

Stanford SOCIAL INNOVATION REVIEW

A Good Business for Poor People

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MOST POOR PEOPLE START BUSINESSES BECAUSE THEY HAVE NO OTHER CHOICE, NOT BECAUSE THEY HAVE A BURNING DESIRE TO BECOME ENTREPRENEURS. FOR THESE SO-CALLED NECESSITY ENTREPRENEURS, MICROFRANCHISING—THAT IS, REPLICATING SOMEONE ELSE'S SMALL BUSINESS MODEL—POSES FEWER RISKS AND OFFERS GREATER BENEFITS THAN DOES CREATING A NEW BUSINESS FROM SCRATCH. WHEN DONE WELL, MICROFRANCHISING ALSO ENRICHES COMPANIES AND COMMUNITIES.

BY LISA JONES CHRISTENSEN,
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A Good Business for Poor People

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ineteen-year-old Stephen Mensah has a junior high education, but no real home or assets. He had lost any hope of attaining the additional education that he wanted until six months ago, when he became a Fan Milk microfranchisee. Fan Milk is Ghana's

leading producer and distributor of dairy products. Scandinavian investors founded the company in 1960 to produce milk for Ghanaians, many of whom suffered from protein deficiencies. Today, Fan Milk is listed on the Ghana stock exchange and employs some 8,500 microfranchisees, who sell milk, ice cream, yogurt, and popsicles from atop their carts or bicycles throughout Ghana. Fan Milk has sister companies in Nigeria, Togo, and the Ivory Coast, but the business remains most developed in Ghana.

Now, almost every morning, Mensah wakes up on a thin mat at the White Park Fan Milk Depot in Accra, Ghana. He cleans his cart and stocks his cooler with the variety of products he



PHOTOGRAPH COURTESY OF DANIEL GARCIA RODRIGUEZ

Ghanaian microfranchisees earn as much as \$53 a week selling ice cream, yogurt, and other Fan Milk products.



thinks will sell best. He then heads into the sun and weaves through crowded streets to deliver dairy products to Accra's residents.

Each week, top sellers earn roughly 80 Ghana cedis (\$53) in profit. Partly because Fan Milk requires franchisees to save about 10 percent of their profits, Mensah can expect to save 320 cedis (\$212) in one year if he continues to have strong sales. His employers put some of that money in a bank for safekeeping until he leaves the company. He has also received training in greeting customers, packaging ice cream, and product handling and hygiene. With low start-up costs of \$22 for a bike deposit and a cooler, Mensah and other microfranchisees generally break even during the first month of work. Though the sun is relentless and the days are long, Mensah is pleased with his job. "Fan Milk offers great rewards," he says. He also likes his employers: "I can approach any of my supervisors and talk with them if I have a problem."

Fan Milk has mastered what many organizations and companies are learning: the art and science of microfranchising. Similar to franchising in wealthy countries, microfranchising is the provision, by sale or license, of an appropriately scaled turnkey business to low-income people, many of whom have little formal education or business experience. Some microfranchise programs include other economic development programs, such as training workshops and microloans to cover start-up costs.

In poor communities, microfranchising is usually a better business model than traditional microlending or other entrepreneurship-building efforts. Poor people often have limited education, little business experience, and few new ideas for products or services. Yet entrepreneurship programs assume that clients are willing and able to design, launch, and run profitable new businesses. In other words, they assume that poor people would like to be entrepreneurs, if only their lack of education and capital were not standing in the way.

In contrast, microfranchises offer ready-made, low-risk "starter" jobs for people who want to join the formal economy but do not want to shoulder the risks of new business development. Microfranchise programs not only help poor people build skills and assets, but also give established companies additional sources of distribution and revenue. At the same time, microfranchises can bring communities new and higher quality products and services. In these ways, microfranchises more reliably aid individuals, companies, and communities than do traditional entrepreneurship-building interventions.

Microfranchising is not without its perils, however. From our combined experience in working in, consulting for, and teaching about microfranchising, we have discovered what makes microfranchises succeed or flounder. The best microfranchisors thoroughly test their business models and make sure the final product or service

has a willing market. They also carefully select and train their employees and establish capable management teams. Last, they offer immediate rewards to microfranchisees by dealing in consumable goods, rather than durable goods.

NECESSITY ENTREPRENEURS

In developed countries, entrepreneurs have ecosystems of support. Transparent financial systems reward risk and make capital available. Social conventions govern everyday business conduct. Formal networks connect entrepreneurs and funders and constantly expose both to new ideas.

Yet in developing countries, no such ecosystem exists. Instead, workers in informal markets provide the majority of goods and services without the benefit of structures or safety nets. As a result, there are fewer opportunities for business mentoring from experts and fewer opportunities to explore, fund, or fully vet a new business idea.

To build the infrastructure for entrepreneurship, organizations in wealthier nations have deployed a wide range of interventions, including microcredit, capacity training, business development, and entrepreneurship education. Many of these interventions assume that poor communities harbor entrepreneurs who would unleash their abilities if only they had access to capital. But research has long indicated that many newly minted entrepreneurs turned to self-employment as a last resort, not because of their desire to be small-business pioneers.

Zoltan Acs, director of the Center for Entrepreneurship and Public Policy at George Mason University, calls people who are self-employed because they have no better option *necessity entrepreneurs*. Unlike *opportunity entrepreneurs*, who enter the market because they identify and want to exploit new opportunities, necessity entrepreneurs usually prefer to deploy, manage, and grow someone else's business idea or to work directly for someone else. They are also rarely in the position to absorb the risks most start-ups entail.

Developing countries, particularly rural areas, have few businesses, so not only is it difficult to find a job, it is also difficult to envision a new business—especially one that employs other people or adds new products or services. Lacking both employment opportunities and ideas for new businesses, necessity entrepreneurs often wind up copying other businesses. In so doing, they inadvertently create competition for other low-skilled business owners, reducing profits for everyone.

Consider this sight: A train pulls up to the station and 10 different women lunge at passengers to sell their inventory of fried bread. All 10 women are necessity entrepreneurs who saw a market need and attempted to meet it with the same product at the same price. When they copy each other and produce more supply than the local demand, the women end up diluting profits and wasting food.

Even when necessity entrepreneurs initially succeed, they have a hard time growing their businesses. Without growth funding from governments, NGOs, or companies, these entrepreneurs must use their income to fund expansion. But living expenses eat most of their profits. And with limited savings and no emergency funds, a single misstep can be devastating for the necessity entrepreneur. And so the cycle of limited funds, limited growth, and limited options for change grinds on.

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THE MICROFRANCHISE MODEL

By offering proven business models, reducing risks to people who are already in poverty, and maximizing economies of scale via replication, microfranchising sidesteps many of the pitfalls of existing development interventions. Microfranchisors do not seek that rarest of prizes—the lone entrepreneurial genius. Rather, they seek a far more attainable goal: Locals who are willing to work hard and co-create jobs. The microfranchisors' well-honed models withstand rookie errors and dips in demand, thereby enriching microfranchisees more reliably. And their easy-to-implement business plans are designed to spread far and fast.

Drishtee, for example, is an India-based for-profit business that sells goods and services throughout rural India. Local entrepreneurs run Drishtee's village kiosks. Drishtee microfranchisees can offer a range of services, including computer education, English courses, government services, health information, and insurance. Many of its kiosks also offer low-cost savings accounts, which give villagers—often for the first time—access to the formal banking system. Through its low-cost, direct delivery network of more than 2,400 kiosks, Drishtee has affected the lives of more than 1.5 million customers.

Jamuna Sharma owns a Drishtee kiosk that offers basic health care products in Amlighat, a village of about 1,000 residents in the state of Assam. Sharma used to spend her days helping her husband run his local dairy farm and looking after their two children. Early in 2008, however, she attended a Drishtee-sponsored *gram sabha* (community meeting), where she learned about owning her own microfranchise. With a microloan of \$150 from the nonprofit Drishtee Foundation, Sharma first paid for her microfranchise license, training, store supplies, and initial inventory. She then began selling items such as contraceptives, sanitary pads, fiber supplements, glucose tablets, and medicines targeting gastrointestinal maladies. She now earns roughly \$30 per month in profits, contributing to her household and serving as a role model to other women in her village.

Cellular City is also a retail microfranchisor, but with higher start-up costs than either Fan Milk or Drishtee. Located in urban areas throughout the Philippines, Cellular City licenses microfranchisees to sell multiple brands of new and reconditioned mobile phones, prepaid phone cards, laptops, and cell phone accessories, services, and repairs. Start-up costs for a Cellular City franchise are close to \$9,000, including a \$2,000 franchise fee. Most microfranchisors keep start-up costs low to reduce barriers to entry. Cellular City microfranchisees are usually graduates of a local entrepreneurship training academy, however, and they can draw on financial support from alumni and formal banks. In this business, microfranchisees

earn \$50 to \$100 per day in revenues, which is about 10 to 20 times greater than the Filipino average wage. Each microfranchisee also employs three or more additional employees, who also earn better than the local minimum wage. Results from existing stores suggest that microfranchisees earn back their start-up costs within 16 months. Cellular City is now one of the fastest growing chains of cell phone stores in the country.

STEPS TO SUCCESS

Microfranchising works better than many development tools because microfranchisees need only apply a carefully vetted business-in-a-box. Accordingly, the more tested the business plan, the more successful a microfranchisee is likely to be. Microfranchisors can afford to conduct extensive market testing and research, whereas necessity entrepreneurs do not have the resources or the training to do so.

When Fan Milk branched out to include fruit drinks, it tested 15 flavors. But the company rejected the mango variety because it didn't taste like the mangoes unique to Ghana. Management did not believe the product would succeed and did not burden microfranchisees with selling it. Ultimately, Fan Milk narrowed the fruit juice selection to only two varieties. Fan Milk also adjusted its business model to allow successful microfranchisees to buy a depot and become a distribution center for other street vendors.

Drishtee began its operations in 2000 by offering Web access to government services such as land title documenting, licensing drivers, and general document filings. The company quickly learned that people needed most of these offerings only once. In customers' eyes, moreover, Drishtee was partly responsible for bureaucratic delays that were, in reality, out of Drishtee's control. With e-governance as its entry point, Drishtee began to understand the power and limits of technology and the diversity of needs in rural India. Today, e-governance is only a small part of its business. Many of the company's additional offerings have come from the suggestions of individual microfranchisees.

Cellular City developed, tested, and corrected its business model by opening only one store and operating it for one year before making any attempt at franchising. The company then used its experience to create manuals, policies, and procedures. Over time, management realized that storeowners needed more support, and created an online operations manual with an easy-to-use search engine. The company also formed its own commissary to secure better prices and warranty policies for its products. This high level of support allows the microfranchisees to focus on their individual businesses with the confidence that they are part of a larger network they can access when they need it.



Drishtee franchise owners sell medicine, English courses, insurance, and a variety of other products throughout India.

Jose Aban, a Cellular City microfranchisee, believes the proprietary online software provided to all franchisees sets the company apart. The software tracks inventory, employee commissions, customer information, accounting, and purchase orders to streamline his job of store management. “When I have questions or problems, there is a network of support available to me—from people offering advice to videos of typical repairs and procedures,” he says.

Even a carefully tested business model needs a skilled manager. Luckily, management is a skill that is infinitely trainable. Successful microfranchises devote considerable resources to training their microfranchisees. The intensity of the training and support vary with the size of the business opportunity. For example, Fan Milk trains new microfranchisees in the basics of approaching people, handling and arranging food, sales techniques, and personal hygiene. The company also teaches microfranchisees about its savings policy. In contrast, Cellular City offers in-store training, on-site support, and a dedicated intranet site with updated information and tips for microfranchisees. The microfranchisor also monitors applicants closely to make sure they are ready to open a store. Once it grants a license, Cellular City then provides quarterly business review meetings and field visits by an operations team.

Most microfranchisors, even those with the most basic business plan, have some sort of screening process. Again, the complexity of the screening corresponds to the complexity of the business.

Fan Milk makes sure that applicants know how to read and how to understand simple English. They ensure fidelity of implementation and identity by having all microfranchisees wear the same branded shirt and use the same branded coolers and bikes. Cellular City, on the other hand, screens applicants’ backgrounds, financial literacy, personal financial capacity, and level of preparation. The company’s managers prefer not to meet with applicants until the latter have identified at least three highly visible and accessible potential locations. Once a microfranchisee is approved, fidelity of implementation and identity comes from the uniform marketing, branding, and reporting required in the business model and contractually outlined in the policy manuals.

Drishtee has screening requirements that fall somewhere between those of Fan Milk and Cellular City. Drishtee’s regional offices rely on a comprehensive program to train and monitor microfranchisees. The company expects applicants to have at least a high school education, and charges a small fee for each activity along the route to becoming a microfranchisee. Candidates must even pay (about 60 cents) to apply to become a microfranchisee. The company then selects applicants with the greatest willingness and motivation to run their own businesses and the best reputations in their communities.

Initial classroom training takes place in small groups of new franchisees and is followed by on-the-job training by Drishtee sales coordinators, who visit each franchisee almost once a week. Local franchisees come together periodically for further training and to share best practices. Drishtee leverages the Internet wherever possible to manage inventory and track sales.

One of the distinguishing components of the Drishtee approach is its willingness to let each microfranchisee adjust his or her model to the needs of the local community, and occasionally to add products or services that Drishtee does not already provide. The company often then incorporates the new, successful offerings into its model and relays the innovation throughout its entire network. In this way, Drishtee exemplifies how microfranchises work best when members teach each other. Fan Milk also relies on networks of peers teaching each other about neighborhoods, regional preferences, and hygiene tips. Cellular City creates formal networks in which established microfranchisees meet with new ones.

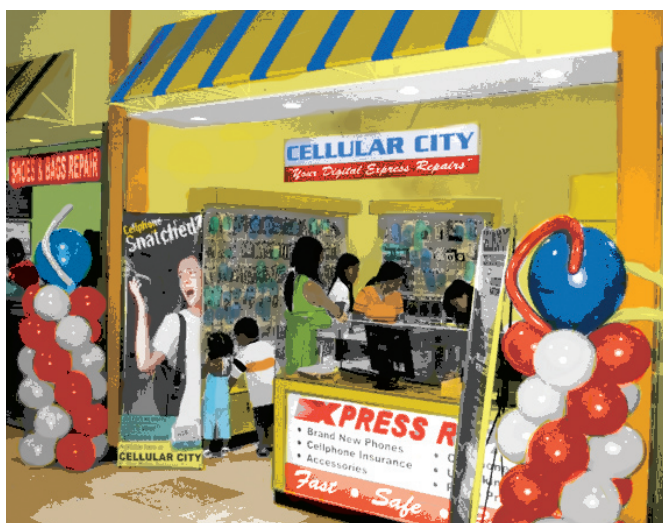
PARTNERS FOR PROFIT

To help their franchisees succeed, microfranchisors not only rely on internal networks and partnerships, but also leverage external partnerships. Of particular benefit to microfranchisees are partnerships between microfranchisors and economic development organizations dedicated to helping the very

poor. For example, microfinance institutions can often supply the funding that microfranchisees need to start their businesses. Grameen Foundation USA recognized this and created the Village Phone Direct Manual to allow any microfinance institution to develop an independent Village Phone product for its clients. Microfinance clients first use a microloan to purchase a Village Phone Equipment Kit, which includes a mobile phone, a signal booster, a battery charger, and cables to connect all components. Clients can then use the

kit to operate a retail phone service in their local communities. The business model and the kit’s contents vary by country and customer needs, as does the cost—as little as \$50 in semirural areas in Asia or as much as \$300 in rural areas in Africa that are off the electrical grid and require an external antenna to boost the telecommunications signal. Microfranchisees are usually able to run the business without losing money or incurring penalties on their microloans. Most people repay the loan within one year. After that, the venture becomes a profit center.

In other cases, microfranchisors can work with job trainers and formal educational outlets to help microfranchisees build their skills. For instance, Cellular City maintains ties with the Cebu, Philippines-based Academy for Creating Enterprise, a local organization that offers an eight-week basic business training course.



Cellular City microfranchisees can earn 20 times the Filipino average wage selling mobile phone products.

Microfranchisees can take the course or reach out to the academy for input and guidance.

Microfranchisors can also partner with business development service consultants. Currently, the market for consultants to the microfinance industry is very active as organizations seek advice on operations and legal issues. As microfranchising grows and expands, consultants who understand local conditions and norms and who have the desire to focus on this low-income sector will also likely be in demand.

MISTAKES TO AVOID

Some of the common mistakes that would-be microfranchisors make are the same mistakes that many new businesspeople make. First, they do not spend enough time on proper business development. A microfranchise is like any other business: It must identify and address market failures. Microfranchisors must likewise perform exhaustive market analyses to test their theories about what products low-income consumers want.

Yet too many organizations envision a social need for a particular product and design a business around the distribution of that product, without fully understanding the desires of their potential customers. For example, consider mosquito nets. Field experience suggests that many people don't like using mosquito nets because they can be hot to sleep under. They are difficult to keep clean. They aren't durable—many last only a few months—and therefore seem expensive. The benefits they confer—protection from malaria and other mosquito-borne diseases—are not visible to the naked eye. And so although mosquito nets are a good item for a public health agency to distribute or an educational program to advertise, they are not a good product for a microfranchise to sell.

Microfranchisors also sometimes underestimate how long it takes to develop and refine a successful business model. In 2009, Dalberg Global Development Advisors completed a research project on franchising in developing markets. The consultancy discovered that successful franchises take between five and 10 years to test and prove their business plans before attempting to franchise them. Fan Milk took almost 50 years to franchise its business. Drishtee was faster off the blocks, and began franchising during its second year. Yet Drishtee is still struggling for profitability, whereas Fan Milk earned \$10 million in profits on revenues of \$57 million in 2009.

Microfranchisors also need to avoid hiring the wrong managers and microfranchisees. Microfranchises require managers capable of selecting, training, and relating to microfranchisees. They also need to select microfranchisees who will be good employees and business managers—and not all low-income or necessity entrepreneurs fit this mold. If there is too great a social or cultural divide between the microfranchisor and microfranchisee, then success is less likely. For example, Fan Milk managers know that microfranchisees prefer to work late into the evening to catch customers who want a final treat for the day. If managers used American assumptions about standard workdays or American work habits, the microfranchise would suffer, as would the microfranchisees.

Microfranchisors must also consider not only microfranchisees' skills and attitudes, but also their reputations within their communities. People with good social standing are generally more trusted,

which leads to quicker acceptance among potential customers and easier initial sales. Reputation is especially important in health-related businesses that sell basic medicines or diagnosis. Customers are wary not only of being overcharged, but also of buying sham remedies that do not perform as advertised or, worse, cause even more suffering.

Finally, the microfranchisor must work with the microfranchisee to determine what success means. For some, success means having steady income and immediate cash flow. Others want to see a career path for themselves. Still others want help building and securing savings.

What might be surprising to many Western businesspeople is that not all microfranchisees are driven by the desire to generate more and more income. Many people in developing countries simply want to stabilize themselves and their businesses. They do not want to grow businesses and they are not necessarily seeking higher profits or additional loans. In many cases, people will work until they have earned "enough" for the month. And so Fan Milk vendors can choose not to stock their carts for days at a time if they have enough money for their needs. Cellular City microfranchisees can decide how many employees they want to support. And Drishtee microfranchisees can expand or contract their efforts if they don't want to stand out too much from neighbors. A good microfranchisor knows what kind of microfranchisee he or she is working with, and finds the flexibility to be responsive.

A PATH FOR WILLING WORKERS

The billions of people who live on less than \$2 per day need easy-to-implement, low-risk, likely-to-scale ways to earn more income. They need options that don't entail creating copycat businesses or self-employment out of desperation rather than preference. And they need opportunities to build their management potential and business acumen.

Yet many of the most popular development initiatives—that is, those that help people start new businesses—assume that what holds people back is simply lack of education or lack of capital. When implemented in isolation, many of these initiatives require considerable creativity, risk taking, and capital to establish and grow. Because creativity, an appetite for risk, and capital are often wanting in the world's poorest places, entrepreneurship programs may not serve the world's most vulnerable people.

In contrast, microfranchising holds much promise for enriching people at the bottom and even middle of the economic pyramid. Microfranchises introduce new ideas and business practices to areas that lack formal markets or differentiated products. They lower the risk for new business owners, while offering them the potential for a steady and predictable income. They allow local people to bring new and welcome products and services to the community. Sometimes, they also help corporations and organizations penetrate new markets.

Moreover, new businesses create change, and new jobs create stronger communities. Microfranchising is one method of bringing both to low-income communities around the world. Where there are communities of interested and willing workers, there are opportunities for microfranchises to grow. ■