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Inclusive business in Africa

A business model perspective

RSM - a force for positive change

Colofon

The Partnerships Resource Centre: Working Paper Series

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This publication contains research supported by the Partnerships Resource Centre (PrC), a specialist research centre at Rotterdam School of Management, Erasmus University. The PrC envisions a more sustainable and inclusive world in which business, civil society and governments each play an important role to create collaborative and inclusive solutions for complex societal issues. We connect scientifically sound research and practitioner experience of cross-sector partnerships to aid sustainable and inclusive development. For more information about the Partnerships Resource Centre, visit www.rsm.nl/prc or contact us at +31 10 408 1126.

The publication draws on research from the NWO-WOTRO funded programme, Inclusive business strategies in Africa and the 2SCALE research programme. The research was led by the Partnerships Resource Centre (PrC) at Rotterdam School of Management (RSM), Erasmus University in collaboration with the Netherlands African Business Council (NABC) and the Eastern and Southern African Management Institute (ESAMI).

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Foreword

As French poet Victor Hugo once wrote: “You can resist an invading army; you cannot resist an idea whose time has come.” Inclusive business is such an idea and it is taking Africa by storm. Increasingly people realise that economic growth alone is not enough. To tackle some of the greatest challenges the African continent is facing, such as extreme inequality, poverty, food insecurity, access to health and education, and climate change we need to fundamentally reshape the way we think about growth; from growing the GDP of countries to creating inclusive and sustainable growth for all.

This timely book takes the reader on a journey into the subject of inclusive business in Africa and shows how companies can be agents of change, contributing to inclusive development and growth. By showing how businesses can turn challenges into opportunities for shared value creation, this book presents a strong business case for inclusiveness and proves that what is good for society is good for business as well. By providing examples from Safaricom’s mobile banking platform M-Pesa and Philips’ Community Life Centres in Kenya to the innovative distribution model of Guts in Ethiopia, this book inspires business leaders to take action to overcome the challenges in their society.

At the Eastern and Southern African Management Institute (ESAMI), we have long recognised the potential of business to contribute to inclusive growth in Africa. Established in 1980 in Arusha, Tanzania, we have grown to become a pan-African regional management development centre owned by ten member governments from the Eastern and Southern African region. Since 1980, we have witnessed a continent become increasingly polarised between the haves and have-nots, but we have also seen inspiring examples that aim to bridge that gap between the two. Over the years, we have trained 75,000 middle and top level personnel from government, public, private and civic organisations and seen the potential inclusive business can have in Africa. Therefore, we feel incredibly fortunate to have taken part in the extensive research that underlies this publication.

Within the research programme, we have managed to engage over 100 African and international organisations in executive training, workshops and stakeholder dialogues. Their participation was crucial in shaping our thoughts and research, and we are indebted to all the inspiring leaders we met along the way. Therefore, this publication is first and foremost addressed to them; to all the inspiring business leaders that are willing to change the world for the better. It is you who will define the future of Africa.

Prof. Michael Benson Munkumba

Director, ESAMI Business School, Arusha, Tanzania, November 2019

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Executive summary

Increasing economic inequality in combination with a rapidly growing young and entrepreneurial population make the African continent fertile ground for inclusive business as a driving force for development by contributing to the effective implementation of the UN Sustainable Development Goals (SDGs).

To further explore the potential of inclusive business in Africa, this publication draws on research from the NWO-WOTRO funded programme, Inclusive business strategies in Africa. This research programme, led by the Partnerships Resource Centre (PrC) in collaboration with the Netherlands-African Business Council (NABC) and the Eastern and Southern African Management Institute (ESAMI) engaged over 60 consortium partners in six African countries: Ethiopia, Kenya, Mozambique, Rwanda, Tanzania and Uganda. In addition, the publication presents insights from research on 2SCALE, an incubator programme that manages a portfolio of public-private partnerships (PPPs) for inclusive business in agri-food sectors. Finally, the publication includes wider research on inclusive business strategies and frugal innovation conducted by the PrC.

This publication aims to provide insights into the why, how and what of inclusive business to inspire companies that want to develop their own inclusive business model, and civil society and public partners facilitating inclusive business in Africa. Hereto, the publication shares knowledge from both theory and practice and delves deeply into three inclusive business cases from East Africa:

1. Financial inclusion through mobile banking service M-Pesa in Kenya
2. Community Life Centres for inclusive healthcare in Kenya
3. Inclusive agribusiness and food security in Ethiopia

Each of these cases integrates low-income groups into their value chains in various capacities: as consumers, producers, employees or entrepreneurs to bring the benefits of growth directly to the base of the pyramid. As such, although different in nature, each of these cases has developed strategies to make their business model more inclusive, which enables us to compare the cases along three inclusive business dimensions: 1), the adopted business model, 2), the potential for co-creation and partnering and 3), the scaling potential. The strategies that companies have adopted in each of these dimensions largely define the challenges ahead for mainstreaming inclusive business models.

First, as inclusive businesses operate in the context of substantial institutional voids and resource constraints, inclusive businesses need to develop fundamentally new market entry strategies that address the key issues of exclusion in Bottom of the Pyramid (BoP) markets: accessibility, availability, affordability, awareness and appropriateness. Incorporating these '5 A's of inclusion' in their business model enables companies to engage low-income communities in the value chain – on the demand side as clients or consumers, and on the supply side as producers, entrepreneurs or employees.

Second, the potential for co-creation and partnering of the three inclusive business models is investigated. Rather than importing pre-existing products and services, inclusive businesses need to align their business model with local cultural, social and political realities. By engaging low-income communities in a process of co-creation, inclusive businesses can combine knowledge developed at the 'top of the pyramid' with the wisdom and expertise found at the BoP and as such embed their business model in the local context. In addition, partnering with non-market actors such as civil society organisations and public institutions provides businesses with access to different resources and competencies than internally available in the firm and thereby enables inclusive business to achieve outcomes it could not have achieved alone.

Third, the scaling potential of the inclusive businesses is analysed along both horizontal and vertical lines. Inclusive businesses that successfully employ these scaling strategies or a combination of them will increase the commercial viability of the business model and create systemic impact of the innovation for society.

Further, the comparative analysis of this study enables the identification of the most important challenges inclusive businesses face and consequently formulates strategies to create an enabling organisational and institutional environment for inclusive business success.

Finally, the appendix provides a number of tools and checklists that businesses and organisations alike can use to improve their own business model.

By combining the lessons learned from the case studies and the latest research on inclusive business, this study provides inclusive business practitioners with the tools they need to turn societal challenges into opportunities for shared value creation.

Abbreviations

B2B	Business-to-business
BoP	Bottom of the Pyramid
CSO	Civil society organisation
DFID	Department for International Development
FAO	Food and Agriculture Organization of the United Nations
iCRA	International Centre for Development Oriented Research in Agriculture
IFDC	International Fertilizer Development Center
MDGs	Millennium Development Goals
MSH	Management Sciences for Health
PPP	Public-private partnerships
PrC	Partnerships Resource Centre
SDGs	Sustainable Development Goals
SME	Small and medium-sized enterprise(s)
SMS	Short message service
UNDP	United Nations Development Programme

Boxes

Preface

Decades of prioritising economic growth over social equity has led to growing levels of income inequality worldwide[i]. Research by the IMF of 159 economies between 1980-2012, found that growing income inequality has a negative effect on economic growth, while increasing the income share of lower and middle classes actually increases economic growth[ii]. As such, the 'trickle down' paradigm that has been prominent in development economics for decades, has to make way for a new discourse of 'inclusive growth'; providing equitable opportunities for economic participation to enable low-income populations to benefit from economic growth both in monetary and non-monetary terms[iii]. Inclusive growth is at the heart of the new international development agenda and is incorporated in the UN Sustainable Development Goals (SDGs). With the premise to 'leave no one behind' the SDGs renewed the call to action for eradicating poverty, promoting peace and equality, and protecting the environment to effectively contribute to inclusive development.

However, inclusive development is not a quick fix and in order to achieve the SDGs, complex, global challenges have to be addressed. The SDGs can as such also be classified as 'wicked problems'[iv]: issues that materialise between public and private interests for which no simple solutions exist[v]. Addressing these issues requires a concerted effort among a variety of stakeholders from civil society organisations, policy makers, knowledge institutions and the private sector. Engaging the private sector in international development efforts is nothing new, but taking a business perspective to development by developing 'inclusive business models' does present a novel approach to address the SDGs. From a business point of view, the inclusive development agenda provides the opportunity to create mutual value for business and society[vi].

But how do companies become more inclusive? What is the business case for doing so and what is needed to sustain and scale inclusive business initiatives to contribute to inclusive development? Still little is known regarding the strategies, priorities and challenges of inclusive business. This publication aims to address these issues by sharing knowledge on inclusive business models and strategies both from theory and practice. Hereto, the publication draws on research from the NWO–WOTRO funded programme Inclusive business strategies in Africa, a research programme led by the Partnerships Resource Centre (PrC), the Netherlands-African Business Council (NABC), the Eastern and Southern African Management Institute (ESAMI), and the research on 2SCALE, an incubator programme that manages a portfolio of public-private partnerships (PPPs) for inclusive business in agri-food sectors.

By sharing exploratory evidence on inclusive business strategies, this publication aims to provide insights for companies that want to develop their inclusive business model, and for civil society organisations and public partners willing to engage in inclusive business efforts. Hereto, the publication delves deeply into three case study examples to provide insight into how businesses can use innovation to turn societal challenges into opportunities for value creation and hence contribute to inclusive development in Africa.

1. The what, why & how of inclusive business

The private sector has long been recognised as an important player in the field of sustainable development, either as an obstruction to progress or as a catalyst to change. However, poverty alleviation and profit were long deemed largely mutually exclusive and private sector development initiatives mainly manifested themselves in the domain of philanthropy or corporate social responsibility. At the turn of the 21st century, a new paradigm arose whereby companies were acknowledged as 'agents of change'; able to use their strategic position in supply chains and innovative capacities to contribute to inclusive development in a scalable and financially sustainable manner[vii]. Since then, the concept of inclusive business has gained traction in discussions on international development and beyond, and the private sector is seen as an important partner in the implementation of the SDGs by turning societal challenges into opportunities for shared value creation[viii].

BOX 1 Inclusive business & the Sustainable Development Goals

On 25 September 2015, after a three-year global consultation in which hundreds of corporations, governments, civil society organisations and knowledge institutions participated, the UN Sustainable Development Goals (SDGs) were launched. World leaders adopted the 17 Global Goals and committed to taking action to eradicate poverty, promote peace and equality, fuel inclusive growth, and protect the environment.

It was recognised that the private sector, and inclusive businesses in particular, play an important role in the implementation of the Global Goals. By integrating low-income communities in their core-operations, inclusive businesses aim to provide access to public goods and services to underserved populations in a commercially viable and scalable way.

For more information on the role of business and the SDGs refer to the RSM series on Positive Change publication here or the guidance report by UNDP, Deloitte and A Business Call to Action: *Unchartered Waters: Blending value and values for social impact through the SDGs,* here.

What is inclusive business?

Inclusive businesses aspire to achieve development impact as well as commercial objectives and explicitly include societal and environmental considerations in their business model. Inclusive businesses range from multinationals to SMEs and can be both domestic, 'home companies' and international 'host companies'. Although their underlying strategies greatly vary, what these businesses have in common is that they benefit low-income communities by including them in the company's core operations and strive for shared value.

Why inclusive business?

Inclusive businesses recognise the potential of engaging low-income communities in their operations as an opportunity for growth outside of the well-defined and often saturated markets in the West. Especially in emerging markets, a large part of society is still excluded from companies' value chains and as such is underserved in the global market economy. This segment of society is also referred to as the Bottom of the Pyramid (BoP) and is comprised of the roughly three to four billion people worldwide who lack access to basic public goods and services, such as healthcare, education, energy, clean water and sanitation, and food.

In his seminal work *The Fortune at the Bottom of the Pyramid* (2005), C.K. Prahalad argues the BoP should be seen as more than just the victims of globalisation in need of aid, but as part of the development solution through a market-oriented approach to inclusiveness: "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value conscious consumers, a whole new world of opportunity will open up[ix]".

As the BoP accounts for more than 50% of all consumer spending in emerging economies and holds a potential combined market value of over US$5 trillion[x], engaging low-income groups presents a promising business case for companies to create a competitive advantage, encourage innovation and contribute to social development along the way.

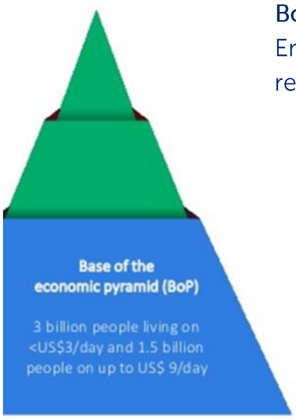
How: developing inclusive business models

Doing business at the BoP requires companies to come up with fundamentally new business models and reframe the organisation's goals and mission to include sustainability as well as commercial objectives. Instead of focusing solely on generating a financial return on investment, inclusive business models target a triple bottom line of sustainability; i.e. creating social and environmental impact in addition to commercial viability. Inclusive businesses aim to develop scalable innovations that address market failures and fulfil the needs of resource-constrained communities in the BoP by engaging low-income communities in their business model on the demand side as clients or consumers, and on the supply side as producers, entrepreneurs or employees[xi].

BOX 2: The Bottom of the Pyramid (BoP)

The BoP describes a socio-economic segment of society composed of low-income and disempowered people. The most commonly used description of the BoP is the approximately four billion people who live on less than US$8 per day (measured in purchasing power parity) and lack access to basic public goods and services, such as healthcare, education, energy, clean water and sanitation and food.

Over the years many definitions of the BoP have been proposed, each defining this segment in different terms*. Some use economic measurements such as the poverty line (US$1-$2 a day), or alternatively buying or spending power, while others look at geographic distribution (urban versus rural) or the degree of isolation from mainstream markets. For inclusive businesses it is important to recognise that the BoP is not a homogeneous group and businesses have to define explicitly which segment of the BoP they want to engage and how they want to do it. Inclusive business can interact with the BoP on three levels**



BoP 1.0: BoP as consumers
Engaging low-income communities as consumers by adapting existing products, reducing price points and extending distribution network.

BoP 2.0: BoP as co-creators
Co-creating solutions and compelling value propositions together with underserved communities, innovating from the bottom-up and leapfrogging sustainable technology.

BoP 3.0: BoP as an ecosystem
Taking a systems perspective by focusing on creating an enabling environment for inclusive business and development through institutional and organisational innovation.

Representation of the Bottom of the Pyramid and the different levels of engagement.

* Kolk, A., (2014) *Reviewing a Decade of Research on the "Base/Bottom of the Pyramid" (BOP) Concept*. Business & Society, issue 53(3):338-477

** Caneque, F. C. and Hart, S. L. (2015) *Base of the Pyramid 3.0: Sustainable Development through Innovation and Entrepreneurship*. Green Leaf Publishing.

In order to reach marginalised groups, inclusive businesses need to remove constraints that prevent BoP communities from entering the market and getting access to public goods. The key barriers to inclusion can be categorised in five main dimensions, also referred to as the 5 A´s of inclusiveness:

1. Accessibility: enabling access to products and services to reach marginalised consumers.
2. Availability: establishing an uninterrupted supply of high quality products and services.
3. Affordability: providing solutions that are affordable to low-income groups.
4. Awareness: ensuring that consumers know what is on offer and how to use the solution.
5. Appropriateness: adapting products and services to local needs and requirements.

Interested in learning more about inclusive business models? Consult our inclusive business model canvas tool (See appendix) *to develop your own.*

BOX 3: The 5 A's of inclusiveness

The five A's of inclusiveness framework is grounded in the BoP literature and studies on inclusive innovation. In his 2011 article *Bottom of the Pyramid as a Source of Breakthrough Innovations*, C.K. Prahalad proposes to replace the commonly used four Ps of marketing – product, price, place and promotion – with four A's that are relevant when doing business at the BoP: awareness, access, affordability and availability. However, as every BoP context is different, sociocultural factors play a crucial role in the potential uptake of products and services. Therefore this publication adds a fifth A to the framework – appropriateness – to assess the sociocultural adaptability of the business model. These five A's characterise inclusive innovations and differentiate inclusive business from business as usual.

Visual representation of the 5 A's of inclusiveness

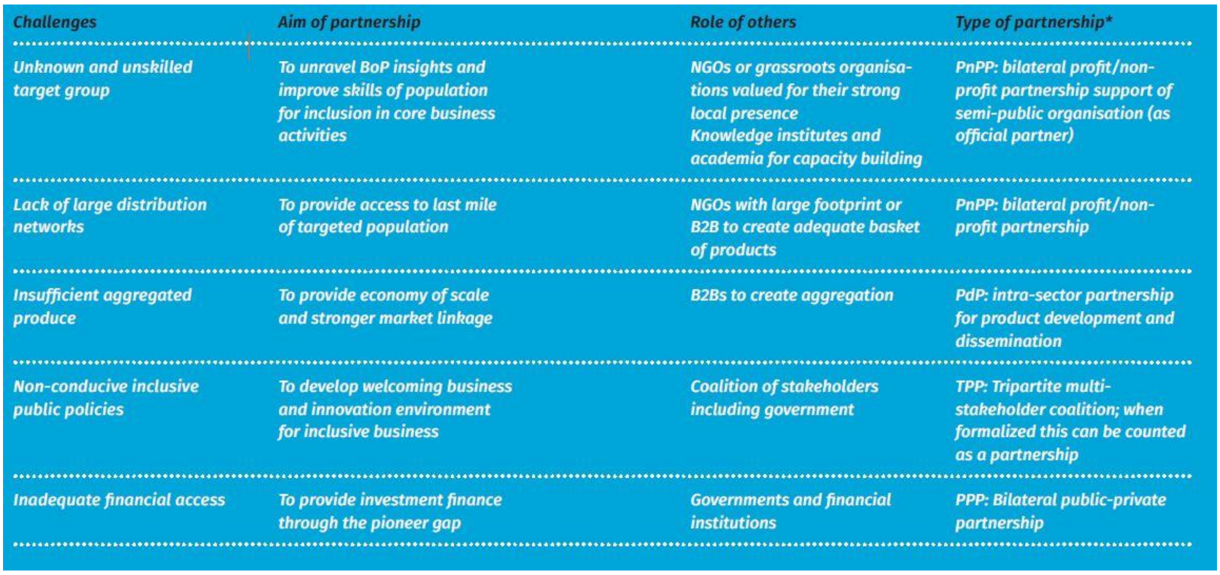
The partnering potential of inclusive business

For many companies, doing business at the BoP means entering relatively unchartered territory and engaging with an unfamiliar market and population segment. Inclusive businesses therefore require a deep understanding of the local environment in order to align the business model with local cultural, social and political realities. This capacity is reflected in the social embeddedness of business operations and involves creating trusted connections with a network of organisations, institutions and communities, so that the knowledge developed at the 'top of the pyramid' can be combined with the wisdom and expertise found at the bottom of the pyramid. In inclusive business, the traditional 'company centric' view makes way for of a 'customer centric view', relegating decision-making power in favour of shared value creation. Consequently, rather than importing pre-existing products and services, inclusive businesses co-create solutions with the BoP.

In addition, inclusive businesses can benefit from partnering with so-called ‘non-market actors’, such as civil society organisations (CSOs) and public institutions (governments). By linking and sharing information, resources, activities, and capabilities in two or more sectors, inclusive business partnerships can achieve outcomes that could not have been achieved by organisations in one sector alone. Making inclusive business strategies successful therefore requires good partnership portfolio management: choosing the right partners can provide companies with both a strategic and competitive advantage. Therefore, finding the right ‘fit’, based on what each partner can bring to the partnership, is crucial for inclusive businesses (see Box 4).

BOX 4: Cross-sector partnerships

From business-to-business (B2B) or business-NGO partnerships focussing on a single issue, to public-private partnerships (PPP) and multi-stakeholder collaborations, cross-sector partnerships form an increasingly important tactical and strategic link between inclusive business and inclusive development strategies*. Cross-sector partnerships can provide businesses with access to different resources, competencies and capabilities than those available in the firm internally and can as such can help companies cope with any challenges they might face in BoP contexts and develop inclusive and sustainable value chains to meet the needs of the BoP. Examples of how cross-sector partnerships can leverage inclusive business potential are presented in the table below.



Challenges	*Aim of partnership*	*Role of others*	*Type of partnership**
Unknown and unskilled target group	*To unravel BoP insights and improve skills of population for inclusion in core business activities*	*NGOs or grassroots organisations valued for their strong local presence* *Knowledge institutes and academia for capacity building*	*PnPP: bilateral profit/non-profit partnership support of semi-public organisation (as official partner)*
Lack of large distribution networks	*To provide access to last mile of targeted population*	*NGOs with large footprint or B2B to create adequate basket of products*	*PnPP: bilateral profit/non-profit partnership*
Insufficient aggregated produce	*To provide economy of scale and stronger market linkage*	*B2Bs to create aggregation*	*PdP: intra-sector partnership for product development and dissemination*
Non-conducive inclusive public policies	*To develop welcoming business and innovation environment for inclusive business*	*Coalition of stakeholders including government*	*TPP: Tripartite multi-stakeholder coalition; when formalized this can be counted as a partnership*
Inadequate financial access	*To provide investment finance through the pioneer gap*	*Governments and financial institutions*	*PPP: Bilateral public-private partnership*

Table from PPPLab (2015) Insight Series 03: Partnerships for Inclusive Business Development.

* Van Tulder, R. (2011) *Inclusive business through partnerships. Special contribution to the fourth high level forum on aid effectiveness.* Rotterdam: Partnerships Resource Centre

Scaling inclusive business impact

A core underlying assumption of the inclusive business proposition is the potential to develop scalable innovations that create both commercial viability for the solution and systemic impact to meet the needs of the more than four billion people living in poverty. This ambition is also embodied in the SDGs, encouraging innovations that provide public goods on a global scale. To fulfil this promise requires a multi-level scaling strategy that focuses on both the scalability of the solution itself and the conditions required to scale the social impact of the solution. We can categorise these strategies in horizontal and vertical dimensions of scaling[xii].

Horizontal scaling: scaling the business model

Horizontal scaling focuses on scaling the business model to increase the market share of the product or service offered. Horizontal scaling can be accomplished by either increasing the share of existing markets, entering new markets, developing new products or services, or a combination of both. In this respect, four vertical scaling strategies can be discerned[xiii] (see Box 5):

- *Scaling up* – selling existing products or services to more consumers in the current market. This is a relatively low-risk strategy because companies can leverage current resources and capabilities to increase the market share in familiar contexts.

- *Scaling wide* – targeting additional geographical markets, distribution channels or customer segments with existing (or slightly adapted) products or services. This approach is more risky as it involves entering relatively unchartered territory and forces an organisation to rethink their business and distribution models.

- *Scaling deep* – offering new products or services to existing consumer segments. This typically requires the development of new competencies, access to additional resources and research and development, and is therefore a higher risk strategy.

- *Scaling across* – developing new products or services for new markets and value chains. Diversification requires divergence of current products and markets simultaneously and is therefore deemed the most risky of the four strategies.

Vertical scaling strategies: changing the 'rules of the game'

As the BoP is underserved in the global economy, local markets often still need to be developed while institutional environments are not always conducive for inclusive business development. As James Moore wrote: "Even excellent businesses, can be destroyed by the conditions around them[xiv]". Therefore, inclusive businesses also need to take a systemic approach to scaling: developing scaling strategies that change the 'rules of the game' to create an enabling environment for inclusive business. These vertical scaling strategies entail institutional, network and business model innovations as well as collaborations with strategic partners. This ensures the inclusive business models can thrive and their societal impact scaled up. As such, rather than being the exception, they become the 'new normal' of doing business.

Responsible scaling strategies

As inclusive businesses deal with marginalised and low-income communities, they need to develop responsible scaling strategies, i.e. strategies that take the consequences and potential side effects of the scaling process into account [xii]. Thus, scaling scenarios can be developed that explore the question of what happens if the innovation scales. These scaling scenarios give insight into how scaling might work out for disadvantaged groups, and how negative effects might spill over to other geographical areas and the environment. Enhancing participation by including low-income communities and cross-sector partners in the development of scaling strategies creates a well-informed basis for decision making on scaling inclusive business innovations. As such, scaling becomes a collaborative approach that harnesses inclusiveness throughout the process.

Box 5: Scaling inclusive business

Horizontal scaling

Horizontal scaling approaches consist of increasing the market share of the business through strategies of replication, rolling-out and business growth, Inclusive businesses can employ four different strategies for enhancing the reach and impact of the offered solution:

SCALING STRATEGIES FOR INCLUSIVE BUSINESS	Existing Markets	New Markets
New products/services	**Scaling deep** *Product development*	**Scaling across** *Diversification*
Existing products/Services	**Scaling up** *Market penetration*	**Scaling wide** *Market development*

Overview of scaling strategies adapted from London (2011), Blokhuis & Van Tulder (2016), PPPLab (2016).

Vertical scaling

Vertical scaling strategies focus on improving the conditions for scaling by changing the rules of the game to create a conducive environment – also referred to as an 'eco-system' – for the inclusive business. Vertical scaling takes place on three interrelated system levels: 1) The macro, institutional level, 2) the meso, network level, and finally 3) the micro, business model level.

Macro level Institutional innovation	• Influencing policies, norms, standards and regulations. • Development of the market and business environment. • Financing landscape and mechanisms.
Meso level Network innovation	• External alignment and co-ordination between relevant actors. • Developing inclusive value chains and quality assurance mechanisms. • Engage in knowledge sharing between partners and community.
Micro level Business model innovation	• Developing internal organisational alignment and support systems. • Technological innovation and product specifications. • Business case development, controlling prices and competitive power.

Framework adapted from the PPPLab's Insight Series 06: [Scaling through PPP's.]

Inclusive business challenges

Although the BoP provides companies with many opportunities, inclusive businesses might face a number of challenges operating in these markets. As BoP contexts are characterised by resource constraints and institutional voids that prevent marginalised groups from participating in market activities[xv], transaction costs and risks of doing business at the BoP are high. The main inclusive business challenges can be categorised in three dimensions[xvi]:

Institutional constraints

- Unstable regulatory systems, corruption and restrictive government policies
- Inadequate infrastructure such as roads and electricity, which hinder last-mile distribution

Market constraints

- Little information about market conditions, such as consumer needs and spending patterns
- Lack of consumer awareness about the products and services on offer
- Low purchasing power of prospective consumers
- Lack of knowledge and skills among prospective employees

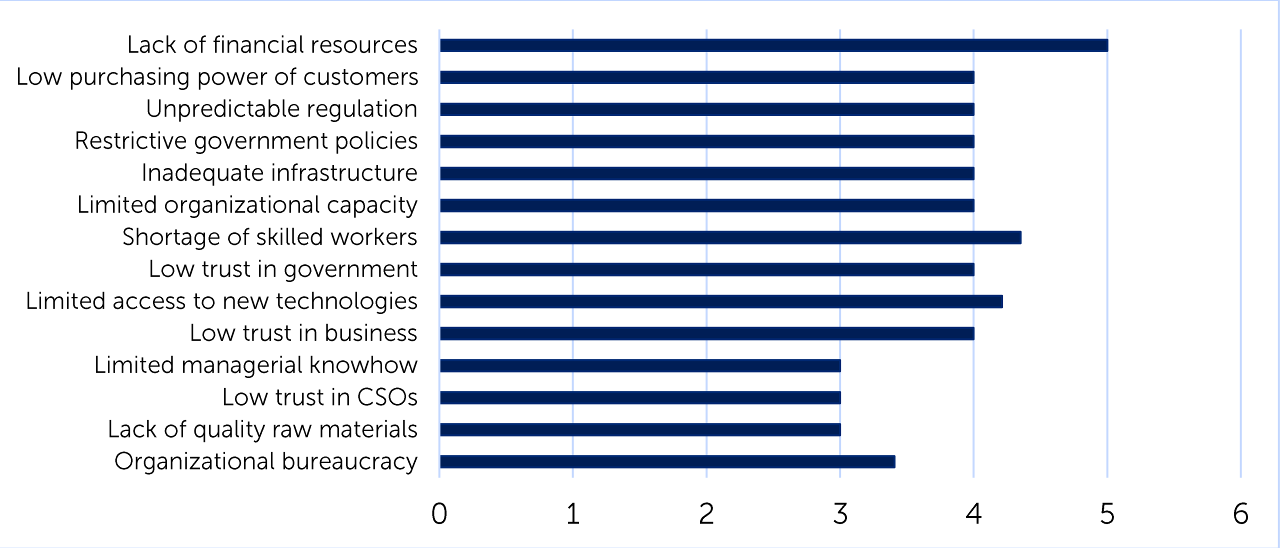
Organisational constraints

- Lack of financial resources available at the firm
- Limited organisational capacity and specific skillsets
- Internal misalignment and lack of management support
- Long investment horizons clashing with shareholders' expectations

To overcome these challenges, it is crucial for companies doing business at the BoP to identify potential risks and develop mitigation strategies to create an enabling organisational and institutional environment. Provided companies develop the right strategies, inclusive business can turn these challenges into opportunities for value creation.

Inclusive business challenges

A survey conducted by the Partnerships Resource Centre among 430 businesses operating in East Africa shows the various challenges businesses encounter in becoming more inclusive. The most common obstacles to become inclusive are: 1) a lack of financial resources at the company level, 2) low purchasing power of prospective consumers and 3) unpredictable regulations.



2. Inclusive business in Africa

Africa presents fertile ground for inclusive business. Over the past decades the continent has experienced significant economic growth, averaging 5.1% per annum since the year 2000[xvii], making it one of the fastest growing regions in the world. Africa has become an important destination of foreign investment, creating millions of jobs and allowing the rise of a strong middle class[xviii]. However, large parts of African societies have not been included in this prosperity and many people on the continent still experience a lack of access to basic goods and services[xix].

Inclusive businesses can create opportunities for Africa's young and growing population and contribute to the implementation of the SDGs on the continent. In recent years, both local and international companies have taken up this challenge with varying degrees of success. Complex institutional environments, poor infrastructural development, underdeveloped financial services and low literacy levels have hampered inclusive business, and there are still few examples of scalable inclusive business innovations. Consequently, little is known about which business models work in practice, the challenges companies face in becoming more inclusive, and the different strategies businesses employ to scale inclusive innovations in Africa.

To gain insight into the practice of inclusive business in Africa this publication explores three cases in the domain of inclusive finance, healthcare and food security in East Africa:

1. Financial inclusion through mobile banking service M-Pesa by Safaricom in Kenya
2. Philips' Community Life Centres for inclusive healthcare in Kenya
3. Nutrition and food security in Ethiopia by GUTS Agro Industry PLC.

The presentation and further interpretation for the scaling dimension of these case studies builds on the research conducted by the Partnerships Resource Centre.[xx] In these case studies, we look at the four key dimensions of inclusive business as formulated in the introduction: 1) inclusive business model formulation, 2) co-creation and partnering, 3) scaling strategies, and 4) inclusive business challenges. These offer key insights for actors willing to engage in inclusive business in Africa.

Case 1: Financial inclusion through mobile banking service M-Pesa in Kenya

The mobile banking platform M-Pesa, launched by Kenya's largest telecom operator Safaricom, might be one of the best-known examples of inclusive business in Africa. Kenya, like many African countries, used to be a largely cash-based economy and most of its citizens remained unbanked. Financial services, such as deposit and savings accounts, loans, and insurance services, were not available to a large share of the population, especially in rural areas.

To contribute to financial inclusion and harness the potential of the growing mobile phone penetration in the country, the UK's Department for International Development (DFID), together with telecom companies Vodafone and Safaricom, initiated a pilot project to expand financial services by developing a platform that allowed borrowers of microfinance institutions to repay their loans on mobile devices. This pilot project presented great potential, not just for microfinance institutions but also for the community at large. As Kenya exhibits a 'dual economy' that includes relatively well-off urban centres, there is a notable flow of domestic remittances by family members. Due to the very low bank penetration rate in rural areas, remittance senders formerly had to rely on informal means such as sending money home by public transport or even by post, both of which were risky and inconvenient. The pilot platform was therefore modified into a money transfer service and was launched nationwide in 2007 as M-Pesa (M standing for mobile, and Pesa meaning money in Swahili). Safaricom, the largest telecom operator in Kenya, spearheads the innovation and more than 27 million Kenyans (70% of the adult population) use M-Pesa, making it the largest mobile banking service in the region.

Box 6: Financial inclusion and the Sustainable Development Goals

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services– transactions, payments, savings, credit and insurance – that meet their needs and are delivered in a responsible and sustainable way*.

With its mobile banking platform M-Pesa, Safaricom promotes financial inclusion by providing millions of otherwise financially excluded individuals the opportunity to transfer, save and borrow money using basic mobile phone devices. In this respect, M-Pesa contributes to five of the Global Goals:

1 NO POVERTY	M-Pesa facilitates access to financial services for unbanked and marginalised populations in Kenya. The service also contributes to building the resilience of the poor by reducing their vulnerability to economic, social and environmental shocks and disasters.
8 DECENT WORK AND ECONOMIC GROWTH	The network of M-Pesa agents and employees are a crucial part of the venture. Safaricom has committed itself to empower its employees with decent work and training opportunities that enable them to contribute to the economic growth of the country.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	The M-Pesa platform delivers connectivity and innovative products and services to meet the financial needs of low-income groups in Kenya. In addition, the company provides affordable credit and loans to local entrepreneurs.
10 REDUCED INEQUALITIES	The company strives to reduce inequalities by enabling equal access to opportunities to everyone, especially vulnerable groups. In this regard, Safaricom and its partners work to improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations in Kenya.
17 PARTNERSHIPS FOR THE GOALS	Safaricom partners with a variety of stakeholders and takes part in global partnering initiatives, such as the UN Global Compact and the Business and Sustainable Development Commission, to promote sustainable business approaches in Africa.

For more in-depth information about the case study please visit the full case study here.

The inclusive business model

M-Pesa was the first product of its kind to be introduced in the Kenyan market and at the time of the launch, Safaricom was the only telecom operator offering mobile financial services. The approach gave way to a new mission-driven identity for the company, which was formalised with the adoption of a new company motto in 2012: Transforming Lives. An important aspect of this new mission-driven identity was that social issues took a strategic position within the organisation. Recognising that social innovations often require a longer gestation period and implementation process than regular innovations, Safaricom created a dedicated social innovation unit to develop new socially oriented ventures and uses social impact as a key performance indicator in evaluating them. In addition, Safaricom employs a portfolio approach in terms of combining projects with varying degrees of social mission and financial risk. Social innovations that are perceived to be unlikely to generate profits are moved to the Safaricom Foundation where they are treated as philanthropic projects. Projects that have the potential to be profitable are treated like commercial innovations.

Value proposition

M-Pesa makes use of a simple mobile interface that allows users to access financial services. The service initially targeted domestic remittance senders who could use M-Pesa to send money home safely and quickly. Over the years, M-Pesa has developed into a platform that bundles diverse financial services, including international remittances, micro-insurance products and a facility that allows money transfers from regular bank accounts to M-Pesa and vice versa. To open an M-Pesa account, customers can register at no cost at one of the 130,000 agent outlets that are spread across the country. When a customer deposits cash at one of the M-Pesa agents, an equivalent amount of electronic money is transferred to her virtual M-Pesa wallet. The customer can then use the mobile money to make transfers, buy mobile airtime, pay school fees and utility bills, and to effect payments at retail outlets that have integrated M-Pesa with their point-of-sale (POS) system.

Triple bottom line

Financial: to capture financial value, Safaricom uses a tiered fee model whereby users are charged according to the amount of money they transfer or withdraw. Currently, M-Pesa contributes 25% of the firm’s total revenues, more than twice as much as other revenue sources.

Environmental: the focus of M-Pesa is mainly on social innovation for financial inclusion. However, in its foundation, Safaricom actively engages in activities that contribute to agricultural development through spin-off projects such as iCow, an SMS platform that provides agricultural information to smallholders, and ACRE, an agricultural insurance service integrated in the M-Pesa platform.

Social: M-Pesa has received global recognition for providing financial services to previously excluded segments of society, thereby contributing to financial inclusion. In addition, M-Pesa has created income opportunities for more than 130,000 small-scale businesses by integrating them into their value chain.

Terms of inclusion: the 5 A’s

Accessibility: financial service provision through banks and insurance companies is heavily skewed towards urban centres in Kenya, leaving large parts of the population financially excluded. To provide even the remotest rural communities with access to financial services, Safaricom initiated a vast network of agents that provide various financial services from a retail outlet such as a store or kiosk. As there are currently more than 130,000 M-Pesa agents spread across the country, financial services are in close reach of most Kenyans. Since more than half of M-Pesa users do not have formal bank accounts, M-Pesa is often the only way for people to access financial services.

Availability: to ensure continuous availability of the service throughout the country, Safaricom works with a network of intermediaries that arrange the logistics around cash management, ensuring M-Pesa agents can provide financial services to its customers. The M-Pesa platform also continuously expands to provide new functionalities, such as saving and borrowing services and integration with ATMs.

Affordability: M-Pesa provides an affordable and more efficient alternative to traditional methods of sending money home. Moreover, Safaricom introduced product adaptations specifically designed for low-income customers, e.g. a per-second-billing system, small-denomination scratch cards, free 'call me back' SMS services and the possibility to buy emergency credit airtime.

Awareness: Safaricom's extensive marketing campaigns created awareness of the service and its usage. In addition, consumers get an instant message confirming payment or a notification of receipt. The prices for sending and receiving services are publicly displayed at the agents' shops, which creates consistency and transparency. Moreover, M-Pesa agents are trained to provide customer education on the usage of the platform and the available financial services.

Appropriateness: M-Pesa is designed as a simple, straightforward interface that works on basic phones, supports text messaging in the local language (Swahili) and can also be understood by semi-literate users. The company also offers additional services on the platform that resonate with local needs. One of those services is the micro-loans function, referred to as 'dignity loans' because they save clients from having to borrow money from their family or friends.

The role of partnerships and co-creation

One key aspect of the development of M-Pesa was the engagement of the local community and other partners in the development of the service. As the pilot-project was initiated by international partners DFID, Vodafone and (as a joint venture between Vodafone and the Kenyan government) the partly foreign-owned Safaricom, it was crucial to create a deep understanding of local needs and create a sense of local ownership and buy-in for the innovation. This was done through a process of social embeddedness in local networks.

After the launch of M-Pesa, Safaricom employed mass awareness campaigns that included television and radio advertisements and personal demonstrations via road shows. Through these marketing efforts, Safaricom established a collective identity by positioning itself as a 'proudly Kenyan' company, branding M-Pesa as a service "by Kenyans for Kenyans". However, although the emphasis on Safricom's domestic roots was initiated as a branding strategy, it led to the gradual development of a genuine sense of community within the company. Based on the experiences gained from piloting M-Pesa, Safaricom's innovations were also highly informed by customer feedback. Combined with good management practices and high quality service provision, this increased the company's legitimacy and trust in its brand image. In addition, as of 2016, a quarter of the company's shares – traded on the Nairobi Stock Exchange – are owned by more than 600,000 individual shareholders. This created a sense of community ownership of the innovation. For Kenyans, Safaricom became a household name that is associated with quality and modernisation.

In addition to processes of co-creation with the local community, M-Pesa bundled the expertise of different partners in its approach. At the core of this collaboration the three leading firms – Safaricom, Vodafone, and the Commercial Bank of Africa – contribute their competencies to create the value offering of M-Pesa. Because of its strong reputation, Safaricom is responsible for branding and marketing the service and providing organisational resources for further development. Vodafone is responsible for developing the technology behind the M-Pesa platform, including continued software adaptations to address technical issues and add new functionalities. Finally, the Commercial Bank of Africa provides the operational licence and risk management know-how to the partnership.

Secondly, Safaricom established an extensive network of agents, super-agents and other intermediaries that provide the interface between the company and its users. Safaricom delegated the task of agent network management – recruiting, training and monitoring agents – to two external subsidiaries and the financial management, i.e. distributing cash and electronic money between Safaricom and its agents, to super-agents: financial institutions such as bank branches, postal banks, and microfinance institutes.

Finally, Safaricom has expanded the mobile platform over the years to include services for a diverse range of societal needs. These initiatives require specialised know-how and expertise, which cannot be readily bridged by a telecom company such as Safaricom, in the diverse fields of healthcare, agriculture and sustainable energy. Therefore, through its foundation, the company partners with a wide range of civil society organisations and businesses to leverage expertise and capabilities in these fields[xxi]. Given the difficulty to assess the market risks involved in such divergent areas, these partnerships also have the advantage of shielding Safaricom from the financial and market risks associated with operating in new markets.

Scaling inclusive business

Within a year of its official launch, M-Pesa acquired more than two million users. And as of 2017, the number of subscribers passed the 27 million mark – roughly 70% of the Kenyan population. In 2016, the value of financial transactions conducted through M-Pesa accumulated to 5.29 trillion Kenyan shilling, which amounts to 85% of the country's GDP. This growth has been the result of the different strategies that Safaricom employed to scale its venture. These strategies involved both developing new products and services as well as increasing its market share within Kenya and beyond.

Horizontal scaling strategies

As the largest telecom company in Kenya, Safaricom started off with millions of subscribers who simply upgraded their SIM cards to become M-Pesa users. In addition, the company engaged in mass awareness campaigns that included television and radio advertisements and personal demonstrations via road shows. This large-scale launch of the service and the accompanying aggressive marketing made M-Pesa an instant success, attracting millions of customers for the service in Kenya. Another crucial element in scaling its domestic market share was to build a vast distribution network of local agents. The company already owned a large network of distribution shops that were quickly expanded to become M-Pesa agents, while also recruiting from an extensive pool of airtime dealers. Currently, 130,000 agents provide the distribution channel to get the service from the company to its customers. Its strategy to work with agents in both urban centres and rural areas made the service accessible to millions of Kenyans. This allowed the company to tap into the latent demand for financial services that was not affordably provided by existing businesses. Key to this strategy was to convince customers to entrust their cash with agents without knowing them personally. The brand image of Safaricom as a trusted company was crucial to this strategy.

In addition to increasing its domestic market share, Vodafone introduced M-Pesa in nine other countries, extending financial services for tens of millions of users by a network of more than 261,000 agents. Apart from Kenya, M-Pesa is presently used in Tanzania, South Africa, Lesotho, the Democratic Republic of Congo, Egypt, Mozambique, Romania, Albania, and India

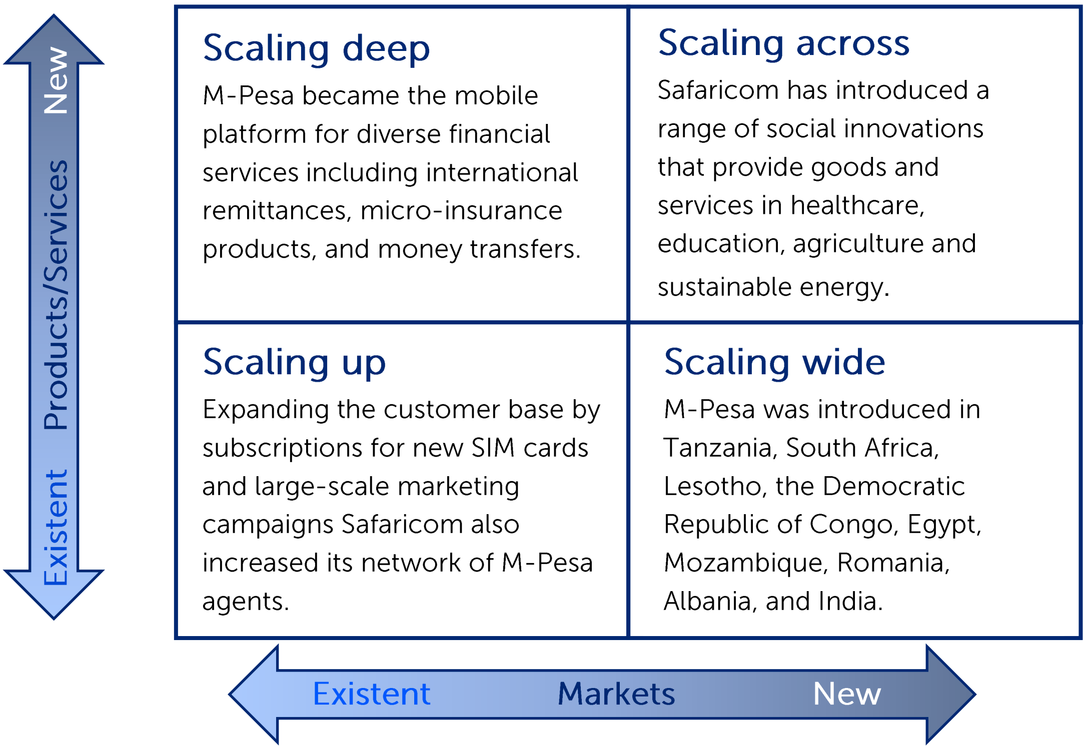
Since the official launch of the service, Safaricom has also explored options to build on the success of M-Pesa by developing additional mobile money services. The value offerings provided by M-Pesa continued to expand and M-Pesa has become a platform that bundles diverse services. One of the spin-offs of M-Pesa was introduced in 2012 as M-Shwari, a paperless bank account that provides financial products such as interest-bearing deposits and microcredits. The use of microcredits has become popular and M-Shwari alone had amassed a customer base of more than 12.5 million, issuing more than 50,000 small loans per day with an average value of around US$13. In addition to the financial services, a number of other innovations were developed by Safaricom that provide key goods and services in sectors as diverse as healthcare, education, agriculture and sustainable energy; respectively Sema Doc for inclusive healthcare, iCow for sustainable agriculture, Shupavu in education and several other services that build on the M-Pesa platform.

Vertical scaling strategies

Another key element of Safaricom's scaling strategy was to create an enabling environment for the adoption of the innovation. This was done through influencing policies and regulations on financial services, partnering with a variety of stakeholders in the process, and organisational alignment within the company. In this regard, the support from the company's top management was crucial. The long-term investment horizon employed by the company, including the willingness to invest significant amounts of resources and operate at a loss for extended periods of time, allowed the innovation to scale organically and sustainably. As former CEO of Safaricom Bob Collymore explains: "If you want to be around for 30 or 40 years, you have to be able to operate with that kind of time perspective. [...] It is a much better legacy for you and your successors to have a company which is running successfully 50 years from now rather than a company that delivers record results next year."

Box 7: Scaling strategies Safaricom

Horizontal scaling strategies



Scaling deep

M-Pesa became the mobile platform for diverse financial services including international remittances, micro-insurance products, and money transfers.

Scaling across

Safaricom has introduced a range of social innovations that provide goods and services in healthcare, education, agriculture and sustainable energy.

Scaling up

Expanding the customer base by subscriptions for new SIM cards and large-scale marketing campaigns Safaricom also increased its network of M-Pesa agents.

Scaling wide

M-Pesa was introduced in Tanzania, South Africa, Lesotho, the Democratic Republic of Congo, Egypt, Mozambique, Romania, Albania, and India.

Vertical scaling strategies

Macro level Institutional innovation	• Creating regulatory legitimacy for the platform by influencing a new policy framework for inclusive finance provision. • Developing M-Pesa agent networks to ensure last-mile distribution.
Meso level Organisational innovation	• Internal alignment and support of the company's top-management. • External alignment with gate keepers in the finance and public sector. • Partnering with relevant stakeholders to implement the SDGs.
Micro level Business model innovation	• Investment in research and development and support systems to guarantee high quality service. • Development of a 'lock-in' strategy to engage and maintain customers.

Inclusive business challenges

As M-Pesa was the first mobile banking system operating in the country, Safaricom experienced many of the advantages, but also the challenges of a first mover. One of the main challenges was that regulatory provisions to govern mobile-based financial services were not available and ample work had to be done to create regulative legitimacy for the platform. The Central Bank of Kenya worked closely with Safaricom to engage policymakers in co-designing a new regulatory framework for the product. M-Pesa adopted the Central Bank's policy narrative of extending financial inclusion for unbanked populations in Kenya. Since promoting financial inclusion fell within the jurisdiction of the Central Bank, this allowed M-Pesa to operate outside the extensive regulatory system that governed financial institutions. This was not well received by financial institutions, however, as they had to abide by strict banking regulations constraining them to sign-up new customers. Banks lobbied against this uneven playing field, calling for an equally strict regulatory regime for M-Pesa. To placate this opposition, M-Pesa transfer amounts were limited to low value payments and the service linked up with a number of other banks in the development of additional financial products that supported saving accounts, interest payments, micro-credit and insurance. Through this process of co-creation, Safaricom was able to integrate the service with existing financial service platforms.

Another challenge for Safaricom was that once the market was opened up and legislation was passed, competitors would be able to enter the market and offer cheaper alternatives. The strategy Safaricom used to cope with this challenge was an approach to 'lock-in' existing customers while attracting new subscribers. The large-scale launch of the service and the accompanying aggressive marketing strategy attracted millions of customers. This initial success brought in more agents while also keeping existing ones because of the high opportunity costs of losing out on commission revenues from an ever-expanding mobile money network, making it difficult for late-coming competitors to make headway. Moreover, Safaricom leveraged its recognisable brand name to increase customer trust in the new service as opposed to mobile money services provided by other companies. Safaricom also employed conscious strategies to attract and keep customers. For example, M-Pesa transaction fees were initially more expensive for users who transferred money to non-registered users, which put pressure on recipients to register for the service. Furthermore, increased customer engagement was fostered through add-on services and functionalities. This included organisations that adopted M-Pesa for bill payments, the ability to withdraw money from ATMs, interest-bearing deposits and micro-loans. The integration of new functionalities led to customer retention and successful value creation. These strategies proved highly successful as M-Pesa continues to dominate the market, mobilising ten times as many mobile money agents as its competitors.

Case 2: Community Life Centres for inclusive healthcare in Kenya

Providing inclusive healthcare is still a major challenge in Africa. As the World Health Organization states: "The African region has 24% of the burden of disease but only 3% of health workers, and commands less than 1% of world health expenditure.[xxii]" In order to bridge the gap in access to healthcare, the Universal Healthcare Coverage (UHC) framework was adopted which entails that, "all people and communities can use the promotive preventive, curative, rehabilitative and palliative health services they need, of sufficient quality to be effective, while also ensuring that the use of these services does not expose the user to financial hardship[xxiii]".

The Kenyan government ratified the UHC framework in its long-term strategic plan *Vision 2030*, promising to provide equitable and affordable healthcare at the highest achievable standard to all Kenyans. However, despite the commitment, public health expenditure in Kenya is still one of the lowest in the region and public expenditure is heavily skewed in favour of urban populations. Access to healthcare is therefore greatly defined by the geographic disposition. Health facilities are scarce and patients often have to travel long distances to receive the care they need, especially in rural or semi-urban areas. Therefore, many women in Kenya still deliver their babies at home, leading to a high risk of mortality for mother and child.

Inclusive healthcare in Kenya is also hampered by a lack of skilled healthcare workers and a poorly maintained infrastructure in primary healthcare. Public facilities are generally poorly equipped to meet the need of healthcare provision in the country, leading to distrust in the healthcare system. Consequently, many patients bypass care at the nearest facility to seek care at secondary and tertiary health facilities or private clinics. This leads to major inefficiencies in the system as higher care facilities are overburdened with non-critical cases resulting in longer waiting times for treatment and consequently higher levels of mortality.

Royal Philips, a Dutch multinational specialised in electronics, healthcare and lighting, took up the challenge to contribute to inclusive healthcare and pledged to, "improve the lives of three billion people a year in 2025 by making the world healthier and more sustainable through innovation." To achieve this resolution, Philips decided to focus on the whole healthcare continuum – from community to tertiary care – with primary healthcare as the pathway to change. In 2015, Philips established the Africa Innovation Hub (AIH), in Nairobi, Kenya, to develop locally relevant healthcare solutions. One of the solutions developed was the Community Life Centre (CLC) platform that aims to improve the access to quality primary healthcare and reduce maternal and infant mortality rates through innovations in healthcare infrastructure, equipment and better referral systems.

For more in-depth information about the case study please visit the full case study here.

BOX 8: Inclusive healthcare and the SDGs

Health is crucial for sustainable development, both as an inalienable human right and as an essential contributor to inclusive growth. Inclusive healthcare systems enable productive employment, reduced public expenditure and increase social cohesion, which are crucial elements of inclusive development* The private sector can contribute to inclusive healthcare by investing in healthcare innovations that provide access to affordable, high-quality care to disadvantaged and marginalised groups.

The CLC developed by Philips strengthens local healthcare systems by developing innovations along the whole healthcare continuum and thereby contributes to SDG 3, 7, 12 and 17.

3 GOOD HEALTH AND WELL-BEING	With the CLC, Philips aims to contribute to Universal Healthcare (UHC – target 3.8). In addition, the CLC focuses on reducing the global maternal mortality ratio (target 3.1), end preventable deaths of new-borns and children under five (target 3.2), and reduce the burden of non-communicable diseases.
7 AFFORDABLE AND CLEAN ENERGY	The CLC provides access to affordable, reliable and modern energy services by using solar-powered LED lighting technology. An off-grid solar power unit at the facilities provides indoor and outdoor LED lighting and energy for the medical equipment.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Philips focuses on reducing its ecological footprint by reducing waste and lowering material consumption. The company actively refurbishes medical systems to give them a second life and reduces CO_2 emissions, energy and raw materials.
17 PARTNERSHIPS FOR THE GOALS	To create a systemic impact for inclusive healthcare, Philips is involved in the SDG platform on healthcare with the purpose of changing existing structures that hamper universal health coverage. Philips is supporting the UN initiative Every Woman Every Child by committing to improving the lives of 100 million women and children by 2025.

* http://unsdsn.org/wp-content/uploads/2014/02/Health-For-All-Report.pdf

The inclusive business model

The business model of the CLC diverges from Philips' traditional business model, which is focused on selling high-end equipment to private clinics and large public hospitals in European and American markets. This provided the company with 'an innovator's dilemma', whereby its current business model and target market was not suitable for its new strategic objective. To overcome this dilemma, Philips chose an internal venturing strategy, which allowed the company to develop an inclusive business model with limited risks and internal buy-in[xxiv]. As Philips' CEO Frans van Houten states: "Inclusive innovation means you create locally relevant solutions for unmet needs of people who are excluded today. You may need to change the approaches or business models that are customary."[xxv]

Value proposition

The CLC is designed as a modular approach whereby customers can source innovations in multiple domains and adapt these to local healthcare needs. The innovations include: healthcare infrastructure, medical equipment, and tools and training. In terms of infrastructure, the CLC either transforms existing health facilities or creates a new one.

BOX 9: The Community Life Centre platform

1. The Mini CLC

A health post providing outpatient services to 6,000-10,000 people, mostly in fragile (post-conflict) areas and provides medical care and a social, educational area.

2. The full CLC

A primary healthcare centre with a catchment population of 25,000-30,000 people, providing comprehensive care and includes a maternity ward and a laboratory.

The medical devices the CLC offers are diagnostic, monitoring and triage tools delivered by Philips or sourced from third parties. Philips developed two devices that specifically target low-income communities: 1) the Children's Automated Respiration Monitor (ChARM) which automatically detects respiratory rates in children under the age of five to improve the diagnosis of pneumonia, and 2) the wind-up Fetal Doppler, a portable heart rate monitor that can be charged using a built-in wind-up mechanism. These and other triaging devices are also included in the CLC backpack, an outreach kit provided to community health workers (CHWs) and midwives. Using mobile monitoring equipment, CHWs can perform basic maternity triaging in people's homes and subsequently share the clinical findings with healthcare professionals through mobile health technology such as the Philips developed Mobile Obstetric Monitoring (MOM) system developed by Philips.

Triple bottom line

Financial impact: Philips charges its clients – either local governments or multilateral organisations – for the infrastructure of the health facilities, the medical equipment and the services offered. The company also provides non-healthcare services, such as commercial water supply and a market space for local entrepreneurs.

Environmental impact: to promote environmental sustainability, the CLC offers innovations in lightning and sustainable energy. At the facilities, an off-grid solar power unit provides indoor and outdoor LED lighting and energy for the medical equipment. In addition, large water storage containers provide clean water, and an incinerator can be installed for waste management.

Social impact: by optimising patient referral along the healthcare continuum and providing quality care at the primary level, the CLC works on making the healthcare system more efficient and effective, thereby reducing infant mortality and improving maternal health.

Terms of inclusion: the 5 A's

Accessibility: building CLC clinics in rural areas where maternity deaths are high and providing outreach services to low-income households through the CLC backpack enables previously marginalised groups to receive quality primary healthcare. In addition, the outdoor lighting provided at the CLC also increases the safety of the area, making the clinic more accessible.

Availability: due to the limited staffing capacity of public healthcare in Kenya, lower-level care facilities are often only operational during the day. As most babies are delivered at night, maternity service is not always locally available, and expectant mothers have to travel long distances to receive the care they need. Because of the solar power unit, the CLC can operate in the evenings and the availability of care in the region greatly improves. In addition, by providing a free ultrasound service, the CLC's medical staff is able to detect high-risk pregnancies early-on and can provide all the information needed for referral.

Affordability: providing cheaper solutions in healthcare is challenging because the quality of care cannot be compromised. Therefore, in addition to developing medical devices, such as the ChARM and wind-up Fetal Doppler that are specifically designed for BoP markets, Philips sources innovations from third parties to bring down the total cost of ownership.

Awareness: Philips works together with health workers to provide health education to the local communities at the household level and optimises referrals along the healthcare continuum.

Appropriateness: through stakeholder dialogues, Philips identifies the most pressing social issues prior to the establishment of a health facility so that the CLC can be adjusted to meet the needs of the local community.

The role of partnerships and co-creation

A key aspect of Philips' inclusive business strategy was to engage the community in a process of co-creation to ensure the appropriateness of the company's value proposition in the local setting. As one Philips employee states: "If we really want to improve healthcare...we need to talk to the community, and truly understand their health-seeking behaviours before we look for solutions." To facilitate this and create a sense of local ownership, a participatory-based needs assessment was conducted within the targeted communities and potential solutions were co-developed with local stakeholders.

In addition to the co-creation process with the community, Philips needed to work together with other stakeholders to realise its ambition of improving the whole healthcare continuum. One of the key partners of the CLC is the government of Kiambu County, which takes responsibility for staffing of the facilities and securing a regular drug supply. Moreover, as Philips did not have much experience of operating at the BoP, partnerships with civil society and multilateral organisations provided the company with access to low-income and vulnerable communities. These cross-sector partnerships also provided Philips with legitimacy, as one employee recognises: “Many people have a predisposition when it comes to for-profit businesses operating in the field of development. Especially in healthcare, which is seen as a public good, there can be some animosity towards the private sector. Working with NGOs helps us to gain a licence to operate in this sector.”

Moreover, as Philips recognised, many donors require partnerships with a non-governmental organisation for the provision of development funding. Therefore, being engaged in a multi-stakeholder network provided funding opportunities that the company could not have accessed alone. Finally, cross-sector partnerships made a new set of capabilities and expertise available to the CLC, which could be used to address the needs of the community outside of the scope of the business, such as water and sanitation programmes or training in specific medical capabilities.

To structure its partnerships, Philips conducted a mapping of the primary healthcare ecosystem based on the capabilities, geographical reach and strategic fit of potential partners. In doing so, the company made a distinction between strategic and supporting partners. Strategic partners are organisations that have a broad set of capabilities and a wide geographical scope and included AMREF Flying Doctors, the United Nations Populations Fund, the Management Science for Health, and the International Red Cross. Supporting partners are organisations that are active in particular countries or have a specific expertise, such as the London School of Hygiene & Tropical Medicine and other knowledge institutes and research partners. This ecosystem approach allowed Philips to focus its partnering efforts and manage risks for the venture.

Scaling inclusive business

The key motivation for the scaling ambition of Philips regarding the CLC is threefold. First, by scaling the CLC approach, the development impact of the programme can be increased. To fulfil the commitment made in Philips’ ten-year sustainability programme – to improve three billion lives annually by 2030 – the company needed to reach an additional one billion people in the next eight years. Second, Philips sees the CLC as the key to unlocking the African market. As the company currently serves only 5% of the African market and is mainly focused on high-end innovations for top-tier customers, the BoP market in Africa represents an impressive potential growth area. A third, related motivation, is commercial viability: by developing multiple CLCs at once, Philips can create an economy of scale and hence reduce the production costs and increase its sales margins.

Horizontal scaling strategies

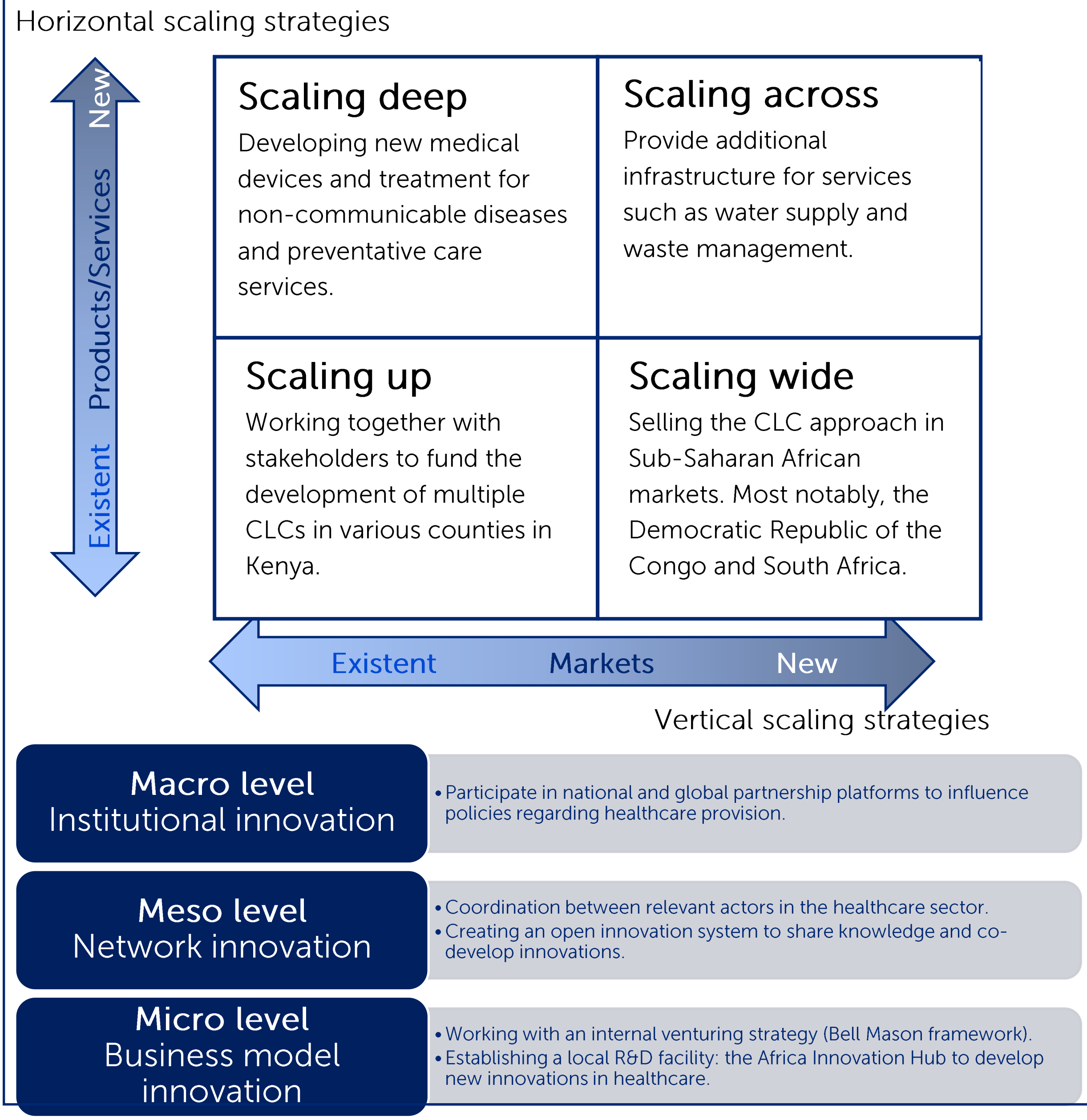
Philips employs different strategies to both increase its domestic market share in Kenya and introduce the CLC to different African markets. To this end, Philips actively works with local governments, multilateral organisations and international CSOs to fund new CLC development in various counties in Kenya (currently CLCs have been built in Kiambu and Mandera County) and beyond, most notably South Africa and the Democratic Republic of the Congo. In this regard, Philips focuses on realising large-scale projects of about 10-20 CLCs. In addition, Philips is developing new services and product innovations in infrastructure, medical equipment and training opportunities that will be implemented in the CLC approach. Philips is also working on solutions outside of the maternal and child healthcare domains, specifically in the areas of preventing and treating non-communicable diseases.

Vertical scaling strategies

One of the guiding principles leading the CLC approach is the open innovation strategy Philips employs. Open innovation encourages companies to make greater use of externally created ideas and technologies in their own business, while also allowing new internal ideas to flow out to other businesses. By sharing its expertise and technical abilities with universities, institutes and other companies, Philips is able to source external innovations and collaborate on new ventures.

In addition, to create an enabling environment for inclusive healthcare in Kenya and contribute to universal healthcare across Africa, Philips works closely with local and national public partners and international CSOs. At the beginning of 2017, Philips was the first private company to participate in the newly established SDG Partnership Platform, which was initiated by the United Nations and the Kenyan Ministry of Health. Through its participation in the SDG platform, the company aims to translate technological innovations into policy-level dialogues that will improve healthcare standards and create opportunities for engagement across the healthcare continuum. The company is also part of the Private Sector Health Partnership and the Maternal and Newborn Health Innovations Project, which seek to improve healthcare services for women and children in Kenya. Participating in these platforms gives Philips the opportunity to influence the healthcare system and to institutionalise inclusive healthcare.

Box 10: Scaling strategies Philips



Horizontal scaling strategies

Scaling deep
Developing new medical devices and treatment for non-communicable diseases and preventative care services.

Scaling across
Provide additional infrastructure for services such as water supply and waste management.

Scaling up
Working together with stakeholders to fund the development of multiple CLCs in various counties in Kenya.

Scaling wide
Selling the CLC approach in Sub-Saharan African markets. Most notably, the Democratic Republic of the Congo and South Africa.

Vertical scaling strategies

Macro level
Institutional innovation

- Participate in national and global partnership platforms to influence policies regarding healthcare provision.

Meso level
Network innovation

- Coordination between relevant actors in the healthcare sector.
- Creating an open innovation system to share knowledge and co-develop innovations.

Micro level
Business model innovation

- Working with an internal venturing strategy (Bell Mason framework).
- Establishing a local R&D facility: the Africa Innovation Hub to develop new innovations in healthcare.

Inclusive business challenges

One of the main challenges Philips encountered in the implementation of the CLC approach was the commercial viability of the business model. As public institutions in BoP contexts often have limited purchasing power, and healthcare budgets are generally allocated to the operational costs of health facilities – the salaries of medical staff and the purchase of medicines, for example – acquiring public investment for a new healthcare approach presented a challenge. Moreover, as innovations developed by Philips need to abide by extensive quality standards and rigorous testing, production and marketing costs increased, making the CLC more expensive than health facilities offered by other providers. A key strategy Philips employed to address this challenge was to provide proof points of the cost-effectiveness of the CLC approach in the long run, showing the impact of the CLC on inclusive healthcare outweighs the costs of investment. In addition, the company is actively looking for alternative finance models and sources of funding to share the cost and risk of investment.

Secondly, Philips' inclusive business strategy brought about tensions between the processes of co-creation and scaling. In order to create an economy of scale, a certain level of standardisation in the development of the CLC is required. However, one of the CLC's key selling points and innovative capacities is its needs-based flexibility created by a process of co-creation. A 'replication dilemma' arose between the benefits of replicating a specific template and adapting it to fit the salient characteristics of new environments and incorporate new insights. Overcoming this dilemma required a balancing act between processes of co-creation and scaling. Philips thus decided to engage in large-scale programmes and host regional co-creation sessions that would be validated in different communities to minimise operational costs and maximise returns. Co-creation is thereby used to develop a locally relevant CLC by adding or removing standardised modules. In this respect, the CLC becomes a 'Lego kit' whereby the design of the building blocks is predetermined but the exact constellation is based on the needs of the end-user and the requirements of the customer.

Finally, a key aspect of inclusive business is to integrate the inclusive business model into the core operations of the company. Internal alignment is therefore a crucial element of the success of the business venture. Within Philips, this resulted in a steep learning curve. As one Philips employee remarks: "We know how to sell a million vacuum cleaners and can do this very efficiently, however selling the CLC, where the specific shape and products offered is not predetermined and the price is negotiable, is a totally different ball game". Therefore, the company had to change its mindset and its core business operations, which went from selling products to offering solutions. The internal venturing strategy in combination with the establishment of the Africa Innovation Hub created a space for 'intrapreneurship' within Philips, i.e. the ability to develop radically new solutions and business models while limiting risks for the firm and creating internal buy-in. Consequently, Philips could develop innovations and design new business models with minimal risk and maximal internal buy-in.

Case 3: Inclusive agribusiness and food security in Ethiopia

Enhancing agricultural productivity and securing access to affordable and nutritious food remains a priority for development strategies in Africa as growing and urbanising populations, low average yields, limited market access and competing claims on natural resources might induce a scenario of a food-insecure continent[xxvi]. The Food and Agriculture Organization (FAO) identifies three conditions that need to be met simultaneously and sustainably to reach food security: 1) physical availability of food, 2) economic and physical access to food, and 3) food utilisation. This requires a concerted effort from a multitude of actors along the value chain to address barriers that hamper food security, such as the lack of access to arable land, poor infrastructure, high product mobilisation costs, lack of agro-economic data, lack of appropriate skills and productivity, cross-border and regional trade bottlenecks, poor local market infrastructure and access to finance[xxvii].

BOX 11: Inclusive agribusiness and the Sustainable Development Goals

Enhancing food security whereby "*all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for a healthy and active life*"[1] is a crucial aspect of inclusive development in Africa. As companies have a strong position in global value chains, inclusive agribusinesses play an important role in addressing issues of food security and achieving the SDGs.

By providing affordable, high-quality food products to low-income and marginalised communities in Ethiopia GUTS contributes to the implementation of SDG 2.

2 ZERO HUNGER

With the LIKIE distribution model, GUTS enables last-mile access to affordable and nutritious food products such as Supermom. In addition, the company invests in capacity development to increase agricultural productivity and production processes in Ethiopia.

In Ethiopia, more than 80% of the population fully depends on agriculture, which generates 43% of the country's GDP. Although most of the land is used for subsistence and small-scale farming, private wholesalers that secure supply from smallholder farmers via intermediaries largely dominate Ethiopia's distribution landscape. Supply chains are therefore often long with intermediaries driving up product prices for consumers on the one hand and minimising margins for smallholder farmers on the other. This has resulted in a lack of affordable food leading to food insecurity in large parts of the country.

GUTS Agro Industry PLC (GUTS), a food processing company founded by two Ethiopian entrepreneurs, supplies high quality and affordable food products to low-income consumers in Ethiopia. Through its innovative micro-franchise distribution model called LIKIE (meaning 'just the right size' in Amharic), GUTS provides marginalised consumers with access to a nutritious blend of maize and soybeans and integrates local communities in its value chain as producers and distributors. By creating an inclusive value chain and enabling last-mile distribution, agribusiness GUTS contributes to food security throughout Ethiopia. *For more in-depth information, please visit the full case study here.*

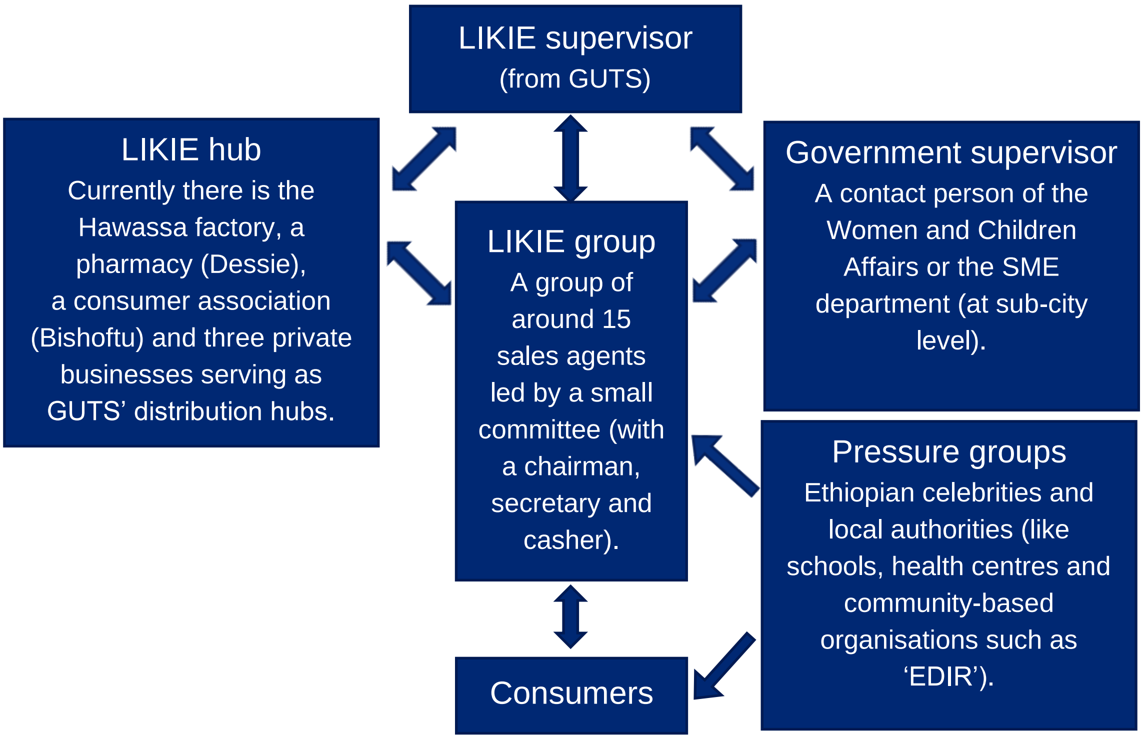
The inclusive business model

Like other food processing companies, GUTS initially sourced its raw materials from traders and wholesalers from the open Ethiopian market and operated through a conventional supply chain. With this procurement method, GUTS struggled to maintain an uninterrupted supply of high-quality raw materials and was not able to monitor or control the prices retailers charged to their customers, making their products often unavailable and unaffordable for resource-constraint consumers.

In 2015, GUTS decided to change its business model and enhance the link between the company and the community by focusing on involving low-income groups as producers and distributors in the value chain. The company developed a micro-franchise distribution model, named LIKIE, to enable last-mile distribution of its products. The LIKIE model engages local women entrepreneurs who use 'tricycles' to deliver products to the customer's doorstep making the products available to low-income and marginalised households throughout the country.

Value proposition
GUTS offers a variety of products for low-income consumers. One of these products is Supermom, a highly nutritious blend of maize and soybeans that provides extra energy and protein for young children, the expectant, and breastfeeding mothers. The grains for the blend are sourced from smallholder farmers and the produce and packaging of Supermom is done at GUTS factory in Hawassa. The 'LIKIE Ladies' buy GUTS' products at one of the distribution hubs and sell the companies' products door-to-door to households and retailers located within specific sales areas.

BOX 12: GUTS' LIKIE Distribution Model



LIKIE supervisor
(from GUTS)

LIKIE hub
Currently there is the Hawassa factory, a pharmacy (Dessie), a consumer association (Bishoftu) and three private businesses serving as GUTS' distribution hubs.

Government supervisor
A contact person of the Women and Children Affairs or the SME department (at sub-city level).

LIKIE group
A group of around 15 sales agents led by a small committee (with a chairman, secretary and casher).

Pressure groups
Ethiopian celebrities and local authorities (like schools, health centres and community-based organisations such as 'EDIR').

Consumers

Triple bottom line

Financial impact: since launching in July 2017, more than 3,000 Supermom sachets (600 kg) have been sold. GUTS' goal is to increase sales 10% each year, capturing a 10% share of the supplementary foods market in Ethiopia. GUTS own the infrastructure and brand, and the LIKIE distribution channel currently accounts for 5% of the company's total revenue.

Environmental impact: the LIKIE distribution model shortens the supply chain of agricultural produce and thereby improves the traceability of the product. Agricultural practices can be thoroughly monitored and improved by GUTS, leading to higher agricultural yields and substantially reducing the risk of deterioration in transit. This enables the company to maximise outputs and minimise food wastage, thereby limiting their ecological footprint.

Social impact: in addition to providing access to nutritious and affordable food, GUTS creates employment opportunities for 160 factory workers and 80 women entrepreneurs in its LIKIE distribution model. In addition, the company provides small-scale farmers with fair prices and a reliable market for their maize and soybean production.

Terms of inclusion: the 5 A's

Accessibility: accessibility to nutritious and affordable food products in Ethiopia is largely determined by geographical distribution. As most products are sold in major cities, rural consumers have limited access to nutritious food products. The LIKIE distribution model enables last-mile distribution of the products, making them accessible to previously marginalised groups.

Availability: to ensure a reliable supply, GUTS provides farmers with substantial advance payments to help them meet harvest and delivery costs. Moreover, the company works closely with co-operative unions to guarantee high quality produce and the timely delivery of agreed-upon quantities.

Affordability: working with the LIKIE distribution model allows GUTS to shorten its supply chain by eliminating mark-ups by middlemen, and control prices all the way up to the consumer. This substantially reduces the costs for consumers, making GUTS products affordable for low-income households. GUTS also offers consumers the option of buying smaller packages, which increases the access of its products to consumers with affordability constraints.

Awareness: GUTS organises awareness raising activities in collaboration with local schools, health centres, community-based groups and Ethiopian celebrities that educate people on the importance of nutrition, and seeks to convince them to change their nutritional and dietary behaviour. In addition, the LIKIE ladies are trained by GUTS to offer information about the products, such as preparation and nutritional value.

Appropriateness: to ensure local relevance of its products, GUTS engages consumers in market research activities and adapts its products to local needs. When GUTS learned that Ethiopian consumers prefer to buy porridge in cartons, the company changed the packaging of Supermom from plastic to cartons.

The role of partnerships and co-creation

A crucial aspect for the GUTS inclusive business model is the social embeddedness of the company and its products in the community. Consumers need reasons to believe that LIKIE and GUTS are trustworthy parties that sell quality products and that consumption of nutritious foods is something important. Therefore, GUTS organises market activation campaigns. In a selected city, the company organises promotional activities that help create a buzz around LIKIE and GUTS' products. These campaigns include local radio advertising, visits to schools and health centres, ceremonies where new LIKIE ladies are certified and the contributions of Ethiopian celebrities who participated in these activities throughout the week are acknowledged. GUTS also works closely with the city mayor and education offices on a sub-city level. These campaigns provide GUTS with increased visibility and the legitimacy to sell its products in the community. GUTS also has visiting programmes where local representatives visit schools, scouting groups and similar environments that unite young people in particular where they can be taught about nutrition and learn about the GUTS business and its products.

The LIKIE women entrepreneurs are key to the success of GUTS' inclusive business strategy. Not only is this network of sales representatives essential in last-mile distribution to low-income consumers, but the LIKIE model is also instrumental in the business being socially embedded in the community. Capturing first-hand customer feedback, the women are the firms' eyes and ears. Weekly meetings with LIKIE representatives enables the firm to identify the changing needs of the community and adjust their offerings accordingly and make the products more appropriate for the local context. In this sense, the LIKIE women entrepreneurs are an integral part of the company's co-creation process and its implementation of the inclusive agribusiness model in the BoP context.

In addition to the LIKIE entrepreneurs, a number of other cross-sector partners have been crucial in the implementation of GUTS' business model. One of those partners is the Ethiopian government. As the Ethiopian institutional context is characterised by a high level of government involvement and extensive governmental networks, GUTS actively involved public authorities in the co-creation process and development of the distribution model. Public officials are involved in recruitment of LIKIES, are present in LIKIE group meetings and work side-by-side with GUTS when it comes to nutritional education and the raising of awareness.

Another process that shaped GUTS operations was its involvement in 2SCALE, a Dutch government-funded programme that manages a portfolio of public-private partnerships to accelerate inclusive business in the agri-food sector. The programme brokered a partnership between GUTS, the International Fertilizer Development Center (IFDC), the International Centre for Development Oriented Research in Agriculture (iCRA) and the BoP Innovation Center, and invested US$60,000 for product development, marketing and distribution. The 2SCALE programme was instrumental in developing the LIKIE distribution model and the development of the Supermom brand. The 2SCALE teams worked with GUTS to streamline distribution: identifying the best locations for distribution hubs, recruiting and training distributors, demarcating sales territories, and setting up recording and monitoring systems. In addition, the programme instigated partnerships with other stakeholders to integrate Supermom into government and NGO development programmes. One of the main partners, IFDC, established collaborations with two co-operative unions – the Hunde Chewaka Farmers' Cooperative and the Sidama Elto Farmers' Cooperative – and provided management support in negotiating agreements with these parties on the quantity and quality of procurement, pricing strategies, delivery time calculations, and the activities needed for production.

Scaling inclusive business

Building on the successful launch of its Supermom product, GUTS' goal is to scale its impact both in terms of increased reach of consumers and its impact on food security to ensure that: "all people, at all times, have physical and economic access to sufficient safe and nutritious food to meet their dietary needs and food preferences for a healthy and active life."[xxviii]

Horizontal scaling strategies

The most important strategy for scaling GUTS' business model was the introduction of the LIKIE distribution model. GUTS initially distributed its products directly to supermarkets, consumer associations and kiosks. However, this proved to be challenging because of high competition in these markets and low sales margins. By working with local retail agents through the LIKIE model, GUTS was able to provide affordable products and last-mile distribution to the niche market of low-income and previously marginalised groups.

GUTS has also embarked into new territories to sell its Supermom product: Dessie, Bahir Dar, Addis Alem in Amhara province; Bishoftu, Assela, Adama in Oromia, and in the Southern Nations, Shashemene, Dilia, Alaba, Yirga Chefe, Yirgalem, Dire Dawa, and Shinel in the Somali province. The company expanded its distribution model by recruiting new LIKIE retail agents and setting-up regional LIKIE Hubs for further distribution. Moreover, in order to realise its scaling ambitions, GUTS has involved an additional 20,000 smallholder farmers and purchased 9,000 tons of maize and soybeans.

Since its launch, GUTS has developed a range of different products for the Ethiopian market, such as shiro powders, fortified cereal products, and iodised and purified salt. Being the first Ethiopian company to produce these foods in-factory and on an automated basis, GUTS was able to produce its food products at a low cost and sell at lower price points than its competitors thereby creating an economy of scale in the Ethiopian market. This allowed GUTS to further diversify its product portfolio and venture into new market segments, such as the institutional markets through relief and school feeding contracts with the World Food Programme, and the retail market by selling its products direct to hotels, petrol stations, consumer associations and restaurants. As such, the company no longer solely depends on one market and its associated revenue stream. Instead it has developed a more hybrid business model with multiple sources of income.

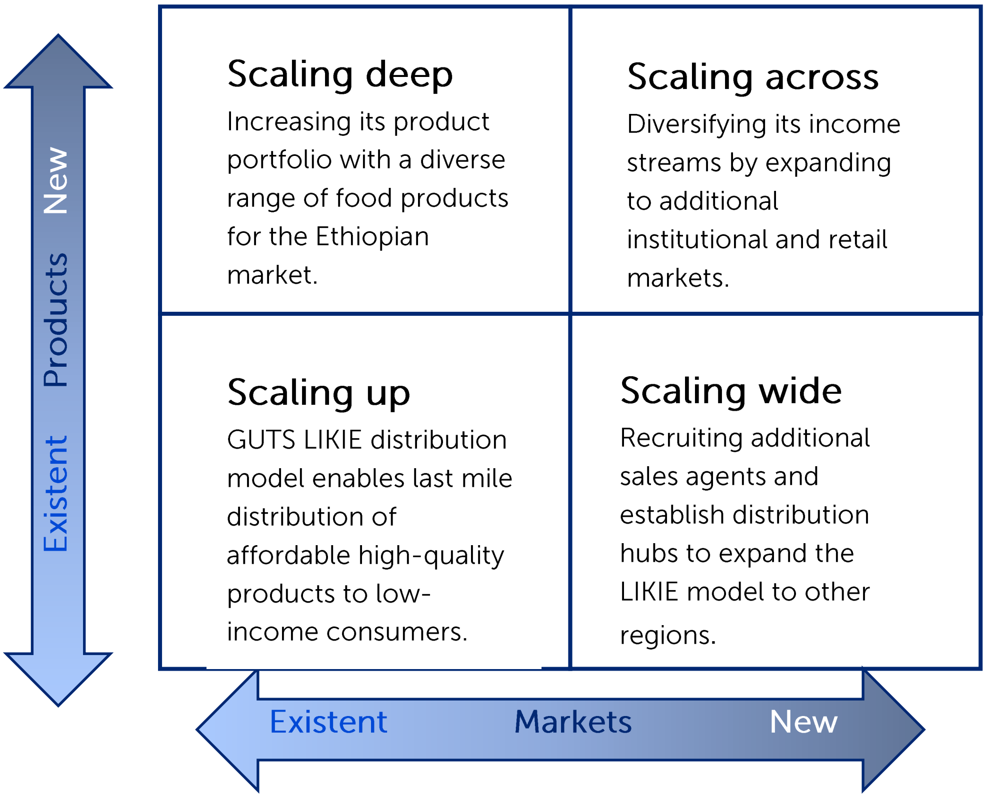
Vertical scaling strategies

With its inclusive business model, GUTS not only aims to increase the market share of its products, but also strives to create systemic change for food security. This required changing institutional arrangements and innovating in the supply chain to create an environment conducive for inclusive agribusiness in Ethiopia. One of the strategies GUTS employed was to work closely with local public institutions to help it navigate the local legal landscape. This enabled GUTS to influence government policy and co-create tailor-made arrangements with the LIKIE model and its objectives that were in line with local SME laws and regulations, thus enabling the company to scale its business model across the country.

The partnership with 2SCALE enabled GUTS to optimise the value chain and further embed its business model in the local market. Strengthening local networks by working with co-operative unions and female entrepreneurs not only led to a higher quality and quantity of products, but also created better employment opportunities for smallholder farmers as well as the empowerment of women and young people. Finally, GUTS also works with partners on a global scale through its membership of the Scaling up Nutrition (SUN) business network and The New Alliance for Food and Nutrition Security.

BOX 13: Scaling strategies GUTS

Horizontal scaling strategies



Scaling deep Increasing its product portfolio with a diverse range of food products for the Ethiopian market.	**Scaling across** Diversifying its income streams by expanding to additional institutional and retail markets.
Scaling up GUTS LIKIE distribution model enables last mile distribution of affordable high-quality products to low-income consumers.	**Scaling wide** Recruiting additional sales agents and establish distribution hubs to expand the LIKIE model to other regions.

Vertical scaling strategies

Macro level Institutional innovation	• Influencing policies forincluisve agribusiness in Ethiopia. • Participating in global partnership platforms to support food security in Africa.
Meso level Network innovation	• Collaborating with 2Scale partners to address inclusiveness along the value chain. • Engaging local public partners in awareness raising.
Micro level Business model innovation	• Creating economies of scale by controling prices and outputs in the value chain. • Working together with local female entrepreneurs to enhance last mile distribution to low-income consumers.

Inclusive business challenges

In its efforts to provide high-quality food products to low-income consumers in Ethiopia, GUTS experienced two main challenges. The first was getting access to an uninterrupted supply of high-quality raw materials. Poor linkages with other market players and the company's reliance on unskilled employees and producers resulted in low quality production. Second, the company struggled to maintain the product's affordability while also ensuring commercial viability. Overcoming these challenges required innovations in the supply chain on two levels: 1) the producer interface, and 2) the consumer interface.

Producer interface

To ensure the availability of high-quality products, GUTS needed to organise and control its access to raw materials. In this regard, the company – in collaboration with its 2SCALE partner – organised smallholder farmers into co-operative unions and provided them with substantial advance payments they needed to meet harvest and delivery costs, As a result, GUTS was able to guarantee high-quality produce and the timely delivery of agreed-upon quantities, assuring a continuous supply of their products. GUTS was supported in this by an external support service provider, which provided technical and agronomic support services to the farmers and facilitated decision-making processes with the cooperative unions, which enabled them to make tailored arrangements.

Consumer interface

As the Ethiopian distribution landscape is largely dominated by private wholesalers and intermediaries who buy up production from small-scale farmers and sell them with a considerable margin of profits, GUTS struggled to provide its products to resource-constrained consumers at an affordable price. The company therefore invested in developing a new, independent micro-distribution channel to ensure last-mile distribution to previously marginalised consumers. GUTS now pro-actively manages its consumer interface and the affordability of its products through the LIKIE distribution model. Dedicated GUTS staff members co-ordinate and supervise the LIKIE network and control the prices of the product along the chain. Moreover, the LIKIE network played a crucial role in introducing the products into local markets and creating a demand for them. Women retailers are the firms' eyes and ears as they capture first-hand customer feedback. This enables GUTS to respond to the feedback by adjusting and reconfiguring their offerings.

Finally, the cross-sector partnerships facilitated through the 2SCALE programme were key in the development and marketing of the products and the distribution model. By leveraging external networks, capabilities and resources, GUTS was able to create a better understanding of the players in the value chain and manage demand and supply more efficiently.

3. Lessons learned: a comparative perspective on inclusive business

In the previous section, we explored the cases of three inclusive businesses in Africa on the basis of four key dimensions: 1) business models, 2) co-creation and partnerships, 3) scaling strategies, and 4) inclusive business challenges. This chapter will focus on the first three dimensions, whilst chapter four will further discuss the challenges. Comparing these cases is not easy as they differ in many aspects. First, the organisations differ in size: from multinational enterprises Safaricom and Philips to local SME GUTS. Second, the terms of ownership: whereas GUTS is a locally owned business, also referred to as a 'home company', Philips is Dutch-owned and thereby decidedly a 'host company' while Safaricom is a joint venture between the Kenyan government and Vodafone. Finally, they exist in different institutional contexts, i.e. Kenya and Ethiopia, and operate in different sectors – from financial inclusion to healthcare and food security. Despite these differences, however, what these cases have in common is that they integrate low-income groups into their value chains in various capacities – as consumers, producers, employees or entrepreneurs – to bring the benefits of growth directly to the base of the pyramid. As such, many of the decisions they make regarding their business models and the challenges they encounter are similar in nature. Therefore, key lessons on inclusive business strategies can be drawn from these cases that can inspire others to embark on similar journeys.

Inclusive business models: creating shared value through innovation

Doing business at the BoP requires innovating around institutional and resource constraints to turn societal challenges into opportunities for value creation. All three cases operate in the context of significant institutional voids: financial exclusion (Safaricom); a lack of access to quality primary healthcare (Philips), and food insecurity (GUTS). Instead of seeing these institutional voids as a threat, these businesses used them as an opportunity for engagement: increasing their market share while contributing to inclusive development. In doing so, the companies developed a mission-driven identity: Transforming Lives (Safaricom); Making the world healthier and more sustainable through innovation (Philips), and Nutrition for all (GUTS), and pledged commitment to the implementation of the SDGs.

In addition, the companies operate on the basis of a triple bottom line business model that focuses on mutual value creation: not just striving for a financial return on investment, but also creating a positive social and environmental impact. To realise this triple bottom line, the inclusive businesses developed strategies in their business model to tackle the main issues of exclusion for the BoP. These issues can be categorised into five dimensions, also known as the 5 A's of inclusion: accessibility, availability, affordability, awareness and appropriateness.

- Accessibility: organising last-mile distribution to reach marginalised consumers

A lack of access to high-quality products and services is a major constraint in BoP contexts. Organising last-mile distribution to reach customers is therefore a crucial aspect of inclusive business. In this regard, all three cases make use of local intermediaries to reach their intended customers. The vast network of M-Pesa agents employed by Safaricom provides millions of unbanked urban and rural customers with access to financial services. In the case of Philips, community health workers are crucial to the CLC approach as they perform vital outreach services to communities, making primary care available at the household level.

GUTS employs women entrepreneurs in their LIKIE distribution model to sell their products door-to-door, so that consumers in the remotest parts of the country have access to affordable, nutritious food.

- Affordability: controlling prices of products and services

As BoP consumers are challenged by resource constraints, inclusive businesses need to access control over prices all the way to the consumer. Designing low-cost or frugal innovations and shortening supply chains for more effective last-mile distribution keeps sales margins to a minimum, making the products and services more affordable for low-income consumers. This lesson applies in particular to the M-Pesa and CLC cases. Potentially this lesson can also be applied to GUTS for those products that are supplied to the local market.

- Availability: optimising the workflow along the value chain

To ensure an uninterrupted supply of products and services, inclusive businesses need to manage the full range of activities required to bring a product or service from conception to consumption. Managing the network of producers, retailers and distributors effectively makes the value chain more efficient in the delivery of the products (GUTS) and services (CLC, M-Pesa) to consumers. As the cases show, providing training and support to local distribution partners ensures reliable delivery of products and services to the BoP.

- Awareness: education to create local-buy-in and credibility

To ensure the local uptake of the products and services, the inclusive businesses need to increase awareness of the relevance and social impact of the offered solution. Providing education about the products and services on offer created trust and the accountability needed for the adoption of the business ventures in the BoP. Moreover, through strong local branding and marketing campaigns, all three companies increased local buy-in and credibility for the solution.

- Appropriateness: embedding the business model in the local context

As every BoP context is different, each organisation had to develop strategies to align the business model with the socio-economic and political realities in the local context. To do so, the companies used feedback mechanisms to identify local needs and expectations. Whereas Philips and Safaricom both piloted their solutions before the launch, GUTS conducted market research at a later stage and adjusted the service to their customers' needs and preferences. As such, co-creation was an important part of the inclusive business strategies.

Box 14: Strategies to tackle barriers to inclusion

5 A's of inclusion	Inclusive business strategies
Accessibility Enabling access so that consumers in remote locations have access to the solution.	• Geographical redistribution of services and products. • Managing the consumer interface by organising last mile distribution through intermediaries.
Affordability Ensuring the solution is good value for money and affordable to low-income consumers.	• Controlling prices all the way to the consumers through price agreements with distributors. • Designing low-cost services and products. • Sourcing products from third parties to bring total cost of ownership down.
Availability Establishing an uninterrupted supply of products and services to BoP customers.	• Optimising the workflow along the value chain. • Removing constraining factors to availability. • Organising and controlling the producer interface to ensure a regular supply of products and services.
Awareness Consumers know what is on offer and how to use the product or service.	• Providing information and education on the solution to prospective customers through intermediaries. • Creating local buy-in through branding and marketing campaigns.
Appropriateness The solution is adapted to local needs and accepted by the consumer.	• Organising co-creation session to identify local needs. • Install feedback mechanisms to adjust current product or service offerings. • Conducting market research for additional solutions.

Co-creating solutions with the BoP

For many companies, doing business at the BoP means entering relatively unchartered territory and engaging with an unfamiliar market segment. Consequently, a significant institutional distance exists between the business and the community. Engaging communities in a process of co-creation, whereby resources and knowledge developed at 'top of the pyramid' are combined with the wisdom and expertise found at the BoP, facilitates the bottom-up development of locally relevant solutions. As the cases show, co-creation can be organised in different stages of the innovation process as well as being an iterative process in which substantial degrees of experimentation, learning and alignment develop along the various phases of the partnering process[xxix]

➢ Initiation phase: market research and stakeholder dialogues

To address issues of inclusion effectively, inclusive businesses identify pressing social needs in order to align the business model with local cultural, social and political realities. Organising market research and stakeholder dialogues enables companies to co-develop locally relevant value propositions with BoP consumers. Community participation also nurtures and strengthens local ownerships and creates buy-in for the solution.

- Implementation phase: pilot projects and prototypes

Piloting the solution at a smaller scale allows companies to experiment and test their assumptions and the validity of the value proposition. Based on the results, companies can adjust their business model before launching the solution in the wider market, thereby minimising the costs and risks of scaling.

- Evaluation phase: monitoring and evaluating impact

Establishing feedback mechanisms at various stages of the business model development helps companies to monitor progress in the uptake of the business model and evaluate the outcomes and impact of their solution. This informs decisions to secure the sustainability of the business model.

Cross-sector partnerships

In addition to co-creation with the community, inclusive businesses engage non-market actors such as civil society organisations and public institutions in multi-stakeholder partnerships to implement and sustain the business model in the local context. Cross-sector partnerships can provide businesses with access to different resources and competencies than are internally available in the firm. Cross-sector partnerships can complement the inclusive business model in multiple ways:

- Navigating the legal landscape

Public actors such as local and national governments play a crucial role in helping to navigate local rules and regulations, creating a legal landscape that is conducive to inclusive business development. As the case studies of GUTS and Safaricom particularly show, partnering with government institutions can enable tailor-made arrangements to match regulations with inclusive business objectives.

- Mobilising additional resources

As cross-sector partners have access to different funding streams, partnering can provide companies with access to additional financial resources needed to implement and scale the business model. In all three cases, working with international donors and multilateral institutions was instrumental in mobilising financial resources either at the initiation stage of the project (DfID for Safaricom), during the process (2SCALE for GUTS), or for scaling up (UNFPA for Philips).

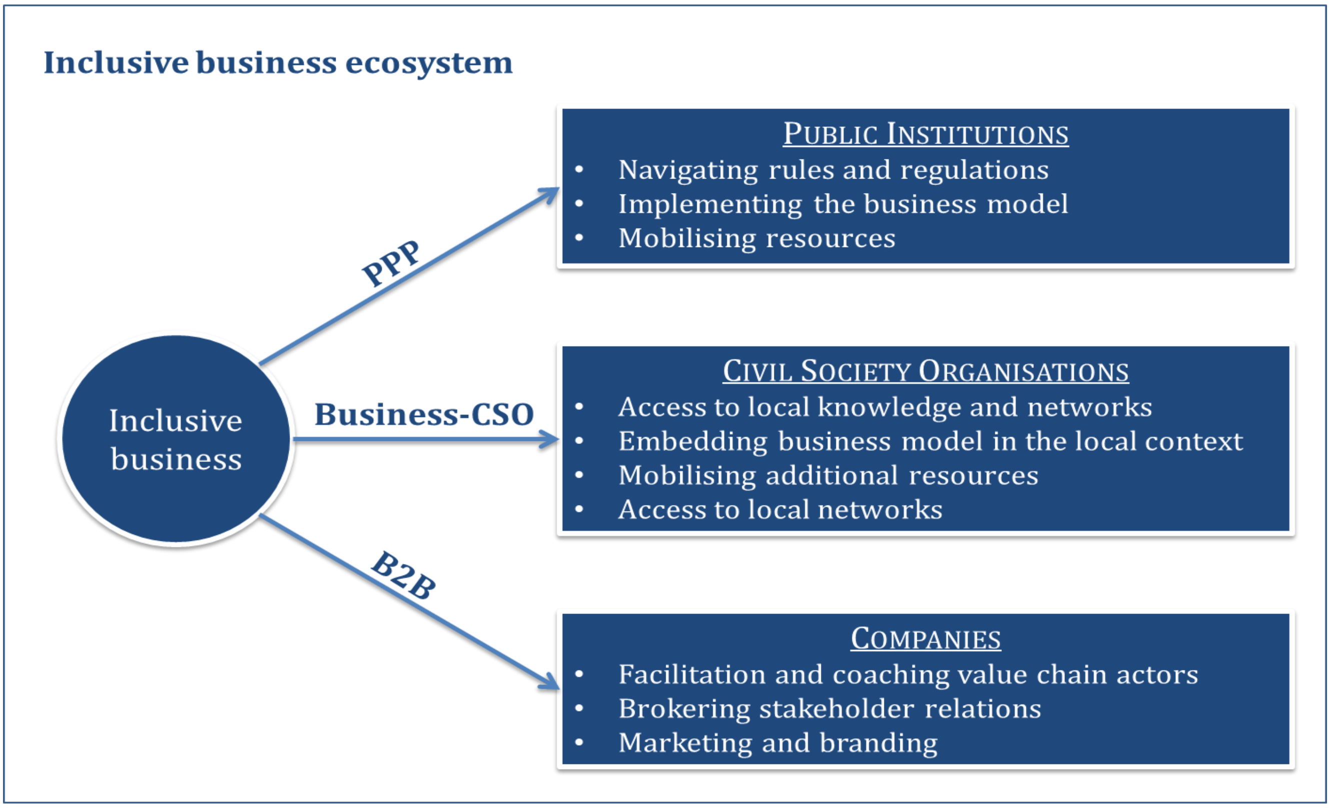
- Accessing local knowledge and networks

As inclusive businesses operate on the nexus of public and private interests, communities can be weary of the underlying motivation of inclusive businesses. This was particularly relevant in the case of Philips, where working with CSOs such as AMREF, Red Cross and Management Science for Health provided the company with credibility and legitimacy and created a 'social licence to operate' for the CLC. Moreover, as CSOs are ingrained in local communities they provide access to local knowledge and networks, bridging the institutional distance of the company to the community.

- Leveraging capabilities and expertise

Inclusive businesses address a diverse range of societal needs, some of which might be outside of the scope of the company. This requires specialised know-how in diverse fields of knowledge. By partnering with organisations that have sector-specific expertise and experience, companies can leverage capabilities that complement their inclusive business strategy. In addition, especially in agribusiness, as became apparent from the GUTS case, private actors can play a facilitating or brokering role in the producer interface, providing training and coaching to producers and streamlining distribution along the value chain.

Establishing a partnership ecosystem with partners that complement the business capabilities and resources is crucial for doing business at the BoP.



Inclusive business ecosystem

PUBLIC INSTITUTIONS

- Navigating rules and regulations
- Implementing the business model
- Mobilising resources

CIVIL SOCIETY ORGANISATIONS

- Access to local knowledge and networks
- Embedding business model in the local context
- Mobilising additional resources
- Access to local networks

COMPANIES

- Facilitation and coaching value chain actors
- Brokering stakeholder relations
- Marketing and branding

Scaling strategies

Scaling inclusive business is important both from a business perspective to compensate for low margins in the BoP and reaching commercial viability, and from a development perspective to contribute to inclusive development and growth at the BoP. To realise this twofold ambition, inclusive businesses have to take a multi-dimensional approach to scaling that focuses both on the scalability of the solution itself (horizontal scaling) and the conditions required to scale the social impact of the solution (vertical scaling).

However, to date, inclusive business's promise of scaling has failed to fully materialise and relatively few companies have managed to realise the potential for development impact at scale[xxx]. Based on the case study examples and the wider research on scaling, a number of key lessons can be formulated that can help inclusive business to scale successfully.

➢ Scaling inclusive business is a balancing act

Success in scaling inclusive business seems to rest on finding a balance between horizontal and vertical approaches to scaling, combining business model innovation with business ecosystem innovation. What is scaled is consequently not just a technical solution, but rather a set of organisational and transactional arrangements that stimulate, enable, and propel the adoption, use, management, and sustainability of the improved solution or practice

- Create your own pathway to scale

Scaling is an iterative process that needs careful planning, co-ordination, evaluation and innovation. Mapping the different strategies that need to be undertaken in each stage of the scaling process in a pathway to scale can help inclusive businesses to map their progress and adapt their strategies where needed.

- Develop scaling scenarios and inclusive value chains

As inclusive businesses deal with marginalised and low-income communities, there is a need for developing responsible scaling strategies that maximise the benefits of inclusion and minimise negative side effects. By formulating scaling scenarios businesses can anticipate the potential effects of the different strategies and make informed decisions on responsible scaling strategies. Developing inclusive value chains that includes not only the base, but also the bottom of the pyramid in the business model is key to developing inclusive scaling strategies.

- Collaboration is key

Scaling inclusive business requires broader expertise and competencies than are available in one firm. Cross-sector partnerships enable companies to access assets, capabilities, networks and knowledge and to share cost, risks and rewards. Developing a partnership ecosystem whereby partners’ capabilities complement each other is crucial for inclusive business success.

- Patience is a virtue

As the BoP is underserved in the global economy, markets and related distribution channels often still need to be developed, resulting in longer than expected payback periods. Scaling inclusive businesses therefore needs a long-term investment strategy that allows the innovation to be scaled organically and sustainably.

BOX 15: Scaling inclusive business in Africa

Horizontal scaling strategies

Horizontal approaches to scaling focus on increasing the market share of the solution by serving a larger customer base in existing markets (scaling-up), venturing into additional geographic markets (scaling wide), developing new solutions for current customers (scaling-wide) or a combination of both; developing additional solutions for a new market segment (diversification).

	Existing markets	New markets
New solutions	Scaling deep (*product development)* • Building on the success of the existing solution to develop a portfolio of new services and products. • Investing in social embeddedness in the local market by marketing and co-creation.	Scaling across (*diversification*) • Investing in social embeddedness in the local market by marketing and co-creation. • Limiting risks by 'testing' business models in companies' social innovation units and foundations.
Existing solutions	Scaling up (*market penetration*) • Creating an economy of scale by bringing down production & transaction costs. • Develop last mile distribution models to reach a larger part of the BoP market. • Local adaptations based on feedback from co-creation and market research.	Scaling wide (*market development)* • Developing new or expanding existing distribution models in new territories. • Involving strategic partners with wide geographical reach to leverage local knowledge and networks.

Vertical scaling strategies

Vertical approaches to scaling focus on improving the enabling environment by 'changing the rules of the game' through business model, organisational and institutional innovation.

Macro level Institutional innovation	• Work with public insititutions to influence local policies and regulations. • Participating in global partnership platforms to coordinate inclusive business efforts with the Sustainable Development agenda.
Meso level Network innovation	• Ingraining inclusiveness in the core business of the company by developing a mission-driven identity and top-management support. • Using an internal venturing strategy and local innovation hubs. • Alignment of interests and capabilities with cross-sector partners.
Micro level Business model innovation	• Developing frugal innovations specifically targeted to the BoP. • Design last-mile distribution networks to create a competitive advantage. • Include producers and distributors in a sustainable value chain approach.

4. Overcoming inclusive business challenges: the road ahead

Operating an inclusive business model entails operating in the context of the complex, systemic challenges associated with poverty and exclusion. This is in addition to the usual uncertainty associated with any business endeavour. It is therefore crucial to identify potential risks of doing business at the BoP and develop strategies to mitigate these risks. This section discusses the three main constraints that companies seeking to adopt inclusive business models encounter when doing business at the BoP, and possible strategies to overcome them.

Institutional constraints

- Rules and regulations

As the BoP context is characterised by significant institutional voids, unstable regulatory systems, corruption and restrictive government policies hamper inclusive business development. Working together with public institutions to navigate the local legal landscape and create an enabling regulatory environment is therefore crucial for inclusive business success.

- Last-mile distribution

As a majority of the BoP lives in rural areas that are often accessible only by poor quality road infrastructure, products and services providing essential societal value often do not reach the intended customers or are more expensive and of lower quality than the products available to other populations. Therefore, organising last-mile distribution, either by leveraging existing retail channels or developing new distribution channels, is a critical aspect of inclusive business success. The latter includes working with trusted partners who can function as intermediaries in the consumer interface, making distribution more efficient and thereby more effective in reaching the BoP. Empowering local entrepreneurs to play the role of retail agents is one of the strategies for creating reliable distribution networks in underserved communities. As trusted members of the community, these distribution agents bridge culture diversity, identify critical needs in the local population and facilitate the adoption of the business model by increasing awareness of the relevance and social impact of the offered solution.

Market constraints

- The innovator's dilemma

Doing business at the BoP requires the development of fundamentally new business models and market entry strategies to serve customers with affordability constraints. This can, especially for multinational enterprises, result in an 'innovator's dilemma[xxxi]' between sustaining current innovations for their existing customer base and creating disruptive innovations for the BoP market. To overcome this dilemma, companies can establish a dedicated social innovation unit where inclusive business ventures can be developed and grown organically. This allows companies to develop their inclusive business models with limited financial risks and maximal internal buy-in.

- Commercial viability of the business model

Another challenge inclusive businesses face is the sustainability of their business model. In resource-constrained BoP contexts, the spending power of consumers and public institutions is generally low, while the costs of developing new innovations and the operational expenses required to sustain the innovation are high. Therefore, alternative finance strategies have to be explored to bridge the potential finance gap and share the risk of investment. Establishing a broad coalition of strategic partners can mobilise additional resources for the business venture and ensure the sustainability of the innovation by the sharing of risks and rewards.

- Trade-offs in terms of inclusion

While inclusive business aims at addressing all aspects of inclusiveness – accessibility, availability, affordability, awareness and appropriateness – in practice, investing in one of these aspects could be at the expense of the other. As Katherine Pittore[xxxii] explains: "While there are solutions to address each one of these challenges individually, these often involve a trade-off with other product characteristics.[xxxiii]". Tensions can especially arise between the appropriateness and affordability of the product. Whereas co-creation with the community builds trust and creates the local ownership needed to make the value proposition socially relevant, the process is also very costly and the scalability might be capped when products and business models are tailored to each individual context, leading to higher costs. Overcoming this 'replication dilemma' requires a balancing act between bottom-up and top-down innovation approaches. In addition, partnerships with civil society organisations can play a bridging role by providing access to local communities and the expertise needed to customise the solution, and can provide access to the networks needed to scale the innovation.

Organisational constraints

- Internal misalignment

Inclusive business can also bring about intra-organisational tensions. Because of institutional voids in terms of underdeveloped markets and legal structures, and affordability constrains among intended consumers, margins in BoP contexts are often low, and the risk of investment high. Inclusive businesses therefore typically need longer-term investment horizons than traditional business ventures. As such, standard business protocols and evaluation methods are not fit for purpose. Inclusive businesses therefore need to formulate and evaluate environmental and social key performance indicators as well as financial targets to reach triple bottom line impact. Developing a mission statement and connecting it to the SDGs helps organisations to become more focused and able to connect with others that have set out to work on the same issues. Internalising the social mission within the company can create a positive impact loop, whereby experimentation with social innovation leads to organisational change that redefines the business's entire value system and mission, thereby creating internal alignment and support from top management within the firm.

- Limited organisational capacity and know-how

Integrating the inclusive business model within the core operations of the company can be challenging, as it requires redesigning protocols and processes and developing new capabilities. Creating an environment where leadership within the firm – also described as intrapreneurship – can flourish is crucial for inclusive business success. Investing in local talent and develop new capabilities and skills are important steps in this process. It also requires a level of ambidexterity for the company, i.e. the ability of an organisation to host different innovation streams, exploiting the present while exploring the future at the same time. Creating a learning environment, both within the firm and beyond, that captures and shares lessons from inclusive business success and failure enables businesses to learn from each other's experiences, forge partnerships and eventually create new inclusive business opportunities.

For a more elaborate exploration of different inclusive business strategies, see the Inclusive Business checklist in the appendix.

5. Further reading

Links for useful resources

For more information on inclusive business strategies in Africa, please refer to the following sources:

Partnerships Resource Centre at www.rsm.nl/prc/

The Partnerships Resource Centre (PrC) is a specialist research centre at Rotterdam School of Management, Erasmus University. The PrC envisions a more sustainable and inclusive world in which business, civil society and governments each play an important role to create collaborative and inclusive solutions for complex societal issues. It connects scientifically sound research and practitioner experience of cross-sector partnerships to aid sustainable and inclusive development.

INCLUDE knowledge platform at www.includeplatform.net/

INCLUDE, the knowledge platform on inclusive development policies, was established in June 2012. It brings together researchers from African countries and the Netherlands who work with the private sector, NGOs and governments to exchange knowledge and ideas on how to achieve better research-policy linkages on inclusive development in Africa. The platform is one of five initiated by the Dutch Ministry of Foreign Affairs to contribute to knowledge and effective policies not only in the Netherlands, but also other donor countries and developing countries.

2SCALE at www.2scale.org/

2SCALE is an incubator programme that manages a portfolio of public-private partnerships for inclusive business in agri-food sectors and industries. 2SCALE offers a range of support services to its business champions (SMEs and farmer groups) and partners, enabling them to produce, transform and supply quality food products. These products go to local and regional markets, including to BoP consumers.

PPPLab at www.ppplab.org/

The PPPLab was a four-year action research, joint learning and support initiative (2014-2018) created to learn about the relevance, effectiveness and quality of Dutch-supported public-private partnerships. Its mission was to extract and co-create knowledge and methodological lessons from and on PPPs that can be used to improve both implementation and policy.

Business call to action at www.businesscalltoaction.org/

Launched at the United Nations in 2008, Business Call to Action (BCtA) aims to accelerate progress towards the SDGs by challenging companies to develop inclusive business models that engage people at the BoP as consumers, producers, suppliers, distributors of goods and services, and employees.

G20 Global Platform on Inclusive Business (GPIB) at www.g20inclusivebusiness.org/

A unique online space to get an in-depth overview of the latest information on inclusive business policy actions, research, and learning.

Inclusive Business Action Network at www.inclusivebusiness.net/

Started in 2014, the Inclusive Business Action Network (iBAN) is a global initiative supporting the scaling and replication of inclusive business models. iBAN manages the largest global online knowledge platform (iBAN blue) on inclusive business and offers a focused Capacity Development Programme (iBAN weave) for selected companies and policymakers in developing and emerging countries. iBAN creates a space where evidence-based knowledge transforms into learning and new partnerships. With its focus on promoting the upscale of inclusive business models and consequently improving the lives of the poor, iBAN is actively contributing to the achievement of the SDGs.

Inclusive Business Accelerator (IBA) at https://iba.ventures/
The Inclusive Business Accelerator connects social innovators to business coaches, impact investors and fellow entrepreneurs. IBA is a 'one-stop- shop' connecting entrepreneurs to investors and advisory services, enabling them to find the right local business partners, identify feasible opportunities and acquire finance and market information.

BoP Innovation Center (BopInc) at www.bopinc.org/
The BoP Innovation Center supports start-ups, SMEs and multinationals in creating commercially and socially viable business models and activities that include people in the BoP as consumers, producers and entrepreneurs.

Business Fights Poverty at www.businessfightspoverty.org
Business Fights Poverty is a business-led collaboration network focused on social impact. It brings people together from across a network of more than 20,000 professionals around specific, fast-paced social impact "Challenges".

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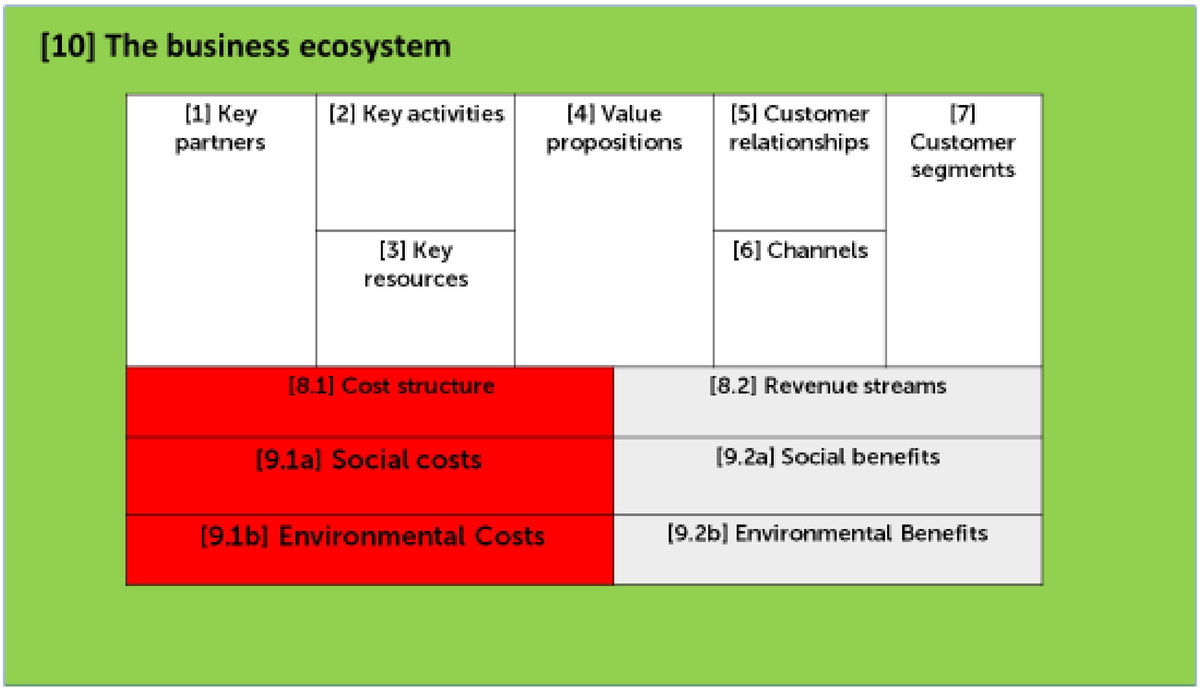
TOOL 1: The inclusive business model canvas

Inclusive business aims to develop solutions that are both socially sustainable and commercially viable. To fulfil this two-fold ambition, inclusive business entrepreneurs need to develop comprehensive business models to address issues of inclusiveness in their core operations. The business model describes how a company creates and delivers value to its customers, and captures this value into a return on investment. The central component of the business model is the value proposition: a description of how the business approaches (mutual) value creation.

The business model canvas is a strategic management tool developed by Alexander Osterwalder in 2008. It allows companies to visualise the business model by making an abstract representation of the core logic of the company. This model, however, primarily looks at the business model in terms of supply and demand relationships leading to a positive or negative financial return on investment. In co-creation with various stakeholders in East Africa, the PrC has developed its own canvas tool that builds on the original business model canvas but includes a number of additional elements specifically for inclusive business.



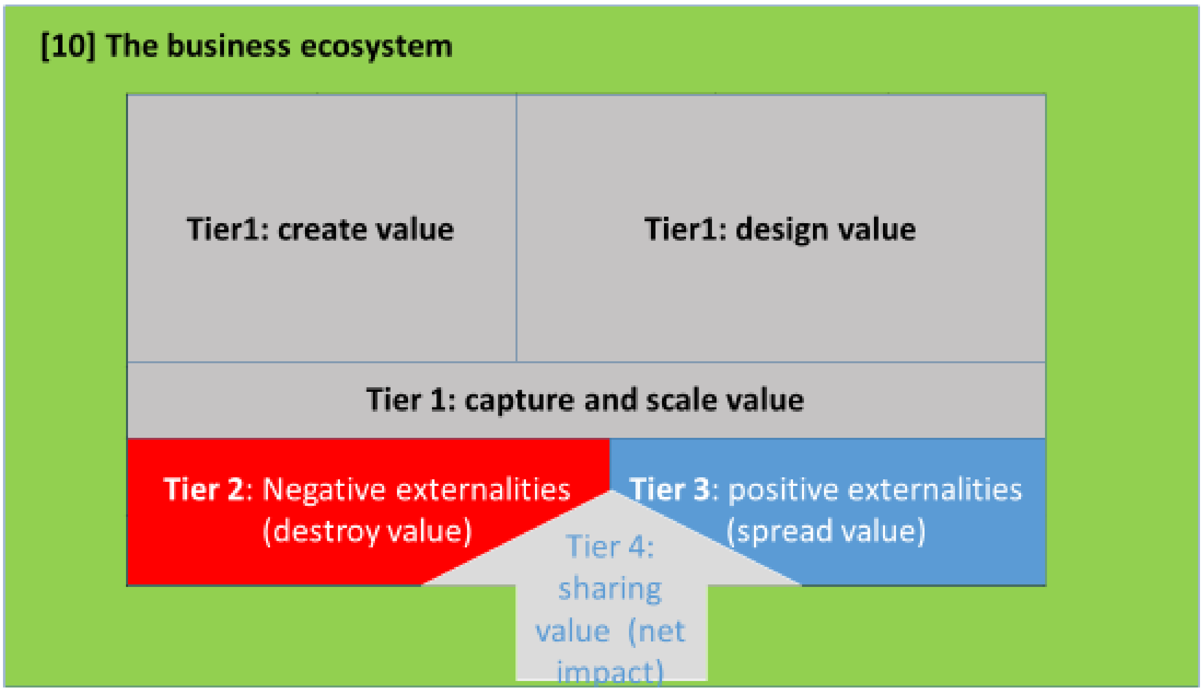
[2]

The most important addition is the triple bottom line. By adding an ecological and a social dimension to the business model (blocks 8.1 and 8.2 and 9.1 and 9.2 respectively) companies can develop a business model that assesses not only the financial return on investment, but also identifies social and environmental costs and benefits. The second addition is the business ecosystem (block 10). This aspect identifies the specifics of the environment in which the business operates that potentially affect the business model and vice versa.

Using the inclusive business model canvas provides companies with a deeper understanding of the value they create, the way in which partnerships can be leveraged to deliver this value, and track how the business model addresses issues of inclusiveness.

THE INCLUSIVE BUSINESS MODEL BUILDING BLOCKS

The inclusive business model canvas consists of ten building blocks that provide a logical sequence of steps for a company to develop an inclusive business model. These blocks can be divided into six main categories of value creation: 1) design and deliver value (marketing side of the organisation); 2) create value (the supply and internal organisation side of the company); 3) capture and scale value (the financial side of the organisation); 4) destroy value (the negative externalities that the organisation creates either in social or environmental cost); 5) the spread value side (the positive externalities the company creates); 6) sharing value (related to the net effects on the corporate ecosystem. In the following section each of the ten components of the inclusive business model canvas will be explained in more detail. They serve as a checklist for developing an inclusive value proposition and mission of your organisation. Tier 1 challenges represent those dimensions of the business model that a company is able to organise internally or in its direct sphere of control (supply chain). Tier 2 and 3 challenges are direct and indirect effects of a company's strategy that the company can only partly influence. Tier 4 challenges relate to the vertical scaling dimension of companies, which always require partnering approaches to create attributable effects.



[3]

DESIGNING VALUE

- Customers

This segment represents the direct users of the product or service. The customers, who could be individuals, communities, companies, or organisations, have a direct relation to the value delivered. For inclusive businesses, the customers represent the segment of the BoP community the company is aiming to reach.

➢ Value proposition

The value proposition is the core element of the business model and describes the value that is delivered to the customers. A value proposition helps identify and assess the benefits of the solution for its customers. Identifying the needs of low-income consumers is a crucial element in formulating an inclusive value proposition as the solution aims to cater for low-income and marginalised consumers. Through a process of co-creation, businesses create feedback mechanisms through which the proposition can be adjusted to better serve the needs of BoP communities.

The five key elements of a value proposition are:

1. *Insight:* what do the customers aspire to and what prevents them from reaching that goal?
2. *Functional benefits*: how does the product or service solve the customers' issues?
3. *Emotional benefits*: how does the end-user feel when they use the product?
4. *Reason to believe*: why would the user believe you and buy your product or service?
5. *Key message or tagline*: how would you summarise your proposition in a few words?

➢ Channels

This component describes the consumer interface, i.e. how the business reaches its customers to deliver the value proposition. This includes communication and marketing as well as distribution channels. Channels are the customer contact points that raise awareness about the offered solution and play an important role in the customer experience. Especially for inclusive business ventures, organising last-mile distribution is key to delivering the solution to marginalised consumers.

➢ Customer relationships

Managing customer relationships is a crucial aspect of embedding the business model in the local context. Customer relations can range from personal, face-to-face engagement, to self-service or automated contact. Investing in social embeddedness helps companies create local buy-in and credibility for the solution, thereby providing a competitive advantage in the BoP market.

CREATING VALUE

➢ Key activities

Key activities are the pivotal actions the business must take to deliver the value proposition; i.e. reaching its customer segments, sustaining customer relationships, and ultimately create long-term revenue streams and social impact. Identifying all activities that are needed to implement the business model helps the company decide which activities to take up itself and which to outsource to third parties.

- Key resources

Key resources are the most important inputs required to make a business model work. This constitutes both tangible and intangible resources. Tangible resources include assets, such as infrastructure and other materials and equipment. Intangible resources consist of human resources, such as local knowledge and skills. In addition, financial resources are needed to carry out the key activities listed before.

- Key partners

The key partners are the stakeholders the business needs to engage to implement and sustain the business model in the BoP context. These partners can range from public actors to civil society organisations and other companies. Through partnerships, the inclusive business can leverage key resources, capabilities and local networks. Choosing partners that complement the skills and expertise of the company is crucial in creating value for BoP consumers. To effectively utilise partnerships requires governance mechanisms that enable actors to direct, co-ordinate, and allocate resources for the collaboration as a whole, and to account for activities. This includes decision-making mechanisms, communication agreements, risk allocation and collaboration agreements.

CAPTURING VALUE

- Revenue streams

Revenue streams represent the money the company generates from each customer segment and the additional financial resources the business can mobilise, such as grants and other external funding. As BoP communities experience affordability constraints, it is important to understand which value the customer segments are willing and able to pay for, and for which aspects alternative sources of finance have to be found.

- Cost structure

The cost structure describes the monetary consequences of implementing and sustaining the business model. The costs are linked to the key activities and key resources needed to create and deliver the value to the consumers. Costs are likely to vary over time, so it is important to determine at which phase in the process the business model is currently operating (e.g. the investment or start-up phase or implementation phase) and adjust the cost structure accordingly.

SPREADING VALUE

- Positive externalities: social benefits

Social benefits consist of the impact that is created beyond customer value. Identifying critical social issues and formulating approaches to cater for those needs is a crucial aspect of inclusive business. To make the business model inclusive, the company needs to address the five A's of inclusiveness: accessibility, availability, affordability, awareness and appropriateness. Moreover, to formulate inclusive business objectives and determine the inclusive business strategies needed to reach those targets, companies can use the SDGs as a benchmark.

- Positive externalities: environmental benefits

In addition to the social impact, inclusive businesses strive to create environmental sustainability with their business model. Therefore, identifying potential aspects where the company can minimise its ecological footprint and integrate climate change measures into its inclusive business strategy to contribute to climate action (SDG 13) is a crucial aspect of inclusive business.

DESTROYING VALUE

- Negative externalities: social costs

In addition to identifying social needs the business model can alleviate, it is also crucial to identify factors that could potentially have negative social impacts and formulate strategies that can mitigate or prevent those outcomes. Developing a good risk management strategy and allocating potential risks to various partners is therefore an important aspect of the inclusive business model.

- Negative externalities: environmental costs

Next to potential negative social outcomes, possible negative environmental impacts need to be addressed. Issues such as climate change, deforestation and pollution need to be addressed and mitigated in the inclusive business strategy.

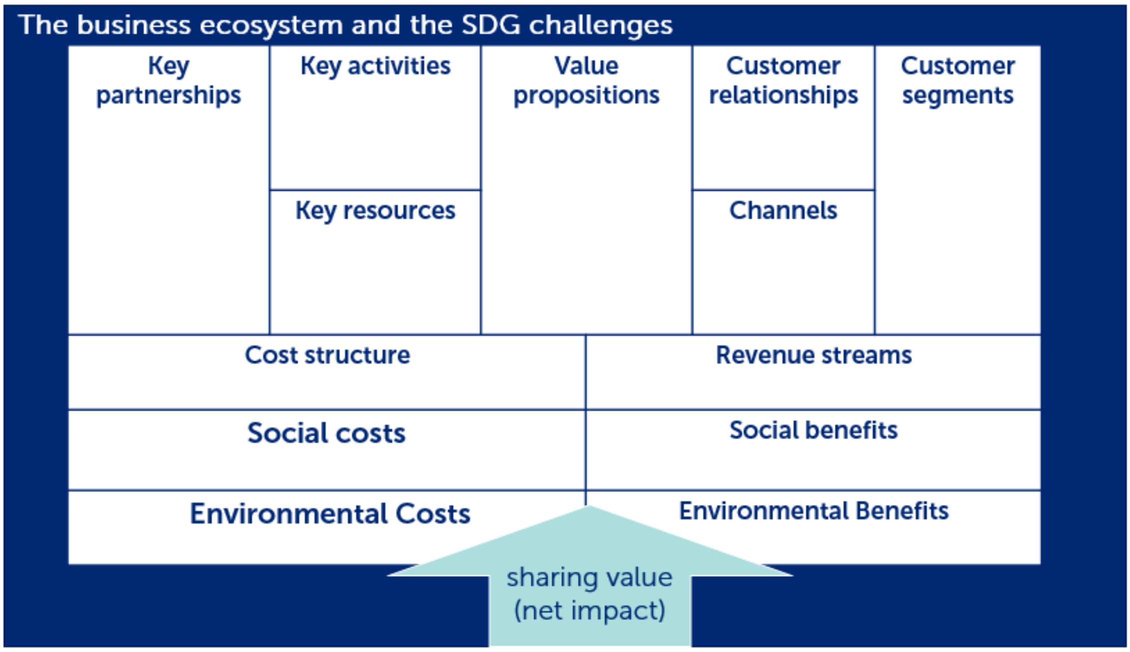
SHARING VALUE

- Business ecosystem: creating shared value

Inclusive businesses do not operate in a vacuum and many factors outside of the scope of the business can affect the successful implementation of the business model. The final building block therefore consists of those factors that can potentially influence the embedding of the business model in the local context, such as a given policy, a lack of available professionals or competition. Especially in BoP contexts that are characterised by institutional voids and resource constraints, mapping the variables in the business ecosystem can make the business model more robust.

Finally, it is important to note that the inclusive business model canvas provides a snapshot of the business model at one point in time. To account for changes in the BoP context, companies need to adjust their business model accordingly. Monitoring and evaluation is also beneficial for measuring progress in order to change business strategies to address issues of inclusiveness more effectively.

The Inclusive Business model Canvas



Rotterdam School of Management, Erasmus University

Tool 2: Inclusive business's driving factors – a checklist

Based on the case studies presented in this publication and the wider research on inclusive business models, a number of key aspects can be distilled that drive inclusive business success. These 10 driving factors need to be considered by those who want to engage in inclusive business in Africa.

1. Inclusiveness is a process rather than an outcome

There is no such thing as a fully inclusive or exclusive business model. Inclusive business is about moving along a continuum towards more inclusiveness. Inclusive business should therefore be seen as a process rather than an outcome. As this publication shows, there are a number of key dimensions that need to be addressed to develop an inclusive business model. First, formulating an inclusive value proposition for the BoP; striving towards a triple bottom line that aims for a positive social and environmental impact in addition to a financial return on investment. Second, designing processes of co-creation to cater for the needs of low-income and marginalised groups and working with partners that can complement resources and capabilities of the firm. Third, striking the right balance between different scaling strategies to enhance impact on inclusive development. Finally, and perhaps most importantly, developing agile business models and strategies that can adapt according to the rapidly changing institutional contexts and needs of the BoP.

2. The importance of a mission-driven identity

What is it that you have set out to do? Which aspect of inclusiveness do you want to address? Developing a mission statement and connecting it to the SDGs helps organisations to become more focused and able to connect with others that have set out to work on the same issues. Internalising the social mission within the company creates internal buy-in, and support from top management to commit the resources needed to drive the inclusive business venture.

3 Long-term strategy and vision

Inclusive business is not a quick fix and entrepreneurs need to be in it for the long haul. Because of institutional voids in terms of underdeveloped markets and legal structures, and affordability constrains among intended consumers, margins in BoP contexts are often low, and the risk of investment high. As companies doing business at the BoP often still need to develop local markets and appeal to a latent demand of potential consumers, inclusive business entrepreneurs need a long-term investment horizon and a commitment to work on institutional development as well as business development.

4 Creating space for intrapreneurship

Inclusive businesses are made up of inclusive business entrepreneurs who develop innovative solutions for pressing societal needs. Therefore, creating a business environment where leadership within the firm – also described as intrapreneurship – can flourish is crucial for inclusive business success. Investing in local talent and developing new capabilities and skills are important steps in this process. It also requires a level of ambidexterity for the company, i.e. the ability of an organisation to host different innovation streams, exploiting the present while exploring the future at the same time.

5 Organising last-mile distribution

As a majority of the BoP lives in rural areas that are often accessible only by poor quality road infrastructure, products and services providing essential societal value often do not reach the intended customers or are more expensive and of lower quality than the products available to other populations. Therefore, organising last-mile distribution, either by leveraging existing retail channels or developing new distribution channels, is a critical aspect of inclusive business success. The latter includes working with trusted partners that can function as intermediaries in the consumer interface, making distribution more efficient and thereby more effective in reaching the BoP. Empowering local entrepreneurs to play the role of retail agents is one of the strategies for creating reliable distribution networks in underserved communities. As trusted members of the community, these distribution agents bridge culture diversity, identify critical needs in the local population and facilitate the adoption of the business model by increasing awareness of the relevance and social impact of the offered solution.

6 Location, location, location

Every BoP context is different and contextual factors determine to a large extent the uptake of the inclusive business model at the BoP. Therefore, in order to develop a business model that caters to specific local needs and requirements, inclusive businesses need to have a thorough understanding of the local context. Facilitating a process of co-creation with the community can help companies to develop solutions that combine resources and knowledge of the ‘top of the pyramid’ with the wisdom and expertise found at the BoP. Co-creation creates local ownership and buy-in of the solution and provides a feedback mechanism for adjusting the value proposition to make it more appropriate for local conditions. Host companies that have limited previous experience in the BoP particularly need to invest in social embeddedness: the ability to create trusted connections with a web of organisations, institutions and communities to facilitate bottom-up development of innovations to unlock the BoP market.

7 If you want to go fast, go alone. If you want to go far, go together

Contributing to inclusive development requires moving from stand-alone initiatives to innovation ecosystems, wherein a variety of partners work together to create greater societal impact. Engaging in cross-sector partnerships can provide businesses with complementary resources and capabilities needed to create and deliver value in novel ways while minimising costs and risks. Partnerships with non-market actors, such as civil society organisations and public institutions, can provide valuable knowledge and access to local networks as well as ways to navigate the local legal landscape. However, cross-sector partnerships, just like any other form of partnership, require hard work, continuous reflection, recalibration and alignment of motives and operations. Therefore, inclusive businesses need to invest in partnering strategies that enables the development of a collective vision on inclusiveness.

8 Size does matter

Scaling is important from both a business perspective – to reach commercial viability by compensating for low margins – and from a development point of view – to meet the needs of the four billion people living in poverty. Inclusive businesses can employ different scaling strategies that either focus on developing new products or services, entering new markets, or a combination of both. Success in scaling seems to rest on striking the right balance between these strategies, and between customisation and standardisation, to create economies of scale. However, to truly contribute to inclusive development, the scaling effort needs to go beyond simply replicating the success of one firm or one business model. And what is scaled is not so much a technical solution as such, but rather a set of arrangements that stimulates the adoption and continuity of the inclusive business solution. Scaling inclusive business also encompasses institutional innovation: transforming institutional arrangements to address root causes of exclusion and poverty.

9 Managing by measuring

As BoP ventures often have longer expected payback periods and higher perceived risk, standard business protocols and evaluation methods are not fit for purpose. Inclusive businesses therefore need to formulate and evaluate environmental and social key performance indicators as well as financial targets to reach triple bottom line impact. This can create a positive impact loop, whereby experimentation with social innovation leads to organisational change that redefines the business's entire value system and mission, thereby creating internal alignment and support from top-management within the firm.

10 Creating a learning environment within the firm

Finally, to develop a successful inclusive business model, inclusiveness needs to be institutionalised within the core business. For this to happen, it is important to create a learning environment, both within the firm and beyond, that captures and shares lessons from inclusive business success and failure. This enables businesses to learn from each other's experiences, forge partnerships and eventually create new inclusive business opportunities.

The above list of drivers is not comprehensive, of course, and inclusive business success depends largely on the context and the specifics of each individual case. Therefore the lessons learned in this publication do not provide a guaranteed recipe for success for inclusive business. Rather, they provide elements of knowledge that entrepreneurs can use in developing their own inclusive business models and strategies in the ever-changing context of inclusive business in Africa.

Notes

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[i] The 2018 *World Economic Forum's Inclusive Development Index.*

[ii] Dabla-Norris, E, Kochlar, K. , Suphahiphat, N., Ricka, F. Tsounta, E. (2015) *Causes and Consequences of Income Inequality: a Global Perspective*, International Monetary Fund Staff Discussion note, June, SDN/15/13

[iii] For more information about inclusive growth visit: http://www.oecd.org/inclusive-growth/

[iv] *Rittel, Horst W. J.; Webber, Melvin M. (1973). Dilemmas in a General Theory of Planning. Policy Sciences.* ***4****: 155–169. doi:10.1007/bf01405730*

[v] For more information on wicked problems, see the PrC publication on wicked problems here.

[vi] Marga Hoek (2018) *The Trillion Dollar Shift – Achieving the Sustainable Development Goals: Business for Good is Good Business*. Routledge

[vii] Van Tulder, R. (2011) *Inclusive business through partnerships.* Partnerships Resource Centre.

[viii] Creating shared value (CSV) is a business concept developed by Michael E. Porter and Mark R. Kramer. The concept was first introduced in the *Harvard Business Review* article *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility*, and further developed in *Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society*. The central premise behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Recognising and capitalising on these connections between societal and economic progress has the power to unleash the next wave of global growth and to redefine capitalism. Visit sharedvalue.org for more information on creating shared value.

[ix] Prahalad, C. K. (2004) *The Fortune at the Bottom of the Pyramid. Eradicating Poverty Through Profits*. Upper Saddle River, NJ: Wharton School Publishing.

[x] Hammond, Allen L.; Kramer, William J.; Katz, Robert S.; Tran, Julia T. (2007) *The next 4 billion: market size and business strategy at the base of the pyramid.* Washington DC: Worldbank.

[xi] United Nations Development Programme (2008) *Creating Value for All: Strategies for Doing Business with the Poor*. New York: UNDP.

[xii] For more in-depth information and theory on scaling strategies read the PPPLab Exploration paper here

Chapter 2

[xiii] London, T. (2011). Building Better Ventures with the Base of the Pyramid: A Roadmap. In T. London & S. L. Hart (Eds.), *Next generation business strategies for the base of the pyramid: new approaches for building mutual value*. Upper Saddle River, NJ: Pearson Education Inc.

[xiv] Moore, J (1996). *The Death of Competition: Leadership & Strategy in the Age of Business Ecosystems*. New York: HarperBusiness

[xv] Mair, J; Marti, I (2009) Entrepreneurship in and around institutional voids: A case study from Bangladesh. Journal of Business Venturing, 24(5), 419-435

[xvi] List compiled from the results of the NWO research Inclusive business strategies in Africa and the IFC publication: *G20 Inclusive Business Framework, accessed through: https://www.ifc.org/wps/wcm/connect/f0784d004a9b1f2ea5f0ed9c54e94b00/Attachment+G+-+G20+Inclusive+Business+Framework_Final.pdf?MOD=AJPERES*

[xvii] *Mckinsey* & Company (2012) *Africa at work: Job creation and inclusive growth.*

[xviii] Ernst & Young (2015) *EY's Attractiveness survey. Africa 2015. Making choices*.

[xix] African Development Bank Group (2018) *African Economic Outlook*. Accessed through: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf

[xx] The M-Pesa case study is based on Lashitew, A. et al. (2019) *Mobile Phones for Financial Inclusion: What Explains the Diffusion of Mobile Money Innovations?* Research policy, Vol. 48, No. 5. The 2SCALE study is based on: van den Brink, C. P. & Vellema, S. (2018) *Making the provision of nutritious and affordable food a business: Two case studies of the intertwined processes of frugal innovation and inclusive development in Ethiopia and Benin*. Partnerships Resource Centre, Rotterdam. The CLC study is based on Lijfering, S. (2017) *Inclusive Health Care Innovation in Africa: A case study on the Community Life Centres Approach*. Partnerships Resource Centre, Rotterdam.

[xxi] For a full list of Safaricom's partnerships visit: http://www.m-pesafoundation.org/out-partners/

[xxii] World Health Organisation (2006) *The World Health Report 2006 - working together for health*.

[xxiii] http://www.who.int/health_financing/universal_coverage_definition/en/

[xxiv] Philips made use of the Bell Mason Venture Development Framework, an established framework for monitoring progress in early-stage venture implementation, which consists of five stages or phases. Refer to the original case study for a full description of the process.

[xxv] World Economic Forum (2016) *Social Innovation A Guide to Achieving Corporate and Societal Value.* Accessed through: http://www3.weforum.org/docs/WEF_Social_Innovation_Guide.pdf

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[xxvii] UNDP (2012) The Roles and Opportunities for the Private Sector in Africa's Agro-food Industry. https://www.enterprise-development.org/wp-content/uploads/UNDP_AFIM_Agro-food-industry.pdf

[xxviii] Rome Declaration on World Food Security, 1996

[xxix] This finding reiterates the importance of not having a 'static' theory of change (and logic framework) that defines the plan in terms of output and outcome in measurable terms, but instead of applying a so-called 'developmental evaluation' method in which the theory of change and intervention logic is fine-tuned in every phase of the partnering project. The PrC has developed two techniques for supporting this process: 1) an impact pathways technique and 2) a Partnering Impact model. For more information on this see: Van Tulder, R. and Keen, N. (2018) *Capturing Collaborative Complexities – designing complexity sensitive theories of change for transformational partnerships*, *Journal of Business Ethics*; Van Tulder, R., Seitanidi, M, Crane, A & Brammer, S. (2016) *Enhancing the Impact of Cross Sector Partnerships*, *Journal of Business Ethics*

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