Microfranchising an Inclusive Business Model

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I. Introduction:
“Microfranchising” a business model which is used as an economic development tool is currently prevailing in many developing countries, especially India. The proponents of Microfranchising in Brigham Young University (BYU)’s Marriott School define “microfranchise” as small businesses that can easily be replicated by following proven marketing and operational concepts. BYU points out that the “overall objective of Microfranchising is to promote economic development by developing sound business models that can be replicated by entrepreneurs at the base of the pyramid; therefore, the start-up costs of Microfranchises will be minimal. The key principle is replication, replicating success to scale.” (Source: http://marriottschool.byu.edu/selfreliance/microfranchise and www.the-franchise-shop.com). In Microfranchising, the Microfranchisees are people having low income or small producers or micro entrepreneurs. Also the customers to whom Microfranchisees sell the goods and services are also people having low income for their sustenance.

Microfranchising has its roots in traditional franchising, which is the “practice of copying a successful business and replicating it at another location by following a consistent set of well-defined processes and procedures”. “In traditional franchising, the franchisor (who owns the overall rights to the business) sells or licenses its systematized business approach to a franchisee. The franchisor typically controls many of the macro aspects of the business such as creating and marketing the brand, procuring inputs, continuously refining the model, and recruiting and training franchise operators” (Source: Lehr David: 2008, http://acumen.org/).

“However, in microfranchising, the focus is more on the microfranchisee and how he/she benefits from buying into a proven systematized business. A microfranchise is established to assist the poor in creating a sustainable income through owning and operating their own business. The reduction of risk, provision of specific training, ongoing mentoring, and reduction of creative burden are all benefits to the microfranchisee” (Source: Fairbourne, et.al: 2007 & http://microfranchising.blogspot.in/).

Microfranchising addresses three core problems in the economy like; 1) the lack of skills needed for a micro entrepreneur to grow a successful business 2) the lack of jobs in developing countries 3) the lack of goods and services available to the poor” (Fairbourne, et.al: 2007 and www.bidnetwork.org). Microfranchising provides a solution to these core problems by first, providing those who do not possess an entrepreneurial skill set with a business blue print and adequate training, if followed, will lead to greater individual economic success. Second, microfranchises are often larger than traditional micro enterprises; thus, creating jobs for those who do not have managerial skills and would be better suited as an employee or technician. Third, microfranchising provides multinational corporations (MNCs) with an effective method of delivery for their goods and services to the Bottom of the Pyramid (BOP) at an equitable price” (Source: Fairbourne: 2006).

In the last few years the concept of Microfranchising has grown worldwide and many organisations, especially Multinational Corporations and Social Entrepreneurs have adopted Microfranchising model for achieving their economic and social objectives, irrespective of the fact that they name it as Microfranchising or not. Mostly it is understood as “Inclusive Business Models”.

“Inclusive business models are sustainable business solutions that expand access to goods, services, and livelihood opportunities for low-income communities. They involve doing business with low-income populations anywhere within a company’s
value chain, incorporating them in the supply, production, distribution and/or marketing of goods and services. This generates new jobs, incomes, technical skills and local capacity. Likewise, poorer consumers can benefit from products and services that meet their needs in affordable and appropriate ways. By focusing on commercial viability, these models have demonstrated inherent capacity to be scaled to engage thousands, and increasingly millions, of poor people. The emphasis is on ‘core business’ rather than on philanthropy” (Source: UNDP, Business Call to Action, et.al, 2010, “Report on an Inclusive Business Dialogue, Held on September 21st 2010, During The UN Summit on The Millennium Development Goals, October 2010 and www.businesscalltoaction.org)

Need for Microfranchising:

“Poverty remains one of the most intractable problems in the developing world. It is well known that there is a lack of employment opportunities in developing countries leaving nearly one half of the world’s population in acute poverty of less than 2 dollar a day. Therefore, many people have no choice but to start microenterprises in order to survive” (Source: www.BYU Centre for Economic Self-Reliance). “Microfranchising offers great promise in alleviating poverty by aiding in the foundation of locally owned businesses. Microfranchising is defined as small businesses whose start-up costs are minimal and whose concepts and operations are easily replicated” (Jason S Fairbourne, et.al: 2007). “Microfranchising is the replication of successful business concepts in developing countries. It is an alternative method for reaching the Bottom of the Pyramid (BOP) market of 4 billion people” (Source: www.bidnetwork.org).

II. Significance of Microfranchising Model in India:

India, irrespective of its impressive economic growth over a period of time is still lacking inclusive growth, facing poverty, especially in rural areas, in-access to goods and services for people at the bottom of pyramid in rural areas, lack of employment opportunities and employability.

It has been observed that “Poverty is widespread in India with 37.2 per cent people below poverty line”(Source: GoI, Economic Survey, 2012), “which in otherwise implies that the nation estimated to have a third of the world's poor” (Source: World Bank: 2012). In an USAID Report (2011) it has been pointed that “India’s economic and social progress is critical to achieving universal Millennium Development Goals. The BOP segment of the population lacks education, workforce skills, social capital, and access to the primary health care and basic infrastructure that would allow them to benefit from India’s economic growth. Thus this large section of Indian population are in need of improved access to a wide range of vital goods and services such as water, sanitation, energy, telecommunications, transportation, financial services, basic construction materials, health & hygiene products, etc” (Source: http://transition.usaid.gov/in/ourwork/health/index.html and www.undp.org).

Huge Untapped Potential in Rural Areas: Also there is a need for an Inclusive business model where not only the company makes profit working with the Bottom of Pyramid but also the people at the Bottom of the Pyramid have a sustainable livelihood and makes profit. Here it is worthwhile to mention the huge untapped potential existing in the rural areas, which is a great opportunity for the private sector to explore and grow their business. India is one of the major producer and supplier of many farm and non-farm products in the world. Huge potential exists in India’s rural areas both in the farm and non-farm sectors. It is this vast potential existing in rural
areas that drive Organisations into food processing, organized retail, export business, value addition, etc to source directly from the small producers at the farm gate. However, skill development and capacity building of small producers are very essential to address the market challenges and to grab all these opportunities. Small producers have to be equipped and handhold to produce high quality standard products which the retail sector and ultimate consumers are looking forward.

In the Next Generation Business Strategies for the Base of the Pyramid, edited by London and Hart, 2011, “Y C Deveshwar, Chairman, ITC Limited points out in a similar contention that “It is this creation of a fortune “with” and “for” the base of the pyramid that will ensure a secure and sustainable future for our planet” (Source: Deveshwar Y C: 2011).

Kirk Magleby (2005) points out that “Micro Enterprise is the Solution to World Poverty. He points out that every nation that has lifted itself out of poverty in the current generation (Singapore, South Korea, Taiwan) has done it in precisely the same way: economic growth and job creation through successful enterprises. The same pattern holds true in the high growth emerging economies of recent years (Chile, China, India)” (Source: Magleby Kirk: 2005). Further Magleby Kirk points that “Families and countries must earn their way out of poverty”. With respect to “earning” he has quoted Geneva Global’s laudable concept of “Performance Philanthropy” to solve world poverty (Source: www.genevaglobal.com). According to them “one common mistake in philanthropy is treating symptoms rather than causes. If people are hungry, buy them food. If they are sick, provide medical care. For the uneducated, start schools. In most cases, a much better solution is this: offer a means for people to work their way out of poverty….Lifting a family out of poverty solves a host of other problems”. “Loans, grants and subsidies sent into regions lacking vigorous cities can shape inert, unbalanced or permanently dependent regions, but are useless for creating self-generating economies” (Source: Jacobs Jane: 1985). “Although income can be redistributed in many ways, there is only one way to create wealth: a successful business has to make a profit and all wealth springs from successful enterprise. He also defends the idea that the private sector is the primary way to promote economic development” (Source: Magleby Kirk: 2005).

As pointed out by Prof Raj Reddy at Carnegie Mellon in Sramana Mitra’s Website, “while Micro-Lending is good for a certain segment of the poverty pyramid, it fails to cater to the layer that’s a notch above. So let’s explore an alternative model: Microfranchise, financed by Micro-Equity / Micro-Venture Capital” (Source: Reddy Raj: 2007).

Thus the solution to poverty is “massive entrepreneurship” (Source: Prahalad C K: 2004) driving “domestic demand led growth” (Source: Palley Thomas (2002). In other words, “to solve global poverty the world needs tens of millions of profitable, locally-owned small businesses creating employment and providing goods and services tailored to emerging markets in the developing world” (Source: Tesfamichael Gebreselassie: 2005). The UN stresses the need for a much greater role for private enterprise in sustainable economic development that will “make business work for the poor” (Source: UN Development Programme: 2004).

Thus Microfranchising” is seeking to address the market challenges faced by the stakeholders in the value chain as well as being a solution to reach the poorest of the community through sustainable livelihood and thereby leading to poverty alleviation. Not only that, Microfranchising empowers the micro entrepreneurs through skill development and capacity building. Microfranchisees are not just employees but partners in the business model having win-win opportunities to grow.
III. Microfranchising: A New Business Model for Inclusive Growth:

“Microfranchising is a tool that seeks to apply the proven marketing and operational concepts of traditional franchising to small businesses or microentrepreneurs in the developing world. The primary feature of a microfranchise is its ability to be streamlined and replicated” (Source: Fairbourne, Jason S: 2007 and www.sramanamitra.com).

According to BYU Marriott school (Economic Self-Reliance Centre) “Microfranchising works like any commercial or social franchise. What makes it unique is that the primary objective of microfranchising is to help microenterprise owners grow either their businesses or their assets. In the franchising world there are two players that have a symbiotic relationship: the franchisor who is trying to increase market share and spread their brand and increase income, and the franchisee who is trying to earn a profit by running a proven business in his location. These same two players exist in the Microfranchise world. However, often the franchisor could also be an NGO which is primarily interested in lifting up the owners, who are the potential franchisees, into the profit-making world. This is accomplished by replicating a good business opportunity to other small microenterprise operators” (Source: Gibson, Stephen, W: 2007 and www.marriottschool.byu.edu).

“A microfranchise can rely on the franchisor, who reduces the risk of failure by providing high quality initial and ongoing training. There is safety under the franchise network's umbrella, entrepreneurs even those who aren't particularly entrepreneurial are now able to succeed and thrive in ways not possible by going it alone. Safely under the franchise network's umbrella, entrepreneurs – even those who aren't particularly entrepreneurial – are able to succeed and thrive in ways not possible by going it alone” (Source: www.indiamba.com and Paul John: 2006).

“Microfranchising provides easily replicable enterprise opportunities with proven operation concepts to help alleviate poverty, enhance individual economic self-reliance, and stimulate individual, community and country economic development. Although Microfranchising borrows the general concept of traditional franchising, an important distinction is its incorporation of models that depart from traditional franchising where there is a franchisor (parent organization) and a franchisee (child) and the franchisor provides training, marketing and branding that leads to success. The franchise relationship tends to insulate the entrepreneur from many of the shocks of the open market by providing a degree of stability, security and predictability that would be rarely achievable on their own. The Microfranchisee has accountability to the parent organization and in return, the parent organization provides the Microfranchisee with ownership and training to enhance business operations” (Brachen Emily, et.al: 2006).

“The “micro” in microfranchising stands for more than mini or small. “Micro” is essential to microfranchising and in this sense has a social connotation that refers to grassroots bottom-up initiatives, poverty alleviation, benevolence, base of the pyramid, and the like. “Micro” also represents sustainability. Thus, microfranchising can be thought of as poverty alleviating, social, grassroots, BOP, benevolent, and barefoot franchising”. “The franchise in microfranchise represents replication to scale. This involves systematizing an operation, paying close attention to each and every aspect of a business until it is a turn-key operation, then replicating it to scale. Franchising embodies the concept of granting the right, privilege, or access to a proven business system” (Source: Fairbourne, et.al: 2007).
Thus from the above explanation it is clear that on a larger dimension “Microfranchising” helps to overcome the short falls of Government Grants and subsidies targeted to below poverty line people and help BOP to have a sustained livelihood. Through Government programmes the poor will have subsistence but it is difficult for them to come out of the poverty level. As pointed out by Stephen W. Gibson, creator of the Academy for Creating Enterprise, this is because, “in many cases, these types of programmes build dependency into people by giving them what they need rather than helping them learn to produce it for themselves. It’s reminiscent of the age old adage that “if you give a man a fish, he eats for a day; if you teach a man to fish, he eats for a lifetime” (Source: Gibson, Stephen, W: 2009).

“The concept of Microfranchising is to use the successful operational, marketing, and growth strategies of a traditional franchise (such as a McDonalds or Subway) and apply it to small businesses tailored for micro entrepreneurs, whose scale of business will be less, in developing countries”. (Source: Stoker David: 2007, “Beyond Microfinance in sramanamitra.com”).

“Also Microfranchising is a business-based approach to poverty alleviation. It is a for-profit model: – exporting small franchises to developing countries in an effort to harness the power of business to help people help themselves. Through microfranchising you are empowering local business owners, lift themselves out of poverty, by providing valued goods and services profitably that meet the social and environmental needs of their communities” (Source: Busse Rebecca (2009).

IV. Features of Microfranchises
“The Microfranchise is therefore characterized by the following features:
- Very low franchise premium charged by the franchisor.
- Normally home based franchises.
- Low overheads, by working from home franchisee avoid office costs such as rent, rates and business insurance.
- Proven existing business model minimizes start-up timescales thereby reducing working capital needs.
- Usually “sole trader” enterprises with no staff required.
- Often service based, thus avoiding production, manufacturing and distribution costs.
- Little or no stocking costs.
- Little or no plant and investment.
- Pre franchise marketing carried out by the franchisor to minimize advertising costs” (Source: http://www.the-franchise-shop.com/)

V. Basic Types of Microfranchising:
- Business Format franchising (Normally known Kiosks Model)
- Traditional (or Product) format franchising (Normally known as “Business-in-a-Bag Models”)
- Conversion Franchising
- Social Franchising and
- Hub and Spoke Model
(Source: Fairbourne S Jason, et.al: 2007)

VI. Advantages to all stakeholders involved in Microfranchising:
1. “Replicates the performer’s winning business
2. Removes the creative burden from the potential franchisee
3. Provides a superior method of transferring technology
4. Reinforces vital business skills and practices necessary for greater financial growth.
5. Forces a mentor relationship
6. Reduces the odds of failure during the start-up process
7. Speeds the exit out of poverty and to economic self-reliance
8. Enables more small business owners to take advantage of market opportunities.
9. Allows for economies of scale in purchasing and advertising.
10. Eases the challenges of a fresh start-up because systems are in place.
11. A sustainable business vehicle for creating income and less dependent on donors”
    (Source: http://marriottschool.byu.edu/selfreliance/microfranchise/faq)
Other Advantages of Microfranchising
12. “Guiding people to make unskilled people into skilled one which will lead to greater
    individual economic success.
13. Providing jobs for those who do not have managerial skills and would better suited as
    an employee or technician.
14. Micro franchising provides multinational corporations (MNC) with an effective
    method of delivery of goods and services to the BOP at sustainable price
15. Micro franchising fulfills needs by creating something of a value (a micro franchise)
    that can change lives in the present time and improve the overall quality of life for the
    future generations.
16. It not only provide benefits to new generations, but also to new group of people
    specifically those in rural areas who previously had very limited opportunities for
    social mobility.
17. Micro franchising addresses a portion of the migration problem because it not only
    work in large cities but also in very remote areas” (Source: Fairbourne, et.al: 2007).

Conclusion:

From the above observations, it is clear that Microfranchising is an inclusive business
model which will enable inclusive growth of the economy, employment generation
and empowerment of people at the Bottom of the Pyramid (BOP) through capacity
building and skill development. It provides access to essential affordable goods and
services to the bottom of the pyramid at their vicinity, enable sustainable income for
BOP and make them successful and confident entrepreneurs and ultimately lead to
poverty alleviation. Microfranchising is not only benefitting people at the BOP, but
also benefitting the Microfranchiser, be it Multinational Companies, big and small
publics, small and medium enterprises or NGOs. It is an inclusive business model
which enables the corporates to source their raw materials from small producers, be it
farmers, artisans or micro entrepreneurs, especially from the rural areas and also sell
their innovative products customized for the people at the bottom of the pyramid
through micro entrepreneurs in the rural areas. It is an inclusive business model
creating value to all the stakeholders in the value chain. And hence for the universal
inclusive development every company/enterprise should have at least one
Microfranchising model coopting the people at the bottom of the pyramid in their
value chain and handhold them through capacity building and skill development, so
that all the stakeholders can become financially and socially viable.
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