

This article originally appeared
in the 2013, No. 1, issue of

Outlook

The journal of high-performance business



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High-Growth Markets

Inclusive business initiatives Scaling innovation for an emerging middle class

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Efforts to create innovations that can meet both social and business goals in low-income markets are fraught with unanticipated dangers. A study of 18 initiatives from around the world reveals how ventures can succeed where others have failed.

Sponsors and managers of inclusive business initiatives must encourage senior leaders to take a longer-term view.

It's not easy innovating for the millions who are climbing from the bottom rung of the income ladder in high-growth and emerging markets. Even when much goes right, many initiatives go wrong.

Take the recent example of a large company that had developed a highly nutritious, low-cost food product. The company then recruited a sales force of local women, who developed recipes and coordinated cooking sessions in remote communities to market the product.

A yearlong trial proved that prospective customers found the product affordable and easy to use. And profit margins were in line with expectations. But despite the company's best efforts—"co-creating" a useful product with local communities; using salespeople with local knowledge—the venture failed.

The problem: The product didn't reach enough new customers at a pace the

company's leaders felt was necessary to justify further investment. In short, the initiative didn't scale.

In a past issue of *Outlook*, we explored how a number of companies are overcoming the many obstacles to "inclusive growth" and seeking new markets in low-income communities. More recently, Accenture conducted further research into the subject, looking at what we call "inclusive business initiatives," or IBIs—businesses aimed at profitably scaling innovation in these markets—and asking: Why do some initiatives achieve scale, bringing both social benefits to low-income populations and profits to the company? To find out, we undertook an ambitious comparative study on innovation, looking at 18 initiatives in five countries: Brazil, China, Ghana, India and Nigeria.

We discovered that successful initiatives met three key requirements for achieving the scale companies need to thrive.

1. Getting top leadership on board

Lack of real or sustained support from the board and top management dooms many new projects.

This is true even for a major effort at a large company. But inclusive business initiatives face special hurdles.

Many boards, for example, demand to see sales and even profits quickly once they have approved an IBI. Directors and senior leaders often fail to appreciate that shaping purchase behaviors and winning trust in low-income communities requires more time than middle-class market initiatives need. Further, when doubts about an IBI's potential surface, leaders often withhold the needed talent or financial resources and refuse to sanction organizational reforms that would help better align the venture with the requirements of external partners.

Effective IBI leaders, however, apply several innovative approaches to overcome these problems.

Encourage top leadership to have a personal stake in the initiative.

When board members and senior leaders are personally committed, initiative sponsors and managers will have enough time to develop the local connections necessary for achieving scale.

In India, for example, Hindustan Unilever Limited's CEO fostered high-level commitment to IBIs by building a decision-making structure that appealed to the board's entrepreneurial spirit.

Companies in the research sample

To ensure geographical and cultural diversity in the sample, we selected inclusive business initiatives from five emerging markets in eight sectors. These initiatives are a core business activity of their parent companies, and each company has annual sales of more than \$300 million.

Country	Company	Sector	Key infrastructural deficit addressed	Key institutional deficit addressed	IBI business structure
Brazil	Vale	Mining	Created business infrastructure for middle- and low-income suppliers from remote locations	Provided training to small entrepreneurs in remote locations through organized partnerships	Homegrown
	Natura	Consumer products	Developed supply chain and innovation infrastructure to process indigenous knowledge and materials in the goal of creating wealth with low-income communities	Developed systems to link local knowledge and indigenous communities to markets	Homegrown
	Itau	Banking	Collaborated with local vendors to provide finance to small entrepreneurs and low-income households	N/A	Homegrown
	UNICA	Agricultural products	N/A	Collaborated with sugarcane cutters, their unions and companies to create institutions for training cane cutters and identifying suitable job opportunities for them	Industry collaboration
	Klabin	Agricultural products	Provided collateral to farmers to help them access credit facilities through organized banks	Created new institutions to secure better returns on forestry products produced by farmers	Homegrown
China	Siemens China	Medical equipment	Built healthcare and diagnostic centers across different parts of rural China	Developed an extensive program to train doctors in rural locations	MNC subsidiary
	Haier	Consumer products	N/A	Collaborated with local entrepreneurs to create reliable franchise networks in remote villages	Homegrown
	SAIC-GM-Wuling	Automotive	Created an affordable transportation platform for rural farmers and enterprises to engage with urban markets	N/A	Joint venture among government, a domestic private-sector company and a foreign company
	Nokia	Telecom-communications	Collaborated with local partners to develop handset applications connecting low-income populations to organized markets	Established an extensive sales channel in third- and fourth-tier townships as well as in rural areas in China with the support of local communities	MNC subsidiary

(Continued on page tk)

After a 15-month exploration process, HUL selected six ventures for further investment over the next three years. To ensure top management's continued support, the six project managers reported regularly to a newly created ventures director and made quarterly progress reports to the chairman and other board members.

HUL's board effectively operated as venture capitalists, granting project

managers resources in the form of people, money and specialized company expertise. Team leaders were also given scalability milestones, and teams were allowed to move to the next level of venture funding only after reaching them. This competitive environment kept board members heavily involved in the inclusive ventures, even though they accounted for only a small part of the company's bottom line.

Companies in the research sample (Continued from page tk)

Country	Company	Sector	Key infrastructural deficit addressed	Key institutional deficit addressed	IBI business structure
China (continued)	Alibaba	E-commerce	Developed an e-marketplace platform that helped furniture makers overcome poor physical infrastructure and reach urban markets	N/A	Homegrown
India	ITC	Agricultural products	Developed physical and technological infrastructure to aggregate the collection of local agricultural produce and make pricing information readily available to farmers	N/A	Homegrown
	Tata Motors	Automotive	N/A	Created an accessible skilling platform for rural youth	Homegrown
	Hindustan Unilever	Consumer products	N/A	Created a sustained platform for training women from remote rural villages to become successful entrepreneurs	MNC subsidiary
	YES Bank	Banking	Created technological and business infrastructure in collaboration with warehouses and vendors to make financial services accessible to remote and low-income populations	N/A	Homegrown
	Idea Cellular	Telecom-communications	Partnered with local grocery stores to overcome poor sales infrastructure in rural markets	Created institutional mechanisms as part of its business model to train and employ rural graduates	Homegrown
Ghana	Esoko	Agricultural products	Facilitated agricultural e-commerce through a web-based market information platform	N/A	Homegrown
Nigeria	Promasidor	Consumer products	Created a distribution system to acquire and distribute milk at affordable rates	N/A	Homegrown
	Nestlé Nigeria	Consumer products	Provided farmers with technical assistance to reduce costs related to pesticide use	Created courses to train farmers how to increase their income through more effective crop planning	Homegrown

Source: Accenture analysis

Only two of the six IBIs survived the three-year test period. One was Pureit, a water purifier. The other was Project Shakti, the landmark inclusive business initiative in which thousands of village women (and now men) have brought HUL's products to rural India.

Prevent a short-term focus on the bottom-line.

To offset top leadership's natural concerns about the near-term financial impact of a new initiative, sponsors and managers of inclusive business

initiatives must encourage senior leaders to take a longer-term view.

Consider an initiative by Alibaba Group, China's largest e-commerce company. In 2006, a few entrepreneurial furniture makers in a small town in the eastern Chinese province of Jiangsu launched online storefronts on Alibaba's consumer-to-consumer e-commerce platform, Taobao Marketplace (taobao.com), with the aim of accessing larger markets, including Beijing and Shanghai. Seeing a potential business opportunity, Alibaba's local managers asked the company's board for funds to promote

the e-commerce platform to the other villages in the area and to train local entrepreneurs to build online storefronts. To get around the board's skepticism about whether the initiative fit with strategic objectives, managers pitched the project as a corporate social responsibility initiative, and the venture was funded on that basis.

The CSR funds for training local entrepreneurs helped support the rapid expansion in online storefronts based in the small town. By 2008, the number of local online storefronts had increased tenfold to more than 100; by 2010, more than 2,000 shops were online, with more than 400 owners of online stores participating in online sales. The town now hosts more than 180 furniture factories and some 20 logistics firms. Perhaps most important, its furniture has become a recognizable brand among higher-income consumers in China's large urban markets.

While rural initiatives still have a limited impact on Alibaba's bottom line, the scalability of these initiatives has convinced the company's leadership of the long-term value of rural-to-urban e-commerce.

Get top leadership to allocate the right talent.

With a project as challenging as an inclusive business initiative, second-tier talent won't cut it. IBI sponsors and managers need to promote inclusive

ventures to the company's workforce and create incentives that encourage employees to take on new roles.

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.

Backed by the 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. The board and the project manager also made it clear that failure to achieve profitability in the short term would not hurt team members' promotion prospects.

With the right people in place, the bank has created a variety of new offerings that benefit low-income populations. One program provides low-cost credit, warehouse storage and price supports to honey producers. Between 2007 and 2011, more than 2,000 farmers borrowed \$3.5 million and saved, on average, hundreds of dollars—a significant amount for a farmer in northern India. Through partnerships, the bank also offers migrant workers a low-cost way to wire remittances home from hundreds of locations at all hours of the day. So far, the program has served 140,000 workers.

2. Collaborate with governments in strategic partnerships

In theory, governments and businesses in high-growth and emerging markets should be aligned in their focus on inclusive growth. But it's not that simple.

Government partners can provide the resources and local market knowledge required to make an inclusive business initiative profitable.

However, ineffective collaboration and the wrong kinds of regulation can also suffocate an IBI, forcing the sponsoring company to turn it

Scoring the progress of an inclusive business initiative

In reviewing the academic literature on inclusive innovation, we identified six processes that were common to successful ventures. This table allows the leaders and sponsors of IBIs to evaluate the relative strength of their projects (1 = weakest, 4 = strongest).

Scores

Processes	1	2	3	4
Top leadership buy-in	Top leaders, such as the CEO or board members, provided no support	Top leadership helped conceptualize the IBI but did not take an active interest in implementing it	Top leaders participated at a moderate level in conceptualization and implementation of the IBI	Top leaders participated actively in the conceptualization and helped the IBI achieve scale
Organizational structure reform	Organizational architecture was not changed to implement the IBI	Senior managers adopted additional responsibilities to implement the IBI	Senior, middle and junior managers adopted additional responsibilities to implement the IB	A completely new organizational architecture emerged as the IBI evolved to successfully scale the initiative
Co-generation with targeted communities or customers	No one generated knowledge, solutions or programs with targeted communities	Targeted communities participated only in the execution stage of the IBI	Targeted communities helped conceptualize and execute the IBI	Active participation of targeted communities was essential for enabling the IBI to achieve scale
Collaboration with government departments or agencies	Government had no involvement in the IBI	Government provided support but no resources or any other direct support to the initiative	Government provided resources to execute the IBI or made policy changes to support execution and scaling of the initiative	The initiative owes its scalability to support from government
Collaboration with NGOs and/or small entrepreneurs	NGOs and small entrepreneurs had no involvement in the IBI	They collaborated but did not share any risks associated with the IBI	They had a stake in and assumed sufficient risks related to the IBI	The initiative owes its scalability to collaboration with NGOs and/or local entrepreneurs
Supportive regulatory environment	The formal or informal regulatory environment created barriers to execution of the IBI	The regulatory environment had no impact on execution of the IBI	The regulatory environment provided indirect support for execution of the IBI	The regulatory environment was directly responsible for execution and scaling of the IBI

Source: Accenture analysis

into a low-priority initiative or kill it altogether.

To make the best use of government support, successful companies apply the following practices.

Collaborate to help low-income consumers.

It's critical for IBI managers to match business opportunities with government goals. SAIC-GM-Wuling, a joint venture of General Motors, SAIC (formerly known as Shanghai Automotive Industry Corp.) and Liuzhou Wuling Motors, capitalized

on the Chinese government's efforts to reduce carbon emissions and stimulate rural growth. It developed a series of minivans that sell in the neighborhood of \$5,000. These are especially valued in rural China not only for personal transportation but also for business, and with their small engines—1.6 liters or smaller—each minivan qualified for a government subsidy of up to RMB 4,000 (\$630).

The speed with which the government acted to improve the company's viability encouraged the firm to take on the Guangxi provincial government as a key stakeholder. The city of Liuzhou, which currently owns a 5.9

percent stake in SAIC-GM-Wuling, has been instrumental in providing the company with timely access to land, funding and utility infrastructure, all critical for the company's expansion plans.

By the end of 2009, SAIC-GM-Wuling had become the first Chinese auto manufacturer in the minicar segment to have produced and sold more than 1 million automobiles in a single calendar year. The company continues to be the segment's leader today.

Collaborate to help low-income workers.

Government regulations can become platforms for launching business initiatives that create value for low-income communities, for companies and for governments. 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. Before the harvest, the fields would be burned in order to remove sugarcane straw (the plant's top and leaves) as well as to drive away snakes, scorpions

and other creatures that might harm the cutters. However, technological advances and concerns about environmental damage from the fires favored a shift to mechanized harvesting. In 2007, the state government of São Paulo signed an agreement with UNICA that would ban the burning of sugarcane fields by 2017—a change that 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 3,000 cane cutters in São Paulo. Many former cutters were retrained for new jobs at the mills. Others were trained in skills that would best serve local communities, such as plumbing, horticulture and garment making.

Everyone wins: The government gets reduced pollution; the industry becomes more efficient, while avoiding non-compliance penalties; and the workers are provided with a safety net in the form of training in new job skills.

3. Partnering with local NGOs and small entrepreneurs

In the absence of direct or indirect government sponsorship for an IBI, large businesses must look elsewhere for help, often turning to partnerships with entrepreneurs and NGOs.

This approach, too, presents challenges. Consider the issue of reputation. Inclusive innovators may collaborate with apparently well-regarded NGOs and entrepreneurs, only to realize later that those reputations do not travel well to new, untested markets. Moreover, partners, especially those with international

scope, may have many clients and thus lack the needed resources or focus to effectively drive the initiative's success.

Inclusive innovations that have effectively partnered with such stakeholders have done so through the following means.

For further reading

"Inclusive growth: Closing the commitment gap," *Outlook* 2011, No. 3: <http://www.accenture.com/us-en/outlook/Pages/outlook-journal-2011-inclusive-growth-closing-commitment-gap-emerging-economies.aspx>

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Establish in-house platforms to help partnerships run smoothly.

Natura, the large Brazilian cosmetics company, recognized that collaborating effectively with local NGOs would be critical to earning the trust of indigenous communities and gaining access to their knowledge. Members of such communities were often wary of outside businesses because of the deforestation they had caused in the Brazilian rainforest. Accordingly, Natura focused on building relationships with local NGOs in support of environmental preservation.

But the company soon found that a lack of organization among these entities would make it difficult to achieve the operational efficiency necessary to develop a profit-making IBI. So Natura set up an "eco-relations management" department, which is solely responsible for managing NGO partnerships and training the groups to improve their operational efficiency.

The company has also begun asking NGO staff members to accompany Natura's own teams of anthropologists and biologists on visits to local 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 the trust of local communities and develop purchasing channels that dovetail with the communities' social structure and cultural expectations.

Partner with authentic NGOs.

To build a strong network of NGO partners, inclusive business initiatives must be able to identify which NGOs are authentically local and which are not. 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.

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. Initially, the Forestry Incentive Program provided farmers with resources and know-how. However, Klabin found that even with this support many farmers continued to use what they knew best—older and less sustainable methods.

To bring these farmers on board, Klabin set out in 2005 to inspire a change in behavior by partnering with Apremavi (the Association for the Preservation of the Upper Itajaí Valley), a local NGO. Apremavi had built and maintained long-term relationships with local producers and thus was able to convince them that sustainable forests would help secure their industry's long-term viability.

By 2011, the initiative included 19,000 farmers, and, according to company statistics, more than 98 percent of them had seen increased income since joining the program. In per capita terms, they had realized an average income growth of 49 percent during the preceding eight years. And 153 million seedlings had been distributed to farmers over an area covering 87,000 hectares.

Rethink the business model to build scale faster.

Because a for-profit organization may be able to achieve scale faster than a nonprofit initiative—it will certainly have the incentive to do so—IBI leaders may want to rethink their NGO

relationships. Changing the ownership model is one way of doing so.

Africa-based Esoko shows how this can be done. Initially established as Tradenet in 2005, the company offered an SMS-based service to gather and disseminate agricultural data to customers such as individual farmers, researchers and traders in Africa.

In 2009, the initiative was rebranded as Esoko, and the company changed its business model in an effort to reach more customers. Although the company possessed a sophisticated technology platform in agro-informatics, it lacked the financial clout and local relationships to achieve scale on its own. In an effort to increase its reach and guarantee long-term commercial viability, Esoko launched a franchise model, which aimed to build on its existing relationships.

Esoko's model encourages governments, NGOs and private-sector organizations to become franchisees and to use their local connections to build a profitable agro-information service based on Esoko's technology platform. It provides franchisees with a toolkit that contains marketing materials and information about Esoko's standardized pricing for its service. Currently, franchisees have been authorized in 15 countries across Africa.

Large companies are increasingly recognizing the valuable business opportunities that can come with developing and executing inclusive business initiatives. By creating innovations for low-income markets, they can not only help consumers enter the middle class but also fuel profitable new growth for themselves.

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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