BIF
How to Note

The Practitioner Hub FOR INCLUSIVE BUSINESS

Business Innovation Facility

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Finding common ground: How companies and market systems programmes engage effectively?

Market systems programme partner and the private sector have a lot of common objectives. How each can identify these to initiate a constructive relationship is discussed in this How To Note.

The Business Innovation Facility (BIF) is a £31m private sector development programme funded by the UK Department for International Development (DFID). The programme supports companies to innovate product and services that benefit both poor people and business. The programme is being implemented principally in Malawi, Myanmar and Nigeria. This How To note is one of a series that distils learning from all three countries after the first three years of the programme. Access all of the Notes at: **www.bifprogramme.org/resources**

Why this matters: Market systems programmes and companies need to identify common goals in order to be able to engage with each other. This How to Note explores how and why.

Companies that are pioneering new business models that will benefit low income consumers, producers and employees sometimes approach donors for help. From a company perspective there should be an easy fit between their desire to work with greater inclusion and a donor's aim to reduce poverty. However, donor resources will often be allocated to large scale programmes with specific development targets and beneficiary populations, including those which aim to bring about sustainable change at scale such as market systems programmes (MSPs). Such programmes have very specific criteria in mind when looking to partner with individual companies.

The development agenda and the operating parameters of donor programmes can be difficult for the private sector to decode. MSPs in particular can appear to be extremely complicated. Where can a company that needs support to develop an inclusive business initiative find common ground with such programmes?

On the other side of the same coin, a recurring question faced by MSP such as BIF is which companies to engage with and what form the engagement should be taken?. BIF engages with the private sector either by first identifying a market in which to operate and then finding appropriate companies with whom to work (usually SMEs), or by identifying multinationals that are looking to innovate and then develops a programme to develop the market in which they are innovating.

In this note we explore case examples from both of these strands of BIF and present both the company and MSP perspectives. We then draw some lessons for each to bear in mind when seeking to engage with one another.

Framing the issue

The Practitioner Hub for Inclusive Business defines 'inclusive business' as 'business models that combine commercial and social return'[1] . This can be expanded to capture how this social return can be achieved, for example through a positive impact on a company's customers, suppliers or employees. This has been defined elsewhere in terms of 'shared value'[2]. ''Value' in this sense flows from company activities in three ways:

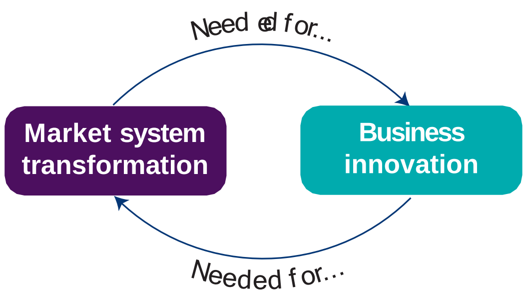
- Increased revenue (e.g. increased sales in underserved markets)
- Avoided costs (e.g. increased operational effectiveness through reduced resource use, improvements in employee working conditions)
- Intangible value generation (e.g. enhanced brand value, license to operate)

The 'Operational guide for the making markets work for the poor (M4P) approach'[3] sets out the principles for what is referred to as the market systems approach in this paper. It notes that:

> *'Improving the lives of the poor – stimulating growth and expanding access – means transforming the systems around them. Market systems development recognises this reality and provides a coherent, rigorous approach to understanding and intervening in market systems so that they function more efficiently and sustainably for poor women and men.'*

It has also been stated that 'Supporters of market systems approaches believe that the best way to help people out of poverty is to address the underlying causes of market failure. Rather than focus broadly on macro-economic problems or individually on specific businesses or families, they instead look at the ways poor people and businesses interact in particular sectors. By analysing and understanding this, they can help make systemic changes that create lasting, inclusive growth.'[4]

However MSP often does involve working with individual companies and this is certainly true of BIF which places company-led innovation at the heart of its activities. BIF, as with many MSPs, starts by analysing markets that have the potential to benefit large numbers of poor people, and then seeks to understand and address constraints, or develop untapped opportunities, that unlock this potential. This involves analysis of the whole market system - from the traditional value chain in which the poor are engaged as well as organisations that provide supporting services and formal and informal 'rules' that govern the system. In many markets a business innovation can be a critical step forward towards removing constraints in the wider system. This can be presented in terms of a conditionality between the market system transformation and company innovation as in the following diagram:



This intersection between company innovation and market system transformation can also be expressed in terms of an alignment of incentives for change between a company and the MSP that is seeking to facilitate market system change.

Case study 1: Aquaculture feed market (Nigeria)

Context: Smallholder fish farmers often lack the skills they need to improve productivity. 70-80% of their costs are in feed and so proper management and application of feed can make all the difference to commercial viability of small-scale fisheries (SSFs). Demonstration ponds set up by fish-feed companies can help farmers to learn new skills and to see the benefit of doing so.

Company perspectives: The large/ market leading fish-feed companies are already struggling to meet demand for their products because locally made feed is more attractive to fish farmers due to FOREX constraints. In contrast smaller feed companies are still keen to find new customers and gain market share. They are therefore willing to contribute feed to demonstration ponds.

BIF perspective: The BIF programme is seeking to help small fish farmers to become more productive and increase their income. One of the way they can do this is by receiving more information and support from feed companies. BIF had originally sought to partner with large companies but realised that there is a better alignment of interests with the smaller fish-feed producers. The BIF team also helped the organisation that was training smallholder fish farmers to redesign its business model so that it was less dependent on the participation of feed companies.

1 Creating Shared Value' and 'The Truth about CSR' (Harvard Business Review)

2 For example in Creating Shared Value' and 'The Truth about CSR' (Harvard Business Review)

3 https://beamexchange.org/uploads/filer_public/9e/47/9e477a7c-8865-4ae6-8424-845cdd84c961/m4pguide_full.pdf

4 https://beamexchange.org/market-systems/why-use-systems-approach/

Case study 2: MNC engaged in cassava and maize (Nigeria)

Context: In many agricultural markets there are ways in which opportunities for women can be enhanced. In Nigeria, cassava and maize are two such markets.

Company perspectives: Many companies are keen to engage more women in their supply chains and improve the impact of these supply chains on the incomes and livelihoods of women. However, companies need to make commercial decisions based on the business benefits of doing this. Modifying local sourcing strategies to be more affirmative of women requires resources that may be required for other business priorities. Companies also may lack the expertise necessary to bring about such changes in a sustainable way.

BIF perspective: Improving the impact that cassava and maize farming can have on women's lives sits well with BIF's aims as a development programme, but it was also essential that BIF fully understand the business realities and challenges that companies operating in these markets are facing in Nigeria. BIF also needed to identify the best mechanism for collaboration with these companies such that BIF could help them to address some of those challenges while also delivering BIF's market change objectives.

Incentives are aligned when:

- A company has a strategic interest in a new business model, or change in business practice, that will result in commercial returns, but is either not yet able to make a sufficiently strong case for investment or lacks other resources or information to proceed alone;
- The MSP has identified that a system (or market) could deliver significant benefits to low income consumers, producers or employees if a breakthrough innovation in the private sector changed the way the system operated to become more inclusive.

The BIF process

The diagram below captures in BIF process of engaging with companies. This note focuses on the first stage, i.e. the mutual process between companies and BIF of identifying a shared agenda.

Identifying where companies and market systems programmes intersect

During the initial stages of an MSP, when teams are analysing the market and developing a strategy, they will engage with a large and diverse range of market players.
The following lessons are the key ones to emerge from the BIF experience to date as a relationship develops between a company and an MSP.

Look for core business opportunities

A company seeking to collaborate with an MSP can share its strategic objectives with MSP managers and see whether there is common ground. Most often the value in partnering with an MSP comes when a **core business objective** can be achieved by doing so – and in particular when it will help 'the bottom line'.

An MSP will be looking for partner among companies operating in a market. As case study 1 illustrates, the MSP may make **wrong assumptions** about which type of company to partner with. The MSP should be willing to adjust its approach in order to identify companies where there is a better alignment with the programme objectives.

MSPs can play a useful role in helping companies to **recognise a core business opportunity** for them, and then in reducing the risk of investing in something that is still unproven. Sometimes an MSP may appear to be more 'pro-market' than a company. When engaging with managers of MSP it will often not be necessary to accentuate the social mission of the company: that is usually understood. The MSP will want to know that there is a commercially sustainable business model at the heart of the proposed innovation, and so the company and MSP may be better aligned than either party may first think. Case study 3 is a good example of this, and BIF saw its role as being a proponent of a firmer focus on core business and a

Case study 3: MNC developing a low-cost personal hygiene product

Context: Consumers in rural Pakistan are often unable to access hygiene products that contribute to reduction in the incidence of childhood diarrhoea. New business models are needed that can reward fast-moving consumer goods companies for the additional cost and difficulty of distributing and marketing products to these consumers.

Company perspectives: The company with whom BIF has been working made a significant commitment to making a contribution to the prevention of diarrheal diseases; its philanthropic fund invests in awareness campaigns to promote measures that people can take to combat such infections. In Pakistan they have a core business objective to grow the market for their personal hygiene products. The company conceived a CSR project that combined education on personal hygiene with increased sales of personal hygiene products. Analysis of a small pilot demonstrated that this model would not reach scale or sustainability. The company therefore decided to separate management of its education and sales activities. Hygiene education is funded by the company's corporate affairs team from its international HQ whereas responsibility for sales was taken on by the in-country commercial team,

BIF perspective: BIF wants to facilitate a change in the market for personal hygiene products such that consumers in rural Pakistan get access to affordable products. BIF made the case to the company that scale and sustainability in product supply requires that the business model meets rigorous commercial benchmarks and is part of the company's strategy for increasing market penetration. It agreed to support a further pilot that will test a new distribution model developed in-country. BIF will use this to learn more about how the market more widely can increase rural access to personal hygiene products

separation of the CSR element into a separate budget and management structure within the company. This is what paved the way to collaboration between the MSP and the company in this instance.

Private sector incentives are sometimes about social as well as financial returns

Companies and MSPs can find alignment of interests beyond what directly impacts the 'bottom line.' Improving the engagement by women in a company's supply chain is a good example of this. MSPs are usually set up by donors in order to address poverty and disadvantage, such as gender imbalance. Companies have the same objectives as responsible and ethical organisations that make a positive contribution to society in a number of ways. Improving the way in which disadvantaged groups can engage in a supply chain is a very good way to do this, and can leverage a company's strengths and influence, as case study 2 suggests.

Find the right incentive – but within a company's comfort zone

An MSP may sometime go too far in providing incentives for a company that is not yet persuaded as to merit of a business opportunity as case study 5 suggest. It can feel like a delicate balance for an MSP to avoid what other companies may think of as an unfair level of support to one company and/or simply provide resources for a company to do what it wants to do anyway. On the other hand, a company may be tempted by an MSP offering a high degree or risk-sharing, but if the initiative is still not one that a company will be ready to invest in for other reasons then this should probably be rejected. Clearly, careful thought is needed on both sides to identify an appropriate level of incentive that is enough to remove genuine barriers to investment but does not lead a company into a strategy that it is still uncomfortable with.

Patience is needed

For the MSP it is important to spend time developing a holistic understanding of the market and the type of partner you are looking for so that you can target potential partners carefully and avoid spending too much time pursuing the "wrong" businesses. Where possible, develop selection criteria and/or a screening process to help identify the most suitable companies to engage with. Spending time to understand companies, their background, pain points, and how the programme can add value will pay dividends later on. For example in the Myanmar garments market the BIF team developed selection criteria and a process for screening to select the factories and built in some redundancy in terms of the number of factories.

A company will find that working with MSPs requires a long and rigorous analysis and strategy phase. If a programme engages with you at an early stage, the interventions they go on to implement may not yet be fully defined, may take a few months to start up, and may not align with your initial expectations.

Transparency and clarity will be rewarded

A company that shares the challenges faced by the business will enable programme teams to understand your business better and whether and how they might be able to add value.

It is important when identifying and conveying your expectations of the programme and your motives for engaging. MSPs rely on businesses being willing to change their behaviour. It is unhelpful to remain engaged with a programme if, for example, you are unwilling to adopt new business practices, or if the programme can only offer technical assistance services and you will only consider working together if there is finance available. The solar example in Malawi suggests that, counter to what may seem intuitive, companies may continue to engage with an MSP when there no longer appears to be a strong case to do so. In this case the company were worried when sales were slow and so reduced prices were under-priced (in disregard of BIF advice) to a point where it was difficult to break even. Senior

Case study 4: Pico-solar products market (Malawi)

Context: There are a very limited number of companies engaged in the sale of pico solar products (PSP) in Malawi with whom BIF can work, but there is interest from companies that sell larger solar systems to move into this space and improve the choice available to consumers.

Company perspective: One company showed interest in developing a PSP offering, moving beyond its current focus on larger solar systems for businesses, private individuals and NGOs. Some of the company's managers thought there could be an opportunity to expand the company's portfolio and reach consumers at the bottom of the energy ladder. However, there was not universal agreement that this was the right strategy and senior management in particular were not strongly committed to the idea or prepared to investment in what they perceived to be a risky imitative.

BIF perspective: BIF wants to facilitate a change in the market such that consumers are offered a much wider choice of affordable solar products, The BIF team thought that with the right support to the company management might become more committed to selling solar products and thereby demonstrate the commercial viability of selling PSPs. BIF tactics included:

- making the case to senior management using breakeven models, pricing calculations and regular meetings to discuss progress and plans;
- mitigating risk by providing financial support to the company to cover part of the cost of the sales staff and incidental expenses associated with the pilot;
- providing support to develop and adopt a management information system for sales, stock and revenue collection; and
- 'seconding' a junior consultant to work with the sales team to support operations and marketing.

management remained unconvinced that this was the right strategy and as a result there was limited commitment to managing pilot operations and implementing an effective marketing and sales strategy. Although there were some product sales the company ultimately decided not to continue.

For an MSP transparency is the best policy when engaging in initial conversations with companies about the stages and timeframes involved in a market systems programme. Note that it is not a given that companies involved in the development of a market strategy will be part of interventions later on – although of course it would be ideal if objectives did align and it was possible to form a partnership.

Clarity should be made on what the programme may or may not be able to offer, and what commitment / cost sharing might be required from the company in return. This is essential to avoid feeling morally obliged to later work with potential partners identified during the market analysis and strategy phase. It is also important in making sure that companies do not continue to engage with the programme under false expectations (for example, hopeful of receiving financing when the programme can only offer technical assistance). This will only lead to companies dropping out further down the line.

It is also important to make sure that you have correctly identified the appropriate decision-maker to engage with within the company to avoid having to repeat the initial engagement process with a number of difference stakeholders.

In conclusion

From the BIF experience the following questions may be useful to keep in mind when a company and an MSP seek to engage:

1 What's in it for me?

Incentives are important and 'enlightened self-interest' is what drives responsible innovation.

2 How can we cut through the fog?

MSP are complex – but then so are many companies, especially large ones – so take time to understand each other and identify key stakeholders.

3 Are we moving too fast?

Timetables between a company and an MSP may differ, but if one side rushes ahead it may only store up problems later.

4 Are we pushing too hard?

If either a company or an MSP are uncomfortable there is a probably a good reason to re-think.

5 What do we do next?

Building on the common ground that has been established between a company and an MSP will need strong working relationships backed by formal agreements – as the BIF How to Note: 'Building strong foundations' explains.'

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