

How businesses succeed serving low-income consumers

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(Photo: Getty Images/iStockphoto)

Jimmy Chen clearly remembers an early lesson in serving low-income consumers.

As he stood in a Philadelphia grocery store with a food-stamps beneficiary, he saw her check her electronic benefits transfer card balance via phone — dialing a number, pressing “3,” then “1,” then a 19-digit number, entirely from memory.

To Chen, CEO of New York-based Propel Inc., the effort required for such a crucial task seemed painfully outdated, particularly in an age of smartphones.

“Our approach is to solve the problem that we see our users have, rather than saying we know their problem and imposing something on them,” says Chen, whose [FreshEBT](http://www.freshebt.com/) (<http://www.freshebt.com/>) app lets people in the federal food-stamps program check their benefits balance, view their purchase history and access grocery coupons.

Low-income consumers are sometimes called “the bottom of the pyramid” (<http://knowledge.wharton.upenn.edu/article/the-fortune-at-the-bottom-of-the-pyramid-eradicating-poverty-through-profits/>) because individually they have little purchasing power, but as a group they form a formidable customer bloc. According to the U.S. census, an estimated 15.5% of Americans — about 48 million people — lived below the poverty line in 2015.

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Having a useful product for these consumers is a great start. But you're running a business, after all, and being successful means focusing on ways to generate a profit and grow. Here are five tips from the experts.

1. Treat your customers right

You'll have to keep your costs under control, but that doesn't mean you should offer a subpar experience, says Steven Rogers, an entrepreneur and senior lecturer at Harvard Business School.

For example, a grocery chain that serves low-income consumers can strive to have fresher food, friendlier service, better lighting and cleaner aisles, he says. That encourages customers to shop and, more importantly, come back.

“If I treat them better, I'll sell more,” Rogers says.

2. Mind your revenues and expenses

Low-income families have less to spend, making it more challenging to generate revenue serving them. And many don't have access to the transportation, communications and payment infrastructure that wealthier people do.

But there may be ways to generate additional revenue off one transaction, says Erik Simanis, co-founder of TIL Ventures, a consultancy that helps corporations enter new markets. Try layering services atop your main offering that don't cost you much more to offer but that your customers might be willing to pay a little extra for. For example, if you sell furniture, you might offer discounted delivery.

On the expense side, Rogers says, you can negotiate with suppliers to pay a bulk price but take the inventory only when you need it. Other strategies: Consider [leasing space rather than owning](https://www.nerdwallet.com/blog/small-business/buy-vs-rent/?trk=nw-synd_292_0_0) (https://www.nerdwallet.com/blog/small-business/buy-vs-rent/?trk=nw-synd_292_0_0), and train your employees in multiple jobs so you can do more with a smaller staff.

3. The business model matters

The model is what distinguishes a mission-oriented for-profit business from a nonprofit. For example, if Propel's revenue came from charging users for the app, Chen expects few people would buy.

As it is, FreshEBT is free; revenue comes from grocery chains that publish coupons and promotions on the app. To date it has been downloaded 700,000 times. Propel hopes to reach everyone in the food-stamps program — formally known as Supplemental Nutrition Assistance Program — who owns a smartphone, about 14 million households.

Investors are signaling they think it's a promising model. They've poured over [\\$5 million into Chen's company](https://www.crunchbase.com/organization/propel-4#/entity) (<https://www.crunchbase.com/organization/propel-4#/entity>), in the past two years.

4. Be data-driven

To serve low-income consumers profitably, you can't afford waste, so you must monitor every aspect of your business down to the cent. For this you need data.

Don't be afraid to invest in electronic [point-of-sale](https://www.nerdwallet.com/blog/small-business/pos-systems-point-of-sale-shopify/?trk=nw-synd_292_0_0) (https://www.nerdwallet.com/blog/small-business/pos-systems-point-of-sale-shopify/?trk=nw-synd_292_0_0) or inventory management systems that may cost a lot upfront but will save you money the long run, Rogers says. "You cannot get around the need for technology," he adds.

5. Don't jump into the deep end

Simanis suggests "piggybacking" on sales channels and other existing infrastructure. Perhaps you can sell through stores that already serve your target customers or enlist people already in the community in educating potential consumers.

Also, don't try to do everything right away. Start with a focused model and demonstrate its profitability. Then branch into other avenues.

"A small business has to start with a pathway to grow your cash flow," Simanis says, "not tackling the opportunities that are four to five years off."

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