It's easy to argue that companies should be targeting the future middle class with their innovations. After all, the millions who will climb into that category in Asia, Africa, and Central and South America are eager for products and services that have been beyond their reach.

But big companies are often wary of this “opportunity.” They see big gaps in what markets need to operate in well-organized ways—deficits in the number and quality of institutions, such as independent regulatory bodies or market analysts; and deficits in infrastructure, from public transportation to health care facilities to IT networks. Such deficits, quite simply, make it hard to do business. They block the flow of information between buyers and sellers—a key to the operation of any market. They increase the costs of doing business. And they prevent companies from achieving the scale they need to profit from initiatives while also serving social needs.

Can companies overcome these deficits and, in the process, their own wariness of these high potential but still shadowy markets? Our extensive study of 18 ventures in Brazil, China, Ghana, India and Nigeria of what we call “inclusive business initiatives” indicates that the answer is yes.

It's not simple—in fact, it's just the start. But the path that we lay out can help boards, top management and innovation managers achieve the complex but worthy dual goals of social progress and business success.
Scalability is at the heart of any inclusive business initiative’s (IBI’s) success. But efforts to achieve it are fraught with unanticipated dangers.

A large resources company developed an innovative nutritional food product at affordable prices for low-income consumers. In an effort to scale the product, the company invested in creating a sales and marketing force of local women who developed recipes for the product and coordinated community cooking sessions to market the product. The final product and locally embedded sales model seemed perfectly suited for consumers with low-incomes—the product served a valuable nutritional need at a lower cost than commonly used alternatives and the customized recipes ensured it was aligned with local tastes.

Still, the product ultimately failed. Commercial trials across three low-income markets failed to reach enough new customers at a pace the company’s leadership believed was necessary to justify another round of investment.

Why are IBI sponsors and managers having such difficulties? In their efforts to achieve scale through deeper localization, they face several daunting challenges. Outside the firm, partnerships and collaborations are essential—but problematic. A world-renowned partner NGO, for example, may not be able to “move the needle” of behavior on the part of consumers or suppliers. Government officials, ostensibly ready to help, may not have much in the way of career incentives to fully commit to the success of an IBI.

But the toughest nut to crack may be internal. Within a large organization, IBI sponsors and managers need to secure backing from the board and top management. But those at the top may demand profits too soon from fledgling ventures, failing to give them adequate time or resources to blossom.

Scale, then, is necessary but highly elusive. In looking at companies across the emerging world, however, we’ve seen that it can be achieved.

**Figure 1: Three steps to scaling an inclusive business initiative**

To scale an inclusive venture, companies must understand and enable key processes and make the most of stakeholders’ strengths.

<table>
<thead>
<tr>
<th>STEP ONE</th>
<th>STEP TWO</th>
<th>STEP THREE</th>
<th>OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify stakeholder-driven processes relevant to your IBI</td>
<td>Identify processes vital to scale; assess their sensitivity to local market conditions</td>
<td>Design actions to leverage stakeholders’ strengths to localize and achieve scale</td>
<td>An IBI with robust scale</td>
</tr>
</tbody>
</table>

Our global research suggests six potential processes:

1. Co-creation with local communities
2. Collaboration with NGOs and small entrepreneurs
3. Collaboration with local governments
4. A balanced regulatory environment
5. Flexible organizational structures
6. Top leadership buy-in

Using qualitative comparative analysis techniques on a sample of 18 IBIs across five emerging economies, we found the following:

- Leadership buy-in for an IBI is almost always required across geographies and therefore is location agnostic.
- Co-creation with communities does not lead to economies of scale unless it is simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment).
- Collaboration with NGOs or small entrepreneurs does not result in economies of scale if it is not complemented by reforms in organizational structure.

There is indeed a path forward, but as always with important business and social change, the path is a challenging climb. Through our research we’ve identified three broad steps that companies can take to improve their chances of success with an IBI. (See Figure 1.)
Step 1: Identify stakeholder-driven processes relevant to your IBI

Which processes are most critical to the success of an inclusive business initiative? In our extensive review of research papers, journal articles and case studies, we found six such processes relevant to IBIs being studied.

Co-creating solutions with local low-income communities

By now, “co-creation” is a familiar term for the partnership between businesses and customers to create new products and services. The active participation of local low-income communities in the co-creative process helps companies gain vital insights into how to ensure scalable adoption of their proposed solutions. Co-creation also accelerates the entire product development process.

Collaborating with NGOs and small entrepreneurs

To significantly reduce the cost of building relationships with local communities, companies should partner with NGOs and small entrepreneurs. Through such partnerships, companies can gather the insights they need to build commercially viable business models for their IBIs. Moreover, collaboration with these stakeholders can give inclusive ventures access to disruptive technologies and processes at much lower costs.

Partnering with governments

Governments have copious data on the needs of low-income populations. They also know about the execution challenges inherent in inclusive business initiatives. Therefore, partnering with them can help innovation sponsors and managers address on-the-ground hurdles associated with scaling. Most important, governments have resources to invest in disruptive innovations that can help inclusive ventures achieve economies of scale.

Fostering a balanced regulatory environment

A balanced regulatory environment provides a predictable policy climate. Within that climate, IBIs invest in assets needed to achieve economies of scale, such as distribution channels.

Moreover, balanced regulation that promotes inclusive innovations in a particular industry can inspire similar regulation in other industries.

Reconfiguring organizational structures

An inclusive business initiative must often operate like a start-up, which can create conflict within the context of a large mature company. To strike a balance, a company has to be willing to modify its organizational structure to accommodate both approaches.

Gaining top leadership buy-in

Leadership buy-in is essential for an IBI. It provides a new initiative with the space and resources to experiment with and implement pioneering business practices. Such backing can also help secure organization-wide support for an inclusive business initiative. Most important, it creates a strong platform for external stakeholders with whom the project team may want to partner to achieve economies of scale.
Step 2: Identify processes vital to scale; assess their sensitivity to local market conditions

Having identified the six processes, the question arises: are all six always and equally necessary? We’ve found that while all six are generally important, some processes may yield better scale when deployed in combination. Our research also reveals that environmental factors can influence the relative importance of each process.

In our study, we analyzed a sample set of independent IBIs that aimed to bridge institutional or infrastructural deficits in low-income communities. The sample comprised 17 companies and one industry collaborative. We strived to build a sample characterized by authentic and diverse experiences with IBIs. (See Figure 2.)

Applying qualitative comparative analysis (QCA) techniques to our sample, we found that top leadership buy-in for an IBI is an imperative—without it, the IBI will not scale successfully. Our analysis suggested that none of the other five processes independently helps inclusive ventures achieve economies of scale. For example:

- Co-creation of solutions with communities did not lead to economies of scale unless it was simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment).
- Collaboration with NGOs or small entrepreneurs did not result in economies of scale if it was not adequately complemented by reforms in organizational structure to suit a venture’s business-model needs.

Moreover, we discovered that combinations of certain processes were more or less effective depending on location. In Brazil and India, NGOs continue to play a central role in spurring social change within communities, and small entrepreneurs are driving next-generation technologies. Here, sponsors and managers of the inclusive initiatives in our study achieved economies of scale by combining two processes: collaboration with NGOs and small entrepreneurs, and organizational structure reform. By contrast, in China, balanced regulation and active governmental support helped the ventures we studied achieve rapid economies of scale.

Figure 2: Companies in our qualitative comparative analysis
Our sample involves a diverse set of industries and geographies.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Industries</th>
<th>Companies</th>
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<tbody>
<tr>
<td>Nigeria and Ghana</td>
<td>Agriculture</td>
<td>ESOKO Ltd.</td>
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<td></td>
<td>Automotive</td>
<td>PROMASIDOR Ltd.</td>
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<td>Consumer products</td>
<td>NESTLE Ltd.</td>
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<td>Brazil</td>
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<td>E-commerce</td>
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<td>UNICA (Brazilian Sugarcane Industry Association)</td>
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<td>China</td>
<td>SAIC-GM-WULING Automobile Co., Ltd</td>
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<td>HAIER Inc.</td>
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<td>SIEMENS Ltd.</td>
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<td>Nokia</td>
<td>架 extremes of scale unless it was simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment)</td>
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<td>Alibaba.com Hong Kong Limited</td>
<td>架 extremes of scale unless it was simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment)</td>
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<tr>
<td>India</td>
<td>ITC Ltd.</td>
<td>架 extremes of scale unless it was simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment)</td>
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<td>TATA MOTORS Ltd.</td>
<td>架 extremes of scale unless it was simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment)</td>
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<td>HUL (“Hindustan Unilever Limited”)</td>
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<td>IDEA Cellular Ltd.</td>
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<tr>
<td></td>
<td>YES BANK Ltd.</td>
<td>架 extremes of scale unless it was simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment)</td>
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Step 3: Design actions to leverage stakeholder’s strengths to achieve localization and scale

The next challenge is to find the actions that turn these high-level findings into results. Companies should focus on three areas: ensuring that IBIs have support from the top; making the best use of government support; and partnering with the right NGOs and local entrepreneurs.

Driving scale through top leadership support

To drive scale through top leadership support, effective IBI leaders apply the following practices:

Encourage top leadership to have a personal stake in building venture scalability. Maintaining leadership’s personal buy-in for an IBI gives initiative sponsors and managers enough time to develop the local connections necessary for achieving scale. At Hindustan Unilever Limited (HUL), the company appointed a Ventures Director to the board. The selected initiatives’ project managers reported regularly to this director and made presentations on their progress to the chairman and other board members every quarter. During this phase, HUL’s board operated as venture capitalists, granting project managers resources in the form of people, money and company expertise in areas such as supply chain management. Team leaders were also given scalability milestones, and teams were allowed to move to the next level of venture funding only after achieving scalability milestones set by the board.

Foster a long-term perspective. In most cases, leaders take a keen interest in the near-term impact of a new initiative on the company’s bottom line. Yet, sponsors and managers of the most successful inclusive business initiatives also encourage top leadership to take a longer-term view. In Brazil, consumer goods and cosmetics company Natura made the preservation of biodiversity in the Amazon a priority. As one Natura executive noted, the model was built on a single question: “How can we create a business that helps develop Amazon communities without jeopardizing the ecosystem?” Several thousand families are participating in the company’s efforts, and the projects have helped preserve valuable flora in the Amazon.

Get top leadership to allocate talent to the IBI. IBI sponsors and managers need to persuade top leadership to allocate the best talent to these initiatives. Leaders can do this by promoting inclusive ventures to the company’s workforce and by creating incentives that encourage people to take on additional or new roles required by the projects. Take Mumbai-headquartered YES Bank. Backed by the board, the IBI manager stipulated that team recruits would not be allowed simply to “meander into” the project, but instead would have to feel personally committed to the initiative’s vision. Additionally, the board and the project manager made it clear that failure to achieve profitability in the short term would not hurt team members’ promotion prospects.

Use government support effectively

To fully leverage government support, successful companies apply the following practices:

Collaborate with governments committed to implementing IBI-friendly decisions. For companies embarking on IBIs, it’s often difficult to know whether talk about inclusive growth among government agencies is merely lip service or represents genuine commitment to supporting such initiatives. Governments’ willingness to quickly reform regulation that has been inhibiting IBIs can be a key indicator of their effectiveness as partners. In China, the government has proved willing to swiftly provide regulatory support for IBIs aimed at making products and services more accessible and available for rural consumers. Several companies have benefited from such regulation. For instance, carmaker SAIC-GM-Wuling’s fuel-efficient small vehicles enjoy lower sales tax and registration fees in rural markets. These advantages have made the cars affordable for low-income communities.
Use government regulation to create win-win-win programs. Government regulations can become platforms for launching initiatives that create value for low-income communities, for the companies, and for governments themselves. Large businesses must take advantage of these platforms, because they provide a way to forge relationships with government and with local communities, which are critical to deepening an inclusive initiative’s local roots. In Brazil, the government mandated the end of burning waste in sugarcane fields—a change that had environmental benefits but essentially required the mechanization of sugarcane harvesting and put thousands of cane cutters out of work. With the support of the community, government and agricultural equipment companies, UNICA, an association of Brazilian sugarcane producers, developed a program to retrain about 30,000 cane cutters.

Scaling with NGOs and small entrepreneurs
Inclusive business initiatives that have effectively partnered with NGOs and small entrepreneurs have done so through the following means.

Reform organizational architecture.
Providing IBI managers with the flexibility and freedom to make decisions about a project’s organizational structure is critical to ensuring effective collaboration with local non-business stakeholders. Esoko, a company that provides agricultural data to Nigerian farmers, adapted its organizational structure to accommodate a new franchise model that relies heavily on NGOs and local entrepreneurs.

Establish in-house platforms to help partnerships run smoothly. It can be challenging to deal with multiple external stakeholders, but changes to in-house platforms can help make coordination and collaboration run more smoothly. Natura, a Brazilian cosmetics firm, recognized early on that collaboration would be critical to earning local communities’ trust and gaining access to their knowledge. After approaching several NGOs, Natura recognized that a lack of organization within these entities would make it difficult to achieve the operational efficiency necessary to develop a profit-making IBI. The company then set up an “ecorelations management” department to manage NGO partnerships and train them to improve operational efficiency.

Partner with authentic NGOs. Prestigious and national-level NGOs may do good work and may have a country-wide reach that can help an IBI develop scalable operational capabilities. But they may not have the capability to bring about behavioral change within local communities regarding a particular venture’s product or service offerings. Successful IBI leaders make sure that the NGOs they partner with do possess this capability. Klabin, Brazil’s largest paper producer, partnered with a local NGO that had built long-term relationships with local tree farmers and thus was able to convince them that sustainable forests—an important Klabin goal—would help secure their industry’s long-term viability. Local producers now value the preservation of the forest environment.

Making it happen
Large companies are increasingly recognizing the valuable business opportunities that can come with developing and executing inclusive business initiatives. By creating innovations that address institutional and infrastructural deficits in low-income markets, companies can not only help underprivileged consumers to transition into the middle class but also fuel profitable new growth for themselves.

All of this requires hard work and time. It may even call for a new mindset—including a willingness to look beyond an inclusive initiative’s short-term impact on company profits. But the investments can pay big dividends, if these new ventures are approached with both speed and discipline.
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