HOW BUSINESS CAN DRIVE INCLUSIVE GROWTH AND DEVELOPMENT:

THE CASE OF EMPOWERING TRADITIONAL RETAILERS

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Executive Summary

Inclusive growth, economic growth that increases opportunities and standards of living for all, stands to benefit a wide range of stakeholders. For business, inclusive growth promises to expand the talent pool, stabilize and diversify the supply chain, strengthen the distribution chain, and grow markets and revenues, as well as enable companies to deliver on social commitments at scale.

Just as business is the engine of economic growth, so too must it be the engine of inclusive growth. And one way business can drive inclusive growth and development is to empower the traditional trade.

The traditional trade includes the mom-and-pop shops, corner stores, kiosks, open market stalls and street carts or hawkers that dominate the retail market in many developing countries, selling food and beverages, white goods, mobile phone airtime, pharmaceuticals, building materials, auto parts, furniture, and even some services such as hairdressing. In many ways, the traditional trade is the ideal channel for serving low-income communities in hard-to-reach urban slums and rural areas. At the same time, traditional retailers face many challenges.

Empowering traditional retailers increases their incomes, protects them from financial risk, enables them to provide better nutrition, health care, and education for their children, and expands access to valued products and services in their communities. It generates revenues for the companies that serve them, reduces dependence on the state, and broadens the tax base.

Empowering traditional retailers involves two distinct and mutually reinforcing activities:

1. Training them as business owners, heads of household, and potentially even agents of change in their communities, and
2. Strengthening the business ecosystems in which they operate—building links with a range of companies, financial institutions, government agencies, academia, and other stakeholders that can offer productivity-enhancing and revenue-generating products and services to buy and sell, and an enabling policy and regulatory environment in which to operate.

SABMiller, The Coca-Cola Company, PepsiCo, Visa, Cemex, Intel, Qualcomm, Nestlé, Millicom and numerous local companies are already beginning to take this kind of holistic approach. And there is considerable scope to replicate and scale their efforts.

We have learned four key lessons about how to succeed at scale:

1. Focus first (and always) on increasing outlet sales
2. Segment and engage outlets according to their incentives and capabilities

3. Share costs with other companies that stand to benefit financially
4. Use corporate social investment and government or donor funding to fill in gaps

1. A Vision for Inclusive Growth and Development

Around the world, visionary leaders in business, government, the donor community, and civil society are beginning to imagine a new model of growth and development.

They imagine a world in which all people have access to opportunity, not just charity. Opportunity to find meaningful work and move forward in their careers. Opportunity to use their own earned income to invest in their own lives and families—nutritious food, clean water, improved sanitation, healthcare, energy, information and communications technology, and even non-essential and non-productive purchases that they nevertheless have reason to value. Opportunity to live lives of dignity and possibility, and to pass even greater opportunity on to their children.

Such a world would be full of benefits.

- For the billions of people who live in poverty, possibly as many as a billion women who are not working but might like to, the hundreds of millions of youth neither working nor studying,[1] such a world would offer a step change in standards of living and personal fulfillment.
- For businesses, such a world would offer a bigger, better labor force, more stable supply chains, more sophisticated distribution networks, and growing markets.
- For governments, such a world would offer greater social stability, peace and security, reduced dependence on the state, broader tax bases, and increased capacity to invest strategically for the future.
- For donors and civil society organizations, such a world would—at least in many respects[2]—represent a mission accomplished.

What these leaders are imagining is inclusive growth.

This is not just economic growth, which for too long, has left billions of people by the wayside and widened the gap between rich and poor. Inclusive growth is economic growth that expands opportunities and improves standards of living for all. According to the International Monetary Fund, inclusive growth is also more sustainable and leads to greater gains over time.[3]

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[1] Numbers from The World Bank. 2012. "Overview: World Development Report 2013: Jobs." Washington, DC: The International Bank for Reconstruction and Development.
[2] For example, the environmental implications of inclusive growth require careful consideration and urgent action.
[3] Berg, Andrew G. and Jonathan D. Ostry. 2011. "Inequality and Unsustainable Growth: Two Sides of the Same Coin?" IMF Staff Discussion Note SDN/11/08. Washington, DC: International Monetary Fund.

Business is the engine of economic growth, and must be the engine of inclusive growth as well. Business supports the vast majority of jobs and makes available the vast majority of products and services people need to live healthy, productive, and satisfying lives. And if business activity—investing, procuring, manufacturing, distributing, selling, marketing—can be harnessed to deliver these benefits for all, it would benefit business as well. Business only prospers to the extent that others in its ecosystem also prosper. And as described above, inclusive growth promises to expand the talent pool, stabilize and diversify the supply chain, strengthen the distribution chain, and grow markets and revenues, as well as enable companies to deliver on their social commitments at scale.

2. The Distribution Problem

For leaders imagining a new model of inclusive growth and the shared benefits it offers, the key question is how to provide the many types and layers of opportunity on which it depends to the billions of people who need it. How do business, government, the donor community, and civil society go about delivering access to quality education and skills training, nutritious food, clean water, improved sanitation, affordable healthcare, energy, and technology, and decent jobs and other income generating opportunities to all the people who currently lack them?

A first principle is that people must want, not just need, what is offered. Products, services, and income generating opportunities must be appropriate and even aspirational for people to adopt and stick with them, even when they are provided for free.[4]

When this principle is observed, distribution becomes the major bottleneck.

People who lack opportunity may live in far-flung rural villages or in densely populated urban slums with poor transport infrastructure, which are physically hard to reach. While cell phones are becoming ubiquitous, they may not have Internet access. People who lack opportunity may do so because their education and skill levels are low. They may have low and unpredictable incomes, limited access to financial services, and very little ability to take even well-calculated risks. While many have valuable social support systems, their networks do not often extend to high places. Their trust in existing institutions and systems, which are not working for them, is understandably low. And those institutions and systems typically have insufficient information about their needs, capabilities, and aspirations.

In such circumstances, the cost of expanding opportunity can keep aid-based programs small in scale and prevent business models from taking off at all.

There are two parts of the distribution problem:

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[4] See, inter alia, Karamchandani, Ashish, Mike Kubzansky, and Nishant Lalwani. 2011. "Is the Bottom of the Pyramid Really for You?" *Harvard Business Review.* Online at https://hbr.org/2011/03/the-globe-is-the-bottom-of-the-pyramid-really-for-you (accessed July 30, 2015).

- Reach: The first part of the distribution problem is the cost of physically reaching target groups to deliver products and services and to create or support income generating opportunities.

- Conversion: The second part of the distribution problem is the cost of enabling people to avail themselves of what is being offered once it is there—for example by building relationships of trust, providing consumer education, facilitating access to technology or financing, and more, depending on the context and the product, service, or income generating opportunity being offered.

3. The Traditional Trade Solution

Acknowledging that the present situation is far from perfect, it is worth asking how people we would consider lacking in opportunity obtain products, services, and incomes now.

To take just one segment that is lacking in opportunity—but a very large one, at 4.5 billion people—the World Bank reports that low-income people in developing countries currently spend $2.3 trillion on food and beverages, $508 billion on housing, $405 billion on clothing, footwear, and personal care, $243 billion on healthcare products and services, and $206 billion on information and communications technology.[5]

Detailed information on where these people spend their money is not available, but we know that in many developing countries, the traditional trade continues to dominate over more modern forms of retail, and is expected to do so "for the foreseeable future."[6] ***The term "traditional trade" refers to the mom-and-pop shops, corner stores, kiosks, open market stalls and street carts or hawkers that sell products such as food and beverages, white goods, mobile phone airtime, pharmaceuticals, building materials, auto parts, furniture, and even services such as hairdressing.*** Traditional retailers in Latin America can account for up to 50% of sales for some consumer goods companies.[7] In Colombia, they account for about 60% of food sales[8] and in

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[5] World Bank data summarized in International Finance Corporation (IFC). No date. "Global Consumption Data for Inclusive Business." Online at http://www.ifc.org/wps/wcm/connect/a92b7f0043e733e1a906b9869243d457/IFC_IncluBus_Brochure_May_6.pdf?MOD=AJPERES (accessed July 27, 2015).

[6] Bain & Company. 2011. "Consumer Products & Retail: Are You Ahead of the Curve in Emerging Markets?" Bain Industry Brief. Online at http://www.bain.com/Images/INDUSTRY_BRIEF_Ahead_of_curve_in_emerging_markets.pdf (accessed September 2, 2014).

[7] Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB). 2014. "Improving communities in six Latin American countries through the leadership of shopkeepers." Project Abstract for Project Number RG-M1241. Washington, DC: IDB.

[8] Costa, Leticia and Fernando Fernandes. 2006. "Successful Retail Innovation in Emerging Markets" Latin American Companies Translate Smart Ideas into Profitable Businesses." Booz&Co for the Coca-Cola Retailing

Indonesia, they account for upwards of 80%.[9] In India, the traditional trade is estimated to account for more than 90% of all retail sales.[10]

Why is the traditional trade such a powerful channel?

Advantages of the Traditional Trade

1. **Reach:** While data are limited, we know that there are millions of such outlets in developing and emerging markets worldwide. In Mexico, for example, there are more than two million of them—nearly 50% of all micro-enterprises.[11] If a similar percentage applies, there may be as many as 14 or 15 million traditional retailers across Latin America (unfortunately, data are not available for all countries).[12] These outlets are located close to their customers, in urban and rural areas that are often hard to reach. Customers with low and variable incomes, limited transportation, and no storage space at home rely on these outlets to meet their daily needs, visiting frequently to purchase in small quantities as their cash flows allow.

2. **Demographics:** Low-income people, many of them women, own and/or operate many of these outlets; this makes the traditional trade a key source of employment and income for millions of people lacking better alternatives, and a key source of nutrition, healthcare, education, and other benefits for their families. Studies have shown that women are more likely to spend their money in ways that benefit their children.[13]

3. **Relationships:** Traditional retailers play special roles in their communities and tend to be trusted figures and reference points. They also get to know their customers well. As a result, they can allow customers to purchase on credit when times are particularly tight and reasonably expect to be repaid—customers are their neighbors and friends, and for all the reasons mentioned above, they want to be able to come back to these stores.

Research Council. Online at http://www.strategyand.pwc.com/media/file/SuccessfulRetailInnovationinEmergingMarkets.pdf (accessed November 11, 2014). Page 3.

[9] Bain & Company study cited in Grazella, Mariel. 2013. "Traditional trade to dominate retail over next 15 years: Study." *The Jakarta Post*, December 13. Online at http://www.thejakartapost.com/news/2013/12/13/traditional-trade-dominate-retail-over-next-15-years-study.html (accessed July 27, 2015).

[10] Banerjee, Rajiv. 2006. "Traditional Trade Channels Still a Draw for Retail Biggies." *The Economic Times of India,* October 26. Online at http://articles.economictimes.indiatimes.com/2006-10-26/news/27448708_1_dabur-foods-trade-channels-outlets (accessed July 27, 2015).

[11] Instituto Nacional de Estadística y Geografía. "Directorio Nacional de Unidades Económicas." Online at http://www3.inegi.org.mx/sistemas/mapa/denue/default.aspx (accessed July 31, 2015).

[12] Extrapolation by FUNDES.

[13] The World Bank. 2012. "2012 World Development Report: Gender Equality and Development." Washington, DC: The International Bank for Reconstruction and Development/The World Bank. Page 5.

For these reasons, experts such as the International Finance Corporation[14] (IFC) and the consultancy Monitor[15] (recently acquired by Deloitte) recognize the traditional trade as a promising channel for reaching low-income populations with products and services with the potential to improve economic opportunities and standards of living.

At the same time, these and other experts, as well as numerous companies, social enterprises, and development agencies working on the ground, recognize that the traditional trade faces a range of interconnected challenges that must be overcome to realize its full potential. It is clear that to maximize inclusive growth and development impact, products and services provided through traditional trade channels must include offerings that help outlets themselves to overcome these challenges.

Challenges of the Traditional Trade

1. **Size:** Outlets are numerous and small, often with working capital and storage space for just a few days' inventory. This limits their ability to negotiate with suppliers for better prices or payment terms, and requires suppliers to make frequent deliveries of small quantities of product. Outlets also face stiff competition from one another, and from "bigger box" retail formats that are beginning to take hold.

2. **Skills:** While traditional retailers often have quite a bit of innate business sense, few have training in skills such as inventory management, accounting, marketing and sales that would help them optimize their performance, and therefore their incomes and the options and opportunities they are able to offer their families and communities.

3. **Financial insecurity:** Because their customers have low and unpredictable incomes, outlet revenues can be low and unpredictable as well. Combined with limited access to financial services, this makes it difficult to invest in technology, equipment, and other assets that could, over time, reduce operating costs and increase revenues.

4. **Informality:** Many outlets prefer to remain informal (that is, unregistered and/or unlicensed) in order to reduce certain costs, but informality comes with its own costs and risks, such as higher cost of credit from informal lenders and lack of access to social security programs.

[14] International Finance Corporation (IFC). 2014. "Shared Prosperity through Inclusive Business: How Successful Companies Reach the Base of the Pyramid." Online at http://www.ifc.org/wps/wcm/connect/bf203d80463da1548c90bd9916182e35/SharedProsperitythruiBiz_FINAL.pdf?MOD=AJPERES (accessed July 28, 2015). Page 27.
[15] Kubzansky, Mike, Ansulie Cooper, and Victoria Barbary. 2011. "Promise and Progress: Market-Based Solutions to Poverty in Africa." Online at http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf (accessed July 28, 2015). Page 65.

5. **Access to finance and technology tools:** Many traditional retailers have low levels of financial literacy, do not understand how formal financial services could help them, and tend to mistrust the banking sector. In addition, banks offer few appropriate products and services. As a result, they often stick with the microfinance sector and informal lenders, and tend to use only cash, adding to suppliers' transaction costs.

4. Empowering the Traditional Trade to Drive Inclusive Growth and Development

The idea of distributing products, services, and income generating opportunities through the traditional trade is not new. What is new is our knowledge of how to do it, and do it in a way that maximizes inclusive growth and development impact with benefits for all stakeholders.

Foundations

We are starting from the premise that large national and multinational companies will play a major role, given their existing networks and relationships, their understanding of complex route-to-market dynamics, and their distribution, sales, and marketing expertise. In a large study of market-based solutions to poverty in Africa, Monitor found that such companies "were the main drivers of successful efforts [to distribute products and services through the traditional trade]; this was so whether led by mobile operators, agri input providers, [consumer packaged goods] companies, health product distributors, or others." [16] In addition, many governments and development organizations consider linkages with large companies to be critical aspects of small business support. For traditional trade outlets, those linkages provide access to products that consumers want, with brand names they trust, large-scale consumer marketing behind them, professional customer service, and—often a range of support services designed to help outlets increase their sales.

Support services designed to help traditional retailers increase their sales are fairly common, at least among product manufacturers or service providers with sufficiently high margins to cover the cost.

For example, SABMiller, one of the world's leading brewers, provides consumer marketing (e.g. radio, television, and print advertising) and merchandising support (e.g. signage, branded displays and other assets), funds minor store upgrades such as painting, and often allows outlets to purchase on credit.[17] Unilever, a leading consumer goods company, has begun to provide outlets without electricity with solar lanterns that allow them to stay open later, increasing their

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[16] Kubzansky et al 2011, page 67.
[17] Jenkins, Beth. 2015. "Empowering Small Businesses in Corporate Value Chains: The Case of SABMiller's 4e Camino al Progreso Program." Cambridge, MA: CSR Initiative at the Harvard Kennedy School and Business Fights Poverty.

sales significantly.[18] In many urban environments in the developing world, The Coca-Cola Company has implemented an entirely new distribution model geared toward traditional trade outlets, using Micro Distribution Centers run by independent entrepreneurs to provide frequent, small deliveries that would be uneconomical for larger distributors to make, using pushcarts, motorcycles, small vans, or other manual or motorized means depending on the circumstances.[19]

Many such companies also provide product- and industry-specific training and, sometimes, broader business skills training to help traditional retailers increase their sales. According to IFC, training has been provided successfully through in-store coaching, classroom training and e-learning by company employees, training companies, and even civil society organizations.[20]

For example, to drive sales of its small packs of pesticides among small-scale farmers in Kenya, Bayer CropScience trained small, rural agrodealers to serve as "GreenWorld consultancy centers" that advise farmers on product use. According to Monitor, these agrodealers have increased their incomes by approximately 40% and facilitated adoption of a productivity-enhancing agricultural input among their customers.[21]

In another example, when Safaricom launched its M-Pesa mobile money transfer service, also in Kenya, it had very limited interactions with the traditional trade outlets that sold its airtime. The company had to train these outlets in a new set of skills, such as managing their cash "float" in order to maintain enough "cash in" to be able to accommodate customers' requests to "cash out" the money in their mobile wallets on demand. Safaricom contracted Top Image, a firm that specializes in advertising and field force management, to do this cost-effectively for approximately 17,000 outlets.[22] M-Pesa now serves more than 18 million users in Kenya and Tanzania and moves billions of dollars every month.[23]

The Next Frontier

From an inclusive growth and development perspective, efforts like those described above are commendable because they enable traditional trade outlets to increase their sales and incomes, strengthen their financial positions, provide better standards of living for their families and future opportunities for their children, and offer a broader range of product and service choices to

[18] Acumen and Business Fights Poverty. Forthcoming (October 2015). "Social Enterprises and Global Corporations: Collaborating for Growth with Impact." New York, NY: Acumen Fund.
[19] IFC. 2010. "Coca-Cola SABCO." IFC Inclusive Business Case Study. Online at http://www.ifc.org/wps/wcm/connect/fb3725004d332e078958cdf81ee631cc/Coca-Cola.pdf?MOD=AJPERES (accessed July 28, 2015).
[20] IFC 2014, page 28.
[21] Kubzansky et al 2011, page 69.
[22] Karamchandani et al 2011.
[23] Mannak, Miriam. 2015. "Can Mobile Money Conquer New Markets?" *MIT Technology Review.* Online at http://www.technologyreview.com/news/534081/can-mobile-money-conquer-new-markets/ (accessed July 29, 2015).

consumers at prices they can afford. We hope to see them replicated to the fullest extent possible by other companies that can afford it (i.e., for whom the financial returns exceed the costs).

At the same time, such examples have revealed the potential to do more.

Today, a number of leading companies have begun working to strengthen and align the broader business ecosystems in which their traditional trade networks are embedded, and to train retailers as business owners, heads of household, and even agents of change in their communities.

- **Strengthening business ecosystems:** These leading companies recognize that while their business practices matter, and while they can provide some valuable support services on their own, traditional retailers will only reach their full potential if they are embedded in supportive "business ecosystems" that go beyond individual company value chains.

  The CSR Initiative at the Harvard Kennedy School and Business Fights Poverty have explained that "the term 'ecosystem' comes from ecology, where it refers to a community of organisms that depend on one another and a shared natural environment. Strategist James Moore coined the term 'business ecosystem' in a McKinsey Award-winning *Harvard Business Review* article in 1993, noting that firms, too, depend on communities of interconnected, interdependent stakeholders, including suppliers, distributors, retailers, customers, companies selling complementary products, competitors, investors, trade associations, regulators, and others." They note that small businesses such as traditional retailers "flourish when suppliers offer the right products and services at affordable prices, with payment and delivery terms that suit their cash flows; when banks offer appropriate payment, investment, and risk management services; when educational institutions equip them and their employees with the knowledge and skills they need to succeed; when government provides an enabling regulatory and tax environment and puts relevant infrastructure and public services in place."[24]

- **Training retailers as business owners, heads of household, and even agents of change in their communities:** Leading companies have observed that product- and industry-specific training only goes so far, and that retailers also require broader business skills training. Leading companies have also observed that traditional retailers' businesses are nearly inseparable from their family lives and closely tied to their community dynamics. As a result, they are beginning to incorporate life skills and life planning – and in one case, even experimenting with supporting traditional retailers to spearhead modest community development projects in their neighborhoods. This case,

[24] Jenkins, Beth, Richard Gilbert, and Piya Baptista. 2014. "Sustaining and Scaling the Impact of Enterprise Development Programmes: SABMiller's Approach to Strengthening Business Ecosystems." Cambridge, MA: CSR Initiative at the Harvard Kennedy School and Business Fights Poverty.

SABMiller Latin America's 4e Camino al Progreso program, is described in more detail later in this paper.

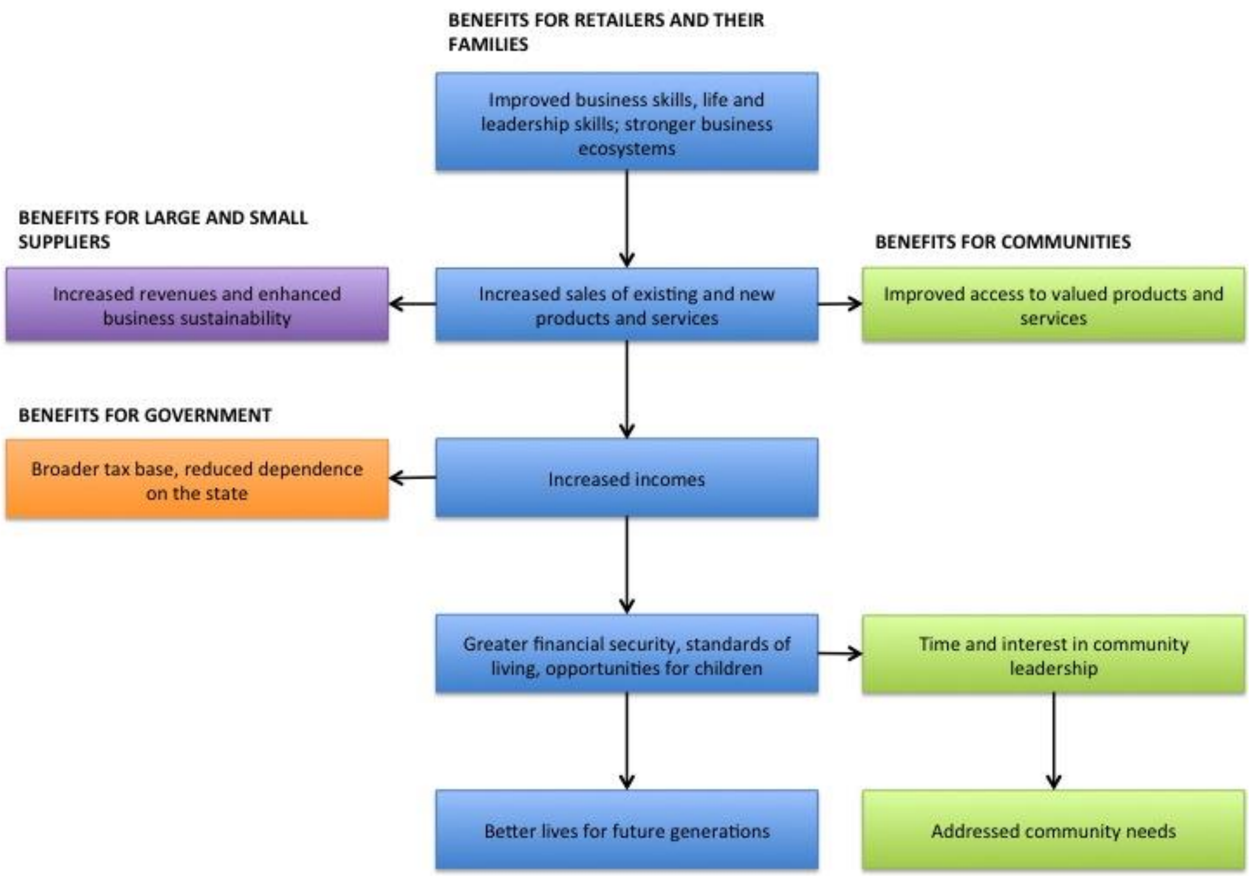
> As the CSR Initiative and Business Fights Poverty put it in a report on the 4e program, "many of [traditional retailers'] shops are in their homes; their relatives help run operations; and their customers are their neighbors and friends." The authors note that empowering retailers as business owners, heads of household, and community members "has the potential to unleash a virtuous cycle rooted in, but going beyond, improved business performance. If a retailer's business performs better, it generates more income, which can be used to improve the retailer's family's standards of living and create better opportunities for younger generations. This, in turn, improves the retailer's self-esteem and frees up time and attention to play a greater role in the community. Strengthening communities helps build better customers, and increases the retailer's visibility and reputation—attracting more people to the store, further improving business performance, and reinforcing the cycle."[25]

Strengthening retailers' business ecosystems and training them as business owners, heads of household, and potentially even agents of change in their communities can catalyze a range of benefits for retailers, their families and communities; for the large and small companies that supply them; and for governments and society at large. These benefits are depicted in the figure below.

Section 5 provides a detailed example of this "next frontier" approach. Section 6 provides additional examples and lessons learned about what is necessary for this approach to succeed at scale.

[25] Jenkins 2014, page 25.

Figure 1. Benefits of Empowering the Traditional Trade to Drive Inclusive Growth and Development



5. Case Study: SABMiller's 4e Camino al Progreso Program[26]

Background and Drivers

Founded in South Africa in 1895, SABMiller is now one of the world's largest brewers, with 70,000 employees and operations in more than 80 countries on six continents. It is also one of the world's largest bottlers of Coca-Cola products and its own soft drinks. Latin America and Africa are two of the company's fastest-growing markets.

In Latin America, SABMiller is the market leader in Colombia, Perú, Ecuador, Panamá, Honduras, and El Salvador, where its subsidiaries are local companies with operating histories in the range of 100 years. Across these countries, the traditional trade is a vital channel, with small-

[26] Adapted and updated from Jenkins, Beth. 2015. "Empowering Small Businesses in Corporate Value Chains: The Case of SABMiller's 4e Camino al Progreso Program." Cambridge, MA: CSR Initiative at the Harvard Kennedy School and Business Fights Poverty.

scale retailers representing approximately 40% of the company's total sales volume. The figure is even higher in some countries, such as Colombia, where it is close to 60%.

For many years, SABMiller's local subsidiaries have supported these retailers through help with marketing, merchandising, acquiring assets and equipment, such as refrigerators, and making modest store upgrades, such as painting. Some assist further by allowing customers to purchase on credit. More recently, subsidiaries in a number of the countries have launched corporate social investment programs intended to offer support in even more fundamental ways, like providing business skills training and facilitating access to financing.

In 2012, with support from Fundación DIS, a nonprofit consulting firm serving companies and social enterprises, SABMiller Latin America and its subsidiaries decided to consolidate, strengthen, and scale a consistent regional approach to supporting the small retailers and broader communities on which such a significant share of its sales depend: the 4e Camino al Progreso program. For this, they joined forces with FUNDES, a civil society organization that works to bolster the competitiveness of micro, small, and medium enterprises in Latin America in order to improve livelihoods and create jobs.

With offices in Argentina, Bolivia, Chile, Colombia, Costa Rica, Guatemala, El Salvador, Mexico, Panamá, Perú, and Venezuela and a presence in several other countries, FUNDES now manages approximately 100 projects each year. Its staff provide business analysis, training, consulting, entrepreneurial development and market linkages to small businesses across industries for clients in business, government, and the donor community interested in strengthening value chains, building competitive economies, and creating pathways out of poverty for millions of citizens in the region. FUNDES began working with small-scale retailers in Mexico in 2003.

SABMiller Latin America and FUNDES are also working with the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB), which channels much of IDB's grant funding and technical assistance, particularly to companies and civil society organizations. MIF is providing expertise and advice, especially in the areas of financial and technological inclusion, as well as US$3 million in grant funding. The 4e program contributes to two of MIF's strategic objectives: bringing micro and small enterprises into large corporate value chains in order to generate jobs and incomes, and economically empowering women. The 4e program is particularly attractive for MIF because its strong connection to SABMiller's business success and strategy for growth give it potential for sustainability and scale.

Objectives

The 4e program aims to improve small retailers' overall business performance, quality of life, and capacity to play leadership roles in their communities, while at the same time strengthening SABMiller's retail network and sales.

There are some 780,000 small retailers in SABMiller's value chain in the six Latin American countries in which it operates, with 65% located in high poverty areas and 49% who can be categorized as "necessity" entrepreneurs—entrepreneurs who have chosen to run their own businesses primarily for lack of viable alternatives. 4e focuses specifically on the necessity entrepreneurs, with participants recruited based on personal characteristics, sales growth potential, and community poverty rates. The program aims to empower nearly 190,000 of these retailers by 2020, 70% of them women.

Activities
The 4e program consists of two primary activities.

The backbone of the program is training retailers as business owners, heads of household, and agents of change in their communities.

To date, most of this training has been provided through a combination of group sessions in the classroom and personalized mentoring in participants' stores. The partners are also developing new training formats to enhance cost-effectiveness and respond to the differing needs of different segments of retailers, such as e-learning and a module on financial literacy.

The 4e training is intended to help retailers reduce costs, improve sales, and increase profits. It is based on a detailed in-store diagnosis of their strengths and weaknesses, needs and aspirations. It covers general business, finance, and marketing skills intended to help participants improve sales across all of the products they sell; responsible retailing of alcohol; life skills such as healthy lifestyles, prevention and assistance with domestic violence, separating the business and family finances, financing for children's education, and information about registering their businesses with the government. The training includes practical exercises, implemented in their stores, and the development of life plans.

Building traditional retailers' status as respected individuals and reference points in their communities, SABMiller, FUNDES, and MIF are also experimenting with the possibility of empowering them as agents of change in their communities. A small percentage of 4e program graduates are invited to participate in an additional leadership module in which they receive training, mentoring, and small seed grants to start new business lines with social impact (such as sales of reading glasses, micro-insurance, or mobile banking services) and local development projects (such as , infrastructure, health and safety). For example:

- In Colombia, a retailer identified the problem of deforestation on the banks of water sources that feed an aqueduct in his community. He organized a public petition to the local government and an awareness campaign with signs placed in the water sources.

- In Honduras, four retailers from different communities worked to reduce the incidence of dengue by organizing locals to prune and clean abandoned lots, pressure the municipality to organize garbage collection schedules, and fumigate areas around households.

- In Peru, 4e helped four communities organize and legally constitute neighborhood councils to tackle personal insecurity. With the support of the National Police, they were trained in basic monitoring and self-protection techniques.

SABMiller, FUNDES, and MIF hope that the community leadership component of the 4e program will not only enhance its impact on local communities, but also generate new types of customer insight that reveal new ways to help traditional retailers' businesses succeed.

Building on the training backbone, the 4e program also works to strengthen the business ecosystems in which participating retailers are embedded—going beyond SABMiller's own value chain.

SABMiller, FUNDES, and the MIF are working to facilitate relationships between participating retailers and other companies, business associations, and other organizations where there is the possibility of mutual benefit. These activities are in earlier stages and vary from country to country according to local challenges and opportunities.

In El Salvador, for example, SABMiller subsidiary Industrias La Constancia is helping to facilitate access to finance for participating retailers through a deal with a local bank, Banco Agrícola, and the IDB. Subsidiaries Bavaria and Backus are working with IDB to implement similar deals in Colombia and Perú, respectively. Bavaria is also working with a national small business association, FENALCO, to organize service fairs bringing government agencies, financial institutions, technology companies, and others to speak to retailers about formalization, pensions, and other topics. Bavaria also envisions helping to organize retailers into associations to negotiate better prices with suppliers and strengthen their voice with other stakeholders.

Results

The 4e program is still in its early days; two years and five cycles of training have been completed as of August, 2015. Based on a diagnostic tool, 4e trainers collect—and construct, since traditional retailers rarely keep or use records—baseline data at the beginning of each cycle. At the end, trainers collect new data and compare with baseline data. The headline results so far are listed below.

Figure 2. 4e Program Results as of August, 2015 (5 Training Cycles Completed)

	Colombia	Peru	Ecuador	El Salvador	Honduras	Panama	TOTAL
# participants	4108	2414	1214	731	487	335	9289
% increase in average sales (all products)	11,04%	10,33%	9,33%	9,9%	22,74%	11,03%	12,81%
% participants with life plans	97,24%	95,17%	96,59%	96,78%	94,48%	94,58%	95,82%
# participants with community project plans	472	369	168	88	88	80	1265
% participant satisfaction	96,77%	92,782 %	95,53%	95,9%	96,64%	97,23%	

As MIF formally joins the 4e program this year, it will also bring professional expertise in impact evaluation. This will be particularly important for the more experimental community leadership component of the training that the program is providing. The program's impact will be evaluated along four dimensions using control groups:

1. **The business dimension:** sales, costs and margin
2. **The family dimension:** income and wellbeing
3. **The community leadership dimension:** self-esteem or community organization
4. **Permanence over time:** for example, have retailers been able to increase their incomes even further as they accumulate experience with the better business practices they have learned, or have they gone back to old habits over time? Are their families enjoying expanded access to public and private services and greater economic opportunities? Have they continued their community leadership projects or initiated new ones?

Finally, in August 2015, the 4e program was recognized by Fortune Magazine, which ranked SABMiller 19th out of 50 companies that its editors, along with experts from the non-profit consulting firm FSG, deemed to have made a "sizeable impact on major global social or environmental problems as part of their competitive strategy."[27]

[27] Fortune. 2015. "Change the World: Methodology." Online at http://www.fortune.com/change-the-world/ (accessed September 3, 2015).

Current Priorities
SABMiller Latin America, FUNDES, and MIF have three current priorities in terms of shoring up the sustainability of the program, scaling it up to reach nearly 200,000 retailers, and achieving meaningful change in their lives and the lives of their communities.

The first is to enhance the cost-effectiveness of the core training. The partners believe this will only be possible through the use of technology to reduce delivery costs. The training has been digitalized and an e-learning pilot has been underway in Bogotá for six months. Based on what they are learning about quality and effectiveness, the partners will introduce e-learning options in all countries later this year.

The second priority is to align the program even more closely with SABMiller Latin America's commercial strategy and sales operations. 4e originated as a social investment linked to the value chain, intended to better understand a key customer segment and help them consolidate their businesses, improve their sales and profits, and contribute to the transformation of their communities. As the program has evolved based on experience and learning, it is now ready to enrich the offer that the sales department has always made to help its customers sell more products. The sales department may focus on traditional retailers at the higher performing end of the spectrum, with social investment supporting the less advantaged.

The third priority is to continue to build out the ecosystem that traditional retailers need to succeed. As the program succeeds in building business skills, new needs arise and often these go beyond the ability of SABMiller to provide. New partners are needed to diversify the products and services retailers can sell; to provide financial services such as credit, insurance and e-payments; and technology tools and services such as point of sale terminals to accept credit and debit cards.

As a result, SABMiller, FUNDES and MIF are exploring relationships with other food, beverage, and consumer products companies; banks and other financial services providers; mobile network operators; and cellphone and other device manufacturers.

The partners also welcome inquiries from other companies or development organizations that see in traditional retailers a channel through which to deliver goods and services to meet education, health, nutrition, home improvement and other needs to the communities around the world.

6. Achieving Success at Scale

We are aware of other examples where companies are empowering traditional retailers by strengthening their business ecosystems and/or training them as business owners and heads of household (training them as agents of change in their communities is still experimental and, as far as we know, unique to SABMiller). For instance:

- Ecuador's leading wheat flour producer, **Moderna**, offers the small bakeries that dominate its sales training in baking techniques, business management, taxes, and self-esteem.[28] The company also focuses on strengthening family ties, hosting family days that bakery owners are invited to attend with their families to encourage time off work to spend with children and other relatives.

- **Coca-Cola Philippines,** its bottling partner **Coca-Cola FEMSA Philippines** and the government's **Technical Education and Skills Development Authority** are providing the country's ubiquitous *sari* stores, mostly owned by women, with a combination of training and access to financing. The training covers entrepreneurship and business skills, as well as gender issues that can affect the business (like the division of labor at home). The program refers graduates to microfinance institutions, and is also rolling out a more efficient alternative in which store owners can order Coca-Cola product on credit via their mobile phones.[29]

- In Costa Rica, four companies joined forces to share the cost of training traditional retailers: **Dos Pinos**, one of the largest dairy cooperatives in Central America; **De Masa**, a flour producer; **Pastas Roma,** a pasta manufacturer; and **DIPO**, a wholesale distributor. The companies did not know exactly how much sales of their own products would increase, so they split the cost equally, and this brought the investment down to a level that each one could justify internally.

- **Grupo Martins**, the largest wholesale distributor in Latin America, serving more than 450,000 small-scale retailers in Brazil, provides customers with a range of store management, marketing, and other business skills training modules in a range of formats (mostly e-learning, but some classroom-based, and the company also uses a mobile training van). Customers "pay for" some of these offerings using loyalty points. When the company couldn't find a banking partner to provide its customers with the kinds of services they needed, Martins bought one—**Tribanco** now offers loans for store upgrades

[28] IFC. 2011. "Moderna Alimentos S.A." Inclusive Business Case Study. Online at http://www.ifc.org/wps/wcm/connect/05bc0f004d33300089b5cdf81ee631cc/Moderna.pdf?MOD=AJPERES (accessed July 31, 2015).
[29] Jenkins, Beth, Kara Valikai, and Piya Baptista. 2013. "The Coca-Cola Company's 5by20 Initiative: Empowering Women Entrepreneurs Across the Value Chain." Cambridge, MA: The CSR Initiative at the Harvard Kennedy School and Business Fights Poverty.

and even consumer credit cards that store owners issue on Tribanco's behalf.[30] Tribanco has also helped some stores become payment centers for utility companies.

- In Mexico, the local **government of the State of Michoacan** funded the up-front development of a retailer program called @tienda that triggered the development of similar programs nationwide, and later on was adopted by the **National Ministry of Economy**, where it remains after 10 years. **FUNDES,** one of the coordinating agencies, has brought in wholesalers and product manufacturers such as **Coca-Cola Femsa**, **Pepsi**, **Bimbo**, and **Lala** to share core training costs and offer retailers additional opportunities. For example, **Visa** and Bimbo have begun working together to drive adoption of electronic payment technology in participating stores.

- In India, **Suvidhaa** offers a point-of-sale solution that enables small-scale retailers to sell virtually the products and services of more than 300 companies, ranging from utilities (paid in the store, delivered at home) to transportation (such as bus and rail tickets) to financial services (such as remittances and insurance premiums). Each small-scale retailer can turn to a larger retailer that is responsible for providing day-to-day support on business operations, cash management, and other topics.[31]

We can draw from all of the examples described in this paper four key lessons about what is necessary for this kind of holistic, ecosystem-level approach to succeed at scale. These lessons include:

1. Focus first (and always) on increasing outlet sales
2. Segment and engage outlets according to their incentives and capabilities
3. Share costs with other companies that stand to benefit financially
4. Use corporate social investment and government or donor funding to fill in gaps

There are still many question marks, and in the pages that follow, we will also highlight strategic questions related to each of these lessons.

1. Focus first (and always) on increasing outlet sales

As Figure 1 show, empowering traditional retailers can have a range of benefits for a range of stakeholder groups, including retailers, their families, and communities; the large and small

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[30] IFC. 2014. "Inclusive Business Case Study: TRIBANCO." Online at http://www.ifc.org/wps/wcm/connect/7763430046153d5bafebbf9916182e35/TribancoOct2014.pdf?MOD=AJPERES (accessed July 31, 2015).

[31] IFC. 2012. "Suvidhaa Infoserve Private Limited." Inclusive Business Case Study. Online at http://www.ifc.org/wps/wcm/connect/bacf7b004ecdde4eb1f2fb3eac88a2f8/Suvidhaa.pdf?MOD=AJPERES (accessed July 31, 2015).

companies that supply them; and governments. And all of these benefits depend on increasing retailers' sales and incomes.

If, and only if, retailers increase their sales and incomes will they have any incentive to participate in training, invest in new store management technology or services, or stock new products. Only then will companies be able to make the business case for investing to empower them. And only then will there be a "development case," either, since social impacts depend on increasing sales. Surveying more than 20,000 poor people in the late 1990s, World Bank researchers found that "next to illness and injury, the scope for entrepreneurial activity and the availability of jobs is the most important factor determining the fate of poor people."[32] The finding is unsurprising. Only with higher, more stable incomes can they achieve financial security, protect themselves from risk, achieve better standards of living, provide greater opportunities for their children, and ensure that future generations live better than they did.

This lesson raises several strategic questions for companies and other stakeholders working to empower traditional retailers to drive inclusive growth and development:

- **What is the right mix of product- or industry-specific skills training, general business skills training, life skills training, and the still experimental community leadership skills training?** Assuming that retailers have limited time available to participate and that funders have limited budgets, how much should be invested in each type of training for optimum business and development impact?

- **How can investments in productivity-enhancing tools such as technology and financial services be made to pay off?** Traditional retailers may need to take out loans to purchase smartphones, tablets, or computers, for example; they will need to earn enough additional money to cover the purchase plus interest. What kinds of price points and what kinds of applications will be needed? Similarly, traditional retailers can purchase inventory from many different suppliers using cash; they will need equally convenient electronic payment systems. How can suppliers develop interoperable systems?

- **What additional products and services can traditional retailers' sell to boost their bottom lines?** Especially in the development world, people often ask "If one can buy a

[32] World Bank. 2001. "Private Sector Development Strategy: Issues and Options." A Discussion Paper. Online at http://www.siteresources.worldbank.org/IDA/Resources/Seminar %20PDFs/development%20strategy.pdf (accessed September 16, 2007), citing Narayan, Deepa, Robert Chambers, Meera K. Shah, and Patti Petesch. 2000. "Crying out for Change." Voices of the Poor Series Volume 2. Washington, DC: The International Bank for Reconstruction and Development/The World Bank. Online at http://www1.worldbank.org/prem/poverty/voices/reports/crying/cr y.pdf (accessed September 26, 2007).

Coke anywhere in the world, why not essential medicines or other socially beneficial products and services?" The question is well worth asking, if one also remembers that traditional retailers depend on their stores to survive. Any additional product or service they might choose to sell must offer margins at least as great as the next best alternative—or there is an opportunity cost the retailer may not be able to afford.

2. Segment and engage outlets according to their incentives and capabilities

The term "traditional trade" encompasses outlets of different kinds and sizes, and owners with different educational backgrounds, skill levels, human and financial resources, and support structures to draw on. They will have different incentives and capabilities to change the way they currently operate, whether by attending training, implementing what they learn, registering their businesses, adopting technology or financial services, testing out new products, services, or business lines. They will have different potential for growth, modernization, family uplift, community leadership, and other outcomes.

It is important to segment these outlets and engage those segments that are capable of the outcomes one seeks to achieve. Bayer CropScience, for example, was driven by the need to increase its sales in Kenya, and for this reason selected only the top performing 200 of about 5,000 rural agro dealers to participate in its Green World program. About 25% of its horticultural retail revenues in the country now come from these dealers (and remember these dealers' incomes have increased by about 40%).[33]

This lesson raises several strategic questions for companies and other stakeholders working to empower traditional retailers to drive inclusive growth and development:

- **What specifically are potential funders seeking to achieve?** For corporate funders, the question must cover business impacts as well as social or development impacts, even if the answer to one or the other is "none." Bear in mind that business impacts can have social or development impacts whether they are intended to or not. For example, as Figure 1 depicts, increased sales can lead to improved financial security and quality of life, as well as multiplier effects for future generations.

- **What are the most highly leveraged interventions for each segment?** Different segments may need different recruitment strategies, different training curricula, different delivery mechanisms, different support services from other stakeholders in their business ecosystems. For example, higher performing outlets may be more open to formalization, whereas lower performing outlets may prefer to remain informal to avoid registration fees and taxes, and therefore remain unable to utilize certain financial services. The answers will be highly context-specific. For example, outlets in one country may be very

[33] Karamchandani et al 2011.

receptive to store upgrades, whereas outlets in another may resist them, for fear that the appearance of prosperity will increase their susceptibility to extortion.

- **How can e-learning technology be deployed?** In-person, hands-on learning, whether in the classroom or in outlets themselves, can be incredibly valuable for some outlets. This type of support, and the individuals who provide it, are often cited by 4e participants as the aspect of the program they valued the most. At the same time, this type of support is expensive and difficult to scale. What kinds of e-learning modalities can be deployed to reduce costs, yet maintain effectiveness, for different types of outlets with different needs?

3. Share costs with other companies that stand to benefit financially

Training traditional retailers can be very expensive; we have seen figures ranging from a couple hundred dollars per retailer to more than a thousand dollars per retailer, depending on the nature and duration of training and other variables.

Product manufacturers with healthy margins that are providing highly product- or industry-specific training may be able to capture enough of the benefits (for example, product-specific sales increases) to justify bearing the entire cost.

But when training begins to broaden into overall business skills, it begins to generate benefits for all companies that use the traditional channel. When retailers' marketing, inventory management, and financial skills improve, their sales improve across all of the products they sell—not only those of the company sponsoring the training. As IFC points out, this creates "room to share costs with development donors and other companies."[34]

It makes sense to look first to share costs with other companies that stand to benefit financially from increased sales through the traditional channel. These could include other companies whose products or services retailers currently sell, or could feasibly begin selling in the future, as well as companies whose products or services retailers could buy—for example, hardware, software, or financial services. Key internal stakeholders will include sales departments, finance departments, strategy departments, and others, such as sustainable development or social investment departments, which may incubate these programs.

This lesson raises several strategic questions for companies and other stakeholders working to empower traditional retailers to drive inclusive growth and development:

[34] IFC 2014, page 28.

- **How to allocate costs across multiple companies?** Most companies will decide whether and how much to invest based on how much they expect their sales to increase (some companies may also factor in customer loyalty or broader reputational benefits). In some cases, the benefits to each company will be similar and the costs can be divided equally—as in the case of Costa Rica, where three food and beverage companies collaborated with a wholesaler. In other cases, the total benefits will vary from company to company, and so will the time horizon required to realize them. In these cases, cost-sharing will need to reflect the different value propositions at play.

- **What is the scope for cost-sharing among competitors?** The traditional trade is a very important channel in some industries in particular, such as fast-moving consumer goods (FMCG) and mobile telecommunications. Most of their retailer training and support programs focus specifically on their own products and services, to avoid subsidizing one another; those that are broader remain limited in scale. Is there scope to join forces?

- **How to manage complexity and transaction costs with multiple partners involved?** Each partner will have slightly different goals and requirements, significant translation will be needed to find common ground and there will be the additional burden of monitoring sales increases of specific products (and other benefits of interest to each partner). Can an "anchor" company manage this collaboration? Is there a role for intermediary organizations, and what kind? Is there an upper limit on the number of partners with which it makes sense to share costs?

4. Use corporate social investment and government or donor funding to fill in gaps

It makes sense to look first to share costs with other companies that stand to benefit financially from increased sales through the traditional channel. However, increased sales may take longer to materialize than most companies' traditional investment criteria require. In addition, increased sales have development multiplier effects for retailers' families and communities. Therefore, it also makes sense to tap into corporate social investment, government, and donor funding if necessary to fill in gaps.

Corporate social investment, government, and donor funding can also be used to catalyze a retailer empowerment program in the early stages, as happened in Mexico, or used on an ongoing basis to augment such a program's social impact—for example by including smaller scale or more disadvantaged retailers than it would make sense to target on a purely commercial basis, or adding greater emphasis on life skills, community leadership, or other topics.

This lesson raises several strategic questions for companies and other stakeholders working to empower traditional retailers to drive inclusive growth and development:

- **How to reconcile the different timeframes involved?** Grant funding is typically provided for short periods of one to three years; corporate social investment, government, and donor funding priorities can also change regularly. In contrast, training retailers and strengthening their business ecosystems is often an ongoing effort. For example, Bayer CropScience trains Green World agrodealers every year. @tienda in Mexico has been ongoing for more than 10 years. How and to what extent can grant funding be leveraged without creating dependence and vulnerability?

- **How to manage the additional cost of assessing development impact?** Most governments and development donors, including bilateral and multilateral development agencies, development banks, and private foundations, require more rigorous assessment of development impact than most companies prefer to pay for (certainly than commercial functions are able to justify; corporate social investment departments often prefer to extend training to additional beneficiaries rather than use that money to pay for impact research). Companies, governments, and donors interested in collaborating to empower traditional retailers must talk explicitly about the kinds of outcomes they are each accountable for achieving, how to measure them credibly, and who will cover what costs.

These are tough questions. But if they can be answered, permitting multiple companies to come together with donors and civil society organizations to empower traditional retailers at scale, the benefits for participating organizations—and broader impacts on inclusive growth and development—could be significant.