

SPOTLIGHT

on Inclusive Business



Ingredients and results of inclusive business: Findings from the Business Innovation Facility pilot

Since early 2010, the Business Innovation Facility (BIF) team has been supporting the exciting and intriguing journeys of inclusive businesses in Bangladesh, India, Malawi, Nigeria and Zambia. To date, our support and our written outputs have focused on the 'nuts and bolts' of inclusive business. As the BIF pilot draws to a close, it is time to see what BIF findings can contribute to some wider questions:

- What are the ingredients of successful inclusive business models?
- What commercial and social results can inclusive business deliver?
- What value does donor-funded technical assistance add?

This Spotlight summarises the results and findings from the portfolio, over the three and a half year pilot. It is targeted at anyone involved in developing or supporting inclusive business.

BIF is a pilot programme funded by the UK Department for International Development (DFID) that has provided hundreds of inclusive businesses with technical and advisory support. This means the BIF team has been truly immersed in the gritty details of inclusive business, and is able to share candid perspectives.

Our main findings draw from the 40 inclusive businesses that received the most substantial support from BIF. The 40 businesses include start-up companies and multinationals, cut across sectors and are evenly split between those that sell goods and services to BoP consumers and those that source from BoP producers. Their common feature is business models that are innovative by nature, seeking to deliver commercial success in BoP markets, constantly adapting and changing in the face of new challenges and opportunities. Those that work



Local distributor with d.light solar lantern, Nigeria

and scale should deliver strategic commercial objectives while reaching thousands of producers, or hundreds of thousands (sometimes millions) of consumers at the base of the pyramid.

BIF was explicitly open to taking risk and a share of 'failures' was expected. As of mid/late 2013, 80 per cent of businesses in the portfolio are progressing and 20 per cent are stalled or 'on ice'.

These businesses are diverse and, although they are not a representative sample of inclusive business and our data varies in quality, we perceive clear messages emerging across the portfolio.

This Spotlight highlights 12 overall findings, clustered under three themes.

The term 'inclusive business' refers to profitable core business activity that also tangibly expands opportunities for the people at the base of the economic pyramid (BoP): as producers, suppliers, workers, distributors, consumers – or as innovators.

Inclusive Business Spotlights shed light on specific topics concerned with the development of inclusive business. They are generated from the project and advisory work of the Business Innovation Facility and Innovations Against Poverty.

Theme 1

Key ingredients: Companies investing in inclusive business need the right business model, but this takes perseverance, pilots, patience and partnership.

- 1** Inclusive business requires more innovation and perseverance than may be expected, and more than may be needed in 'conventional' business.

As with many strategic investments, it takes time, resources and internal champions to get an inclusive business model right, but there are also unique challenges when operating in BoP markets. The returns to an inclusive business are often unclear, the journey is ambiguous, and target markets are fragmented and underdeveloped. This means that companies have to learn by doing, and sometimes take on unfamiliar roles or work in new partnerships, in order to get things done.

A passion for making the business more inclusive is a great asset, but so are patience and perseverance. Patience, because creating a successful business model involves many iterations. This takes time as each new attempt requires design, piloting and then learning stages. Perseverance, because there are multiple 'moving parts' in the business model, and many unknowns in the external environment. Setbacks will result in hard questions being asked, and it is likely that support will need to be garnered inside the company to address fresh challenges.

Passion is always so important. Champions within the company will have the vision for the twin opportunity of extending the social benefit of the company's activities whilst also seeing the commercial opportunities. The champion leaving is a main cause of initiatives stalling.



Women cassava farmers, suppliers to Universal Industries, Malawi

- 2** Getting the right business model is like putting pieces of a jigsaw together.

Reaching poor consumers or procuring from low-income producers is rarely achieved by a single innovation in one element of a business model (i.e. a low-cost product alone, or a procurement contract with farmers that only addresses price). All the pieces of the model need to be tailored for operation in BoP markets.



Consumer-focused models need to secure a strong product with an appropriate distribution channel and finance/payment mechanism that are appropriate for the target market, and often need to also create demand and wider elements of a functioning market.



Producer-focused models sourcing from smallholders depend on the right product, all the normal elements of a production system (seeds, skills, extension), but crucially will also need appropriate credit, and suitable intermediaries to engage with farmers and support aggregation.



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Students learning with iSchool technology, Zambia

In both consumer and producer-focused businesses, ensuring that each component of the model fits together coherently takes time and often multiple iterations. There are few quick wins for this reason. Changing one element of a business model will likely impact others, such that the whole business model will need to be reviewed and updated.

The company is also likely to find that there are elements of the business model that require skills and assets that are beyond 'business as usual'. The fact that companies rarely have distribution or procurement functions in deep rural areas is one example, but there are many more.

- 3** Partnerships are often critical and need to be well managed.

The BIF portfolio suggests that partnerships are more important than is generally recognised in current inclusive business literature. Partners are needed for their skills or networks, or to help a company reach beyond 'business as usual'. However, partners need to be carefully chosen, and can fail to deliver.

Collaboration can take many forms. Collaboration with competitors may be necessary when helping to create new customers, and not-for-profit organisations may provide vital insights and credibility, such as when procuring from small scale producers who normally operate within local markets. Multiple collaborations with a wide variety of organisations may be useful.

Managing collaboration is likely to be an unfamiliar challenge for a company. The time and resources needed for developing and then managing these collaborations should not be underestimated.

- 4** The inclusive business journey is long and can take unexpected 'zigzag' directions. The inclusive business journey can go slowly for many reasons. Given most companies supported by BIF are four to five years from initial concept, we estimate

a decade from inception to scale. Figure 1 shows a generic timeline of an inclusive business journey based on a company implementing a producer-focused model but illustrating a pattern that we see across many companies.

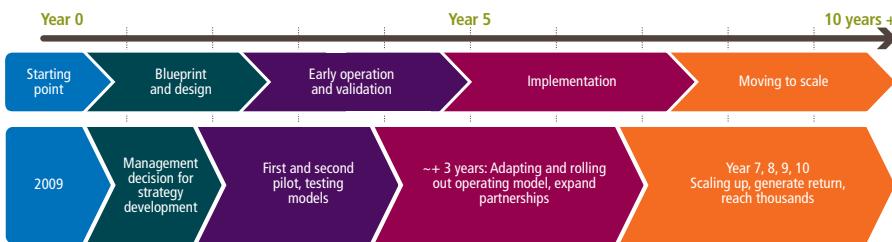


Figure 1: Illustrative timeline for producer-focused inclusive business model journey

Theme 2

Results: Commercial and social returns are small and variable, but are emerging and expected to grow significantly over the next five years.

- 5** Commercial results are emerging, but early stage.

Five inclusive businesses in the portfolio have reached profit; the majority are some years away from achieving the operational scale that they will need to be viable. Turnover is growing, although more slowly than predicted. Sharp increases in turnover and profit are expected in the next three to five years, and it is the achievement of this trajectory that will determine success.

- 6** The strategic reasons for investing in inclusive business appear strong.

Where companies are persevering with their inclusive businesses, it seems to be because they have long-term strategic drivers. These can be to expand into new markets, achieve competitive advantage or productivity increases, or to secure their supply chain.

Having a clear, long-term strategic vision provides firm foundations. Given the long lead time for financial returns,

the motivation for a company to pursue inclusive business is often also strategic, in the sense that it is part of the long-term positioning of a company for sustainable success.

- 7** The reach to people at the base of the pyramid is likely to grow from under 100,000 to some millions over the next few years.

Our 'best-guess' estimate is that the overall portfolio will reach around 3.7 million households within five years of the start of BIF support. The vast majority will be reached as consumers. These estimates are revised down (for realism, based on business progress) from the total of 6 million or so estimated by companies.

- 8** People reached at the BoP are underserved by existing markets and generally live on around \$2 or less per person per day.

Although income data is rare, available information suggests that many people at the BoP who are being reached by companies in the BIF portfolio are living on under \$2 per person per day (see figure 2). Others may be in the 'next billion up' but still have limited access to cash, credit, markets and basic goods that are needed for wellbeing.

More importantly, we see strategic shifts of direction as a major – but under-recognised – element of the inclusive business journey. As companies alter and improve the business model in response to reality they often navigate the business in a new direction entirely. We have seen consumer-focused companies reinvent the product, distribution channel and target market as they learn by doing. Producer-focused companies have transformed how they engage, and who engages, with their supply chain. Such 'zigzags' are a strategic response and should be expected and accommodated by those working in this field.

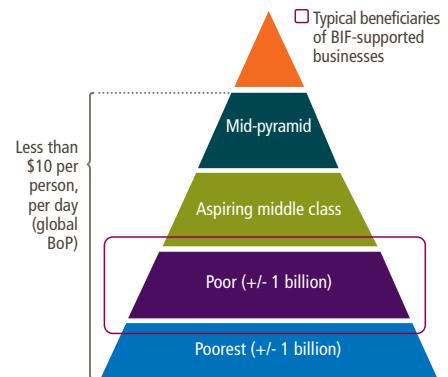


Figure 2: The economic pyramid

- 9** The benefits to people at the BoP should not be underestimated.

Inclusive businesses are offering things that make a real difference to family life, including light, power, quality education, information, healthcare, sanitation and clean water. Farmers increase their yield, or children their literacy and numeracy scores, in some of the early tangible results.

- 10** An inclusive business can also catalyse wider market change.

Companies are enabling other firms to engage efficiently with BoP producers or consumers up and down the same value chain, or by adapting models in other BoP markets.

Theme 3

The added value of external support: Technical assistance appears to be high value for business and a good use of donor resource.

11 Technical assistance can have high impact, but needs to be differentiated, well designed and targeted.

The vast majority of companies are positive about the value added by technical assistance from BIF, and 50 per cent report that their business development is bigger, better, or faster due to BIF support. Small and large companies require different types of support, but both find it adding value.

'Forced us to interrogate our assumptions on a regular basis.'

Consumer-focused start-up (Zambia)

"The BIF project helped highlight the need for access to finance among consumers seeking to purchase [our product] among [our] internal stakeholders."

"BIF support brought in access to wider resources and experience from outside the company."

Large company focusing on consumers (India)

five years afterwards. In addition, investment of about £0.5 million in knowledge exchange has reached another 80,000 practitioners, with feedback that suggest eagerness to learn about and use the models of others.

Technical support combines well with a mandate to generate and exchange knowledge. It is precisely because BIF provides business consultancy on the 'nuts and bolts' of business model development that it is well positioned to draw out findings and use these to support practitioners who are working on inclusive business.

Figure 3 shows the logic chain of BIF (blue and violet boxes) overlaid with overall progress against each component of the chain (green and amber boxes).

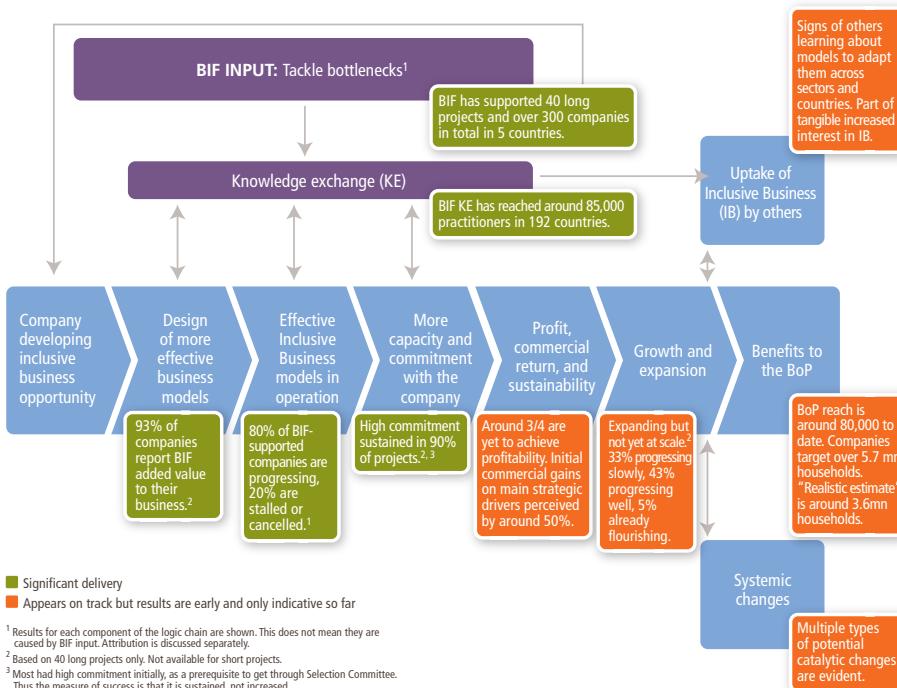


Figure 3: Progress against the BIF logic chain as of October 2013

As a team we are struck at how clear the cross-cutting messages are: challenges are often greater than expected, and yet most companies stick with it. They persevere because they see an unmapped but important route ahead. And on the evidence so far, progress on that journey will make a difference not only to the companies, but to millions of people at the BoP.

This Spotlight was written by Caroline Ashley, Carolin Schramm and Tom Harrison, Business Innovation Facility.

→ The findings from the BIF pilot are based on the Portfolio Review. A Snapshot summarising this review can be found at: www.inclusivebusinesshub.org/business-innovation-facility-publications/

All of the materials on the findings of the BIF pilot can be found at: www.inclusivebusinesshub.org/page/bif-findings-and-results

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

