Beware of exclusive distribution agreements

The Economist recently highlighted an important innovation in livestock insurance [1] from Kenya. The International Livestock Research Institute (ILRI) has piloted a groundbreaking method for measuring livestock losses using satellite images to track the deterioration of grassland. During two years up to the end of 2012, the pilot covered 2,600 livestock farmers in Kenya, paying more than a thousand claims as a result of prolonged drought.

However, the scheme has had to overcome important partnership problems. In January 2012, ILRI was poised for a third round of sales, with numerous improvements made to sales and marketing processes and growing interest from prospective clients after the recent drought. Yet its distribution partner was not ready to begin sales, since it had not managed to set up the sales points and train enough sales staff in time. Based on an exclusivity agreement with the distribution partner, ILRI had zero flexibility to seek alternatives; it was stuck.

In fact this was the second time the distribution partner had been unable to establish the sales infrastructure in time. ILRI had previously been unable to carry out any sales for this reason during one season in 2010. ILRI realised that non-exclusive distribution partnerships were needed to allow it the flexibility to engage additional partners when needed. It negotiated a termination of the exclusivity clause in the agreement, and now works with a range of distribution partners, including savings and loans groups and local government agents. This flexibility is allowing ILRI to expand across Kenya and into Southern Ethiopia.

To learn more, see this two-page case brief [2], the Economist article [1] and results from an impact evaluation [3].