High-Growth Markets: Scaling business innovations to grow with the future middle class

By Raghav Narsalay, Ryan T. Coffey and Leandro Pongeluppe
Foreword

The spirit of entrepreneurship that lies at the heart of innovation is changing. Encouraged by new technologies and growing market access, organizations increasingly view innovation for low-income consumers as key to long-term growth.

Examples of inclusive innovations that target low-income communities have multiplied: Internet kiosks provide updates on weather and crop prices for farmers in remote villages; mobile technologies allow consumers without bank accounts to pay for goods with their phones; new business models help thousands of rural women to become effective sellers of consumer goods to new markets; and low-cost cars bring new levels of mobility and freedom to people around the world.

Yet despite the success with innovation among low-income consumers, many companies find this terrain to be quite challenging, particularly when there are obstacles, like institutional or infrastructure deficits that hamper these markets from operating effectively. So what can be done to foster the success of inclusive business initiatives?

In this groundbreaking report, we address this issue and offer a set of processes to help organizations bring inclusive innovations to scale—with the benefit of providing much-needed goods and services to low-income populations, while also generating profits and establishing new foundations for future growth. Led by the Accenture Institute for High Performance, a team of researchers from Accenture and leading academic institutions examined 18 inclusive business initiatives—including efforts from well-known global organizations—in Brazil, China, Ghana, India and Nigeria.

The comparative focus of the report is unique and goes beyond a simple compilation of case studies. Drawing on their data, the authors present a path that can help boards, senior-level executives and innovation managers achieve the complex but worthy goal of social progress with positive business results.

Success with inclusive business initiatives will not be simple for any of us pursuing or considering these opportunities. But I hope you will find this report to be an encouraging start.

Pierre Nanterme, Chief Executive Officer, Accenture
Introduction

In low-income communities around the world, consumers who are starting to accumulate some disposable income want to improve their lives. They don’t necessarily yearn for luxury products and services; rather, they want simple and affordable offerings—like clean water, over-the-counter medicines or technologies that can help them sell their crops. Yet the societies in which they live often lack the institutions as well as the infrastructure to take part in the markets that make such goods and services available.

Companies that develop products and services that address institutional and infrastructural deficits can help low-income communities enter the growing global middle class. The most successful companies can also generate new growth possibilities with such ventures—which we call inclusive business initiatives (IBIs).

New business technologies are helping companies to deepen their reach into low-income markets as well as strengthen their understanding of these consumers’ priorities. Moreover, many governments, non-governmental organizations (NGOs) and low-income communities are willing and eager to participate in and to benefit from IBIs.

But for these initiatives to take hold and succeed, they must achieve scale. And that has proved to be a daunting challenge. Why? Large companies have found it difficult to harness key stakeholders’ strengths in ways that influence low-income consumers’ preferences and gain local communities’ trust. Without these capabilities, an inclusive business initiative—no matter how promising—won’t be adopted widely enough to deliver value to its intended beneficiaries or to be profitable for its originator.

All this can change, however. There is growing evidence of companies that have managed to launch successful IBIs. We analyzed IBIs operating in high-growth markets across five emerging economies to glean insights into how large businesses have surmounted the core challenge of scaling their initiatives.

Our research reveals that leaders of exceptional inclusive business initiatives—those that enhance low-income consumers’ quality of life as well as companies’ bottom lines—apply a rigorous, three-step process. In this report, we describe how that works within real companies and suggest how it can be applied much more widely around the world.
Executive Summary
Scalability is at the heart of any inclusive business initiative’s (IBI) success. But efforts to achieve it are fraught with unanticipated dangers. Even when equipped with a viable offering at the right price point, firms often fail to convince enough low-income consumers of its value and thus never achieve the scale needed to make their inclusive venture profitable.

In looking at companies across the emerging world, however, we’ve seen that scale can be achieved. 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 help improve their chances of success with an IBI.

**Step 1: Identify stakeholder-driven processes relevant to your IBI**

Which stakeholder-driven processes are most critical to the execution of your inclusive business initiative? A review of research papers, journal articles and case studies, revealed six processes relevant to more effective execution of IBIs.

1. Co-creating solutions with local low-income communities
2. Collaborating with NGOs and small entrepreneurs
3. Partnering with governments
4. Fostering a balanced regulatory environment
5. Reconfiguring organizational structures
6. Gaining top leadership buy-in

**Step 2: Identify processes vital to scale; assess their sensitivity to local market conditions**

Having identified the six stakeholder-driven processes relevant to IBI-execution, the question arises: are all six processes always and equally necessary? We’ve found that while all six are generally important, a dominant number of them yield robust scale only when deployed in combinations.

We conducted a comparative analysis of 18 IBIs across 17 large companies and one industry collaborative, with the aim of understanding how IBIs in different environments reach scale. We strived to build a sample characterized by authentic and diverse experiences with IBIs. (See Figure 1)

Applying qualitative comparative analysis techniques to the data collected through rigorous interviews with decision-makers and IBI-managers working on the ground, 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 robust scale. For example:

- Co-creation of solutions with communities did not help achieve robust scale unless it was simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment).

Moreover, we discovered that combinations of certain processes were more or less effective depending on location. In Brazil and India, sponsors and managers of the inclusive initiatives in our study achieved 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 rapidly achieve economies of scale.

**Step 3: Design actions to leverage stakeholders’ strengths to achieve localization and scale**

We found successful companies taking concrete actions to leverage strengths of their key stakeholders linked to processes critical to achieving localization and scale:

**Driving scale through top leadership support**

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

- Encourage top leadership to have a personal stake in building IBI scalability. At Hindustan Unilever Limited ("HUL"), the company appointed a Ventures Director to the board. 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.

- Prevent too much focus on near term bottom line. In Brazil, Natura, a large consumer goods and cosmetics company made the preservation of biodiversity in the Amazon a priority. As one 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.
Companies in our qualitative comparative analysis

Our sample involves a diverse set of industries and geographies.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Agriculture</th>
<th>Automotive</th>
<th>Consumer products</th>
<th>Mining</th>
<th>Medical equipment</th>
<th>Telecom</th>
<th>Banking</th>
<th>E-commerce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria and Ghana</td>
<td>ESOKO Ltd.</td>
<td>PROMASIDOR Ltd.</td>
<td>NESTLE Ltd.</td>
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</tr>
<tr>
<td>Brazil</td>
<td>UNICA (Brazilian Sugarcane Industry Association)</td>
<td>NATURA</td>
<td>VALE S.A.</td>
<td></td>
<td></td>
<td>ITAU UNIBANCO HOLDING S.A.</td>
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<tr>
<td></td>
<td>UNICA</td>
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<td></td>
<td>KLABIN S.A.</td>
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</tr>
<tr>
<td>China</td>
<td>SAIC-GM-WULING Automobile Co., Ltd</td>
<td>HAIER Inc.</td>
<td>SIEMENS Ltd.</td>
<td>NOKIA Telecommunications Ltd.</td>
<td>ALIBABA .com Hong Kong Limited</td>
<td></td>
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</tr>
<tr>
<td>India</td>
<td>ITC Ltd.</td>
<td>TATA MOTORS Ltd.</td>
<td>HUL (&quot;Hindustan Unilever Limited&quot;)</td>
<td></td>
<td></td>
<td>IDEA Cellular Ltd.</td>
<td>YES BANK Ltd.</td>
<td></td>
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</tbody>
</table>
For instance, carmaker SAIC-GM-Wuling Automobile Co., Ltd’s fuel-efficient small vehicles enjoy government subsidies in rural markets. These advantages have made the cars affordable for low-income communities.

**Use government regulation to create ‘win-win-win’ programs.** In Brazil, the government mandated that industry gradually eliminate the burning of foliage in sugarcane fields prior to harvest—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 agri-equipment companies, UNICA, a sugarcane association that represents a 140 Brazilian sugarcane mills, developed a program to retrain about 3,500 cane cutters per year.

**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.**
Esoko Ltd., is a good example of how reform of organizational structure can help inclusive innovations succeed. Initially Esoko relied heavily on government agencies to market and collect data for its price information service for small farmers. However, as Esoko grew, gained more local clients, and started to understand the market better, executives discovered that farmers and traders mistrusted data that came from the government, and didn’t want to act on it. Esoko therefore changed its organizational structure to employ information agents who came from local communities near the agricultural markets.

**Establish in-house platforms to help partnerships run smoothly.** Natura, a large Brazilian cosmetics company, recognized early on that collaboration would be critical to earning local communities’ trust and gaining access to their knowledge. After approaching several NGOs, the company 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 “ecorrelations management” department to manage NGO partnerships and train them to improve operational efficiency.

**Partner with authentic NGOs.** With the help of local NGOs, Klabin S.A., Brazil’s largest paper producer, 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. Working with NGOs to develop lasting relationships capable of inspiring behavioral change in local communities has been key to the project’s success.

The examples above show that inclusive business initiatives can achieve scale and become commercially viable. To achieve this goal, companies must invest in actions empowering their respective IBI-teams to systematically leverage the power of external and internal stakeholders.
Main Report
Why companies should be thinking “inclusive”

A vibrant middle class is critical to global and national economic growth. In Europe and North America, the middle class has driven growth for three decades. But it is now expected to stagnate—in terms of absolute size and spending—over the next two decades.

In the rest of the world, the opposite holds true: by one estimate, Asia, Central and South America, and Africa will become home to more than two-thirds of the world’s middle class by 2030.¹ (See Figure 1.)

And that matters today because in the intervening years (barring unforeseeable circumstances), those with low incomes will begin to climb the ladder of prosperity. Companies that successfully target low-income populations with innovations now will be better able to serve the new and rapidly growing middle class.²

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. (See “The challenge of infrastructural and institutional deficits.”) Such deficits impede the exchange of information between buyers and sellers, increase the costs of doing business, and prevent large companies from achieving sufficient scale.

Can companies overcome these deficits and, in the process, their own wariness of these high potential but still shadowy markets? Our extensive study of what we call “inclusive business initiatives” (IBIs) indicates that the answer is yes. Already, some companies have succeeded in launching such ventures, which have not only brought new benefits to low-income consumers but, just as important, proved themselves to be commercially viable. (See Appendix 1.)

Technology, growing consumer awareness, and government are among the forces bringing about this significant change.

Figure 1: The changing face of the global middle class

By 2030, middle-class population and spending in Asia, Central and South America, and Africa will soar, while those in North America and Europe will stagnate.

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number*</td>
<td>Spending°</td>
<td>Number</td>
</tr>
<tr>
<td>North America</td>
<td>338</td>
<td>5602</td>
<td>333</td>
</tr>
<tr>
<td>Europe</td>
<td>664</td>
<td>8138</td>
<td>703</td>
</tr>
<tr>
<td>Central &amp; South America</td>
<td>181</td>
<td>1534</td>
<td>251</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>525</td>
<td>4952</td>
<td>1740</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>32</td>
<td>256</td>
<td>57</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>105</td>
<td>796</td>
<td>165</td>
</tr>
<tr>
<td>World</td>
<td>1845</td>
<td>21,278</td>
<td>3249</td>
</tr>
</tbody>
</table>

*Millions  “Billions of 2005 PPP US$
Why the time is right for inclusive innovations

The role of new technologies

Mobile phone technology is bringing low-income communities into the telecommunications mainstream. Already, mobile phones are the instrument of choice for 45 percent of China’s rural Internet users; meanwhile, India now boasts more rural than urban mobile subscribers. The spread of mobile technologies to low-income populations has created the opportunity for companies like agriculture data providers and financial service firms to generate profitable new inclusive ventures. (See Figure 2.)

Not all industries have been enthusiastic about the opportunity, however. The limited functionality of mobile phones purchased in low-income communities has held them back. Yet that reluctance may change with the introduction of new business technologies that—when combined with mobile technologies—enhance companies’ access to low-income communities and boost the potential for profitable business ventures in a wider variety of sectors.

For instance, Hindustan Unilever Limited (HUL), a leading Indian consumer goods company, has built on advanced GPS and population density mapping technology to design its rural supply chains and sales network. While HUL still relies on SMS applications (short message service, or texting) to coordinate local distributors, GPS and density mapping have enabled it to more precisely determine seasonal changes in population and distances between villages. This information helps the company decide on the number and placement of distribution points, the volume of product throughput its supply chain can handle and the number of local distributors that HUL must recruit.

Result? A more efficient supply chain for HUL’s inclusive business initiative, Project Shakti. This IBI provides women in rural areas with income-generating opportunities, health and hygiene education, and access to information through an Internet portal.

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Figure 2: New mobile-based services for rural customers

Mobile phone technology has enabled an array of new services for consumers living in remote areas.

<table>
<thead>
<tr>
<th>Country</th>
<th>Service provider</th>
<th>Service offering</th>
<th>What the service provides</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>China Mobile Limited</td>
<td>Rural Information Service</td>
<td>Data on weather and crops for farmers</td>
</tr>
<tr>
<td>India</td>
<td>Bharti Airtel Limited and IFFCO Limited</td>
<td>IFFCO Kisaan Sanchar Ltd.</td>
<td>Telecom services specifically for rural customers</td>
</tr>
<tr>
<td>Kenya</td>
<td>Safaricom Limited</td>
<td>M-PESA</td>
<td>Basic banking transactions on mobile phones without the need for a bank account</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>GrameenPhone Ltd.</td>
<td>Cell Bazaar</td>
<td>A virtual marketplace for trading a variety of goods</td>
</tr>
<tr>
<td>India</td>
<td>Nokia Ovi</td>
<td>Life Tools</td>
<td>Agricultural information and educational services</td>
</tr>
</tbody>
</table>

Source: Accenture analysis of various company reports
Low-income consumers: awareness and ambition

Low-income consumers in developing regions have grown increasingly aware of the rapid growth taking place in the domestic markets around them. In 2010, 76 percent of direct-to-home subscribers to televised media in India hailed from lower-income smaller cities and rural regions. More and more such consumers have also become aware of the income opportunities presented by organized commercial markets. Proliferation of bank accounts among low-income communities in emerging economies, including Brazil, China, India and Nigeria, testify to this awareness.

Large businesses now have the opportunity to tap low-income communities’ rising ambition to participate in organized domestic markets. Innovations that overcome infrastructural and institutional deficits to connect low-income communities with fast-growing, close-at-hand consumer markets often generate profits for the companies that create them.

Alibaba.com, the Hangzhou-based Internet company, has discovered this firsthand. The company has taken advantage of Chinese consumers’ growing fondness for shopping online to develop an e-commerce platform that enables low-income furniture makers to market their products to increasingly wealthy urban consumers. The opportunity to obtain access to urban consumer markets through this platform has motivated participating carpenters to boost their productivity and meet production schedules.

A priority of government

For most governments in emerging economies, closing income gaps is a top political priority. And they are increasingly looking to the private sector to make this happen. For example, China recently adopted “going country-side” regulations to encourage businesses to bring innovation initiatives directly to low-income communities.

In India, the Prime Minister declared 2010 the start of the “Decade of Innovation.” The Indian government then asked the country’s National Innovation Council (NIC) to collaborate with businesses and entrepreneurs to develop novel solutions for low-income consumers. Accordingly, the Council is focused on engaging with inclusive business innovators and also operates sectoral innovation groups and industry innovation clusters. Such efforts are designed to encourage sector-level cooperation and knowledge sharing among innovators.
Scalability is at the heart of any inclusive business initiative’s success. Although geography- and community-specific, without scale, IBIs can’t become commercially viable or deliver benefits to a large enough group of people. Support from internal and external stakeholders is critical, but obstacles can waylay even very promising efforts. Mere partnerships with governments, non-governmental organizations, and local small entrepreneurs may just not be enough to create the trust needed in local communities to change consumer preferences even with disruptive solutions.

One large resources company learned this the hard way. The 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.

The initial year-long trial showed that the intended beneficiaries found the product easy-to-use and affordable. The initiative also realized margins that were in line with the company’s core business within its first year of operation. 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. In other words, despite having a viable product co-created with the community and a nascent network of local partners, the managers failed to achieve the scale at the speed needed to make the initiative a commercially viable business within the context of a large company.

Why are IBI sponsors and managers in large firms having such difficulties in their efforts to achieve scale through deeper localization?

In many low-income markets, reputation is one of the biggest indicators of a community’s acceptance of (and trust in) NGOs or entrepreneurs. Inclusive innovators may collaborate with apparently well-regarded NGOs and small entrepreneurs, only to realize later that their reputations do not travel well to new, untested markets.

Moreover, large IBI-minded companies may be just some of the many clients these external stakeholders are working with. That can make it hard for them to attract the lion’s share of a stakeholder’s available resources. In addition, stakeholders’ incentive structures differ radically from those of large businesses. For example, in the case of governments, officers in charge may not be rewarded professionally even if they collaborate with IBIs in ways that generate social benefits.

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. For several reasons, lack of real or sustained support from the top can doom an inclusive business initiative.

For example, many boards want to see “numbers”—sales and even profits—quickly once they have approved an inclusive business initiative. That’s a high bar for fledgling businesses aimed at low-income populations. Directors and senior leaders are often reluctant to treat IBIs differently from normal ventures in other ways as well. They often fail to appreciate that shaping purchase behaviors and winning trust in low-income communities requires more time than middle-class markets need. Further, when doubts about an IBI’s potential surface, they won’t allocate top talent or necessary financial resources to the venture. Nor will they sanction organizational reforms that would help align the company better with the requirements of external partners.

Scale, then, is necessary but highly elusive. In looking at companies across the emerging world, however, we’ve seen that it can be achieved.
The challenge of infrastructural and institutional deficits

Inadequate infrastructure hurts the ability of low-income populations to lead safe, healthy, dignified and productive lives. Consider three varieties of such infrastructure:

• Physical infrastructure (transportation, power, communication and public distribution systems);
• Social infrastructure (education, healthcare, drinking water, sanitation);
• Business infrastructure (IT, office space, finance).

Weak institutions prevent interaction between low-income communities and businesses in organized markets. Examples of such institutions include:

• Organizations capable of matching workers’ skills to businesses’ requirements;
• Agencies generating authentic information about markets;
• Networks extending enterprises’ market reach;
• Independent regulatory institutions.

Consider the impact such infrastructural and institutional deficits have on businesses and communities:

Increased transaction costs. Poor-quality infrastructure forces businesses to resort to expensive alternatives to gain access to markets or to source inputs, thereby increasing their transactions costs. In extreme circumstances, businesses may decide to shut down some operations. As a result, local communities lose access to several organized markets linked to operations in that region. Moreover, increased costs of completing transactions within organized markets compel consumers to continue buying and using products and services in black or gray markets.

Information gaps. Businesses cannot acquire timely data on markets they want to serve and talent they want to hire in particular regions in a timely manner. Lack of such information erodes their profitability. Moreover, locals lose out on employment opportunities, even if they have the right skills, because businesses have no information about their abilities.

High cost of market entry and exit. The absence of independent regulation and transparency exposes businesses to arbitrary policies and regulations, which can stall their entry into or exit from markets and compel them to stay in even highly unprofitable markets. In both cases, local populations suffer. In the first case, they miss out on organized opportunities to develop new skills and secure alternative employment opportunities, owing to the lack of incremental investment in the region. In the second case, companies may be forced to withdraw some of their activities aimed at imparting skills and employment opportunities to local communities.

Artificial scarcities and market distortions. Poor infrastructure and the absence of institutions providing information on availability of resources can create artificial scarcities and high prices.
Inclusive business initiatives: three steps to overcome barriers to scale

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 help improve their chances of success with an IBI. (See Figure 3.)

First, understand the stakeholder-driven processes that are relevant to the success of an inclusive business initiative.

Second, identify how each of the processes compiled can help you achieve robust scale (independently or through combinations) and assess their sensitivity to local market conditions.

Third, design actions to leverage stakeholders’ strengths linked with processes critical to deepening localization and build scale.

Figure 3: 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.

Our analysis suggests that the following actions can help companies effectively leverage stakeholders’ strengths:

**Leveraging top leadership buy-in to drive scale:**
- Encourage top leaders to have a personal stake in building IBI scalability.
- Prevent too much focus on near-term bottom line.
- Get top leadership to allocate right talent to the IBI.

**Leveraging government support and regulation to co-create with communities:**
- Collaborate with governments committed to implementing IBI-friendly decisions.
- Use government regulation to develop ‘win-win-win’ programs.

**Scaling with NGOs/small entrepreneurs through organizational structure reform:**
- Reform organizational architecture.
- Establish in-house platforms to facilitate complementary partnerships.
- Partner with authentic NGOs.
Step 1: Identify stakeholder-driven processes relevant to your IBI

Which processes are most critical to the robust scalability 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.

The geographic and corporate context in which an IBI operates plays a key role in determining how heavily each of the six influences an IBI’s ability to achieve robust scale and localization.

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.6

Co-creation can be a powerful tool for deepening the localization of an IBI and even achieving community-wide scale in a village. But that’s not true in all cases. IBI managers need to absorb the do’s and don’ts of a co-creation strategy. Among the keys: the company’s ability to engage local communities in skill development, and the degree to which local consumer preferences are likely to be shaped by grass-roots production.

Collaborating with NGOs and small entrepreneurs

To significantly reduce the cost of building relationships with local communities, many companies partner with NGOs and small entrepreneurs. Through such partnerships, companies gather 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.7

Basing an IBI on partnerships with NGOs and local entrepreneurs can be valuable, but only when these partners can be quickly aligned to an IBI’s profit-making objective. In many cases, such groups are not easily aligned to that goal, and it requires a significant investment to effectively incorporate them into a profit-driven IBI initiative.

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 scale.8

To effectively engage government partners, IBI managers need to be able to evaluate their company’s ability to gain an audience with key decision-makers. Engagements with critical decision-makers in emerging-market governments are almost always cultivated at the top of a company. Therefore, IBI managers seeking to engage governments need to consider high-level internal leaders’ willingness to engage with governments to acquire transparent support—as well as ability of government bodies to make and implement accountable decisions with the speed that is necessary to support a profit-driven business.
Fostering a balanced regulatory environment

A “balanced” regulatory environment protects the rights of consumers without unduly burdening industry; it also provides a predictable policy climate in which to operate. Within that climate, IBIs invest in assets needed to achieve scale, such as distribution channels. Moreover, balanced regulation that promotes inclusive innovations in a particular industry can inspire similar regulation in other industries.9

However, given the intense board-level pressure to demonstrate the prospect of profitability, IBI managers rarely have the convenience of time that is necessary to change local regulations. Accordingly, it’s critical that IBI managers have an in-depth understanding of the existing regulatory environment. Those who find a way to piggy-back on existing regulations can gain a significant advantage in accessing low-income markets and controlling the costs of building an IBI.

Reconfiguring organizational structures

An IBI must operate like a hybrid between a startup and a mature business. To strike this balance, a company has to be willing to modify its organizational structure to accommodate both mindsets among employees involved in inclusive innovations.10

It’s not easy to develop a new organizational structure within a well-established large company. But an operating model that drives IBI success often requires a unique organizational structure. The common need of IBIs to engage several local stakeholders is just one example of why many IBIs need a unique reporting structure to achieve success. However, IBI managers often lack the decision-making autonomy and resources to test and develop the right structure. Accordingly, they need to be able to judge early-on how much leeway they will have to vary from the company’s legacy operating model.

Gaining top leadership buy-in

Without the necessary resources provided by top management, IBIs almost always falter in their pursuit of business profits. Top leadership buy-in provides an IBI manager 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 scale.11
Step 2: Identify processes vital to scale; assess their sensitivity to local market conditions

Recognizing in what context to invest in each of the six processes is critical. Indeed, the role of an effective IBI manager is to go through a rigorous evaluation of processes relevant to IBI being implemented and understand their linkages to achieving robust scale.

Accenture’s analysis of the six processes generally relevant to IBI-execution indicates that investing in certain of them in tandem can significantly improve an IBI’s likelihood of success. Simply put, some processes yield better scale and localization when deployed together.

In our study (as in other analyses of inclusive innovations), lack of available data made it difficult for us to use robust quantitative econometric techniques to investigate issues related to scale-enabling processes. The next best option was to use qualitative comparative analysis (QCA) techniques. (See Appendix 2 for more information on our research methodology.)

Qualitative comparative analysis

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 comprises 17 companies and one industry collaborative. We strived to build a sample characterized by authentic and diverse experiences with IBIs. None of the companies selected are small in comparison to similar companies in their respective regions. It’s therefore important to note that unlike many past studies, we’ve chosen a sample set of companies of similar size relative to their geographic peers rather than comparing large companies with efforts of NGOs or start-ups. Accordingly, this comparative study speaks to the issues facing large profit-motivated firms in high-growth markets across key emerging economies. (See “Companies in our qualitative comparative analysis” on page 8 and Appendix 3.)
We used the following method to generate data required for our QCA:

- We mapped contributions of each of the six processes toward achieving scalable commercial and societal gains, through interviews with senior executives from the companies in our sample.
- We rated achievements of our sample entities in the sphere of scalable commercial and societal gains to those of similar inclusive ventures in the same region. We based these comparisons on discussions with third-party assessors, academics and (on some occasions) the local communities themselves. We then used these ratings to decide whether the inclusive business initiative under scrutiny was on the 'path to success' or 'successful'. (See Appendix 4.)
- We created a comprehensive assessment tool to rate contributions of each of the six processes (identified as a part of the first step) to achieving scale. (See Appendix 5.)

Key findings

Using relevant QCA techniques, we found one process that was consistently required for the success of an IBI: top leadership buy-in. Without support from the top, an IBI will not scale successfully.

However, our analysis suggested that none of the other five processes independently help inclusive business initiatives achieve robust scale. For example:

Co-creation of solutions with local communities did not lead to achieving robust scale unless it was simultaneously accompanied by government support (in the form of collaboration and a balanced regulatory environment).

Like any IBI, a co-creation solution takes time to reach sufficient scale, but an IBI with co-creation at its center often faces a unique barrier to scale. Because of its intimate engagement with local communities, these initiatives almost always face rising community expectations as it grows. As a result, to maintain local relationships—an especially critical aspect of scaling this model—IBIs based on co-creation must continually prove their worth by addressing progressively more challenging community problems. The downfall of co-creation-based IBIs that go alone starts when communities demand a solution that falls beyond the jurisdiction or capability of business to provide.

For instance, a company may have limited authority to address local deficits in physical infrastructure because of constraining regulations. Similarly, improving community-wide skills or even income is often beyond the financial resource capabilities of an IBI. For this reason, government support in its many forms—direct financing, in-kind assistance in managing local relationships, and regulatory support, to name a few—is critical to the successful scaling and continued community engagement of IBIs with co-creation as the driving force.

Our third key finding: Collaboration with NGOs or small entrepreneurs did not achieve scale if it was not adequately complemented by reforms in organizational structure to suit a venture's business-model needs.

When building an IBI based on NGO collaboration, companies face a paradox. Deeply localized NGOs—one that has earned local trust—are often the most valuable partners to an inclusive business initiative; but they may also be the least organized like a profit-making business. Often, they have succeeded in embedding themselves in markets where few businesses operate by abandoning hierarchy and providing a high-level of decision-making autonomy. Moreover, considerations of profitability almost never feature in their organizational culture.

This makes local NGOs difficult to collaborate with, especially within the context of a typical profit-driven firm’s organizational structure and culture. Companies have to rethink how they typically do things on two levels. First, they need a structure that allows them to make decisions faster—the NGOs have learned how to make fast-paced decisions based on the absence of hierarchy, and companies will need less hierarchy to deal effectively both with their NGO partners and with the local community. Second, to build strong relationships with local NGOs, they may need to adjust structurally in ways that tone down the emphasis on profits. In situations where NGO support is critical to an IBI’s success, an insistence on using the core organizational structure may doom the initiative before it can gain any traction in the local community.
More importantly, 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 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 scale.

**Step 3: Design actions to leverage stakeholders’ strengths to achieve localization and scale**

We found successful companies taking concrete actions to leverage strengths of their key stakeholders towards achieving deep localization and robust scale:

**Leveraging top leadership buy-in to drive scale**

To drive scale through top leadership support, effective IBI sponsors and managers apply the following practices:

**Encourage top leadership to have a personal stake in building IBI 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.

For example, HUL’s CEO fostered commitment to IBIs from the board and senior management team by building a decision-making structure that tapped into these internal stakeholders’ entrepreneurial spirit. After a 15-month market-exploration initiative, HUL selected six inclusive ventures for further investment over a three-year prototyping phase. To ensure senior leadership’s continued buy-in, 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. This phase represented a significant investment in testing the projects’ potential to achieve scale.

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.

Creating a competitive and entrepreneurial environment among board members kept them heavily involved in the inclusive ventures, even though these initiatives still made up only a small part of HUL’s bottom line. According to one project manager, board members readily provided guidance to project teams and used their contacts to open doors in other parts of the organizations and outside HUL to ensure scale.

Only two out of the six IBI ideas made it to market. One of them was Pureit, a water purifier. The other was ‘Project Shakti’, which today is seen as a landmark inclusive business innovation driving participation of women from small villages into creating markets. Thanks to sustained board buy-in, the project continues to deepen its connections with local communities even now.

**Prevent too much focus on near term bottom line.** 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.

To see how that can be done, consider the example of Natura, a large Brazilian consumer goods and cosmetics company. The cosmetics giant has made the need to preserve biodiversity in the Amazon a key tenet of its business model and organizational culture. As one company 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?”

The company’s use of a particular kind of oil in its products linked to Murumuru trees illustrates what such practices can look like in action. Local communities were cutting down these Murumuru trees, as the sharp thorns along the tree-trunk were perceived by indigenous families as an obstacle in engaging with profitable berry farming. The company, however, realized the trees were much more valuable for the oil they produced through their nuts and seed. After suitably processing the same, the company used the oil in their soaps.
In compliance with the Benefit Sharing Principles enshrined under The Convention on Biological Diversity, the firm’s top leaders started plowing a percentage of the profit gained from such products back into local community initiatives. Company representatives taught the communities how to preserve Murumuru trees. They also helped local residents earn income by working with the company to develop other products containing ingredients such as cocoa and passion-fruit.

Through the Murumuru seed project, the company contributed to the preservation of more than 37,500 trees and supported more than 700 families. The initiative’s success encouraged top management to promote additional similar initiatives. Several thousand families are participating in these new efforts, and the projects have helped preserve valuable flora in the Amazon.

Adopting this long-term view has helped the firm build unique competitive strengths. For example, it has been able to launch a new line of natural cosmetics, Natura Ekos, by drawing on local knowledge. It has also developed a supply chain, and high quality relations with communities and multi-sectoral stakeholders that competitors can’t match.

Get top leadership to allocate right 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. The company’s senior management built a team of top-flight talent to develop and execute an inclusive venture centered on bringing banking services to low-income communities in India. To attract team members, managers defined the project as a key strategic objective and clearly explained how its success would be measured.

Backed by YES BANK’s 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.

As one senior manager noted, “Our key metric...is not profit, but it is still a financial metric. The financial metric is opportunity cost.” The IBI project team’s ability to convince senior management of the value of unique metrics based on opportunity cost has been critical in sustaining senior management’s willingness to allocate top-flight talent. The team convinced top leadership of the value of non-traditional metrics that effectively assess the immediate financial cost of inaction—specifically related to the regulatory financial penalties Indian banks face for not meeting the government’s inclusion targets.

YES BANK continues to successfully achieve regulatory targets set by the government. The top management allocates top-flight talent because the project team has clearly demonstrated the potential opportunity cost—in terms of lower sales that YES BANK would have had to incur if it were not engaging with innovative solutions to scalably engage with low-income populations.

Leveraging government support and regulation to co-create with communities

Analysis of the companies in our sample suggested that companies eager to co-create inclusive innovations with communities can achieve scale by collaborating with governments to gain policy support. Yet such collaboration can be a double-edged sword.

Government partners can provide the resources and local market knowledge required to make an IBI profitable. However, ineffective collaboration and the wrong kinds of regulation can suffocate an inclusive venture, killing it or forcing the sponsoring company to turn it into just a long-term corporate social responsibility (CSR) initiative.

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

Collaborate with governments committed to implementing IBI-friendly decisions. Inclusive growth has risen to the top of most emerging-market governments’ agendas. But 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.
Avoiding collaboration with non-supportive governments can often be the right choice, no matter how painful. As one executive in an IBI-minded company explained, government-backed schemes guaranteeing employment to adults from rural households have given low-income populations little incentive to take part in inclusive business initiatives. The company tried to persuade the government to include certain IBI-linked entrepreneurial activities, but to no avail. Executives ultimately decided not to partner with the government in executing inclusive ventures.

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 government subsidies in rural markets. These advantages have made the cars affordable for low-income communities, which has stimulated sales. The speed with which the Chinese government acted to improve the viability of the company’s IBI encouraged the firm to take on the Guangxi provincial government as a key stakeholder. That government currently owns a 5.9 percent stake in SAIC-GM-Wuling. And it has been instrumental in providing the company with timely access to land, funding and utility infrastructure—all of which are critical for SAIC-GM-Wuling’s production expansion plans.

**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.

UNICA—an association that represents more than 140 Brazilian sugarcane mills—is a case in point. In Brazil, the sugarcane industry has long relied heavily on laborers who cut cane by hand. In 2007, Sao Paulo’s Department of Environment demanded that the industry gradually eliminate the burning of foliage in sugarcane fields prior to their harvest. Mechanization of the harvesting process therefore became an imperative. But this change would put thousands of cane cutters out of work.

In 2009, sugarcane producers, under the umbrella of UNICA and the cane-cutters union, and with the support of companies from the sugarcane supply chain, launched the RenovAção (“Renewal”) program aimed at providing specialized training for about 3,500 cane cutters in Sao Paulo per year. Courses offered by RenovAção were developed through analysis of local communities’ needs conducted by UNICA and the cane-cutters union. The information collected was submitted to an executive committee comprising representatives of organizations, local unions and partner companies, who collectively, define the program’s objectives, determine the courses to be offered, select educational institutions that will offer them and monitor the outcomes.

The RenovAção program is further supported by Case IH, John Deer, Syngenta and Iveco—all key players in the sugarcane industry’s supply chain, as well as the Inter-American Development Bank. Thanks to savvy leadership of the program, RenovAção has become a win-win-win initiative. It benefits cane cutters, the sugarcane industry and the local government.
Scaling with NGOs and small entrepreneurs through organizational-structure reform

Large businesses often must leap into an IBI without government sponsorship or regulatory support. According to our findings, inclusive business initiatives that lack such support can sweeten their odds of success by tapping local non-business partners, such as NGOs and small entrepreneurs. Inclusive innovations that have effectively partnered with such stakeholders 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. The organizational structure created for ITC's e-Choupal project (which, among other benefits, enables Indian farmers to buy seeds and other agricultural materials as well as sell their produce through the Internet) offers an apt example. (See Figure 4.)

Figure 4: ITC's organizational structure for an inclusive business initiative

ITC created a special structure tailored to bring about better collaboration with NGOs to scale its "e-Choupal" initiative.

ITC e-Choupal

Original business model of ITC's Agri Business
- Target customer market
  International commodity traders
- Value proposition
  Product offering at competitive prices
- Key capability
  Low-cost sourcing from Mandis

ITC e-Choupal's inclusive business model
- Target customer market
  Expanded to include low-income rural customers
- Value proposition
  Diversified products at competitive price points
- Key capability
  A predictable, scalable and cost-effective network of formerly unorganized farmers, as suppliers and customers

Continued renewal of organizational architecture has helped ITC's Agri Business launch progressive e-Choupal versions

ITC Agri Business' traditional organizational architecture
- Top Mgmt.
  Set vision & values
- Senior Mgmt.
  Develop strategy
- Middle Mgmt.
  Coordinate implementation
- Junior Mgmt.
  Execute

Additional role to innovate and execute inclusive business model
- Challenging new business models
- Building innovative business models
- Devising solutions & experimenting
- First-hand insights into customer aspirations

Additional role to achieve operational efficiency
- Corporate governance & portfolio management
- Orchestrating resources to optimize deployment
- Drive supply-chain synergies
- Key account management

Scalability and Customization in the context of low-income markets
While drawing heavily from its original business model, ITC realized that it had to modify the model to support the e-Choupal initiative. The firm did so by adding two new layers of responsibilities to employees’ and managers’ roles. The first new layer was designed to address the lack of detailed and real-time information about low-income customers’ tastes and preferences. ITC employees were tasked with investigating farmers’ aspirations, and senior managers were charged with making business-model innovations.

These new responsibilities streamlined the innovation-to-execution process by enabling project team members to draw more useful insights from on-the-ground market realities. As e-Choupal’s business expanded into low-income markets across India, the firm added the second new layer of responsibilities, aimed at exploiting operational efficiencies from the initiative’s growing scale. New supply chain duties for middle management enhanced efficiencies in the IBI’s back-office operations. Meanwhile, higher-level management focused on capturing synergies between the e-Choupal business and ITC’s traditional business.

Esoko, a company that provides tools for agri-projects and agribusinesses to deliver data to farmers via SMS in 15 countries including Nigeria, is another good example of how reform of organizational structure can help inclusive innovations succeed. Initially Esoko relied heavily on government agencies to market and collect data for its price information service. For instance, initial projects using TradeNet (Esoko’s predecessor) in West Africa collected and shared data sourced from ministries, departments and government offices, and tried to market the service through the network ministry basic marketing.

However, as Esoko grew, gained more local clients, and started to understand the market better, executives discovered that farmers and traders mistrusted data that came from the government, and didn’t want to act on it. Moreover, government data about low-income consumers was often unreliable. Esoko therefore changed its organizational structure to employ information agents who came from local communities near the agricultural markets. These agents collect market information directly from the traders and serve as market ambassadors for Esoko in the communities where they live. By making this modification, the company has won farmers’ trust and has gained better access to consumers as well as information about them.

Establish in-house platforms to help partnerships run smoothly. Natura’s IBI in the Amazon is an example of how to collaborate effectively with local NGOs. The company recognized early on that such collaboration would be critical to earning local communities’ trust and gaining access to their knowledge. Members of such communities were often wary of outside businesses because of the deforestation they had caused. Accordingly, the firm focused on building relationships with local NGOs in support of environmental preservation.

The company then set up an “ecorelations management” department. The department is solely responsible for managing relationships with communities based on field visits by company officials. The department also conducts regular dialogues with NGO partners to ensure that there is constant alignment across aspirations of all the key stakeholders, including communities. As one senior executive noted, “the company does not send a buyer to interact with the community, but someone who understands the social logic.” This approach has helped the company gain local communities’ trust and develop purchasing channels that dovetail with the communities’ social structure and cultural expectations. Moreover, it has enhanced Natura’s ability to understand and place themselves in the context of the institutional environment of regions in which they operate.

Partner with authentic NGOs. The most valuable asset that NGO partners provide is an understanding of the informal structures that shape markets in low-income communities. Authentically local NGOs understand the informal institutions, such as social hierarchies, that govern low-income communities. And they have aligned themselves with local values to gain these communities’ trust. To build a strong network of NGO partners, sponsors and managers of inclusive business initiatives must be able to identify which NGOs are authentically local and which are not.

For example, 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 partnering with such NGOs is not always a good strategy. Why? They may not have the capability to bring about behavioral change within local communities regarding a particular venture’s product or service offerings. Many NGOs claim to have information about local institutions and practices, but whether they can transform this information into actionable insight is another question entirely.
Successful IBI leaders make sure that the NGOs they partner with do possess this capability. In Brazil, major paper producers, including Votorantim, Klabin and Suzano, are engaging Amazonian communities through local NGOs and using these relationships to advance sustainability practices at a grass-roots level. To cite one example, Klabin’s Forestry Incentive Program, first introduced in 1987, aims to increase rural populations’ incomes by developing sustainable forests that Klabin can harvest for timber. The company initially partnered with government organizations to provide funding and technical assistance to local producers with an eye toward improving forest sustainability. While the initiative provided farmers with resources and know-how useful for building sustainable forests, Klabin found that many local producers still chose to use older and less sustainable methods. To bring these farmers on board, Klabin needed to inspire a change in behavior. It did so in 2005 by partnering with a local NGO called APREMAVI (Association for the Preservation of the Atlantic Forest in the Upper Itajaí Valley). APREMAVI had built and maintained long-term relationships with local producers and thus was able to convince them that sustainable forests and Klabin’s initiative would help secure their industry’s long-term viability. Local producers now appear to value the preservation of the forest environment.  

Klabin has also begun working with APREMAVI to convince producers of the value of having their forests certified by the Forest Stewardship Council (FSC). The goal is to get all local producers certified so Klabin can become the only large paper company in Brazil that processes 100 percent certified timber. More than 17,000 farmers now receive sustainability-related incentives in the states of Paraná and Santa Catarina. The program covers 87,000 hectares of cultivated forests, and 153 million seedlings have been distributed to farmers since the start of the program.  

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.  

Today, the opportunities are immense, as there are plenty of infrastructural and institutional deficits crying out for solutions. Moreover, stakeholders such as governments as well as local NGOs and entrepreneurs are eager to help large companies develop inclusive, scalable businesses.  

Our research suggests that the most successful IBIs will be led by people who excel at the three-step process we propose in this report: understanding stakeholder-driven processes relevant to an IBI in context, knowing which processes will be most important for an IBI to achieve scale and how to adapt them to local market conditions, and drawing on stakeholders’ strengths to win local communities’ trust and drive scale.  

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.
Appendices 1–5
Appendix 1: Inclusive business initiatives: How are they different?

IBIs are distinctive from other kinds of businesses in numerous respects. The customer value proposition is one example. Inclusive innovations create value for targeted low-income populations by addressing infrastructural or institutional deficits (such as helping farmers get more money for their produce by creating an easy-to-use e-marketplace). To achieve the scale needed to benefit larger sections of low-income populations, solutions offered by such initiatives must be affordable, easily accessible, dignified and simple.

Figure 5: Business and societal benefits generated by successful IBIs

The most successful inclusive ventures generate valuable gains not only for the businesses that launch them but also for the low-income communities they serve and the local partners they collaborate with.

<table>
<thead>
<tr>
<th>Types of business gains</th>
<th>Types of societal gains</th>
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<tbody>
<tr>
<td>Earning respect from peer businesses andICI beneficiaries</td>
<td>Helping people acquire or strengthen skills required by the market</td>
</tr>
<tr>
<td>Creating a new market for an existing product</td>
<td>Making organized markets accessible to communities</td>
</tr>
<tr>
<td>Forming profitable partnerships with vendors, small entrepreneurs or NGOs</td>
<td>Helping communities complete transactions affordably and safely in organized markets</td>
</tr>
<tr>
<td>Cementing public or private partnerships or other collaborative arrangements with government bodies</td>
<td>Improving performance or convenience of resources or products or services; lowering the costs of using products or services</td>
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<tr>
<td>Securing relevant regulations or shaping the legislation process</td>
<td>Elevating consumers’ social and economic prestige</td>
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<tr>
<td>Conserving resources or reducing consumption of resources</td>
<td>Creating alternative job opportunities for beneficiaries</td>
</tr>
<tr>
<td>Finding and tapping skilled and more affordable labor pools</td>
<td>Helping people conserve resources or reducing their consumption of resources</td>
</tr>
<tr>
<td></td>
<td>Opening new markets for collaborators such as NGOs, vendors or small entrepreneurs</td>
</tr>
</tbody>
</table>

Moreover, such ventures focus on creating and satisfying new customer preferences, while businesses serving the existing middle class focus more on serving existing customer preferences.

IBI-success hinges on:
• reducing average operating costs per person or household served, compensating for low margins per unit sale in sectors directly and indirectly linked to the initiative; and
• simultaneously benefiting a larger base of low-income population in industries directly and indirectly linked to the initiative.

An IBI’s success therefore cannot be equated solely with short-term economic profits. Its success must be measured over the medium to long term and include the scale at which tangible as well as intangible business and societal gains accrue to companies and low-income consumers.

When it comes to business gains, an inclusive innovation must give as much weight to novel partnerships, new markets, conserved resources and fresh talent pools as it does to commercial viability. Such gains are important because a company can leverage them to benefit its inclusive initiative as well as its other businesses. Regarding social gains, the initiative must generate benefits for low-income communities as well as to any NGOs and small entrepreneurs with which it is partnering. For low-income consumers, such benefits may take such forms as new skills acquired, enhanced social and economic prestige, improved job security or income and reduced transaction costs. For NGOs and small entrepreneurs, benefits may include introduction to new networks and markets resulting from partnerships with IBIs.
Appendix 2: Qualitative comparative analysis and its application to our research

QCA is an analytical technique that uses Boolean algebra to implement principles of comparison in the qualitative study of socioeconomic phenomena. In many cases, qualitative analysis comprises only a few cases at a time. In order to derive key strategic business insights from these few cases, the analysis needs to be:

- Intensive: addressing many aspects of cases; and
- Integrative: examining how the different parts of a case fit together, both contextually and historically.

By formalizing the logic of qualitative analysis, QCA makes it possible to bring the logic and empirical intensity of qualitative approaches to studies that embrace more than a handful of cases. QCA therefore helps conduct robust analysis in research situations that normally call for the use of variable-oriented, quantitative methods. QCA is best suited to small- to medium-N case-study projects with between three and 250 cases.

As the first step in our QCA, we created a dichotomous data table mapping the contribution of processes toward the outcome. Proper thresholds were created toward allocating Boolean expressions of 1 or 0, signifying the intensity of a process in a successful outcome. In our case, creating quantitative thresholds was challenging owing to a paucity of data; hence, we designed an objective method to create qualitative thresholds.

As the second step, we created a “truth table” in which we mapped process combinations that led to success for the IBIs we studied (see below). The table also revealed combinations that put an IBI on the path to success. Given that we planned to use the crisp-set QCA technique, we utilized binary variates (either zero or one) to record the contribution of each process in the table.

Analysis of our sample showed seven different configurations leading to successful IBIs and to those on the path to success. This process mimics case-oriented comparative methods. Utilization of prescribed software helped us accomplish the most cognitively demanding task, which was making multiple comparisons of configurations through computer algorithms.

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<th>Companies</th>
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<td>A3</td>
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Figure 6: Truth table

The ‘truth table’ reveals combinations which have led IBIs to success or have put them on the path to success:

- **P1**—Sustained buy-in from top leadership and senior management
- **P2**—Organizational structure reform to suit business-model needs
- **P3**—Co-creation with local communities
- **P4**—Collaboration with government
- **P5**—Collaboration with NGOs and small entrepreneurs
- **P6**—Balanced regulatory environment
- **A**—Companies based out of Nigeria and Ghana
- **B**—Companies based out of Brazil
- **C**—Companies based out of China
- **I**—Companies based out of India
### Appendix 3: Companies in our research sample

In order to ensure geographical and cultural diversity in the sample, IBIs were selected from eight industry sectors across five emerging economies. The IBIs shortlisted for analysis continue to be a core business activity of large companies, with sales of more than US$300 million.

<table>
<thead>
<tr>
<th>No.</th>
<th>Company/Country</th>
<th>Sector</th>
<th>Key infrastructural deficit addressed</th>
<th>Key institutional deficit addressed</th>
<th>IBI business structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vale S.A./Brazil</td>
<td>Mining</td>
<td>Created business infrastructure for middle and low income suppliers from remote locations</td>
<td>Provided training to small entrepreneurs in remote locations through organized partnerships</td>
<td>Homegrown</td>
</tr>
<tr>
<td>2</td>
<td>Natura/Brazil</td>
<td>Consumer products</td>
<td>Developed supply chain and innovation infrastructure to process indigenous knowledge and materials with the goal of creating wealth with low income communities</td>
<td>Developed systems to link local knowledge and indigenous communities to markets</td>
<td>Homegrown</td>
</tr>
<tr>
<td>3</td>
<td>Itau Unibanco Holding S.A./Brazil</td>
<td>Banking</td>
<td>Collaborated with local vendors to provide finance to small entrepreneurs and low income households</td>
<td>N/A (not applicable)</td>
<td>Homegrown</td>
</tr>
<tr>
<td>4</td>
<td>UNICA/Brazil</td>
<td>Agricultural products</td>
<td>N/A</td>
<td>Collaborated with sugarcane cutters, their unions and companies to create institutions for training cane cutters and identifying suitable job opportunities for them</td>
<td>Industry collaboration</td>
</tr>
<tr>
<td>5</td>
<td>Klabin S.A./Brazil</td>
<td>Agricultural products</td>
<td>Provided collateral to farmers to help them access credit facilities through organized banks</td>
<td>Created new institutions to secure better returns on forestry products produced by farmers</td>
<td>Homegrown</td>
</tr>
<tr>
<td>6</td>
<td>Siemens Ltd./China</td>
<td>Medical equipment</td>
<td>Built healthcare and diagnostic centers across different parts of rural China</td>
<td>Developed an extensive program to train doctors in rural locations</td>
<td>MNC subsidiary</td>
</tr>
<tr>
<td>7</td>
<td>Haier Ltd./China</td>
<td>Consumer products</td>
<td>N/A</td>
<td>Collaborated with local entrepreneurs to create reliable franchise networks in remote villages</td>
<td>Homegrown</td>
</tr>
<tr>
<td>8</td>
<td>SAIC-GM-Wuling Automobile Co. Ltd./China</td>
<td>Automotive</td>
<td>Created an affordable transportation platform for rural farmers and enterprises to engage with urban markets</td>
<td>N/A</td>
<td>Joint venture among government, a domestic private sector company and a foreign company</td>
</tr>
<tr>
<td>9</td>
<td>Nokia Telecommunications Ltd./China</td>
<td>Telecommunications</td>
<td>Collaborated with local partners to develop handset applications connecting low-income populations to organized markets</td>
<td>Established an extensive sales channel in third- and fourth-tier townships as well as rural areas in China with the support of local communities</td>
<td>MNC subsidiary</td>
</tr>
<tr>
<td>No.</td>
<td>Company/Country</td>
<td>Sector</td>
<td>Key infrastructural deficit addressed</td>
<td>Key institutional deficit addressed</td>
<td>IBI business structure</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------</td>
<td>----------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>10</td>
<td>Alibaba.com Hong Kong Ltd./China</td>
<td>E-commerce</td>
<td>Developed an e-marketplace platform that helped furniture makers overcome poor physical infrastructure and reach urban markets</td>
<td>N/A</td>
<td>Homegrown</td>
</tr>
<tr>
<td>11</td>
<td>ITC Ltd./India Agricultural products</td>
<td>Developed physical and technological infrastructure to aggregate the collection of local agricultural produce and make pricing information readily available to farmers</td>
<td>N/A</td>
<td>Homegrown</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Tata Motors Ltd./India Automotive</td>
<td>N/A</td>
<td>Created an accessible skilling platform for rural youth</td>
<td>Homegrown</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Hindustan Unilever Ltd./India Consumer products</td>
<td>N/A</td>
<td>Created a sustained platform for training women from remote rural villages to become successful entrepreneurs</td>
<td>MNC subsidiary</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>YES Bank Ltd./India Banking</td>
<td>Created technological and business infrastructure in collaboration with warehouses and vendors to make financial services accessible to remote and low-income populations</td>
<td>N/A</td>
<td>Homegrown</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Idea Cellular Ltd./India Telecommunications</td>
<td>Partnered with local grocery stores to overcome poor sales infrastructure in rural markets</td>
<td>Created institutional mechanisms as part of its business model to train and employ rural graduates</td>
<td>Homegrown</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Esoko Ltd./Ghana Agricultural products</td>
<td>Facilitated agricultural e-commerce through a web-based market information platform</td>
<td>N/A</td>
<td>Homegrown</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Promasidor Ltd./Nigeria Consumer products</td>
<td>Created a distribution system to acquire and distribute milk at affordable rates</td>
<td>N/A</td>
<td>Homegrown</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Nestle Ltd./Nigeria Consumer products</td>
<td>Provided farmers with technical assistance to reduce costs related to pesticide use</td>
<td>Created courses to train farmers on how to increase their income through more effective crop planning</td>
<td>MNC subsidiary</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 4: Successfully scalable IBIs

Companies and communities stand to benefit in many ways through IBIs. These gains could be intangible or tangible. They could be commercial or largely societal in nature.

We rated benefits accruing to companies and society from the implementation of shortlisted IBIs, based on the scale at which they realized these gains in comparison to similar initiatives in their respective countries. In many cases, not all gains accrued to either communities or companies implementing IBIs.

The first table rates benefits on a scale of 1 to 3. If a company was able to create a new market for a product or service by affecting only few households it was given a score of one. In the context of mainstream business, serving the middle class or markets for the rich, a venture

<table>
<thead>
<tr>
<th>Benefits to the company from execution of an IBI</th>
<th>Ratings provided to the company by comparing its gains with those accruing to other companies implementing comparable inclusion initiatives in the same geography</th>
<th>Total score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gaining respect from peer businesses</td>
<td>“On the Path to Success”: The company achieved this benefit by affecting a few households rather than a large section of the community</td>
<td>1</td>
</tr>
<tr>
<td>Gaining respect from the IBI’s beneficiaries</td>
<td>“Successful”: The company achieved this benefit by affecting a large section of the community in the context of the sector(s) directly linked to the initiative</td>
<td>2</td>
</tr>
<tr>
<td>Creating a new market for a product or service</td>
<td>“Very successful”: The company achieved this benefit by affecting various communities across different sectors</td>
<td>3</td>
</tr>
<tr>
<td>Forming profitable partnerships with vendors, small entrepreneurs or NGOs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cementing public or private partnerships or other collaborative arrangements with government bodies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Getting the government to promulgate relevant regulations or pass favorable legislation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conserving resources or reducing consumption of resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finding and tapping skilled and more affordable pools of labor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTALS</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Achieving such a goal could be classified as "successful." But in the context of IBIs, it continues to be on the "path to success" because its achievement has not been based on a higher number of touch-points within low-income communities. The second table rates benefits accruing to communities as a result of IBIs. An initiative was rated to be "very successful" if a particular benefit emanating from the same was found to be enjoyed by communities across various sectors and not only limited to communities in the context of sectors directly linked to the initiative.

<table>
<thead>
<tr>
<th>Rating the initiative as compared to other similar initiatives conducted by other companies in the same geography</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits to local communities from execution of an IBI</td>
</tr>
<tr>
<td>Helping people acquire or strengthen skills required by the market</td>
</tr>
<tr>
<td>Making organized markets accessible to communities</td>
</tr>
<tr>
<td>Helping communities complete transactions affordably and safely in organized markets</td>
</tr>
<tr>
<td>Improving the performance or convenience of resources, products or services, or lowering the cost of using resources, products or services</td>
</tr>
<tr>
<td>Elevating people's social and economic prestige</td>
</tr>
<tr>
<td>Creating alternative job opportunities for local residents</td>
</tr>
<tr>
<td>Helping local communities conserve resources or reduce consumption of resources</td>
</tr>
<tr>
<td>Helping collaborators gain access to new networks or markets</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
</tr>
</tbody>
</table>

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Appendix 5: Identifying the contribution of each of the six processes to IBI scalability

The contribution of each process to the IBI was scored based on its contribution to IBI-scalability (as explained in Appendix 4). For example, if top leadership did not provide any support to the IBI, their contribution was scored as 1 whereas their contribution was scored 4 if the top leadership participated actively in conceptualizing the IBI and helping it realize scalable gains.

These scores were utilized to create a table, which was then used as input in the QCA analysis discussed in Appendix 2.

<table>
<thead>
<tr>
<th>Scores</th>
<th>Processes</th>
<th>Processes</th>
<th>Processes</th>
<th>Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top leadership buy-in</td>
<td>Organizational structure reform</td>
<td>Co-generation with targeted communities or customers</td>
<td>Collaboration with government departments or agencies</td>
</tr>
<tr>
<td>1</td>
<td>Top leaders such as the CEO or board members provided no support</td>
<td>Organizational architecture was not changed to implement the IBI</td>
<td>No one generated knowledge, solutions or programs with targeted communities</td>
<td>Government had no involvement in the IBI</td>
</tr>
<tr>
<td>2</td>
<td>Top leadership helped conceptualize the IBI but did not take an active interest in implementing it</td>
<td>Senior managers adopted additional responsibilities to implement the IBI</td>
<td>Targeted communities participated only in the execution stage of the IBI</td>
<td>Government provided support but no resources or any other direct support to the initiative</td>
</tr>
<tr>
<td>3</td>
<td>Top leaders participated at a moderate level in conceptualization and implementation of the IBI</td>
<td>Senior, middle and junior-level managers adopted additional responsibilities to implement the IBI</td>
<td>Targeted communities helped conceptualize and execute the IBI</td>
<td>Government provided resources to execute the IBI or made policy changes to support execution and scaling of the initiative</td>
</tr>
<tr>
<td>4</td>
<td>Top leaders participated actively in the conceptualization and helped the IBI achieve scale</td>
<td>A completely new organizational architecture emerged as the IBI evolved to successfully scale the initiative</td>
<td>Active participation of targeted communities was essential for enabling the IBI to achieve scale</td>
<td>The initiative owes its scalability to support from government</td>
</tr>
</tbody>
</table>

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Endnotes and references


2 We define "low-income populations" as those with a per capita income of less than $4,500 per year in purchasing-power parity (PPP) terms.


4 "DTH subscribers up 50% in 2010," The Financial Express, January 2011.


11 (a) Hawarden, Verity, and Helena Bernard. "Danimal in South Africa: Management innovation at the bottom of the pyramid." Case study.


About the authors:

Raghav Narsalay leads the research team in India for the Accenture Institute for High Performance. He is based in Mumbai.

Ryan T. Coffey is a senior specialist with the Accenture Institute for High Performance. He is based in Mumbai.

Leandro Pongeluppe is a research scholar with INSPER in Brazil. He is based in Sao Paolo.

Co–researchers:

Aarohi Sen, Cherry Lu Cui, Manisha Sahni, Smriti Mathur, and Soh Kai Wee—Accenture

Dirk Boehe and Sergio Lazzarini—INSPE, Brazil

Femi Giwa and Tunji Adegbesan—Lagos Business School, Nigeria

John Gong—University of International Business and Economics (UIBE), China

Research Advisory Team

David A. Light, Paul F. Nunes and Robert J. Thomas—Accenture Institute for High Performance

Tarun Khanna—Harvard Business School

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