

MICRO FRANCHISING – THE INDIAN SCENARIO

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INTRODUCTION

After Mohammed Yunus of Bangladesh's Grameen Bank won the Nobel peace prize, micro-credit has hogged the headlines. We now need to focus on the next big thing micro-franchising. Micro-credit has certainly empowered poor women and helped to alleviate distress in South Asia, but has severe limitations. Borrowing Rs 5,000 at an interest rate of 30% cannot move millions out of poverty. It can be a good beginning, but something extra is needed to take people to the next level. That something extra is micro-franchising. Micro-franchising 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 improving the model and recruiting and training franchise operators. The strength of franchising comes from its reliance on a business model that has been tested and proven to work. Once the business model has been proven, potential licensees of this business – the franchisees – can operate subsequent outlets at lower risk. The franchisor, motivated by continuous returns from the franchisee, usually provides ongoing training and support to help and ensure the franchisee's success.

Micro-franchising follows the same principles of franchising, though it strongly focuses on the socio-economic benefits to the micro-franchisee and his or her community, and the efficient delivery of products and services to low-income consumers as opposed to the commercial and for profit benefits to the participants of a typical franchise. Micro-franchising brings already successful social entrepreneurs together with people who are motivated to create their own small enterprises (referred to below interchangeably as micro-entrepreneurs or micro-franchisees), but who often lack the skills and capital that can lead to success. Together, they can enhance the overall impact of a business and create a local ownership and management opportunity. Micro-franchising is a development tool that seeks to apply the proven marketing and operational concepts of traditional franchising to small businesses in the developing world. The primary feature of a micro-franchise is its ability to be streamlined and replicated. The businesses are designed for micro-entrepreneurs and usually target developmental issues such as health, sanitation and energy. Micro-franchising is defined as reproduction of small businesses focusing on a successful market using proven operational method, financial assistance, mentoring and other managerial assistance with the support of a brand. Micro-franchising is a systematic replication of micro-enterprises for a sustainable source of income. It is the social aspect of assisting the poor at the base of economic pyramid. It strengthens the success of micro-credit. In

the model of micro-franchising both franchisor and franchisee gets benefit out of this. It is a concept of enterprise development by providing the poor a sound business blue print to follow. About 350 million people in India are below poverty line. Their education level, health condition and social status in the community are miserable. Socio-economic development is the only solution to develop the poor people. The key factors which have to be developed are social environment, livelihood, infrastructure, employability, source of income etc. Income generation for the poor people is the only solution for poverty alleviation. The development should shift from mere subsistence to livelihood to commercial approach. Developments have to occur at micro level for economic up gradation of such people. When the standard of living of the poor would change, it can only change the quality of life and social value. More disposable incomes in the hand of the poor people will initiate more economic activity leading to business. Micro-credit is a proven poverty reduction tool, providing the necessary capital for entrepreneurs to start their own businesses and lift themselves out of poverty. But not all people are entrepreneurial. And not all entrepreneurs have the necessary training and skills development to start and manage a successful business. That's where micro-franchising adds value - as a 'turn-key' business, a micro-franchise can rely on the franchisor, who reduces the risk of failure by providing high quality initial and ongoing training. The franchisor also serves as a forward-thinking partner, more able to concentrate on marketing and growth, particularly as it relates to the businesses' integration into the global economy. The franchise network's scale allows it to tap new markets that would otherwise be unattainable to an independent entrepreneur. Innovations developed by one franchisee can also be quickly replicated throughout the entire network. Additionally, being a part of large network, it allows the micro-franchise to financially benefit from economies of scale when purchasing its supplies through the franchisor. 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. The organizations successfully implemented micro-franchising model are discussed below.

Infrastructural Requirements for Micro-franchising

Once a suitable business for micro-franchising has been identified, a potential microfranchisor needs to set up and provide the following infrastructure and services:

Training and development of entrepreneurs: The entrepreneurs need to be educated about managing their new business efficiently, the products and services that they are supposed to sell, the methods to sell them and the commission or margin they earn on them. Furthermore, they need to be trained in how to operate their equipment, how the supply chain processes work and how to use the franchisor's process interfaces.

Strict Compliance with Standards: As the micro-franchising can only be successful if product and processes are highly standardized, all micro-entrepreneurs should be equipped with the same standardized equipment that integrates well into the standardized processes that are provided.

Financial Assistance: Most potential micro-franchisees do not have sufficient financial resources to afford even the small capital expenditures that a micro-franchise requires. Therefore, the franchisor must provide either micro-financing or some sort of a micro-consignment system.

Supply chain Assistance: An efficient distribution network that regularly delivers directly to the entrepreneur's doorstep is essential for trading of the physical goods. Also for services-business, the franchisor must provide a simple and efficient standardized interface that the franchisee can use for transactions/service delivery.

HUL'S PROJECT SHAKTI

Hindustan Unilever Ltd. (HUL) is the Indian subsidiary of the multinational company Unilever whose nutrition, hygiene and personal care products and brands are widely recognized worldwide. Recognizing the potential of the rural untapped market, HUL launched Project Shakti in 2001. This Base of the Pyramid initiative is comprised of rural women, or Shakti Entrepreneurs (SE), who sell HUL products such as soap, toothpaste, and detergent, in their villages and nearby communities for a profit. As of now there are more than 40,000 SEs covering over 100,000 villages throughout India. Members of the Shakti network penetrate and reach out to some of the most unfrequented corners of rural India. Project Shakti creates income generating capabilities for underprivileged rural women, by providing a sustainable micro-enterprise opportunity, and improves rural living standards through health and hygiene awareness. A typical SE conducts a steady business which gives her an income in excess of Rs.1,000 per month on a sustainable basis. As most of the SEs are women from households below the poverty line and hail from extremely small villages (with populations of less than 2,000), this earning is very significant and almost twice the amount of their previous household income. The most crucial aspect Project Shakti is that it is a profitable channel for HUL and is thus proven to be commercially viable and fully self-sustaining. HUL envisions the creation of 100,000 SEs covering 500,000 villages and touching the lives of 600 million rural people by the year 2010.

HEWLETT-PACKARD

Hewlett-Packard has a different micro-franchising scheme for rural camera women. Wedding photos are a growing business in rural areas. Hewlett-Packard has trained rural women in Andhra Pradesh to use digital cameras to cover weddings and other celebrations. The photos are printed out on HP colour printers. This is a logical extension of the phone women experiment in Bangladesh and will help HP promote use of its photo-printers. But rivals like Sony or Panasonic should consider training women to use digital video-cameras to produce video-films of marriages and then burn these onto a CD. That will produce an affordable but prized memento.

GRAMEENA TELEPHONE

Mohammed Yunus pioneered using poor women to operate mobile phones as public call offices (PCOs) in rural areas. Grameen Telecom, Yunus' non-profit outfit, took a 38% stake in GrameenPhones, a commercial provider with a national cellular licence. Grameen Bank members with the best track record of running small businesses and repaying loans were trained

and financed to acquire cellphones. Today Bangladesh has over 260,000 village phones and Grameen Telecom is replicating the experiment in Uganda and Rwanda. What is not widely publicised is that 62% of the equity of GrameenPhones is held by Telenor, an Oslo-based multinational. This MNC has operations in Scandinavia, Eastern Europe, Pakistan, Thailand, Malaysia and Central Asia. So, the phone women of Bangladesh are not just products of Yunus' generosity. They are micro-franchisees of an MNC. Without the financial and technical clout of Telenor, Grameen Phones could not have gone far. Yunus demonstrated, unwittingly, that micro-franchising could connect the poorest people in the world to the richest MNCs for mutual profit.

VISIONSPRING

VisionSpring (VS), formerly called Scojo Foundation, is a nonprofit social enterprise that reduces poverty and generates opportunity by enabling partners to diagnose minor eyesight problems and sell affordable reading glasses that correct those problems. VisionSpring targets rural areas with the explicit goals of increasing the number of people with access to reading glasses, creating jobs for local entrepreneurs and facilitating access to comprehensive eye care. To scale rapidly, VS uses a variety of different channel approaches, including Vision Entrepreneurs (micro-franchisees) dedicated solely to selling VS products and a network of partners that carry multiple products. VisionSpring has also developed a referral network for people with vision disorders that can not be helped by reading glasses alone. It provides a "business in a box" along with training for rural vendors, who learn to use simple testing charts for vision and then make appropriate spectacles. The vendors' cost of production is \$2 per pair of spectacles and they sell these at \$3 each. This is affordable for Indian villagers, yet yields a decent profit for VisionSpring, intermediaries and rural vendors. Hence the scheme is viable and can be scaled up to cover thousands, possibly millions of vendors across developing countries. It has sold 50, 00 pairs of spectacles so far and hopes to sell one million by 2016.

DRISHTEE

Drishtee's mission is to create a network of micro-entrepreneurs throughout India's impoverished rural areas that sell new products and services to benefit local villages, to improve information access and to create employment. Through about 2,000 micro-franchised kiosks in 14 states of India, Drishtee and its micro-franchisees deliver fee-based products and services. These products and services range from the provision of computer and English-language education to insurance and micro-credit loans to the selling of daily necessities such as eyeglasses, seeds and prepaid cell phone cards. Drishtee is also developing local business process outsourcing opportunities and a sales channel for locally produced handicrafts. Drishtee was established as a for-profit company in 2000, first reaching its financial break-even point in 2005. Each Drishtee kiosk, or small shop, is individually owned and operated by a local micro-entrepreneur who may also provide non-Drishtee goods such as digital photos, printing and stationery. Drishtee's work has proven that markets can operate successfully in even the most remote and underserved communities. Interviews with micro-franchisees reveal that, in addition to raising incomes, Drishtee's efforts have created hope and a desire for self-improvement in many of the localities it serves.

LIJJAT

Shri Mahila Griha Udyog Lijjat Papad is a women's organisation of the women, by the women and for the women. It was started in 1959 with 7 lady members with a borrowed sum of Rs. 80/- at Girgaum in Mumbai. The turning point of the organization was in 1966 when it was registered under the Bombay Public Trust Act 1950 and also registered under Societies Registration Act, 1860 and got recognition from Khadi & Village Industries Commission as a village industry. The objective of the institution is to provide employment to the ladies to enable them to earn decent and dignified livelihood. Any women who can render physical work in this institution without distinction of caste, creed and colour and agrees to abide by the objective of the institution can become a member of the institution from the date on which she starts working. Papad production work starts at early hours in the morning i.e. 4.30 a.m. Every branch is headed by a Sanchalika to see the production of the branch. The credit for rapid progress goes to the constant vigilance on the part of sister members maintaining the quality of Lijjat Papad with their hard work. Besides Lijjat Papad the organisation has other products like Khakhra, Masala, Wadi, Detergent Powder & Cakes, Bakery Products & Chapaties. At present it has 69 Branches & 35 Divisions and gives self-employment to about 42,000 sister members all over India with Sales turnover of Rs. 470 Crores which includes Rs. 24 Crores of Exports. Exports are made through Merchant Exporters to countries like UK, USA, Middle East Countries, Thailand, Singapore, Hongkong, Holland, Japan, Australia and other Countries. The institution has received an award from Khadi & Village Industries Commission as a "Best Village Industry" for the period 1998-1999 to 2000-2001. The institution, over the years, has paved the way for women to become self-reliant and self-confident. Lijjat has provided them the right platform to improve their status in society.

Factors to be Considered for Identifying the Appropriate Business for Micro-franchising

In order to determine whether a business would be suitable for micro-franchising, we have identified several criteria in three categories: business model characteristics, markets characteristics and characteristics of the products or services offered.

Optimum business model: A micro-entrepreneur can take over the customer facing activities or otherwise depending upon the CapEx and OpEx needed by a given model. The micro-entrepreneur learns to manage working capital while building upon the back-end infrastructure provided.

Suitable Market: Micro-franchising works best for markets having an access problem for the product or service in question. This means that the alternative to using the micro-franchise product or service should be sufficiently inferior or more expensive.

Suitable products and services: Products and services that can be sold via microfranchising must be highly standardized and as simple to explain, sell and use.

Recurring Demand: The demand for the product or service must be recurring and, of course, sufficiently strong.

Competitive pricing: The product must be priced competitively to attract customers.

Promising Margins: The achievable margin must be large enough to motivate the micro-entrepreneur.

CONCLUSION

Compared with an individual entrepreneur, the franchisor often has better negotiating power with suppliers and is able to reach economies of scale in other areas (such as product design, use and development of new technologies and supply chain development). The franchisor is usually better equipped to focus on marketing and growth as well. Furthermore, with the presence of a central franchisor, innovations developed by one franchisee can be quickly implemented throughout an entire network of franchisees. Micro-finance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half. Indeed, micro-finance is interwoven into many of the recommended strategies to achieve the Millennium Development Goals. It is an important means of halving poverty by 2015. When aggregated and invested properly, these small, sometimes seemingly insignificant amounts can add fuel to country economic growth.

The major issues in rural areas are low income, lack of investment capability and lack of commercial approach. Ease of access to micro-finance to rural people will empower them to invest for assets and inputs. This can built in entrepreneurship ability and enhancing skill level of rural people. There are major benefits that we can get through micro franchising. Some of them are job creation which solves unemployment problem, reduces risk from traditional business and have a greater chance for success as a proven business system. Skill development programmes in which franchisor provides training for managing business, know how, creativity and socio-psychological inputs. Fostering small enterprises through ensuring better access to markets, finance and business linkages, with a particular focus on youth and women, as well as the family farms that employ so many people in India. So for that Prof. C. K. Prahallad has rightly told, "Fortune at the bottom of the pyramid".

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