

Implementing Inclusive Business Models

How business can work with low-income communities



**BUSINESS
CALL TO
ACTION**

What is Inclusive Business?

Inclusive business models expand access to goods, services, and livelihood opportunities for low-income communities.

They may involve low-income populations anywhere along a company's value chain, including supply, production, distribution and marketing of goods and services. This generates new jobs, raises incomes, imparts technical skills and strengthens local capacity. Poor consumers can benefit from products and services that meet their needs in affordable ways. The emphasis is on "core business" rather than on philanthropy.

Developing inclusive business models is a complement, not a substitute, for responsible business practices that respect human rights – a minimum standard of conduct according to the UN Guiding Principles on Business and Human Rights. Going beyond the minimum responsibility to respect, companies can support the rights of people living in poverty by implementing inclusive business models.

What is the "base of the pyramid"?

The base of the pyramid includes all those living on less than US\$8 per day.¹

However, income is just one parameter of poverty. Poverty is multi-dimensional. The actual number of people living without access to basic goods, services, and opportunities for income generation is much higher than the 4 billion people identified by the income threshold alone.²

Too often, people living in poverty cannot obtain quality goods for the prices that others pay. Poor people are denied clean water, electricity, good roads, modern communications, health care, education, financial services, and—perhaps most importantly—steady sources of income.

How can companies work with poor people?

Poor people as...	Benefits to companies	Benefits to poor people
Consumers	<ul style="list-style-type: none"> Building new markets Increasing revenue 	<ul style="list-style-type: none"> Improving productivity and quality of life Saving costs Expanding choice and voice
Suppliers Distributors Entrepreneurs	<ul style="list-style-type: none"> Strengthening value chains Improving products Deepening market penetration and increasing sales 	<ul style="list-style-type: none"> Increasing income opportunities Building skills Empowering communities
Employees	<ul style="list-style-type: none"> Motivating workers Retaining a loyal workforce Building a loyal customer base with increasing incomes 	<ul style="list-style-type: none"> Accessing decent jobs Improving incomes and livelihoods Building job skills

The base of the pyramid

Relatively Poor:

4 billion people

61% of world population
\$365 – \$3,000 earned/year

\$5 trillion total spending
(8% of global GDP)

Very Poor:

1.2 billion people

15% of world population
less than \$1 per day (\$365/ year)

\$200 million total spending (<1% global GDP)

Certain population groups are disproportionately represented among the poor, and face additional constraints in escaping poverty. These include women, persons with disabilities, children, indigenous peoples, rural populations, and migrants. Businesses have the opportunity to proactively take measures to address constraints faced by these groups and leverage their unique perspectives and contributions as consumers, employees, entrepreneurs and workers in the value-chain, and community-members.

1. As defined by World Bank's International Finance Corporation (IFC). Other definitions of poverty exist and calculations of poverty vary widely between countries and development organizations.
2. G20 Challenge on Inclusive Business Innovation. Available at: www.g20challenge.com

What are the Market Constraints to Inclusive Business and How Can Companies Overcome Them?

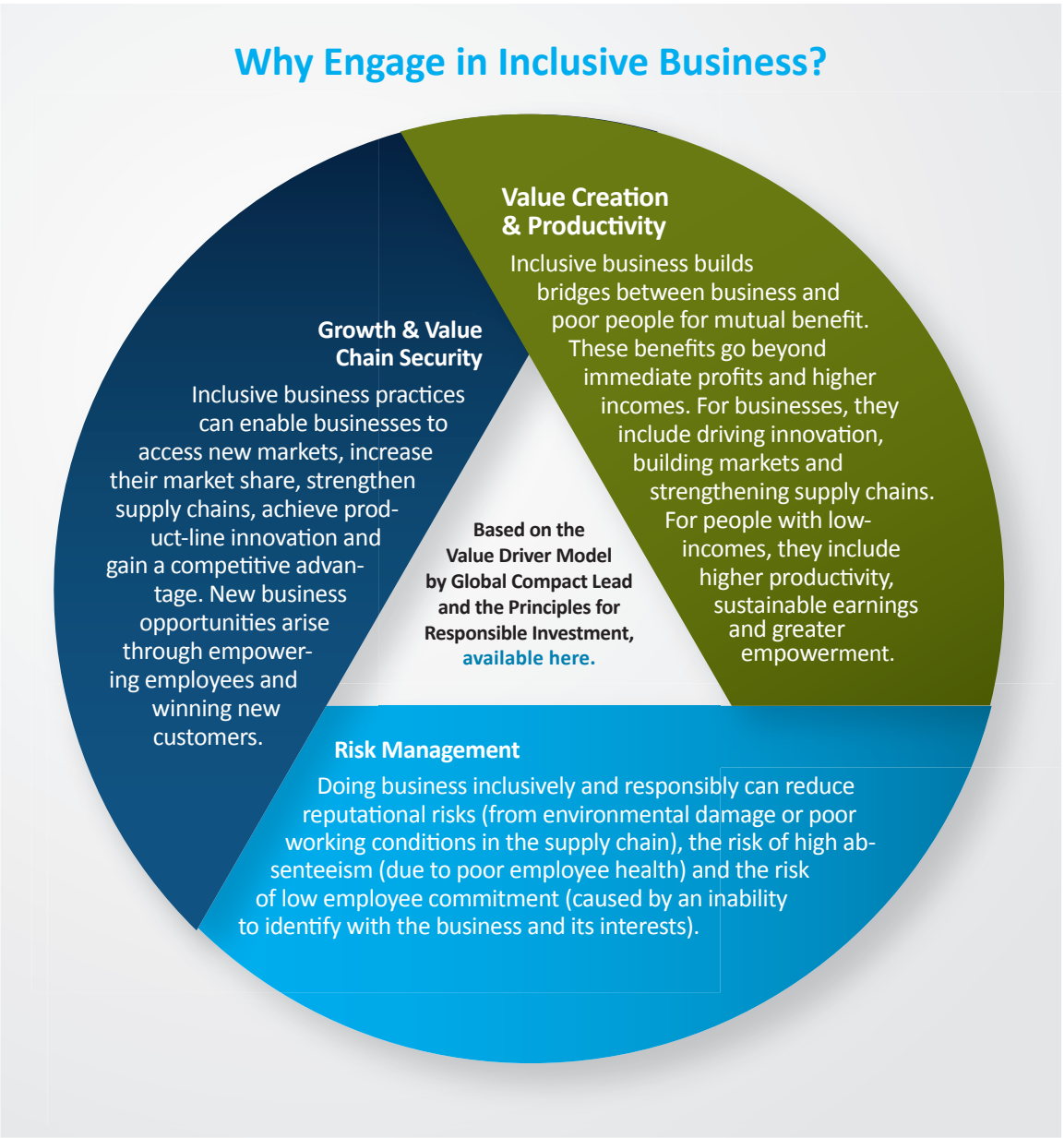
Five common external constraints and core strategies for inclusive business






Markets that include poor people face five constraints that deter market entry and hinder growth: limited market information; ineffective regulatory environments; inadequate infrastructure; missing local knowledge and skills; and restricted access to financial services among potential suppliers and customers. In order to succeed, inclusive businesses must invest in removing these constraints.

Here are the five core strategies for companies working in low-income markets. These strategies can be applied to address any of the five

constraints that characterize markets at the base of the pyramid. In fact, many successful inclusive business models employ a mix of strategies. For example, they may engage poor people in guiding product adaptation or they may pool resources and skills with other organizations to engage in policy dialogue focused on overcoming physical infrastructure problems.

These five strategies may manifest themselves in many different solutions, depending on the unique objectives of individual businesses and the distinct contexts of target markets.



Common market constraints		Business solutions to market constraints		Company Examples
 Market information	Businesses know too little about poor people, their preferences, what they can afford and what products and skills they have to offer.	Adapt products and processes.	Avoid constraints through technological adaptation or business process redesign.	M-PESA, launched by Vodafone and Safaricom, created a money-transfer service that operates using SMS technology. Originally designed to assist loan borrowers in repaying microfinance loans, M-PESA was adapted to serve tens of millions of consumers who lack access to formal banks.
 Regulatory environment	Many markets lack regulatory frameworks that allow business to work. Rules are not enforced and access to a functioning legal system is often lacking.	Engage in policy dialogue with governments.	Informing the policy-making process can address constraints on a broad scale.	CEMEX's housing microfinance program Patrimonio Hoy engaged in policy dialogue to improve access to bank credit and government housing finance for poor people in Colombia and Mexico.
 Physical Infrastructure	Transportation is complicated by a lack of roads and supporting infrastructure. Water, electricity, sanitation and telecommunications networks are lacking.	Leverage the strengths of poor people.	By engaging poor people as intermediaries and building on their social networks, companies can increase access, trust and accountability.	Novartis' Arogya Parivar (Healthy Family) initiative in India recruits locals as health educators in rural communities. The innovative use of health educators allows Novartis to reach a wider population than it would with a physician-based system and overcome the cultural barriers that prevent many people from seeking treatment.
 Knowledge and skills	Consumers may not know the uses and benefits of particular products, or may lack the skills to use them. Suppliers, distributors and retailers may lack the knowledge and skills to participate in supply chains.	Invest in removing market constraints.	Remove market constraints by maximizing private investment or leveraging social capital.	L'Occitane ensures a high-quality supply of shea butter from Burkina Faso by training local women producers and suppliers in entrepreneurial skills.
 Access to finance and resources	Without access to credit, poor producers and consumers cannot finance investments or large purchases. Without access to insurance, they cannot protect themselves against external shocks. Lacking transactional banking services, they face insecure and expensive financial management.	Combine resources and capabilities.	Collaborate with other organizations and pool resources	As a partner to the Millennium Villages Project, Ericsson is bringing affordable telecommunications and internet to more than a half million people in 10 African countries with focus on health, education, and agriculture by partnering with MTN, Zain and Sony Ericsson.

How can Intrapreneurs* Scale Inclusive Business Internally?

Common internal barriers and solutions

As companies establishing an inclusive business initiative move through the process from conception to start-up, ongoing management and scale-up, they face many challenges. The barriers to reaching scale are numerous, multi-dimensional, and interdependent: they have been categorized into the three clusters below.⁴

Internal company constraints		Solutions
Opportunity cost of investment	Inclusive business investments may have lower expected rates of return because the cost of doing business in base-of-the pyramid markets is high, anticipated margins are low and an extended time-frame is needed to break even.	<ul style="list-style-type: none"> • Adopt a portfolio approach • Obtain senior leadership support • Quantify the total value created • Find outside investors
Strategic and operational misalignment	Inclusive business models cannot be run out of the public affairs department: key functional teams across the company need to be involved, especially to do it at scale.	<ul style="list-style-type: none"> • Start with the business plan • Get out of the protected corporate environment** • Adjust performance targets • Establish a separate company
Capability gaps	When inclusive business models are very different from existing business models, there will be gaps.	<ul style="list-style-type: none"> • Utilize external partners • Bring core capabilities in-house • Support professional development • Establish centers of excellence

4. Based on the World Business Council for Sustainable Development's 2013 report, "Scaling up Inclusive Business: Solutions to Overcome International Barriers". Available at: <http://www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=15955&NoSearchContextKey=true>

* An inside entrepreneur, or an entrepreneur within a large firm, who uses entrepreneurial skills without incurring the risks associated with those activities.

** The so-called "corporate greenhouses" may include special innovation units and CSR or sustainability departments. The protection they offer can be essential for inclusive business models that are very experimental; however, protection typically comes with limited resources, and models that show promise need to be integrated in order to scale.

Further Resources on Inclusive Business

- » **Business Call to Action (BCtA)** [Resources and Publications](#)
- » **Business Fights Poverty** [Resources and Publications](#)
- » **BoP Global Network** [Publications](#)
- » **Endeva** [Publications](#)
- » **Harvard Business Review** [Profits at the Bottom of the Pyramid](#)
- » **International Finance Corporation Inclusive Business Group** [Publications](#)
- » **Monitor Inclusive Markets** [Beyond the Pioneer: Getting Inclusive Industries to Scale](#)
- » **Opportunities for the Majority (OM) Sector Office, Inter-American Development Bank (IDB)** [Publications](#)
- » **SNV** [Inclusive Business Resources](#)
- » **The Practitioner Hub for Inclusive Business** [Publications and Tools](#)
- » **UN Global Compact and Oxfam International** [The Poverty Footprint](#)
- » **UN Development Programme Growing Inclusive Markets (GIM)** [Resources and Publications](#)



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