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Developing Inclusive Business Models

A Review of Coca-Cola's Manual Distribution Centers in Ethiopia and Tanzania

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Executive Summary

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This report is a summary version of a longer research study undertaken by the IFC and the CSR Initiative at the Harvard Kennedy School. The full report will be available on the CSRI website at: www.hks.harvard.edu/m-rcbg/CSRI

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Cover Photographs: Supplied by Coca-Cola Sabco and The Coca-Cola Company

The findings, interpretations and conclusions of the study are those of the authors and do not necessarily reflect the views of the IFC or the Harvard Kennedy School. The MDC statistics cited are accurate as of November 2008.

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"More than ever, companies realize that it is good business to share benefits with the communities in the developing countries in which they operate. Enabling small, local firms to supply or distribute goods and services to larger enterprises creates more efficient supply chains. At the same time it maximizes development benefits by helping local companies to grow and create jobs."

Lars H. Thunell, Executive Vice President and CEO

International Finance Corporation (IFC)

"Doing business with poor people brings them into the marketplace – a critical step in the path out of poverty – and for entrepreneurs and firms it drives innovation, builds markets and creates new spaces for growth. Inclusive business models both produce and reap the benefits of human development."

United Nations Development Programme (UNDP)
Creating Value for All: Strategies for Doing Business with the Poor, 2008

1. Preface

Expanding economic opportunity, raising productivity and increasing growth are crucial for alleviating poverty. In the face of the global economic crisis they are more important and more challenging than ever. Their achievement will require concerted leadership on the part of both the public and private sectors.

As the OECD's Development Assistance Committee has commented, "Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally important."[1] A key element of this is creating jobs and livelihood opportunities for low-income people and households. Research by the World Bank and United Nations has shown that the expansion of employment and entrepreneurial opportunities is the single most important pathway out of poverty.[2] To achieve this there is a need to improve the access of small and micro-enterprises to finance, information, skills, technology, sound business practices and markets. Some of these enterprises can further raise their productivity and employment levels by upgrading and integrating into broader production networks and value chains.[3]

In many developing countries, achieving these goals requires the creation of more inclusive business models that directly integrate low-income people as entrepreneurs, suppliers, distributors, retailers, employees and consumers.[4] It also requires more collaborative approaches between large companies, small enterprises, public sector entities, civil society organizations and the poor themselves. These are necessary to address the market failures and the governance gaps that currently exclude or disadvantage many small enterprises and low-income households from prospering.

A growing number of large corporations are proactively engaging in such approaches with the aim of achieving core business benefits - such as greater competitiveness, increased market share and improved risk management - while also contributing to the achievement of international development goals. The following report provides a review of one such approach: Coca-Cola's Manual Distribution Center model, with a focus on implementation in Ethiopia and Tanzania where it accounts for over 80% of the company's sales.

This research forms part of an ongoing series of studies and dialogues being undertaken by the Corporate Social Responsibility Initiative at the Harvard Kennedy School and the International Finance Corporation (IFC), in partnership with other development agencies, companies, civil society organizations and alliances such as the International Business Leaders Forum, the World Business Council for Sustainable Development, the Growing Inclusive Markets initiative, and the Business Call to Action. It aims to provide a more empirical basis for understanding and enhancing the development contribution of large companies through their core business operations and their partnerships with other development actors. In addition to this report, the participating organizations are working together in Africa and elsewhere to engage with key stakeholders, test recommendations on the ground, and implement practical new approaches that combine both business benefits and development gains.

2. The Contribution of the Private Sector to Development

There is growing consensus among policymakers, development experts and business leaders that the alleviation of poverty and the achievement of other key development goals cannot occur in the absence of a diversified and productive private sector. As the World Bank argued in its seminal World Development Report 2005: A Better Investment Climate for Everyone:

> *"Private firms are at the heart of the development process. Driven by the quest for profits, firms of all types – from farmers and micro-entrepreneurs to local manufacturing companies and multinational enterprises – invest in new ideas and new facilities that strengthen the foundation of economic growth and prosperity. They provide more than 90% of jobs – creating opportunities for people to apply their talents and improve their situations. They provide the goods and services needed to sustain life and improve living standards. They are also the main source of tax revenues, contributing to public funding for health, education and other services. Firms are thus central actors in the quest for growth and poverty reduction."*[5]

Despite the importance of the private sector, it is clearly not a substitute for good government. Good governance is more necessary than ever, especially in light of the current economic crisis, climate change and other threats to human security and prosperity, and particularly when it comes to protecting the poorest and most vulnerable households and communities. At the same time, there is a need to better understand and enhance the development role of the private sector.

Large companies have the potential to make a contribution to poverty alleviation through the following four areas of business action:[6]

- Core business operations and value chains.
- Corporate social investment and strategic philanthropy.
- Hybrid models that combine social and commercial capital and/or public and private resources.
- Public advocacy, policy dialogue and institution building.

A number of major corporations are taking more strategic and proactive approaches in all of the above areas, driven by a combination of market development imperatives and business opportunity, risk management, and reputation drivers. In particular, there is growing recognition in both the corporate and international development communities that the most sustainable contribution that any company can make to poverty alleviation is to carry out its core business activities and investments in a profitable, responsible and inclusive manner.

Strategic philanthropy and compliance with laws and international standards remain important components of responsible business practice. They can be especially challenging, and at the same time have a high impact in developing countries. However, it is through core business operations and value chains that companies are likely to make the greatest contributions to development. Until relatively recently, core business operations and value chains have not been a key part of the corporate social responsibility (CSR) debate, and their development impacts have not been rigorously analyzed, evaluated or reported on.

The United Nations Development Programme, (UNDP) the British Department for International Development, the World Business Council for Sustainable Development and others are increasingly using the term ‘inclusive business models’ to describe core business approaches that explicitly integrate low-income people into corporate value chains, as in the following ways:[7]

Consumers: The development and delivery of products and services that improve low-income households’ access to health, education, water and sanitation, food and nutrition, energy, housing, information, financial services, etc.

Employees: Efforts by large companies to support the recruitment, training and development of people from low-income households.

Producers, suppliers, distributors, retailers and entrepreneurs: Business linkage initiatives that source from, distribute through, or sell to small and micro-enterprises and small-scale farmers.

Business linkage initiatives are obviously not new, but they have been the focus of increased attention in recent years. There is growing evidence that commercially viable business linkages between large corporations and micro, small, and medium enterprises in developing countries can play a vital role not only in creating local jobs, improving livelihoods, supporting gender diversity and enhancing economic options, but also in transferring skills, technologies, quality management and sound business standards along value chains. This is the case for both supply chain linkages and distribution and franchising linkages.

The Coca-Cola system's Manual Distribution Center (MDC) model, which is currently being implemented in various forms in some 25 countries around the world, offers an interesting distribution example. It is first and foremost an approach created to solve a core business need for the company. At the same time, it has the potential to make a positive contribution to some of the Millennium Development Goals.

The Coca-Cola Company has made the MDC model a key component of its public commitment to the Business Call to Action, an initiative launched by the British Prime Minister Gordon Brown in 2007. The initiative aims to mobilize large companies to support the achievement of the Millennium Development Goals through new investments that harness their core competencies and value chains. It is managed by a secretariat in the United Nations Development Programme (UNDP), with a steering committee currently composed of the UK's Department for International Development (DFID), Australia's Aid Agency (AusAID), the United Nations Global Compact, the International Business Leaders Forum, and the Clinton Global Initiative. The Business Call to Action is supported by some 60 companies to date, and is establishing an independent monitoring mechanism to track progress of the commitments and their contributions to development. It aims to mobilize the core competencies of large companies in ways that:

- Generate new employment and enterprise in developing countries;
- Improve the quality of supply chains, helping local businesses to diversify and/or become competitive; and
- Include innovations or technologies that make it easier for individuals and businesses to earn a living.

3. Study Objectives and Methodology

During 2008, IFC worked with the Corporate Social Responsibility (CSR) Initiative at the Harvard Kennedy School to review the operations of the MDC model implemented by Coca-Cola Sabco, one of the Coca-Cola Company's bottling partners, in Dar es Salaam, Tanzania and Addis Ababa, Ethiopia.

The project aimed to explore two sets of questions:

1) How is the MDC business model in these two countries structured and implemented, including the relationship between the owners and employees of the MDCs and the managers in Coca-Cola Sabco?

2) How is the MDC business model contributing to expanding economic opportunity and human capital development?

The project focused exclusively on a sub-set of Manual Distribution Centers and their owners and employees in Ethiopia and Tanzania. It did not look at other small and micro-enterprises in the company's value chain, such as retail outlets or suppliers. Nor did it attempt to assess the company's overall social, environmental and economic development impacts or the poverty alleviation footprint in these two countries. Ethiopia and Tanzania were selected for the field work because they are countries in which the Coca-Cola Sabco MDC model has been in operation for over five years and has been implemented in different ways.

The project involved field-based data collection and interviews undertaken during July and August 2008 with Coca-Cola managers and a sample of owners and employees at 48 MDCs (representing 7% of the total number of MDCs in Addis Ababa and 12% of the total in Dar es Salaam at the time). These 48 MDCs were selected to ensure the representation of a range of performance levels (i.e. high, average and low sales) and geographic locations, because of the impact location can have on business performance (i.e. road conditions, accessibility of retailers, outlet density, access to power or water, and consistency of supply). Interviews were conducted either in the local language, through a translator, or in English.

In November 2008, once the study's initial findings were available, Coca-Cola convened a multi-stakeholder dialogue in Tanzania to seek input on the findings. The session was attended by development practitioners from the NGO, government and international agency community to debate and explore some of the research recommendations in more detail. Co-facilitated by Business Action for Africa and the International Business Leaders Forum, the dialogue included a wide range of participants including local, regional and international representatives from organizations such as Save the Children, Population Services International, Enablis, CARE International, Colalife, the U.K.'s Department for International Development, the United States Agency for International Development, SNV Netherlands Development Corporation and UNICEF.

This report summarizes some of the key findings and recommendations from the research to date. It will form the basis of ongoing dialogue and local engagement by the partners involved.

4. The Coca-Cola System

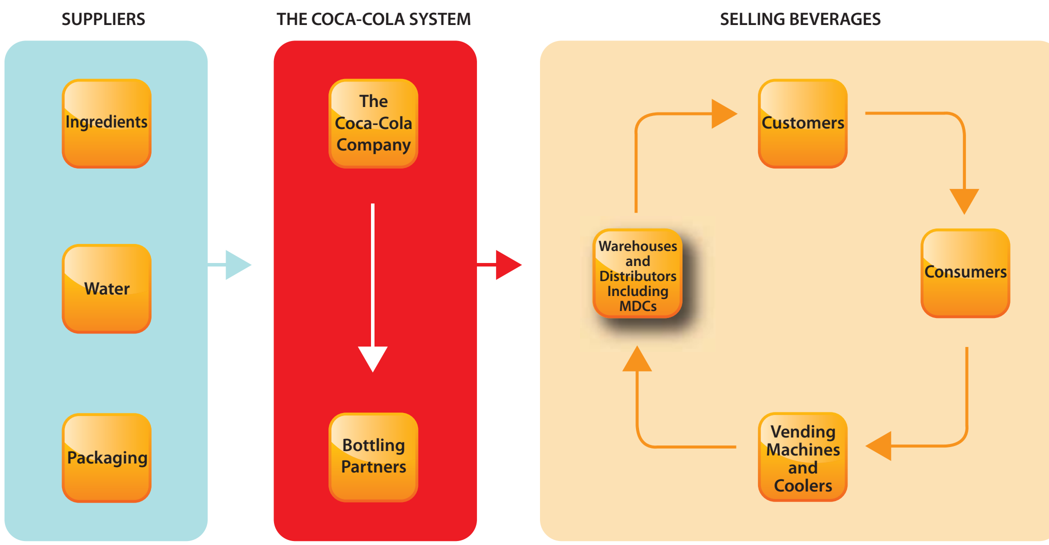
The Coca-Cola Company (TCCC) is the largest non-alcoholic beverage company in the world, manufacturing nearly 500 brands and 3,000 beverage products, and serving 1.6 billion consumers a day.[8] In the 200 countries and territories in which it operates, TCCC provides beverage syrup to its bottling partners, who then manufacture, package, distribute and sell products for local consumption. TCCC has more than 300 bottling partners worldwide, which are local companies that are either independently owned or partially or fully owned by TCCC. It has had a presence in Africa since 1928 and today is one of the continent's largest private sector employers, operating about 160 bottling and canning plants through its local bottling partners and working with more than 900,000 retail outlets.

TCCC and its bottling partners (collectively known as "the Coca-Cola system") are renowned for their ability to make their products available to consumers in even the most remote locations. They have utilized a wide range of innovative distribution methods to accomplish this. In many countries, particularly developed countries, the system primarily uses traditional distribution models in which large amounts of product are delivered via trucks or other motorized vehicles to large retail outlets. Yet in much of the developing world, road infrastructure, terrain, retail markets, cost implications and customer needs differ. Thus, other distribution methods have been developed to distribute much smaller amounts of product to a diversity of retail outlets utilizing methods such as bicycles, boats, and pushcarts.

The Coca-Cola system uses the full range of distribution methods in Africa. In the most developed, urban parts of the continent, the system uses the more traditional model of supplying large retailers such as grocery stores, hotels, universities, and other institutions using delivery trucks. However, for a large proportion of its retail customers, particularly in East Africa, where they are mostly small neighborhood restaurants or bars, corner stores, and one-person kiosks, the Coca-Cola system has adopted a manual delivery approach working with small-scale distributors to deliver products to small-scale retailers in densely populated urban areas. One of TCCC's key bottling partners in Africa, Coca-Cola Sabco (CCS), has been at the forefront of innovation in this approach, known as the Manual Distribution Centers model. This report focuses exclusively on this one component of the Coca-Cola value chain (see diagram).

CCS is one of the Coca-Cola system's largest bottlers in Africa, operating 18 bottling plants and directly employing more than 7,900 people in East and Southern Africa. Headquartered in South Africa, it is 80% owned by a private investment group and 20% owned by TCCC.

Coca-Cola Value Chain



5. The Manual Distribution Center (MDC) Model

MDCs are independently owned, low-cost manual operations created to service emerging urban retail markets where classic distribution models are not effective or efficient. Common characteristics include:

- A central point for warehousing of product, with a manageable coverage area and defined customer base (typically about 150 retail outlets).
- Distribution of product is mostly manual (e.g. by pushcarts) to keep costs at a minimum.
- Outlets served are typically low-volume with high service frequency requirements and limited cash flow, requiring fast turnaround of stock.

MDC Owner Profile

Zaine is a married Ethiopian male who completed 4th grade and is currently supporting a family of five on his income from the MDC. Previously he had an informal business - a small retail outlet on the street from which he sold Coca-Cola products.

Source: Field interviews conducted in July 2008; surname withheld for privacy.

Coca-Cola Sabco first developed the MDC model as a pilot, which created ten MDCs in Addis Ababa, Ethiopia, in 1999. By 2002, it had implemented the model on a broad scale throughout its markets in East Africa. Although the exact number of MDCs changes on a regular basis, as of November 2008 there were 165 MDCs in Addis Ababa and 651 in Ethiopia as a whole, accounting for 83% of CCS sales nationwide. Also as of November 2008, there were 152 MDCs in Dar es Salaam and 412 in Tanzania as a whole, accounting for 93% of CCS sales nationwide.[9] CCS now relies on the MDC model as its core distribution model in Ethiopia, Kenya, Uganda, Mozambique, Tanzania, and to a smaller extent in Namibia.

MDC Owner Profile

Lillian is a single Tanzanian mother who opened her MDC directly after graduating from a post-secondary school with a diploma in business. She is currently supporting herself and a child on her income from the MDC. She pays $172 USD a month in private schooling for her daughter, and is saving to build her own house.

Source: Field interviews conducted in July 2008; surname withheld for privacy.

The research study looked at the following key characteristics of the MDC model:

Establishing new MDCs – Including the processes used by the company to assess the need and appropriate location for an MDC and to recruit new owners and operators, and the start-up costs and sources of finance used by the MDC owners. Three primary sources of funding were identified - personal savings, credit from CCS, and bank loans.

MDC employees – Including a review of the recruitment processes, staffing structures, roles, and salaries of MDC employees.

Reporting and supervision of MDCs – Looking at the reporting structure between the MDC owners and Coca-Cola Sabco, the roles and responsibilities of the Coca-Cola Sabco sales team in working with the MDC owners, and the nature and regularity of their interaction. The use of monitoring and management tools was also reviewed, and their role in supporting, setting targets, evaluating and providing incentives for MDC owners was assessed.

Training of MDC owners and employees – Focusing on the number and nature of training and coaching opportunities provided by Coca-Cola Sabco to MDC owners and employees.

The sales and distribution process – Reviewing the relationships and value chain linkages between the Coca-Cola Sabco sales teams, the MDC salespersons, and the numerous retail outlets served.

The economics of the MDC model – Asessing different aspects of wholesaler margins, profits, and operating expenses of the MDCs and some of their profitability concerns.

MDC Owner Profile

Verani is a Tanzanian male whose wife works with him at the MDC. They support a family of six in the city as well as six additional relatives residing in the country-side through their income from the MDC and two other businesses (a bar and a garment store). The income from the MDC enables Verani to pay $340 a year for private school fees for two children, as well as food and personal expenses. He is also currently building a house.

Source: Field interviews conducted in July 2008; surname withheld for privacy.

It is worth clarifying that most of the MDC owners are not from the poorest segment of the population - the so-called 'Base of the Pyramid'.[10] The majority of those interviewed have a minimum of primary school education and most had previously been employed or were in school before becoming an MDC owner. For 75 percent of the Ethiopians interviewed and 32 percent of the Tanzanians, however, this was their first time as a business owner. These people therefore represent part of a growing entrepreneurial, middle-class - what have been termed 'opportunity' entrepreneurs as opposed to 'survival' entrepreneurs.[11] These are the types of people who have the potential to grow a business, employ others, raise productivity, and increase incomes on a sustained basis, all of which are essential for alleviating poverty.

6. Assessing the MDC Model's Contribution to the Business and to Development

6.1 Business benefits

The MDC model was born out of business need and has been driven by the mainstream operations of the business. Since the beginning, the model has helped Coca-Cola increase sales by reaching small-scale retail outlets located in densely populated urban areas where truck delivery is not effective or efficient, and where outlets demand smaller, more frequent deliveries of product. Since the model was first piloted in 1999, it has scaled to the point where more than 80% of the company's products are currently distributed through the MDC model in Ethiopia and Tanzania.

Some of the specific business benefits of the model have been as follows:

Facilitates delivery in "road-poor" settings: The MDC model allows for access to areas that are hard to reach by large trucks, such as crowded urban settings where roads are not built, are too narrow to be accessible, or are in disrepair.

Allows for small drop sizes at retail outlets: The close proximity of the MDCs to their retail outlets allows them to make frequent, small deliveries, enabling outlets to carry less inventory and to purchase more on a demand-driven basis, addressing some of the financial and space limitations that the retail outlets face.

Provides improved customer service: Whereas under the traditional model, retail outlets had to wait for infrequent truck deliveries and risk running out of supply, outlets have constant access to products under the MDC system (12 hours a day/six or seven days a week). Also, through regular interaction with retailers, the MDCs and CCS can ensure that merchandising standards are also better adhered to and that problems are rectified faster than in traditional models.

Overall, the model has led to positive business results in Ethiopia and Tanzania and has been a contributing factor to Coca-Cola's sales and volume growth in these two countries, as well as elsewhere in East Africa.

6.2 Development contributions

Development is a complex concept that at its most fundamental level implies a positive change in the lives of people. A credible methodology for measuring the development impact of a specified intervention, such as the MDC model, would:

- Identify relevant metrics and collect baseline data before the intervention was implemented, so that changes over time could be detected;

- Include a control group that received no intervention, so that changes attributable to the intervention could be distinguished from changes that would have occurred naturally.

These steps require considerable time and advance planning, and in most business situations the interventions have already been completed before the company starts thinking about measuring its development impacts. The MDC model is no exception. As a result, because it is difficult to reconstruct baselines and impossible to control after the fact, the study did not aspire to measure the development impact of the MDC model over time, but rather to focus on some key areas where it is possible to collect statistics today, and to lay out a framework for measuring impact more broadly and consistently in the future.[12]

The study captured a snapshot of the MDC model's impact in three broad areas:

Creating opportunities for entrepreneurship and employment: The MDC model directly contributes to creating new entrepreneurship and employment opportunities especially in the formal sector. Furthermore, the economic opportunities and income created for MDC owners and employees indirectly impact their household members who according to interviews often depend on the income from the MDC to pay for food, housing, and education. It should be noted that these figures relate only to the MDCs themselves, and do not include the thousands of small retail outlets they are supporting further along the value chain, which were not analyzed for this research.

- To date, the Coca-Cola system has created over 2,500 MDCs in Africa, generating over 12,000 jobs and more than $500 million in annual revenues. MDC owners and employees support an estimated 48,000 dependents.

- The 651 MDCs in Ethiopia and 412 MDCs in Tanzania have helped to create ownership opportunities for both existing and new small business owners and entrepreneurs, and provided nearly 6,000 jobs since 2000. Based on the sample of 48 MDCs surveyed in this study, each MDC employs an average of 3.9 people in Ethiopia and 6.9 in Tanzania. Some Coca-Cola Sabco jobs and benefits were lost during the shift towards the MDC model, but these losses were limited relative to net new job creation.

- The MDC owners earn a set profit margin for each case sold, equivalent to the difference between the cost to the MDC for purchasing a case of beverages and the retail price to customers. With affordability being such a key driver of volume, CCS sets a consistent retail price across all MDCs. The nature of the industry means that the MDCs target high quantity sales to derive satisfactory incomes, with profit margins in the range of 3% to 5%. In addition, MDC owners are eligible for a monthly bonus based partly on adherence to a CCS management tool and ability to meet sales targets, but this bonus system does not operate everywhere.

Promoting women's economic empowerment: The MDC system has created new economic opportunities for women as MDC owners and employees as well as managers and sales staff in Coca-Cola Sabco.

- Across East Africa, the MDCs have created entrepreneurship opportunities for close to 300 women. Furthermore, couples jointly own a high proportion of MDCs, many of which are managed by the women.

- Among the MDCs sampled, 19% were owned by women in Ethiopia and 32% were owned by women in Tanzania.

- In addition, an average of 6.5% of employees among the MDCs surveyed in Ethiopia and Tanzania were women.

Catalyzing human capital development: The company and the MDC owners and employees consider training and technical assistance to be a highly important element of the MDC model. Evidence suggests that it not only increases the skills and competencies of individual owners and staff, but also creates a sense of loyalty between Coca-Cola Sabco and the MDC owners. The intensity of training varied between Ethiopia and Tanzania, with the former being more regular and intense, although plans are underway to increase the offering of training in Tanzania. Training provided to owners ranged from management training in areas such as basic business skills, warehouse and distribution management, account development, merchandising and customer service, to regular one-on-one coaching. In the case of MDC employees, training focused on customer service and sales and on traffic safety issues. MDC owners and employees also report that the near daily contact and supervision that they receive from CCS staff is also a very valuable resource for business skills development.

Examples of MDC Development Contributions

	Ethiopia:	**Tanzania:**
Generating Economic Opportunity	75% of owners are "new business owners"	32% of owners are "new business owners"
	80% of owners rely on MDC as sole income source	20% of owners rely on MDC as sole income source
	An average of 3.9 people are employed by each MDC	An average of 6.9 people are employed by each MDC
	80% of staff and 95% of owners indicate they "make more money now" than before	92% of staff and 50% of owners indicate they "make more money now" than before
Promoting Women's Economic Empowerment	19% of owners and 8% of staff are female	32% of owners and 5% of staff are female
	32% of MDCs employed at least one female	42% of MDCs employed at least one female
Catalyzing Human Development	80% of owners and 90% of pushcart operators report receiving training	**n/a**

Source: Interviews with MDC owners and staff (n=21 in Ethiopia, n=27 in Tanzania)

7. Recommendations

The MDC model is not a panacea – either as a business solution or as a development driver. Its success in both respects depends on factors both within and beyond the company's control. Yet, the model offers a core business-led approach that in Tanzania and Ethiopia accounts for over 80% of the company's product distribution and supports more than 1,000 small-scale enterprises and nearly 6,000 jobs.

As a relatively new approach to doing business, the model is being reviewed and revised by the company on an ongoing basis and adjustments are being made accordingly. There is growing recognition of the importance of listening to and learning from the MDC owners, both in terms of improving the business model itself and in terms of enhancing its development impacts.

In these two countries and others where the MDC model is being implemented, there is potential to leverage this network of thousands of small enterprises that are located in low-income communities to achieve broader development goals, such as the distribution of social products or support for social marketing. This broader effort cannot and should not be the responsibility of the company alone. Nor must it undermine the core commercial viability of these small enterprises. Failure to maintain profitability would clearly undermine the business model and thereby jeopardize the long-term contribution it can make to development. Yet, by working in partnership with other companies, donors, government bodies or development experts there is potential for the network of MDCs to be leveraged in a targeted way to address other development needs.

Field research and interviews with MDC owners and employees and Coca-Cola Sabco managers revealed that there are specific areas where the development contribution of the MDC approach could be enhanced at the same time as the business model is improved, scaled up, and rolled out to additional markets. This conclusion was borne out also by the November 2008 dialogue in Tanzania that included a wide range of participants including Save the Children, Population Services International, Enablis, CARE International, Colalife, the U.K.'s Department for International Development, the United States Agency for International Development, SNV Netherlands Development Corporation and UNICEF.

Drawing on the research and stakeholder dialogue, there are five broad areas of recommendation. These are of relevance not only to the Coca-Cola system in Ethiopia, Tanzania and elsewhere in Africa and other developing countries, but also to other major corporations that are developing inclusive business models, or as some call them, "base of the pyramid" business models. The recommendations are also of relevance to governments, donor agencies, private foundations and civil society organizations interested in increasing the quantity and quality of private sector resources supporting global development and in partnering with corporations in this effort. These five recommendations are as follows:

- **7.1 Invest in continuous improvement of the core business model.**
- **7.2 Broaden socio-economic opportunity for MDC owners and employees.**
- **7.3 Promote small business development and entrepreneurship more widely.**
- **7.4 Explore how the business model could distribute social products or messages.**
- **7.5 Undertake participatory evaluation and action-based learning.**

7.1 Invest in continuous improvement of the core business model

It is essential that the MDC model continues to be commercially viable for both the company and the MDC owners in order to perpetuate any economic and human development benefits that it fosters. There are a number of practical, ongoing actions that can be taken to improve business efficiency, performance and quality to enable MDC owners to improve their profits. These include the following:

Formalize owner recruitment processes: Selecting the right type of individuals with sufficient business acumen and local contacts is one of the most critical success factors for the model. The selection criteria used in recruitment, which currently incorporate a set of relatively informal characteristics and competencies, could be formalized and better documented to make them more effective from both business and development perspectives.

Improve access to finance: Linked to owner recruitment is the essential issue of access to start-up funding and working capital. This goes far beyond microfinance for this category of business. Owners are responsible for financing the start-up costs of their MDCs, which average from about US$6,000 to US$8,000 in Ethiopia and US$10,000 to US$15,000 in Tanzania. Personal capital is currently the predominant source of financing, especially in Ethiopia. Loans or credit arrangements from Coca-Cola Sabco or commercial banks are increasingly important in Tanzania and other more established markets, with some 40% of the MDCs interviewed in Dar es Salaam financing the start-up of their MDC through such loans – most of whom had houses or other property to use as collateral. There are also opportunities to assist with insurance services and with improved finance for working capital including improved credit lines, short term overdraft facilities, and leasing facilities, for example for vehicles. There is great potential here for building partnerships with commercial and other financial institutions to improve access to different financial products and services and to financial training.

Expand and enhance training: Another action Coca-Cola Sabco can take to enhance both business and development results is to expand and professionalize the training opportunities it provides to MDC owners and their employees, most of whom reported in interviews that the training they currently receive is extremely valuable. At a minimum, there would be value to expanding and enhancing the provision of business and financial skills training, which could enable owners and staff to improve business performance, help to ensure that they represent the Coca-Cola brands appropriately, and foster loyalty to CCS, while at the same time helping to build their own skills, competencies and long-term employability. Opportunities identified by both the field research and the stakeholder dialogue also included the development of a high-quality 'best practice' curriculum that goes beyond basic business and financial training to focus on how to run a successful MDC and achieve performance excellence. Stakeholders at the November dialogue in Tanzania, for example, proposed a Coca-Cola School of Entrepreneurial Development with a multi-year program, which would offer different levels of formal qualification and also an opportunity to create incentives for people to learn from others. There is also potential to partner with other companies that already have well-established training programs.

Improve management tools and relationship management: The MDC model is most successful when MDC owners and employees have regular interaction with CCS staff and have access to and a good understanding of the company's management tools. This helps to lower costs, improve record-keeping, enhance loyalty to Coca-Cola and produce positive business results for the MDCs. Standardizing some of the existing management tools and integrating them into a single MDC management system - which could include selected development indicators as well as core business metrics - would be a valuable addition to managing and monitoring the MDC model.

Align evaluation, compensation and incentive processes: More consistent and well-defined performance metrics that are evaluated on a regular basis could improve the setting of targets, incentives and bonuses for MDC owners and their employees. Evaluation and incentive programs could also deliver non-monetary incentives. For example, owners and employees could be awarded points that could be redeemed for non-monetary benefits such as school tuition or life skills courses. In terms of compensating MDC employees, some of the owners in Tanzania have started to implement salary-plus-commission compensation schemes, rather than commission-only systems. While this increases their monthly fixed costs, it decreases the fluctuation in employees' incomes, which usually results in greater employee loyalty and a reduction in staff turnover and theft.

7.2 Broaden socio-economic opportunity for MDC owners and employees

In addition to improving the commercial viability of the model for the company and the MDC owners, efforts can be made to explicitly broaden the economic opportunity and human capital benefits gained by the MDC owners, their employees, and indirectly their families.

Three areas of action offer potential and would be relatively easy and cost-effective to implement within the current system:

Target the recruitment process: In addition to formalizing and professionalizing overall owner recruitment, there are opportunities to implement targeted recruitment initiatives focused on identifying, recruiting and mentoring designated groups that may create high development benefits, such as women and first-time business owners. It is currently difficult for these two groups to enter the system due to the relatively high start-up financing costs.

Expand access to financial products and services: Financing is one of the major barriers to entry into the formal business sector for many small enterprises. Since CCS requires owners to finance their own start-up costs for an MDC business, the opportunity tends to be limited to those who have either saved enough capital or who are able to take commercial loans. As a result, those who are selected to be MDC owners tend to be previously employed, operating other businesses, or relatively better off than their neighbors. If adjustments are made to the selection criteria to target more first-time business owners and women in the program, enhancing access to capital will become an even higher priority. This effort could include partnering with commercial banks or public and civil society institutions that specialize in financing small enterprises. The MDC owners and employees could also benefit through a program that assists with personal savings, health and other forms of insurance.

Complement business skills training with life skills and further education opportunities: The existing MDC network could also be leveraged for delivering life skills training and further education opportunities, in addition to business and financial skills training. This could include subjects such as HIV/AIDS awareness, occupational health and safety, nutrition, personal finance, language and writing, and driver training. Some courses could be built into a package of non-financial performance incentives. In certain cases, local managers from Coca-Cola Sabco could help to deliver training as part of an employee volunteer program.

7.3 Promote small business development and entrepreneurship more widely

In addition to supporting MDC owners and employees who are directly participating in the extended Coca-Cola system, there are opportunities to promote small business development and entrepreneurship more broadly in the countries and communities where the company is doing business.

Establish a system of referral for aspiring entrepreneurs: The interest in owning an MDC is significantly higher than the availability of opportunities. The field research in Ethiopia, for example, showed that for every MDC that opens, some 10-15 entrepreneurs apply for the opportunity. The company could partner with a small business development agency to develop a referral system for the interested entrepreneurs and school-based entrepreneurship training and small and micro-enterprise development in a more strategic way.

Support entrepreneurship education and programs through community investment: The company could also harness its philanthropic and community engagement programs in Africa to support university and school-based entrepreneurship training in a more strategic way.

Advocate for better regulations for small enterprise development: Along with other large corporations operating in Africa the company has a strong political voice and access to government. The broader business community could become stronger advocates for small enterprise development and for the necessary regulatory changes needed to support small-scale entrepreneurs.

7.4 Explore how the business model could distribute social products or messages

Given the effectiveness of the model in distributing Coca-Cola products and marketing messages in low-income urban areas, could the same model be utilized to distribute other products and messages, such as health and nutrition products and public health information? In theory, such initiatives could provide new opportunities for MDC owners to enhance their profitability. Alternatively, if the products and messages were distributed free of charge, they could enhance owners' standing in the community. The MDC distribution network is deeply rooted in many of the communities where it operates and MDC owners are often high-profile and respected. A number of the MDC owners interviewed recognize that basic needs such as safe drinking water and sanitation, health and education are often seriously lacking within their local communities. They indicated that they would be willing to help their communities by distributing social products or information through their facilities and operations.

However, introducing such social products to the distribution model could pose several risks to commercial viability. These might include increased costs, challenges with inventory management, problems with quality control and even exposure to legal liability in the case of the distribution of certain health products. Such changes would therefore have to be introduced carefully to avoid negative impact on profitable business operations, which keep the model sustainable.

Equally, neither the company nor the MDC owners are development experts. As such, it would be essential to collaborate with government, donor or civil society health or development experts to ensure that the products or information distributed were appropriate for and genuinely demanded by the target community. Efforts would need to be driven locally, with the MDC owners, community leaders and development partners identifying key needs, opportunities and approaches. There would have to be clear agreement on which partner was responsible for which part of the social product value chain. The Coca-Cola system, for example, would be able to help with logistical advice and possibly marketing ideas, but would need to defer to its stakeholders and social partners on the most appropriate social products or messages to promote.

There are many opportunities and enthusiastic partners, but each one would have to be carefully considered through community consultation and with the local context and constraints of the MDC owners in mind.

7.5 Undertake participatory evaluation and action-based learning

The field research and stakeholder dialogue agreed on the potential for the company to identify a set of key development performance indicators, which could be tracked on an ongoing basis alongside traditional business performance metrics. These could include the following:

> **Creating opportunities for entrepreneurship and employment:** Number of new enterprises and jobs created, number of first-time owners, MDC profits, total income generated by employees.
>
> **Promoting women's economic empowerment:** Number of women entrepreneurs, MDC staff and CCS employees.
>
> **Catalyzing human development:** Number of people who receive training on business skills or safety procedures, total number of hours of training delivered per year, surveys on participants' satisfaction with the training delivered.

In addition to establishing a more systematic approach to track performance against key development indicators, a related finding of the research project was the crucial importance of process. In particular, the research identified the potential for integrating participatory and action-based learning methodologies into the way the company and its partners learn and share lessons from each other on what works and what does not. The way the project has evolved, and the willingness of the Coca-Cola system to 'learn while doing', means that a more structured participatory action learning methodology may be useful for designing, implementing and evaluating future activities. Such an approach could enhance the learning impact of this work while also encouraging a manageable degree of risk-taking. In other words, ideas could be tested in such a way as not to place economic risk on the MDC network, which remains the core contribution of this approach to development.

8. Conclusion

Inclusive business models such as the Coca-Cola system's MDC model shed light on the capacity of companies to stimulate socio-economic development as a part of, not at the expense of, their core business operations. Such models have the potential to deliver both direct and indirect development benefits, which are both economic and social in nature.

The field research and stakeholder dialogue that formed the foundation for this report evaluated how the MDC model currently operates in Ethiopia and Tanzania and provided initial recommendations for enhancing its business and development impact as it expands and is replicated in Africa and elsewhere. The study has provided some examples of the contribution of the MDC model to creating opportunities for entrepreneurship and employment, promoting the empowerment of women, and catalyzing human capital development. It represents a 'work in progress', both from a research and evaluation perspective and in terms of the company's own journey in creating inclusive business models that aim to deliver both business benefits and contribute to development in the countries and communities where the company operates.

The MDC model is not a panacea – from a commercial perspective or from a development perspective. It is one approach of many that have been developed by fast moving consumer goods companies to better serve and grow their customer bases, while also creating local jobs and incomes, and indirectly other business and development benefits. It is only one aspect of The Coca-Cola Company's development footprint. Nevertheless, it is clear that the MDC model is one with potential for replication and scale-up, especially in partnership with others.

A growing number of companies can point to similar inclusive business models of their own, which integrate low-income people into corporate value chains either as producers, entrepreneurs and employees, or as consumers. While recognizing competitive realities and pressures, there is an opportunity for leading companies to develop more of these pioneering business-led approaches to poverty alleviation, and as they do so, to learn from each other what works, and to mobilize other companies to get involved. Likewise, governments and development experts can play vital roles in supporting the business models and value chains that demonstrate measurable business and development impact, and that have the potential of reaching sustainability and scale. Most importantly, all of these players will need to become more effective at learning from and working with the millions of men and women living in low-income urban and rural communities - the majority of who are not asking for charity, but rather seeking opportunity.

Endnotes

1. *The DAC Guidelines: Poverty Reduction*. Development Assistance Committee, The Organisation for Economic Cooperation and Development (OECD). Paris: 2001.

2. *Voices of the Poor: Can Anyone Hear Us?* Survey undertaken of over 60,000 men and women in over 60 countries. The World Bank, 2000.

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3. Nelson, Jane. *Building Linkages for Competitive and Responsible Entrepreneurship: Innovative partnerships to foster small enterprise, promote economic growth and reduce poverty in developing countries.* Harvard Kennedy School and United Nations Industrial Development Organization (UNIDO), 2007.

4. United Nations Development Programme. *Creating Value for All: Strategies for Doing Business with the Poor.* UNDP, 2008.

   See also:

   Jenkins, Beth. *Expanding Economic Opportunity: The role of large firms.* Harvard Kennedy School, 2007. This forms part of a series that illustrate inclusive business models in seven industry sectors: food and beverage; financial services; healthcare; extractives (oil, gas and mining); tourism; utilities; and information and communications technology.

5. *A Better Investment Climate for Everyone.* World Development Report. The World Bank Group, 2005.

6. Nelson, Jane. *Leveraging the Development Impact of Business in the Fight Against Global Poverty.* CSR Initiative Working Paper 22. Harvard Kennedy School, 2006.

7. United Nations Development Programme. *Creating Value for All: Strategies for Doing Business with the Poor.* UNDP, 2008.

8. Statistics provided by The Coca-Cola Company.

9. Ibid.

10. The terms 'Bottom of the Pyramid' and 'Base of the Pyramid' were coined by Professor Stu Hart, Professor C.K. Prahalad, and Allen Hammond.

11. Patricof, Alan. J and Sunderland, Julie. E Venture Capital for Development. Paper prepared for Brookings-Blum Roundtable: *The Private Sector in the Fight Against Global Poverty*. Aspen Institute, August 3-4 2005.

12. There is an emerging community of practitioners and researchers exploring the best approaches to measuring the development impact of large corporations. Leaders in this area include the World Business Council for Sustainable Development, Oxfam, faculty at Insead and Cambridge Universities, and the Aspen Network of Development Entrepreneurs.

THE CSR INITIATIVE, HARVARD KENNEDY SCHOOL

The CSR Initiative at Harvard's Kennedy School is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance, and public policy, with a focus on the role of business in addressing global development issues. The Initiative undertakes research, education, and outreach activities that aim to bridge theory and practice, build leadership skills, and support constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors and is now also supported by Abbott Laboratories, Cisco Systems Inc., InterContinental Hotels Group, Microsoft Corporation, Pfizer, Shell Exploration and Production, and the United Nations Industrial Development Organization (UNIDO).

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