

# BUSINESS MODELS FOR REACHING LOWER- INCOME CONSUMERS WITH NUTRITIOUS FOODS



## Guidance for Pitch Competition Entrants

*Lower-income populations often face challenges accessing affordable, desirable, safe, and nutritious food, contributing to poor diet quality and malnutrition. As the main source of food for much of this population, businesses can play a role in improving this. But to do so, they need to find ways to reach these consumers profitably, to ensure their own sustainability.*

*Based on a systematic review conducted by GAIN, this note offers guidance on what is known about business models that entrepreneurs can use to do this. However, pitch competition entrants should see this just as potentially useful background information – they are not required to apply any of the techniques noted here in their entries. Indeed, new and innovative ideas are very welcome!*

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The general aspects of business models that have been identified as essential for successfully reaching lower-income consumers are: product development and characteristics; branding and marketing; and distribution and retail.

**Product characteristics.** Companies seeking to reach lower-income consumers may choose to adapt existing products to meet lower-income consumers' needs, use similar products but sold in new ways, or create new products altogether. In doing this, they need to ensure acceptability—i.e., alignment of the product with consumer needs and preferences. It is also essential for product design to contribute to affordability—through reducing cost, increasing value, or matching customers' variable cash flows. Costs can also include the time and effort of acquiring, preparing, and consuming food. To reduce costs, companies can use ingredients or materials that perform adequately at reduced cost and eliminate aspects of the product that do not add value for the consumer. However, cost reduction can only go so far: willingness to pay is foundational for a successful business model. To increase value for money, companies can include value-adding features (such as convenient preparation) and offer high quality, including with certifications where relevant, to lower the perceived risk. To match customers' variable cash flows, firms can offer products in affordable sizes or facilitate access to credit or subscriptions, as relevant.

**Branding and marketing** are often essential for successfully selling products, needed to ensure awareness and to increase perceived value. Brand recognition is also important for differentiation from competitors. Packaging and branding should be distinct, appealing, and communicate the value of the product. Given aspirational consumption, focusing on products as being 'cheap' or 'good value' may

not be the best way to motivate lower-income consumers. Instead, marketing focused on quality, value, or alignment with social aspirations may be more successful. Promoting a product or brand among lower-income consumers often requires active cultivation and hands-on marketing. This can be particularly challenging as lower-income consumers may not be easily reached through conventional channels like television and radio and may instead require approaches like door-to-door sales or local sales agents.

**Distribution and Retail.** Accessibility depends on distribution to the areas where low-income consumers live, urban or rural. Distribution costs in these areas can be very high and must be managed carefully, particularly for perishable products requiring refrigeration or careful handling. As lower-income consumers often buy small volumes, distributing to the areas where they live may not be attractive for distributors. In urban areas, consumers may not be willing to travel far to access goods, making proximity essential. These challenges make it essential to develop distribution strategies that can reach rural and low-income urban areas. Indeed, weaknesses in distribution are among the most common reasons why businesses aiming to serve lower-income consumers fail. Technology can be used to make distribution more efficient.

Across each of these areas, any firm that wants to reach lower-income consumers should consider:

- **Accessibility** – the product is sold where consumers can easily get it
- **Acceptability** – the product is accepted by the consumer, given their needs and preferences
- **Affordability** – the product is sold at a price that aligns to consumers' purchasing power
- **Awareness** – consumers are aware of the product and its benefits

In addition to these general points, there are certain **challenges with marketing nutritious foods, specifically**. These include limited demand and awareness, lack of trust and issues with labelling, risk aversion, low willingness to pay, and challenges with ensuring frequent consumption. Firms will need to consider whether these apply to them, and address them if so.

Some **examples of specific business model features** that firms have used to reach lower-income consumers with food products include cross-subsidisation, increasing value through convenience, use of waste products and less desired parts, quality segmentation, cheaper ingredients, small sizes, selling in bulk, no or reusable packaging, distribution hubs, bespoke last-mile distribution networks, providing new support to existing retail/distribution networks, and direct sales in underprivileged areas. None of these features alone can ensure success with either reaching lower-income consumers or doing so in a financially viable way: each feature needs to be supported by the other aspects of a solid business model.