, she was being requested to sell her products in the homes of women whom she hardly knew. As her formal job was from Monday to Friday, she only had the weekends to serve her new clients, and



to her surprise, when she arrived at a client's home there were often three or four of the woman's friends present. One of her clients expressed it this way:

"If it were not for InSense, I would never buy sensual products. It's very embarrassing walking into a store like that. You always wonder whether you are going to run into someone you know. And if you have doubts about a product... how are going to ask a question with other people you hardly know around hearing everything? And if you buy through the Internet you can never be sure it's not just a fraud! ... and just imagine if a package is delivered at the door and your nosy adolescent son decides to open it. That would never do. It's far too risky!

InSense sales were booming and, according to Grazi, she "bought for 2 reais and sold for 4 but, depending on the product, multiplied by eight. With the profits from her sales she paid off all her debts, paid for her course and even managed to save a bit of money.

In 2011, Grazi was admitted to the Advertising and Publicity program, just as she had always dreamed. Given her government school education and poor family background, she managed to get a grant from the Student Financing Fund (*Fundo de Financiamento Estudantil - Fies*), a Ministry of Education action to fund students in private higher education courses in institutions with a high quality rating from the National Higher Education Assessment System (*Sistema Nacional de Avaliação da Educação Superior - Sinaes*).

At that time, it was customary for the students to be tested for their proficiency in mathematics in the first half-year. Those who failed to pass were obliged to attend extra afternoon classes to overcome their deficiency and prepare them for study subjects in scientific areas. So it was that Grazi came to be studying all day long two days a week, and still working at the gym and selling her erotic products at weekends.

There came a day when that routine left Grazi exhausted, and she decided to communicate to her clients that the activities of 'Grazi's market', as they fondly referred to it, would cease. When the consumers of her products heard of her decision, there were many expressions of disapproval:

"I couldn't accept that. Grazi offered far more than the sale of sensual products. She taught us how to use them in such a professional and considerate manner that I was not ashamed to ask questions and clear up my doubts." G.M.

"I forbade Grazi to stop her activities! Just like that! She changed my intimate life with my husband. Little did he know! All my anxiety, doubts, taboos... for the first time I managed to bring out, before a group of women, all that I felt and thought. Grazi's business made it possible to exchange experiences with other women. It's incredible! Despite her young age, Grazi knew a lot about the products she sold and how to handle the feelings of her clients, us, during the sale."(P. V. S.)



That reaction on the part of her clients led Grazi to expose her dilemma to the person responsible for the 'Business Incubator' at the Higher Education Institute where she studied, a certain professor Antonio.

## 1.2 THE ROLE OF THE BUSINESS INCUBATOR

It was halfway through the first semester of 2011 when Grazi met the person responsible for the business incubator at that time, Professor Antonio.

"My first meeting with the person in charge of the Business Incubator was a bit strange. I had never imagined that when I entered the room I would find a person who was old enough to be my father, and that I would have to explain the details of my business to him. At first, I said that I sold sensual products, door-to-door, that I trained my clients in the use of the products and that I had managed to achieve the miracle of multiplying the money. He definitely had no idea what sensual products were, so I had to open my suitcase and show him the products. His first reaction was one of embarrassment. He coughed, took a few breaths and loosened his tie a little. Even I, super easygoing, felt highly ashamed!"

While professor Antonio was recovering from the first impact, Grazi explained to him about her time limitations and lack of capital. Her money and her company's own were all mixed together, and much of her profit was swallowed up by personal spending. She needed to expand her business, but she lacked the necessary managerial skills.

The professor calmly asked Grazi how she thought the business might be expanded. She had no answers as she did not even know where to begin. Antonio suggested that they make a list of the costs of the products she had in her case, which she knew straight away; it was 800 Brazilian reais. The two of them then thought of the possibility of having several such cases in the hands of possible vendors that would play the same role as Grazi: selling from door-to-door. They soon realized it would not be a good idea. After all, how could you trust a pile of money in the hands of unknown people? Another idea was to propose that the vendors should buy the products and that after a period of training they should go out and sell them themselves.

That however would also have been difficult to implement, because who would be disposed to purchase a case full of sensual products that cost practically the same as the value of the national monthly minimum wage?

After the meeting Grazi went home feeling disappointed, because she had thought she would come out of the incubator with the solution for her life problems already decreed. The task the professor had set her was to think about ways to grow.



At the following meeting, Grazi was already dispirited when she entered the building, because she had been unable to come up with any ideas. The administrator of the incubator, however, had a different appearance; he was more cheerful and he came out with a proposal: to produce a catalogue in the same way that famous beauty and cosmetics companies do and that would be the tool for the possible vendors to use. In that way, Grazi would be relieved of the actual act of selling and could concentrate her efforts on administering the business, and also have enough time to dedicate to her university studies.

The girl embraced the idea, but she did not have enough capital to produce a catalogue. That problem was soon solved by the suggestion of payment via exchange, that is, a company would produce the catalogue and she would pay for it with products. That was straightforward; the complicated part was to decide which products would make up the catalogue considering that just one of her suppliers had 1,200 products on offer. In spite of the young woman's protests, Antonio restricted the number of products in the catalogue to 100.

Once the catalogue was ready, Grazi needed to recruit and select the 'representatives', as she insisted on calling them; not vendors or salespeople because as she said:

"I do not just sell a product, I sell a service. I aggregate value to the sale when I present the products to the clients insofar as I explain their functionality and nurture their dream of a better sexual life; I open space for them to channel their anxieties, fears and desires. I sell value."

To recruit possible candidates, Grazi took as her reference the catalogues and business model of the giant cosmetics companies who make their representatives' telephone numbers available on the Internet. The young woman imagined it would be easy to have a line of candidates wishing to be InSense representatives; after all, the sales commission was 70%. However, the first few calls set the tone for the difficulties that were to follow: whenever she began to explain the business and the products, the other side ended the call. It took her some time before she realized that most of the cosmetic sales representatives were older women entirely unwilling to discuss the commercialization of sexual products.

Only then did the girl realize that it was not enough just to have a good business model, the big challenge was to materialize it. A year had gone by since she started her business and it had failed to take off, once again prejudice had knocked at her door. In her own words:





“In 2011, when I entered the university, I had a lot of problems with relationships in the classroom. None of the girls wanted to study with me. I think they imagined that someone who sold sensual products must be some kind of call girl. There was a lot of taboo. I scared the boys too: after all, in their minds they must have thought that I knew everything about sex. When I tried to add people on Facebook, they never accepted me. As time went by, all those who had ignored me socially ended up becoming my clients, but nobody could know.”

If Grazi had to endure prejudice in the university environment, imagine how it was outside of it. Her success was linked to the fact that she could guarantee anonymity for the women who wished to buy her products without suffering any embarrassment. Finding women disposed to walk around with a catalogue of erotic product tucked under their arm was an almost insuperable social barrier, even more so because the difficulty began with the companies that were supposed to advertise the vacancies; none of them wanted to be associated to ‘for adults only’ products.

At one of the meetings with professor Antonio, they both agreed that before they worked on finding a solution for the question of attracting representatives, they needed to further investigate the public that was the consumer of InSense products. After running a qualitative research survey designed to discover whether people had ever entered a store selling adults-only products, and if they had not, why not, they found that 90% of the InSense consumers had never gone into an erotic products store and never would. They were unanimous in their explanation: the place was one that exposed them to great embarrassment. It was not for nothing that the requests for products coming from student colleagues were all made by cell phone messages and never through personal contact. One such client put it this way:

“I am 19 and I live with my father and my brother. Whatever I buy on the Internet is checked by my father. He wants to know where I buy it and for what. He likes to search for good price offers and low delivery costs. When the package arrives either he or my brother always opens it... going into a store selling erotic products would be madness! Unthinkable! Imagine if I were to meet someone from the university. They would judge me so badly.

Because of that embarrassment experienced by most of InSense’s university clients and their need for discretion and secrecy, product delivery was carried out in a somewhat unconventional way. Grazi would arrive very early at the university and place the orders in the students’ lockers in the library, with a code number that corresponded to the value due. During the lunch hour she would collect the amounts from the same place where she had left the products. The system was used so often that some of the university employees began to suspect that Grazi might be dealing with drugs.



Having realized that the target audience for In Sense consisted of young women, Grazi finally understood that for them, purchasing via the Internet put them at risk of exposure and great embarrassment, especially at the moment of product delivery to their homes. She had taken almost a year to understand that not only the clients wanted anonymity, but the representatives did too.

### **Challenges to the growth of InSense**

In mid-2013, Grazi began recruiting representatives in beauty and hairdressing salons and in fitness gyms, as they would only sell products on request and in feminine environments. Although it was difficult, she gradually managed to gain the adhesion of some representatives and she made a point of training them personally, teaching them how to approach the clients, how each product worked and in what situations the respective sale was pertinent. She knew that success depended on having representatives who were well prepared to handle that specific public, and in this last aspect Grazi excelled.

The business model finally began to materialize, and in that same year, dating sites began to become very popular, and so InSense could not fail to join the digital world. With the help of some colleagues, Grazi created an internet page for the company, presenting the products in the same way they appeared in the catalogue. However, online purchasing could only be done by persons who were registered as representatives and had acquired a certain minimum value in products for their first purchase.

Parallel to that, she invested in the social networks, because in that year certain changes in people's behavior were becoming apparent, and the taboos that had created such difficulties in the company's early days began to dissipate. That was when Grazi decided to offer discounts to a Facebook group in which girls and women exchanged information on sex, feminism and other subjects. In view of a series of moderating rules governing that group, Grazi saw that it was time for her to create her own group in a social network to provide her business with greater leverage.

"People had lots of doubts about sex; they used to ask me questions about it 'in box'. My representatives were also much in demand in that sense. So I decided to create 'Share your sex' as a way of addressing all their doubts. I attracted the women, cleared away their doubts and then I would indicate a product related to the problem that each one had. That was a very successful! It boosted my business and 2014 was the year when InSense really grew."





In September of 2014, Grazi received a phone call from a fellow student at the same university asking for an interview. Without really knowing what was involved, she agreed. Some days after the interview, InSense appeared in an article on the popular *Catraca Livre* site and that projected Grazi onto the national scene. In the days that followed, her internet page broke down constantly due to the overload of accesses, because people from other states had become interested in reselling her products. It was an inflection point in the history of InSense, but Grazi felt uncertain as to whether her experience was enough for her to handle the new situation.

By the end of 2014, InSense was selling its products to representatives in other states as well and to ensure the good quality of service provision outside of São Paulo, Grazi made a point of investing in training, but this time via Skype, and delivery of products made use of the Sedex and Postal delivery services.

At first, the packages arrived undamaged and on time, but, as the service began to be used more often, the inefficiency of the delivery services gradually became apparent as products were constantly being lost; some would arrive a month late and often with the packaging seriously damaged. That, of course, did not happen in São Paulo, because Grazi herself delivered the products directly to the representatives.

Managing the delivery logistics and meeting the expectations of representatives and clients outside the São Paulo area was giving Grazi sleepless nights. The delays meant that representatives in other states desisted from participating in the business. Furthermore, clients became highly dissatisfied and lost their bond with InSense when its representatives abandoned the business or when they delivered products in a damaged condition.

That feverish beginning brought about by the *Catraca Livre* publication died away and, little by little, InSense began to lose the small number of representatives it had in other states that it had gained so fast. Once again, Grazi was faced with the difficulty of replacing them.

At the beginning of 2015, the young entrepreneur understood that it was time to produce a new catalogue to compensate for the loss of representatives and clients. To that end, she made a survey identifying products that were most successful in terms of sales and their respective suppliers, abandoning the rest. Among the suppliers the outstanding company was Ambar – the biggest importer of erotic products in Brazil, importing products from Germany with a name for high quality,



innovation and safety. It was a perfect match, because Grazi wanted to work with a single supplier and so she could acquire all the products that would compose her catalogue from it and Ambar happened to only work with high-value orders.

With that approach, InSense was able to salvage representatives and clients in other states, but even so there still some supply problems with products that required the approval of the Public Health Surveillance Authority (*Agência Nacional de Vigilância Sanitária - Anvisa*). Delays and approval led to frustration and distrust, because it was no longer possible to turn to a different supplier, as she had invested voluptuous financial resources in the production of the new catalogue and the purchase of Ambar products.

### 1.3.1 Chinese competition

In mid-March, 2015, InSense became aware of the presence of a strong competitor that shook the sensual products market: the Chinese. Despite the questionable quality, the potential risks of their products and the innumerable violations of intellectual property rights, the price they practiced established a huge barrier to the expansion of Grazi's business.

The Chinese products being offered in Brazil at that time competed directly with practically all the items in the InSense catalogue; they were significantly cheaper, and they offered a greater variety of options. There were many Chinese brands but no single one stood out from the others. The products that InSense and other sellers were offering did not have the same origin or brand name, so they were compared to categories of similar products with the additional freight cost for delivery in São Paulo added on. In some cases, the price being offered to the client was only a quarter of that being operated by the representatives even considering the charge for delivery (Table 1).



**Table 1**

Comparison of InSense prices and those of competitors in Brazilian Reals (R\$) with freight price displayed

Product	Vendor 1	Vendor 2	Vendor 3	Vendor 4	InSense
Category A	80.00	50.00 + 20.00	39.99 + 15.00	49.00 + 15.00	80.00
Category B	200.00 to 300.00	175.00 + 20.00	99.99 + 17.00	130.00	310.00
Category C	99.00 to 250.00	110.00 + 20.00	82.00 + 17.00	90.00 + 17.00	220.00
Category D	35.00 to 129.00	33.00 + 10.00	25.00 + 9.00	29.99 + 9.00	135.00
Category E	130.00 to 290.00	129.00 + 20.00	99.99 + 17.00	130.00	280.00
Category F	40.00	29.00 + 10.00	19.99 + 7.50	17.00 + 7.50	45.00

NB: Vendor 1 – actual over-the-counter store in the city of São Paulo selling low-cost ‘premium’ products without delivery option; Vendor 2 – virtual store with its own e-address: product price plus freight charge; free delivery in the Southeast macro-region for orders-value of R\$ 300.00 or over; Vendor 3 – virtual vendor sited on an e-marketplace; product price plus freight; Vendor 4 – virtual vendor using an e-marketplace; product value plus freight; free delivery for orders of R\$ 130.00 or over in the South and Southeast macro-regions; InSense – final price to the customer when sales made by representatives with no added freight/delivery charge. Vendors 1 to 4 traded in low-price Chinese products.

Source: Elaborated by the authors (2020).

Various stores offering adults-only products, especially those offering very low prices and offering their goods via internet, either on their own sites or in well-known e-marketplaces such as *Mercado Livre* (Mercado Livre), began to trade in Chinese products. In one marketplace site alone, there were over 100 vendors offering more than 220 products; more than half of which, however, received customer product ratings that ranged from neutral to very bad, with occasional positive comments such as “good price”, “arrived as scheduled” and “quality compatible with the price”.

The usual form of delivery for those online sales was via the postal service with its national outreach. In some situations, however, the vendors used other logistics service providers, such as DHL and Fedex, or even direct delivery via motorbike courier. There was also the option for the person to collect the goods from the supplier after confirmation of the purchase, in which case there was no additional freight charge.

The customer evaluations of the cheap Chinese products were largely unsatisfactory: they did not last long, the batteries that they came with discharged in just a few minutes and some of the products fragmented into sharp pieces. Furthermore, they were rarely accompanied by detailed instruction manuals and, when they were, the instructions were never in Portuguese. The worse aspect was



the post-sales service: very rarely did dissatisfied customers wishing to exchange defective or non-functioning items manage to obtain a response from the sellers, and when they did receive a response, it was to suggest that probably it was the customer who had been mishandling the product. Many of the vendors were individuals who purchased products from Chinese sites and then merely resold them at a low price on some Brazilian electronic marketplace site without any intention of constructing their own brand.

Although the products appeared to be similar, various aspects were quite different, such as quality, comfort, safety and possibly some of them had actually been designed for a different public and for different markets.

### **1.3.2 Virtual Store**

Shaken by the impact of the Chinese products, the entrepreneur Grazi believed that the only way to face up to that disloyal competition was to invest in direct sales via her own website, and to continue having faith in the value of her clients' prior experience and the quality of the service that her company proposed and its representatives provided. Accordingly, she opened a line of sales via the company website; a channel that up until then had only been accessible to the representatives. With that, she hoped to achieve satisfactory sales, ignoring the existence of competitors' sites.

A friend of Grazi's had developed the InSense website for her, and it was hosted by a low-cost server that offered 'off the shelf' electronic commerce modules. It proved to be relatively easy to activate that resource, although it did not allow much customization or interaction. When interaction was necessary, it all took place either via a social network, made by Grazi herself or by her friend; but the website and the network were not connected.

Although she managed to make the new site available fairly fast, Grazi made no communication effort or campaign to make it better known, and in that way foster direct sales via that new resource.

### **1.3.3 Representatives**

In the city of São Paulo, InSense established a small team of dedicated representatives who performed like business owners themselves. Beyond the capital city the constant turnover of representatives continued, given the extant prejudice



that still inhibited the capture of new professionals and, accordingly, limited the growth of business.

However, by the end of 2015, in spite of all the difficulties, business showed a 50% increase in comparison with the preceding year, achieved mainly through the efforts of the door-to-door sales and not by the e-commerce initiative. Nevertheless, Grazi was worried that such growth might be easily be attenuated. In fact, only 15 clients had bought anything directly via website, and its very existence was a source of discomfort for the representatives who were giving clear signs of their discontent, especially in regard to their clients' comments regarding the incomprehensible difference in prices of products sold by InSense and those sold by all the other establishments.

At the root of that dissatisfaction was, of course, the 'Chinese invasion' and it had led to the steady desertion of clients and representatives. To make matters worse, in the second half of 2015 the competition was greatly boosted when companies in other sectors began to commercialize sensual products, as in the case of lingerie stores.

Grazi felt very worried. She knew that 2016 would be a decisive year for InSense. Although the company was established in the market, it was necessary to defend what had been achieved and ensure further growth of the business.

## **2 TEACHING NOTES**

### **2.1 CASE SYNOPSIS**

This case narrates the story of the young entrepreneur Graziela Cartesani, who began her venture out of necessity and, as she began to perceive how faithful her clients were and realize the growth potential of her business, decided to invest in an effort to gain scale.

The business is a kind of store for the sale of adults-only goods, with a sales model based on door-to-door consultative vending insofar as the young woman believed that in addition to good quality products she should offer associated services. At a certain moment she decided to invest in a model of direct sales via internet and that caused her to have to face many challenges: questions of logistics, transportation, the Chinese competition, conflicts of sales channels and administrative decision making.



## **2.2 RECOMMENDED USE**

This case is intended for use in Undergraduate Management Programs, especially in Entrepreneurism, Small and Medium-sized Company Administration and Electronic Commerce courses. It can also be used in courses that addresses specific themes, such as channel conflicts in multi-channel situations and business models.

## **2.3 DATA SOURCES**

The case was elaborated on the basis of participative observation and semi-structured interviews. The case authors accompanied the InSense entrepreneur through fortnightly meetings right from the inception of the business up to the moment when closed it down. After the company ceased operations, the authors carried out semi-structured interviews with the entrepreneur.

## **2.4 INSTRUCTIONAL OBJECTIVES**

The objective of the case is to help students to appreciate the initial difficulties involved in setting up an enterprise, observing the peculiarities involved in the management of a developing business.

This teaching case can be used to achieve the following instructional objectives: (1) propose solutions regarding the logistics problems InSense had to face; (2) propose solutions regarding the Chinese competition and the brand's position; (3) evaluate the decision to adopt a multi-channel approach opening up direct sales via website in conflict with the sales made by the representatives; and (4) evaluate possible alternative technology-supported business models, bearing in mind the various different modalities of electronic commerce.

## **2.5 CENTRAL DILEMMA AND THE GENERAL DECISION PRESENTED TO STUDENTS**

What was the central dilemma entrepreneur Graziela Cartesani had to resolve?

## **2.6 CASE ANALYSIS IN THE CLASSROOM**

After the reading of the case, the teacher can conduct the discussion by posing the following questions to the students: (1) What solution or solutions would you structure to solve the logistics problem experienced by InSense? (2) Graziela migrated from a multiple supplier model to a single supplier one. What are the advantages and disadvantages of the latter model? What are the risks involved in





that decision? (3) Identify the motives that led Graziela to decide in favor of selling her products directly via website. What are the implications of that decision? (4) Present a solution that would enable InSense to face the growing competition from the Chinese. (5) Discuss the relevance of e-commerce for the development of small businesses. Which models of e-commerce would be most suitable in this case? (6) Considering the potential of sales by representatives and the relevance of e-commerce, what form of business model would be most suitable for InSense from now on?

## **2.7 DISCUSSION OF THE QUESTIONS**

The following are suggestions for the analysis of the questions proposed above, with indication of bibliographical references to facilitate the instructor's work.

### **2.7.1 What solution or solutions would you structure to solve the logistics problem experienced by InSense?**

InSense is a small company without the operational or financial conditions to establish its own distribution network. Irrespective of their size, many companies prefer to establish their distribution networks by means of partnership arrangements with logistics companies due to the specialist experience of the latter and the savings involved. Accordingly, the way forward is via outsourcing.

In Sense seems to have chosen the right logistics channel but the wrong partner. The Brazilian postal service (*Empresa Brasileira de Correios e Telégrafos*) has been showing serious signs that it is no longer capable of fulfilling its express delivery commitments and it lacks reliability even in regard to the charges for services (Salomão, 2018). The solution, therefore, involves a redefinition of logistics partners for the InSense company. Furthermore, given that three quarters of the company's sales are concentrated in the city of São Paulo, it should consider the possibility of achieving delivery in that capital city by replacing the post office with a logistics company that makes use of motorcycle delivery and in that way guarantee timely delivery and perhaps, eventually, even offer an express delivery service. Companies such as Loggi and Rapiddo could execute such services for InSense and expand their networks to include its clients.

As regards deliveries outside the capital, logistics companies with a regional or national outreach could take over the service presently provided by the *Correios*.



Among the most well-known of such companies are Fedex, DHL, UPS and GOLLOG but there are others equally capable of providing it. On the other hand, it might be worth thinking about whether it is really worthwhile continuing InSense activities outside of the São Paulo city region given the considerable logistics effort involved and the difficulty found to recruit and select representatives.

Another alternative would be to remodel the company's e-commerce by adopting a 'fulfillment' delivery strategy alongside a large, already-structured company with gains in scale, such as *Mercado Livre* with its *Mercado Shops* (Market Shops) and *Mercado Envios* (Market Delivery) services or B2W Digital, with the services aggregated to its online marketplace. Such sales could even continue to be done using the InSense brand and website, but outsourcing the operations of warehousing, logistics and even payments to one or other of such partners.

However, reliability is the key criterion in the selection of such partners even though the cost of operations may be higher.

**2.7.2 Graziela migrated from a multiple supplier model to a single supplier one. What are the advantages and disadvantages of the latter model? What are the risks involved in that decision?**

Graziela decided to migrate from a multi-supplier situation to a single supplier one probably because it made the commercial relationship easier to manage and it was an activity that took up a lot of time in her daily round. The table below sets out the advantages and disadvantages of opting for a single or for multiple suppliers (Figure 1).

Strategy	Advantages	Disadvantages
Single supplier	(a) enhanced possibility for negotiating prices due to more recurrent purchasing and greater purchase amounts; (b) closer and more durable relations; (c) greater dependence fosters greater commitment and effort; (d) better communication; (e) greater cooperation; (f) greater economy of scale; (g) greater degree of reliability; (h) more competitive prices due to the larger purchase volumes	(a) greater vulnerability to eventual supply failures; (b) supplier may force prices up if there are no alternative suppliers.
Multiple suppliers	(a) purchaser can force prices down given the competition from other suppliers; (b) possibility to change supplier should there be any supply failures; (c) various sources of knowledge and specialization available.	(a) difficulty to foster supplier commitment; (b) difficulty to develop effective quality guarantee; (c) communication involves greater effort; (d) less investment by suppliers; (e) difficult to obtain gains of scale.

**Figure 1.** Advantages and disadvantages of single and multiple supplier strategies.

Source: Slack, Brandon-Jones and Johnston (2015).



Graziela ran the risk of being unprotected and caught off guard which did in fact occur when her single supplier experienced delays in obtaining Anvisa approval for some products. That had a direct impact on Graziela’s relationships with her representatives and with the clients who lost confidence and became dissatisfied because of the delays.

**2.7.3 Identify the motives that led Graziela to decide in favor of selling her products directly via website. What are the implications of that decision?**

Before discussing Graziela’s decision it is important to identify the advantages and disadvantages of selling directly via website (Figure 2).

Sales	Advantages	Disadvantages
Selling via the representatives	(a) makes it possible establish a relationship directly with the client, with no intermediary; (b) brand value transmitted directly to the consumer; (c) final cost to client tends to be lower as no intermediaries in the process; greater control over the distribution chain.	(a) high sales cost; (b) lower customer service capacity; (c) smaller outreach; (d) smaller sales volumes; (e) product delivery delays.
Selling directly to clients via website	(a) product choice is made faster, cheaper and, to some extent, with greater privacy; (b) more purchase options made available; (c) easy to do business anywhere in the world that has internet service; (d) transactions can be effectuated 24 hours a day; (e) more easy-to-use forms of payment; (f) enables the establishment of more personal and profound relationships, according to the client’s behavior pattern; (g) enables a reduction in the cost of furnishing the end client with digital information; (h) no great barrier to entry; (i) possibility of reaching out to new clients and new marketplaces that the retail sales had not achieved so far.	(a) logistics can be a bottleneck because it is no use selling if product cannot be delivered to the consumer; (b) virtual security risks because data and information can be cloned thereby jeopardizing the business; (c) lack of physical contact with the product impedes decision to buy; (d) there is no possibility of immediate product delivery leading clients to prefer physical stores if they need a product quickly.

**Figure 2.** Advantages and disadvantages of selling directly to clients via representatives and directly via website  
Source: Elaborated by the authors (2020).

Graziela decided to sell via e-commerce because she believed that it would increase her sales given that she found it difficult to increase the numbers of her representatives. The entrepreneur was aware that with a small number of representatives, sales would stagnate at some stage because of the limited possibilities for door-to-door sales. The way ahead, therefore, would be to expand through concomitant sale of products directly to the clients via e-commerce and offering the same prices stipulated in the catalogue.



What Graziela had failed to anticipate was the dissatisfaction and loss of stimulus of her representatives resulting from her internal competition with online and their door-to-door sales and, again, the very poor sales results obtained by the e-commerce. The entrepreneur had “cut off her nose to spite her face” by making that decision, because it undermined the representatives’ sales, cannibalizing the door-to-door-sales model.

That being so, the question involved here is the conflict between one sales channel and another. In practice, for small-scale businesses those two sales channels are usually incompatible. However, e-commerce is not limited to direct sales to consumers (the B2C model); there are other e-commerce models that could be evaluated in relation to InSense’s operations and they will be discussed below.

#### **2.7.4 Present a solution that would enable InSense to face the growing competition from the Chinese.**

According to the case narrative the Chinese competitors entered the market with prices far lower than the cost of the product for InSense and its clients. To face that problem, it is suggested that Graziela should invest in client communication, addressing their questioning the representatives about the big difference in prices. That communication could be presented via various channels such as: the company’s own site, explanatory leaflets to be distributed to the clients and intensive training for the representatives. In addition, the company could produce videos, photographs and articles and display them on the website or send them out to representatives and clients, showing how the poor quality of the low-cost Chinese products could be harmful for their consumers.

The representatives would need to be trained to ensure their discourse was aligned with that of the Company, because direct sales made by representatives continue to be its main activity and, furthermore, they are what distinguishes the company from other enterprises in a market flooded with cheaper, similar products.

That communication could be diffused in digital channels like Facebook, Instagram and YouTube, and could also be boosted by digital influencers who reach out to InSense’s specific public. Content produced by such third parties could be highly useful in boosting the representatives’ commercial activities.

Another suggestion is that the instructor could propose that the students themselves produce the content of such communications. To that end, they should



gather information about the risks associated to using the low-cost Chinese products and demonstrate and praise all the technology and research associated to the products that InSense sells. A focus on the quality of the goods is the best weapon Graziela has to fight back with and one that she has not used so far.

**2.7.5 Discuss the relevance of e-commerce for the development of small businesses. Which models of e-commerce would be most suitable in this case?**

E-commerce for small-scale businesses is an interesting subject. Many see in it the possibility of making their business well-known and increasing their presence. However, what seems to some to be a solution may actually turn out to be a tremendous headache.

Nowadays, constructing the electronic presence itself is not difficult, but it is not sufficient for the e-commerce outlet merely to exist, it needs to become well-known. When someone wishes to buy a product, they should immediately associate it in their mind with the respective e-commerce brand and that part is the greatest difficulty facing small businesses because, in order to become renowned and correctly positioned, considerable investments in human, financial and operational resources are needed and, usually, at the stage of development they find themselves such businesses do not have those resources. That means it is highly risky for a business based on door-to-door sales to invest a parallel effort in a direct Business to Consumer (B2C) e-commerce model which will actually compete internally with the main form of operation and, eventually, this alternative form of trading may drain considerable financial resources from the organization.

On the other hand, there are various different e-commerce business models; for example the hybrid Business to employee model (B2E) could be added in with sales partially achieved in a digital environment, but with delivery made by the representatives directly to the clients, in the way that Natura company did when it began its e-commerce operations. That model captures sales originated in the digital environment (and possibly with an expanded range of products in the catalogue), strengthens the representatives' activity, insofar as they can offer more products and information, and enhances the value to those clients that opt for that sales mode. In other words, the electronic commerce will no longer compete with InSense's original business model, and will preserve the valuable feature that distinguishes it from other companies and the competition of the cheap Chinese products.



Given the timid digital presence of InSense, the company could perhaps seek out some network externality that would enable its products to become more well-known via a digital partnership arrangement (Shapiro & Varian, 2003) of some kind. Participating in marketplaces (the 3P model of digital platforms) could be an alternative, seeking out an already established clientele and the services aggregated to the respective platform such as: means of payment, consumer credit; stockpiling (fulfillment model); delivery and reverse logistics operations.

Another possibility, should the conflict of channels persist with the new e-commerce model, would be to create a second brand, perhaps with exclusive products only available in the online sales service. Once more, that second brand could be supported by the force of another digital partner network, preserving the door-to-door model operated by the representatives intact.

Lastly, it can be seen that the company has not adequately explored other alternative electronic business models, such as: 'social commerce' and 'crowd business', and even Facebook's free of charge 'marketplace' environment could arouse the curiosity of representatives and consumers alike.

It should be made clear to participants that the phrase 'electronic commerce' embraces all parts of the value chain that make business feasible by digital means, and not just the transactions that are exclusively effectuated by electronic means; it includes research and survey, sales, payments, delivery, post-sales service etc. (Cetic.Br, 2019). As an example, if a product is purchased on a website and delivered via Postal Service, the physical delivery is part of the electronic commerce. Similarly, services such as Uber or using an app to order food are both considered electronic commerce even if the delivery or the payment are made face-to-face.

The initial stage of an e-commerce initiative, referred to as 'presence', is when a venture situates itself in the digital environment whether by creating a website or an app, without in fact obtaining any significant results in terms of online transactions, as was the case with InSense's electronic commerce initiative. In practice, the company launched itself in the digital environment without any well-defined strategy and without defining solutions for important aspects of e-commerce, such as delivery logistics, price, timeframes and post-sales aspects.





### **2.7.6 Considering the potential of sales by representatives and the relevance of e-commerce, what form of business model would be most suitable for InSense from now on?**

Let us analyze some of the business model alternatives for Grazi in the current context of strong competition from cheap Chinese products and the management problems in InSense operations. Those models could be suggested for the participants to analyze themselves prior to, or during the class, or they could be left to 'discover' the alternatives on their own. The strategic alternatives proposed by Porter (2005) could be useful aids to the discussion insofar as they address the aspects of approach, differentiation and price.

#### ***2.7.6.1 Go back to focusing exclusively on direct sales via representatives***

This alternative makes a lot of sense since the model of direct sales made by representatives has already proved to be viable and promising whereas the e-commerce sales failed to prosper. Indeed, that embryonic e-commerce initiative via website actually hampered the company instead of helping it, insofar as it precipitated an undesirable conflict with its more important sales channel.

Should this be the option, Grazi would need to quickly solve the main operational problems discussed earlier, namely, how to attract new representative, the problem of delivery logistics and the differentiation of the company's products and services in the light of competition from the low-price but poor quality Chinese products.

The intrinsic problem with the actual business model is the poor prospects for scaling up as compared to the other models. More sales would need more representatives, more training, more capital and a better logistics operation. In spite of Grazi's concern, it is not certain that representatives' sales possibilities have been exhausted. It is possible for the company to grow with this same model, but it will most likely be a slow, organic form of growth.

Another point to consider is that, by abandoning the option to sell via the Internet, and thus avoiding conflict between sales channels, the company will stop selling to clients that seek for both quality and practicality, letting go of a rapidly expanding market segment.



### **2.7.6.2 Focus exclusively on direct sales via electronic commerce to address competition from the Chinese products (B2C model)**

The main competitive advantage of the poor-quality Chinese products is their low price. To face that means engaging in a retail price war: in spite of the InSense products being more expensive, they are of a better quality.

Actually, the company creates additional value for its clients by means of its differentiation strategy (Porter, 200%); it not only offers superior products but aggregates the value of the representatives' activities of publicizing products, establishing relationships with clients, offering instruction and selling. That differentiation has an added cost and consequently products have a higher price, which is incompatible with the situation of a price war.

To ensure the success of an electronic commerce operation based on direct sales to the consumer (B2C model), the company would need to add on a line of cheaper products (or totally change its current portfolio) and abandon its differentiation strategy with representatives, which at the moment is its strongpoint in the market. Furthermore, considering that the InSense brand is not very well known, its performance in e-commerce would probably have to be in already established marketplaces such as *Mercado Livre* and B2W Digital, in which thousands of other vendors are already competing in terms of prices and delivery times. In other words, by opting for that alternative, InSense would have little or no competitive advantage and would destroy the value it has created so far.

### **2.7.6.3 Improve the current hybrid business model with a focus on direct sales via representatives with the support of the e-commerce**

That would be a hybrid alternative of direct sales made by the representatives (differentiation strategy) with a suitable electronic commerce model capable of creating value for both clients and representatives, while at the same time increasing the rate of growth of the company's sales.

The core idea is to preserve InSense's differential and competitive advantages, minimizing the current conflict between sales channels brought about by the internet sales. In other words, the online sales would no longer jeopardize the performance of the representatives, quite the contrary, they would encourage re-purchasing and could also attract new clients. In fact, this new model could mean that



representatives could recommend the new e-commerce to their clients whenever they perceived a loss of interest in face-to-face encounters. Furthermore, InSense has a valuable database on which to expand its commercial performance.

Any online purchases made by a registered client would generate a commission for the representative who originally registered the person in the company's system. In the case of online purchases made by a new client, the company could designate a representative working in the client's geographic area which could be changed in the case of a face-to-face visit or of a purchase made via another representative.

In that way, when a client is interested in quality (with a differentiated price) and practicality, the digital channel will be open for purchases and re-purchases, and the client can choose to receive the product through postal delivery (with freight paid) or delivery by a representative (without freight charge) and the latter will give the representative a chance to present new products and keep the relationship activated.

In this model, the delivery would be free of charge and the products would be delivered to the representatives in larger amounts, possibly by dispatch companies other than the postal service. The bigger volumes would reflect in lower transportation expenses that could feasibly be absorbed by the operation.

The most important aspect of this hybrid model is that the digital consumer's expectations would be satisfied without giving rise to conflict between the two sales channels, thereby fostering increased sales with greater remuneration for the representatives and a greater perception of value by the clients.

## **2.8 ADDITIONAL SUGGESTIONS FOR DEBATE**

The case offers an opportunity for the instructor, should he or she consider it pertinent, to address the question of Brazilian culture and its peculiarities in the aspects of female entrepreneurship, sex and taboos. The authors of this case understand that this latter discussion might draw attention away from the case's main focus. However, if the teacher is interested, he or she can conduct a broad discussion of Brazilian social and cultural characteristics.

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