

Inclusive Business

Using For-Profit Business Models to Address Global Poverty

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Abstract

Due to the rise of globalization, modernization, and the Internet revolution, awareness of global poverty has expanded, making its eradication a chief goal of the global development community for the twenty-first century. Though corporations are often expected to participate in social and community development initiatives without regard for profits, this paper presents inclusive business as a way for businesses to profitably engage impoverished segments of society. Inclusive businesses seek to expand their consumer bases or strengthen their supply chains by moving into new markets among the poor that have limited access to global markets and remain largely untapped. The research that follows herein delves into the inadequacies of corporate social responsibility and social business to achieve business sustainability and scalability in addressing poverty. This is followed by an overview of the business potential of low-income populations and some of the general requirements and challenges to doing business among these people. Finally, a number of business models will be examined along with several case studies, which provide real world insight into the implementation of those models, concluding with a brief discussion of the keys to achieving scale with inclusive business ventures. Scalable inclusive models allow businesses to expand their reach, whether to consumers or suppliers, beyond a limited community, enabling them to retain the motivation of profit while allowing millions of the world's poor to participate in global markets and improve their standards of living.

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Introduction

As modern society continues to experience unprecedented global population growth and increasing global economic and cultural integration, social issues such as poverty are becoming more exposed and publicly remonstrated than ever before. Despite the efforts of countless non-governmental organizations (NGOs) and government initiatives, a sizeable portion of the world's population still exists on a subsistence level. According to UNICEF statistics, 42% of the population of Africa, 27% of Asia, and 25% of the total world population live on less than \$1.25 per day (UNICEF, 2012). In light of this fact and the growing public awareness of this issue, modern businesses are faced with increasing societal pressures to address and engage social issues such as poverty, regardless of the contribution of these activities towards the competitiveness or profitability of the firms. Yet this traditional outlook on responding to social issues through corporate philanthropy or nonprofit intervention is being challenged in the field of global economic development. While providing assistance in third-world nations has long been an undertaking of western society, the overall lack of success has led to a method shift from the simple supplying of aid to the actual enabling of communities to sustain themselves. This self-sustainability and continued economic growth is made possible by the establishment of businesses in the communities.

Corporate Social Responsibility and Social Issues

The idea of corporate social responsibility has stemmed from the rising awareness of social problems and a call for corporate accountability and community involvement.

Crowther and Reis (2011) cited the European Commission's definition of corporate social responsibility (CSR) as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (p. 133). The focus of CSR activities generally deviates from the purely financial goals of the firm. While organizations try to pursue win-win CSR activities that will bring them economic benefit in the long run, this is a difficult balance to achieve and could be considered insufficient social involvement on the part of the firm. The ambiguous nature of CSR has been a source of controversy in the business world. Every business is forced to balance social concerns and sensitivity with the mandate to maximize profits and increase shareholder wealth.

Iamandi (2007) cited six principle forms of CSR: Cause Promotion, Cause-Related Marketing, Corporate Social Marketing, Corporate Philanthropy, Community Volunteering, and Socially Responsible Business Practices (p. 8). Each of these activities requires organizational resources and forces a tradeoff between investing in profits versus social action. As Sabadoz (2011) noted by citing scholar Van Marrewijk, CSR can easily and often come to be seen as a cure-all solution for global concerns regarding poverty and the environment (p. 80). Yet history has proven that it is the wealth creation of business that produces economic growth and improved standards of living, something that cannot be accomplished solely through CSR activities that vary too far from the core competencies and objectives of the businesses implementing them.

Social Business

If corporate social responsibility does not enable businesses to engage social issues at a sufficient scale, one must ask what options remain. One answer is social

business, defined by Crowther and Reis as a business, which has both a social and commercial purpose (2011). A social business is one whose focus is to address a certain social problem or provide for a need while achieving self-sustaining profitability, thus differentiating it from a donation or grant-driven nonprofit organization. Social business has an advantage over CSR because such a firm is able to build its competencies and efficiencies around addressing a social need, and thus do so more effectively than by simply adding on a budget-draining social program that it is not particularly competent in administering. Social businesses can be highly effective in addressing poverty-based issues because they are solely focused on addressing those issues while achieving sustainable revenues so as to not be dependent upon outside funding. This has the potential to significantly and sustainably contribute to global development. Muhammad Yunus, the mastermind behind microcredit and one of the pioneers of social business, described the latter as “a non-loss, non-dividend company with a social objective” (Yunus, 2010, p. 4).

Yunus separates social businesses into two categories, Type I and Type II. Type I is a company that single-mindedly directs its activities toward confronting a social problem, investing any and all profit back into the business in order to expand and enhance its impact. Type II actually enables the poor to have ownership of the company while seeking profitability in the traditional sense (pp. 1-2).

When establishing a socially-focused business, whether Type I or Type II, in an impoverished or economically underdeveloped community, the primary goal should be to develop the community from whatever level of economic progression it has reached, whether that means addressing basic human needs or dealing with a more advanced or

specifically-focused social issue. Therefore a key strategic consideration should be what basic human needs are present and how those can be met by the business venture.

Ultimately, the venture should aim to increase economic growth and self-sufficiency, rather than dependency, within the population. In order to enhance the economic capacity of the community and its populace, the local supply network must be cultivated and the local workforce developed and empowered to achieve self-sustainability in addressing the social issues at hand.

A community development-focused business must take into consideration the economic advancement of the community and the region as a whole, which could be determined by measurements such as the GDP per capita and cost of living. Ordinarily, as King (1998) pointed out, economic progress is restricted in areas where “the scope of human activity is limited for most people to meeting the bare necessities of day-to-day survival,” (p. 385) which has an “adverse effect on labor productivity, and will preclude the possibility of private savings and investments for much of the population” (p. 385). She goes on to explain that impoverished communities often do not reflect national economic progress due to a lack of resources, opportunities, or the capability to take advantage of these. These communities seem to be left behind amidst the surge of industrial development. Johnstone and Lionais (2004) referred to such “manifestations of uneven development” as “depleted communities” (p. 218). The economic progress of the community will determine what type of business action the enterprise will be able to pursue. For example, in a highly underdeveloped community, a business opportunity could be to provide low-cost water filters or water tanks, while in a somewhat more developed area, offer a service such as professional skills training.

Therefore, a social business must determine if any basic needs are unmet in the community. King (1998) defined such needs as “material and social requirements of human functioning, such as minimum levels of nutrition, shelter, and education” (p. 385). The existence of such needs will determine the priorities and capabilities of the population and thus the potential for economic development within the community. The importance of addressing human needs in the global fight against poverty is made clear by their inclusion in the United Nations’ Millennium Development Goals (MDGs) as cited by Abhijit Roy and Mousumi Roy’s research (2010). Among the nine task forces emphasized by the MDGs are “hunger, education..., child and maternal health..., access to medicines..., water and sanitation” (p. 12). A community lacking basic nutrition or shelter will prioritize meeting those needs over other opportunities, while a community with no major physical needs will be more interested in opportunities such as education to open the doors to broader economic opportunity. Following Yunus’ Type I social business model, a business can address these needs in a way that provides a sustainable income, avoiding becoming a humanitarian venture dependent on outside financing. This is similar to what Johnston and Lionais called “community-business entrepreneurship” (p. 220). The outcome is a commercial enterprise, but one which “evaluates wealth in terms of the benefits accruing to the broader community” (p. 226). Utilizing a social business model in the context of eliminating basic needs will liberate the community and enable it to pursue positive economic growth.

As the community rises higher out of poverty, the focus of social businesses will evolve from basic needs to more developed forms of social engagement. A. Roy and M. Roy (2010) pointed out that continued poverty reduction and economic growth will be

supported by three main catalysts: “technology, capital investments, and education” (p. 15). By enabling the community to access these catalytic resources, social businesses can foster further economic growth that will naturally strengthen as the community continues to expand its capacity. As education increases, the community will become more attractive to capital investment; as capital investments increase, the local economy will advance and outputs will grow, fostering the inflow of more investments; and as community wealth increases, more advanced technologies will become affordable, also opening new opportunities.

Working in impoverished and undeveloped areas, social businesses will face potentially debilitating shortages or deficiencies in the accessibility of resources, labor skills, or traditional business networks. The availability of resources will limit the business options the firm can pursue, and often the community will not have the capability to utilize these resources at any meaningful scale. Johnstone and Lionais pointed out that these depleted communities might lack in multiple areas, presenting “labour skills gaps” and “a lack of business and financial support institutions” (p. 219). In such a scenario, the business must rely upon networking with regional governmental and corporate figures to establish a foundation of partnerships upon which to develop and expand its social venture. Daniel Tolstoy (2010) explained that developing local networks and culture-based routines within the company will lead to the following:

- (1) connection between the firm and other actors [agencies, etc.] that provide access to resources and knowledge, (2) an increase in the inclination of network actors to share critical knowledge with each other, and (3) an enhancement of the willingness of network actors to invest in the network. (p. 381)

It is important to encourage and attract local investments. Again, networking and establishing the business as a positive addition to the community is imperative because “potential investors, employees and community stakeholders must be convinced that the visions are sound” (Johnstone & Lionais, 2004, p. 225). Nonetheless, this process reveals a key limitation of social business in that it is will be extremely difficult to find partners willing to invest in an initiative offering no financial returns, only social impact.

Dependence upon social impact-oriented investors forces the company to behave more like a nonprofit, in that its commercial viability is solely dependent upon the philanthropy and goodwill of its donor-investors. Conversely, a profit-driven company which employs a commercially-competitive business strategy to develop communities will be able to achieve commercial sustainability in both its operations and its capital financing.

Shortcomings of both CSR and Social Business

ADB		Characteristics of Inclusive Business and Social Enterprises as Relevant for Developing ADB's Inclusive Business Funds				
	Philantropie / NGO	CSR	Social Enterprise	Inclusive Business	Mainstream Business	
Definition			A commercial enterprise which mainly focuses on innovative solutions for the poor	A profitable commercial enterprise where the business model balances profit making with scaled social impact	A company which primary goal is profit-making	
	Innovative market based solution to social problems and to strengthen solidarity in the economies					
Business Criteria						
Financial viability	not viable	not viable	commercially viable	fully commercially viable (profitable)	profitable or highly profitable	
Rate of return (percent net per year)	0	0	0-10	10-25	10-50	
Turnover in business (million \$per year)	< 0.5	< 0.25	< 1.0	0.5 - 30	> 10	
Net profit per year (million USD)	0	< 0.05	0.05 - 0.1	0.1 - 10	1 - 500	
Investment (million USD)	< 0.25	< 0.1	0.1 - 0.9	1 - 15	> 3	
Growth potential (average percent per year over 5 years)	< 5%	< 2%	5% - 10%	10% - 25%	> 15%	
Social Impact Criteria						
Main purpose of the business is social impact	yes	yes	yes	mixed (business + social)	no	
Social impact area	community / local	community / local	local	sector / country / systemic		
Bottom line	triple	single or double or triple	triple	double or triple	single	
Benefitting households (total over 5 years, number of households)	500	250	less than 5,000	5,000 - 50,000	anything	
of which poor (under the \$2 poverty line, %)	80%	20%	10%	30%	10%	
of which vulnerable (under the \$4 poverty line, %)	10%	50%	20%	50%	10%	
of which non poor and not vulnerable	10%	30%	70%	20%	80%	
Other Exclusion Criteria for ADB Fund				microfinance, BoP business for private consumption goods		
Examples	Ashoka (IND, ...)		Hapinoy (PHI), Grameen, Sunlabod (LAO), Gyan Shala schools (IND), Team Lease and Labor Net (job placement for the poor in IND)	Nestle Shared Value Program (PAK, SRI, MAL...), Grameen, Aravind eye hospital (IND), Amul cooperative (IND), Guangsha Construction (PRC), Apollo Hospital (IND and other countries), Jain Irrigation (IND), Life Spring hospital (IND), Byrraju Foundation (community filtration, IND), Globe telecom (money transfer for migrant workers, PHI), Lego (Brazil Slums), Sulabh (slum sanitation, IND), Manila Water (PHI)	Calypso Food (targeting middle farmers),	

Figure 1. Quantitative characteristics of inclusive businesses compared with social businesses and CSR initiatives. This figure explains the key measurable differences between these different methods for business engagement of global poverty.

(Inclusive Business at the Base of the Pyramid, 2013)

The chart displayed above showcases some of the inherent shortcomings of both corporate social responsibility and social business activity as fully commercially viable and sustainable responses to the issue of poverty. As is pointed out, CSR is not commercially viable, while social business is commercially viable but only in a sense of

sustainability. On the other hand, inclusive business is fully commercially viable because it provides competitive returns and profits. This makes an inclusive business an appealing investment opportunity not only for those wishing to simply make a social impact, but also for those wishing to gain significant returns from markets with huge growth potential. As the chart shows, an inclusive business will post returns of 10-25%, while a social business will likely not experience greater than 10%, and potentially as little as no return. The chart also exhibits that inclusive businesses have far greater growth potential than social businesses, with an exponentially greater number of households impacted over a five-year period. A business model which can be reproduced in a wide variety of communities while providing commercially competitive returns and profits will attract more investors and in the long-run be able to achieve major commercial scale and broad social impact.

Potential at the Base of the Pyramid

This leads to one step beyond social business: the creation of inclusive business models. Though social business falls into the category of inclusive business, the intentions of the latter remain based upon company profit. The idea is that a company which designs an inclusive business model will be able to help reduce poverty or human need as well as tap into an entirely new market with huge growth potential, all while remaining entirely within its core competencies. Golja and Pozega define several elements of an inclusive business: it provides a low-income populace with a broader range of products or services as well as income-generating opportunities in a way that is financially competitive and able to reach a large scale; in this way, by enabling the poor to be a part of its value chain, it reduces poverty while sustaining a viable level of

profitability (2012, p. 23). Rather than viewing poverty solely as a problem needing to be solved, the inclusive approach views it as an opportunity, as it presents a largely untapped populace with massive business potential, awaiting market involvement. To truly grasp the concept of inclusive business, one must understand this population which inclusive models are geared toward. The population engaged by inclusive business is often referred to as the “base of the pyramid.” This comprises the poorest segments of society which traditionally reap the benefits of economic development more slowly and sometimes not at all.

The base of the pyramid (BoP) comprises roughly four billion people by most estimates. This represents more than half of the world’s population, and can be sub-categorized into income segments. Of these four billion, 1.1 billion have an income of \$2-8 per day, 1.6 billion make \$1-2 per day, and the bottom billion earn less than \$1 per day (Golja & Pozega, 2012, p. 26). Each of these segments represents a different set of business opportunities; while those making less than \$1 per day struggle to secure survival-based needs, those making \$2-8 dollars are beginning to develop discretionary income and thus represent a more advanced market. Nonetheless, though businesses have historically shyed away from engaging this populace, each segment has needs, demands, and productive potential which represents a largely untapped market with huge potential for businesses. Geographically, the base of the pyramid is fairly condensed, with 60% of these people located in just two countries, India and China (Golja & Pozega, 2012, p. 26), which together make up a third of the world’s population. Yet despite this global concentration, these people can be difficult to access given that 68% of the worldwide BoP population remains dispersed across rural areas (Golja & Pozega, 2012, p. 26). This

relative inaccessibility is perhaps the greatest challenge of reaching the BoP populace. Despite this fact, cities will still represent a huge poor population, easier to reach because of their concentration but nonetheless challenging to engage. It was estimated that by 2015 “there will be 225 cities in Africa, 225 in Latin America, and 903 in Asia respectively with over a million people” and “at least 27 cities will have a population of 8 million or more” (Prahalad & Hammond, 2002, p. 7). The rural and urban BoP markets both offer huge potential for businesses to expand their value chains and consumer bases.

Aside from representing an astonishing number of people, the BoP also symbolizes a substantial source of GDP and purchasing power. Though the average income of its constituents in 2007 was only “\$3.35 per day in Brazil, \$2.11 in China, \$1.89 in Ghana, and \$1.56 in India,” together the global “BoP constitutes a \$5 trillion global consumer market” (Hammond, et. al., 2007, p. 3). The BoP population exists on every continent and in many countries around the world. Nonetheless, of the BoP Asia represents 2.86 billion people and a purchasing power of \$3.47 trillion, while Latin America makes up 360 million people with \$509 billion in income, Eastern Europe a population of 254 million representing \$458 billion, and Africa possessing a market of \$429 billion (p. 9). The power of these consumers rests not in their individual capacity but their aggregate potential.

At this point, one might understandably ask how the poor are currently spending their money. Surprisingly, not all of the poor’s income goes toward fulfilling basic needs. Based on industry sectors, as of 2007 the spending in the BoP varied from \$20 billion on water; \$51 billion on information and communications technology (likely a far larger sum now given the rapid growth of this industry amongst the poor); \$158 billion on health;

\$179 billion on transportation; \$332 billion on housing; \$433 billion on energy; and a massive \$2,895 billion on food (2007, p. 9). Despite their expenditures across a variety of industries, the poor still spend a disproportionate sum of their money on necessities such as food. A major factor contributing to this is what Prahalad and Hammond explain to be the “high-cost sub-economies” in which the poor live. For instance, people living in poor or slum communities may be charged 4 to 100 times more for drinking water and 20-30 percent more for food than people living in more developed areas (Prahalad & Hammond, 2002, p. 5). This is the result of difficult access, low competition, and high demand. The need for basic products such as water, food, and medication remains strikingly high, yet the low availability of these products and the lack of commercial competition often forces the poor to pay prices far above the market rate.

Despite their low incomes and lack of market options, a surprising aspect of BoP spending patterns is the purchases of what might be considered “luxury” household items in relation to their overall standard of living. Dharavi slum of Mumbai, one of the largest slums in the world, provides an interesting glimpse into the spending decisions of the poor. Though these poor live in seemingly sub-human conditions lacking what many would consider basic necessities, “85 percent of households own a television set” (Prahalad & Hammond, 2002, p. 7). This is truly a perplexing statistic. The authors give an explanation that relates to the psychology of the desperately poor – for them, saving their money to purchase a home is an unreasonable goal. They would rather enjoy the luxury of owning a television now than save their meager income for the hopelessly dim and distant aspiration of home ownership (Prahalad & Hammond, 2002, pp. 6-7). The key point here is not that businesses should take advantage of consumers at the bottom of

the pyramid and encourage them to engage in reckless spending. Rather, an inclusive business seeks to expand market opportunities to this segment of the population by engaging them in the value chain as producers or tapping into their consumptive potential by offering products that improve their standard of living. This may require fundamentally altering the poor's view on market participation, enabling them to become a part of the global economy and sometimes convincing them of the value of purchasing certain products. Businesses that are able to leverage their supply and distribution chains and partnerships to break into these markets can effectively expand their customer base or supply chain within the area while doing a world of good for the people living there.

Developing Inclusive Markets at the Base of the Pyramid

The concept of inclusive business is founded on the belief that increasing participation in the formal economy in order to produce economic growth is the most fundamental way to reduce poverty on a large scale. While nonprofit and government intervention may fill in gaps of unmet needs, the poor's standard of living can only truly improve through either an increase in income or a decrease in expenses. As has already been demonstrated, inclusive business initiatives can play a huge role in poverty reduction while also offering an appealing opportunity profit and growth needs of corporations. The remainder of this paper will focus on developing inclusive markets and business models that have the potential to achieve scalability.

Before deciding to develop an inclusive market, a company must consider how doing business at the base of the pyramid will strengthen it as an organization, as well as how the initiative will offer value to the communities in which it will operate. Also, the company must take into account the challenges of reaching this new market and the steps

that must be taken in order to do so. First, the opportunity that exploring these new markets presents to the business is of utmost importance, since the ultimate objective of the organization is to increase the wealth of its shareholders. From a broad perspective, investing in new markets provides companies an opportunity to innovate and thus secure increased competitiveness and long-term growth potential (Golja & Pozega, 2012, p. 24). By targeting the BoP population as consumers, businesses will greatly expand their markets to a huge new consumer base, beyond middle-and-high income markets that are rapidly becoming saturated by ever-increasing global competition, opening the door for large profit increases in the future. The lack of competition amongst the BoP has led to “market gaps,” which businesses can fill by providing “new, needed, useful, and affordable products and services” (Business Solutions to Poverty, 2010, p. 44). Many businesses around the world have already begun to recognize the profitability of expanding and customizing their offerings for the poor. One example is in South Africa, where telecommunications firm Vodacom now has half its network users in the countries coming “not from its 8 million subscribers but from 4,400 entrepreneur-owned phone shops where customers rent access to phones by the minute (Hammond, et al, 2007, p. 23). While specific business models will be discussed later, the key point here is that the BoP can represent a huge consumer market for businesses willing to explore new models for offering their products or services.

There are major benefits to be derived from employing the poor as a part of the value chain of a business as well. For one, a business can expand its workforce tremendously by establishing operations in BoP areas, tapping into a population segment largely employed by the informal economy – which according to the International Labor

Organization, makes up over “70% of the workforce in developing countries” (Hammond, et al, 2007, p. 16). These people either work for unregistered businesses or are self-employed, and businesses pursuing inclusive growth can attract them by offering more secure, stable employment with benefits, reasonable wages, and opportunities to receive further training (Business Solutions to Poverty, 2010, p. 46). By employing these workers as a part of their supply or distribution chains, businesses can greatly improve their operational efficiency. From a supplier perspective, sourcing directly from the poor reduces businesses’ needs for intermediaries, thus enabling them to better manage quality while reducing investment and production costs (2010, p. 47). Utilizing the poor as distributors in their local markets can reduce costs, improve efficiency, and expand market reach as well. These distributors “have deep knowledge of local market conditions and can build on local networks,” as well as “reach out to low-income consumers even in remote areas” (2010, p. 47). Lastly, though a less quantifiable benefit, businesses that engage people in the BoP will be able to leverage this amongst the general public, government officials, and potential business partners for increased approval and support.

Integrating the poor into global markets brings them numerous potential benefits, but each business seeking to operate at the base of the pyramid must determine exactly what value their business proposition brings to the table. As consumers, the poor are given access to a wider variety of products, introduced to new beneficial products, or charged lower prices for much-needed products as competition increases. There is great demand among the poor for technologies that can improve their lives in a variety of areas, such as mobile telephones. In fact, “between 2000 and 2005 the number of mobile

subscribers in developing countries grew more than fivefold – to nearly 1.4 billion...in sub-Saharan Africa – Nigeria’s subscriber base grew from 370,000 to 16.8 million in just four years” (Hammond, et al, 2007, p. 7). The spread of technology such as Internet or mobile communication is providing poor producers or retailers with increased market contact and consumers with greater access to needed services, previously with limited or no availability. Businesses should market products to the poor which either meet distinct needs in those communities, such as clean water or healthcare services, or that increase their capabilities, such as improved infrastructure, utilities, or communications (Business Solutions to Poverty, 2010, pp. 31, 33).

Arguably the most important benefit inclusive businesses can bring to BoP communities is access to jobs, and thus increased or stable income, in turn driving economic growth. Economic growth truly does reduce poverty, as evidenced by the huge development of the Chinese and Indian economies between 1993 and 2005, during which the percentage of the population living on less than \$1.25 per day decreased from 54% to 16% in China and from 49% to 42% in India (Gradl, et al, 2010, p. 4). Furthermore, this economic growth must be primarily driven by the private sector, as evidenced by another developing economy, Mexico. From 1989 to 1998, over 12 million jobs were created by the private sector, while the public sector produced only 143,000 jobs during this time (2010, p. 15). Jobs provide people with a steady stream of income and often opportunities for further training to develop or improve skills. On the other hand, the intervention of well-established businesses in low-income economies can be immensely beneficial for producers or small-scale entrepreneurs of the communities. By becoming a part of the value chain of a large business, the producers and entrepreneurs are given access to

markets beyond their very limited localities, thus increasing demand and allowing them to receive better prices for their goods (Business Solutions to Poverty, 2010, p. 29). They also may receive training as to how to produce more efficiently and with higher quality results.

Alongside the tangible benefits of inclusive business for those in the BoP, these models empower the poor to live more dignified lives. This is a concept that, though difficult to define, must not be overlooked. Hahn (2011) delved into the concept of dignity and how inclusive business increases this in poor communities. He stated that unemployment and poverty entail more than a lack of income, but also “a direct impediment to dignity because it prevents further formation of skills, self-fulfillment, and individual freedom” (p. 49). The fact that the poor often pay substantially higher prices for goods, which has become known as the “poverty premium (or penalty),” impedes their rights “to provision, self-esteem and maybe even freedom (of choice)” (p. 53). By gaining expanded access to goods and opportunities for increased income, the poor are then able to live with greater dignity.

Challenges of Entering Base of the Pyramid Markets

Now that the benefits of engaging in BoP markets for both the business and its poor constituents have been explained, the general challenges of entering these markets must be examined. The difficulties businesses face in engaging these populaces are largely related to the limited capacities of the poor, lacking infrastructure, limited or obstructive regulatory environments, and the actual marketing challenges facing the business itself. First, those poor in the BoP are often faced with major financial limitations. These range from their own unsteady or insufficient incomes to a lack of

access to institutions providing loans and insurance – creating an environment which operates primarily on a cash basis and prevents the poor from making investments needed to grow their income stream (Golja & Pozega, 2012, p. 27). The low income of the poor, beyond limiting their consumption and investment capacities, often limits their access to formal markets by preventing them from affording “proper registration and legal documents,” making it more difficult for businesses to sell to them or include them in their value chains (Gradl, et al, 2010, p. 15).

Infrastructural limitations are one of the greatest challenges facing almost any business seeking to work in BoP markets. An area’s infrastructure can be understood to include the roads, bridges, railroad networks, and other transportation related structures, as well as less-tangible elements such as information and communication technologies, and even the existence of business and distribution networks. These infrastructural components are often severely lacking in slums and villages, making it difficult for businesses to reach them (Gradl, et al, 2010, p. 15). The regulatory environment in developing nations is also an obstacle for businesses, as it can often be confusing, ineffective or obstructive to business development. The nation of El Salvador provides a great example of how reforming regulations that previously stifled private sector growth can lead to economic expansion. Since the time required for completing the process of starting and registering a business was reduced from 115 to 26 days when reforms were introduced, the amount of businesses registered annually has increased fivefold (Hammond, et al, 2007, p. 8). Such regulations as were previously enforced are stifling to business development, yet, unfortunately, this is still the case in many developing

countries. Another common challenge is corrupt or inefficient legal systems that lack transparency and further impede businesses (Gradl, et al, 2010, p. 15).

Once a business is able to overcome infrastructural and regulatory difficulties, it still faces the challenge of adapting its products, services, or supply chain/distribution network to enable the participation of the poor. To engage the poor as suppliers or distributors, companies must understand any existing supply networks in the area, sometimes “deep and complex, involving legions of contractors and subcontractors” (Gradl, et al, 2010, p. 15). If a business wishes to source directly from the producers, it will have to find a way around these preexisting systems. Because of market limitations in low-income areas, businesses may have to establish wide-ranging partnerships. These partnerships may need to be unconventional for the for-profit business world, allying with governments and nonprofits in order to fulfill the network and capacity needs of the inclusive business (Hammond, et al, 2007, p. 10).

Lastly, there are major challenges associated with marketing products to low-income communities. People in these areas are not accustomed to a wide range of choices and are not highly informed of the benefits of most products, and thus are likely to continue to use products they know and trust (Golja & Pozega, 2012, p. 27). The company must be able to offer products or services that can demonstrably meet needs in the community, and then convince the people that the product or service is needed, or that it is better than the product of a local competitor. This can be done through educating the population about the benefits of the product, “create word-of-mouth advocacy,” and “aim for trust and identity in branding” (Golja & Pozega, 2012, p. 27). Nonetheless, Erik Simanis (2012) referenced a firm (Proctor & Gamble) that seemed to have taken all the

right steps in marketing and developing its product for the poor, but the product still failed to catch on in the market. This multinational company launched an inclusive business venture selling a water purification product to the poor, went to significant lengths to market it, included the poor in its development, and priced it at 10 cents per packet, a price clearly affordable for its users. Yet the product failed in the market because “there wasn’t a market there” – the company could not educate the population enough about the need for the product in order for them to make the changes necessary to integrate it into their daily lifestyles (2012).

Engaging the Poor as Consumers

Inclusive business models can be effectively broken down into two segments: those which engage the poor as consumers and those which utilize them as producers. Certain models are able to do both, but the primary focus is generally on one of these. Though possessing very limited income and financial leverage, the poor can be engaged as consumers, and there are several established models, which concentrate on this rising market.

One archetype is no-frills service: in this model, the company maintains the minimal necessary capital and assets while keeping expenses low to provide a very basic service; by offering simple services, the company is able to become highly specialized and further reduce its costs. The goal is for high customer volume to enable full exploitation of the existing assets and thus compensate for the low cost of the service (Frandano, Kubzansky, & Karamchandani, 2009, p. 47). This model is a good fit for a well-established business that has already achieved significant scale – it enables the business to provide the most simplistic form of a limited range of its services, while

utilizing current assets, distribution channels, etc., to do so. Multiple firms have proven that it is possible to profitably target both urban and rural impoverished segments of the market with this model by providing low-cost services at a high volume that meet basic needs and provide a tangible standard of living improvement. While delivering products or services at low cost and high quantity inherently limits the level of flexibility, customization, or quality a business can offer, the poor will likely still welcome this in some situations. This would be especially true in a basic needs context, such as health care or housing – the poor will be willing to accept simplistic housing or health care coverage if it meets their need and is offered at a price they can afford.

Hospitals are becoming an increasingly common example of no-frills services in countries with massive urban and rural populations such as India. For instance, Bangalore's Narayana Hrudayalaya hospital group is designed to serve the poor, maintaining high volume of patients and developing practical payment options, yet one of its hospitals still leads the industry's private sector with "a profit of 20 percent in recent years" (Unknown, 2008). Instead of offering a myriad of services, the hospital likely focuses on basic treatments and operations, enabling affordability and profitability. An example of a hospital system geared toward the rural and semi-urban is the Reach Hospitals program of Apollo Hospitals Group, also located in India. The model for this venture was developed to provide specialized healthcare to those without access to it because of their distance from major urban centers. Rates are offered "up to 30 percent lower than other major hospitals;" these low-cost services are "subsidized by services sold to high-income patients from the same area" (Apollo Hospitals, 2012). Both hospital groups provide much-needed services at low cost in areas where they are very limited.

Another example can be seen in Unilever's sales of health and sanitation products to the rural poor, chiefly in India. While not explicitly fitting the criterion for no-frills service (it deals with a product rather than a service), Unilever's model remains very similar by selling a simple, low-cost product at high-volume. The company's Lifebuoy soap bars sold as a "50-gram bar for five rupees (about 2 ounces, for roughly 12 cents)," and now "has become the brand's top seller" (Walker, 2007). By providing a sanitation product that villagers would value and need, Unilever was able to attain profitability through an extremely low-cost, high-volume model. The high level of success of this venture warrants further examination.

To become established in the local market, the Lifebuoy project involved a huge time and labor investment on the part of Unilever, beginning with extreme marketing challenges. Most rural Indians had no concept of sanitation, held back by a combination of limited education and cultural beliefs. In addition, over 70% of India's population is not reached by traditional media outlets used for marketing, due to its widespread dispersion among thousands of rural villages (Lifebuoy promotes handwashing, 2005, p. 3). Before being able to sell the product in villages, Unilever had to literally *create* the market. This was done through a series of health education programs held in numerous villages, the largest of their kind ever to be carried out in India, educating children, parents, and village leaders on the benefits of using soap (Lifebuoy promotes handwashing, 2005, p. 3). The original goal was to educate 200 million in five years, and successfully reached 70 million by the third year, experiencing a 20% sales increase (Lifebuoy promotes handwashing, 2005, p. 3). Now, Unilever's goal is to "change the hygiene behavior of 1 billion consumers across Asia, Africa, and Latin America" by 2015

(Targets & Performance, 2013). This program has been a great success and is achieving massive scale across the globe.

One of the keys to Unilever's success in rural markets is the distribution model it established, which includes village women in the value chain by enabling them to serve as distributors. This system, known as Project Shakti, sets up distribution centers called "Shakti Ammas," from which entrepreneurial village women distribute Unilever's products to surrounding villages; the distributors then make a commission two-to-three times traditional village wages, and the products are distributed to hard-to-reach locations (Narsalay, Coffey, & Sen, 2012, p. 2). Despite facing great challenges in infrastructural deficiencies and brand building needs, the project succeeded in large part because its top management was highly committed to and involved in its development and implementation, and scalability was initially valued over profitability (Narsalay, Coffey, Pongeluppe, 2012). This organizational commitment joined with flexibility and technological innovation to produce success. For instance, to optimize its supply chain functioning in rural areas, Unilever developed "a GPS and density mapping technology" which helped determine the location and distances to where populations were the densest (Narsalay, Coffey, & Sen, 2012, p. 3). Thus, the distributions centers could be set up in the best locations and supplies delivered efficiently. By combining such technology innovations with a widespread network of small, locally-based distribution centers, Unilever was able to gain sufficient operational flexibility to achieve broad scale in rural areas.

Another model, which has proven to be successful in low-income communities, is "pay-per-use." As the name implies, customers of a business using this model are able to

pay to use a product for a single use, rather than buy the product outright (Frاندano, et al, 2009, p. 40). The poor are typically not able to afford many assets due to their limited cash flow, so their only other option is to borrow the funds, with great difficulty repaying them. Pay-per-use businesses can solve this problem. Typically, pay-per-use models involve setting up service centers to reach a large aggregate of people in an area such as a rural village; such centers would be mainly operated by local management teams, with the main company serving the administrative needs (Frاندano, et al, 2009, p. 40). Like no-frills service, a major challenge in pay-per-use, especially in rural areas, is in marketing the product or service and creating the necessary demand.

Sulabh International is a company that employs an innovative pay-per-use strategy for use of public toilets, bathing, and laundry services in low-income areas of India. (Kothandaram, 2007, p. 7). The company was able to develop a sustainable and scalable business model by offering a diverse group of sanitation-related services for use at prices the poor in slum communities were willing to pay. Part of Sulabh's success was based in its unique partnerships with government agencies to help fund and implement its projects. Sulabh was also able to subsidize its lower profit margin pay-per-use services by selling toilets to households in the area (Kothandaram, 2007, p. 7). The company also sought to train former street scavengers and help them develop a new lifestyle and potentially be employed by Sulabh. Through such involvement with the community, strategic partnerships, and low-pricing models, Sulabh was able to achieve scalability and profitability among the poor.

A model that is similar to no-frills in that it provides a limited service is "last-mile grid utilities." Through this model, a utility company expands its coverage (likely to

rural areas) to provide a minimal version of its service, such as electricity or internet (Golja & Pozega, 2012, p. 25). Though not serving in “last-mile” rural areas, Manila Water Company provides a good example of this concept, as it was able to successfully and profitably deliver water utility services to the urban poor in the slums of Manila. These were areas normally either not reached, or serviced with drastic inefficiency by government or private providers.

Manila Water Company took over as the chief water and sewage service provider for a large segment of Metro Manila after the formerly government-run system was privatized. At the time, the poor in Manila were deprived of such services in a city where only 60 percent of homes had access to piped water, and “less than 7 percent of the population was connected to sewerage services” (Comeault, 2007, p. 2). Part of the reason the poor were so underserved was because city officials had not properly planned for the massive influx of people into the city. The areas where many of the poor resided were also hard to reach with utilities, and sometimes the people even established living arrangements on top of the drainage channels (Comeault, 2007, p. 3). To address the problems of these inefficiencies, Manila Water implemented a system which “creates partnerships with local government units (LGUs) and community-based organizations (CBOs) to actively include communities themselves in the design and implementation of water supply systems” (Manila Water Company, 2012, p. 38). This active partnership with the poor was an incentivizing measure and would prove essential in installing, maintaining, and receiving payment for water services in difficult-to-serve slum communities. The communities were given further powers of “self-governance” in respect to their consumption, as this was managed on a communal, rather than individual

home-basis, and water meters were located in public. The model proved to be highly profitable and successful for Manila Water, and by 2011 they had reached over 1.7 million poor users in the city, with all-day access in 99% of the area serviced (Manila Water Company, 2012, p. 39). This is just another example of how service innovation, key partnerships, and empowerment of the people being served can enable scalability and profitability in business amongst the poor.

Engaging the Poor as Producers

Including the poor in business value chains and providing small-scale producers with access to large markets is essential to inclusive economic growth at the base of the pyramid. This is especially true in rural areas, where gaining entrance into the thriving, growing markets of metropolitan areas is nearly impossible for small producers. As Swati Prasad noted, by outsourcing certain low-skill processes to rural areas or developing suppliers there, businesses can “create job opportunities for the youth in rural and suburban areas...an attractive alternative for the local population to work in their native areas,” thus reducing “migration to cities” (Prasad, 2011). Empowering rural communities to participate in business value chains will foster economic growth within those communities. In turn, this will also improve the standard of living in overcrowded cities by slowing the influx of rural workers seeking employment.

An option to engage the rural poor as producers is through “contract production.” This entails contracts between a large-scale enterprise and small-scale farmers, reducing risk for the farmers and securing them market access (Frandon, et al, 2009, p. 77). The retail company must commit to purchasing a certain amount of goods from the producers, yet also ensure that product standards are well defined beforehand. This model connects

retailers with thousands of low-cost suppliers and gives farmers access to training and knowledge that can enable them to improve their production. The only downside of the model is that by removing the risk from the farmers, the retailer takes the full risk upon itself (Frاندano, et al, 2009, p. 82).

One company that provides a great example of contract production, though not in the agricultural sector, is Fabindia. This firm has developed a unique supply chain, sourcing all of its products from low-income artisans in rural India. These artisans are organized under “supplier-region companies,” of which Fabindia had established 17 by 2008 (Bajaj, 2008, n.p.). The company’s management has found that the problems for these potential rural suppliers were “unorganized production, low productivity, inadequate finance, and very weak market linkages” (Bajaj, 2008, n.p.). Thus, Fabindia aggregates rural artisans into clusters, which are presided over by the supplier-region companies; Fabindia establishes a contractual agreement on how many orders it will purchase, and the artisans only have the duty to fulfill the orders placed. While these artisans give Fabindia a relatively low-cost supply source, the artisans are in turn provided a strong brand name, enhanced access to large markets, and financial and managerial expertise. The company has taken this system of empowering its suppliers to a new level by enabling each artisan to own shares of Fabindia’s stock, making its company literally “community-owned” as they become its part-owners (Bajaj, 2008, n.p.). Through this model, Fabindia has been able to achieve significant scale across India, which is now expanding into other countries.

A variation of the contract production model used by Fabindia could be used to organize thousands of urban poor in low-cost manufacturing or as aggregated small-scale

entrepreneurs. One example is a company that established low-cost manufacturing facilities in a poor urban area to produce inexpensive toilets. By developing a simple production process for a low-cost product, the firm has been able to create low-skill jobs while improving the sanitation of overcrowded urban areas and reducing the need for street workers to clean up the human waste (Unknown, 2008). There are many other opportunities similar to this in cities. Basic human-needs infrastructure is needed in many slum areas. For example, a garbage removal company could develop a way to organize the many thousands of “street sweepers” in India, poor people who are forced to wander the streets removing trash each day. Such a venture could provide a large market and potential profitability to the organizing firm, and also increase the income potential and overall quality of life for the street sweepers, traditionally considered among the lowest members of Indian society. Organization is a key way to increase the productive capabilities of urban poor. Another example was given in *Time Magazine* of a firm that “organized 60,000 street vendors and other informal workers into 19 cooperatives that pool resources and secure low-interest credit” (Thottam, 2009). This coordination creates potential for growth and higher profits for these street vendors by enlarging the scale and broadening the reach of their businesses.

Another model is “deep procurement,” in which many small procurement centers are set up throughout rural areas by an agency or business, allowing the products to be assessed for quality early in the distribution chain (Frاندano, et al, 2009, p. 86). They are then consolidated from the different centers and brought by the organizing firm to buyers in higher markets. Deep procurement is practically the same as “smallholder procurement,” a model which also focuses on aggregating small-scale rural farmers in

order to source from them and give them access to larger domestic markets (Golja & Pozega, 2012, p. 26). In order to improve their efficiency and effectiveness, the farmers may be given agriculture training, enhanced access to credit, and help in expanding their production. Because of the high costs of reaching these rural producers, a company might concentrate on higher-profit crops (Golja & Pozega, 2012, p. 26). Models that empower rural producers are needed in many parts of the world, particularly countries such as India with its massive, impoverished, and largely agrarian population. According to one source, “India has the highest proportion of arable land to total land area of any country in the world” (Singh & Taylor, 2008). The same source goes on to state that there are over 25.4 million fruit and vegetable farmers in the country, 70% with less than 2.5 acres of farmland. Retailers can take advantage of the productivity of this largely unused supply market while greatly increasing the breadth of the selling markets, engaging tens of millions of small-scale farmers and making markets available to them. By establishing sources amongst the rural poor, companies utilizing deep procurement or smallholder procurement are able to vastly expand their supplier base, driving down costs, making them more competitive in the industry, and less prone to risk.

ITC Ltd., an Indian holding of a British multinational company, has operations in rural India which exemplify the deep procurement model. ITC’s system centers on the formation of “e-Choupals,” or “Village Meeting Places,” a place where farmers can access a “virtual marketplace” via the internet, allowing for them to carry out sales more directly and for an improved price by bypassing intermediaries in the supply chain (Agrawal, 2010, p. 2). Previously, these farmers were forced to move their products primarily through government-run market channels, which were organized inefficiently

and led to significant lost income for the producing farmers. The e-Choupals, which ITC established, became centers for the exchange of products as well as information. Each e-Choupal is managed by a trained team who examines the quality of sample goods brought by each farmer, and then gives a price estimate based on a price assigned to the set quality standard. The farmers then bring their full harvest to the nearest ITC collection and distribution center along with the estimate given, where they are fully compensated (Agrawal, 2010, p. 5). This system has not only enabled farmers to gain increased revenues from their crops, but it has also driven down ITC's procurement costs. The e-Choupal's give ITC greater control over and communication with their supply chain through "direct virtual vertical integration," while the farmers are empowered by having more direct access to retailer markets and information via the Internet (Agrawal, 2010, p. 7). Engaging the poor as producers can help businesses to optimize their supply chain efficiency while helping the poor develop skills and access markets. Yet at the most fundamental level, it provides the poor with greater income, which is the essential ingredient to rising out of poverty.

Keys to Scaling Inclusive Business

Each of the models that have been described differ in various ways, yet similarities can also be found which can be viewed as key success factors for scalability. This can be verified by briefly looking into research on the subject of scaling inclusive models, and comparing the main findings with the case studies previously examined. One source identifies two broad, overarching models that inclusive businesses can employ: "isolated and interactive business models" (Sanchez & Ricart, 2010, p. 143). A firm pursuing an isolated strategy seeks to develop a value chain in a new market by

leveraging its own capacities, knowledge, networks, and assets. Through its own ability to market or even vertically integrate, the company seeks out suppliers, retailers, or distributors with which to partners in order to gain market share. On the other hand, with an interactive model, the company sacrifices some of its control over the value chain by allowing it to be “co-managed,” but in doing so extends its access to knowledge, resources and overall span of influence that would not normally be within its capacity (Sanchez & Ricart, 2010, p. 147). While isolated models may be highly effective when resources are already somewhat readily available in the market and uncertainty is low, interactive business models allow firms to tap into markets that have not been reached and which have no preexisting networks. In other words, these models “require the development of an entire new ecosystem” (Sanchez & Ricart, 2010, p. 146).

Business ecosystems are undeniably crucial for successfully operating at the base of the pyramid. Business ecosystems can be defined as “communities or networks of interconnected, interdependent players whose actions determine whether or not a company’s inclusive business model will succeed” (Gradl & Jenkins, 2011, p. 9). So how does a firm develop an ecosystem or strengthen an already existing one in a low-income market? The first key for firms to consider is internal. Any inclusive venture must have the full support of upper management (Narsalay, Coffey, & Pongeluppe, 2012). Establishing markets among the poor is not easy or cheap; it requires significant investment of time and money on the part of the company. The Unilever case provides a great example of this – Unilever’s leadership was intimately involved with the company’s inclusive ventures, from the development to the implementation and continual

monitoring. Beyond gaining leadership support, a company seeking to grow inclusively may be required to alter its organizational structure (Narsalay, et al, 2012).

For an inclusive model to reach massive commercial scale, gaps in the ecosystem or business network must be reduced. These gaps can include lack of government support, lack of consumer knowledge and participation, lack of credit for the poor, and limited production skills and knowledge for small-scale producers (Gradl & Jenkins, 2011, p. 8). Fortunately, these potential threats can be turned into strengths in a well-developed ecosystem, thus enabling scalability. While a company such as Unilever is so enormous it can absorb many of these needs on its own, most businesses seeking inclusive growth will be required to establish strategic alliances. These coalitions could include “other companies, NGOs, governments, public donors, and private foundations,” formed with the purpose of developing a particular part of the ecosystem (Gradl & Jenkins, 2011, pp. 18-19). This is seen in the case of Sulabh International – because there were significant gaps in the market for toilets and sanitation services among the poor, such as education about the benefits, the company partnered with the government and nonprofit organizations to achieve its goals. Based on the cases studied, this need to educate the customers to achieve scale in consumer-driven inclusive markets seems to be prevalent – thus finding a way to achieve this specific task is essential to scalability. In engaging the poor as producers, one thing each case business had in common which led to its success and scalability was its empowerment of small-scale producers through skills training and its provision of credit, enabling these producers to expand their production capacity over time. This is seen in the cases of both ITC and Fabindia. While these are

just a few activities in which a company must excel to reach scale, they are among the most crucial for a company expanding into low-income markets.

Conclusion

In a world that is rapidly changing and developing as a result of globalization, economic power and wealth is shifting toward developing nations around the world. Nonetheless, more than half of the world's population remains in poverty in areas showing little sign of economic growth and with limited access to large-scale domestic and global markets. Rather than address this economic and social gap through corporate social responsibility or nonprofit initiatives, which fail to address the core issues of poverty and achieve scale, inclusive business offers a solution which engages the poor as members of the formal economy. This allows the poor access to markets, beneficial goods and services, and job opportunities giving them higher income, while giving the business new consumer markets and supplier bases. While there are numerous inclusive models, this research addressed several well-established and commercially successful examples, followed by a brief discussion of the elements for achieving scale through inclusive business. It seems logical to conclude that inclusive business will grow in popularity as business professionals become more aware of the vast potential of markets at the base of the economic pyramid.

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