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Review: Growing Prosperity vs Beyond the Pioneer

Introduction

Working with the private sector in support of improved development outcomes is now widely accepted as a valid approach. However, as confirmed in a recent report by the DCED (*Donor Partnerships with Business for PSD: what can we learn from experience"; DCED 2013*): "…we know relatively little about the results achieved, and in particular their development impacts." More disconcerting is their reflection that "…'Doing partnerships' and 'honest inquiry' often appear as opposing cultures."

For these reasons we need more clarity and consensus on leading questions such as: why we work with the private sector; how we work more effectively with them; and what impact we are achieving.

Two recent publications start to shed light on these questions. Whilst they don't offer all the answers, they do offer some valuable insights. The Springfield Centre supported the publication of both papers as key informant and peer reviewer. We'd like to share some key messages from these papers here.

Scaling inclusive business

Working more with business doesn't mean that we in development are more business-like in what we do, but it has influenced the *thrusting* way in which we talk and present our work. We're all about innovation. We're all about scaling up. Just like that.

In spite of the rhetoric, and despite high expectations of the potential of "pioneer firms", as coined by the Monitor Group 2012 paper, *From Blueprint to Scale,* success stories remain elusive. Bain & Company found that of 100 pioneer firms surveyed, less than 5% had achieved scale by reaching either 250,000 customers or 25,000 suppliers. Research also indicates that impact investors are struggling to find investable opportunities.

Commercially, it's tough to find and place impact investments. Developmentally, it's tough to realise impact gains at scale. Why might this be? What can we do about it? Do we need to temper the exponential growth in direct funding for firms from development agencies until we know more on its effects and effectiveness?

Let's explore some emerging findings from these two new reports:

Growing Prosperity (Bain & Company, 2014)

The report focusses on an examination of the firm's internal organizational constraints. The premise is that increased productivity is the key to improving income for BOP farmers, and that pioneer firms can engage profitably in provision of inputs and services to this market. The recommendations arising from the research are framed around the pioneer firm's approach to marketing and 4 "As" are proposed to guide the firm's strategy:

- Awareness: The rural poor have little access to media and tend to have limited trust in outsiders, making it difficult for firms to influence farmers to procure new products and services. Positive experiences reported by early adopters has been shown to be the most effective means of increasing consumer awareness.
- Advantage: Bain & Company's research showed that increasing income was the most significant advantage sought by farmers and the single biggest factor in determining their likelihood of taking up something new.
- Affordability: There are a multitude of factors affecting poor consumers, from limited cashflow and total cost to seasonal factors, and homing in on solutions that address these issues, such as deferred payment schemes, can be critical for uptake.
- Accessibility: The rural consumer is hard to reach; piggybacking on existing distribution networks can be more cost effective than creating new ones. Timeliness is also a crucial aspect of

accessibility, especially with respect to the seasonality of crop inputs and work capital constraints for farmers.

In many ways this thinking takes us back to core logic of inclusive business – focusing on the poor, and seeing business as simply the means through which increased poverty impact can be achieved. It harks back to Prahalad and his rethinking of *The Fortune at the Bottom of the Pyramid, 2005*.

Having proven a workable model, firms need to be able to expand their reach; yet reaching scale is neither a given nor straightforward. In looking at what they call "repeatable models" Bain and Company accept that scale is not linear, and more often than not is undermined by constraints external to their firm, and beyond their direct control.

If barriers to reaching scale often lie beyond the ability of the firm to overcome, then working solely with firms to achieve scale cannot be sufficient. But what do these external constraints look like, and what can we do about them? These are themes examined next in our Monitor review.

<u>Beyond the Pioneer (Monitor Group, 2014)</u>
A survey of 50 inclusive businesses showed that all were affected by at least one external barrier, and 80% cited those affecting them to be critically limiting. The Monitor Group proposes that in order to address these external barriers, "industry facilitators" in various guises are needed. In other words, working with firms might be relevant, but it isn't sufficient. There will also be a need to work beyond the firm.

The report goes on to argue that industry facilitators will need to work from an informed position based on solid research and analysis and act to realise sustainable change in an industry. Their analysis concludes with four common lessons emerging from a number of studies on the growth of inclusive industries:

- The right business model is needed for scale to be possible. This requires some fundamentals such as solid management and processes, a focus on customer needs and a strong understanding of the local context(s);
- Facilitators should address constraints at industry, not firm, level. Where individual firms lack incentives to take on external barriers, facilitators can act for the common good. This can range from advocacy on regulatory reform to practicalities such as extension training and improved seed varieties;
- Facilitators should take on the roles for which they are best suited. Government failures in effectively managing commercial institutions illustrate the damage that can be caused by facilitators taking on inappropriate responsibilities; and
- Long term, flexible, engagement is needed. Industry facilitators need to adapt to unexpected eventualities and commit to a sustained level of support.

<u>Concluding thoughts</u>
The studies of pioneer firms described in these reports and in other recent literature illustrate the bumpy, unpredictable nature of their journeys from "blueprint to scale". Donors cannot expect one off, short term, injections of support to be sufficient to assist firms over all the hurdles they will encounter.

What is clear from the research is that investment and facilitation, when directed effectively, can reduce the innovation frontier across entire industries and not just for individual firms. Addressing constraints in the entire market system is necessary to enable inclusive businesses to expand to reach their potential and reach the poor at scale. Donor agencies need to be working at the industry, not solely firm, level to unlock this potential.