The 4Ps of inclusive business:
How perseverance, partnerships, pilots and passion can lead to success

Caroline Ashley, Tom Harrison, Carolin Schramm and the BIF implementation team
Foreword

Since early 2010, we have been working in the Business Innovation Facility (BIF), immersed in the exciting and intriguing journeys of inclusive businesses in Bangladesh, India, Malawi, Nigeria and Zambia. 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, which means the BIF team has been truly inside the ‘engine’ of business. This report is the culmination of the lessons learned during this work, written at the completion of the BIF pilot.

Our report draws together findings on inclusive business models that work – or don’t – and the journeys that companies are making. There is a strong story to tell, about the challenge and importance of creating a viable business model, how it evolves in different directions and the time needed to deliver results at scale. Despite the diversity of the BIF portfolio, some common themes have emerged. Nonetheless, some caveats are equally important. Our analysis is based only on a small and very specific portfolio – 40 businesses which have received lengthy and intensive support and have been engaged in our core monitoring system. Although most of these businesses have been developing their inclusive business for several years, it is still ‘early days’ on their journey, and thus the findings represent a snapshot at a moment in time, not a definitive conclusion.

BIF has had a mandate to learn and share knowledge about inclusive business. Many of our findings on specific topics have already been shared in our existing reports and checklists, and on the Practitioner Hub (www.businessinnovationfacility.org). The details of different options for distribution to low-income consumers, or engagement with smallholders, are referenced rather than repeated here.

This report is targeted at anyone involved in developing or supporting inclusive business. We describe our audience as ‘practitioners’ – people working in a company, or in an investor, incubator, donor, consultancy, trade body, department or non-profit that supports such businesses. We hope that the report will provide readers with knowledge and insights on how companies are progressing on their inclusive business journeys – each one distinctive, yet each discovering challenges and solutions that resonate with others. This is one of two companion volumes. The other report focuses on the value of technical support to inclusive business and implications for donors from the results of the Business Innovation Facility pilot.

Copies of this report and its companion volume ‘Adding value to inclusive business’ can be downloaded from the Practitioner Hub on Inclusive Business:

bit.ly/BIFfindings

Acknowledgements

In this report, we capture the thinking and experience of many people who have worked with the Business Innovation Facility. First and foremost, the report would not have been possible without company collaboration and agreement from the businesses who have received BIF support to share their lessons and examples.

BIF Country Managers, BIF UK team members and consultants who have provided technical support have all been instrumental in bringing together the thinking in this report. Much of our learning was crystallised in a week in June 2013 when the BIF Country Managers, Soji Apampa, Nisha Dutt, Parveen Huda, Andrew Kambobe and Karen Smith, the BIF UK team and Georgina Turner, our agribusiness specialist, spent a week together discussing our cross-cutting findings. A quick look at the report will show there has been much crunching of data and designing of diagrams to make it work, for which we thank Jack McMahon and Adriano Scarampi, for their tireless work. Thanks also to Chris West, Mark Winters, Jack Newnham and Cristina Bortes who have all provided invaluable inputs, feedback, and ideas, and to Clare Convey, Caroline Holmqvist and John Paul for turning raw text into this final report.

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1 www.businessinnovationfacility.org
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**BoP**: Base of Pyramid  
**BIF**: Business Innovation Facility (pilot phase, 2010-2013)  
**Exchange rate used**: GB£1:US$1.6
Executive summary

Success in inclusive business depends on getting the business model right. But so far there is little known about which business models work, how long success takes and what success looks like in practice. This report helps fill that gap, drawing on findings from the portfolio of projects supported by the Business Innovation Facility (BIF), during its pilot phase in Bangladesh, India, Malawi, Nigeria and Zambia.

Drawing on our experience of providing substantial support to 40 companies, plus light-touch support to hundreds of others, we identify the key elements of a business model that are needed for companies developing an inclusive business – which might be the whole, or part, of their business. We use the term ‘inclusive business’ to describe profitable, core business activity that tangibly expands opportunities for the people at the base of the economic pyramid (BoP), as producers, suppliers, workers, distributors, consumers – or as innovators.

The models are innovative by nature, but also constantly adapting and changing in the face of new challenges and opportunities. Those that work and scale should enable companies to achieve long-term strategic commercial objectives and reach thousands of producers or millions of consumers at the base of the pyramid.

As BIF was explicitly open to taking risk, 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 see clear messages emerging across the portfolio.

The report presents 10 overall findings, clustered under two themes.

Theme 1: Companies investing in inclusive business need the right business model, but this takes time and innovation.

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 persevere, learning by doing, and sometimes take on unfamiliar roles or work in new partnerships, in order to get things done.

2 Getting the right business model is like putting pieces of a jigsaw together and may need multiple pilots

In both consumer and producer-focused businesses, ensuring that each component of the model fits together coherently takes time and often multiple iterations. If one piece changes, the other pieces will need to adjust accordingly. One pilot is rarely enough.

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 go beyond ‘business as usual’. However, partnerships need to be carefully designed and can fail.

4 The inclusive business journey is long and can take unexpected ‘zigzag’ directions

There are many reasons things can go wrong – we identify the top ten causes of delay. But more importantly and less recognised, we see strategic shifts of direction as core to 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. Such ‘zigzags’ are a strategic response and should be expected by those working in this field.
How perseverance, partnerships, pilots and passion can lead to success

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.

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 three and a half 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, and adjusted for 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. Others may be in the ‘next billion up’ but still have limited access to cash, credit, markets and basic goods that are needed for well-being.

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 imitating similar innovation developed in other markets.

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. Each model differs in its detail. But learning from the portfolio, we can summarise essential ingredients relevant for any inclusive business model to succeed:
P perseverance to continue through challenges, zigzags, and the years until scale
P partnerships to go beyond the company’s own skill set
P passion to turn a bold vision into reality
P pilots to test the model and learn what would work better

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.
Introduction and background: this report, the Business Innovation Facility, and the portfolio

> The purpose of this report is to share findings from the portfolio of inclusive businesses supported during the pilot phase of the Business Innovation Facility with those implementing or facilitating inclusive business.

> The Business Innovation Facility pilot was a DFID-funded programme that supported inclusive businesses in five countries. It provides advisory and technical support to businesses (not finance) and has a mandate to learn and share lessons.

> The report draws on hands-on collaboration with many companies on the ‘nuts and bolts’ of their model. However, despite the richness this offers, readers should be aware that it rests on data that is rough and is only a snapshot in time of evolving inclusive businesses.

1.1 The purpose and background of this report

What does inclusive business (IB) look like in practice? Experience is diverse, much of it early stage, and results are not always tracked and even less often reported. This report aims to help fill that gap.

This report explores the lessons learned from the pilot phase of the Business Innovation Facility that supported inclusive businesses across five countries – Bangladesh, India, Malawi, Nigeria and Zambia, over the past three and a half years. Its purpose is to share findings from a specific portfolio and phase of BIF.

Our target audience is others who have a similar curiosity about how inclusive business works in practice, whether it is valuable for companies, what it can realistically deliver for poor people, and why it sometimes doesn’t work. We make no attempt to answer those questions for other programmes, but draw out what answers can be gleaned from the experience of the businesses in our portfolio.

The report draws on the unique characteristics of BIF as a programme, which combined practical support to business with a mandate to document and share our findings on the inner workings of the business models developed. Amidst the enormous diversity, and despite important caveats, some strong patterns and trends emerge from the overall portfolio. Our more detailed Portfolio Review, published in December 2013, shares the facts about the businesses we have supported. Now that we can aggregate the experience of the team with the data collected from our monitoring system, it is time to reflect on the big picture and draw conclusions.

This report focuses on business models and their results. The companion volume to this report, ‘Adding value to innovation? Lessons on donor support to inclusive business from the Business Innovation Facility pilot’, takes an in-depth look at the value of donor support to inclusive business, and reports on achievements from a donor perspective.

Four caveats are important when interpreting what we have written. Firstly, while we know the portfolio contains a wide spread of types of inclusive business, we do not claim it to be representative. Secondly, despite best efforts, data is variable in its quality and reliability. Our priority was supporting the implementation of inclusive businesses and drawing lessons from that, rather than researching them. Thirdly, many of the businesses have little hard data at this stage and are only half way on a journey towards scale that will evolve over a decade. The report represents a moment in time. Finally, interpretation is, of course, subjective.

Why 4Ps?

In this report we have highlighted a number of features of the journey that companies go through when developing an inclusive business model. What struck us in particular was some of the characteristics of this journey that appear to us to make this different from ‘business as usual’. These are our 4Ps. This is not to say that these characteristics alone can inform the shaping of an IB business model. Indeed, in addition to the 4Ps, within this report we will share a lot of perspectives on the nature of an inclusive business model. The core elements of many ‘normal’ business models still matter, including of course the original 4Ps of marketing – product, place, price and promotion. But we explore how key elements can look different in an inclusive business model, including production systems, pricing, distribution and market creation.

Our report, we hope, also contributes to ongoing narrative around inclusive business and, indeed, the wider movement towards embracing and supporting the vital role that the private sector plays in development. As such, we owe a debt of gratitude to the many practitioners who have come before us and hope that our 4Ps will add another layer to the good work that we can’t fully acknowledge.

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1.2 The purpose and rationale of the Business Innovation Facility pilot

The underlying assumption of the BIF pilot, a programme of the UK’s Department for International Development, was that companies can benefit people at the base of the economic pyramid but face a number of challenges as they progress from initial ideas to business at scale. Challenges range from a lack of information on potential markets, to a lack of internal skills or external partnerships, or just the plain fact that strong revenue and growth models in this market take trial, error and innovation. External (donor) support can help companies unblock those bottlenecks to create business models that are sound, more investible and ultimately more sustainable and scalable. This underpins the logic of BIF pilot.1

Whereas other donor programmes offer financial support in the form of cash grants or loans, BIF supported inclusive business by providing technical advisory support.4 Support was provided through an international network of service providers and a country management team in each of Malawi, Zambia, Nigeria, India and Bangladesh. BIF also had the objective to add further momentum to inclusive business development by generating and exchanging knowledge, face to face, in print and on the Practitioner Hub.

BIF was designed within DFID in 2009, and started operation in 2010 through a consortium led by PriceWaterhouseCoopers (PwC). The BIF pilot ended on 31 December 2013. The next phase of BIF is under development and has already commenced operation in Malawi and Myanmar at the time of writing. It builds on market systems approaches in the context of larger in-country programmes. In this report TA will continue to be provided to companies, with a focus in specific sectors that provide greatest opportunity to facilitate pro-poor market system change. This report focuses only on the results of the BIF pilot.

1.3 The portfolio on which this report is based

BIF worked directly with over 300 companies over three and a half years in five countries. Almost one hundred of these received direct one-to-one advisory input. Forty of these, classed as ‘long projects’ received intensive input for three to 24 months. These 40 were selected on certain criteria including the commercial rationale, potential for development impact, degree of innovation and the need for external support. This report focuses primarily on the findings and lessons from these 40 inclusive businesses for which we have more comprehensive data and insights.

These long projects represent a diverse cross section of companies. The portfolio was intentionally diverse, spanning a range of sectors and company sizes. The businesses vary widely in their maturity and how they engage with people at the base of the pyramid.

Details of the portfolio are given in Appendix 1, while five key features are introduced here.

1. The companies range from domestic start-ups to multinationals, 14 of the 40 are medium/large domestic businesses and 10 are medium/large international businesses. Small companies, start-ups, and even NGOs comprise the other 16.

2. Businesses are spread across several industry sectors, though with a heavy concentration in food and agriculture (50 per cent), followed by energy and infrastructure (18 per cent).

3. Just over half the businesses seek to engage people at the BoP as consumers, selling them appropriate and affordable products and services (‘consumer-focused models’), and just under half engage them as producers or entrepreneurs in their value chain, providing income and market opportunities (‘producer-focused models’). In most cases, the producers are smallholder farmers selling crops, livestock or fish into a supply chain. The business models and results are very different for these two types.

4. Almost two thirds of portfolio companies have been well established for decades, but their inclusive business is new. In such cases it is this inclusive business (only) that BIF supported, analysed and reports on here. In just over a third of the portfolio, the inclusive business represents the entire company. The challenges and process of inclusive business development vary between these two types.

5. The inclusive business initiatives are relatively immature: less than a year ago, 41 per cent counted as in ‘blueprint and design’. Currently two thirds are in either early operation or implementation. Many have been piloting their venture with BIF support.

Figure 1 (overleaf) lists all 40 businesses in the portfolio, and categorises them according to their BoP focus (consumer or producer) and whether the inclusive business is the core/sole business or a diversification.

Teragro, a Nigerian agribusiness, is seeking to increase sourcing from smallholders for fruit supply to a new juice processor.

For more information on the logic of BIF, see the companion volume to this report, ‘Adding Value to Innovation’ or the BIF Spotlight on the logic chain bit.ly/BIFLogicSpotlight.

While other organisations also provide technical support to inclusive business – such as GSB bit.ly/GSBинitiatives, most donors provide finance, or technical assistance is provided as an adjunct to financial support.

One business is primarily focused on BoP as distributors. For the purposes of this report, as the distributors are earning an income for providing a service, they are treated as producers. Several businesses have a secondary beneficiary group, which are often distributors or entrepreneurs. For the sake of simplicity, they are not covered here.

One business of the portfolio cannot be clearly associated with one category because the project is led by an international organisation aiming to develop supplier capacities. But in the diagrams and tables in this report it is grouped with consumer-focused diversifying businesses, which is the closest approximation.
The 4Ps of inclusive business

**Producer-focused**
- Producers or entrepreneurs at the BoP earn income by selling goods or labour in the supply chain of the inclusive business. They gain market opportunities and/or income.

**Consumer-focused**
- Households at the BoP purchase goods or services of the inclusive business. Products include energy, healthcare, information, food, and water.

**Diversifying-into-IB**
- An established medium/large company that is diversifying into inclusive business.

**Core-IB**
- Cases in which the inclusive business is the core business model of the company.

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**Figure 1: The 40 inclusive businesses by BoP beneficiary focus and type of company**

### Consumer-focused (18)
- Nutritious biscuit – Company cluster (Bangladesh)
- Agricultural information and inputs – MCX (India)
- Portable sanitation – 3S Shramik (India)
- Water purifier – Hindustan Unilever (India)
- Agricultural platform – mKRISHIP (India)
- Water treatment system – Waterlife/Bosch (India)
- Solar panels – Azure (India)
- Smallholder finance – Stanbic Bank (Nigeria)
- Indigenous powdered drink – Dala Foods Nigeria Ltd. (Nigeria)
- Gas stoves (Nigeria)
- Affordable housing – Lafarge Cement (Zambia)
- Agricultural inputs – Cropserve Zambia ltd. (Zambia)
- Baby food supplement – Food producer (Non-specified)

### Producer-focused (22)
- Cassava – Pran Agro Business Limited (Bangladesh)
- Contract farming – ACI (Bangladesh)
- Fruit/veg for retail – Agora (Bangladesh)
- Cassava flour – Universal Industries (Malawi)
- Fruits for juice concentrate – Teragro Commodities Limited (Nigeria)
- Vegetables – Best Foods (Nigeria)
- Sorghum for beer – Guinness Nigeria (Nigeria)
- Milk for dairy products – L&Z integrated farms (Nigeria)
- Biofuels – Copperbelt Energy Corporation (Zambia)
- SME suppliers for mine – Barrick Lumwana Mining (Zambia)
- Fruit/veg for hotel – Sun Hotels (Zambia)
- Raw hides for leather – Tata Tannery (Zambia)
- Tea – Tea company (Non-specified)

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**Example**

3S Shramik is an Indian company providing portable sanitation solutions for events and construction sites. Its inclusive business initiative supported by BIF is to develop sanitation solutions in Indian slums. It has piloted fee-paying toilets targeted at slum-dwellers in several Indian cities.

**Example**

PRAN is an established brand of agri-products produced by PABL, a large agro-processing, food and beverage company in Bangladesh. The inclusive business venture aims to increase glucose production by supporting farmers in the Chittagong Hill Tracts to produce cassava to PRAN standards and supply them to the company via Krishi hubs.

**Example**

AACE Foods is a Nigerian company, launched in 2010, that produces, packages and distributes food products such as spices and spreads. It seeks to demonstrate the viability of sourcing locally within Nigeria, and has developed linkages for supplies of ginger and chilli pepper with cooperatives and smallholder groups in northern Nigeria.

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**Who benefits?**

- **Core-IB**
- **Diversifying-into-IB**
- **Producer-focused**
- **Consumer-focused**

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**Example**

iSchool is a Zambian start-up company offering e-learning systems for primary schools and individual learning at home. The products are designed for the Zambian context, cover the entire curriculum from Grades 1 to 7, and are available in English and eight local languages. School aims to develop critical thinking in children and help teachers to create an interactive learning environment.

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**Example**

Soil testing – ERAS Phosholer Pran (Bangladesh)
- Micro-hydro electricity – MEGA (Malawi)
- Solar lanterns – d.light (Nigeria)
- Health clinics – One Family Health (Zambia)
- E-learning – iSchool (Zambia)

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**Example**

Cage-cultured fish farming – Shiblee Hatchery and Farms (Bangladesh)
- Cattle contract farming – Pabna Meat (Bangladesh)
- Rural sales network – JITA (Bangladesh)
- Smallholder crops – Microloan Foundation (Malawi)
- Mangoes/Bananas for fruit pulp – Malawi Mangoes (Malawi)
- Peanuts – Afrifruit (Malawi)
- Furniture – Sokoa, Furniture Village (Nigeria)
- Jam/spreads/spices – AACE Foods (Nigeria)
- Veg/meat for traditional foods – Sylva Foods (Zambia)
Introduction and background: this report, the Business Innovation Facility, and the portfolio

1.4 Structure of this report

This introduction is followed by five main sections of the report:

- **Section 2:** Explores the components (jigsaw pieces) that we consider critical in business models for consumer-focused and producer-focused businesses.
- **Section 3:** Depicts the inclusive business journey – why companies take a zigzag course for good strategic reasons – and 10 factors that can cause delay or even failure. Reflecting on what companies need to build the jigsaws and travel the journey, our 4 Ps emerge.
- **Section 4:** Presents the commercial and social progress seen to date and the steep trajectory that is anticipated for future turnover growth and reach to the BoP.
- **Section 5:** Draws out the implications of this report for other inclusive businesses.

> Key findings are highlighted within each section.

**Summary of BIF engagement with companies:**

Forty inclusive businesses in five countries received intensive technical support from three to 24 months. These are ‘long projects’ and the average BIF spend was approximately £50,000. Forty-six companies received direct support through ‘short projects’ with an average BIF spend of £10,000. Twenty-two additional ‘short projects’, which were mainly in-country workshops, reached a cluster of companies in the same five pilot countries, totalling around 300 companies.

BIF knowledge exchange activities reached a further 85,000+ inclusive business practitioners (across many countries, mainly in the South), through reports, events and the Practitioner Hub (www.businessinnovationfacility.org). Average spend on knowledge generation and exchange is approximately $10 per person reached.  

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**Box 2**

Is inclusive business just like ‘normal business’ that takes on something new?

Is inclusive business really so different or are we finding out lessons that apply to any business doing something new?

It is a good question which we often ponder. Certainly many of the challenges encountered are because engagement in BoP markets is new, rather than because they include people with low income. But it is perhaps the interplay of social and commercial returns, and the combination of uncertainties in BoP markets, that is distinctive.

Nisha Dutt, BIF Country Manager in India, puts it like this:

Q: What does successful business conventionally require?
A: Simple product; clearly identifiable customer; scalable model; simple value delivery system; clear money flow.

Q: What does inclusive business typically involve?
A: Renegotiation of products and value chains; uncertain returns; market creation among underserved people and difficult-to-access areas; expectations of cultural differences, local flavor and need for partnerships; revenue models that in total provide sufficient margin for all players, while accommodating the low purchasing power of the BoP.

This delivers a paradox of inclusive business. It can be argued that taking the inclusive business approach conflicts with ‘good business’ and requires a willful approach to take risk. The upside is that with the ‘right’ amount of innovation and ambition, the company can unlock new business models and returns.

Soji Apampa, BIF Country Manager in Nigeria, emphasises that inclusive business requires substantive innovation – more than companies usually expect. If indeed this is true, then theories of business innovation will apply. Inclusive business will bear similar marks to other business transformation, needing strategy, iteration, and patience. Soji explains more in his BIF Insider, entitled ‘Innovation in inclusive business: Why innovation is critical to the success of inclusive business initiatives.’ [bit.ly/Innovationcritical]

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**Box 3**

Stanbic IBTC Nigeria: Daniel Arandong, Chairman of his local farming cooperative is a partner in the innovative Smallholder Financing Scheme

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Further detail on support, spend and outputs is in the companion report ‘Adding Value to Innovation’ [bit.ly/BIFfindings]
The 4Ps of inclusive business

Findings

10

The 4Ps of inclusive business

inclusive business from the business innovation facility pilot’
deliver help deliver development goals at the Base of the Pyramid.
assist companies on their inclusive business journey, and that company progress can
underpin the BIF approach: that technical support and knowledge exchange can
business – technical assistance and knowledge exchange. It explores the assumptions
that have emerged from the BIF pilot bit.ly/BIFfindings.
Companion report: ‘Adding value to innovation? Lessons on donor support to
inclusion business development, particularly those who deliver
technical assistance. The report describes the two main tools used to support inclusive
business – technical assistance. The report describes the two main tools used to support inclusive

Themes | Findings
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The value of technical assistance (TA) to inclusive businesses
- Did technical assistance make a difference to companies?
- For which types of companies, when and why was it useful or not?
- Was light-touch technical assistance useful?

- 50% of BIF TA was perceived as ‘high’ added value to the business and 40% as ‘medium.’
- TA needs to be tailored depending on the type of company it is provided to and the stage the company is at. TA design is a key step that needs investment.
- Short term support and workshops were also highly valuable.

Sharing knowledge with practitioners
- The approach to knowledge exchange
- Who was reached via knowledge exchange?
- Can we judge usefulness to the practitioner?

- Knowledge exchange allows practitioners to learn quickly from others, helps grow the market and optimises results for donors.
- BIF’s knowledge exchange draws on the programme’s practical engagement through TA.
- BIF outputs have reached over 85,000 practitioners to date from 192 countries, primarily through the Practitioner Hub on Inclusive Business.

Results from a development perspective
- What impacts for people at the base of the pyramid can inclusive business deliver?
- Can inclusive business catalyse transformative systemic change?
- What was the donor additionality and value for money?

- By Year 4/5, the portfolio could reach 3.6 million BOP households, of which 1.5 million could be plausibly linked to BIF input (allowing for variable success)
- BIF spend per BOP household reached with BIF support would be around $4 by Year 5.
- In addition to direct BOP reach, businesses can catalyse wider change.
- BIF spend per Hub visitor is under $3, BIF spend on all knowledge is around $10 per person reached.

Learning from the pilot: the how and why of inclusive business engagement
- Developing the pipeline and delivering TA
- Monitoring results with companies
- Making good use of knowledge for other practitioners
- Similar but different to a challenge fund
- Tolerating and managing risk

- Identifying the right resource for providing TA is a key and complex task.
- Donor programmes need to work with companies to engage in monitoring results.
- Knowledge exchange on inclusive business combines well with TA due to the direct collaboration with companies.
- A share of failure should be accepted and expected so long as other mechanism are in place to ensure quality is prioritised, and other risks are tracked and mitigated.

Finally, the report revisits the assumptions and rationale of the BIF approach demonstrating the advantages and disadvantages of BIF instruments from a donor perspective. In conclusion it summarises the implications for donors that have emerged from the BIF pilot bit.ly/BIFfindings.
Putting together inclusive business models that work

The key ingredient of success for inclusive business is getting the right business model, and that often takes more innovation and effort than expected.

A business model can be regarded as a series of interlocking, sometimes changing, pieces of a jigsaw puzzle.

In this section we look at the different components – jigsaw pieces – needed to create inclusive business models that work at the BoP. Based on our experience from the BIF portfolio, we have found that producer and consumer-focused models need different ingredients for success (see Figure 2 and 3), which is why we analyse each separately (see section 2.1 and 2.3). We have built upon, but significantly adapted, standard business model approaches such as the 4Ps for marketing of product, place, price and promotion, in order to focus on the components that we have observed to be most needed across the inclusive businesses. Because they are operating in BoP markets, consumer-focused models need to address market creation – not just promotion – and all aspects of affordability – not just price. Producer-focused models have to go beyond the usual supply chain issues of quality, quantity and price to address the role of intermediaries and credit for producers. We consider these elements to be core pieces of a complex jigsaw puzzle that needs to be built.

Some jigsaw pieces – such as distribution channels to the BoP – are also highlighted in other emerging literature about inclusive business. We pay particular attention to the pieces where assumptions have been challenged or practice changed, and to the more fundamental challenge of making the pieces fit together.

There is no simple or single ingredient of a successful business model.

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Figure 2: Six essential components of the consumer-focused inclusive business model

- Competitive product
- Distribution channel
- Consumer segment
- Affordability
- Demand
- Market creation

Figure 3: Four essential components of the producer-focused inclusive business model

- Smallholder product
- Production system
- Credit
- Intermediary functions

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2.1 The business model jigsaws of consumer-focused ventures

> Consumer-focused businesses are about far more than a cheap product, although product innovation is part of the story.

> Innovation in distribution and affordability are essential. These are often weaknesses for the company, so are natural areas of collaboration.

> Demand needs to be built and often a whole new market infrastructure created.

> Success means getting all the pieces right and fitted together, which takes time and iteration.

Selling goods and services to BoP markets is not just about redesigning a product for a lower price point. The key learning in consumer-focused inclusive business is that synergistic innovation is required across the whole business model and often along the entire value chain.

**Competitive product**

Most of the products and services being marketed to BoP consumers have required significant innovation. Some products are entirely new and have required years of innovation and testing. This includes the water delivery models being identified by Waterlife and Bosch, and iSchool’s e-learning curriculum, which has translated the entire Zambian curriculum into an online version in eight local languages.

Hindustan Unilever are market leaders selling table top water purifiers to Indian households. Their version aimed at the base of the pyramid market is a simple no-frills version, but with the same core functionality. Other product adaptations are more complicated: 3S Shramik provides sanitation systems for slums where piped sewage is lacking. The company has designed a system for evacuation, and has also redesigned products based on user feedback during pilot.

**Distribution channel**

Getting a product or service to BoP markets has emerged as a critical issue for most of our consumer-focused businesses – and we have seen a range of creative solutions emerge. We heard that ‘companies are very good at a small number of things’, and often setting up distribution channels to poor consumers, especially in rural locations, is not an expertise that they have.

In their early stages, business models often assume that distribution will be via franchise models or working through village level entrepreneurs (VLE). In fact, we have not seen many cases where these work in practice. Usually the company has instead collaborated with other organisations that already have a network into the BoP for some other service. The two most common such solutions are microfinance institutions (MFIs) and agricultural trading organisation, although they are not the only ones.

The ideal distribution channel cannot be resolved in isolation from product, price and partnership. As one changes, the others will too. For example, mKRISHI® first piloted a mobile phone for illiterate farmers and considered the VLE distribution model. In Section 3, we will illustrate how the company has had to take a ‘zigzag journey’ as they have effectively re-invented their service offering into a set of cloud services for agricultural transactions as they have shifted to the PRIDE™-focused model for distribution.

**CASE STUDY**

**Distribution through partnership**

**Hindustan Unilever** has been distributing its water filter product via MFI partnerships for some time. They are now looking for distribution channels via cooperatives that aggregate farmers’ produce.

**mKRISHI®** is a technology platform from TCS (Tata Consultancy Services) that allows smallholder farmers in India to access a range of services through mobile phones, including farming advice and a growing range of personalised services. The company has shifted from business to business (B2B) partnerships to focus on partnerships with rural agricultural organisations (known as PRIDE™s) as the main route to scale up use of mKRISHI®.

The JITA sales network provides income opportunities for low-income women, known as aparjitas, who sell consumer goods to rural households in Bangladesh. JITA provides an unusual example, as its core business model is to provide a distribution channel to rural consumers for large companies. The growing popularity of JITA, both for product distribution and increasingly for market research, illustrates how valuable this expertise is to other companies.
Affordability

Affordability is often critical to the success of a new product or service, although it is not enough to simply present a ‘cheap’ product in the market and expect uptake. A paradox that many inclusive business models need to resolve, is that for a model to be profitable it is necessary to sell large volumes of a product with low transaction costs per unit sold, whereas low-income consumers will only be able to afford many small individual purchases, and often also require a ‘high engagement’ sales channel.

Appropriate consumer credit is invaluable, and this seems to work best when integrated into the distribution channel. Hindustan Unilever’s Pureit water filter has been distributed via MFIs and other distribution channels. 

The demand for Pureit water filters is high, but it is also expensive for many consumers. Hindustan Unilever has been able to sell Pureit filters by offering credit to consumers, which has helped to increase sales.

There are other ways to address affordability as well. In Zambia, One Family Health is looking to a different and ambitious financing system for patients of their Child and Family Wellness Clinics, based on a microinsurance scheme that would be rolled out by the government.

Demand

When a product is new to consumers, building demand is the primary challenge, in contrast to fast-moving consumer goods where consumers know what product they need and go to look for it. Certainly it has been a major challenge for BIF companies. In some cases the scale of investment needed to build demand was not fully appreciated at first.

Creating demand means educating consumers on the benefits of the product type and then supporting them to develop a ‘habit’ of using the product, while at the same time promoting trust in the specific brand on offer. Solar lamps, slum toilets, nutritious food and cook stoves are obvious examples. Others are less obvious: electricity and healthcare are already very much sought after, supposedly ‘in demand’. But even so demand may be latent because paying for usage from a local grid (rather than an illegal wiretap) or from a local private clinic can be new concepts. Demonstrations and word-of-mouth prove more valuable than traditional advertising in creating demand for a new offering.

Consumer segment

Several businesses have targeted mid-pyramid consumers as well as BoP consumers. Indeed, this has emerged as a critical strategy for sustaining the business to the point of break-even in some cases. Sometimes it is planned from the start, but in other cases it is an essential adaptive strategy.

CASE STUDY

“Word of mouth” builds demand

The Environmental Research and Analytical Service (ERAS) aims to increase the incidence of soil testing at the village level and support the development of soil testing businesses in rural areas by providing low-cost materials (start-up laboratory kits and chemical reagents), knowledge and support (training and long-term advisory).

In Bangladesh, ERAS promotes its soil testing kit through field demonstrations with vegetables and rice, using the soil testing results to show the comparative performance using the recommended fertiliser versus the traditional fertiliser. Such high engagement channels have proved useful in a number of businesses, an in-built opportunity for sales agents to discuss with a customer the benefits and usage of a product.

Aside from boosting sales, there can be another strong reason for selling to middle class segments. In markets as diverse as nutritional foods and slum toilets, aspirational marketing is important. A product may be more sought after if it is seen as meeting educated middle-income consumers’ desire to adopt a more ‘modern’ lifestyle. This can then attract lower-income consumers in due course to a product which is aspirational in nature, rather than being perceived as one that is ‘handed out to the poor’ and therefore less valued.

CASE STUDY

Mid-pyramid consumers

In Zambia, iSchool targets community and state schools, but sales to such schools will now be complemented by sales to two other markets: a home version of the iSchool tablet or ‘ZEduPad’ will be sold to middle class families, and the teacher version, complete with lesson plans, can also be purchased privately by teachers who offer tuition.

For more information read: ‘Distribution channels to the base of the pyramid: Harnessing existing networks’ bit.ly/DistChannels

For more information read: ‘Needs or wants? Unravelling demand, affordability and accessibility when selling to the base of the pyramid’ bit.ly/needsorwants

Resources

A case study ‘School: Transformative learning in the Zambian classroom’ explains why and how the company has evolved its business model to focus on versions of tablets loaded with educational material – ‘ZEduPads’ – for different market segments, while retaining a core mission to drive up educational standards in mainstream schools. bit.ly/CaseStudyischool
Market creation

Where the product or service is new, it is not just consumer demand that is likely to be missing. Indeed it is a mistake to confuse ‘creating demand’ with ‘creating a market’. The first is essential but the second also needs supply chains, service systems, payment systems, government acceptance, and much more as a wider ecosystem. Creating a market for a new BoP product or service requires multiple components to be addressed and put in place at once (see Box 8).

Setting up a complex, new consumer-facing business model is no easy task. Adding the cost of market creation can be a step too far for companies, who fear that this investment will be too much for the business to bear, and also create an advantage for other companies that can enter the market on the back of this effort. This has been referred to as ‘first-mover disadvantage’ by one company supported by BIF. However, market creation can also create a public good, and it can, therefore, be an area that attracts significant donor support.

CASE STUDY

‘Creating a market ’ is much more than ‘creating demand’

BIF did a study for 3S Shramik on the market landscape and business design options for slum toilets in India. Because of the lack of existing demand for sanitation, the study reported that any business model will need to take into account local culture and demographics, both ability and willingness to pay, and the distance between homes and toilets. Other issues to address include the permissions needed, an effective mechanism of cash collection, a system for maintenance, and fostering of community buy-in to the business model because norms for these also do not yet exist. A model could well fail if any of these issues are not adequately addressed. Marketing messages to consumers about the value of sanitation are just one core component. As 3S piloted their models, they learnt further complexities in how different users value access to sanitation, with implications for different marketing messages.

²² Fitting the pieces together for a sustainable consumer model

What matters most is not the careful design of any single piece of the puzzle, but ensuring that they all fit together and work collectively. This means that innovation in one piece will affect the nature of other pieces.

Companies supported by BIF were rarely able to limit their innovation to either the product or service itself. In order to make the model work as a whole, adjustment of many pieces was needed. Although any new business model needs multiple working parts to kick off together, the pressure for simultaneous innovation is increased in these inclusive business markets because of their immature nature. Getting the distribution and service channels operational while building consumer finance, plus awareness of the product, an understanding of its benefits and the habits of purchase and maintenance – all at once – is no easy task.¹¹

The study we undertook of the food fortification market in Bangladesh provides a clear example of the need for action on several fronts. It suggests that the key success factors for any company developing a nutrition product would include demand creation and education of consumers, a distribution system for traditionally hard-to-access groups, and a supportive policy framework.¹² Further work we did with a number of biscuit manufacturing companies suggested that – in addition to these significant issues of demand creation and distribution – a fortified food product would also have to compete on price with other products that low-income consumers would perceive as direct competitors. A business model that does not address all these issues will struggle to succeed.

³ Resources

| The ‘Project Resource’, ‘Slum Sanitation: Market landscape and options for business design’ shares highlights from the market landscape assessment of slum sanitation and recommends steps and critical design factors for setting up privately-run toilet facilities in urban slums bit.ly/slumsanitation
| A series of blogs by 3S Shramik CEO Rajeev Kher, on the Practitioner Hub also shares feedback from children and other toilet users during the initial pilots bit.ly/Raviblog

¹¹ For more information read: ‘Innovation in inclusive business: Why innovation is critical to the success of inclusive business’ bit.ly/Innovationcritical
¹² In our ‘Project Resource’ ‘Commercial Home Fortification Products Bangladesh Political Economy Mapping’ we share findings on the complex requirements to venture into this market bit.ly/Fortification

3S Shramik pilots new toilets in Indian schools
There is another implication from these integrated models that may seem obvious but is important to note. The original design is unlikely to get every innovative component right. When, through trial and error, one component has to be changed, there will be a knock-on effect on other pieces in the puzzle. Iteration and innovation spread. As the model evolves to form a more perfect puzzle, it may take the business in a new direction.

iSchool provides an example of a business that has substantially changed both the product, target market and distribution channel. The core concept has always been to change the teaching approach in mainstream schools in Zambia and increase access to quality content by providing e-learning resources for the Zambian curriculum. The initial product was an Intel laptop that needed a consistent power supply and nightly internet connection to a remote server to update content. The cost per pupil was simply too high and the logistics were tricky. In the current version, launched commercially in late 2013, the product is significantly different: the ZEduPad is a robust tablet, with pre-loaded content. It runs on battery and can be sold with solar panels for charging. ZEduPads come in three versions, which in turn reflect the expansion of the customer segment and marketing strategy. Teacher and pupil versions are sold to schools, the education ministry and donor programmes. The teacher version is also marketed directly to teachers who offer private tuition. And finally, a family version is now retailed direct to middle class families to increase uptake, boost awareness and reduce time to break even.

With the revision of these and many other parts of the business model, cost per pupil per term has come down to $4 per term, or even less. ZEduPads were launched in late 2013, the company is in discussion with its first private investors, and also looking to regional expansion. The pieces of the puzzle now seem to fit into place. But the process took time; the launch was pushed back five times.

We suggest that the need to continue adapting the model is a learning from the BIF portfolio, and is a root cause of the time that it takes a company to develop a sustainable inclusive business model, which is discussed further in Section 3. There don’t appear to be many short cuts when pieces of the puzzle need to be reshaped, and put back into place.

Figure 4: Adapting components of the business model so they fit together: iSchool example
### 2.3 The business model jigsaws of producer-focused ventures

- **Business models focused on sourcing from smallholder producers** face many challenges and no ‘quick fixes’. These challenges are already well known but companies perhaps over-simplify their models at first.

  > The engagement mechanism with smallholders, the role of intermediaries, and risk mitigation are essential aspects, which require sufficient attention.

  > Models evolve. They are rarely as simple as they might appear and companies may end up taking a more hands-on role than they wanted.

In our portfolio, the challenges of inclusive businesses sourcing from smallholder producers are very different to the ones appearing in consumer-focused models. Agricultural models are dealing with long-standing problems in the sector: low quality or quantity of production by smallholders; low yields arising from limited access to appropriate inputs; lack of finance to upgrade the system; insecure supply chains for companies; and low productivity of agriculture for farming families. Despite new opportunities that arise with technology and changing consumer preferences, old challenges such as side-selling, climate-related risk, and inefficiencies of working at scale with thousands of smallholders, remain considerable.

While the solutions differ in producer-focused and consumer-focused businesses, the need to pilot innovative models and persevere until all the pieces fit together is just as strong.

#### Smallholder product

Not all agricultural products are suited to smallholder production at scale that a commercial market needs. To date, most well-established and well-known linkages between processors and smallholders have been around commodities – tobacco, tea, cocoa – cash crops that are not for household consumption or local markets. What is interesting in the BIF portfolio is that there are attempts to establish inclusive agricultural models for a much wider range of smallholder products: indigenous vegetables, groundnuts, cassava, sorghum, ginger, mangoes, pineapples, oranges, soy beans, jatropha seeds, tilapia fish, beef, cattle hides and milk.

In most cases, companies are establishing inclusive supply chains for crops that are already commonly grown by smallholders, which is some assurance of feasibility. But often, the inclusive business model focuses on an improved variety or quality: fresh cassava not dried, lower-aflatoxin groundnuts, a plumper variety of mango, chemical-free tilapia, organic fodder-fed beef.

The shift from old to new varieties or qualities can drive the premium prices that are needed for the inclusive business model to work for both the company and farmer, but can also require considerable effort. Malawi Mangoes has top-grafted thousands of smallholder mango trees to introduce a new variety. Universal is educating farmers to sell fresh cassava root within 48 hours of harvesting, rather than dried root which is the local market product. In Bangladesh, a core part of women’s training to rear cattle for Pabna Meat and breed tilapia for Shiblee Fisheries was around the on-site production of fodder/fish food.

Also in Bangladesh, ACI piloted their contract farming model with a new variety of tomato which had been developed to grow in the summer wet season. While the new variety is potentially very lucrative due to retailer demand for local ‘off season’ tomatoes, it also added considerably to risk as it is a technically demanding crop to grow.

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#### Production system

To boost volumes and quality of production, farmers generally need to follow a common progression from a low input/high output production system to a high input/high output one. Very often the agribusiness needs to facilitate this for farmers, but in return needs some guarantee that the increased yield will benefit its own supply chain.

For Universal Industries, a massive increase in cassava production volume is needed to make their new cassava flour processing plant work commercially. Farmers need to increase the cultivated area and use quality seeds, fertiliser and other inputs. For Stanbic IBTC ensuring that farmers graduate to a high input/output system is critical to the success of their rural credit model.

The value proposition for extending credit to players across the agricultural value chain is that credit finances improved inputs and services, which in turn generate higher yields, sufficient for all the players in the complex system to gain, and of course service their loans from Stanbic IBTC.

‘Side-selling’ is a term for a problem that besets attempts to link small farmers to large companies. Farmers can be tempted to sell their crop into the local market if prices are good or the need for cash is urgent. Stanbic IBTC mitigates this issue with their maize and soya contracts by arranging for the harvesting to be done by a contractor, who takes the crops straight to the company. Universal is confronting the side-selling issue by focusing on a cassava variety that is less attractive for local consumption due to its less sweet flavour, while also investing to build a close and trusted relationship with the farmers.
Credit

In order to access the inputs and services that are needed to benefit from a high input/output farming system, farmers often need a source of credit. But despite having potential buyers and farmers who could grow the crop, credit is often the ‘missing piece’ of the jigsaw puzzle.

One of the particularly interesting features of the Stanbic IBTC model is that the credit supplier (Stanbic IBTC) is also the stakeholder that is driving the whole inclusive business model. In Bangladesh, ACI both provided credit directly from the company, and utilised a local microfinance provider to supply credit to farmers.

CASE STUDY

Piloting a model in Bangladesh, and the need to redesign

A pilot can deliver a ‘failed harvest’ but an improved business model.

In Bangladesh, ACI wrestled with a number of issues when piloting their contract farming model, for which technical support was provided by BIF. The summer tomato pilot involving 50 farmers was run during mid-2013. As a pilot to generate lessons on how to design a business model, it is proving very useful. As a pilot to deliver benefits to farmers and summer tomatoes to ACI’s retail division, it failed – inclement weather and disease decimated the crops and the pilot harvest was not a success. There were key business model components that did not work in the initial pilot, and which are now being revised.

The model was highly reliant on intermediaries to reach a group of farmers. While several functions were carried out, there was a key gap around transmission of vital agronomic information. This led to significant issues with the production system and crop care.

Shortfalls in farmer crop care highlighted problems with the product itself: summer tomatoes are a new variety and are technically challenging. The lack of crop care was exacerbated by poor climatic conditions.

Harvest failure highlighted another problem – although credit has been built into the model, there was a lack of risk management. As farmers did not have crop insurance and did not fully understand their loans, they were left exposed to risk until post-harvest arrangements were made to alter the burden of risk.

These challenges are now proving very useful to ACI as it adjusts the model going forward. The company is still determined to develop a model that works for resource-poor farmers and various business units of ACI.

Intermediary functions

The role of intermediaries has emerged as probably the most challenging piece of the jigsaw puzzle. Companies are usually not well set up for engaging directly with farmers. But assumptions that NGO partners can be left to manage information flow, capacity development with farmers and aggregation of product have been proved wrong.

The ACI model was designed in recognition of the fact that the company does not have the necessary links with farmers to manage a contract farming model themselves, and therefore, at least in the early years, will depend on local NGO intermediaries that have the capability and credibility to work directly with farmers. However, technical expertise in production of summer tomatoes rested with ACI agronomist experts and was not sufficiently transmitted to farmers in this structure, either by ACI or by the NGO partner.

In their original planning, Universal Industries also depended on NGOs as intermediaries for channelling information to farmers and cassava to Universal. The demands of the intermediary role proved to be more than the NGO partner could deliver, and Universal are now looking to have more direct relationship with farmers themselves.

The complexity of producer models can push a company towards a more engaged role with farmers than they may want or are prepared to play. We looked at a number of companies that BIF worked with who are seeking to establish links with small farmers. Most are attempting a fairly light-touch role in their direct engagement with farmers, but sometimes get pushed into closer engagement.

Resources

The Insider ‘Inclusive agribusiness: linking smallholder farmers to markets’ profiles the approach of Malawi Mangoes. The insider explores how sustainable, inclusive linkages can be formed that meet the needs of both the farmer and the market. It focuses specifically on the linkage between the two and alternative roles of intermediaries.

Cases studies of Stanbic IBTC’s new investment in agricultural value chains in Nigeria, and ACI’s pilot of contract farming in Bangladesh, explain how these two large companies combine access to inputs and access to finance into their new farming models. Stanbic IBTC is a bank looking to expand its rural customer base and ACI is Bangladesh’s largest supplier of agricultural inputs. Both address how farmers can afford modern farming inputs and techniques in order to boost productivity.

CASE STUDY

A company investing in direct farmer engagement rather than partners as intermediaries

Malawi Mangoes is a start-up that has set up Malawi’s first large-scale fruit processing facility. Bananas are grown on the company’s own plantation and mangoes are sourced largely from local smallholder farmers. Fruit is processed into fruit pulp for export. The company stands out because, from the beginning, they planned for full direct engagement with farmers. Their model is a large investment which depends on smallholders delivering the quantity and new variety of mango that their new processing plant requires. The company conducts top-grafting of thousands of smallholder trees. Farmers are carefully managed and supported directly by the company so that there is very little risk of commodity volumes and supply being lost. Georgina Turner, author of our BIF Insider on market linkages in agriculture, concludes "The investment that needs to be made to make the system work is high but the pay-off (in terms of achieving their long-term supply needs) is also significant."

Putting together inclusive business models that work
2.4 The tough task of fitting together producer models

Is it enough to have the right product, with a production system that works and is supported by credit and effective intermediaries? In our portfolio, a few models had all those pieces in place but still did not work.

In BIF, we saw a number of companies, both established and start-ups, that decided not to progress with a producer-oriented agribusiness model because the investment would be higher than they were prepared to make, or because they could not raise the funds. We also saw examples where the need to be ‘hands on’, to address technical issues that no other partner could, clearly challenged the potential sustainability of a business model. We saw cases where the company lacks the skills and reach to engage directly with farmers to boost quality and supply, but also cases where an NGO partner failed to achieve the same. In other cases, lack of risk mitigation was a critical factor.

Out of the various examples discussed, Stanbic IBTC seems to us to have the most complex, integrated and evolved producer model. The bank has designed a value chain intervention that combines high-yielding crop varieties with multiple partnerships, with Stanbic IBTC acting as the source of credit that enables productive investment by each player. Of all the agricultural businesses in our portfolio, they have paid detailed attention to closing down potential loopholes in terms of the production system and market access. For example, harvesting is done mechanically by an aggregator, so there is less chance of side selling by the farmers. The bank has also put in place a range of risk management strategies for themselves and the farmers should there be any mishaps with regard to production. Credit is provided to cooperatives rather than individual farmers and agricultural suppliers are paid directly for their services rather than receiving cash loans.

Figure 6 illustrates core pieces of the Stanbic IBTC model as it has evolved to date. A complex system such as this clearly takes considerable investment and effort to get off the ground, and move from pilot to scale. On the other hand, it builds on two key success factors that could help drive success. The first is the credit provided by Stanbic IBTC which provides the gel across the pieces and partners. The second is the significant increases in yield that should be possible given existing suboptimal use of inputs. These should drive margins for each stakeholder in the value chain.14

![Figure 6: Stanbic IBTC's approach to combining components of an agribusiness model](image)

Business models with an inclusive producer focus need to be carefully constructed and are potentially rather complex. There can be a tendency for companies to over simplify the model at first, not realising that there are no short cuts when setting up supply chains that involve small farmers. At least one pilot to test the model at small scale is essential. Just as we saw with consumer models, if one piece of the jigsaw is not effective, the model cannot scale. Even well-regarded NGO partners can find themselves out of their depth when seeking to play an active role in brokering these supply chains.

![Figure 5: Typical disconnects and challenges to overcome in agribusiness models](image)

14 For further information read: ‘Collaborating for smallholder finance: How is Stanbic IBTC closing the loop?’ a case study that provides more detail on the operations of this system [bit.ly/DeepDives]
CASE STUDY

Universal Industries: Adapting the model

After their first pilot season, snacks and biscuit manufacturer Universal Industries in Malawi had to grapple with developing a business model that addresses far more than they thought was necessary at the beginning of their businesses venture. The company needs a substantial volume of fresh cassava in order to operate their new processing plant at a commercially sustainable level, and this has driven evolution in various components of the business model.

**Product:** Given the pressure for volumes, Universal is shifting focus to a new variety of cassava that is less palatable to the consumer and therefore will be less at risk from being sold in local markets.

**Production system:** Achieving the required volumes also means that farmers need to upgrade their farming techniques, and be convinced of the expanding market. This is not something that the NGOs are likely to deliver, so in turn requires new forms of farmer engagement. Specific plans are only emerging but Universal, for instance, plans to use some of their own available land to produce quality seedlings which can then be distributed to farmers.

**Credit:** Providing farmers with needed credit will also require a new form of farmer engagement.

**Intermediaries:** Given that working through NGO partners produced disappointing results in the first season, the company now plans to set up its own systems to build more direct relationships with farmers and then aggregate supply.
Navigating the inclusive business journey

> Companies make several turning points on their inclusive business journey, taking a zigzag path in order to improve the business model.

> Inclusive business journeys require time and persistence; a decade is likely from inception to scale.

> Aside from the necessary turning points that stem from ‘learning by doing’ there are many other internal and external factors that cause inclusive businesses to stall.

3.1 Adapting the model, adopting a zigzag

It’s been known for some time that the road to the BoP is bumpy: expect problems rather than a smooth ride. The key lesson from the journeys of BIF-supported companies is that it is also zigzagging. Section 2 showed how companies have adapted several components of their business model. Sometimes such evolution is incremental and continuous, but often there are one or two decisive shifts that mark turning points. These turning points or zigzags can make it a long journey, but the new direction should be getting ever closer to the goal of a thriving business.

The previous section compared the early and later versions of the business model jigsaw for iSchool and Universal. For each of these there have been zigzags in their journey. The iSchool journey is shown in Figure 8: changes in the core product and the target market indicate substantively new directions. The figure shows a similar pattern for mKRISHI®, another consumer-focused product which has evolved considerably. mKRISHI® is a technology platform for Indian farmers. It began as a mobile phone with advisory services that could be accessed by illiterate farmers. The strong product was in search of a distribution model. mKRISHI® is now a cloud platform offering much more than advisory services, focused on service delivery to rural organisations.

In the process of slashing the cost per pupil, iSchool’s product range, technology, affordability, and strategy have all changed and the target market diversified.

On mKRISHI’s journey, the distribution channel, product value proposition, technology and primary target users have all changed.

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15 ‘The Bumpy Road to the BoP: Addressing the Challenges of Distribution to the Base of the Pyramid’, Mike Debelak, University of Gothenburg, 2011 bit.ly/BumpyRoadtoBoP

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Figure 8: The turning points of two consumer-focused inclusive businesses
Universal is also a good example of how the speed at which a model develops can vary. A few months ago, when the BIF team were doing final company assessments, quantities were below target, the model needed to adapt, and a number of challenges were evident. At the time of going to press, progress has speeded up dramatically. Universal has secured new partnerships, obtained new grant financing, and put in place new plans for supplying cuttings to farmers which should dramatically increase yield of raw cassava, while improved processing should boost factory conversion ratios by 15 per cent. Such changes in speed have been seen many times in the BIF portfolio.

3.2 Journey of a decade

So how long does inclusive business take? There is no single answer and most BIF-supported businesses are barely half way on the estimated journey to scale. But looking at journeys so far, we estimate it takes a decade from inception to scale.

Despite the long journey and slow pace, the majority of companies are persistent in pushing forward. Each pilot, each new partnership, each adaptation takes time, but they see such evolution as necessary for making the model work and achieving long term goals.

BIF has worked with businesses at all stages of their IB journey, from helping companies with their early design and business planning to helping them develop strategies for moving to scale. At the time that the inclusive businesses first engaged with BIF, they had already been developing their models for some years: just under half had been in development for up to two years, but over half had been in development for three to four years or more.16

We adapted the four stages of pioneer firm development identified by the Monitor Group and the Acumen Fund17 to suit the portfolio. At the time of writing this report our main cluster (66 per cent) of inclusive businesses are at the ‘early operation and validation’ or ‘implementation’ phase (see Figure 10). 11 have progressed from one stage to the next. But five now identify themselves at an earlier stage than they did a year ago, perhaps recognising that design and validation are not complete.). In mid 2012, 16 out of 33 had a business plan. Now, approximately one and a half years later, 31 out of 40 do. Several of the businesses have ambitious plans for scale and, indeed, business models that depend on reaching scale to repay investment. They are sanguine that this will take some years.

Figure 9: Turning points for Universal Industries in engaging with smallholders

In pursuit of substantial volumes of fresh cassava for processing, Universal’s strategies for engagement with farmers, providing extension support and processing have changed.

Figure 10: Maturity of inclusive businesses in the BIF portfolio

September 2013

(N=40)

...building and scaling new business models takes time: Monitor’s research in India suggests that new inclusive firms take more than a decade to achieve a reasonable level of scale.18

16 Specifically, 44 per cent of inclusive businesses in the BIF portfolio had been developing their IB venture for up to 2 years, 38 per cent for 3-4 years, and 18 per cent for 5-6 years.

17 From Blueprint to Scale: The case for philanthropy in impact investing, Harvey Koh, Ashish Karamchandani and Robert Katz, Monitor Group and Acumen Fund, April 2012. In the Monitor/ Acumen report, stage 3 is ‘prepare’, and stage 4 is ‘scale’. We found that in our portfolio, stage 3 was better described as establishing regular operation, or simply ‘implementation’. After that, some prepare for further ‘scale’.19

18 Ibid
The 4Ps of inclusive business

Figure 11 shows a rough timeline for three BIF companies that see themselves on a journey towards scale. The first two are large companies, which started their initiative to diversify into inclusive business around three to four years ago. They are at the end of piloting or relatively early in operational roll-out, and plan to be operating at scale around five years from now. Thus, the journey will have taken the best part of a decade. The third business in the diagram, MEGA is a social enterprise aiming to transform energy access for households living in mountainous areas with fast flowing water, where there is potential for micro-hydro power generation. It is just completing validation, with the first micro-hydro site now coming on line. It is also five years since inception, and anticipates another five to roll out the model.

In most cases in our portfolio, companies are planning to scale over the next five years, but previously had expected progress to be more rapid. One question is why does it take so long? It’s not just the piloting and changes in direction that slow pace, but a host of practical reasons too, as the following section explains. Another obvious question is, given the pace, why do companies persevere? It may be partly natural over-optimism and passion that pushes teams on, but we also see strong commercial drivers, and a clear understanding of goals, discussed further in Section 4.

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**Figure 11: Timelines for selected inclusive business journeys**

<table>
<thead>
<tr>
<th>Year 0</th>
<th>Year 5</th>
<th>10 years +</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stanbic</strong></td>
<td><strong>ACI</strong></td>
<td><strong>MEGA</strong></td>
</tr>
<tr>
<td>2009 pilots in neighbour countries</td>
<td>2010</td>
<td>2008</td>
</tr>
<tr>
<td>In 2011, the strategy development starts in Nigeria</td>
<td>Management decision to pursue the model in 2010</td>
<td>Business planning, governance set up, fundraising, construction of 1st micro-hydro scheme in lower Bondo</td>
</tr>
<tr>
<td>+2.3 years, pilot in Jos (March 2013)</td>
<td>+3 years, 1st pilot complete</td>
<td>~ +5 years, 1st scheme operational</td>
</tr>
<tr>
<td>~ +2 years: Rolling out post completion of first harvest in Jos (end of 2013)</td>
<td>Adapting and rolling out operating model: to 5,000 farmers in 3 years</td>
<td>Goal for operational breakeven with 5-6 sites operational.</td>
</tr>
<tr>
<td>~ +7 years: Objective to reach 5,000 farmers in 2018</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

In 2013, ACI piloted summer tomatoes with farmers in Rajbari, central Bangladesh

19 More detail on the journey of each of these is covered in a BIF case study. We do not have the same depth of information for all businesses in the portfolio, but do not have reason to think these are atypical.
3.3 Ten reasons inclusive business gets delayed or stalled

Progress across our portfolio is mixed. The jigsaws and journeys shared so far reflect businesses that are constantly improving their model and moving towards their targets. But we expected some businesses to struggle or stall, and indeed some are. Some are picking up speed now, but were stalled last year. A few ‘long projects’ were approved for support from BIF but never even got contracted, because the initiative stalled in the intervening period. Amongst the companies that have received lighter touch support through ‘short projects’ we also see several that encounter delays. There are always many overlapping reasons why an inclusive business progresses slowly or comes to a halt, but we have tried to disentangle the most common factors observed to explain them.

1 Management changes: In many cases, and particularly in larger companies, the inclusive innovation is initiated by an individual or a certain division within an existing company. We have identified at least seven examples in which a champion or committed CEO leaving the firm has been a key reason for severe delays or total failure of the inclusive business venture. It is the leading explanation for those that have stalled or were previously stalled. Often but not always, the inclusive business initiative has picked up speed again once new leaders are in place.

2 Lack of access to capital: Of 11 ventures that are currently stalled or cancelled all together (across the entire BIF portfolio, not just ‘long projects’), we consider the lack of access to capital as the main reason in four. These cases were new initiatives looking for external finance (equity, loans, and working capital) particularly from impact investment, but were not able to secure it.

3 Partnerships are slow or not delivering: Although we have found that partnerships are often essential, managing collaboration between the company and other organisations is not easy. Companies seem to be aware of this (e.g. the need for better partnerships was identified as one of their four top challenges by 25 per cent of all companies) yet many seem to underestimate the investment needed to make partnerships work. Stanbic IBTC and mKRISHI® have both moved on from previous partnerships and are developing new ones. Universal looks likely to do the same. We can see producer-focused businesses where NGOs have not been able to fulfil expectations, and consumer-focused businesses that have identified partners that are critical for distribution, but find the process slower than expected.

4 Operational delays: The 10-month import delay of Universal Industries’ flash dryer is perhaps an extreme case, but delays with equipment and procedure are common. Also in Malawi, Afri-Nut suffered from delayed and incorrect deliveries of equipment needed for processing higher value peanut products.

5 Regulations, policies, government action or inaction: In some cases – such as iSchool and One Family Health – government is a critical partner, but building this relationship takes time and effort. Where government is a partner, the business is vulnerable to changes in government staffing, as mKRISHI® found when a key local government partner moved on in a pilot of its technology platform. As 3S Shramik has piloted private sanitation blocks in Indian slums, it has had to adapt to local government decisions about whether fee-paying toilets can or cannot be offered. Regulation can be an obstacle too. The overall regulatory climate for O-Gas, particularly subsidies for kerosene and lack of regulation for basic safety standards in LPG, create a more difficult competitive context. Finally, government inertia can be a killer factor: one agro/energy company can still only operate at pilot scale while they wait for government to issue a necessary mandate, despite the fact that the associated guidelines were issued three years ago.

6 Macro-economic shocks: Over the duration of the BIF pilot and amongst our five pilot countries, these were most extreme in Malawi. In 2011/2012 over the space of a year and a half, the economy was hit by a severe foreign exchange shortage, followed by massive overnight currency devaluation, and most recently a credit squeeze pushing interest rates much higher. All three shocks have been big enough to alter business prospects or models. While affecting all businesses, they particularly hit those that are seeking to establish their business model, such as Afri-Nut, a start-up groundnut processor that aims to move Malawian smallholders up the value chain, while expanding the volume of Fair Trade and other value-added peanuts produced for international and domestic markets. Another BIF-supported project (and long-established) agro-processor was also hit hard: a new processing plant was left incomplete due to lack of finance when the foreign exchange shortage began to bite.

7 Difficulties embedding the model into the mainstream company: This challenge is particular to established companies that are diversifying into inclusive business. Finding the right internal home is a big issue. When inclusive business is located within ‘innovation’ or ‘CSR’ it risks being kept away from the mainstream. But when it is mainstreamed into operations or sales, it risks being judged – and falling short – on the more short-term indicators of success, and not having a structure in which innovation and failure are tolerated. We have seen multinationals move their inclusive business model around departments as they look for the right home. In one case in India, an initiative that began in CSR has not been able to scale as planned due to regulatory constraints limiting its commercialisation as a CSR initiative.
The 4Ps of inclusive business

8 Competing priorities take over: When an established company diversifies into inclusive business, there are inevitably other strategic investments competing for resource. In some cases, as a company has learnt more about the risks involved, understood better the longer time horizons, or taken on other challenges, it has become clear that the inclusive business is simply not an immediate priority. This can be associated with a change in leader, who assesses benefits differently, or with learning from practice about what will be involved.

9 The task is bigger than realised: Companies may not realise the degree of innovation required at first. As we saw in Section 2, consumer-focused businesses often end up creating markets and distribution systems, but may have started focused simply on a product. Producer-focused companies end up having to go beyond their comfort zone and into territory of farmer credit, insurance and extension. Even just evolving the product can be a bigger task than realised, as iSchool found in Zambia when they embarked on creating multimedia education content complete with over 5000 lessons for various subjects from Grades 1 to 7 in eight different languages. Developing this content has proven to be quite an ambitious exercise, never attempted by anyone else at this scale. This meant quite a lot of false starts with the official launch date pushed back no less than five times as deadline for completing the product slipped.

10 The business model is not quite right yet: In about nine of the businesses that are currently rated as either progressing slowly or stalled, we consider that the company has not yet found all the elements of a business model that will work. The model that has been tested shows that consumer demand or ability to pay are not strong enough; the right distribution channel has not yet been found, farmer engagement is too weak, or partner incentives are insufficient. If the business model is not yet right, sometimes it may simply mean that further iteration is required. In the vast majority, they are continuing to adapt the model, but this process leads to delays. In a few cases, ultimately, the answer – for now – may mean that market conditions are simply too challenging for a firm to succeed on its own. The question is not whether the market is challenging – it invariably is – but whether external challenges can be internalised and solved through innovation in the business model and through partnerships. If not, then perhaps a business model breakthrough will only be possible in years to come, when other elements of the market have matured or new technical options are available.

These 10 factors of course intertwine. If the business model is not quite right, this affects the commercial case and the support of leaders. If macro-economic conditions or regulation are blockages, it can be hard to get the model right. It is also critical to note just how quickly a business can get past an obstacle. We have seen businesses stuck on a slow track for months, and then suddenly progress rapidly when a breakthrough, particularly a new partnership, is made.

Implications:
There are no silver bullets to solve these challenges. However, the analysis suggests that in addition to the critical components of a consumer-focused or producer-focused business model (Section 2), it is useful for any inclusive business to aim for:

- Champion and institutional home: Committed and dedicated champions are needed inside the company, with plans for staff succession and team expansion. They need to have passion but also a resolute commercial focus to make the numbers add up and build an investable proposition.

- Pilots: Piloting the model – at least once and often more – is essential for learning how to improve the model and adapt to risks.

- Patience and perseverance: Passion is a great driver, but a long-term perspective is also needed. Willingness to adopt a zigzag course needs to be combined with a clear eye on the destination.

- Realistic expectations: The size of the task and the risk of macro-economic or regulatory obstacles, should be assessed. A realistic understanding of what internal or external finance will be required is essential.

- Partnerships and partnership management: Successful partnerships can be a major driver of innovation, helping companies move beyond their comfort zone and better understand and reach poor consumers or producers. However, we have seen partnerships fail. The key success factor is identifying the right partner, for the right function and then managing the partnership so that it delivers.

- Innovation: Though hard to define, we see innovation as essential. The product or service may not be a new invention, but a new business model will have very innovative elements alongside what is more familiar. The main lesson to emerge is that more innovation tends to be needed across the business model than is initially expected, and therefore an internal process that allows space for innovation and adaptation is essential.

While a few initiatives grind to a halt, particularly when there is change at the top, in most cases the challenges identified in this section result in simply a delay, pushing ambitious targets a year or two further away. In our next section we will explore the results that are being delivered, or remain to be delivered.
4 Business success: commercial and development results being delivered so far

> Across our portfolio there are clear signs of progress towards commercial return, development impacts on households at the BoP, and even wider influence on other players in the market.

> Results vary enormously between businesses and, with few exceptions, are signposts of what may yet be achieved.21

4.1 Companies' strategic drivers

> Companies have clear, long-term strategic reasons to invest in inclusive business. Few are making a profit so far, but some say that they can perceive some strategic advantage already.

Sometimes it can be hard to understand why businesses are investing in risky and unknown territory, and it may be assumed that inclusive business stems from a corporate responsibility agenda not a commercial imperative. A clear lesson from the portfolio, and particularly from the seven BIF in-depth case studies, is that the companies supported by BIF have a range of commercial objectives that go well beyond short or medium-term profit.

The commercial drivers have become increasingly clear during BIF engagement with the companies. They tend to be long-term strategic goals:

- to expand into new markets (particularly for consumer-focused inclusive businesses)
- to secure their supply chain (particularly for producer-focused inclusive businesses)

Only three are managed by CSR departments of the inclusive business initiatives, but they are clearly seeking to develop a business model not a philanthropic donation. Table 1 highlights the main drivers identified by companies at the time of their baseline with BIF.

Table 1: Top commercial drivers for inclusive business identified by companies

<table>
<thead>
<tr>
<th>Identified by consumer-focused models:</th>
<th>Identified by producer-focused models:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Get first-mover advantage</td>
<td>1. Increase profitability and productivity</td>
</tr>
<tr>
<td>2. Access new markets (geographic, product, segment)</td>
<td>2. Increase/guarantee security and sustainability of the supply chain</td>
</tr>
<tr>
<td>3. Increase profitability and productivity</td>
<td>3. Get first-mover advantage</td>
</tr>
<tr>
<td>4. Develop competitive advantage and differentiation from competitors</td>
<td>4. Increase market share of business model</td>
</tr>
</tbody>
</table>

As we mentioned above, the majority of businesses are behind schedule in reaching their original commercial targets. However, companies already perceive gains against some of their more long-term commercial objectives. For producer-focused businesses, the companies have reported some progress on their top four drivers in around 40-50 per cent of cases. For consumer-focused inclusive businesses results are slightly higher, with the following three drivers ranked as being already in evidence by 60-80 per cent of relevant respondents:

- Develop competitive advantage
- First mover advantage
- Access new markets

Although commercial drivers are clear, the desire to achieve social impact is also evident amongst the entrepreneurs and intrapreneurs with whom we work. Some of the companies are specifically ‘mission-driven’, particularly where they are set up by an entrepreneur with a vision for solving social problems via business, and some describe themselves as a ‘social enterprise’. The more established businesses operating in mainstream markets would not classify themselves as a social enterprise but, nevertheless, the staff involved and invariably the leaders too, communicate their strong personal or organisational agenda to deliver social impact through the specific business unit involved. It is hard to visit any business in the BIF portfolio and not come away inspired by the passion of the team.

21: Analysis in this section is entirely based on ‘long projects’ in the BIF portfolio for which comprehensive monitoring & evaluation data was available, see the 2013 Portfolio Review bit.ly/PortfolioReview2013

At baseline, the teams depict what aliens would see if they visited in the year to come. Each flip chart is always filled with words, numbers, images and vision.
4.2 Commercial results

At the time of writing this report, 80 per cent of the inclusive businesses in our portfolio are progressing and 20 per cent have stalled.

An aggregate 62 per cent increase in turnover in the first year illustrates progress, although it is below the estimated increase. However, growth so far is small compared to future ambitious targets for turnover to increase several-fold over the next few years.

So far, based on actual figures for Year 1, five inclusive businesses are in profit.

Overall progress

As could be expected from a portfolio of innovative businesses, at the end of the three year pilot some are flourishing commercially while others are doing less well. As of September 2013, around 80 per cent of the inclusive businesses are making progress, of which two are ‘flourishing’. Just under half are assessed as ‘progressing well’. Around a fifth of inclusive businesses have currently stalled (potentially to resume) or are ‘on ice’.

Overall progress

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Figure 12: Business progress, from ‘flourishing’ to ‘on ice’ (BIF team assessment, September 2013)

Figure 13: Is there a relationship between business progress, business type, and/or the BoP primary focus?

As Figure 13 shows, the businesses that are progressing well commercially are spread across the different types of inclusive business, both small and established companies, and producer and consumer-focused models. However, of those businesses that are ‘on ice’ or stalled, all but one are producer-focused.
The ventures that are categorised as cancelled or stalled are spread across the BIF countries. Some never got off the ground, while others turned out to have business cases that are too weak for the company to invest further.

A key point that has emerged on commercial progress is that how business progress is judged depends on when it is judged. This links to our findings on the length that it takes for an inclusive business venture to get established. A producer-focused inclusive business venture that seemed to be making progress in 2012 is now cancelled following changes in the company's senior leadership. A partnership between two BIF clients seemed promising but has stopped a year later. At the same time, initiatives that seemed to be struggling a year ago are now progressing well. For example, mKRISH! and iSchool have both designed new versions of their products and models and are investing in expansion.

**In summary we can see that:**

- As with all new business initiatives, there are some that flourish and others that do not.
- Timing is everything when making an assessment of commercial progress in a portfolio.
- To date, more producer inclusive business ventures have been stalled or are ‘on ice’ than consumer ones.
- There are no other clear patterns (e.g. by size, maturity, sector) that we can observe across the five-country portfolio as to which kind of inclusive business venture is more or less likely to flourish.

**Turnover and profit**

Despite some gaps and outliers in the turnover and profit data, clear trends appear.

**Turnover**

Within the BIF portfolio, as of September 2013, there were inclusive businesses with turnovers of zero and those with several millions. Looking at how these progressed within the period of BIF support is instructive. At the start of BIF support, 19 (almost half) had zero turnover. Figure 14 illustrates the spread. One year after their BIF baseline, 14 companies still report or anticipate zero turnover for the inclusive business. This reflects their early stage.

**Figure 14: Turnover of large projects at Year 0**

![Figure 14: Turnover of large projects at Year 0](image)

From the data we have on actual turnover from 18 companies (Figure 15 above) we can see that there has been a 62 per cent increase in average turnover for these inclusive businesses. However, this is much less than the 190 per cent that the companies involved had estimated when BIF support began.

So, overall we are seeing slower progress than expected. And even though the sample of companies for which we already have actuals rather than estimates for both Year 0 and Year 1 (18 out of 40 companies), the same trend is likely to be applicable to the majority of businesses in the portfolio. Slower progress is partly due to a natural optimism – even where the business is progressing well, passionate entrepreneurs were expecting faster expansion in shorter timeframes than was possible in reality. In addition, the aggregates and averages reflect mixed portfolios of those that are progressing and those that are not.

As part of this internal assessment, undertaken by country managers on a regular basis, we check the extent to which businesses are ‘on track to reach their own targets’. Over the lifetime of the BIF pilot, an increasing share of businesses have scored low on this indicator. From two in mid-2012, to eight in late 2012, to 17 in mid-2013, out of a total of 40 ‘long projects’. In contrast, a large share of companies has consistently scored ‘high’ in terms of company commitment to the inclusive business venture (over 50 per cent of all businesses, in all three assessments we have done). So they have not given up. In most cases, they are still on the track to their destination, just not on track against their optimistic targets.

**Year 1 results for the period of BIF support are just a step along the way for a company. What matters to the managers of these companies is whether growth in turnover enables them to reach their profitability or other commercial targets in the longer term.** Looking ahead to Years 3 to 5, following the start of BIF support, the estimates that the companies provided to us are ambitious, if still highly variable.

**Figure 16 (below) shows just how sharp the trend line of expected growth in turnover is, with an**
average annual turnover of $500,000 expected at the end of year one and $10m by year five. However, we should note that these averages hide a wide spread: by year five, just over half the businesses expect turnover of under $2m, whereas the largest five are anticipating turnover of $13m to $85m. Five of the businesses have invested over $5m to date and these five are expecting annual turnover of between $5m and $26m within a few years.

Figure 16: Trend lines for turnover per business, projections to Year 5, $ pa

<table>
<thead>
<tr>
<th>Turnover: $0-$140,000</th>
<th>Turnover: $0-$6m</th>
<th>Turnover: $0-$90m</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-$10,000</td>
<td>$0-$3m</td>
<td>$0-$8m</td>
</tr>
<tr>
<td>$10,000-$50,000</td>
<td>$3-$6m</td>
<td>$8-$12m</td>
</tr>
<tr>
<td>$50,000-$100,000</td>
<td>$6-$10m</td>
<td>$12-$18m</td>
</tr>
<tr>
<td>$100,000-$140,000</td>
<td>$10-$15m</td>
<td>$18-$23m</td>
</tr>
</tbody>
</table>

Profit

Among the ‘long projects’ supported by BIF, increases in profit lag significantly behind those seen in turnover. At baseline, almost three quarters of all inclusive business ventures reported zero or negative profits. At the time of writing this report, we have profit data for Year 0 and Year 1 for 12 companies, and for these the estimated average of 238 per cent growth in profit was simply not met. In fact, many remain at zero profit. Aside from the optimism factor, this may also reflect lower quality data or changes in what is defined as ‘the inclusive business unit’.

It is difficult to predict future commercial viability with any certainty. Overall we rate 30 per cent as having ‘high’ commercial viability and 55 per cent as ‘medium’. Roughly speaking, the majority of businesses are rated as more likely than not to reach viability by the end of 2015 by stakeholders involved, though as Figure 20 shows, among the individuals involved in an inclusive business venture, there can be a fair amount of disagreement on the level of progress to be expected.

Figure 17: Likelihood of reaching commercial viability by the end of 2015: estimates of companies and other BIF stakeholders

Zambia
India
Bangladesh
Malawi
Nigeria

0% 20% 40% 60% 80% 100%
Service Providers’ Assessment
Country Manager’s Assessment
Recipient Organisations self-assessment

26 We attempt to assess commercial viability, though recognise firm predictions are impossible. Our M&E system rates each business as having high, medium or low likelihood of reaching commercial viability. The commercial viability index looks at a range of indicators such as ‘is there a business plan?’, ‘is the business on track to reach viability?’ and more subjective scorings by BIF country managers and other stakeholders. Assessments represent a snapshot at a moment in time. The results are slightly different to the assessment of business progress, because a business can be making good progress currently, but still be high risk and thus have low viability, or it can be currently progressing slowly, but remain fundamentally strong on viability.

27 As part of our M&E system in BIF we asked questions of the company management, the ‘service providers’ who provided technical assistance, and the BIF Country Managers who coordinated the programme in each of the 5 countries. They were asked for their assessment of a businesses’ likelihood to reach commercial viability in 2-3 years from when the assessment was made on a scale from 0-100%. The diagram shows the average scores across all five countries based on latest estimates available. For businesses that had already reached commercial viability the scoring was 100%.
4.3 Benefits to people at the base of the pyramid

- The inclusive businesses are reaching under 100,000 households at the BoP in their first year of engagement with BIF, but expect much greater increases in the future.

- BoP reach per inclusive business is massively variable. Producer-focused inclusive businesses aim to reach some thousands of smallholder suppliers, while consumer-focused inclusive businesses aim to reach tens and hundreds of thousands, or in a couple of cases a few million.

- Numbers do not capture the significance of how lives are touched. In most cases benefits seem substantive for families, whether they are gaining access to lighting, information, or a market for their crop.

- Those who benefit may be living under or over a $2 per person per day poverty line, and lack access to income and essential goods and services.

- Some of the businesses help catalyse changes in the behaviour of other players, in associated markets, or in other sectors. Often they occur because inclusive businesses enable other firms to engage efficiently with BoP producers or consumers. Such impacts can be quite intentional, although difficult to achieve early on.

Overall progress

So far the inclusive business ventures that BIF has supported have been variable in terms of their impacts on people living at the base of the pyramid. At the time of writing this report, the direct reach to the BoP is moderate, but with the potential to be high over time. Aggregating the baseline data for each inclusive businesses venture suggested that up to at the time of baseline, 5 companies already estimated reach to between 15,000 and 20,000 BoP households. However, almost half reported zero reach, while 13 estimated reach to fewer than 2,000 households. at the BoP were being reached in total at the time BIF support started.

Based on company estimates, the portfolio was reaching around 100,000 households at baseline and over 200,000 in year 1. However, these estimates need to be scaled down, except in the few cases where they are based on end of year actuals. We have revised all estimates downward based on actual project progress so far and our assessment of general over-optimism within the portfolio. Doing this, we estimate:

- The portfolio is reaching at least 80,000 households at the BoP at the end of Year 1, post BIF support.

- The portfolio is likely to be reaching around 1.2 million households by Year 3 and perhaps 3.7 million by Year 5.

Our ‘revised for realism’ figures (Table 2) are about one third of what the companies themselves estimate. They can be multiplied by household size of five to calculate individuals reached or lives touched, for comparison with how others report.

### Consumer and producer-focused models

As a generalisation, the data suggests that consumer-focused models may reach 100 or 200 times as many BoP households per business as producer-focused models. In Year 0 and Year 1, the differences between producer and consumer-focused business ventures are minor as most inclusive businesses of any kind are reaching a few hundred or perhaps a few thousand BoP households. However, as they grow, the estimated gap widens. On average, producer-focused inclusive business ventures aim to extend from a few hundred to several thousand farmers, with the largest agribusiness ventures sourcing from farmers hoping to reach 10,000 farmers relatively soon. The consumer-focused inclusive business ventures however aim to grow from a few thousand to half a million on average, with the largest aiming for markets of 1 to 2 million households.

#### Table 2: Revised for realism estimates for future BoP reach across our portfolio

<table>
<thead>
<tr>
<th>Realistic BoP reach (across the portfolio)</th>
<th>Year 1 (actuals) N = 16</th>
<th>Year 1 (estimates and actuals) N = 29</th>
<th>Year 3 N = 20</th>
<th>Year 4 / 5 N = 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figures provided by organisations (households)</td>
<td>20,995</td>
<td>228,550</td>
<td>2,090,000</td>
<td>5,710,000</td>
</tr>
<tr>
<td>Revised for realism estimate: adjusted for progress and optimism (households)</td>
<td>20,995</td>
<td>118,703</td>
<td>839,000</td>
<td>2,630,000</td>
</tr>
<tr>
<td><strong>For 32 businesses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated BoP household reach for all 32 projects progressing</td>
<td>1,175,000</td>
<td>3,680,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated BoP individuals reached across the 32 projects progressing</td>
<td>5,870,000</td>
<td>18,820,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Figure 18: Differences in expected aggregate BoP reach between producer and consumer models.

Figure 18 shows the number of households that the companies expected (in their most recent report to BIF) to reach one year after the baselines. It should be read in the context of the ‘project optimism’ we have already described on commercial estimates. When we review the actual data that we have from a much smaller sample of companies for this period, the extent of this over-optimism is apparent (Figure 19, overleaf).

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28 BoP reach reported is actually ‘households’ — one farmer who sells cassava or one adult to connects to MEGA electricity is actually representing one household. Assuming a whole family benefits, then we can simply calculate people reached, or ‘lives touched,’ as other investors and projects tend to do, it would be necessary to multiply by household size for the relevant country or demographic. Or more simply and conservatively, we can just multiply by 5 to calculate individual beneficiaries.

29 Basis of the calculation: 8 projects (20% of total) are either on ice or stalled — these have been excluded from our aggregation as it is assumed that they will not progress at present. For those progressing, estimates are scaled down by 30% for over-optimism and by a further 0-50% depending on current progress. Year 3 and 4 / 5 data is not available for 12 businesses. Data from 20 businesses has therefore been multiplied up to an estimate for 32 business. However, a multiple of 1.4, rather than 1.6, is used as the 12 without data are assessed to be progressing slightly slower than the 20 with data. All figures have been rounded to the closest thousand, and in years 3 and 5, the closest ten thousand.
We note that producer-focused businesses actually had a faster rate of growth and were less divergent from their estimates than the consumer-focused ones. Nevertheless, we expect the pattern to change.

We define ‘going to scale’ quite differently for producer and consumer-focused inclusive business ventures. Roughly speaking, the estimated percentage likelihood of either type reaching the BoP at scale varies from 45 per cent to 95 per cent, depending on who does the rating and the kind of inclusive business venture (Figure 20). Country Managers tend to be slightly less optimistic and companies more optimistic.

Who benefits and how significantly?

Who benefits and how significant are their gains? These are difficult questions for any business to answer. They are of strong interest to donors who invest development funds into business, so are addressed in more detail in our companion volume. In summary, we find that nine of the 40 inclusive businesses have a particular focus on women beneficiaries. All of the businesses reach people regarded as ‘at the bottom of the pyramid’. Income data is rarely available, but in many cases they are likely to be living on less than $2 per person per day. Some of the farmers reached are probably below the $1 per person per day poverty line. Some of the consumers reached may well be living on a little more than $2 per person per day but still do not have access to basic goods and services and functioning markets for a secure livelihood.

Experience from the BIF portfolio is that little effort is made by businesses to quantify how poor their stakeholders are in terms of income, which we think is understandable. Few, except banks or irrigation providers, need to do household income surveys, and no business is likely to need or want to do calculations using purchasing power parity to see what this means against international poverty lines. Business people can readily define those they engage with as poor in terms of their lack of access to income and inability to afford or access basic goods and service, or the vulnerability that they therefore have to the impacts of poverty such as disease, poor nutrition and a vicious circle of disadvantage. What poor people do for their livelihoods and where they live are also used as defining features. These proxies can be very useful to answer two questions: (1) What percentage of total clients count as BoP? (2) Which ‘billion’ or BoP group do beneficiaries belong to?
Numbers of people reached simply does not tell the whole story. We should not lose sight of just what it means to a low-income person reached by an inclusive business. This could be a family that can boost its income from its small plot, or drink clean water without arduous and costly boiling, or women that can cook quickly and cleanly without suffering in smoke-filled kitchens.

Most of the consumer-focused business ventures are offering something that makes a difference to family life: light, power, mobile information, farming information, healthcare, sanitation or clean water. In most cases it doesn’t change their income level directly, but makes living in poverty easier and can support significant changes in well-being. It may lead to cost savings (such as a cheaper cooking fuel), productivity increases (for example of a crop) or improved health (for example due to better sanitation).

Within the portfolio supported by BIF we do have some estimates of cost-savings or productivity gains. MEGA, for example, aims to provide electricity from micro-hydro power at a price level that is 17 times cheaper than kerosene. A cook who switches from kerosene to O-Gas cylinders can save roughly two thirds on regular expenses for gas refills. And two Tamil Nadu farmers who improved their crop management thanks to mKRISHI® advice realised net income gains of 88 and 164 per cent. But there are many benefits to low income households, both direct and indirect, that are simply beyond the capacity of companies or BIF to estimate.

Table 3: Defining characteristics of the base of pyramid beneficiaries in eight inclusive businesses

<table>
<thead>
<tr>
<th>Inclusive Business</th>
<th>Who is reached at the BoP</th>
<th>Characteristics/ Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probably under $1 / $1.25 per person per day on average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stanbic IBTC, smallholder finance scheme</td>
<td>Smallholder farmers</td>
<td>Rural farmers in Northern Nigeria with average annual income of $323 ($0.88/day) and 1-1.5 hectares of land (information based on pilot scheme in Jos).</td>
</tr>
<tr>
<td>MEGA, micro-hydro energy</td>
<td>Rural villages</td>
<td>First scheme in remote village with ~400 households reliant on agriculture, off grid, one school, one hospital; majority below $1.25/day.</td>
</tr>
<tr>
<td>Universal, HQCF</td>
<td>Smallholder farmers</td>
<td>Rural farmers, with 0.4 hectares, no access to formal markets, cassava previously grown as food crop.</td>
</tr>
<tr>
<td>JITA, rural sales network</td>
<td>Sales women (aparajitas)</td>
<td>Destitute women in rural areas, average income $12.50/month when being recruited, current average income $30/month.</td>
</tr>
<tr>
<td>Probably under $2 / $2.50 per person per day on average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACI, contract farming scheme</td>
<td>Smallholder farmers</td>
<td>Rural farmers, horticulture crops, ~50 per cent possess land, majority below $2.50/day.</td>
</tr>
<tr>
<td>iSchool, e-learning solutions</td>
<td>Students and teachers</td>
<td>Pupils (and teachers) in government and community schools across Zambia; 77.9% of rural population live in poverty, below $2 per day.</td>
</tr>
<tr>
<td>mKRISHI®, rural service delivery platform</td>
<td>Smallholder farmers</td>
<td>Rural farmers, horticulture crops on small landholdings (1.5-2 acres); 33.8% of rural population live in poverty, below $2 per day.</td>
</tr>
<tr>
<td>Income is undefined but beneficiaries have limited access to conventional markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>O-Gas cook stove</td>
<td>Households</td>
<td>Consumers accessing O-Gas via microfinance schemes.</td>
</tr>
</tbody>
</table>

Idah benefits from iSchool’s e-learning

Idah (aged 9) studies in Grade 3 in the Kalingalinga government school (Zambia). Her reading and math scores have increased by 80% and 281% respectively after using iSchool.

“When Idah comes home, she tells us things she learns and what she knows.”

Idah’s mother

© iSchool

Catalysing additional indirect change

Inclusive businesses help low-income people directly by engaging them as consumers or producers. But they can also influence how markets work and catalyse other knock-on effects that can be messier, less trackable, but just as influential. Early in the life of BIF, we only looked at whether the businesses would spark replication by others. Over time, our focus on replication has reduced and we have observed emerging signs of a wider set of catalytic affects that influence market players in many different ways:

- Companies in the same market as BIF companies are looking to adopt similar innovation. For example, in Bangladesh, other retailers in the supermarket space have expressed an interest in the SME supplier assessment tool that was developed by Agora supermarket with BIF support. In Bangladesh, Pabna Meat supported women farmers to develop improved fodder for calves. The fodder feeding mechanism was such a success that others adopted it.

- By changing attitudes, an innovative business can encourage others to follow and explore new opportunities. In India, 3S Shramik aims to debunk the idea that open defecation is acceptable, and paying for toilet use is unnecessary. Establishing the idea of paying toilets in slums will change the market for many, not just this firm.

- Companies in other countries and other sectors can be influenced when they see how a company develops a solution that works at the BoP. Strategies to overcome last mile distribution challenges, consumer financing, or farm output aggregation can be useful to other firms far away, albeit with necessary adaptation.
• Company engagement with government can lead to policy change. Dialogue between Afri-Nut and the government in Malawi has led to new policies for the development of the oil seed sector. In Zambia, iSchool’s e-learning products have moved from ‘vat exempt’ to ‘zero rated’ in the latest Zambian budget.

• In many cases, the first innovation pioneered by a BIF-supported company has led to further innovation by others that operate somewhere else in the value chain. In Malawi, MEGA’s micro-hydro project is already enabling local businesses to use that power for new services. mKRISHI®’s agricultural technology platform aims to crowd in other players who will trade inputs, outputs, and other services with farmers through their platform.

mKRISHI® is a particularly interesting example because the business is premised on catalysing a change of behaviour amongst many actors in the agricultural value chain and ultimately in other sectors that operate in rural areas. Figure 22 shows the range of catalytic effects that could be traced in the updated mKRISHI® model. The immediate results should be to drive efficiencies in how farmers interact with input suppliers and processors. The second-round effect should be that such companies start developing new products, services and incentives for the rural farmer, with whom they suddenly have an entirely new channel of engagement. The third-round effect could be beyond the agriculture sector where, for example, health companies can use the market data and ICT channel of mKRISHI® to increase their engagement with this segment.

The analysis of catalytic impacts suggests that this is an important aspect when considering benefits to the BoP resulting from inclusive business:

• Catalytic impacts that change behaviour of other market players can ultimately lead to significant impacts on people at the base of the pyramid. Such affects may occur in the same market where the business operates, or can occur in other markets, thus influencing the lives of others far away.

• The most significant type of potential impact observed so far, is that an innovative business can influence the pace or nature of development of a sector, by changing roles, margins, expectations or simply the ease of operation. A successful inclusive business can make it easier for others to transact with the BoP.

• Such impacts can be totally incidental to the plans of the company, or quite intentional because it crowds in other actors or creates new norms, which provide the ecosystem the business needs for sustained growth.

The significance of catalytic affects

Catalytic impacts may be incidental to the business, but are often critical to donors supporting inclusive business and seeking ‘transformation of markets’ so the pathways to catalytic impact on markets are considered in more detail in the companion report on donor support ‘Adding value to innovation? Lessons on donor support to inclusive business from the Business Innovation Facility pilot’.

Box 15

Figure 22: Potential Influence of mKRISHI® on other businesses in multiple directions

![Diagram showing potential influence of mKRISHI® on other businesses in multiple directions](image-url)
4.4 Reaching scale

> None of the businesses have reached scale in BoP markets yet.

> Some but not all have strong potential. The consumer businesses that have already invested millions in development of products and distribution chains are purposely designed for operation at scale.

> There are internal and external constraints that limit scale. Success is most likely where the business model internalises and addresses these.

Although there is much talk of the potential of inclusive businesses to go to scale, the BIF-supported businesses are not yet at that stage. Two businesses in the BIF portfolio are operating at some level of scale already, but not scale at the BoP. For example, Hindustan Unilever is the market leader for home water filters in India, selling over 7 million, but the BoP are just one market segment.

While scale in BoP markets is still distant, it does seem likely in at least some businesses of our portfolio. Some of the models are premised on scale, as the company only gets a return on investment by achieving high volumes. This is true of the consumer products that required heavy upfront investment, such as iSchool’s e-learning product, One Family Health, O-Gas stoves and the mKRISHI® ICT agricultural platform. The fact that they need to scale does not of course mean that they will, but it does mean that the company focus is on the building blocks for scale.

The most scalable inclusive businesses tend to reside within multinationals. In companies such as Stanbic IBTC in Nigeria and Tata Consultancy Services in India (mKRISHI®), generating return and attaining a secure position within the company will be key to further investment and expansion.

There are also smaller ‘core-IB’ companies that could scale by multiplication of their model such as JITA and its growing distribution network of rural women in Bangladesh. Ultimately, urbanisation will constrain the current JITA model, but until then it seems to have a wide open field to expand. The other core-IB model in this category is the start-up One Family Health in Zambia, which has not managed to get operational yet and faces plenty of challenges. But if it does establish a low-cost franchise system, aligned with government-backed microinsurance (which is increasingly regarded as critical to success), the franchise model could take off. In these types of businesses, the key to scale is a business model that has manageable costs of extension and replication, including all the human resource and quality management that is entailed. This is already evidenced within and beyond the BIF portfolio, in the experience of energy companies selling to the BoP, where churn within the sales force, quality maintenance and diseconomies of scale are crucial obstacles.

Why might the businesses not go to scale? Even if the model works, there can be internal reasons, such as lack of leadership or skills that constrain its growth. Or there can be external constraints in the market or policy environment: demand is too latent, upstream and downstream suppliers are too limited or finance is constrained.

In the portfolio, we can see examples of each of these constraints. It is too early to make predictions about which businesses will manage them best. But drawing on the findings shared in Section 3 about business models that work, our supposition is that the business models that scale will be those that internalise and address constraints. We suggest that a scalable business model jigsaw includes the right internal margins, mindset, champions and organisational context (mitigating internal challenges). It would also build partnerships with key stakeholders in the ecosystem (mitigating external challenges).
5 Implications for inclusive businesses

> This report highlights plenty of challenges and delays, but the most remarkable thing to us is the degree of enthusiasm with which companies are taking forward their inclusive business initiatives. They are on a moving train, and are staying on the train, suggesting that others should get on board before it is too late.

Though every business model requires iteration to its local context, there are a number of more general implications for companies that emerged during the BIF pilot that are highlighted below.35

To succeed, companies should expect to innovate across all of the elements of a business model. Reaching poor consumers or procuring from low-income producers is rarely achieved by one 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). For this reason, there are few quick wins. 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.

A pilot that ‘fails’ – but shows you what to do better – is a ‘success’. Piloting inclusive business approaches is essential before investing at any scale. But it is also important to use the pilot wisely, not to prove a model can work, but to test how to make it better. ‘Fail fast’ is one motto – before too much is invested. ‘Fail forward’ is another – learn from failure to do better.

Partnerships between the company and other market players have often proved valuable. Another essential step is the recognition that a company can benefit from collaboration in areas outside of its strengths.

Collaboration can take many forms. Collaboration with competitors may be necessary when helping to create new customers. 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. Partnering ‘across’ the private, government and not-for-profit sectors is not straightforward to manage and requires a specialised skill set. The time and resources needed for developing and then managing these collaborations should not be underestimated.

A passion for making the business more inclusive is a great asset, but so is patience and perseverance. Patience, because creating a successful business model involves many iterations. This takes time as each new attempt requires design, testing and learning stages. Perseverance, because there are multiple ‘moving parts’ in the business model, and many unknowns in the external environment. Set backs will result in hard question 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. When champions leave then many initiatives fail.

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.

Build towards securing finance for a core-IB company and towards a secure company home for a diversifying-into-IB company. Some companies are well established for decades but their inclusive business is new (diversifying-into-IB). In other cases across the BIF portfolio, the inclusive business represents the entire company (core-IB). Both types need a carefully constructed business model and share common constraints and key success factors, but also show some clear differences.

For early stage core-IB companies, once a viable business model has been developed, the challenge in many cases is accessing appropriate finance to scale pilots and grow the company. For larger already established companies that are diversifying parts of their business operations into more inclusive models, managing the internal transition from pilot stage to scale by integrating the inclusive business into core business operations is often the primary challenge.

Looking beyond BIF, we see similar trends. More inclusive businesses are appearing in the portfolios of organisations including the International Finance Corporation, Swedish International Development Cooperation Agency and the Inter-American Development Bank. More successful initiatives are receiving awards. Impact Investors are increasingly interested in what the sector has to offer. While the BIF portfolio is small and most likely not very representative, it is very clear to us that it is part of a wider stage of business development in the South.

We wish them all every success in finding solutions to their jigsaws, navigating their zigzag journeys and successfully achieving their inclusive business objectives.

35 Recommendations for donors, facilitators of inclusive business and providers of technical support are not included here but are provided in our companion volume ‘Adding value to innovation? Lessons on donor support to inclusive business from the Business Innovation Facility pilot’
Annex 1 Size and shape of the portfolio: diversity and typology

Size and sector
The BIF portfolio is diverse and was intentionally set up with the flexibility to support businesses of different sizes and in different sectors in five contrasting countries.

Figure 23: Geographical spread of long and short projects across five countries

NB: The projects included in this diagram are just an illustrative selection from the full portfolio for each country listed on the Practitioner Hub. They are not representative nor indicative of any status within the portfolio.

Businesses are spread across several industry sectors, though with a heavy concentration in food and agriculture (50 per cent), followed by energy and infrastructure (18 per cent), as Figure 24 shows.

As a pilot with a learning agenda we aimed for a portfolio that was diverse. The businesses we work with come in all shapes and sizes, ranging from start-ups to large MNCs. The largest group in our portfolio now are medium/large domestic companies.
Consumer or producer-focused?

We categorised the portfolio based on who benefits at the BoP. Just over half of businesses seek to engage people at the BoP as consumers, selling them appropriate and affordable products and services (‘consumer-focused models’), and just under half engage them as producers or entrepreneurs in their value chain, providing income and market opportunities (‘producer-focused models’). In most cases, the producers are smallholder farmers selling crops, livestock or fish into a supply chain, so our discussion of producer models focuses mainly on agribusinesses that source from farmers. In Bangladesh and Nigeria, the portfolios cover both beneficiary groups, while in Southern Africa the focus is mainly on producers, and in India all of the businesses are focused on low-income consumers. This is partly because of the predominance of agricultural sector businesses in the Malawi and Zambian portfolios. There are businesses targeting farmers in the portfolio in India, but as they are selling information services to farmers, they are ‘consumer-focused’ in our classification.

This difference between consumer and producer-focused businesses is fundamental, both to the design of the business model, and to the results that can be anticipated. Consumer-focused models face common challenges around market creation and distribution. Producer-focused models face common challenges around aggregation and smallholder engagement. Broadly speaking, a producer-focused model may reach several hundred or a few thousand people at the BoP where as a consumer model may target hundreds of thousands, or in a few cases, millions.

An example of a consumer-focused model

Building on their core business of portable sanitation solutions for construction sites, Indian company 3S Shramik aims to extend their business operations to reach large numbers of the population living in urban slums currently not having access to sanitation facilities.

An example of a producer-focused model

Malawian biscuit manufacturer, Universal Industries, has launched a new business line that diversifies its product range while engaging smallholder cassava farmers in its supply chain. Universal sources raw cassava directly from smallholder farmers for large-scale production of High Quality Cassava Flour (HQCF), which can be used as a substitute for wheat flour in its manufacturing of snacks and biscuits.

Diversifying or core IB?

The portfolio contained companies in which inclusive business is the core thing they do, and larger established companies that are diversifying into inclusive business. This gives a further two categories of business:

- **Diversifying-into-IB**: An established medium/large company that is diversifying into inclusive business. This accounts for 37.5 per cent of the portfolio. The progress and results reported here relate only to the inclusive business and not the whole company.
- **Core-IB**: Cases in which the inclusive business is the core business model of the company. These tend to be starting-up or still small, but some (e.g. d.light) have already expanded significantly. They account for 25 per cent of the portfolio.

Although we have not found that progress varies much between these two categories so far, the approaches they need to take to develop and sustain their business models do differ.

An example of an inclusive business model categorised as ‘diversifying-into-IB’

Nigerian agribusiness, Teragro Commodities Limited, aims to source the fruit required for its new fruit juice concentrate processing plant from local smallholders. It will source local oranges, mangoes and pineapples.

An example of an inclusive business model categorized as ‘core-IB’

iSchool is a Zambian start-up company offering e-learning systems for Zambian primary schools and individual learning at home. E-learning products are iSchool’s only business focus.
## Annex 2 Inclusive business projects supported by the Business Innovation Facility

<table>
<thead>
<tr>
<th>Company supported</th>
<th>Sector of Company</th>
<th>Inclusive Business Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bangladesh</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JITA</td>
<td>Retail, Manufacturing &amp; Consumer Goods</td>
<td>JITA is a Bangladeshi SME. The company operates an inclusive sales network that provides income opportunities for low-income women, known as aparjitas, who are selling consumer goods to rural households in Bangladesh.</td>
</tr>
<tr>
<td>Rahimafroz (Agora Stores)</td>
<td>Agriculture &amp; Food</td>
<td>Agora is an expanding chain of retail outlets in Bangladesh, run by Rahimafroz Superstores Ltd. As it expands, the company aims to build the capacity of small and medium fresh produce suppliers and develop robust supply chains and trading relationships.</td>
</tr>
<tr>
<td>ERAS</td>
<td>Agriculture &amp; Food</td>
<td>The Environmental Research and Analytical Service (ERAS) is working to increase the incidence of soil testing at the village level and support the development of soil testing businesses in rural areas by providing low-cost materials (start-up laboratory kits and chemical reagents), training and support.</td>
</tr>
<tr>
<td>Shiblee Hatchery and Farms Ltd</td>
<td>Agriculture &amp; Food</td>
<td>Shiblee Hatchery &amp; Farms Ltd is a Bangladeshi SME engaging landless families as fish farmers of cage-cultured tilapia, along the banks of the Adhamanki River.</td>
</tr>
<tr>
<td>ACI</td>
<td>Agriculture &amp; Food</td>
<td>ACI is a Bangladeshi conglomerate piloting a contract farming model for summer tomatoes with Bangladeshi farmers.</td>
</tr>
<tr>
<td>Pabna Meat</td>
<td>Agriculture &amp; Food</td>
<td>Pabna Meat is a Bangladeshi meat processor. It is expanding its capacity to process cattle by engaging women in a contract farming scheme, in which the women are responsible for fattening cows, with training from Pabna Meat.</td>
</tr>
<tr>
<td>PRAN Agro</td>
<td>Agriculture &amp; Food</td>
<td>PRAN is a brand of agri-products produced by PABL, a subsidiary of the PRAN-RFL Group. Its inclusive business venture is introducing cassava cultivation to women producing ginger and turmeric in the Chittagong Hill Tracts, in order to expand supply of glucose for processed foods.</td>
</tr>
<tr>
<td>International Organisation</td>
<td>Retail, Manufacturing &amp; Consumer Goods</td>
<td>This International Organisation aims to develop the capacity of its SME suppliers to produce nutritious biscuits.</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MCX (Gramin Suvidha Kendra)</td>
<td>Agriculture &amp; Food</td>
<td>Multi Commodity Exchange of India’s (MCX) Gramin Suvidha Kendra Initiative aims to leverage the postal network to distribute agricultural inputs, expert advice, warehousing, as well as spot and future pricing advice to farmers</td>
</tr>
<tr>
<td>Tata Consultancy Services (mKRISHI®)</td>
<td>Agriculture &amp; Food</td>
<td>mKRISHI® is a technology platform led by Tata Consultancy Services and designed for farmers in India. The platform uses information and communications technology (ICT) to deliver a range of services to smallholder farmers. Through their mobile phones, farmers can access advice and a growing range of personalised services.</td>
</tr>
<tr>
<td>3S Shramik</td>
<td>Water, Sanitation &amp; Waste Management</td>
<td>Building on their core business of portable sanitation solutions and services for construction sites and public gatherings, Indian company 3S Shramik aims to extend its business operations to reach large numbers of the population living in urban slums currently not having access to sanitation facilities.</td>
</tr>
<tr>
<td>Hindustan Unilever</td>
<td>Water, Sanitation &amp; Waste Management</td>
<td>Hindustan Unilever has developed Pureit, a low cost water purifier for low-income consumers and aims to extend its distribution via alternative distribution channels.</td>
</tr>
<tr>
<td>Waterlife/Bosch</td>
<td>Water, Sanitation &amp; Waste Management</td>
<td>In this venture, Waterlife India in collaboration with Bosch aims to develop a water treatment system that will increase the distribution of clean and affordable water to low-income areas.</td>
</tr>
<tr>
<td>Azure Power</td>
<td>Energy &amp; Infrastructure</td>
<td>Azure Power is an Indian energy service provider aiming to set up solar mini-grids across areas of rural India that are currently under-served by the electric grid.</td>
</tr>
<tr>
<td><strong>Malawi</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Afrinut</td>
<td>Agriculture &amp; Food</td>
<td>Afrinut is a Malawian nut processing company sourcing groundnuts from local smallholders for national and international markets.</td>
</tr>
<tr>
<td>Microventures</td>
<td>Agriculture &amp; Food</td>
<td>Microventures is part of the Microloan Foundation. The inclusive business venture aims to link smallholder women producers who are loan clients of the Foundation with distributors and retailers.</td>
</tr>
<tr>
<td>MEGA</td>
<td>Energy</td>
<td>Mulanje Electricity Generation Agency (MEGA) is a Malawian start-up providing energy from micro-hydro power stations to off-grid low-income households.</td>
</tr>
<tr>
<td>Malawi Mangoes</td>
<td>Agriculture &amp; Food</td>
<td>Malawi Mangoes is a Malawian start-up company implementing the first large scale fruit processing facility in Malawi. Bananas are grown on the company’s own plantation and mangoes are sourced largely from local smallholder farmers. Fruit is processed into fruit pulp for export.</td>
</tr>
<tr>
<td>Universal Industries</td>
<td>Agriculture &amp; Food</td>
<td>Universal Industries is a Malawian snacks and biscuit manufacturer that aims to source raw cassava directly from smallholder farmers for large-scale production of High Quality Cassava Flour (HQCF), which can be used as a substitute for wheat flour in its manufacturing of snacks and biscuits.</td>
</tr>
<tr>
<td>Tea Company</td>
<td>Agriculture &amp; Food</td>
<td>Tea company working with smallholder tea farmers.</td>
</tr>
<tr>
<td>Company supported</td>
<td>Sector of Company</td>
<td>Inclusive Business Focus</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>AACE Foods</td>
<td>Agriculture &amp; Food</td>
<td>AACE Foods is a Nigerian SME that processes, packages and distributes food products such as jams, spreads and spices for commercial and retail customers in Nigeria. It is increasing its fruit and vegetable sourcing from smallholder farmers via cooperatives.</td>
</tr>
<tr>
<td>Furniture Village</td>
<td>Retail, Manufacturing &amp; Consumer Goods</td>
<td>Furniture Makers Village Ltd. (FVL) is a Nigerian start-up company aiming to set up a local furniture manufacturing cluster that combines workshop units, factory spaces, housing for entrepreneurs, employees and their families with large-scale manufacturing facilities and a retail unit.</td>
</tr>
<tr>
<td>Stanbic IBTC Bank</td>
<td>Agriculture &amp; Food</td>
<td>With their “Smallholder farmer finance scheme” Stanbic Bank in Nigeria is piloting a financing model for farmers, input providers, produce buyers and processors, focusing initially on maize and soya.</td>
</tr>
<tr>
<td>Guinness Nigeria</td>
<td>Agriculture &amp; Food</td>
<td>Guinness Nigeria aims to develop a more inclusive supply chain for sorghum by changing the transactional relationships that exist between the company and its millers into more strategic partnerships with all stakeholders cutting across its value chain.</td>
</tr>
<tr>
<td>Dala Foods</td>
<td>Agriculture &amp; Food</td>
<td>The Nigerian food processing company specialises in processing grains into affordable instant food drinks for the Nigerian market. In this venture, Dala is expanding its production to include Zobo, a juice drink which is made from the hibiscus plant, and consumed by low-income people as a staple food.</td>
</tr>
<tr>
<td>Teragro Commodities</td>
<td>Agriculture &amp; Food</td>
<td>Teragro’s inclusive business model aims to engage smallholder fruit farmers (oranges, mangoes and pineapples) as suppliers for the company's new large fruit juice concentrate processing plant.</td>
</tr>
<tr>
<td>L&amp;Z</td>
<td>Agriculture &amp; Food</td>
<td>L &amp; Z operates in poultry, dairy, fruit cultivation and food production. The inclusive business venture seeks to increase smallholder milk sourcing at premium prices, implement an out-grower scheme with local families, and set up a plant to produce sweetened milk products to sell to poor consumers through a distribution network of independent entrepreneurs.</td>
</tr>
<tr>
<td>Best Foods Ltd</td>
<td>Agriculture &amp; Food</td>
<td>Best Foods Fresh Farms is a subsidiary of Best Foods Group Nigeria Ltd. The company aims to develop a large commercial farming community on the outskirts of Lagos for the production of vegetables for sale in Lagos markets. Best Foods plays the role of 'anchors' farm. The community farmers lease their lands to the 'anchor' farm, rather than sharing the profit from actual sales of produce.</td>
</tr>
<tr>
<td>Oando</td>
<td>Energy</td>
<td>Oando PLC is one of Nigeria’s largest energy services companies. Its O-Gas offering – a small 3kg LPG cylinder and stove provides an affordable and clean cooking alternative for low-income consumers.</td>
</tr>
<tr>
<td>d.Light</td>
<td>Energy</td>
<td>d.light aims to provide solar lighting products to the large proportion of low-income people in Nigeria who have limited or no access to electricity. Its inclusive distribution model aims to provide employment and training to unemployed youths and women in the region.</td>
</tr>
<tr>
<td>Copperbelt Energy Corporation</td>
<td>Energy &amp; Infrastructure</td>
<td>As part of their renewable energy business unit, Copperbelt Energy Corporation Plc (CEC) set up a biodiesel plant. In order to meet the required oil quantities for the plant, CEC seeks to integrate small scale farmers in the production of bio fuel feedstock mainly from soya beans, jatropha castor and other oil seeds.</td>
</tr>
<tr>
<td>Sun International</td>
<td>Agriculture &amp; Food</td>
<td>Sun International manages a local sourcing programme through which its two hotels in Zambia purchase fresh fruits and vegetables (e.g. tomatoes, lettuce, bananas) from smallholders in the Livingstone and Kazungula districts. It is exploring options to increase capacity and climate resilience of the operation.</td>
</tr>
<tr>
<td>Cropserve Zambia Ltd</td>
<td>Agriculture &amp; Food</td>
<td>Cropserve is a Zambian agricultural inputs company selling herbicides and pesticides as part of the United Phosphorus Limited (UPL) group. The inclusive business venture aims to develop a distribution model to supply small scale farmers with agro-inputs.</td>
</tr>
<tr>
<td>Barrick Lumwana Mine</td>
<td>Energy &amp; Infrastructure</td>
<td>Barrick is a large scale global gold and copper mining conglomerate with an active mine site in Lumwana area of Zambia’s Solwezi district. Its Lumwana Contract Developer (LCD) Programme aims to increase the goods and services procured from local industry suppliers, as well as training and building in-country capacity to enable local SMEs to access wider markets.</td>
</tr>
<tr>
<td>Lafarge Cement Zambia</td>
<td>Energy &amp; Infrastructure</td>
<td>Lafarge Cement Zambia is part of the Lafarge Group. Its Affordable Housing Initiative targets the large deficit in affordable housing for medium to low-income Zambian families and aims to be a key provider of simple, ready-made building solutions at the base of the pyramid.</td>
</tr>
<tr>
<td>iSchool</td>
<td>Education</td>
<td>iSchool is a Zambian SME offering e-learning systems for Zambian primary schools and individual learning at home. The inclusive business primarily targets schools which are either government or community schools catering to the poorest children.</td>
</tr>
<tr>
<td>TATA Tannery</td>
<td>Agriculture &amp; Food</td>
<td>Tata Tannery processes raw hide mainly sourced from small-scale traditional cattle farmers collected through intermediaries for export. The company aims to address current supply chain inefficiencies by better integrating farmers and intermediaries.</td>
</tr>
<tr>
<td>Sylva Foods</td>
<td>Agriculture &amp; Food</td>
<td>Sylva Foods is a Zambian SME aiming to grow demand for and increase sales of traditional Zambian foods and beverages based on an inclusive local sourcing model.</td>
</tr>
<tr>
<td>One Family Health</td>
<td>Health</td>
<td>One Family Health Foundation is working to establish a franchise network of clinics providing healthcare services to the poor in rural, slum, and peri-urban areas of Zambia.</td>
</tr>
</tbody>
</table>
Additional resources

Inclusive Business Case Studies
Seven in-depth case studies chart the journeys of BIF-supported companies in sectors that include agriculture, education, ICT, banking, energy and retail. These honest and inspiring accounts look at what counts as success and the factors that have created it. They assess the context and mechanics of the business model, the actual or likely commercial returns, emerging development impacts and the value of BIF support. bit.ly/Deepdives

Further detail on all of the businesses supported by the Business Innovation Facility can be found at: bit.ly/BIFportfolio

Inclusive Business Know-How
The BIF pilot has supplied a wealth of understanding on challenges, and approaches in inclusive business. Drawing on this experience, a starter-pack, and a number of tools and checklists have been created to support companies and practitioners as they develop their inclusive business venture. They include practical advice and information on topics such as distribution channels, partnerships and access to finance. bit.ly/HubKnowHow

All BIF publications can be found at: bit.ly/HubPublications

Inclusive Business Analysis
Each report in the ‘Inside Inclusive Business series’ explores, in detail, one aspect of inclusive business. The aim is to share practical ideas and solutions, as they have emerged from BIF-supported businesses, in ways that are relevant to other business and development professionals. They focus on issues including, reaching ‘the last mile’ consumer, creating effective partnerships, building demand, affordability and accessibility when selling to the BoP, and linking smallholder farmers to markets. They can be found at: bit.ly/HubInsiders

The Practitioner Hub on Inclusive Business hosts all the outputs of the BIF pilot plus other resources, a range of other material about and from inclusive business. www.businessinnovationfacility.org

This report is one of two companion volumes produced at the end of the BIF pilot:
‘The 4Ps of inclusive business: How perseverance, partnerships, pilots and passion can lead to success’ bit.ly/4PsIB
‘Adding value to innovation? Lessons on donor support to inclusive business from the business innovation facility pilot’ bit.ly/Bdonorsupport

For further information on all Business Innovation Facility projects and to access our resources, go to: www.businessinnovationfacility.org

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