



Inclusive Business

The Next Frontier for Corporate Responsibility

Corporate
Citizenship



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Foreword



Inclusive Business was originally the corporate response to development agencies' poverty alleviation programmes, which formerly fell under the banner of sustainable livelihoods. The idea was first introduced in the 1992 Brundtland report and later developed by the UN to represent a broader goal of poverty eradication. Twenty years later, this has emerged as a corporate growth strategy amongst leading multinationals as Inclusive Business. The twist being we are not talking about philanthropy, but a profitable business model with mutual benefits to all parties.

I became familiar with the approach in 2004, while turning to TVE films to get inspiration for new sustainable business models which could take corporations successfully into new growth markets – emerging and developing economies. Was there a way in which a multinational corporation could generate income for populations in poorer countries, and at the same time achieve successful new market penetration? Could corporations go beyond the era of philanthropy and work with longer term ROI models to support governments and NGOs in solving both environmental and social challenges profitably? Should businesses get involved at all? Our research shows that the answer is 'yes' to all of the above questions.

Working at the time in a company with a stretching vision of becoming restorative (pioneering Ray Anderson's Interface Inc), which in itself inspired ambitious thinking, I started questioning conventional models of shareholder value - as many of the companies within this report have clearly done as well.

Since its foundation in 1997, Corporate Citizenship has worked with leading sustainable businesses around the world, advising them on all aspects of what it means to be a responsible business. Over the past years, our clients and partners have increasingly explored the opportunities of Inclusive Business and our work in this area has grown. At Corporate Citizenship, we see Inclusive Business as the next frontier and the way forward for sustainable businesses looking to take traditional CSR to the next level. As you will see in this report we also believe that Inclusive Business should be seen as a growth engine for companies looking to expand their presence in emerging and developing economies.

I would like to thank the companies, intermediaries and experts interviewed in this report for sharing their experiences with us, and for leading the way to a more inclusive way of doing business. Thanks to SABMiller, CEMEX, Starbucks, Nestlé, Diageo, PepsiCo, Heineken, Vodafone, Interface, Chevron, IFC, IFC G20, USAID, Markets Speaking, Stuart Hart of Cornell University and International Business Leaders Forum (IBLF) for their honest and valuable insights. They all know that whether they succeeded in their initiatives first time around or not, they are one step closer to a more sustainable business model from a societal perspective.

Senior Consultant Anne Stubert, who has led the research project, has worked tirelessly at getting this report to focus on the facts and provide guidance to other companies wanting to explore a new approach to growth through the sustainability lens. Having lived and worked in some of the countries where the initiatives have been implemented, Anne has a unique perspective and understanding.

Expectations from consumers, stakeholders and shareholders of business' role in society will only increase in line with growing economic pressures. Inclusive Business models are just the beginning of businesses' involvement in solving challenges beyond creating shareholder value.

A handwritten signature in black ink, appearing to read 'K. Laljani'. The signature is fluid and cursive, written on a light-colored background.

Karin Laljani

Managing Director

Corporate Citizenship

Executive Summary

In an increasingly competitive world, public and stakeholder expectations of businesses' roles within the societies in which they operate continue to rise. Today's global companies are increasingly judged on the actual social and economic value they spread through their core business activities. As such, leading multinationals have started to recognise the powerful potential of Inclusive Business models. The term Inclusive Business is widely defined as profitable core business activity that expands opportunities for the marginalised and disadvantaged. These business models engage the marginalised as employees, suppliers, distributors or consumers.

In this report, Corporate Citizenship has analysed a number of multinational companies' Inclusive Business models in emerging and developing markets. We have looked at the motivations behind the business models, the role of partnerships, financing and profitability, as well as challenges. We have conducted interviews with a number of multinationals such as **SABMiller, Heineken, Nestlé** and **Interface**, and intermediaries like the **International Finance Corporation (IFC)**.

Inclusive Business is a young and growing sector and the landscape around it is quickly developing. We see new collaborations between the private and non-profit sectors, as well as the emergence of a growing social investment landscape, opening up opportunities to finance Inclusive Business models.

Our research shows that the opportunities presented by Inclusive Business for global companies are significant. It can drive product and service innovation, provide access to new markets, help differentiation from

competitors and strengthen brand reputation. With regards to supply chain, benefits include cost reductions and secured access to critical raw materials.

Similarly, Inclusive Business models have considerable socio-economic impacts in developing markets, spreading opportunities through job creation, regular income generation, connections to markets, and access to education and training.

In light of these opportunities, Corporate Citizenship has identified ten steps companies can take when exploring and building Inclusive Business models. For example, companies should **evaluate the socio-economic impact of their operations** in a given market, with the aim of **identifying where social and economic benefits could be further enhanced across the value chain**. Companies should **focus on their core competencies and strengths identifying where they can be applied to address societal and development challenges** through the core business. In addition, it is crucial to **get senior management on board** at an early stage as well as **deciding on the commercialisation of the business model**. We believe there is great potential for companies to **leverage the skills and expertise of the CSR departments**, to develop and test innovative ideas and business models.

Our research shows that, when companies get it right, Inclusive Business is a successful growth strategy for operating and expanding in emerging and developing economies. At Corporate Citizenship, we see Inclusive Business as the next frontier and the way forward for sustainable businesses looking to take traditional CSR to the next level.



1 Introduction

Over the past decades, a growing number of multinationals have focused on emerging and developing economies for growth and profitability. While the West and industrialised countries are struggling in an increasingly tougher economic climate, many of the fastest growing economies in the world can today be found in Asia, Africa and Latin America. For example, Africa's economies are consistently growing faster than those of almost any other region in the world, with many growing by more than 6% a year over the past few years. In a recent report the World Bank observed that *"Africa could be on the brink of an economic take-off, much like China was 30 years ago and India 20 years ago"*.

As such, middle and low-income customer segments in emerging economies hold significant opportunities for many companies. They represent mass markets of not only potential consumers, but also potential suppliers, distributors and employees. Similarly, the markets coined as 'Base of the Pyramid' (BOP), are of increasing interest. In this report, we refer to a BOP definition mentioned in Stuart Hart's book 'Next Generation Business Strategies for the Base of the Pyramid' (2011), which describes BOP markets as *"the low-income socioeconomic segment that is not well-integrated into the formal economy"* (page 8). It should be noted that in many developing countries there is an emerging new consumer class that has moved out from BOP, and this customer segment holds great potential for today's companies.

Corporate Social Responsibility (CSR), initially shaped and driven by regulations, compliance and reputational concerns, has recently witnessed a growing number of companies looking to address societal and development challenges through their core business. Furthermore, the public expectations surrounding businesses' roles within the societies in which they operate continue to rise. Similarly, stakeholder groups are challenging companies more than ever over the extent to which they actually spread social and economic opportunities.

Over the past few years, the term Inclusive Business has received attention from leading sustainable businesses. The term was initially coined by the **World Business Council for Sustainable Development** (WBCSD) in 2005.

Inclusive Business is widely defined as profitable core business activity that expands opportunities for the marginalised and disadvantaged. These business models engage the marginalised as employees, suppliers, distributors or consumers. As such, Inclusive Business is not philanthropy, rather it profitably expands economic and social opportunities in a variety of ways.

So far, the Inclusive Business debate has mainly focused on developing economies. While societal and development challenges are most pressing in these markets, we believe there is great potential to develop Inclusive Business models in the developed world, involving marginalised people in the value chain.

Research Scope

Founded in 1997, Corporate Citizenship has helped shape the CSR movement from the early days working with some of the leading sustainable businesses in the world. Today, we recognise the immense opportunities of Inclusive Business but also the significant challenges. Through our work with clients and partners, combined with thought leadership in this area, we hope to bring the considerable benefits of Inclusive Business to the fore.

Over the past months we have carried out research and in-depth interviews with multinationals, intermediaries and experts. Drivers and motivations were highlighted, as well as challenges and lessons learned. In addition, areas such as partnerships, access to finance and scalability were discussed. We are grateful for the time contributed and the insights shared by our interviewees, including companies such as **Vodafone**, **SABMiller**, **Interface**, and **Nestlé**, intermediaries such as the International Finance Corporation (**IFC**) and International Business Leaders Forum (**IBLF**), and the Inclusive Business experts including Professor Stuart Hart from Cornell University (*a comprehensive list of interviewees can be found in the Appendix*).

Some of the most interesting Inclusive Business examples are to be found among local companies in developing markets, and multinationals have much to learn from them. Our research and this report, however, have deliberately focused on multinational companies with headquarters in the developed world

and operations in developing markets. We believe the challenges faced by multinational companies are very different to those faced by local companies. Often they have greater problems establishing local networks, acquiring market knowledge or setting up efficient distribution channels. Consequently, successful local companies, for whom Inclusive Business may be the most obvious business model, tend to outperform the multinationals.

We have focused our research on Inclusive Business interventions across the entire value chain. This means that we have analysed examples of companies developing products and services for the poor and disadvantaged; business models that expand economic opportunities across the supply chain through, for example, local sourcing and production; and finally innovative distribution models in developing markets. Our findings and conclusions will look at Inclusive Business as a sector, instead of going into depth on interventions at a specific stage of the value chain.

We hope that this report will further contribute to the Inclusive Business debate and provide inspiration for the private, public and non-profit sectors interested or active in the field. As such, we are hoping that this report not only provides useful insights for companies experienced in Inclusive Business, but more importantly encourages 'new-comer' companies to further explore opportunities in this area.

2 A Changing Landscape

The Inclusive Business sector and the focus on the BOP markets can, to some extent, be tracked back to 2004 when the late professor and author C. K. Prahalad published the book 'Fortune at the Bottom of the Pyramid'. While the book received significant attention and has been widely quoted since, it has also been subject to criticism. The book shed light on the significant and unexplored potential and 'fortune' to be found at the base of the pyramid in developing markets across the world. However, while an increasing number of multinationals are strengthening their focus on these markets, for many unlocking the fortune presents a great challenge. Some of these challenges will be discussed in this report.

In many ways, Inclusive Business continues to be viewed as cutting edge. While leading sustainable businesses have for a while now recognised the powerful potential of Inclusive Business, the area remains relatively unexplored to the majority of multinationals. Perhaps unsurprisingly, companies that have successfully integrated sustainability into the core of their business such as **Nestlé**, **Coca Cola** and **SABMiller**, have experimented with a variety of forms of Inclusive Business models. One could argue that currently, Inclusive Business reflects the state of the CSR sector five to ten years ago.

While leading businesses are increasingly looking at how they can profitably address societal problems and development challenges through their core business activities, we see the public and non-profit sectors taking on more market-based approaches to these challenges. Never before have so many partnerships between the private and non-profit sector taken place. The management consulting firm Accenture recognises this changing landscape in the report 'Convergence Economy' (2011). It forecasts that by 2020, high-performing businesses, NGOs and development agencies "will have developed an ability to collaborate seamlessly with a set of non-traditional partners that spans today's sectoral boundaries". Further, "the organisations that develop new convergent business models will not easily be pigeonholed into today's 'business' or 'non-profit' categories".

Illustrating this is the increasing number of so called multi-stakeholder initiatives, where private and public sector organisations are joining forces to address industry challenges. For example, the **Better Cotton Initiative** is a multi-stakeholder initiative backed by companies

like **H&M**, **Marks & Spencer** and **IKEA**, bringing together various stakeholders across the cotton supply chain, aiming to raise environmental and social standards in the industry.

Another sign reflecting this trend is the growth of innovative funding mechanisms set up by development agencies like the UK's Department for International Development (**DFID**), the Swedish equivalent **Sida**, and multilateral organisations such as the **IFC**. These funds provide financial support to companies looking to pilot or launch Inclusive Business models. A few years ago, only a few agencies hosted such funds. Today, the majority of Western-based development agencies have a funding vehicle for these types of projects.

This changing landscape brings with it new opportunities for multinational companies, but also new challenges.



3 Opportunities

In an increasingly competitive world, characterised by stagnating and saturated markets in the Western world, many companies are strengthening their focus on emerging and developing economies. But what are the opportunities for companies to reach out to new, lower-income customer segments in these countries? What are the actual drivers for companies to adapt their business models to expand economic and social opportunities in these markets?

Some industries are leading the race of adopting Inclusive Business models. The technology and ICT industries have transformed many lives in developing markets through access to communication, whilst consumer goods companies like **Unilever** and **Procter & Gamble** have experimented with product innovation, supply chain and distribution networks for a many years. Companies in the agriculture sector, including food and beverage

companies such as **Nestlé**, **SABMiller** and **Diageo** have for many years developed local sourcing models, and invested in their supply chains by providing training and education to smallholder farmers.

Eriko Ishikawa, senior investment officer at **IFC's** Inclusive Business team observes that certain industries are particularly 'ripe' for developing Inclusive Business models, in particular the mobile technology and the healthcare sectors. Others have proven business models – microfinance; integrating smallholder farmers into agribusiness supply chains through extension services and input finance; and distribution chain finance to reach low income customers. Since 2005 the IFC's Inclusive Business team, which mainly focuses on local companies in developing markets, has invested over \$6 billion in more than 200 firms that use Inclusive Business models, in over 80 countries.

Motivations, Drivers and Business Benefits

Our research and interviews with a broad range of companies revealed interesting findings on the motivations driving the development of Inclusive Business models, and also the benefits that accompany these developments.

Innovation

For companies developing new products and services targeting low-income markets, a number of drivers are evident. These include **access to new markets** or new customer segments in existing markets, **product innovation**, and **differentiation from competitors**. However, one of the most important drivers for many companies is to **secure its position in the current market in response to the significant risk of being pushed out** because of local companies' dominance.

Our research findings show that companies with a strong sustainability agenda are particularly prone to experimenting with Inclusive Business models. For example, Miriam Turner, Assistant Vice President of Co-innovation at **Interface**, the world's largest designer and maker of carpet tiles, explained that the company has had a longstanding commitment to addressing the environmental impacts of its business and operations. They wanted to explore how they could enhance the

economic and social benefits across the value chain. This initial driver led them to develop 'Fairworks', bringing together sustainable materials and traditional skills from developing markets in a new product line. Launched in India, a market where Interface had a longstanding presence and extensive networks, Fairworks sourced locally available materials and worked with local female artisans to produce flooring tiles for consumers in developed markets. As such, the project managed to fuse textile and market knowledge with traditional design. Through the initiative, Interface provided access to business training for the artisans, and spread economic opportunities through job creation. Miriam Turner recognises that Fairworks brought a number of significant benefits to Interface, such as a positive reputational impact strengthening the brand, as well as differentiation from competitors.

The Japanese clothing company **UNIQLO** provides an interesting example of a company looking to address social challenges in a key market, Bangladesh, through its core business activities. Together with **Grameen Bank Group**, the biggest microcredit institution in Bangladesh, the company launched a social business in 2010, conducted entirely within the country from production to sales. Engaging low-income populations in the planning,

manufacturing and distribution processes, UNIQLO has launched a product line of T-shirts targeting low-income groups. The T-shirts are distributed and sold by 'Grameen Ladies' - women who are working towards financial independence through loans from Grameen Bank. The women sell the T-shirts from door-to-door in rural areas. All profits are reinvested in the social business. The project is targeting production and sales of a million T-shirts and 1,500 jobs created within three years.



Sourcing

A growing number of companies are developing Inclusive Business models across the supply chain, through local sourcing and production. Food and beverage companies are leading the development in this sector. Many of these companies view developing markets as key growth markets, and Inclusive Business is an integral part of their growth strategies. There are a number of factors driving this development including **cost reductions, securing access to critical raw materials, decreasing reliance on imports, creating visible supply chains, and strengthening the company's presence in a specific market by contributing to local economic growth.**

The global brewer, **SABMiller**, has a well-established model of local sourcing in a number of the African markets where the company operates. The company has developed a successful business model of producing low-cost beer from locally sourced crops, targeting a lower-income segment many of whom currently consume 'informal' or 'illicit' alcohol. Andy Wales, SABMiller's SVP of sustainable development explains that the model initially started in Uganda in 2002. At that time, the company had been present in the market for a few years, sharing it almost evenly with one other major competitor. The company needed to think differently to change the game - how could they produce a beer that was affordable to a larger proportion of the population? After a year of

experimenting with crops and business models, SABMiller launched Eagle Lager, locally produced from sorghum - a crop widely grown across Africa - and sourced from smallholders.

While the drivers for SABMiller initially were market growth and differentiation from competitors, the company recognises that the benefits of the model go far beyond that. The model secures access to critical raw materials, it reduces import and inventory cost, and it creates more visible supply chains. In addition, local sourcing qualifies the company for lower excise rates. For example, in Uganda the excise rate is 20% compared with 60% for imported beers, and in Zambia it is 35% compared with 75% for imported beers.¹

Today, the Eagle brand (which includes a couple of variants, all made with sorghum) makes up around 35% of the total beer market in Uganda. The development impacts of the business model are significant: SABMiller sources directly from about 8000 farmers in Uganda, and when including direct and indirect job multipliers it supports 34,000 jobs in agriculture.

Stefan Canz at **Nestlé's** Agricultural Division describes the company's longstanding approach to local sourcing and production as "*an evolutionary process*" of a company operating in developing markets. He believes that local sourcing is crucial for the company to operate and grow. In Ghana for example, the company started developing a model of local sourcing of cereals, in order to avoid high import costs, fluctuating prices and logistical complexities.

Another interesting example is the food and beverage giant **PepsiCo**, who in September 2011 launched the initiative Enterprise EthioPEA, together with the UN agency World Food Programme (**WFP**) and United States Agency for International Development (**USAID**). The initiative aims to increase chickpea production in Ethiopia to address three distinct needs: improve Ethiopian farmers' chickpea yield; develop a locally sourced, nutrient-rich, ready-to-use supplementary food (RUSF) to address malnutrition; and scale-up and strengthen the Ethiopian chickpea supply chain, for both the domestic and export markets. For PepsiCo, chickpea-based products are an important part of the company's strategy to build a \$30 billion global nutrition business by 2020.

The global brewer **Heineken** is also expanding its model of local sourcing across the whole African continent. The company aims to source 60% of the raw materials locally, to produce their African beers, by 2020. In Sierra Leone, they have partly replaced barley with the locally grown sorghum crop. The initiative was set up in 2005 following

¹ SABMiller, 2009, 'Enterprise Development Report - Making a difference through Beer'

a request by the country's president to involve more local farmers in the sourcing as a way to increase local economic opportunities. Zita Schellekens, Public Affairs Consultant at Heineken, states that an important driver was an economic one: the company wanted to ensure a stable supply chain, taking into account exchange rates, price volatility and additional import costs.

Another significant driver was the social impact: for Heineken it is important to have a positive impact in the communities in which they operate, as it strengthens the license to operate. So far, around 3000 farmer families have benefited from job opportunities created by the local sourcing programme. An assessment showed that the most important benefit for the farmers was the

increased income. Prior to the project, sorghum had little value in the community, and today sorghum is produced in large quantities. In addition, the project facilitated access to finance (pre-finance before the harvest) for the farmers through a partnership with a local microfinance organisation.

Finally, in addition to all the benefits of local sourcing and production emphasised, Corporate Citizenship believes that by creating positive social and economic impacts through factors such as job creation, training and education, a company ensures a long-term position and success in the market. It facilitates building relations with key stakeholders and decision-makers, and it strengthens the license to operate.

Case Study: Starbucks - Coffee and Farmer Equity (C.A.F.E) practices

In 1998 Starbucks, the international coffee company, partnered with the environmental organisation Conservation International to develop a set of coffee growing guidelines addressing the social, environmental and economic impacts of coffee farming.

Drivers: Starbucks knew that their success of the coffee market was directly linked to the thousands of farmers that grew their coffee. In order to help ensure a long-term supply of high-quality coffee, Starbucks developed a comprehensive approach to addressing the social, environmental and economic impact within these communities. The support included providing farmers with access to the tools, information and capital they needed to advance methods and ensure the longevity of their farms.

Business model: One of the programmes in their approach, developed in collaboration with Conservation International, is the Coffee and Farmer Equity (C.A.F.E) Practices. A set of more than 200 environmental, social and economic indicators, C.A.F.E Practices help the Starbucks purchasing team to evaluate and reward sustainable production of high quality coffee. The other programmes that help farmers meet these standards include their Farmer Loan programme and Farmer Support Centres (FSC). These FSC's provide technical support to farmers on the ground to help them earn better prices and become more resilient, long-term producers.

Results: Today, C.A.F.E. Practices has been adopted by coffee producers in 20 countries across four continents and has helped Starbucks maintain and expanded its high quality supply of coffee. As of 2011, 86% of Starbucks coffee was ethically sourced either through the C.A.F.E. Practices model, Fairtrade or other externally audited systems. Their goal of is to reach 100% ethically sourced coffee by 2015.

Distribution

Distribution is often a key challenge for companies targeting low-income populations in developing markets. Poor markets in both rural and urban areas, including slum areas, often have challenging operating environments with weak infrastructure. Traditional distribution models may not be applicable, and are rarely cost effective as price levels and sales volumes tend to be too low. A growing number of companies are partnering with small enterprises and entrepreneurs as distributors. Such a model has often proven efficient, as these partners tend to have a strong local market understanding and valuable networks. The distribution model can also give credibility to the company brand, facilitating its long-term presence in the communities.

The most well-known example is **Coca Cola's** Micro Distribution Centres (MDC), applied across most of its markets in Africa. Coca Cola works with local entrepreneurs, distributing the beverages in rural and urban areas which would be difficult to access using standard delivery methods. The MDCs distribute the beverages to retailers, often

by bicycle or pushcart. To date, more than 3,000 small distribution businesses have been formed, creating direct employment for more than 13,500 people. In addition, MDC owners and employees support an estimated 48,000 dependents. The business model generates more than \$550 million in revenues, and over 80% of Coca Cola's business in East Africa goes through the MDC network.

Vodafone has also adopted an innovative distribution model, involving women in Qatar. In Qatar society, women are usually restricted in their movement, and in their communication and interaction with men, making it difficult for a mobile network operator to access female markets. Through the 'Al Johara' initiative, launched in 2012, Vodafone engages women to sell Vodafone products and services to friends, families and communities. The women earn an income whilst developing new business skills. From a business point of view, the results of the initiative look promising and the women have reached 100% of their sales target. Vodafone is expecting to break even on the initiative in 2012.

Figure 1: Inclusive Business opportunities across the value chain

Below visual displays a company's value chain, from product innovation stage through to distribution and market place. Under each stage, it lists the different opportunities and benefits of an Inclusive Business model related to that particular stage of the value chain.

In addition to below listed benefits, there are number of general benefits covering all stages of the value chain. For example, Inclusive Business brings reputational benefits to a company, strengthening its brand image both locally and globally. Further, it helps building relationships with key stakeholders in local markets, reinforcing the company's long-term position and success. Finally, it can help a company differentiate from its competitors.



4 From Idea to Implementation

As an integral part of the research project we wanted to bring to light how Inclusive Business models are first conceived in today's companies, what departments and functions are generally involved in the development of the project from idea stage to implementation, and what the various organisational obstacles can be.

A common feature among many of the companies analysed and interviewed is the senior management's endorsement of Inclusive Business. The previously mentioned example of **Interface** was very much characterised by a strong commitment to Inclusive Business at the top level of the organisation, and companies like **Nestlé** and **SABMiller** are also heavily

driven by the focus of putting sustainability into the core of the business by adopting Inclusive Business models.

Our findings show that where in the organisation the different ideas are developed varies greatly from company to company. Naturally, it depends on the nature of the Inclusive Business model and where it sits in the value chain. Departments range from the CSR department, to R&D, regional markets, supply chain and procurement. For example, while **Vodafone's** mobile banking initiative M-PESA (see below) was first developed as a CSR initiative, food and beverage companies tend to develop the Inclusive Business ideas in the sourcing department, often at a market level.

Case Study: SABMiller - Impala Lager in Mozambique

SABMiller is one of the world's largest brewers. Building on its success with the Eagle Lager low-cost beer in Uganda (see section 'Sourcing' page 9), the company wanted to develop a similarly affordable beer for low-income consumers in Mozambique made from locally sourced raw materials. The company officially launched its first cassava lager in Mozambique, called *Impala* in November 2011.

Drivers: SABMiller wanted to grow its presence in Mozambique by producing a beer affordable to a greater segment of the population, many of whom currently drink 'informal' or 'illicit' alcohol.

Business model: SABMiller's Impala is brewed using 70% cassava, a crop grown widely across Africa. The beer is the result of several years of research to overcome the challenges of processing and brewing with cassava. In Mozambique, cassava has never previously been commercially used to brew beer. This is mainly due to the

logistical challenge of collecting the roots from smallholders, widely dispersed across the country. The crop's rapid deterioration after harvesting, combined with its high water content, makes it unsuitable for transporting over long distances. SABMiller partnered with DADTCO (Dutch Agricultural Development and Trading Company), and together they implemented an innovative solution - a mobile processing unit. The processing unit travels to the cassava growing regions and processes the root on site.

Results: As it was launched in November 2011, the results are yet to be seen. SABMiller eventually foresees a use of 40,000 tonnes cassava annually in the production of Impala, creating employment opportunities for over 1,500 smallholder farmers and their families. The company has partnered with the international organisation IFDC to provide training and education, helping the farmers to increase the productivity of their land, hence increasing their incomes. The government of Mozambique has agreed on a reduced excise rate for Impala, allowing SABMiller to sell the beer about 30% cheaper than mainstream lager.

Internal Change-Makers

Interestingly, a common feature among the companies analysed in the research project is the role of internal change-makers or 'Intrapreneurs'. A majority of the cases analysed, have been driven by passionate and committed individuals within the respective companies. The leading academic Stuart Hart confirms these findings and argues that their potential success has, so far, "depended on the angle from which they have approached the idea [core business vs. philanthropic angle] as well as their effectiveness".

An interesting example is **Vodafone's** M-PESA initiative. John Maynard, Business Development Manager at Vodafone, explains that the idea was initially driven

by the internal CSR manager Dr Nick Hughes. He was looking to further explore the role of mobile phones in addressing development challenges in emerging economies. Nick Hughes secured £1 million in funding from DFID, an amount that was matched by Vodafone. This investment was later described as "the best one million pounds ever invested by DFID", referring to the vast development impact of mobile banking in developing economies.

After a few years of developing the business model through support on the ground in Kenya, M-PESA - a mobile phone based money transfer service - was finally commercially launched in 2007 by **Safaricom**, a

Vodafone affiliate. The service addressed the issue of financial inclusion in developing markets, allowing those without a bank account to transfer money as easily as sending a text message.

The success of the business model was immediate, and within less than a year M-PESA had reached more than 2.5 million customers in Kenya. Within 18 months it had reached four million people in a country which in 2007 had just 2.5 million bank accounts. Once proven successful, M-PESA was transferred from the CSR division of Vodafone into the core business. It has now its own business stream with a central team of 33 people. Today, more than 17% of Safaricom's revenue is generated from

M-PESA. The service has been launched in a range of other markets including Tanzania, Afghanistan, India, Fiji and South Africa. M-PESA has since been described as *"the most successful value-added service ever created in the mobile phone industry"*.

Similar to Vodafone, the idea behind **SABMiller's** low-cost beer Eagle Lager was initially driven by a country manager. Working closely with the Uganda government through a Public Private Partnership (PPP) he experimented with a number of varieties of sorghum and the necessary brewing technology, before finally launching Eagle Lager in Uganda.

Organisational Issues

Many companies emphasise that, in order to maximise the commercial viability of the Inclusive Business idea, it should not be developed in isolation within the company. Rather, a number of relevant business divisions should be involved. Miriam Turner at **Interface** recognises that, retrospectively, the Fairworks project would have benefited from having more business divisions involved throughout the product development phase and beyond. This would have strengthened the commercial viability of the project, and identified any business challenges earlier on in the process.

Most companies recognise the value of bringing in external capacity, such as an Innovation Manager, to develop an idea and drive the project. Such a person can bring a fresh perspective to the business, and does not necessarily have preconceived ideas of what could work or not. Interface, for example, recruited externally for this full-time role.

With regards to product and service innovation, some companies argue in favour of completely outsourcing an Inclusive Business idea to an entrepreneur, a social enterprise or another external party. The company can

then provide some core funding and, if the idea proves successful, the company could acquire the enterprise and incorporate it into its core business. The benefit of such a model is that the idea would be allowed to develop without possible internal hurdles such as pressure on short-term results and internal politics slowing the process. However, a challenge would be that the product or service might not be fully aligned with the company profile and business strategy, and challenges to incorporate it could be significant.

It should be noted that adequate organisational structure and capacity requirements depend on the nature of the Inclusive Business initiative and where it sits in the value chain. Hence, there is no set model on how to develop Inclusive Business models most effectively.

Finally, at Corporate Citizenship we believe that companies have yet to explore further how CSR divisions can be best leveraged to develop and launch Inclusive Business ideas and models. Vodafone's M-PESA example confirms how this can be a success story.

Case Study: Interface – Fairworks in India

Interface is the world's largest designer and maker of carpet tile. The company has had a longstanding commitment to addressing the environmental impacts of its business and operations.

Drivers: Interface wanted to explore how they could develop a product that enhanced the social and economic benefits across the value chain, through a profitable core business model.

Business model: The company launched the initiative Fairworks in India in 2005. The business model brought together sustainable materials and traditional skills from developing markets in a new product line adapted to modern mass industry. Interface had a longstanding presence and extensive networks in India.

Fairworks sourced locally available and sustainable materials and worked with local female artisans to produce flooring tiles for consumers in developed markets. As such, the project managed to fuse textile and market knowledge with traditional design. Through a partnership with the local NGO Industree, Interface provided access to education and training for the artisans.

Results: The initiative spread social and economic opportunities through job creation and access to business training. Launched in the midst of the financial crises, the product line was not as commercially successful as originally anticipated. However, significant benefits for Interface included positive reputational impact strengthening the brand, as well as differentiation from competitors. Inclusive Business is a learning experience, and Interface is continuing its commitment to develop innovative Inclusive Business models.

5 The Role of Partnerships

The role of partnership is crucial for developing Inclusive Business models, and few companies are able to launch these initiatives independently. Partnerships with local grassroots organisations, NGOs, government agencies and international organisations are common. For example, **Interface** launched its Fairworks model in collaboration with the local organisation Industree, who provided training to local artisans on the ground. Similarly, **Nestlé** describes its collaboration with the International Institute for Tropical Agriculture (IITA) as invaluable in terms of providing training to farmers and monitoring progress on the ground in Ghana. Stuart Hart argues that in terms of delivering successful Inclusive Business models *"collaboration is crucial, almost essential and a prerequisite to success"*.

Why do companies seek partnerships in launching Inclusive Business models, and what purpose does the partnership generally serve? Many companies need technical expertise and support on the ground. For example, most companies in the agriculture sector looking to develop a local sourcing model need support in providing training and education to farmers to increase quality, efficiency and sustainability in farming practice.

Another major challenge for companies is to gain an in-depth understanding of local markets and access to specific networks. Companies looking to enter low-income markets often describe them as very challenging, both in terms of weak infrastructure, and in understanding cultures, habits and behaviours among these populations. Many of the companies interviewed describe how a partnership approach is crucial to address these challenges. Partnerships with local organisations can give valuable access and understanding of the market, insights into possible marketing channels, as well as credibility in the communities.

However, suitable partners and partnership models often change with the growth of the business. At an early stage, partnerships with, for example, local grassroots organisations can be crucial. Once the business has

grown, partnerships with widely recognised international NGOs can give another level of credibility in engagement with key stakeholders such as the government and donor agencies.

Another important benefit of a partnership can be the risk sharing factor. Inclusive Business models can imply a financial and operational risk for companies: managing a project in partnership can help to spread and thus reduce such risk.

It is evident that partnership development remains a big challenge for many companies. At Corporate Citizenship we believe there are a number of important considerations to bear in mind. First, there is no clear-cut partnership model a company can adopt and replicate on various Inclusive Business initiatives. Each Inclusive Business model is unique, hence the partnership model must be adapted to each project and specific need. In addition, a partnership model suitable in the beginning of the project may not be as relevant a couple of years later.

Second, a company should have a very clear view of what they want to get out of the partnership and what the ultimate goal is. Many companies tend to approach the partnership as a procurement relationship - such an approach is obviously doomed to fail. Rather, the company and the partner organisation need to unite under a common goal and work together towards it, making sure that the partnership serves a purpose for both parties.

Finally, there needs to be a clear framework in place, covering the governance structure of the partnership, outlining the roles and responsibilities, systems and indicators for measuring progress, and a clear timeline. Many companies enter partnerships without these frameworks in place, which often complicates the situation as NGOs and government agencies have very different mandates, agendas and ways of operating from profit-driven businesses.

Figure 2: The Benefits of Partnership - Who brings what?

Below visual maps a number of potential partner organisation for a company developing or implementing an Inclusive Business initiative. It lists the various benefits the organisation can bring to the table when partnering with a corporation.



6 Financing

Funding remains a key concern for companies and few are willing to provide adequate investment in developing and piloting Inclusive Business models.

However, many companies in the agriculture sector, including food and beverage companies, have for many years invested in their supply chains when adopting a local sourcing model. Such a transition often requires investment in providing training and education to farmers, and monitoring and evaluating progress.

While the local sourcing model has proven to be a worthwhile investment for many leading food and beverage companies, product and service innovation is a newer territory. For companies looking to develop new products and services another type of funding is required. Such investment is often more associated with risks. However, surprisingly, very few of the Inclusive Business examples in product and service innovation analysed in this research project have required significant upfront investment by the company.

For example, Miriam Turner from **Interface** tells us that funding of the Fairworks project mainly involved one full time employee - the Innovation Manager - driving the project, as well as some funding to the partner organisation on the ground delivering training and education.

In the case of **Vodafone**, the £1 million from DFID matched by Vodafone covered the initial pilot, including the original concept development; support from a consultancy to understand the legal and security considerations; software development; staff costs and marketing costs.

Nevertheless, we believe that there is a significant need for so-called 'patient capital' in the development of Inclusive Business models. Patient capital differs from traditional capital as it tends to have a greater tolerance for risk. It has also a longer time horizon and can often forego maximised financial returns in exchange for development impact.

Funding Opportunities

The landscape of social investing is developing across the world, opening up new funding opportunities for companies looking to share the financial risks of their Inclusive Business ventures. Accenture's report 'Convergence Economy' (2011) argues that *"a whole school of thought is emerging around social investment"*. Despite this development, very few multinationals are aware of this emerging landscape, and few explore co-investment opportunities with other organisations.

As mentioned in the section 'A Changing Landscape' (see page 7), development agencies like **USAID** and **DFID**, multilateral organisations such as **IFC**, and foundations such as **The Bill and Melinda Gates Foundation** are increasingly co-funding with multinational companies. These organisations are increasingly recognising the role corporations can play in addressing social and development challenges. For example, DFID along with a few other development agencies infused funding in **Unilever's** Project Novella. Through this initiative, the company is building a new locally owned supply chain for the AllanBlackia oil, a substitute to palm oil to be used in

margarines and spreads. Similarly, USAID invested \$1.2 million in the Conservation Coffee Alliance throughout Latin America, backed by **Starbucks**.

However, while some successful Inclusive Business models such as **Vodafone's** M-PESA was financially backed by a development agency, these organisations tend to have rigorous investment criteria, and the requirements on development impact are high. It should also be noted that, historically, there has been a widespread view that profit-driven multinationals should not need any funding for such projects. While this perspective is changing, there is still a scepticism of the actual development impact of these projects.

At Corporate Citizenship, we believe that multinational companies should take a broad approach when searching for risk-sharing funds, exploring the opportunities of the emerging social investment landscape. In addition, companies should explore how CSR funds can be leveraged to finance new innovative ideas.

7 Profitability

While the opportunities of Inclusive Business are vast, profitable business models still remain few. Research shows that most Inclusive Business efforts so far, in particular in product and service innovation, have struggled to reach a profitable stage or to gain scalability. The same few examples including **Vodafone's** M-PESA and **Coca Cola's** MDC's among others, are generally quoted as success stories.

Key constraints to profitability and scalability include internal aspects such as **short time frames** and **lack of sufficient funding**. In addition, **complex market conditions**, **difficulties in understanding market behaviours**, cultures and norms, and **regulatory hurdles** are other common challenges. Stuart Hart argues that *"there is a tendency to expect too much too fast"*. Furthermore, he emphasises the need of innovative finance mechanisms in the Inclusive Business space: *"Any Inclusive Business project is doomed to fail if one has the same profit expectations as 'traditional' product development"*.

For the Inclusive Business models that have reached profitability, the time frames seem to vary significantly, obviously depending on factors such as industry, type of business model and market conditions. While **SABMiller's** business model in Uganda was commercially successful

almost immediately, **Heineken's** local sourcing model in Sierra Leone took six years. Our research shows that three to five years is the most common timeframe for multinational companies to reach profitability on their Inclusive Business models.

Another critical factor to reach profitability is the issue of scalability. For consumer goods companies selling products to low-income customers, the margins tend to be very low as consumer affordability is key in these markets. Hence, it is crucial that the company manages to scale up within a very short time frame to reach profitability. Scalability has proven a significant challenge for most companies.

Many of the interviewees emphasised that there is a critical need to develop alternative measurement systems to gauge progress and success of the Inclusive Business models. In order to develop and grow Inclusive Business models successfully, we believe that companies should build social, economic and environmental indicators and targets into strategy and evaluation systems. These could include development impacts, such as job creation, number of people benefited from training and education and environmental performance. If traditional targets and measurement indicators are applied, the project is unlikely to succeed.

8 Challenges

Market Understanding, Distribution and Marketing

While the opportunities for creating Inclusive Business are extensive, there are significant challenges. For companies selling products and services for low-income customer segments, market understanding is a critical success factor. Developing country economies tend to be far from homogenous. As highlighted in Stuart Hart and Ted London's book 'Next Generation Business Strategies for the Base of the Pyramid' (2011), "developing country economies [...] consist of small islands of mature consumer markets within a vast sea of informal and nonmonetized economic activity". Languages, social structures and hierarchies can vary extensively between regions and districts. Understanding habits, consumption patterns and preferences in low-income markets, can be a challenge. In addition, market insights and data are often weak or non-existent.

Geraldine von Celsing, CEO of **Markets Speaking** - a market research company based in Ghana - confirms this challenge, and explains that it motivated her to set up Markets Speaking in 2009. She explains that while a growing number of multinationals are looking to expand in developing economies, they are increasingly looking to gain customer insights from low-income communities to feed into product development and marketing strategies. Working for a broad range of multinationals, Markets Speaking partners with local youth entrepreneurs, gathering data and insights in urban and rural areas across West Africa.

Low-income customers rarely have regular access to information sources such as TV, newspapers or the internet. Advertising and marketing channels need to be tailored to the local context. An efficient way for a company to reach such audiences can be to

tap into existing local networks through collaboration with grassroots organisations, which have a good understanding of and insights into local needs and consumer behaviours. Such collaboration can also give credibility to the company and gain trust among target groups. Other ways can be to communicate through radio, or organise awareness programmes and campaigns. **Unilever** has successfully promoted its soap Lifebuoy to poor communities across the world. For example, the company has organised campaigns raising awareness of the importance of hand washing to prevent diseases.

Another key challenge involves distribution networks. Infrastructure in developing and emerging economies is often poor. Road conditions can be weak, and access to power supplies and water are often temperamental. This constitutes a challenge for companies selling products to low-income groups. High volumes and reach are critical as operating margins often are low to be affordable to the customers. As previously described in the section 'Distribution' (see page 11), **Coca Cola** has successfully addressed the distribution challenge through its MDC model. This distribution model has now been widely adopted by many multinationals, including the French food products company **Danone**, as well as **Nestlé** and **Unilever**. Our research findings show that successful distribution networks and methods are often developed from a bottom up approach as opposed to a top-down one.

In order to target these markets successfully, we believe that companies should identify, leverage and build on the platforms that already exist. These could include local community groups, grassroots organisations and other social networks.



Regulations and Capacity-Building

Regulatory issues are often cited as a barrier for companies operating in developing markets. National and local governments rarely provide a regulatory environment that facilitates business and investments. Obstacles include weak legal systems protecting contracts, and inefficient tax systems. John Maynard from **Vodafone** explains that regulations have been one of the biggest hurdles for M-PESA when expanding into new markets. Many companies engage in policy dialogue at a national level to improve the regulatory environment.

While working in low-income markets with suppliers, distributors and retailers, multinationals often need to invest time and capital in building the capacity of the business partners. Naturally, highly skilled and efficient

suppliers mean higher quality end-products, as well as cost savings. Similarly, the productivity of retailers and distributors is key for a company to maintain and increase sales.

Hence, in order to facilitate access for low-income populations to formal markets, capacity building is crucial. This can range from providing business training to distributors and retailers, to training local farmers on productivity, quality and sustainable farming practices. For example, **Coca Cola** provides basic financial skills training to the entrepreneurs running the MDCs, and **SABMiller** builds capacity through agro-economic and business training, financial and technical assistance.



Access to Finance

Access to finance remains a key challenge while doing business in low-income markets. Low-income people in developing markets have limited and irregular cash flows, and often need financing in order to participate in Inclusive Business models either as suppliers, distributors or consumers. This can involve, for example, agricultural input in a smallholder-sourcing programme or inventory in a distribution model. As small businesses

and entrepreneurs are rarely approved loans from commercial banks, multinational companies need to find innovative financing solutions if they want to include the poor and disadvantaged in the value chain. Some companies capitalise external funding through partnerships with development agencies or international organisations, whilst others partner with local microfinance organisations.

9 Conclusions and Way Forward

An increasing number of multinationals are enhancing social and economic benefits through their core businesses by the adoption of Inclusive Business models. The opportunities Inclusive Business present for global companies are significant. It can drive product and service innovation, provide access to new markets, help differentiation from competitors and strengthen brand reputation. On the sourcing and supply side, benefits include cost reductions, secured access to critical raw materials and visible supply chains. In addition, by contributing to local economic growth, the company strengthens its license to operate in the country and facilitates positive relations with key stakeholders such as the government and local authorities, ensuring a long-term presence in the market.

Similarly, the social and economic impacts in developing markets are significant. Our research has shown that Inclusive Business models have spread opportunities to poor and disadvantaged people through job creation, regular income generation, connection to markets, access to education and training, as well as access to finance.

However, Inclusive Business success stories are still few and challenges remain significant. Companies have told us about the difficulties they face in understanding the markets, developing effective marketing channels, challenging distribution networks and regulatory hurdles.

Inclusive Business is a young and growing sector and the landscape around it is quickly developing. We see the growth of Public Private Partnerships (PPPs) and new collaborations between the private and non-profit sectors. We also see the emergence of a growing social investment landscape, opening up for opportunities to finance Inclusive Business models.

Today's companies are increasingly judged on the actual economic and social value they spread through their core business activities. We believe there is huge potential for companies approaching emerging economies as new drivers for innovation in the development of products and services built on an Inclusive Business model. In this context, we believe that businesses should take the following steps when exploring and building Inclusive Business models.

- (i) **Conduct a socio-economic impact assessment.** As a starting point, explore the socio-economic impact of your company's activities and operations in a given market. Such assessment will further your understanding of the actual value your company spreads across the value chain.

- (ii) **Assess opportunities across the value chain.** Following the socio-economic impact assessment, take a value chain approach assessing the opportunities of your business. Where across the value chain could social and economic benefits be further enhanced?
- (iii) **Focus on core competencies and strengths.** What are the core skills of your business, and how can you apply them to address societal and development challenges through your business activities?
- (iv) **Leverage the skills and expertise of your CSR department,** to develop and test innovative ideas and business models.
- (v) **Get senior management on board.** At the start of your Inclusive Business journey, ensure that senior management are involved from the idea stage through to implementation. This is crucial for the long-term success of the business model.
- (vi) **Decide on the commercialisation of the business model early on.** The options to commercialise the business model should be integrated in the strategy from the beginning.
- (vii) **Explore funding opportunities.** Explore funding opportunities in the emerging social investment landscape, including development agencies, foundations and international organisations.
- (viii) **Explore partnerships.** Take a collaborative approach and explore partnerships with government agencies, NGOs and local grassroots organisations. Cooperate with local partners who have a deep understanding of market conditions, as well as insights on consumer needs and behaviour.
- (ix) **Invest in understanding the local market context.** A valuable approach can be to tap into local networks to gain market understanding and insights, both at an initial product development stage, but also throughout the process identifying marketing channels and distribution methods.
- (x) **Develop a robust performance measurement system.** Incorporate social, environmental and economic Key Performance Indicators (KPIs) and targets with longer-term Return on Investment (ROI).

About Corporate Citizenship

Corporate Citizenship is a global corporate responsibility consultancy that uses clear insight and a simplified approach to sustainability to deliver growth and long-term value for business and society.

We work globally across industry sectors. Our work takes us to Europe and US, Asia, Africa and Latin America. We help our clients make the smart choices that will enable them to survive and thrive in an increasingly challenging business environment. Corporate Citizenship promotes the idea that companies can be a force for good.

We advise a global client list on a number of areas: strategy, supply chain, socio-economic impact, inclusive business models and social investment. Our longstanding clients include Unilever, Cadbury, Diageo, Lafarge, HSBC and Vodafone.

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Appendix: List of Interviewees

Corporations

SABMiller
CEMEX
Starbucks
Nestlé
Diageo
PepsiCo
Heineken
Vodafone
Interface
Chevron
Markets Speaking

Intermediaries and Experts

International Finance Corporation (IFC)
International Finance Corporation (IFC) G20
United States Agency for International Development (USAID)
International Business Leaders Forum (IBLF)
Professor Stuart L. Hart –Cornell University