Scaling inclusive business

Why do some successful inclusive business pilots fail to scale?

There are many pilots of inclusive business models that are considered successful, but only a few examples of models that have truly achieved scale. Why is this?

A simple answer might be that although a business model is successful by certain measures, it may not actually be very commercial, and therefore be difficult to scale. But while commercial viability of the business model is a key driver of scale, looking simply at the profitability of a model misses a number of other important factors that can lead an inclusive business model to scale. These various drivers, and the challenges associated with them, need to be understood in order to better support the growth and replication of promising inclusive business models.

In this edition of ‘Inside Inclusive Business’, seven broad reasons why some inclusive business models do not go to scale are identified and examined. The implications are highlighted for each, advising what to consider and do if you are trying to take a business model to scale. The research on which this document is based comes from a range of inclusive business projects, both within and beyond the Business Innovation Facility (BIF) portfolio.
The challenge of inclusive business can often be summarised as the following:

1. Building a business model that delivers both commercial and social returns
2. Taking it to scale.

There is little doubt that in the context of inclusive business, scale is what we are ultimately aiming for. Successful business models are valuable at any size, but the larger and more effective they are, the better. The existing literature increasingly tackles questions around scale and why it matters for both business reasons (to compensate for low margins and reach commercial viability), and development reasons (to match the scale of the need on a sustained basis, see for example Jenkins et al. 2010). But while ‘going to scale’ is easily said, it seems to be rarely defined in practice. What do we mean by scale and how can we get there?

In the development context, the term ‘scale’ or ‘scaling-up’ is used with reference to replication, spread, or adaptation of techniques, ideas, approaches, and concepts, as well as to increased scale of impact (World Bank 2004).

Since inclusive business refers to core commercial business rather than CSR, commercial viability often has to be considered as a precondition for true scale.

The best indicator we have for assessing the development scale of a business model or venture is the number of people it reaches at the base of the pyramid (BoP). However these numbers themselves cannot provide a complete understanding of scale, since there is no clear threshold for where ‘scale’ begins and no clarity on what numbers of low-income people reached count as having reached ‘scale.’ Particularly when looking at different types of projects, comparing these numbers can be like comparing apples and oranges.

Scale means different things depending on how the venture engages low-income people, and expectations should be context specific. A business sourcing tomatoes from smallholder farmers will never reach the same numbers of beneficiaries as a company offering health services to the poor in rural areas. In consumer models, scale may be limited by the size of the market, whilst in producer models, the limiting factor will often be the size of a business operation.

Within the Business Innovation Facility’s monitoring and evaluation (M&E) system, we measure a project’s potential for scale as one indicator to determine (potential) development impact with a simplified high/medium/low ranking based on number of people reached. The thresholds depend on the type of inclusivity. In other words, the numbers for consumer-focused business models selling products or services to the poor are typically much higher than the numbers for producer-focused models, such as businesses that engage smallholder farmers or low-income entrepreneurs. Thresholds have been determined based on actuals/estimates for BoP reach for the Business Innovation Facility project portfolio.

Does scale matter?

For a business, if capital growth or profit is the main driver, expansion to operate at scale is normally the route to success. It is not the only one, though. For example, the aim may be to prove a model then sell or spin-it off. As discussed below, if other commercial drivers are at play, scale may not always be the aim.

For those putting development funds into inclusive business, scale is fundamental to their rationale: applying public funds to inclusive business is effective if it supports solutions to poverty that – though they may not reach the poorest or be under direct control – will be sustainable and reach thousands or millions of low-income people without further subsidy.

1 http://www.ifc.org/wps/wcm/connect/dbebe6004cc75ca394a4b59ec86113d5/Pub_004_BOP_Scaling_Up_Inclusive_Business.pdf?MOD=AJPERES
2 http://www-wds.worldbank.org/servlet/WDSContentServer/IW3P/IB/2004/01/30/000160016_20040130163125/RenderedPDF/260310White0co1e1up1final1formatted.pdf
There are different ways in which a business model can go to scale. As the diagram shows, the three most common are:

- Expansion via business growth
- Expansion via partners
- Replication of the model by other companies.

**Figure 1: Different ways a business model can go to scale**

These three strategies for scale are generally suited to different types of business:

**Growth of business:** Multinational companies (MNCs) and large domestic businesses have a higher capacity to achieve scale through linking their inclusive approaches to their existing activities, and mainstreaming them to achieve growth and a scale of operation that is common in other parts of the business.

**Expansion via partnerships:** Start-ups and other smaller companies are more likely to scale by aligning a proven model with others who may have the existing networks, plants, economies of scale or payment systems that are needed. In a start-up or small company, the inclusive business is more likely to be the entire business, rather than an addition to an existing mainstream business. This means they would need to grow their company by several times over to reach scale through the growth route.

**Replication by others:** Scale through replication and systemic change in markets is important for both groups, but particularly important for smaller companies who may not have the capacity to scale their impact.

In practice, the distinctions are not cut and dried. For example, the inclusive business ventures of both Oando Marketing in Nigeria and Tata Consultancy Services in India seek scale by combining business growth with partnerships.

**Multinationals scaling inclusive business models**

**Oando Marketing** is a multinational energy company in Nigeria that is rolling out a product known as O-Gas, consisting of LPG cylinders and cooking stoves targeted at base of the pyramid consumers. The business aims to reach millions of consumers as the business grows. Its strategy includes leveraging partnerships, with other organisations, particularly in financing, distribution and social marketing, in order to build consumer awareness and affordability.

**mKRISHI** is a project of Tata Consultancy Services, a subsidiary of the Indian Tata conglomerate. It has piloted a service for farmers that provides a range of personalised and interactive services via mobile phone and aims to serve over 2 million farmers within a decade. To support business growth, it is looking at partnerships with other companies and agri organisations who can help expand the platform.
Seven reasons why scale might fail...

Our experience has shown that there are seven broad reasons why inclusive business models do not go to scale:
1. The business models are not sufficiently commercial
2. Other external factors limit the commercial proposition and ability to scale commercially
3. Market demand turns out to be very limited
4. The business cannot access growth capital
5. There are structural or capacity constraints to growing the business
6. There is a lack of ambition or incentive to go to scale
7. There are no, or very limited, economies of scale for the business model

1. The business models are not sufficiently commercial

New inclusive business pilots are often developed within research and development budgets, with initial subsidies not accounted for in the business model. Similarly, in smaller companies, initial grant funding or other donor support is often used to fund pilots. Though this approach is effective in getting pilots up and running, the resulting business models may also turn out to be ancillary to the company’s core business. Business models may not really be commercial if:

- **Gross profit margins are not high enough**
  - The business can sustain activities but there is not enough gross profit to accumulate and invest in scaling. In some cases there is not enough gross profit to even cover all costs.

- **Fixed costs are subsidised**
  - Pilots whose initial establishment and fixed costs are subsidised may be able to run commercially, but these costs are not reflected in the model, preventing the business from scaling without on-going additional subsidies.

- **Variable costs are subsidised**
  - Pilots may have variable costs supported by others that cannot be fully covered when scaling up, for example travel costs or support for extension services. When these costs are included, the model is no longer commercial.

### Constraints

- Margins are too low, or costs are too subsidised for sufficient net profit

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<td>For Large Domestic Businesses</td>
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<tr>
<td>• Pilots often highly subsidised</td>
<td>• May have fewer hidden subsidies, but still may not provide the margins needed to become core business</td>
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<tr>
<td>• Pilot may be more corporate communications-led than core business-led</td>
<td>• During pilot, carefully assess gross margins, fixed and variable costs</td>
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<tr>
<td>• Fixed costs are subsidised</td>
<td>• Pay close attention to hidden set-up costs and other subsidies</td>
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<tr>
<td>• Variable costs are subsidised</td>
<td>• Adapt the model for scale-up so that hidden costs are covered and profits are compelling</td>
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**A Southern African Fair Trade project received subsidies to cover the initial investment and capacity-building costs of creating producer-owned farms. Though financially sustainable, once up-and-running, the model has been unable to scale without additional subsidies.**
2. Other external factors limit the commercial proposition

Inclusive businesses by their nature are often reliant on a larger ecosystem for support, leaving the business vulnerable to external factors that may limit their ability to scale commercially. These can include:

- **Government policies** – A favourable regulatory environment may not exist to support scaling up.
- **Unwilling partners** – Governments, NGOs or private sector partners vital to the model’s development may not be willing or able to support scaling up beyond the pilot.

- **Supporting infrastructure** – Expected infrastructure essential for scaling, such as telecommunications or financial transaction networks, may not materialise.
- **Market conditions** – Inclusive business models reliant on markets that experience a high degree of fluctuation, such as agricultural commodity prices, may prove less commercially robust and scalable if prices change for the worse.

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| Limiting external factors such as regulations, partners and the operating environment | • Check which local conditions and partnerships are business critical  
• Assess their resilience when business is operating at scale  
• Substitute limiting factors with other means, or adapt the model to reduce reliance |
| For MNCs | For Large Domestic Businesses |
| • Localised conditions that make a pilot succeed can be hard to replicate at scale  
• Reliance on others to build market/ supply linkages limits ability to go to scale | • Reliance on others to build market/ supply linkages limits ability to go to scale |

Vodafone M-Pesa mobile money was initially limited to Kenya and the Philippines due to regulatory constraints on mobile phone operators handling money. Regulation changes in many countries have since allowed MPesa to scale its operations.

A decade ago, a cotton supply chain initiative in southern Africa involved two main cotton ginners, over 100,000 cotton farmers and over 30,000 cotton workers. Production increased several-fold, but lower cotton prices and government price setting in late 2000’s limited sustainability and growth.

3. Market turns out to be very limited or non-existent

The people at the base of the pyramid have many needs, but these don’t always translate into markets. Many promising inclusive businesses have found that there isn’t a demand for their product or service when their models are tested at scale. It’s an avoidable mistake that occurs primarily for two reasons:

- **Insufficient investment in market analysis and product development** – Failure to properly invest in market analysis and product development can lead to a limited understanding of the market and a product for which there is no demand.
- **Apparent market does not translate into scale** – The model may appear to work in a small pilot, for context-specific reasons, but when tested at scale there is no real demand.

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| Insufficient demand for product or service | • Do not assume ‘need’ translates into sustained demand  
• Invest in market analysis  
• Check whether market awareness investments achieved during the pilot are replicable at scale |
| For MNCs | For Large Domestic Businesses |
| Often a product or distribution model failure  
• Can reveal limited understanding of BoP markets | • Less likely to fail to understand domestic demand, but may be exploring new markets themselves |

A number of products have been marketed that are ‘needed’ or ‘wanted’ by BoP consumers, such as health clinics and health insurance, low-cost branded footwear and cleaning services in mosquito-prone slums. But each has failed to scale in the face of insufficient consumer demand.
4. The business cannot access growth capital

Many inclusive businesses operate in environments with underdeveloped capital markets. An inclusive business pilot may not be able to access growth capital for scaling if:

- **Capital is unavailable** – New debt or equity investment for scale-up may be hard to find and structure.
- **Capital is unaffordable** – Investment capital may be available, but at costs that are too high to justify.
- **Company lacks capacity to take on investment** – Companies, particularly small ones, may not have the capacity/ cannot afford the professional fees to structure and secure finance.

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| Lack of access to affordable scale-up capital | • Build a strong business case and a strategy for raising finance as part of planning for scale-up  
• Consider partnerships that lower scaling costs or provide access to finance |

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<td>• Unlikely, but may not be able to secure capital amongst competing demands within the business</td>
<td>• More likely to be an issue, particularly where the costs of debt is very high and equity scarce and expensive</td>
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<td>• Should be able to overcome with strong enough business case</td>
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An award-winning energy company, supported by Innovation Against Poverty, is expanding its model for decentralised energy supply at the village level. In order to make progress towards break-even, the model needs to roll out faster across villages. But this requires investment for each village entrepreneur – finance that is not available from conventional banking source or from the company’s internal capital.
5. There are structural or capacity constraints to growing the business

Commercially viable pilots may fail to reach scale if they are hampered by internal company constraints. These may include:

- **Legal structure** – The legal structure of a company may constrain the pilot’s ability to scale up or access growth capital.
- **Management capacity** – The success of the model is reliant on one or more key individuals in management who are unable to leverage themselves for the model to reach scale.

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<td>Limited skills and management capacity, or inappropriate corporate structure</td>
<td>• Build outwards from the initial champion and intrapreneurial team to engage all parts of the business: staff, skills and structures</td>
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**For MNCs**

- Inflexibility in legal structure, divisional structures and corporate processes can make it difficult for champions to get all relevant departments involved and operational

**For Large Domestic Businesses**

- There may be more general bounds to the level of internal growth domestic companies can handle
- If international constraints remain, assess how external partnerships can facilitate expansion

Capacity constraints have emerged as the top challenge in achieving scale for social enterprises, based on a survey of the Indian landscape recently completed by Intellecap, implementation partner of the Business Innovation Facility in India. The report found that hiring and retaining talent has proven challenging across both rural and urban geographies, and for companies at all stages of the enterprise growth cycle. For junior and senior positions alike, the pool of qualified candidates that possess both the required skill sets and a passion for the company’s social mission is limited, and often further constrained by the company’s inability to offer market rate salaries.

Though it’s to be expected that hiring constraints would be more of an issue for early stage social enterprises, it can be a key issue for large companies, too. Despite their large workforce, the specific talents needed to scale inclusive business models may still be lacking. These include an entrepreneurial mindset and other “soft” skills essential to building support internally and to facilitating the partnerships so often needed to achieve scale.

“The local sales force is critical to building product awareness, securing sales, reaching consumers, providing follow-up and sometimes in consumer-financing as well. Whether they are employed sales agents or entrepreneurs and franchisees, companies are encountering problems with performance, scaling and particularly with high levels of sales force churn.”

Unlocking the potential of sustainable energy for all: Business Call to Action, UNDP, Business Innovation Facility, Innovations Against Poverty, 2013
6. There are no or very limited economies of scale for the business model

Commercial viability for inclusive businesses with low margins is often dependent on economies of scale to cover fixed costs. But if there are no substantial economies to be gained from scale, the profitability may remain marginal even as the business grows. This can occur when:

- **There are significant additional costs to extending the model to new areas/suppliers/customers** – Marketing, infrastructure and capacity building investments for some inclusive business models, particularly those involving smallholder farmers, may be as significant for scaling as they were during piloting.

- **There are limited economies of scale in the central administration of the business** – This is often the case when there is no or limited IT in the administration of the business.

- **The business model is labour intensive** – Labour costs are often a high proportion of total costs in inclusive business models and may increase proportionally with scale.

- **Markets are niche** – When scaling the business model requires extending to many new small markets, rather than expansion into a few large ones, economies of scale may not materialise.

### Constraints vs. Implications

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<td>Economies of scale inadequate to ensure commercial viability</td>
<td>• Margins on a pilot do not provide a good guide to economies of scale later</td>
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<tr>
<td>For MNCs</td>
<td>• May have lower cost base than larger MNCs and be better positioned to secure good economies of scale</td>
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**Consumer focused models that engage rural entrepreneurs as distributors** – such as Unilever’s Shakti Women in India and Jita’s Aparajitas in Bangladesh – face on-going costs of recruiting, training and managing a dispersed and under-educated sales force. This limits economies of scale. In the case of Jita, profits from an expanded operation are sufficient to ensure a return on investment. But to gain further economies of scale from the Aparajita network, management is looking at two further options: (1) deploying data-tracking and hand-held devices to manage information on stock and product flow; and (2) developing new business lines that build on the comparative advantage of the rural-based female sales force.

**A smallholder out-grower scheme for sugar production in southern Africa** was profitable once investments in land and irrigation were made. But the model required substantial additional investments to acquire and prepare new areas of land, thus limiting any economies of scale from expansion.
Scaling may not always be a goal of inclusive business pilots. There are many reasons why a company would lack incentives to take commercially viable models to scale, including:

- **Benefits largely achieved through pilot** – The business gains benefits through a ‘successful’ pilot but is not incentivised enough to make the model work at scale. This can occur if the PR benefit is largely achieved through the pilot and the internal support then diminishes, or the internal learning is achieved through a small pilot and the business then applies this learning to develop other (less inclusive) markets.

- **Champion lacks ambition** – The ambitions of the entrepreneur/ intrapreneur are satisfied without scaling the model, or the opportunities for replication/ scale are too limited to justify personal reputational risk.

- **Incompatibility with core business** – Scaling the business model does not fit with the company’s core business/growth strategy (e.g. food companies that ‘own’ their supply chains).

- **No incentive to facilitate replication by others** – Replication may be the main opportunity for scale, but the company has little incentive to publicise its success or share competitive information.

### Constraints

<table>
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<th>Lack of compelling reasons to scale model</th>
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<td><strong>For MNCs</strong></td>
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<tr>
<td>• The project may be of marginal real interest to the MNC or even cut across their core strategy</td>
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### Implications

- Scaling may not be a goal of a successful pilot, but if it is:
  - Build incentives within the company to motivate further investments in the model
  - Adapt the model to better align with company’s core business

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Clear ambition: Jita was launched in December 2011 as a social business with 2000 aparajitas (rural saleswomen) and ambition for scale. It has already more than doubled the sales force with the aim of tripling it by the end of 2013.
Conclusions

Many inclusive business models have gone to scale, but far more have not. Keeping track of success and failure is of course difficult – not least because lack of success or scale is not often talked about. When looking at the BIF portfolio of approximately 40 large projects that have received advisory support over the past three years, we expect many to thrive, but only a handful may reach true development scale. Good ideas – even commercially viable ones – frequently fail to overcome the various challenges to scaling.

If scaling a successful inclusive business pilot is a priority for the implementing company, the potential challenges should be taken into consideration while the model is being developed and planned for accordingly. Ideally, do not wait until you are ready to scale. Build consideration of these constraints into how early pilots are done, how they are analysed and, particularly, into how pilot models are adapted for scale.

Understanding constraints to scale and the implications for action

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  • Adapt the model for scale-up so that hidden costs are covered and profits are compelling |
| External factors limit ability to scale                                     | • Check which local conditions and partnerships are business critical and assess their resilience when operating at scale  
  • Substitute limiting factors with other means, or adapt the model to reduce reliance |
| Insufficient demand for product or service                                  | • Invest in market analysis, rather than assuming a ‘need’ indicates market demand  
  • Check whether market awareness investments achieved during the pilot are replicable at scale |
| Lack of access to affordable scale-up capital                              | • Build a strong business case and a strategy for raising finance as part of planning for scale-up  
  • Engage partners that lower scaling costs or provide access to finance during the pilot phase |
| Limited skills and management capacity, or inappropriate corporate structure | • Build outwards from the initial champion and intrapreneurial team to engage all parts of the business: staff, skills and structures  
  • If international constraints remain, assess how external partnerships can facilitate expansion |
| Inadequate economies of scale                                               | • Develop an adapted approach – integrating IT or leveraging networks of others – to generate economies of scale |
| Lack of compelling reasons to scale model                                  | • Build incentives within the company to motivate further investments in the model  
  • Adapt the model to better align with company’s core business |

Understand the difference between the pilot situation and the wider rollout. The pilot may have context-specific factors that enable the business to work, such as: hidden subsidies for R&D and set-up, free processes for engaging with thousands of farmers or consumers, an internal champion, or an initial tolerance of lower margins. Do take advantage of them to get the idea going, but do assess them and address how they will be replaced when operating at scale.
Inclusive business models are more likely to scale if they are commercially viable as pilots (inclusive of all costs) and are part of a company’s core business from the outset. Not all successful pilots enjoy these advantages, and even those that do are not guaranteed to scale. Other key considerations include:

1 **If margins are thin, economies of scale are needed.**
Particularly with BoP products and services, the poor are price sensitive and margins tend to be very thin. This suggests profitability only at scale, but only if there are economies of scale to be gained by using larger volumes of low margin business to cover fixed costs. If the margins are just too thin, or if there are no substantial economies to be gained from scale, the business may remain unprofitable even at scale.

2 **IT solutions present an interesting route to economies of scale.**
IT solutions, extended use of mobile phones and better internet connectivity, should present increasing opportunities for securing economies of scale in low margin businesses and may be significant in many inclusive business scale-up challenges.

3 **Inclusive business models tend to be labour intensive (particularly in setting up engagement with the poor) and this can be a challenge to scaling up.**
Almost by definition many inclusive business models are labour intensive, and scaling up tends to involve working with more poor people and the costs of such a roll out of the model can be high. Often the costs of establishing the structures for a pilot model are not fully recognised. The pilot inclusive business model may be sustainable but it does not accumulate the returns to invest in the costs of rolling out to the next group.

4 **Where inclusive business models require inputs from partners, the partner inputs need to scale too.**
Some inclusive business models tend to be less purely commercial, but may be viable alongside inputs from government, NGOs, other businesses. Such inputs may be in place in a pilot inclusive business model but may be difficult to scale alongside the scale-up by the lead business.

5 **Inclusive business models that have been successfully piloted may need commercial reengineering to go to scale.**
A pilot has many context-specific factors. It is important to understand these and how they affect business success. Models often need to be adapted as they scale. Particularly for MNCs, inclusive business models that are ‘successfully’ piloted may not be robust commercially and need adapting in order to increase revenues and reduce costs so as to generate greater returns and potential for further growth.
We also have a Checklist “Developing Inclusive Business: Is your company adequately prepared to develop an inclusive business model that will succeed?” www.inclusivebusinesshub.org/inclusive-business-hub-publications/

View other Insiders in this series from the BIF Publications Page: www.inclusivebusinesshub.org/page/facility-publications

Other useful resources in our library are:

1. On the Path to Sustainability and Scale (Intellecap, 2012) provides a comprehensive review of the social enterprise landscape in India, and highlights the top challenges to sustainability and scale these companies face.

2. Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems (Harvard, 2012) describes the concept of an inclusive business ecosystem, and presents three structures companies can employ to strengthen these ecosystems.

3. Delivering Results: Moving Towards Scale (MDG Summit, 2010) reports that the number of inclusive business ventures is at a tipping point, and identifies eight main focus areas that will prove essential to increasing the number of inclusive businesses operating at scale.

4. Overcoming the Barriers to Inclusive Business Growth (BCtA & IBLF, 2010) highlights the challenges large companies face when integrating inclusive business initiatives into core business functions, and identifies potential solutions based on the experiences of Coca-Cola, Pfizer, Vodafone and others who have overcome scaling challenges.

The Business Innovation Facility supports companies as they develop and implement inclusive businesses. Inclusive business is profitable, core business activity that also expands opportunities for people at the base of the economic pyramid: either as producers, suppliers, employees, distributors, or consumers of affordable goods and services.

For further information and more resources on inclusive business visit the www.inclusivebusinesshub.org