Inclusive business models expand access to goods, services, and livelihood opportunities for low-income communities.

They may involve low-income populations anywhere along a company’s value chain, including supply, production, distribution and marketing of goods and services. This generates new jobs, raises incomes, imparts technical skills and strengthens local capacity. Poor consumers can benefit from products and services that meet their needs in affordable ways. The emphasis is on “core business” rather than on philanthropy.

Developing inclusive business models is a complement, not a substitute, for responsible business practices that respect human rights – a minimum standard of conduct according to the UN Guiding Principles on Business and Human Rights. Going beyond the minimum responsibility to respect, companies can support the rights of people living in poverty by implementing inclusive business models.

What is the “base of the pyramid”?

The base of the pyramid includes all those living on less than US$8 per day.¹

However, income is just one parameter of poverty. Poverty is multi-dimensional. The actual number of people living without access to basic goods, services, and opportunities for income generation is much higher than the 4 billion people identified by the income threshold alone.²

Too often, people living in poverty cannot obtain quality goods for the prices that others pay. Poor people are denied clean water, electricity, good roads, modern communications, health care, education, financial services, and—perhaps most importantly—steady sources of income.

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1. As defined by World Bank’s International Finance Corporation (IFC). Other definitions of poverty exist and calculations of poverty vary widely between countries and development organizations.
2. G20 Challenge on Inclusive Business Innovation. Available at: www.g20challenge.com
What are the Market Constraints to Inclusive Business and How Can Companies Overcome Them?

Five common external constraints and core strategies for inclusive business

Markets that include poor people face five constraints that deter market entry and hinder growth: limited market information; ineffective regulatory environments; inadequate infrastructure; missing local knowledge and skills; and restricted access to financial services among potential suppliers and customers. In order to succeed, inclusive businesses must invest in removing these constraints.

Here are the five core strategies for companies working in low-income markets. These strategies can be applied to address any of the five constraints that characterize markets at the base of the pyramid. In fact, many successful inclusive business models employ a mix of strategies. For example, they may engage poor people in guiding product adaptation or they may pool resources and skills with other organizations to engage in policy dialogue focused on overcoming physical infrastructure problems.

These five strategies may manifest themselves in many different solutions, depending on the unique objectives of individual businesses and the distinct contexts of target markets.

Why Engage in Inclusive Business?

- **Value Creation & Productivity**: Inclusive business builds bridges between business and poor people for mutual benefit. These benefits go beyond immediate profits and higher incomes. For businesses, they include driving innovation, building markets and strengthening supply chains. For people with low incomes, they include higher productivity, sustainable earnings and greater empowerment.
- **Regulatory environment**: Many markets lack regulatory frameworks that allow business to work. Rules are not enforced and access to a functioning legal system is often lacking.
- **Physical Infrastructure**: Transportation is complicated by a lack of roads and supporting infrastructure. Water, electricity, sanitation and telecommunications networks are lacking.
- **Knowledge and skills**: Consumers may not know the uses and benefits of particular products, or may lack the skills to use them. Suppliers, distributors and retailers may lack the knowledge and skills to participate in supply chains.
- **Access to finance and resources**: Without access to credit, poor producers and consumers cannot finance investments or large purchases. Without access to insurance, they cannot protect themselves against external shocks. Lacking transactional banking services, they face insecure and expensive financial management.

### Common market constraints

- Businesses know too little about poor people, their preferences, what they can afford and what products and skills they have to offer.

### Business solutions to market constraints

- Adapt products and processes.
- Engage in policy dialogue with governments.
- Leverage the strengths of poor people.
- Invest in removing market constraints.
- Combine resources and capabilities.

### Company Examples

- **Market information**: M-PESA, launched by Vodafone and Safaricom, created a money-transfer service that operates using SMS technology. Originally designed to assist loan borrowers in repaying microfinance loans, M-PESA was adapted to serve tens of millions of consumers who lack access to formal banks.
- **Regulatory environment**: CEMEX’s housing microfinance program Patrimonio Hoy engaged in policy dialogue to improve access to bank credit and government housing finance for poor people in Colombia and Mexico.
- **Physical Infrastructure**: By engaging poor people as intermediaries and building on their social networks, companies can increase access, trust and accountability. Novartis’ Arogya Parivar (Healthy Family) initiative in India recruits locals as health educators in rural communities. The innovative use of health educators allows Novartis to reach a wider population than it would with a physician-based system and overcome the cultural barriers that prevent many people from seeking treatment.
- **Knowledge and skills**: Invest in removing market constraints. As a partner to the Millennium Villages Project, Ericsson is bringing affordable telecommunications and internet to more than a half million people in 10 African countries with focus on health, education, and agriculture by partnering with MTN, Zain and Sony Ericsson.
- **Access to finance and resources**: Combine resources and capabilities. L’Occitane ensures a high-quality supply of shea butter from Burkina Faso by training local women producers and suppliers in entrepreneurial skills.
### How can Intrapreneurs* Scale Inclusive Business Internally?

**Common internal barriers and solutions**

<table>
<thead>
<tr>
<th>Internal company constraints</th>
<th>Solutions</th>
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<tbody>
<tr>
<td><strong>Opportunity cost of investment</strong></td>
<td>Inclusive business investments may have lower expected rates of return because the cost of doing business in base-of-the-pyramid markets is high, anticipated margins are low and an extended time-frame is needed to break even.</td>
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<tr>
<td>• Adopt a portfolio approach</td>
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<td>• Obtain senior leadership support</td>
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<td>• Quantify the total value created</td>
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<td>• Find outside investors</td>
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<td><strong>Strategic and operational misalignment</strong></td>
<td>Inclusive business models cannot be run out of the public affairs department: key functional teams across the company need to be involved, especially to do it at scale.</td>
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<tr>
<td>• Start with the business plan</td>
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<tr>
<td>• Get out of the protected corporate environment**</td>
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<td>• Adjust performance targets</td>
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<tr>
<td>• Establish a separate company</td>
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<tr>
<td><strong>Capability gaps</strong></td>
<td>When inclusive business models are very different from existing business models, there will be gaps.</td>
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<tr>
<td>• Utilize external partners</td>
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<td>• Bring core capabilities in-house</td>
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<td>• Support professional development</td>
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<tr>
<td>• Establish centers of excellence</td>
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** The so-called “corporate greenhouses” may include special innovation units and CSR or sustainability departments. The protection they offer can be essential for inclusive business models that are very experimental; however, protection typically comes with limited resources, and models that show promise need to be integrated in order to scale.

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### Further Resources on Inclusive Business

- **Business Call to Action (BCtA) Resources and Publications**
- **Business Fights Poverty Resources and Publications**
- **BoP Global Network Publications**
- **Endeva Publications**
- **Harvard Business Review Profits at the Bottom of the Pyramid**
- **International Finance Corporation Inclusive Business Group Publications**
- **Monitor Inclusive Markets Beyond the Pioneer: Getting Inclusive Industries to Scale**
- **Opportunities for the Majority (OM) Sector Office, Inter-American Development Bank (IDB) Publications**
- **SNV Inclusive Business Resources**
- **The Practitioner Hub for Inclusive Business Publications and Tools**
- **UN Global Compact and Oxfam International The Poverty Footprint**
- **UN Development Programme Growing Inclusive Markets (GIM) Resources and Publications**