

Niyi Yusuf: Building Intentionally Inclusive Businesses to Enhance Profitability and Value

Managing Partner at Verraki and Chairman of the Nigerian Economic Summit Group (NESG), Mr Niyi Yusuf, speaks on the relevance of Inclusive Business in today's marketplace, among other issues.

What is the origin and meaning of Inclusive Business model, and how does this differ from other popular concepts such as Environmental, Social and Governance (ESG) standards, or with corporate social responsibility (CSR)?

I attended university in Nigeria back in the 1980s. We need not be peers for you to know that a lot has changed in the world since that time, and not always for the better. Over the years, businesses and the marketplace have evolved, shaped by technology, changing consumer behaviours and diverse versions of capitalism. Fast forward to 2023; we now live in an era in which businesses have increasingly adopted a miniaturisation culture, also known in business-speak as the sachet economy. This is the major pain-point Inclusive Business models seeks to fix. So, what now constitutes an Inclusive Business model?

In 2018, the G20 announced for the first time that Inclusive Business was going to be one of the summit's official thematic areas. The summit adopted the definition from a key practitioner hub which defines Inclusive Business (IB) as the *(intentional)* provision of goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the pyramid (*BoP*), making them part of the value chain of companies as suppliers, distributors, retailers, or customers.

Inclusive Business is sometimes conflated with the Environmental, Social and Governance (ESG) standards, or with corporate social responsibility (CSR). Whilst all three may add value to a business, only Inclusive Business serves as a model for delivering core business driven by sustained commercial viability. Inclusive Business has long-term strategic orientation, targets Profits, people, and the planet, and utilises innovative business models that engage low-income and marginalized groups. Success of Inclusive Business practices is often measured by profitability, brand value, development impact, as well as beneficiary numbers and spread.

Are there some examples you can recall of where Inclusive Business resulted in impressive shareholder and business value?

Let me start from Nigeria. Oando Plc is one of Nigeria's foremost indigenous oil and gas corporations, and its partnership with Alitheia Capital, provides an excellent illustration with its liquefied petroleum gas (LPG) value chain coverage as my first IB example. Commercially, the project was driven by the objective to deepen and extend Oando's existing LPG value chain coverage to reach end consumers - the underserved - in areas that were difficult to reach in addition to increasing the utilisation of gas products across Nigeria. Despite Nigeria's considerable amount of gas reserves, it was and still is only using a small part of its gas resources domestically and LPG utilisation rates remains low. Market research showed that only 1.7 percent of target households used LPG as primary cooking fuel and Nigeria's

annual per capita LPG consumption was more than 3kg below West African averages. Yet the research revealed that willingness to change cooking fuel was high amongst respondents.

By developing a low-cost stove/cylinder products along with suitable distribution channels and finance systems to reach low-income households, Oando was able to achieve its commercial objective. Furthermore, it created opportunities for micro-entrepreneurs via a franchise model.ⁱⁱ Partly as a consequence of this initiative, the Nigerian annual consumption of LPG grew from 130,000 metric tonnes in 2011 to 500,000 metric tonnes in 2016.ⁱⁱⁱ

From its conception to its inception, positive development benefits for BoP households were built into the Oando model, giving access to more environmentally friendly and affordable fuel alternative to fuels such as kerosene, firewood or charcoal. This would ultimately also lead to a reduction in negative health impacts for users by the elimination of pollution by the burning and subsequent inhalation of solid fuels and estimated to be the fourth highest health risk factor in Africa.

Another good example is from East Africa: Here, the founders of Goodlife Pharmacy identified an opportunity to provide access to affordable quality drugs for 'emerging customers'. They defined 'emerging consumers' as low- to lower-middle-income population segments, which happens to account for 63 percent of Kenya's population. This was significant market potential and the founders recognised that servicing these segments was the key to company's growth. In addition to providing access to quality medicine, the pharmacy chain also sought to provide access to basic primary healthcare, which otherwise would not have been made available to these segments. Through their Inclusive Business model, Goodlife were able to become East Africa's largest pharmacy chain with a plan to service over 5.5 million people by year eight of its operations.

Finally, when it comes to creating shareholder value we look at MicroEnsure, a pioneering insurance company that seeks to provide microinsurance solutions to low-income individuals – individuals who live on \$4 per day or less – living in developing countries. MicroEnsure currently operates in 15 different countries, 10 of which are in Africa. The business model initially started as a not-for-profit known as Micro Insurance Agency but based on the organisation's positive performance they re-launched as the for-profit company MicroEnsure. They collaborated with mobile phone companies, microfinance organisations and other institutions trusted by their target market. MicroEnsure grew their customer base 2.2 million in 2008, to over 40 million today and has paid out more than \$20 million in insurance claims^{iv}. They provide over 200 types of insurance products ranging from life insurance, political violence and hospitalisation, thus providing a safety net that would otherwise not be available to their service users.

It appears businesses must be very intentional about implementing Inclusive Business as a part of operating model, especially in the context of sustainability and impact. What are your thoughts on this?

Indeed, intentionality matters supremely and serves as the overarching context for sustained, successful delivery of business outcomes. Your motives will drive not just the approach to be taken, but also the alignment with the perceived benefits which will vary in each instance. The intention to build a business around any principles tends to be demonstrable in the attitude and behaviours of its leadership and

staff, advertising and marketing, and the overall customer experience. It is a huge risk to embark on Inclusive Business, or indeed any other core business strategies, without evaluating and modifying the design of the business (processes, culture, performance management, infrastructure etc.) to suit those intended outcomes.

Is there a connection between Inclusive Business and the Sustainable Development Goals (SDGs)?

The adoption of Sustainable Development Goals as a business target have helped some companies better define and own sustainability objectives, which have influenced IB transition. Indeed, Inclusive Business principles have an alignment with the Sustainable Development Goals and can provide a compass in our approach to meeting the SDGs. Interestingly, the Global Impact Investing Network lists intentionality as one of its four core characteristics of impact investing, defining it as an impact investor with “intentional desire to contribute to measurable social or environmental benefit”.^v This is an important element to consider as one key benefit of adopting IB models and outcomes is the availability of softer funding alternatives. Many foundations, hitherto in the business of charitable giving, have started to create impact funds to invest in mission driven Inclusive Businesses. The Tony Elumelu Foundation, the Bill and Melinda Gates Foundation, Rockefeller Foundation and Acumen Fund, have shown increasing interest in impact-driven organisations.

How can Nigerian businesses leverage the principles of Inclusive Business to drive business success in the marketplace?

There is no doubt that IB presents a promising strategy for businesses to combine the commercial success it brings along with some development impact. Nonetheless, we must mention that purposeful implementation of IB comes with some unique challenges ranging from a lack of infrastructure to low levels of knowledge and skills, to limited access to finance for low-income consumers and producers. These notwithstanding, here are some practical insights companies can use to successfully deliver Inclusive Business.

First, ensure your Inclusive Business initiatives are firmly connected to your core business. Companies do not always need to devise all-new product lines or services, instead they need to be creative and adapt their business to meet their consumers’ diversified needs in any new or uncharted market. For instance, the use of Coca-Cola’s distribution system to deliver anti-AIDS drugs in Tanzania. The reason Coca-Cola has such an efficient supply chain is that customers pay for their drinks, so the distributors and retailers engaged as ‘providers’ have an incentive to deliver.

Another important (and related) principle is good understanding of your markets - Analyse your value chains and evaluate the market fully to understand where and how adaptations are necessary. A deep understanding of the market and customer segments will ensure appropriate strategies are adopted that reflects the peculiar needs of the business and will vary based on the type of business and scale (MSMEs to Large Corporates). Thirdly, I will encourage managers to learn from working with peers and pioneers. Companies can learn a lot from the successes of their peers. Small and large companies benefit from industry-specific forums that stimulate innovation and competitive practices around IB-focused markets. We have seen commendable examples of this in the food industry, with the Micronutrient Fortification Index in Nigeria and the Kenyan Millers Fortification Index in Kenya. Some other very practical strategies businesses can adopt include robust stakeholder engagement (i.e., your

target consumers, value chain partners and local authorities) establishment of clear objectives and targets with formalised accountability and oversight and retention of capable and committed professionals who have a clear understanding of the dual bottom-line approaches IB requires. I would also add that businesses must establish clear objectives and targets with formalised accountability and oversight, engage with local government actors and track the numbers – to monitor the impact of IB initiatives.

In your capacity as the Chairman of the NESG, what is your advice to Nigerian businesses as they launch into 2023, especially as it relates to the principles of Inclusive Businesses?

Giving our diverse population, rising poverty level, and supply chain bottlenecks and other dynamics, it is important that businesses creatively define commercially viable and operationally sustainable models for providing goods and services to different segments of our population including the base of the pyramid. Those at the base of the pyramid must be made to become significant contributor to the value chain of companies as employees, suppliers, distributors, retailers, customers and consumers. Such an inclusive business model is the path to realizing the huge market potential that Nigeria portends.

I will encourage Nigerian business community to keep pushing and find innovative ways to institute more resilient and inclusive business models. There are no doubts that 2023 will be another challenging year, with elevated political risks and market uncertainties given the volatile domestic and global events. But overcast skies call for a coat, not staying indoors. One thing every business must have is a robust risk response plan, which will enable them to proactively weight 2023 headwinds, scan the environment and develop strategic fallback plans to reduce threats to their supply chains. It is equally important for every business to protect its workforce as the hiring pool continues to shrink further. Motivate employees enough to keep them productive and help them navigate the elevated macro-related welfare issues and cost of living crisis. Furthermore, it is imperative to pursue revenue diversification in 2023. Some non-oil economic sectors have shown impressive resilience since the pandemic. There are upsides in capturing good market share and opportunities across these sectors.

Back to Inclusive Businesses, I hope these principles and illustrations I have discussed with you today served to illuminate how commercial success can be achieved with the added benefit of development impact. As with any business strategy, there are critical factors for success which must be identified ensuring that a sound approach is applied, which includes running pilots and not starting too big to allow for adaptive learning. Finally, we observe that intentionality is not just for the sake of attracting impact investors; intentionality will enable the core objectives to be mapped out and ultimately achieved despite the headwinds.

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