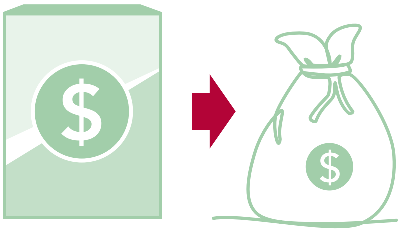


# Cutting Ingredient Costs by using Lower-cost Alternatives

## 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.

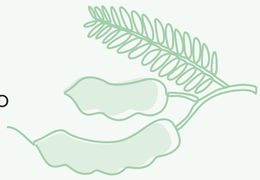
## HOW DOES IT WORK?

To help meet lower-income consumers' needs, companies often need to adapt their products. This is particularly important when it comes to making products more affordable.

Ingredient costs can be a main driver of product costs – particularly in settings where other costs (like labour and rent) are relatively low. As such, one way to cut costs can be replacing more expensive ingredients with cheaper alternatives or omitting certain ingredients altogether.

## WHAT ARE SOME EXAMPLES?

**Coopérative de Transformation d'Approvisionnement et d'Écoulement de Soja (CTAE) – Benin**



This company developed a product, soya goussi, which replaces the mashed seeds used in a traditional dish with roast soybean to create a cheaper product – which is also more nutritious, having a higher protein content. The product is particularly low-cost as it was made using soy cake, a by-product of soybean oil production. The product can also be used to substitute for meat, at a price about **30%** lower than chicken.

**Promasidor – South Africa**

In their powdered milk, sold under the Cowbell brand, the company replaced milk fat with vegetable fat, creating both a cheaper product and a more shelf-stable one – which is particularly helpful to households that may lack refrigerators.

**Danish Care Foods – Cambodia**

This producer of fortified snacks and therapeutic foods replaced the imported dairy- and peanut-based products used by its competitors with cheaper local fish and beans, which also enabled it to better cater to local tastes.

**KokoPlus – Ghana**

When making a fortified complementary feeding supplement, this company excluded the cereal part of a typical porridge flour, since households already had access to grain flours. This allowed for cost reductions in production (due to fewer ingredients and simpler processes), packaging (due to smaller packages), and distribution (due to smaller and lighter packages).

## WHAT SHOULD A FIRM CONSIDER?

Replacement of ingredients may seem like a straightforward strategy, but success with it depends on achieving customer acceptability. This can be done through a product that is very similar to the original (regarding how it can be cooked, taste, texture, and storage properties) or through careful marketing and consumer education.

From a nutrition perspective, the replacement ingredients should be nutritionally similar (or superior) to the original ones.

From a food safety perspective, it is important to be transparent with the labelling of the products so that it is clear which ingredients the product contains. This allows consumers to see which ingredients have been replaced compared to other similar products.

This strategy also has limits: there are only so many ingredients one can remove before a product becomes undesirable or not useful, and some ingredients have few substitutes.

Finally, in settings where ingredient costs are a small portion of product costs, this strategy might not be effective at making a measurable difference in costs.

## HOW TO DEPLOY IT

To deploy this approach, an entrepreneur could first identify their product's major cost drivers to see how important ingredients are in relation to total costs, and which are the most expensive; experiment with different formulations to identify whether there are any substitutes for those, or if any could be omitted; calculate the savings from such changes – considering whether any other costs would also change (e.g., processing, storage, packaging, or shipping costs); consider whether the substitution would change any other product properties (e.g., nutritional content); and consider how to educate consumers on the change (e.g., through packaging or marketing).

### 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.*

van den Brink CP, Vellema S. 2018. Making the provision of nutritious and affordable food a business: Two case studies of the intertwined processes of frugal innovation and inclusive development in Ethiopia and Benin. The Partnerships Resource Centre.

Euromonitor, 2016. Q&A: How to Reach Emerging Market Consumers.

Ghosh, S et al. 2014. Improving complementary feeding in Ghana: reaching the vulnerable through innovative business – the case of KOKO Plus. Ann N Y Acad Sci.


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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Ministry of Foreign Affairs of the Netherlands


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