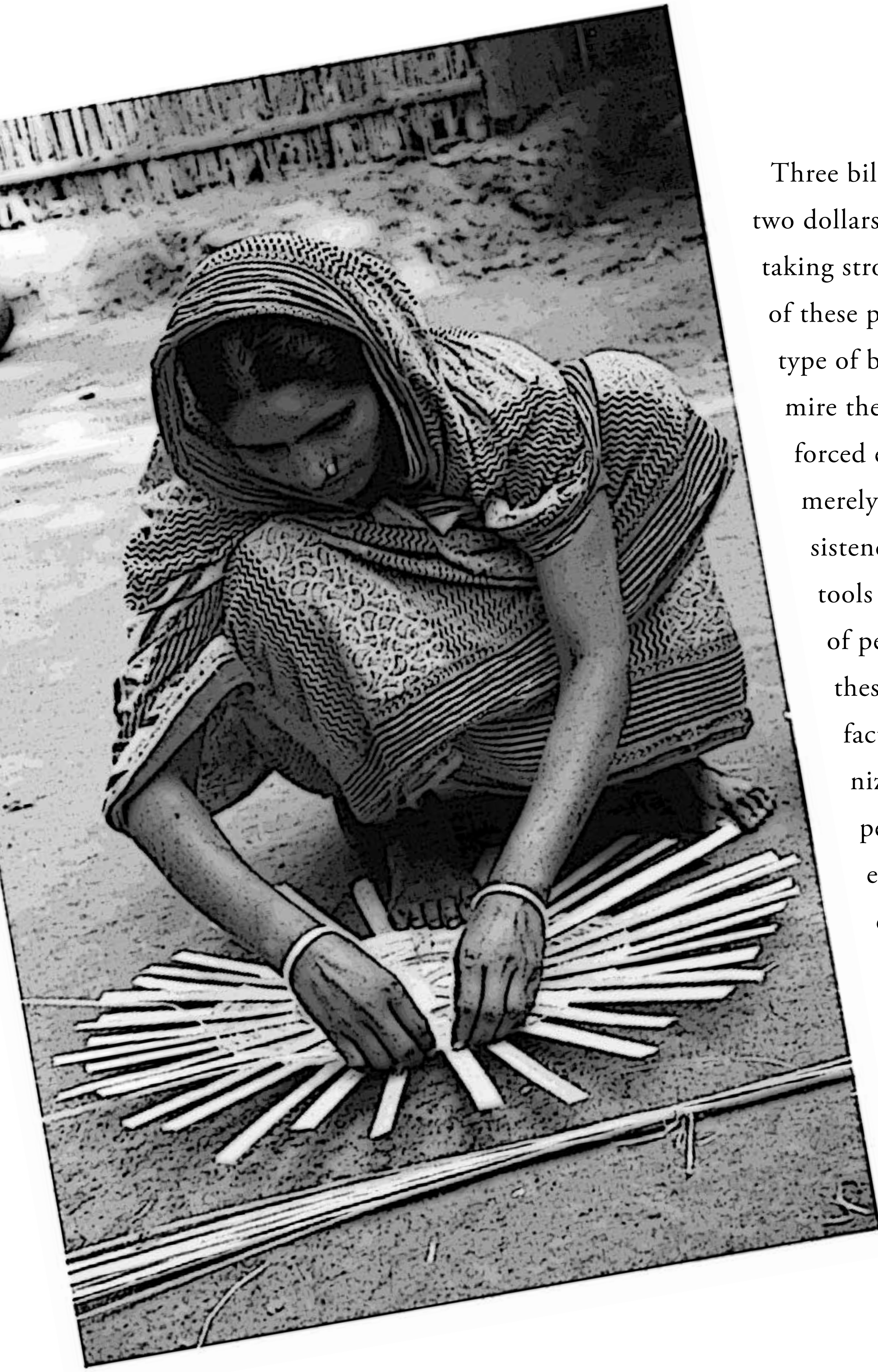
Research:

Micro franchising:

A New Tool for Creating Economic Self-Reliance

by Jason S. Fairbourne



Three billion people survive on less than two dollars a day. With market globalization taking strong root around the world, many of these people are forced to create some type of business to survive. We should admire the ambition and tenacity of these forced entrepreneurs; however, many are merely eking out a hand-to-mouth subsistence because they lack the necessary tools for success. A large percentage of people around the world operate these informal microbusinesses. In fact, the International Labor Organization reported in 2002 that 72 percent of sub-Saharan Africa operates within a growing informal economy. Unfortunately, this increase in activity does not equate to an increase in income levels. As the 2005 United Nations Human Development Report indicates, income inequality continues to grow.

PHOTO: GRAMEEN FOUNDATION USA

One tool specifically designed to overcome this challenge is microfranchising. Microfranchising is designed to help the poor become more successful in our global market economy by providing opportunities to own and operate proven successful businesses, and ultimately, help move people beyond subsistence living to a state of economic self-reliance.

Microfinance has been a successful tool for those operating in the informal economy, offering access to capital and a menu of other financial services. This has allowed many microentrepreneurs to grow and strengthen their businesses in order to access and move up the economic development ladder. Clearly, microfinance is a major part of the answer to help the poor become economically self-reliant, but it is not a stand-alone solution. Microfranchising provides added strength to the rungs of the economic-development ladder and assists those in the climb by providing well-developed, turnkey enterprises to the poor.

This article is an introduction to the concept of microfranchising and will address key issues and answer the following questions: (1) What is microfranchising? (2) Why is microfranchising needed? And (3) Why is a microfinance-microfranchise partnership a winning combination?

What is microfranchising?

The concept of microfranchising is still in infancy, but burgeoning. The idea was first developed by Stephen W. Gibson. Gibson established the Academy for Creating Enterprise, an academic school in the Philippines that trains young men and women to be entrepreneurs. Gibson tracked the success and failures of his graduates and noticed that some of the students were more successful than others. Delving deeper, he found that some of his more successful graduates had bought franchises such as Cellular City, which the Academy now co-owns. The Academy is currently creating additional franchises like bakeries and pharmacies, thus providing graduates with a larger selection of business opportunities.

Let's define microfranchising by dissecting the term into two sections: micro and franchising. The *micro* in microfranchising refers to the social aspect of assisting the poor at the base of the economic pyramid. The franchising in microfranchising refers to the systematization and replication of enterprises. The term franchise often conjures up images of McDonald's, Wendy's, Taco Bell, or other fast food chains. What makes these familiar franchises successful is the systematization of their operations to the point that it is easy to train franchisees and replicate the system. Microfranchising includes this same replication process, but also incorporates a social component of assisting the poor. Simply put, microfranchising is the systematization and replication of microenterprises with the intent to alleviate poverty. The idea of microfranchising is to create successful business models and to provide those sound opportunities and services to the poor. These businesses must be appropriate to the local needs and simple enough for people with little education to operate.

Microfranchises offer additional services that stand-alone microenterprises do not. They involve a mentoring relationship between the

Cellular City

Cellular City is a Philippines-based retail franchise that sells multiple brands of reconditioned and pre-owned mobile phones, pre-paid calling cards, and accessories; it also offers repair services. Currently, nineteen of its twenty-four outlets are owned by graduates from the Academy for Creating Enterprise.

Start-up costs are around US$8,000, which includes a US$2,000 franchise fee. In high foot-traffic locations, each shop employs three people. More than one outlet can be opened in a given city or municipality depending on the size and density of population.

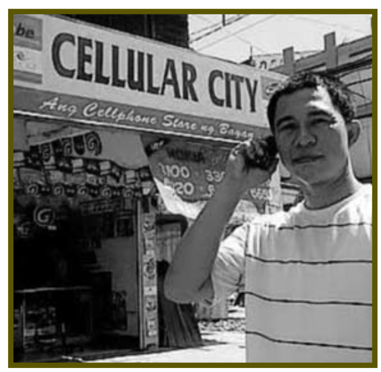


PHOTO: THE ACADEMY FOR CREATING ENTERPRISE

Vision of Microfranchising and the MFDI

Mission Statement

The mission of the MicroFranchise Development Initiative (MFDI) is to research and develop the concept of microfranchising as an economic development tool and to assist our partner practitioners in the establishment and refinement of microfranchises around the world. Furthermore, we intend to create an arena for those who are either currently working with or desire to participate in the microfranchise movement.

Vision

The MFDI envisions that in ten years we will have a database with hundreds of microfranchise opportunities for people in the developing world to choose. MFIs will be able to offer a menu of options for its borrowers to choose from, thus virtually eliminating the creative burden plaguing many of today's microentrepreneurs. This broad vision has a broad impact as well. Specialization is the first step in economic development for a country, but it is virtually nonexistent in many developing countries, especially in rural areas where people are primarily subsistence farmers. If people have the opportunity to learn specialized trades, global economic development will eventually follow.

Goals

Our goal is to create a knowledge center—involving an active network of researchers, sponsors, and practitioners—that will be the leader in microfranchise research and training. We believe that microfranchising is on the forefront of a new wave in the developing world. Brigham Young University is in a unique position to lead the way in this important movement. Currently, BYU is the only academic institution operating in this space. But as the concept is disseminated internationally, many will join the effort. Through research, we have found many organizations doing what we call microfranchising. They just do not think of themselves in that light, nor do they have a network in which to share best practices. Through learning labs and annual conferences, BYU has created a means for those organizations and individuals who operate within this space to meet and network.

Methodology

The MFDI mission is accomplished, in part, by students, faculty, and practitioners as they evaluate microfranchising best practices. This initiative develops, enhances, teaches, consults, and publishes the research findings. This allows individuals, other universities, NGOs, practitioners, governments, and multinational companies to propagate microfranchising—improving the economic well-being of the poor throughout the world.

franchisor and franchisee. The microfranchisee operates under uniform standards and has a detailed operating system that is developed and enforced by the franchisor.

The MicroFranchise Development Initiative (MFDI), sponsored by the Economic Self-Reliance Center at Brigham Young University, believes the implementation of microfranchises in developing countries can ultimately help more individuals and families alleviate poverty, enhance economic self-reliance, and stimulate individual, community, and country economic development.

Why is microfranchise needed?

Microfranchising addresses three core problems that prevent people from becoming economically self-reliant: (1) the lack of jobs in developing countries, (2) the lack of skills needed to grow a successful business, and (3) the lack of goods and services available to the poor.

Lack of Jobs

Most developing countries lack sufficient employment opportunities for their citizens, leaving nearly one-half of the world's population—approximately three billion people—in acute poverty, relying on the "informal" economy as a means of support. As mentioned earlier, 72 percent of sub-Saharan Africa's population operates within the informal sector. In Latin America, it is 51 percent, and in Asia, it is 65 percent. With a lack of jobs in the formal economy, or access to those jobs, most people end up as contract laborers, selling their time and energy on the market with none of the benefits enjoyed by laborers in the formal economy.

Lack of Skills

Creativity, know-how, resources, and the psychological profile needed to start and grow a successful business are uncommon traits among all humans; thus, many of those who do start small businesses ultimately fail or barely survive on subsistence levels. The majority of people operating businesses in developing countries have little or no education and often lack basic skills, such as bookkeeping and inventory-management skills. Microfranchisors provide initial and ongoing training and mentoring. The creative burden is borne by the microfranchisor, not the microfranchisee.

Lack of Goods and Services

Poor often pay a poverty penalty for goods and services, which those in developed countries take for granted, primarily because of the lack of delivery systems that actually reach the poor, thereby perpetuating poverty. Many multinational corporations (MNCs) and other large organizations see an unfilled demand for their goods and services, but they lack either an adequate distribution system or the deep knowledge of local markets to profitably deliver products and services. Microfranchising can be utilized as a delivery system, especially when paired up with microfinance institutions.

Microfranchising provides a partial solution to these core problems. First, microfranchising provides those who do not possess an entrepreneurial skill set with a business blueprint that, if followed, will lead to greater individual economic success, making it unnecessary to have an entrepreneurial spirit in order to be a successful microfranchisee. Second, successful microfranchises create jobs for those who do not have entrepreneurial skills and would be better suited as an employee or technician. Third, microfranchising provides MNCs with an effective method of delivery for their goods and services to the world's impoverished billions, those living at the base of the economic pyramid.

Over the long term, the goal is to move microfranchises from the informal to the formal

economy and help many nations build up the missing "middle"—the lack of middle-income households and middle-sized enterprises that greatly contribute to sustained economic growth and development.

It must be noted that microfinance has provided part of the solution to the poverty quandary by addressing the lack of access to credit among the poor. Prior to the introduction of these small loans, the poor were limited in their ability to start and grow microenterprises. Traditionally, microenterprises tend to plateau early and usually remain very small, often because those who operate in the informal economy do not have the basic knowledge or training on how to start and grow new businesses.

The provision of capital in the form of loans has allowed over 100 million people to start, grow, and increase earnings from their microenterprises. The increased earnings in return have increased access to life's necessities. In addition, MFIs have created an infrastructure that penetrates the most remote villages of Africa to the outskirts of Mongolia.

Microfranchising takes the concept of enterprise development a step further than microcredit by providing the poor with a sound business blueprint to follow. It allows individuals to move further up the economic-development ladder faster with reduced risk for both the microfranchisee and the investor due to the proven business system.

Why is a microfinance-microfranchise partnership a winning combination?

The further people move up the economic-development ladder, the more economically self-reliant they become. Microcredit provides access to the ladder; microfranchising strengthens the rungs. It does not replace the need for microcredit, but in many cases it can accelerate the upward economic movement started by the small loans. Thus, a microcredit-microfranchising partnership is natural. Microfinance should not be dismissed by proponents of microfranchising, but rather embraced. Likewise, proponents of microcredit should also embrace microfranchising

Scojo Foundation

Scojo Foundation recognized that many people around the world lack eyeglasses. The majority of people in the world, whether poor or not, have vision problems at some point in their lives because the retina tends to harden with age. This common problem can be devastating in developing countries where there is no access to eyeglasses. Once a person loses his sight, he is likely to become less productive and often becomes a burden on the economy instead of a contributor.

Scojo Foundation's mission is to provide the poor in developing countries with eyeglasses through the use of vision advisors (microfranchisees). Scojo Foundation began its operations in El Salvador and has since expanded to India, Guatemala, and Bangladesh.

Scojo has set three primary goals: (1) increase the number of people with access to affordable reading glasses, (2) create jobs for local entrepreneurs, and (3) facilitate access to comprehensive eye care.

The foundation's fundamental business model is to train entrepreneurs to conduct vision screenings and operate the business. Scojo provides women with low-cost eyeglasses and necessary tools to market their products.

A vision kit costs between US$115 and US$130, depending on the country. A woman can earn around US$80 a month. They sell reading glasses for between US$5 and US$10, earning a 50 percent margin. The women are required to sell a minimum of ten pairs a month. To date, the highest number of sales by one woman in a month is ninety-six pairs of reading glasses. Scojo operates on a consignment system, thus removing the financial barrier to entering the business.

as it will increase the success of their borrowers. In many cases, we should view a microfranchise-microfinance partnership as symbiotic; both sides should benefit from the relationship.

Financing

Financing is the most obvious reason why MFIs and microfranchises should partner. Microfranchises need to be funded and MFIs are very good at providing access to capital for those who are not part of the formal banking system. The microfranchise is beneficial to the MFI because the provision of a loan to a proven, successful business that has ties to a larger organization greatly reduces the risk of loan default due to business failure. Furthermore, the goal is to ultimately alleviate poverty and provide access to a more complete solution—credit with business opportunities will move people out of poverty faster.

Developed Infrastructure

MFIs have been extremely successful in replicating themselves and their models, with more than 100 million borrowers worldwide. They have created an indispensable network that is directly tied to the poor in nearly every country. These networks and large client bases are already receiving loans and starting microenterprises. The addition of business training and blueprinting through microfranchising increases the likelihood of success for microfinance borrowers. That, in return, reduces risk for the MFIs. Successful microfranchise owners help financial institutions move from merely microcredit lending to the provision of a broad range of financial services, such as savings, investment products, insurance, and transaction processing services.

The clients of the numerous MFIs represent a ready market in which to implement the microfranchising concept. We are seeing this development already. Many key MFIs are partnering with microfranchise organizations—such as FINCA with Honey Care Africa and BRAC with Scojo Foundation—or are creating franchise divisions internally—such as SKS in India.

There are a variety of business models that potentially fall under the umbrella of microfranchising. The microfranchise model does not necessarily have to be a traditional franchisor/franchisee relationship. The core objective, which is the cornerstone of the microfranchising model, is to provide models and opportunities to microentrepreneurs in developing countries so they can own and operate turnkey operations. Microfranchising is a sagacious way to alleviate poverty; it is scaleable and sustainable. This innovative method, microfranchising, is burgeoning with increased interest and acknowledgment that this model represents an important advance in the use of "micro" tools to assist the world's poor. SR

ABOUT THE AUTHOR

Jason Fairbourne is the director of the MicroFranchise Development Initiative. He coauthored *Where There Are No Jobs: the MicroFranchise Handbook* with Stephen W. Gibson, and is coeditor of a forthcoming book. Currently, he is working on a microfranchise project for Freedom from Hunger in Ghana. Jason holds an MSc in Development Management from the London School of Economics and Political Science.

This article is developed from a presentation given by Fairbourne and Stephen W. Gibson on December 2, 2005, at Brigham Young University in Provo, Utah.