

BARRIERS TO PROGRESS:

A Review of Challenges and Solutions to Inclusive Business Growth

Launched in 2008, the Business Call to Action (BCtA) is a global initiative that aims to accelerate progress towards the Millennium Development Goals (MDGs) by challenging companies to develop innovative inclusive business models that offer the potential for both commercial success and development impact. The business models integrate the poor on the demand side as customers and on the supply side as employees, producers, suppliers and distributors. Although pro-poor, inclusive business results in both commercial and development benefits, companies face a range of internal and external barriers when conceiving and executing these initiatives.

This document sets out the key challenges faced by companies and makes preliminary recommendations on solutions and actions for business. In the coming months, the Business Call to Action will further develop, refine and test these solutions so that more companies can engage effectively in inclusive business.

I. Overview of Research Findings

In establishing an inclusive business initiative, companies move through a process from initial conception to start-up, ongoing management and scale-up. Our research found that companies experience different barriers during conception and execution. Business, government and civil society can all help companies overcome these challenges and increase the adoption and scale of inclusive business models.

2. Barriers at Conception

The barriers companies faced at the conception stage relate primarily to a lack of interest and/or opportunity. Issues around perceived risk, competing priorities, low internal support and lack of necessary experience and skills were cited as key challenges at this stage.

2.1 Lack of Interest

Lack of awareness

- Lack of awareness or understanding of pro-poor, inclusive business models.
- Inadequate dissemination of information on existing models in similar business sectors or contexts, and little guidance on where to go for resources and advice.

Perceived risk and competing priorities

- Risk within multinational corporations that inclusive, pro-poor business models may be branded as Corporate Social Responsibility (CSR) initiatives and thus dismissed by business units.



The findings and recommendations outlined in this report are based on interviews conducted by the International Business Leaders Forum (IBLF) and Accenture Development Partnerships in late 2009 with 20 representatives from various BCtA signatory companies and partner organizations. The recommendations are supplemented by solutions identified by participants at the 21 September 2010 event on “Accelerating Progress towards the Millennium Development Goals through Inclusive Business.”

- Merger activity within some companies creates distraction to Base of the Pyramid (BOP) or inclusive business initiatives.
- Economic downturn drives a retraction to core priorities of business survival.
- The specific market in which a company operates may not have sufficient scale to warrant pursuing inclusive business initiatives.

Lack of senior management buy-in

- Innovative business models require senior leadership. Visionary leadership can enable a company to both experiment on a small scale and expand to more ambitious targets. A lack of senior management buy-in or high executive turnover rates makes it difficult to get initiatives off the ground or achieve traction.
- Without an internal champion there is difficulty in running with the initiative.

Recommendations

- External agencies should help raise awareness of inclusive business and signpost companies to relevant resources and information.

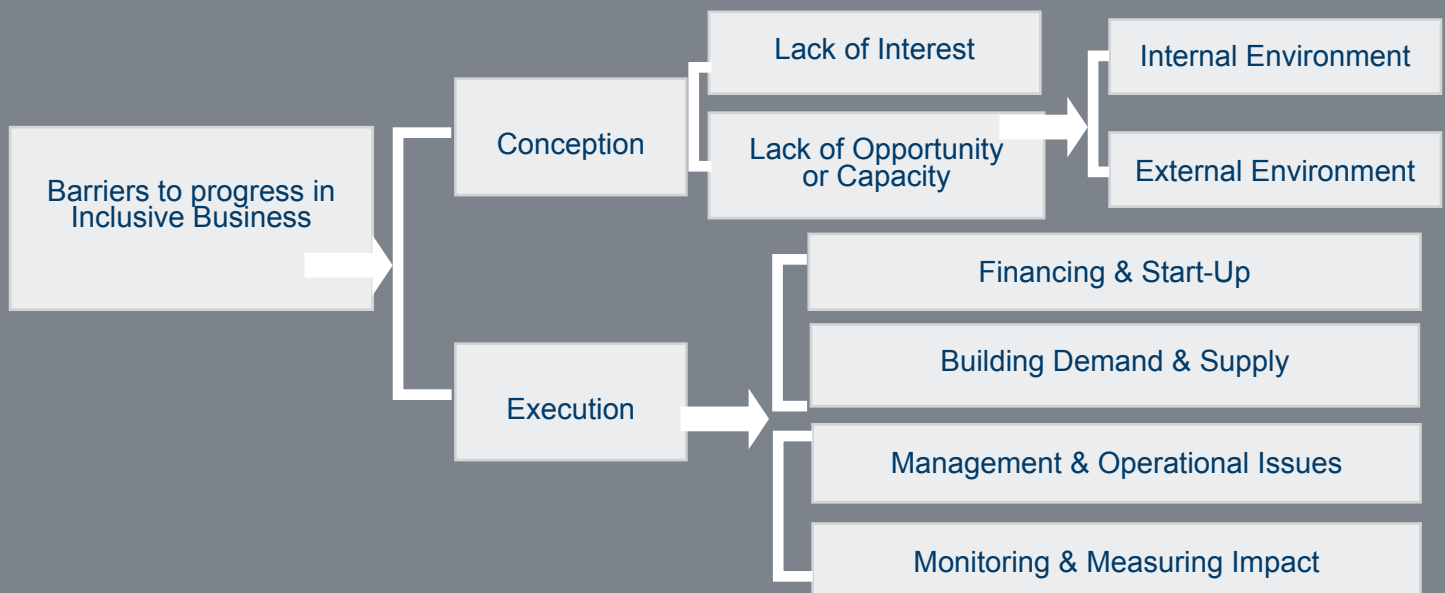
- Leaders need to take risks, set ambitious goals, and give space and motivation to staff to meet those goals. Senior leaders need to be engaged early to help stimulate ideas and buy-in. Senior leadership networking events could help increase understanding and support for inclusive, pro-poor business.
- Work and effort need to be put into convincing and re-convincing the internal audience. The long-term value creation associated with pro-poor business models must be clearly articulated to shareholders.
- Further research and dissemination on the commercial benefits of inclusive business can help convince internal stakeholders.
- Workshops across and within sectors can help identify relevant opportunities and lessons for innovative, pro-poor business.

2.2 Lack of Opportunity or Capacity

Lack of experience, skills, resources

- Identifying and accessing internal innovation and brainpower is difficult.
- Lack of market intelligence and knowledge required to identify the best opportunity for a company.
- Opportunities to use innovation funds or an incubation structure to start an innovative inclusive business model are often left untapped.

Overview of Challenges Associated with Pro-Poor Business Growth



Internal stakeholders not connected

- The use of different language by CSR and core business units makes it difficult to identify shared objectives.
- Transitioning projects from CSR/external relations to core business requires a mutual understanding and readiness between internal stakeholders.

Political and regulatory environment

- Political and social perceptions and biases against profit-making models are often a barrier to adopting inclusive business models.
- Health and safety risks of engaging with small businesses can be a barrier to developing initiatives as it is difficult to ensure that safety standards are upheld.
- Questionable or complicated regulatory environments can discourage investment in certain markets.

Recommendations

- Workshops across business units can help facilitate contact between the right stakeholders internally and secure broader support.
- Be creative in adapting products, distribution channels, production techniques, financing, partnerships, or overall business model to engage with low-income communities. Test out models first, and then move to scale up to bold ambitions.
- Businesses need to develop internal mechanisms and structures that stimulate the creativity and innovation necessary to develop new initiatives that reach BOP markets.
- Create new models for financing small businesses, consumers, suppliers, and capacity building, with a growing emphasis on co-investment by multiple partners and hybrid financing that uses a mixture of debt, equity and other financial instruments.
- Effective collaboration and partnerships are recognized as a critical success factor in the development and implementation of inclusive business models. For example, partnerships with NGOs can augment the company's skills base or provide insights into the needs of poor consumers. Companies should think 'outside the box' of traditional partnerships and consider working with a range of partners. Business-to-business partnerships are also a means for companies to share resources and address more systemic constraints.



3. Barriers at Execution

Once an idea has been developed and endorsed, companies move into a start-up phase followed by ongoing management, monitoring and expansion. Key challenges during execution include prohibitive start-up costs, the need for consumer financing, marketing and distribution of novel products and services in hard-to-reach markets, risks in the operating environment, and working with new partners and external stakeholders. Measuring and monitoring the development impact of inclusive business models can also prove challenging for businesses.

3.1 Financing and Start-Up

- Securing internal funding for start-ups is often a problem, and payback time in BOP markets is longer than in most higher-income markets. Furthermore, access to 'patient capital' is a huge challenge in commercial organizations, with metrics often geared towards short-term profitability.
- Starting up an inclusive business initiative often warrants creating a separate structure in order to expedite the process and make it cost efficient.
- Initiatives take a long time to scale, even after concept is proven; furthermore, securing funding to invest in the necessary marketing can be a challenge.
- Regulatory issues, corruption and bureaucracy are barriers to new initiatives in certain markets.

3.2 Building Demand and Supply

- Winning brand awareness in BOP markets is critical but highly challenging. Even very successful products can struggle to reach profitability because customer acquisition costs remain stubbornly high. Acquiring customers without prohibitively increasing unit costs can be difficult.
- Local infrastructure may need substantive building and investment.
- Establishing new partnership deals for distribution can be time-consuming and risky.

3.3 Management and Operational Issues

- Sometimes corporate headquarter offices are supportive of new initiatives while local business units are less so.
- Securing human resources for new initiatives can be problematic and lead to intra-departmental struggles to borrow staff.
- Staff may need training to develop the unique skills required by innovative, inclusive business initiatives.

3.4 Monitoring and Measuring Impact

- Inclusive business initiatives often require different monitoring and evaluation mechanisms. A milestone-driven approach is more often used by companies than outcome indicators.
- Companies do not always have the time, resources or expertise to measure development impacts.

Recommendations

- Companies can partner with NGOs or other development agencies that have skills in monitoring and measuring development impacts.
- There is a need for a balanced approach, protecting the bottom line while articulating the strong, sometimes unquantifiable, long-term value proposition of inclusive business.
- Companies need to invest in understanding low-income clients (using interviews, spending time with communities and studying product use) and adapt to their needs. Understanding consumer behaviour of different market segments enables a more 'granular understanding' of the clients. Companies will usually need to partner with NGOs and civil society organizations to get the necessary access to communities and ensure development impacts are taken into account.
- Companies can use 'co-creation' to develop products jointly with target customers, redesign them to fit poor consumers' cash flow, offer service models rather than ownership models, and leverage distribution and payment platforms already in place.



4. Further Opportunities

In addition to the preliminary recommendations outlined above, there are a number of other opportunities for companies and development partners to support innovative inclusive business more broadly. The BCtA will be further exploring and promoting these opportunities over coming months.

- Donors can leverage their convening power to bring different types of stakeholders together to facilitate and catalyze coalitions around development challenges. For example, going beyond their traditional grant-making role, donors could bring together insurance companies, investors, academics, NGOs to get health investment services to the poor.
- Lack of access to water, health care and energy for millions of low-income communities is a fundamental development challenge, and one that was conventionally seen as one for governments to tackle on their own. However, through inclusive, pro-poor business models companies can make an important contribution to these challenges and increase access to basic services.