

Inclusive Business CHECKLIST



Building a scalable enterprise that serves the BoP

An enterprise seeking to scale in Base of Pyramid markets has many factors to consider. These have to do with the enterprise structure, the business model and relationships with the broader ecosystem. Drawing on experience of hosts of businesses that have or have not scaled, this checklist lists ten elements to consider when building a scalable business model.

Thousands of businesses have attempted to serve customers in Base of Pyramid (BoP) markets, but comparatively few have reached scale. What defines scale depends on the industry and nature of the business model, but it can be defined as a combination of the number of people reached, geographic footprint, sales volume, market penetration and return on investment. Scale can be reached through a variety of different means including organic growth, licensing/franchising, and/or getting acquired.

This checklist covers 10 elements for scaling a business that is both financially sustainable and provides net positive social returns at the BoP. They will need to be applied differently in a social enterprise vs a large corporate initiative, but should resonate with both. The first section covers internal design elements to think about from the start. The second section covers aspects for consideration as you begin to scale.

Building blocks to put in place at the start

- 1. Mindset.** Inclusive businesses with pre-set solutions and business models often fail. Check if your organisation is:
 - Prepared to take risks and pilot different approaches?* Organisations should be prepared to take risks and be ready to learn from what goes right and what goes wrong. Some have given up when they realised how much iteration or risk is required.
 - Planning for scale from the start?* Although patience for piloting is important, an enterprise is more likely to scale if it starts with an ambition to secure the operational structure, product, price point, and finance that will be needed to work at scale. Otherwise it's easy to get stuck in an innovation unit or phase, or remain a grant-dependent 'nice to have'.
 - Focused on a mission that drives it to solve a problem that matters.* A company mission to 'be the best' is less effective than a mission to make a huge impact in 'solving problem x'.

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provide a quick and simple way to determine how effective an idea, tool or model might be for your inclusive business project. They can be used by inclusive business practitioners, to develop and scale up business strategies. They are based on the real-world experiences of companies actively expanding opportunities for people at the base of the economic pyramid through their core business activities.

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2. Legal and organisational structure. The choice of legal structure (non-profit, for-profit, hybrid, SPV, business unit within a corporate etc.) is a critical decision. The legal structure may facilitate or constrain the business model's ability to scale up or access growth capital. Do you have...

- The right legal entity to support the capital structure you need?
- A legal structure that provides the right level of flexibility in terms of activities, scope and scale of operations, speed of growth, etc.?

3. Market insight and ability to learn. BoP markets are very different to mid/top pyramid markets. Successes and failures to date suggest that firms are most likely to succeed if they have:

- An understanding of the 'real' competition?* Competition is not just similar products, but the substitute products and status quo behaviours that are alternatives for clients: the bush rather than a toilet, kerosene rather than solar lighting, the river rather than bottled water.
- An understanding of consumer decision-making?* Evidence is clear: top-line marketing and price are not the key drivers. Word-of-mouth matters, riskiness of purchase and timing of payment are as important as price. Understanding the specifics for your client groups matters.
- Structures in place to engage the BoP?* Enterprises should have systems in place to listen, learn from and actively engage the BoP, in order to understand their demands, design effective products and sales systems, and continue to improve.

Approaching the pathway to scale

Once the right foundation is in place, an enterprise must consider a number of aspects related to its business model, market and wider ecosystem.

4. Compelling value proposition. Many entrepreneurs have learned that what they originally assumed was a solution was perceived differently by their clients. Successful businesses create a wide and compelling value proposition. Do you have...

- An understanding of what your customers want rather than assuming what they need?
- A product or service that offers quality and value-for-money for consumers who can ill afford risk or waste?

5. Financial resources. Having the right financial resources are essential to support piloting, innovation and achieve sustainable growth. Do you have...

- The right mix of financial resources?* An appropriate blend of capital: commercial, patient, and subsidised? Debt and equity? Is there sufficient working capital to cover scale-up? Is capital required to cover consumer financing in addition to business financing?
- Are your investors (internal and external) aligned with your timeframes and social/financial risk profile?*

6. Leadership and talent. Human resources are equally critical. Do you have...

- Strong leadership* that will create space for failure and learning in the short-term while evolving the organisation towards a clear success goal longer-term?
- The right mix of human resource and skills?* A balanced skill mix of business savvy and experience is required. Many firms struggle with a talent gap at management level as they scale.

CEMEX's Patrimonio Hoy initiative had a number of failed pilots before reaching scale. One unsuccessful pilot produced cement in small, lower-priced packages assuming this would increase sales without realising that having large bags outside of one's house was seen as a sign of prosperity.



Photo courtesy: CEMEX

VisionSpring uses a female village entrepreneur model to sell glasses in rural India and were frustrated that their most successful female entrepreneurs were dropping out just as they were gaining momentum. A detailed impact assessment revealed that the success of the women was creating tensions with the male heads of households. Knowing this allowed VisionSpring to engage male heads of households early on, and they were able to retain their top sales women.



7. **Ruthless focus on price and viability.** It may take years to reach break-even, but having a sound commercial model is essential for transitioning to scale. Are you...
 - Operating at a price point that will cover overheads once realistic scale is reached?** If not, then the business model is not ready to scale. Look for ways to cut costs through innovation, partnership or other means before attempting to scale.
8. **Core business model components.** Each part of the business model must be right, and one of the biggest challenges is getting every component in place and scalable simultaneously. Particular attention should be paid to:
 - Last mile distribution.** Do you have the right mechanisms and model in place to get the product to customers?
 - Marketing to build demand.** What does it take to build market demand? How do you raise people's awareness of your product and value proposition cost-effectively?
 - Assessment of impacts.** Do you understand how you are impacting the well-being of customers, distributors and communities? Businesses have impacts (both positive and negative) on multiple dimensions of well-being. Understanding these generates a more robust value proposition.
9. **Clarity on routes to scale.** Have you assessed which routes to scale could work for your business? There are a number of routes including organic growth, licensing/franchising, and/or getting acquired. Several social enterprises have shifted from a franchisee or agent model to rely on a branch model, while others have narrowed the focus of their core business and expanded through contracts with others. The right route might not be obvious at the outset but it's important to assess as the model evolves.
10. **Partnerships.** Partnerships are crucial to the success of businesses at the BoP because they work in challenging incomplete ecosystems. It's not the number of partners that matters but whether the priority partnerships are in place. Businesses should look at partners from the lens of:
 - Type of partner support.** Do you have an understanding of the different roles that partners can play? Partnerships can complement the business in a number of ways such as providing market intelligence, human capital, value chain infrastructure, or demand expansion.
 - Understanding needs.** Do you have an assessment of where partnership is most critical to achieve your growth?

Yara International is scaling the African smallholder market for its fertiliser through a variety of partnerships with organisations that work directly with farmers. They range from rice processors and coffee traders to international NGOs. Yara provides technical expertise as well as accessible product, and gains critical structures for engaging farmers.



Recap: The ten elements to consider for building a scalable business model

1. Mindset
2. Legal and organisational structure
3. Market insight and ability to learn
4. Compelling value proposition
5. Financial resources
6. Leadership and talent
7. Ruthless focus on price and viability
8. Core business model components
9. Clarity on routes to scale
10. Partnerships



Photo courtesy: VisionSpring

Related resources:

Scaling Inclusive Business (BoP Inc, 2016): www.iba.ventures/wp-content/uploads/2016/02/iba_scaling_inclusive_business_lr.pdf

Scaling up Inclusive Business – Solutions to overcome internal barriers (WBCSD, 2015):
www.inclusivebusinesshub.org/inclusive-business-at-scale-what-are-the-solutions-to-overcome/

Ashoka Globalizer's PATRI Framework for Scaling Social Impact:
www.inclusivebusinesshub.org/wp-content/uploads/2015/03/PATRI-Framework.pdf

Scale and Scalability – A conversation with Erik Simanis:
www.inclusivebusinesshub.org/scale-and-scaleability-a-conversation-with-erik-simanis/

Find more handbooks, reports and tools on scaling and other topics in inclusive business on www.searchinclusivebusiness.org.

This Checklist draws on wide experience working with scalable (and un-scalable) models that engage the BoP, and from two recent books:

- *Scaling up Business Solutions to Social Problems: A Practical Guide for Social and Corporate Entrepreneurs*, Olivier Kayser and Valeria Budinich, 2015
- *The Base of the Pyramid Promise: Building Businesses with Impact and Scale*, Ted London, 2016

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