Channel Structure Innovation as a Response to the COVID-19 Pandemic:
Cases From Mexico

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EXECUTIVE SUMMARY

Although there are studies on COVID-19's impact on supply chains for essential goods, the authors agree that SMEs have been largely ignored in this context. National statistics indicate that micro, small, and medium enterprises represent 99.8% of total business units in Mexico and are therefore a relevant unit of analysis. Such companies had to deal with lack of materials and delayed delivery times combined with a slowed-down demand of products. The adoption of e-commerce as an alternative channel was finally embraced by small enterprises in the country in order to survive. Original research with data from interviews to five micro and small enterprises managers is used to write mini-case studies, showing that both omni-channel and vertical integration were the most commonly used strategies. Results indicate that both flexibility and control are at the center of the decision to vertically integrate and therefore disintermediate (reducing the level number of the channel structure). A model of distribution channel innovation is proposed together with theoretical and practical implications.

INTRODUCTION

The COVID-19 pandemic has caused small and medium enterprises (SMEs) to change some of their processes (Kumar & Gupta, 2021). Due to their nature, these are enterprises limited in resources that somehow managed to survive and even grown in the middle of the sanitary and economic crisis. Entrepreneurs experienced business closure and reduced income due to government restrictions (Subagyo et al., 2020). Small companies depending on them had to deal with lack of materials and delayed delivery times combined with a demand decrease for some of their products(Kumar et al, 2022).

Micro, small, and medium enterprises represent 99.8% of total business units in Mexico (INEGI, 2020). They are therefore very relevant to the country's economy and the strategies been used in this emerging market in the present situation are worth studying. In Mexico, an enterprise with 10 employees or less is considered as micro while one with less than 50 is considered as small.

SMEs responded to the crisis by searching for new suppliers, adopting e-commerce for the first time and changing their traditional roles in the distribution channel structure (Kumar & Malhotra, 2021). An example are SMEs who did not only look for economic ways to keep delivering their products but who found a way to do the delivery themselves. Discount coupons were also a way to attract and retain customers (Kumar & Ayodeji, 2020). SMEs also used social networks to communicate and some of them adopted social commerce (Nanda & Kumar, 2022).

Another strategy used by SMEs was digital transformation. Priyono et al. (2020) find that SMEs used this strategy, however, with degrees of transformation depending on each enterprises' capabilities. They find that SMEs with a high level of digital maturity responded to the challenges by accelerating the transition toward digitalized firms (Kumar & Vidhyalakshmi, 2012). That is different to SMEs that experience liquidity issues and have a low level of digital maturity who decided to digitalize the sales function only. Finally, there are SMEs that have very limited digital literacy but are supported by a high level of social capital (Mittal & Kumar,2019) . In the last case, collaboration seemed to be a key element for success (Sharma & Kumar, 2017).

Channel distribution innovation is regarded of benefit for small and medium enterprises in the current crisis (Meristö, 2020). However, although the adoption of e-commerce as an alternative channel has been present for a few decades in the country, it was until the sanitary crisis that very small enterprises finally embraced it. In 2019, the amount of online sales showed a growth of 24% compared to the previous year, according to data from the study of Online Shopping Habits of Internet Users in Mexico (IAB, 2020). There are estimates that predict e-commerce will be two years ahead of its expected level of growth (Hernández, 2020).