Inside Inclusive Business

Business Innovation Facility

ISSUE 11 | JANUARY 2014

When things don't go to plan

Learning from the problems faced by inclusive businesses in the Business Innovation Facility portfolio

In the portfolio of businesses supported by the Business Innovation Facility, we see the full range of success and failure. The successes are praised and promoted elsewhere. This report explores the reasons why some things did not go so well. What led to problems, and what can we learn from them?

In the BIF portfolio, six businesses were approved for support but were cancelled before they got off the ground. Eight of those that received BIF support are stalled or on ice. The vast majority are progressing, but some progressing slowly. Even those which are progressing well have experienced their share of delays and changes of direction in the past. We don't want to be overly negative by focusing on the obstacles that have strewn the paths of inclusive businesses, but a review across the portfolio has enabled us to cluster the hurdles into ten main types.

10 reasons things don't go to plan

1. Management changes
2. Lack of access to capital
3. Partnerships don't deliver
4. Operational errors and delays
5. Regulations, policies, government action or inaction
6. Macro-economic shocks
7. Difficulties embedding the model into the mainstream company
8. Competing priorities take over
9. The task is bigger than anticipated
10. The business model is not quite right yet or the external constraints are too strong

A word from the authors…

"Success is great, but you can learn more from failure." We often hear the complaint: no one talks about when things go wrong. Yet it is what others want to hear.

In the Business Innovation Facility (BIF) team, we try to be frank about the highs and lows of inclusive business, within the limits of confidentiality. So this, one of the final Insiders from the BIF pilot, looks across the portfolio to examine when and why things don't go to plan. What has led businesses to stall, sometimes causing temporary delay, occasionally leading to cancellation?

Understanding why things go wrong is a great way to avoid future problems. And learning how the companies supported by BIF have responded to these challenges, is testimony to their perseverance and innovation.

Andrew Kambobe
Zambia Country Manager, Business Innovation Facility

Caroline Ashley
Results Director, Business Innovation Facility

The **'Inside Inclusive Business'** series is based on the real-world experiences of companies who are actively expanding opportunities for people at the base of global economic pyramid through their core business activities.

Each edition explores one aspect of inclusive business. The aim is to share practical ideas, challenges and solutions, as they emerge, in ways that are relevant to other business and development professionals.

Launching any business is a challenge, with a high share of failures expected. Inclusive businesses are no exception and in fact they face extra challenges because they usually focus on unproven business models, unexplored market segments, customers that are hard to reach, or suppliers who have little formal market linkage. So in most cases, the business models are new and relatively unproven. That is certainly true of the businesses in the BIF portfolio: 40 companies in Bangladesh, India, Malawi, Nigeria and Zambia that received intensive support (plus about 300 others involved in shorter input). We expect them to be risky. Looking at their experience over the last three to four years helps us to see which risks turned out to the most common.

Our aim is simple, **identify ten reasons why inclusive business get delayed or stalled.**

A business that stalls does not necessarily 'fail'. Most have had to change direction or prolong their journey, and they have dealt with the obstacle and moved forward. The positive results and details of their progress are covered in other reports[1].

In most cases, a delay or change in direction cannot be attributed to a single reason, so the examples given here must of course be taken as simplified stories. We also recognise that the ten reasons listed here are not mutually exclusive: they can exacerbate each other.

Ten reasons things don't go to plan

1 Management changes

The departure of a champion is the most common reason why things stall or do not go to plan among companies in the BIF portfolio. Often, particularly in larger companies, the inclusive innovation is championed by an individual or a certain division within an existing company. When that person leaves, progress stalls.

We have identified at least seven examples in which a champion or committed CEO leaving the firm has been a key reason for severe delays or total failure of the inclusive business venture.

In some cases, the champion is the key technical person whose expertise is simply essential. An agrochemical supplier temporarily put on hold aggressive plans to significantly ramp up business with smallholder farmers, following the unexpected departure of a key member of staff responsible for growing business in this important customer segment, with a suitable replacement not immediately found. In Malawi, a moringa processing company is a commercial farm operation with an out-grower scheme. Sadly, a key director with the commercial know-how died. Compounded by lack of start-up finance, the initiative temporarily stalled.

Sometimes the champion leaves before the initiative gets going. Two NGO business propositions in Malawi did not proceed, suffering from loss of a champion. The first company was considering provision of credit services for micro enterprises on behalf of a leading bank but a regional manager leading on the assignment left. The second, MicroVentures initiated a project aimed at developing linkages between 850 women smallholders and Malawian wholesalers, retailers as well as food processors. The champion was the Business Unit Manager, however, who left, and during the recruitment gap and under an interim CEO, the initiative temporarily stalled. A new team subsequently adapted the project to concentrate on improving yields and providing updated market information to producers which better suited the capabilities of the rural farmers involved.

Often but not always, the inclusive business initiative has picked up speed again once new leaders are in place.

In Bangladesh, the Agora supermarket chain developed detailed plans for capacity-building of SME suppliers[2]. But when the CEO changed, the programme was put on hold in order to review the process of doing it to improve efficiency.

The best laid plans can nevertheless take unexpected turns

1 See the "Review of the BIF Project Portfolio: Results and trajectories of inclusive businesses at the end of a three year pilot" bit.ly/BIFportfolioyr3 and "The 4Ps of inclusive business: How perseverance, partnerships, pilots and passion can lead to success" bit.ly/BIFfindings

2 The full set of materials was shared with other supermarkets and retailers as a toolkit for SME support. See bit.ly/SMEtoolkit

2 Lack of access to capital

Across the BIF portfolio, lack of access to capital comes up as a major factor impeding progress and we consider it to be the main factor in four that are currently stalled or cancelled. These four cases were new initiatives looking for external finance (equity, loans, and working capital) particularly from impact investment, but were not able to secure it.

In Malawi, a moringa processing company struggled to find start-up capital, as the type of finance needed by the business simply does not seem to be present in the market. Similar problems were encountered by an artisanal manufacturing start-up in Nigeria and a fisheries business in Bangladesh.

Sometimes it is lack of capital for *other* smaller players in the value chain that is the binding constraint. Cropserve's challenge in Zambia is in arranging financing for agro-dealer buyers of their fertilisers and other farming inputs for sale to smallholder farmers. When the company's focus shifted from commercial farmers to reaching smallholders spread across the country, they needed a more extensive distribution network through their own Unimart shops and independent agro-dealers. Although demand for inputs from small-scale farmers every agricultural season is growing, the independent agro-dealers are unable to meet it for one core reason: they have inadequate stock because of lack of access to suitable vendor financing. Several structures are being explored with a number of banks but none have yet materialised, so the Cropserve initiative to reach smallholders continues at a slow pace.

3 Partnerships don't deliver

Partnerships are often found to be essential to an inclusive business model.[3] But when they don't deliver as planned, the business suffers, as has been seen several times in the BIF Portfolio.

Businesses sourcing from smallholders often have high expectations of NGOs to train farmers and aggregate produce across many producers. Two case studies, of Universal Industries'[4] cassava initiative in Malawi and ACI's[5] contract farming pilot in Bangladesh explore the limitations of such partnerships. In Malawi, some of the initial partner NGOs failed to deliver the volumes required by Universal. In Bangladesh, lack of transmission of timely information, from the NGO to the farmers, was one of the reasons why the pilot harvest of summer tomatoes failed.

Summer tomato, ACI pilot, 2013

Consumer-focused businesses often also rely on partners, such as for product distribution. However, they can find the process of building partnerships and moving volumes to end customers is slower than expected.

Although we have found that partnerships are often essential, managing collaboration between the company and other organisations is not easy. Companies seem to be aware of this (e.g. the need for better partnerships was identified as one of their four top challenges by 25 per cent of all companies) yet many seem to underestimate the investment needed to make partnerships work.

4 Operational errors and delays

Sometimes things simply go wrong. The wrong part is delivered, the machine does not work. The 10-month import delay of Universal Industries' flash dryer is perhaps an extreme case. The flash-dryer was essential for production of Universal's new product, high quality cassava flour, and while the dryer was held up, procurement and processing could not begin. Also in Malawi, Afri-Nut suffered from delayed and incorrect deliveries of equipment needed for processing higher value peanut products. The delays are by no means unique to Malawi however, and malfunctions or delayed deliveries are par for the course.

Equipment at the Afri-Nut plant

[3] The BIF Insider on Partnerships explores the importance of collaboration for inclusive businesses: bit.ly/PartnershipInsider

[4] Read more on this company "Commercialising cassava: New opportunities for Universal Industries and Malawian smallholders" bit.ly/CaseStudyUniversal

[5] Read more on this company in the case study "ACI Agribusiness: Designing and testing an integrated contract farming model in Bangladesh" bit.ly/CaseStudyACI

5 Regulations, policies, government action or inaction

In some cases, government is a critical partner, but building this relationship takes time and effort. This is true for both iSchool[6] and One Family Health in Zambia, the former providing online educational content to schools, and the latter aiming to set up low-cost rural clinics.

Where government is a partner, the business is vulnerable to changes in government staffing, as mKRISHI®[7] found when a key local government partner moved on in a pilot of its technology platform aimed at Indian farmers. Also in India, 3S Shramik[8] has piloted private sanitation blocks in slums. The business has had to adapt to local government decisions about whether fee-paying toilets can or cannot be offered, and whether local facilities, such as in schools, can be used.

Regulation can be an obstacle too. In Nigeria, sales of O-gas, an affordable LPG stove, are affected by the regulatory climate, particularly subsidies for kerosene and lack of regulation for basic safety standards in LPG, create a more difficult competitive context.

Perhaps the most decisive obstacles posed by government arise from inertia. The Copperbelt Energy Corporation (CEC) is experiencing firsthand the impact of the absence of policy direction from government. The Zambia energy supplier set up a biodiesel refinery following a government announcement of blending guidelines in 2011. The plan was to source feedstock from smallholders and establish the plant as a pilot whose scale-up would happen once the government issues a mandate/price which would allow oil marketing companies to buy the biofuels for blending with fossil fuels. The authorities have up to now not issued the mandate nearly three years since announcing the blending guidelines. Meanwhile, CEC continues to operate the pilot producing enough to only satisfy their own consumption in the company's other divisions. They have been unable to scale up because of the delays in announcing the mandate despite the pilot being relatively successful.

Jatropha farmer, Zambia

Bluezone aims to provide safe drinking water to deprived communities through provision of world class water devices. In Malawi, they had a project to do just that through installing fee-paying solar water pumps in peri-urban areas of Blantyre in partnership with the local Water Board. However, the project discussed with BIF did not proceed because the Water Board, who were a critical partner in the pilot venture, failed to come forward and agree the arrangement to try the new system. We have recently heard the project is progressing again.

6 Macro-economic shocks

Over the duration of the BIF pilot and amongst our five pilot countries, economic shocks were most extreme in Malawi. In 2011/2012 over the space of a year and a half, the economy was hit by a severe foreign exchange shortage, followed by massive overnight currency devaluation, and most recently a credit squeeze pushing interest rates much higher. All three shocks have been big enough to alter business prospects or models. While affecting all businesses in Malawi, they particularly hit those that are seeking to establish their business mode.

Afri-Nut, a specialised groundnut processor, also from Malawi, was buffeted by economic crises. The shortage of dollars raised prices of peanuts (an export) during the first season, when Afri-Nut was struggling to procure sufficient volume (though it also helped the company by generating a market price for reject peanuts). Post devaluation, domestic interest rates have risen significantly (roughly from 30 per cent to 40 per cent) causing financing problems for such a company that has not had time to build reserves and has high trade finance needs due to the nature of seasonal agricultural production and trade.

Another agroprocessing company has been in operation in Malawi for over 25 years. It embarked on construction of a processing plant around the time of the economic crisis in Malawi. Construction was stopped before completion due to lack of hard currency for the plant, as the foreign exchange shortage intensified.

[6] Read more on this company in the case study "iSchool: Transformative learning in the Zambian classroom bit.ly/CaseStudyischool

[7] Read more on this company in the case study "Evolution of mKRISHI®: A technology platform for Indian farmers bit.ly/CaseStudymkrishi

[8] Read the blogs by 3S Shramik founer, Rajeev Kher: http://businessinnovationfacility.org/profiles/blog/list?user=08rjnvwmpbphg

7 Difficulties embedding the model into the mainstream company

For established companies that are diversifying into inclusive business, finding the right internal home for the initiative can be a big challenge. When inclusive business is located within 'innovation' or Corporate Social Responsibility (CSR) it risks being kept away from the mainstream. But when it is mainstreamed into operations or sales, it risks being judged – and falling short – on the more short-term indicators of success, and not having a structure in which innovation and failure are tolerated.

We have seen multinationals move their inclusive business model around departments and integrate teams from Innovation/CSR with those from Operations as they look for the right home. One initiative in India began in CSR and has not been able to scale as planned due to regulatory constraints limiting its commercialisation as a CSR initiative.

8 Competing priorities take over

When an established company is diversifying into inclusive business, there is inevitably competition for investment amongst a number of strategic options. In some cases, as a company has learnt more about the risks or investment involved, or understood better the longer time horizons for returns, or taken on other challenges, it has become clear that the inclusive business is simply not an immediate priority. This can be associated with a change in leader, who assesses benefits differently, or with learning from practice about what will be involved.

In Nigeria, development of an initiative to engage with smallholders in the sorghum supply chain was delayed by a number of reasons including lack of a compelling business case and wider buy-in, plus replacement of the CEO at a time when internal decision-making on the priorities of initiative was needed.

9 The task is bigger than anticipated

Companies may not realise the degree of innovation required at first. As they strive to make the business model work, they get drawn into a bigger task than they expected, which causes delays. Consumer-focused businesses often end up creating markets and distribution systems, but may have started focused simply on a product. Producer-focused companies end up having to go beyond their comfort zone and into territory of farmer credit, insurance and extension. This requires new staff, partnerships and agreements, so takes time.

Even just evolving the product can be a bigger task than realised, as iSchool in Zambia discovered when they embarked on creating multimedia education content complete with over 5000 lessons for various subjects from Grades 1 to 7 in eight different languages. Developing this content has proven to be quite an ambitious exercise, never attempted by anyone else at this scale. This meant quite a lot of false starts with the official launch date pushed back no less than five times as deadline after deadline for completing the product has slipped, until the actual launch in September 2013.[9]

Sometimes the company realises they are simply not set up to achieve their ambitions as envisaged. There is a mismatch between what needs to be done and the power, capacity or reach of the company. A tannery, which processes raw hide sourced primarily from small-scale livestock farmers into wet blue for export, had long held ambitions to increase the quantity and quality of hides sourced from these farmers. Key to achieving this was not only to train farmers to look after the skin of their animals but also to incentivise them to encourage such practices. After BIF supported the company with a supply chain assessment, it became apparent that the supply chain was too long, with the company located a fair distance away from the farmer, to have any meaningful influence. Company power was also too diluted relative to the power of middlemen, who have close linkages with abattoirs and the smallholders who supply them. The company recognised that the model would not work and an alternative system would have to be set up for their ambition to be realised.

[9] See a blog on the launch by BIF Country Manager for Zambia, Andrew Kambobe: http://businessinnovationfacility.org/profiles/blogs/ischool-launches

10 The business model is not quite right yet or the external constraints are too strong

The core to inclusive business success is the right business model. This is the fundamental theme of BIF engagement. But the business model that works is not guaranteed, particularly in the face of market failures and uncertainties in BoP markets.

In about nine of the businesses that are currently rated as either progressing slowly or stalled, we consider that the company has not yet found all the elements of a business model that will work. The model that has been tested shows that consumer demand or ability to pay are not strong enough, the right distribution channel has not yet been found, farmer engagement is too weak, or partner incentives are insufficient. If the business model is not yet right, sometimes it may simply mean that further iteration is required. In the vast majority, they are continuing to adapt the model, but this process leads to delays.

In a few cases, ultimately, the answer – for now – may mean that market conditions are simply too challenging for a firm to succeed on its own. The question is not whether the market is challenging – it invariably is – but whether external challenges can be internalised and solved through innovation in the business model and through partnerships. If not, then perhaps a business model breakthrough will only be possible in years to come, when other elements of the market have matured or new technical options are available.

Innovations Against Poverty Annual Conference, Zambia 2013: Entrepreneurs discuss things which 'didn't work' in their inclusive businesses

"Usually case studies are about success stories, but it was very useful and constructive to hear about mistakes and change of plans", commented a participant after the session, who felt it therefore was the best conference he had attended in 2013.[10]

IRDI, a moringa processing initiative in Zambia had to restart its initiative a number of times due to problems integrating smallholder farmers into the value chain and unreliable partners. It was also difficult to meet international standards for product quality and adapt to consumer preferences. *An example of the third reason for failure (partnership problems) that we have identified.*

Ignitia, a mobile weather forecasting enterprise in Zambia *struggled with the fourth and fifth reasons (operational delays and market barriers):* Delays occurred in getting a grant from IAP for necessary equipment and it has been difficult to develop a technical solution that is workable in an undeveloped markets and where users are mostly illiterate.

IDE, farm business advisors in Mozambique had to abandon the roll out of a treadle pump for smallholder farmers because the initiative was not market driven. The local contract manufacturer, for instance, had no incentive to produce at low cost and capability was weak due to poor technical skill. *An example of the tenth reason in this report – the business model isn't quite right and there are external constraints.*

Vagga Till Vagga, a bio-mass stove initiative in Zambia *also had trouble getting the business model right:* Working out a way of selling high priced cook stoves proved to be a challenge.

[10] Read Ruth Brännvall's blog on insights from conference bit.ly/IAP2013blog

For more resources on the 2013 IAP Annual Conference, see bit.ly/IAP2013

Find out more about the projects in the IAP portfolio bit.ly/IAPprojects and their journeys at bit.ly/IAPKEReport13

When and where do the challenges arise?

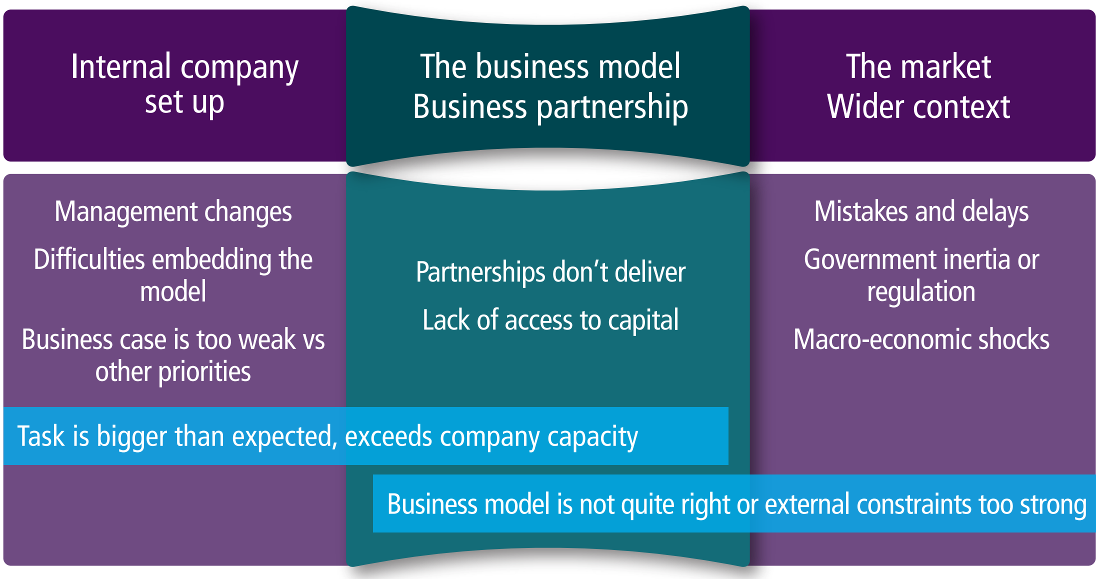
What lessons can we draw from the examples discussed above? The following section attempts to bring out some takeaways for companies.

Within the BIF portfolio, there appears to be a pattern in terms of the stage of development of the inclusive business and the types of challenges that arise. We have seen more businesses fail in the first or third stages of development as Figure 1 shows. The fourth stage, not shown here, is scaling up. Another Inside Inclusive Business report, "Scaling inclusive business: Why do some successful inclusive business pilots fail to scale?" considers seven reasons why an apparently 'successful' business may not go to scale, ranging from unique characteristics of a pilot, to a lack of company commitment.[11]

Figure 1: *Stages of inclusive business development*

The list of ten reasons is disparate and diverse. We initially tried to use a standard categorisation of 'internal' and 'external' challenges. This does not work well because the key to success in inclusive business is finding a 'fit' between the inevitable external challenges, and the approach of the company. A good business model is one that can reconcile the tensions between a challenging environment and existing firm approach that requires further innovation to succeed. This approach to building the jigsaw of an inclusive business model, to cope with constraints and ongoing iteration, is explained further in "The 4Ps of Inclusive Business" bit.ly/BIFfindings. As Figure 2 shows, the business model and its associated partnerships are the bridge between the internal set-up and external context, and have to be designed to fit both. The figure broadly locates our ten reasons across this model.

Figure 2: *Mapping of obstacles across the business model*



[11] See "Scaling inclusive business: Why do some successful inclusive business pilots fail to scale?" bit.ly/scalingIB

Implications for companies

There are no silver bullets to solve these challenges. However, the analysis suggests it is useful to pay attention to:

Internal champion, succession planning, and institutional home: Committed and dedicated champions are needed inside the company, but over-reliance on a single champion is a risk. Building teams, building commitment amongst colleagues and succession planning for leadership roles are key. Succession planning may be difficult to implement in start-ups with a lean staff, and in a large company, succession planning may be normal in the mainstream business but receive less attention in early stages of innovative initiatives. But in both it is crucial for continuity.

Partnerships and partnership management: Successful partnerships can be a major driver of innovation, helping companies move beyond their comfort zone and better understand and reach poor consumers or producers. However, we have seen partnerships fail. The key success factor is identifying the right partner, for the right function and then managing the partnership so that it delivers. Building in exit points is also useful.

> *"Managing this project is like choreographing a dance when the music has already started, the dancers don't know the steps and new dancers keep joining all the time"* **BIF project manager**

A durable fundraising strategy: The shortage of finance cannot be resolved by a single company. But plans to avoid running out of cash part-way to implementation are essential from the start. Start-ups may have little option, but it seems to be asking for trouble to raise money piecemeal without enough finance to reach implementation stage. If the initial finance comes from the entrepreneur, it is important to target external finance and a business structure that will be investible from the earlier stage.[12]

Research on the regulatory environment: A new inclusive business can be tripped up by some law or regulation, or simply take longer to pass through procedural tangles than expected. Seeking legal opinion from reputable corporate lawyers with knowledge of the specific industry and from established entrepreneurs in the sector can help. Consistent engagement with regulatory authorities directly where appropriate and indirectly through associations are also key.

Risk management: Few of the challenges above were anticipated. A systematic approach to identifying and mitigating risk cannot remove the challenges, but may make them easier to avoid or deal with when the economy hits a downturn or key staff leave.

Realistic and flexible plans that allow space for innovation: It takes iteration to get a business model right, and more innovation tends to be needed across different parts of the business model than is initially expected. Therefore, an internal process that allows space for innovation and adaptation is essential.

Perseverance: Although passion is obviously a useful ingredient for inclusive business innovation, it is also essential to have realistic expectations, be willing to adopt a zigzag course when necessary, and persistence to endure through and beyond challenges that arise.

Thinking about innovation

[12] Resources on being investor-ready and seeking finance are found at: http://businessinnovationfacility.org/page/know-how-access-to-finance

Additional resources from BIF and IAP:

To read the profiles of all the BIF and IAP projects, including those mentioned here, go to: bit.ly/BIFportfolio

The final report from BIF *"The 4Ps of Inclusive Business"* explores ingredients of success and the importance of learning from pilots: bit.ly/4PsIB

Seven in-depth BIF case studies, including some of the companies discussed, can be found at: bit.ly/BIFcasestudies

Our **Spotlight** *"Ingredients and results of inclusive business: Findings from the BIF pilot"* looks at the overall findings from the Pilot and progress made: bit.ly/FindingsSpotlight

Two of our **Inside Inclusive Business** reports look at the specific challenges of partnership and scale:

"Take your partners: large companies and collaboration in the Business Innovation Facility portfolio": bit.ly/collaborationBIF

"Scaling inclusive business: Why do some successful inclusive business pilots fail to scale?" bit.ly/scalingIB

The final report from IAP, "*From Paper to Practice*", describes the many challenges faced by start-ups: bit.ly/IAPKEReport13

On other sites

Admittingfailure.com is a website devoted to learning from failure. It includes examples and tools for business, including a 'how to guide' to 'fail forward.

There are few other reports explicitly learning from failure. One good one is the Shell Foundations' "*Enterprise Solutions to Scale: Lessons learned in catalysing sustainable solutions to global development challenges*": http://www.shellfoundation.org/download/pdfs/FINAL+Shell+Foundation+Executive+Summary.pdf

About the authors:

Andrew Kambobe is Zambia Country Manager for the Business Innovation Facility and its sister programme, the Innovations Against Poverty. Both programmes support inclusive business and being responsible for the delivery of both initiatives at country level gives Andrew a front row view on the winding journeys to success such businesses, big or small, have to travel.

Caroline Ashley is Results Director of the Business Innovation Facility, leading on the monitoring of results and sharing of lessons learned from the portfolio. She plays similar roles in other initiatives that seek to facilitates the growth of inclusive business and impact investment.

Business Innovation Facility

The Business Innovation Facility supports companies as they develop and implement inclusive businesses. Inclusive business is profitable, core business activity that also expands opportunities for people at the base of the economic pyramid: either as producers, suppliers, employees, distributors, or consumers of affordable goods and services.

For further information and to join the discussion on inclusive business, go to:
Practitioner Hub on Inclusive Business: www.businessinnovationfacility.org

The Business Innovation Facility (BIF) is a pilot project funded by the UK Department for International Development (DFID). It is managed for DFID by PricewaterhouseCoopers LLP in alliance with the International Business Leaders Forum and Accenture Development Partnerships. It works in collaboration with Imani Development, Intellecap, Renaissance Consultants Ltd, The Convention on Business Integrity and Challenges Worldwide.

We welcome feedback on our publications – please contact us at enquiries@businessinnovationfacility.org

Design: holmqvistdesign.co.uk