



BUSINESS MODEL FEATURES FOR REACHING LOWER-INCOME CONSUMERS WITH NUTRITIOUS FOODS

The **GAIN Business Model Research Project** aims to identify promising business models to reach lower-income consumers with nutritious foods. This series of briefs summarises the results of the project's systematic review of existing research and evidence to identify these approaches.



Serving lower-income consumers: the business and nutrition opportunity

Lower-income consumers represent a large market, estimated at 4 billion people worldwide. Many low-income consumers' diets are lacking in food diversity and quality. There is a business opportunity for private companies to help improve this by providing safe, nutritious foods that meet customers' needs at an affordable price – as long as they do so in ways that are profitable and financially sustainable for the company.

Supporting Distribution

HOW DOES IT WORK?

Serving the needs of lower-income consumers requires getting food products to where those people are – which often includes remote rural areas as well as underserved urban neighbourhoods. This makes distribution a key, but also costly, aspect of the business model. In addition to developing last-mile distribution networks (covered in another brief), firms can help bridge the gap between producers and consumers by using distribution hubs, supporting existing distributors, and undertaking direct sales.

Under a 'hub' model, aspects of distribution are grouped together instead of done separately; this can improve efficiency and cost-sharing, reducing costs overall.

Alternatively, retailers can be supported through micro-distribution (i.e., small, regular deliveries; custom product assortments; local distributors; and small transport like pushcarts or bicycles), capacity building to help them grow their businesses and encourage loyalty, and provision of credit or facilitating access to financing. This support can both incentivise them to sell the new product and improve their capacity to do so.

Finally, some firms undertake retail sales themselves directly, which can help cut out the costs of intermediaries and allow them to more directly control pricing. When done in low-income settings with limited access to affordable nutritious foods, this can help reach lower-income consumers.

WHAT ARE SOME EXAMPLES?

Distribution hubs

Copia, Kenya

This company allows rural customers to access a range of goods (including food) through assisted e-commerce. They can purchase through local sales agents, paying in cash or with mobile money and obtaining assistance as needed. The agent then passes on the order, which is grouped with others in the area to be fulfilled through one shipment to the agent, at a much cheaper cost than single-customer deliveries. The model currently covers about **22%** of Kenya's rural population.



Nestlé, Papua New Guinea

To sell their Maggi-brand instant noodles, Nestlé developed a central hub at which they sold the noodles alongside a pre-prepared vegetable mix to company-approved street vendors. They also provided branded clothing and vending supplies. The vendors then mixed the noodles and vegetables with boiling water and eggs to make a soup, which was sold on the street at a cheap cost.

Supporting existing retail and distribution

Coca Cola and subsidiaries, East Africa

To distribute their drinks, the company developed 'manual distribution centres' that cheaply distribute to small shops and kiosks on narrow, unpaved, or unmaintained roads that could not be served by standard delivery trucks. These micro-distribution centres supported small, independent distributors who used motorcycles and pushcarts. This also enabled small and frequent deliveries, which were better suited to the low-cash-flow, small-storage-space reality of local retailers. (While sugary drinks are not nutritious, similar approaches could be used for nutritious alternatives.)

Alqueria, Colombia

This dairy company targeted small retailers in very small towns and remote areas by deputising a local resident to act as their distributor, using his/her home as a warehouse, and providing financing for a small delivery vehicle adapted to the rural conditions.

Direct Sales in Underprivileged Areas

Egg producers, Mozambique

Several local egg producers have offered direct-to-consumer sales from their production sites, making eggs available more cheaply (due to no transportation costs and few intermediaries) than in the open market, in a place that consumers can easily access on foot or bike. One such company was able to sell eggs at 12-15% below the market price by using this strategy.

Nestlé, Brazil

To reach remote parts of the Amazon that cannot be reached by road, the major multinational created a barge to sell its products from the river.



WHAT SHOULD A FIRM CONSIDER?

As with all ready-to-eat foods, hubs distributing ready-to-eat foods must pay careful attention to food safety and instruct their vendors on how to maintain safe handling to the point of sale. When done well, though, hubs could improve food safety compared to a model in which each vendor prepares on his/her own, using his/her own food safety practices (or lack thereof).

Direct sales may be cheaper than working through intermediaries, but the approach is not costless. It also adds complexity by taking on a new type of business operation.

Moreover, customers may be less motivated to go a firm-specific shop, as they can't buy the variety of products there that they would be able to buy at a grocery store; firms thus need to ensure that such sales outlets are conveniently located.

When supporting existing retail, firms need to consider carefully how that support will benefit them and their products, as opposed to simply helping the retailer (and perhaps even the firms' competitor products).

HOW TO DEPLOY IT?

An entrepreneur interested in improving distribution and retail could first consider the weaknesses of their existing approach. For supporting retailers, an entrepreneur could seek to understand the challenges they face and the support they could use—as well as what they could do to support the company's products in return. For setting up a distribution hub, an entrepreneur would need to consider where such a hub could be located and how many distributors/retailers it could cover, at what cost. In each case, understanding how the approach would impact the overall cost structure, and comparing that to customer willingness to pay, could help determine whether a viable business model existed.

For direct sales, an entrepreneur could first examine the level of consumer traffic at or near their premises, and whether that is sufficient to sustain a direct-sales outlet. They could then consider the costs of setting up such an outlet (including staffing it) and how this would compare to prices they offer through their current retail models.

To Learn More:

Nordhagen, S, Demmler KM. 2023. How do food companies try to reach lower-income consumers, and do they succeed? Insights from a systematic review. *Global Food Security*. Doi: 10.1016/j.gfs.2023.100699.

Copia. <https://copiaglobal.com/copia-impact/>

Errington F, Fujikura T, Gewertz D. Instant Noodles as an Antifriction Device: Making the BOP with PPP in PNG. *American Anthropologist*. 2012 Mar;114(1):19–31.

PATH et al. (2019) Where Business and Nutrition Meet: Review of approaches and evidence on private sector engagement in nutrition. *MQSUN+ Report*.

Gaertner K, Ishikawa E. Shared Prosperity through Inclusive Business: How Successful Companies Reach the Base of the Pyramid. Washington, DC: International Finance Corporation (IFC); 2014.

Nestlé's Amazon River barge. <https://www.businessinsider.com/nestl-expands-brazil-river-barge-2017-9?r=US&IR=T>

While we hope this offered useful advice, users should always consider their company's circumstances when adopting new approaches – and make sure that they are used as part of a broader viable business model. The examples cited come from a 2022 document review and may not be fully up to date.

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