

Inside Inclusive Business

**Business
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A word from the author...

C.K. Prahalad and Stuart L. Hart¹ promise us that there is a fortune at the bottom of the pyramid (BoP) and that companies can legitimately seek their fortunes whilst bringing prosperity to the poor. We agree with that. They concede it might take innovation and considerable resources (amongst other things) to achieve, and so suggest that multinational corporations (MNCs) are better suited to inclusive business. We do not so readily agree with that. As this paper shows, the Business Innovation Facility portfolio of projects includes SMEs that are both innovative and inclusive.

In this Insider we look at the spectrum of innovation in inclusive business. Along this spectrum, companies can innovate as "Niche Players", "Visionaries", "Challengers" or "Leaders"² depending on the 'completeness' of their inclusive business vision and the capacity they have developed to execute that vision.

This Insider is valuable for those keen to innovate for impact and scale, whether within a single firm, or across a wider market affecting low-income people.

Handwritten signature of Soji Apampa

Soji Apampa

*Business Innovation Facility,
Country Manager, Nigeria
and Co-Founder, Executive
Director of the Convention
on Business Integrity*

¹ Prahalad & Hart (2002)

² The Gartner Group

Innovation in inclusive business: Why innovation is critical to the success of inclusive business projects



Clean drinking water provided through Waterlife in India

As we review the portfolio of projects that have been supported by the Business Innovation Facility (BIF), we are able to consider who triggers innovations in inclusive business. Is it the companies themselves, the people at the base of the pyramid, donors and policy makers, consultants, or a combination of these actors? The person who triggers the innovation might be anyone that helps a company visualise a clear pathway from where it is now to the commercial future it seeks.

We can also assess the argument that companies only exert themselves in developing inclusive business models if they believe there is a significant fortune to be made which cannot be sustainably unlocked through more "conventional" models. Are they enticed to innovate if there are challenges in meeting new opportunities, existing or unexpressed market needs with what they currently have or deal with – thus warranting the need to do things in a new, better and/or different way?

BIF perspectives

Innovations in inclusive business are about:

- Triggering the innovation process
- Spurring the company to act
- Doing things that can't be done through conventional models in new, better or different ways to take advantage of available opportunities.

The 'Inside Inclusive Business' series is based on the real-world experiences of companies who are actively expanding opportunities for people at the base of global economic pyramid through their core business activities.

Each edition explores one aspect of inclusive business. The aim is to share practical ideas, challenges and solutions, as they emerge, in ways that are relevant to other business and development professionals.

Describing innovation

Innovations in inclusive business are less about inventions in the sense of creating things that never existed before. Innovation in the inclusive business context is about being inclusive with products and services, while also improving processes or leveraging technology in the value chain. It is not just about a product, but about how new ideas are infused into the overall business model to make responding to opportunities represented by the needs of the poor more central.

Innovation can be analysed in terms of the "ways" and "means" employed to take advantage of available opportunities. 'Ways' are about how much changes, how differently we do things in the business model. 'Means' are about how much new resource or different input is used for the innovation. Figure 1 shows how ways and means can vary: innovation ranges from finding new ways to use what we currently have, to better and different ways of engaging what we currently deal with.

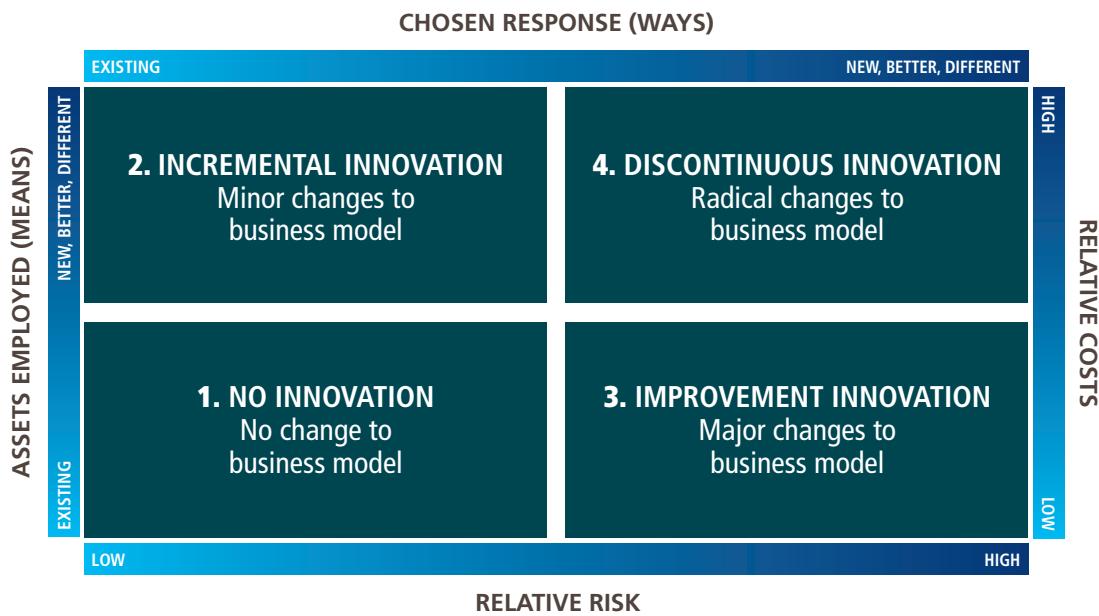


Figure 1: Ways to describe innovation in inclusive business

Figure 1 looks at the different levels of innovation:

- 1. No innovation** – Doing things in existing ways with existing means is not innovative at all
- 2. Incremental innovation** – Doing things in existing ways with new, better or different means could at least lead to some minor change or bring increase
- 3. Improvement innovation** – Doing things in new, better and/or different ways even with existing means is quite innovative and could lead to major change or represent an improvement
- 4. Discontinuous innovation** – Doing things in new, better and/or different ways with new, better and/or different means could lead to radical change and discontinuous innovation.

BIF perspectives

- Innovation can be about doing things better by adapting what you have or do
- Innovation that goes further and has discontinuity with the present is the most radical form
- Innovation requires a willingness to think beyond the norm or set aside current thinking and practices.

Innovation would appear to be found along a spectrum between incremental improvements incidental to the business model on the one hand and discontinuous improvements, intrinsic to the business model, on the other.

Innovation is therefore different to normal business. Including the BoP and working to align incentives across the value chain requires a certain level of innovation.

Potential impacts of innovation can lead all the way from the incremental to the transformative depending on choices made by a company investing in such business models. The proposition being, that those that are more transformative, with more discontinuity in the business model are more likely to change the position and the power of the BoP and truly improve their position.

BIF perspectives

- There is a spectrum of innovation
- Innovation with more discontinuity will do more for the BoP and their power in the value chain
- Including the BoP effectively in a business requires innovation.

Innovation, risk and strategic choice

What does this mean for investment and risk? The financial outlay required to implement innovative, inclusive business models could be substantially more than that required to support incremental change. Minor, major or radical changes to the business model come at a cost and a level of risk. More risk equals more cost. So the level of innovation will depend on the overall strategic choices being made.

According to Moran & Meade (2001)³, change is often brought about by an organisation's old ways being shown to be ineffective and inefficient in the current market environment. They present the following matrix of strategic choices open to companies wishing to position their organisation as fierce and flexible competitors:

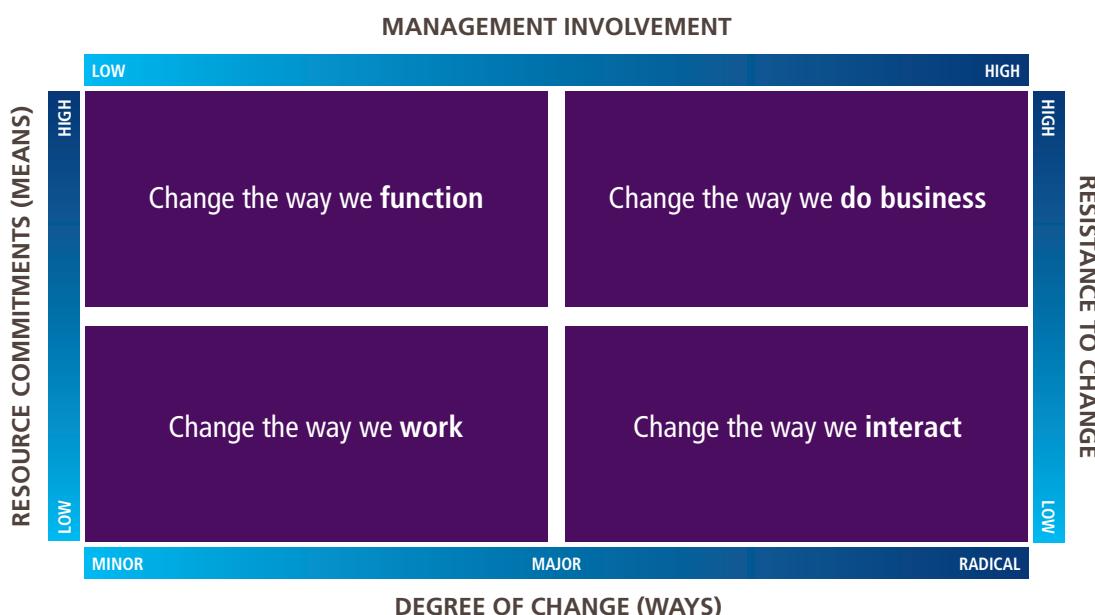


Figure 2: Matrix of strategic choices

The matrix suggests that greater resource commitments and risk (in the form of resistance to change) accompany strategic choices leading from minor to major to radical change. In addition, it would not be surprising to see levels of management involvement increase with costs and risks involved.

³ John W. Moran, Jeffrey M. Mead, (2001)

The BIF Portfolio of projects: What can it tell us?

What strategic choices drive the innovations of BIF portfolio companies in their inclusive business models?

The Country Managers from the five BIF pilot countries (Bangladesh, India, Malawi, Nigeria and Zambia) were asked for their opinion as to which companies in their portfolio they considered to be most innovative in their approach to inclusive business, and why. In response they came up with the following list of 18 companies:

Company	Country	This project aims to...
ACI	Bangladesh	...implement a sustainable contract farming model that engages low-income farmers as users of ACI inputs and suppliers of high-quality, affordable crops for ACI wholesale
ERAS Phosholer Pran	Bangladesh	...increase the incidence of soil testing at the micro (village) level
Pabna Meat	Bangladesh	...increase capacity to process cattle and benefit local women who will be engaged as contractual suppliers
Azure	India	...supply utilities, government and commercial customers with its solar energy services by setting up village-level solar photo-voltaic (SPV) systems in rural India
Waterlife	India	...develop an end-to-end system for water management, that will increase the distribution of clean and affordable water to low-income areas in India
EcoBricks	Malawi	...set up a viable brick production business, creating safe and permanent employment opportunities and reducing greenhouse gas emissions to facilitate low-carbon development
Kulima Gold	Malawi	...introduce a warehouse receipts system in rural locations
Malawi Mangoes	Malawi	...implement the first large-scale fruit processing facility in Malawi, sourcing inputs from smallholders
Moringa Miracles	Malawi	...use innovative farming and processing techniques to commercially farm moringa leaf powder, a product with multiple uses including as a highly nutritious food additive, and also press moringa oil
Universal Industries	Malawi	set up an inclusive business model with smallholder farmers for the production of high quality cassava flour to use in processing and for sale to other businesses
Furniture Village	Nigeria	...set up a local furniture manufacturing cluster that combines workshop units, factory spaces, housing, large-scale manufacturing facilities and a retail unit for b2b and b2c sales
Guinness Nigeria	Nigeria	...change the transactional relationships that exist between the company and its millers into more strategic partnerships with all stakeholders cutting across its value chain
Oando Marketing	Nigeria	...provide Nigerian low-income households with affordable and accessible clean cooking fuels through smaller sized and portable Liquefied Petroleum Gas (LPG) cylinders with integrated stove attachments
Stanbic IBTC	Nigeria	...reach 5,000,000 smallholder farmers over a five year period through its agricultural finance scheme
One Family Health	Zambia	...establish a network of clinics providing healthcare services to the poor in rural, slum, and peri-urban areas of Zambia
iSchool	Zambia	...integrate online education resources ('e-learning') that promote enquiry-based learning in Zambian schools on a commercial basis
Tea Company	N/A	...implement a novel legal arrangement by paying royalties for using the brand registered by a smallholder tea association

Within the list, the nature of innovation differs. Prahalad & Hart describe how innovation can change "the commercial infrastructure at the bottom of the pyramid." Changes in commercial infrastructure can include:

- Tailoring local solutions (targeted product development, bottom-up innovation)
- Improving access (distribution systems, communications links)
- Creating buying power (access to credit, income generation)
- Shaping aspirations (consumer education, sustainable development).

A review of the reasons why these companies embarked on inclusive business projects was in the main to meet new or hitherto unexpressed needs in the market. A major finding was that in relation to "the commercial infrastructure at the bottom of the pyramid", the items their inclusive business models touched ranged from 'tailoring local solutions' alone, to a combination of several of these factors. In a number of cases the innovation is touching all elements of the 'infrastructure'.

Let's take the case of two companies supported by BIF; Oando Marketing and Guinness Nigeria. Oando Marketing seems to us to be acting in response to a hitherto unexpressed need by touching all aspects of the BoP commercial infrastructure. Guinness Nigeria appears to be acting in response to an existing need it had, but by touching more on the 'improving access' element.

CASE STUDY

Oando Marketing

Despite Nigeria's vast gas reserves, less than 10 per cent of households use LPG, cooking gas. Other cooking fuels such as kerosene, firewood and charcoal are more popular. A vast majority of the Nigerian population live below the poverty line. There is therefore a need and opportunity to provide clean, affordable and accessible cooking fuel to this segment. To reach the BoP however, Oando Marketing has had to expand the scope and vision of its innovation to touch all elements of the commercial infrastructure described by Prahalad & Hart.



A 3kg product was specifically designed to cater to the needs of the BoP. The refill size and cost is competitive against the current cost of kerosene and burns more efficiently. The product is made available through distributors located in the BoP dominant areas as well as in Oando retail outlets across the country. In order to make the product more affordable, Oando Marketing set up a special purpose vehicle – Clean Cooking Fuel Investment Limited (CCFIL) to fund Micro Finance Banks for supporting retailers and end users.

The company seems to have made substantial changes to its business model to target this segment. It would appear Oando Marketing is using new, better and different ways to employ new, better and different means in what could be described as 'discontinuous innovation' (Moran & Mead).

CASE STUDY

Guinness Nigeria

Guinness Nigeria operates three brewing facilities in three states across Nigeria for the production of alcoholic and non-alcoholic drinks. Currently, maize and sorghum constitute 80 per cent of the company's agricultural raw material input. Both crops are sourced locally through contract millers who aggregate the grains from the farmers, process, store and then supply to Guinness Nigeria. Due to increasing

demand for the raw materials by competitors and other related sectors, and the threat of supply instability from logistical challenges posed by insurgents in parts of Nigeria's grain belt, Guinness Nigeria aims to increase the guarantee of its supply chain by modifying the current sourcing model into a more strategic partnership approach involving multiple stakeholders across the entire value chain.

From the BoP perspective, the innovation was around 'improving access' into the supply chain of Guinness and 'shaping aspirations' to ensure better farming practices are adopted to increase yields of the right varieties Guinness is interested in. The company is continuing with existing things but in new, better or different ways, suggesting an 'improvement innovation'. Resource commitment on the part of Guinness Nigeria is not expected to be much greater than before in sourcing but management involvement is expected to increase in the coordination of new strategic partnerships. It would appear, in the words of Moran & Mead, to be attempting to change the way it interacts with its supply chain.



BIF perspectives

- Innovation may be spurred by new, unexpressed or existing market needs and its impact on the inclusive business model may touch just a few or many elements
- A number of businesses are innovating to change the way they function, the way they interact, or the way they do business
- The broader the style and scope of innovation from the BoP perspective, the more central the BoP is likely to be in the resulting business model.

"Magic Quadrant": Are different types of companies better structured for innovations in inclusive business?

As mentioned earlier, implementing innovative, inclusive business models could be much more risky than attempting to tweak an existing model incrementally. The question is, just how potentially rewarding could this be? Is the game worth the candle?

When the solution put forward by a company not only impacts positively on its top and bottom line, delivers social and commercial benefits to the BoP but also overcomes some market or sector level constraints to do so, this integrated, innovative, inclusive, investment starts to be of a scale that could lead to systemic change. This is the scale at which inclusive business innovation truly demonstrates its potential to transform the lives of millions of poor people.

Defining Scale

If by "reaching scale" we mean attaining a desired threshold, then there are several such thresholds that inclusive business practitioners ought be interested in such as scale to achieve:

- Break-even
- Desired commercial and social returns
- Larger systemic change.

Who is capable of the level of innovation required to reach the scale at which systemic change is possible?

BIF perspective

- Not every company is positioned to take the high risk and reap the rewards of undertaking and scaling this sort of innovation.



Pupils at Kalingalinga Basic School learning with the iSchool laptops

Using a typology of companies helps to understand which ones may be best positioned to achieve systemic change through innovation. The Gartner Group⁴ invented the Magic Quadrant as a way to “rapidly digest how well technology providers are executing against their stated vision.” The technology industry is synonymous with innovation so this model might shed some light on innovation in general.



Figure 3: The “Magic Quadrant”

The methodology helps identify:

- 1. Leaders** – companies that execute well against their current vision and are well positioned for tomorrow
- 2. Visionaries** – companies that understand where the market is going or have a vision for changing market rules, but do not yet execute well
- 3. Niche Players** – companies that focus successfully on a small segment, or are unfocused and do not out-innovate or outperform others
- 4. Challengers** – companies that execute well today or may dominate a large segment, but do not demonstrate an understanding of market direction.

This framework was chosen for consideration because it has the potential to relate the way in which, and manner in which, innovation is done (innovation style) to the extent of means, area or subject matter involved in the inclusive business (innovation scope). It does so by comparing two quantities: “Completeness of Vision” and “Ability to Execute.” Each of these quantities in turn come with a set of variables which describe in much finer detail Prahalad & Hart’s “commercial infrastructure at the bottom of the pyramid.”

As we shall show later, “Leaders” not only match their innovation style (way and manner in which innovation is done) with a commensurate scope (extent of means, area or subject matter involved in the inclusive business innovation) but also are able to handle much larger breadth of style and scope of innovation than most. “Niche Players” tend to be minimalist in their approach to both things relative to “Leaders” whilst “Visionaries” are limited only in scope and “Challengers” limited only by their breadth of imagination, and thus innovation style, they exhibit.

We shall further illustrate this by continuing our look at the Oando Marketing case.

⁴ The Gartner Group

Oando Marketing

COMPLETENESS OF VISION

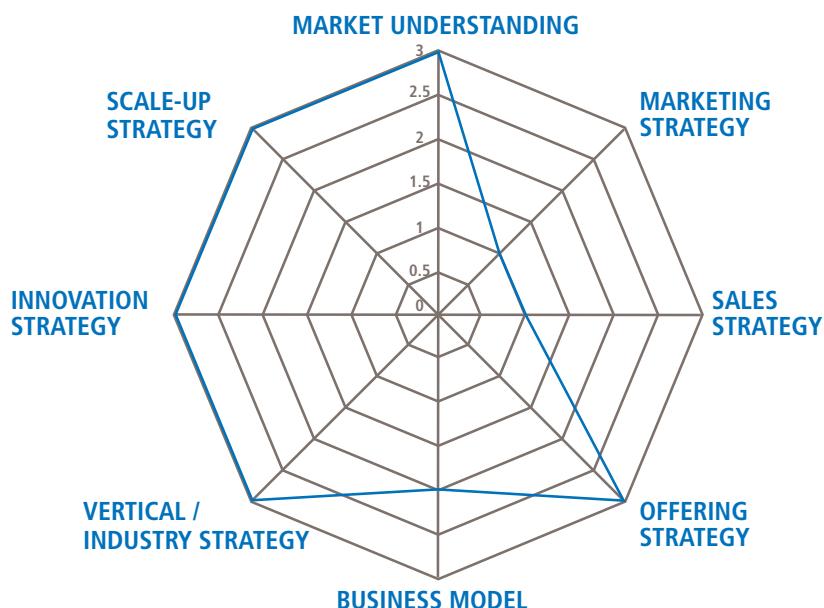


Figure 4: Completeness of Vision as at 30th June, 2013

This graph suggests more work is required especially around marketing and sales strategy – ‘improving access’ and ‘shaping expectations’ aspects of the commercial infrastructure at the bottom of the pyramid. The company may also need to pay more attention to how it creates buying power given the need to strengthen the business model.

ABILITY TO EXECUTE

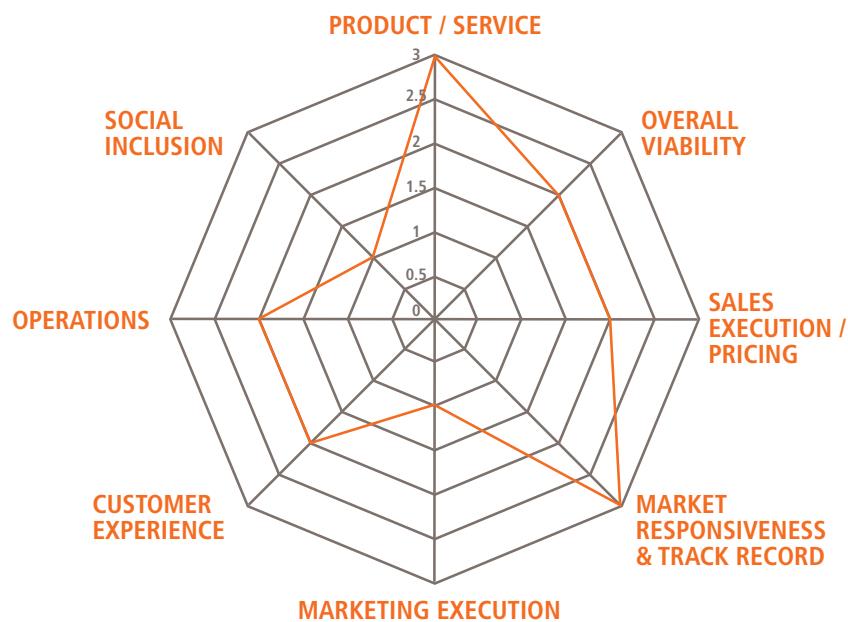


Figure 5: Ability to Execute as at 30th June, 2013

The graph suggests more work needs to be done around Marketing Execution and Social Inclusion strategy (more effort to engage the BoP needed). The company also needs to improve Overall Viability, Sales Execution/Pricing, Customer Experience and Innovation Strategy. These speak to the need for more work around ‘improving access’, ‘shaping expectations’ and ‘creating buying power’ at the bottom of the pyramid.

COMPLETENESS OF VISION (WAYS)



Figure 6: Plotting Oando Marketing on the Magic Quadrant

Plotting Oando Marketing's Completeness of Vision as at end June 2013 (score= 2.375) and Ability to Execute as at end June 2013 (score = 2.0)⁵ on the Magic Quadrant suggests that at the moment the company is "Visionary" and has a good chance to become a "Leader" if it can improve on 'providing access' to, shaping expectations' of and 'creating buying power' at the BoP.

Borrowing from this Gartner Model, we can predict that "Leaders" are the companies who clearly have what it takes to scale up their pilots, to break even, on to commercial and social success and be well placed to achieve systemic change. This is not to say others may not achieve the same thing with more investments and strategic partnering. "Visionaries" are more likely to implement successful pilots. If you like, innovation takes place along a spectrum and companies can cut their coat according to their cloth by carefully choosing the (ways) level of scale they want to achieve and by matching it with the (means) required ability to execute.

The Magic Quadrant predicts "Leaders" are best positioned to achieve systemic change. But others have important potential to build pilots, reach commercial and social success, or follow replication.

Applying the principles behind the Gartner Quadrant, we can unpack some specific business characteristics that will enable a company to be more effective in achieving Completeness of Vision and Ability to Execute. We suggest these are the typical internal characteristics that shape a company's capacity to innovate.

Conclusions

The level of innovation is indeed a critical indicator for the potential impact of innovative, inclusive business models. A level of rigour can be introduced via the Gartner Magic Quadrant methodology to predict and track the performance of inclusive business models. The indicators could also be used to identify companies capable of implementing business models that could lead to systemic change. Should such business models also incorporate changes at the policy level, such as by attracting government subsidies for the developmental role played, the business model potentially becomes transformative.

- Companies that can combine strong capacity on both innovation style AND innovation scope, have highest potential to achieve transformative impact.
- The relationship between innovation style and scope determines the potential impact possible for a given level of investment into a specific vision of innovation.

The original proponents of inclusive business may have had their sights set on such business models for their power to potentially scale from pilots, through break-even to commercial and social success and then systemic change. If there were good adoption of this approach to innovation by several key businesses within one country, it would not be too much of a stretch of the imagination to see how the private sector could become the engine of sustainable growth.

⁵ Scores have been prepared by the BIF Nigeria Country Manager

Additional resources:

Further information on the projects highlighted in this document can be found on the Practitioner Hub on Inclusive Business at:
<http://businessinnovationfacility.org/page/projects-landing-page-template>

Visit our 'know-how' section on 'Innovating business planning' at:
<http://businessinnovationfacility.org/page/innovating-business-planning>

Have a look at the **IAP Spotlight:**
"Innovation in inclusive business – Simple strategies to boost innovation in your company", at:
<http://bit.ly/IAPinnovation>

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About the author:



Soji Apampa is the Co-Founder, Executive Director of The Convention on Business

Integrity Ltd. (Gte.) The organisation was set up to find viable alternatives to corruption in Nigeria as route to markets, affordable finance, technology & know-how. Prior to working at CBi, Soji played various roles over a span of 8 years at SAP Africa (Pty) Ltd and SAP Nigeria Ltd where his last post was as its Managing Director. His experience spans training, research, consulting and advocacy/selling in fields related to corporate governance, sustainable development, political economy, compliance and anti-corruption.

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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 to join the discussion on inclusive business, go to:
Practitioner Hub on Inclusive Business: www.businessinnovationfacility.org

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