Inclusive Business Models principles

INCLUSIVE AND SUSTAINABLE AGRIBUSINESS AND TRADE
ITC STAFF TRAINING WORKSHOP
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Introduction to Inclusive Business Models

Increasing investment aimed at facilitating integration of SSF into value chains

Producer-first buyer linkage is usually the weakest: thus focus on reinforcing BMs between producers and buyers

Inclusive and business elements of an IBM often involve competing forces: trade-offs required

Continuous evaluation of trade-offs so that investment in IBMs results in improved food security and poverty reduction
Definitions of inclusive value chains/inclusive business models

Market integration of low income groups into value chains – CIAT

Builds bridges between poor people and business community - UNDP

Mutually beneficial business partnerships – GIZ

Enterprises adapt their buying practices, supply chain, marketing strategy ad company operations for smallholder sourcing - Oxfam
Value Chains and Business Models

weakest link

Input supplier → Producer → Buyer → Wholesaler → Retailer → Consumer

Financial service providers
Public institutions
Logistic service providers (transport, storage)

Enabling environment
From overall value chain perspective

The IBM approach looks close-up at the relationship between the farmer and the first buyer.
FAO’s IBM approach

FAO’s field programme on agricultural value chains has resulted in a methodological framework to promote IBM.
The thinking behind FAO IBM approach

Focus on key VC problems

– Improve reliability of raw material supply
– Build back from business - strengthen the buyer’s ability to do business with smallholders

Strengthen the people who make the economy grow

– Business managers know their markets
– SMAEs create value, buy products, generate jobs
– Mainstream business thinking among small actors: producers, FOs, SMEs
Inclusive business models principles

1. Is the business model inclusive?

2. Is the business model competitive?
Inclusive Business Models Principles

Trade-offs have to be made to:

1. Include small, inexperienced actors
2. Generate profits and grow
1. Inclusion of actors

Refers to actors that are directly involved in the supply chain

- What actors are included?
- What experience and knowledge of actors does the BM use?
2. Inclusion of diverse market outlets

- What type of business linkage has been established between actors?

- Does the business model encourage a range of market outlets available for small actors or are they mostly dependent on one market?
3. Inclusion of Partners

*Refers to partners not directly involved in the supply but providing services from outside*

- With what type of partners does the BM work?
- Do any of the partners dominate the business model? Or is there shared decision making?
Competitive Principles
4. Managing business strategically

• Does the BM encourage efficiency (e.g. quality, timely delivery, payments)? How?

• Do the actors involved earn enough?
5. Business to business collaboration

• In what way do the main actors in the BM collaborate?

• Are there mechanisms aimed at improving collaboration between buyers and sellers?
6. Responding to customer needs

- Do the main actors have the business and technical skills to respond to customers’ needs?

- Does the business model or partners support capacity building in these areas?
## Overview of principles

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<th>Inclusivity</th>
<th>Competitiveness</th>
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<td>1. Inclusion of actors</td>
<td>4. Strategic business management</td>
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<td>2. Inclusion of diverse market outlets</td>
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What is the role of buyers in building inclusive business models?
Not all buyers are the same

- Types of activities: trading, processing, wholesale, retailing
- Size: individuals, small-medium-large enterprises
- Origin: local, foreign
- Type: public, private
- Formal, informal
Why are buyers interested in buying from smallholders?

**Business Case**
- No alternative supply
- Diversify supply sources
- Reduce price variations
- Proximity
- Brand
- Political pressure

**Social motivation**
- Support local development
- Social entrepreneurs
- Working with NGO
Buyers role - Why is it important to engage with them?

- Provide market outlets for farmers
- Provide jobs in rural areas
- Transfer knowledge on market and product requirements
- Smaller buyers often pay cash on delivery
- Can influence the business enabling environment

Addressing buyers problems will help smallholders access markets
From buyers
Not all farmers are the same

- **1-2% Commercial farmers**
- **3-15% Regularly selling to markets**
- **20-30% Occasionally connected to markets and buyers**
- **40-50% Subsistence farmers buy in food and get most cash from off farm work**
But…. There are challenges when procuring from smallholders
Challenges

• Difficulties in sourcing from smallholders
  – Geographic dispersion of smallholders
  – High transport and administrative costs
  – Meeting product requirements, standards, consistent supply

• Internal challenges - formal procurement mechanisms not friendly for smallholders (payment delays, bank transfers)
IBM implementation approach

THE SAME OLD THINKING

THE SAME OLD RESULTS

Action & Results
IBM approach - Implementation steps

1. Understand the business model - how actors are currently doing business

2. Identify common upgrading priorities for buyers and producers

3. Develop plan for upgrading business model including financial plan and implementation of activities

4. Measure progress to identify areas for continuous improvement
1. Understand current Business Model

- Analyze business model based on principles of inclusiveness and competitiveness
- Appraise current business model using the business model component checklist
- Other tools: SWOT, Ansoff matrix, Porters’ five forces

http://www.youtube.com/watch?v=grKlmiLHyjI
2. Identify Common upgrading priorities

- What are priorities for buyers?
- What are priorities for sellers?
- What are priority areas of concern to both?
- Ranking
Blue Skies case

Top 3 priorities for buyers and sellers
## Identifying Priorities

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3. Design upgraded business model

• For common upgrading priorities, what can be done to improve the situation?
• What can be done by the buyers and sellers?
• What support can you give as facilitator?
• Plan: time schedule & budget
4. Measure progress

Measure progress against business model description

➢ Important: iterative process. A business model is never finished, need always to adapt.