

MicroFranchising

A Powerful Tool
in the Fight
Against Poverty

MicroFranchising: A Powerful Tool in the Fight Against Poverty



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COADY

INTERNATIONAL INSTITUTE
ST. FRANCIS XAVIER UNIVERSITY

Igniting Leadership

MicroFranchising: A Powerful Tool in the Fight Against Poverty

Objective:

Winning the fight against poverty

MicroFranchising: How does it fit with Asset-Based Community Development?

Belief:

A community can use what it has
to get what it wants –

Mathopestat

MicroFranchising: How does it fit with Asset-Based Community Development?

Result:

A community takes stock of

- what it has – **assets** -
- what it earns – **income** -

to create its own economic development plan – i.e. create more wealth

MicroFranchising: How does it fit with Asset-Based Community Development?

Leaky Bucket Exercise
leads to
Community Development Plan

MicroFranchising: How does it fit with Corporate Social Investment?

Corporate Social Investment A Powerful Change Agent

MicroFranchising: How does it fit with Corporate Social Investment?

Strategic Plan = Win-Win

Community = Asset to Corporate Investor

Corporate Investor = Asset to Community

MicroFranchising: How does it fit with Corporate Social Investment?

CSI Objective:

Strategies which result in measurable positive impacts to both community and corporate investor

MicroFranchising

MicroFranchising

What is its relationship to ABCD
and CSI?

MicroFranchising



TEAM WORK

MicroFranchising

A Powerful Tool
in The
Fight Against Poverty

MicroFranchising: A Powerful Tool In The Fight Against Poverty

This Session's Objective:

- Explore How World's Most Successful Business Model Can Create Wealth for South Africa's Least Successful Communities

MicroFranchising: Meeting Agenda

MicroFranchising: Crossing the Frontier from Non-Profit to Profit

Martha Deacon

Founder and CEO, The Townships Project

MicroFranchising: Meeting Agenda

Franchising in Frontier Markets

Robin Miller

Dalberg Global Development Advisors

MicroFranchising: Meeting Agenda

Franchising in South Africa: Getting to the Bottom of the Pyramid

Peter Moyanga

McDonald's Franchisee in South Africa

Past Chair of FASA

MicroFranchising: Meeting Agenda

Banking the MicroFranchisor

RoleneGovindasamy

Franchising Manager, Standard Bank

MicroFranchising: Meeting Agenda

Lending to the MicroFranchisee

VuyiswaKeyi

Managing Director

Bittersweet Trade & Invest

MicroFranchising: Meeting Agenda

Question & Answer – Moderated by
Lana Lovasic
**Greater Rustenburg Community
Foundation**

Close of Symposium –
Jacolmmelman
Department of Geography, UNISA

Crossing the Frontier from Non-Profit to Profit

Martha Deacon
Founder and CEO
The Townships Project

Crossing the Frontier from Non-Profit to Profit

Why is a Canadian talking about
MicroFranchising in South Africa?

Crossing the Frontier from Non-Profit to Profit

The Townships Project:

- 12 years supporting business loans to poorest in SA
- Act through local organizations; not direct
- Addressing the changing marketplace

Crossing the Frontier from Non-Profit to Profit

- **Mission:** Better stuff at a lower price
- **Reality:** The poor pay more for virtually everything
- **Opportunity:** Find out what they buy & offer better products at a cheaper price

Crossing the Frontier from Non-Profit to Profit

- **MicroFranchising** – based on most powerful business model on earth
- **Franchising** - more millionaires – faster – than any other business model in history

Crossing the Frontier from Non-Profit to Profit

- **Starts with a successful business**
whether it's selling hamburgers or cars
– and clones it

Crossing the Frontier from Non-Profit to Profit

FIRST KEY: MAKE A PROFIT

- The business must be successful
- Cloning an unsuccessful business multiplies losses and compounds failures

Crossing the Frontier from Non-Profit to Profit

SECOND KEY: CREATE SATISFIED CUSTOMERS

- Consistent, well-defined processes and procedures
- Create a well-recognized brand

Crossing the Frontier from Non-Profit to Profit

- Operated by well-trained franchisees at a profit to both the franchisees and the franchisor in a ...
- Constantly improving model

Crossing the Frontier from Non-Profit to Profit

Mathopestat – in the future?

Asset Based Community Development

meets

Corporate Social Investment

meets

MicroFranchising

Crossing the Frontier from Non-Profit to Profit

All communities need the same products and services:

- Light and energy
- Water and sanitation
- Cooking stoves and ovens
- Food production and agriculture
- Health and wellbeing
- Transportation and communication
- Education and training

Crossing the Frontier from Non-Profit to Profit

Bottom of Economic Pyramid (BoP)

Those at the BoP spend the same
money as those at the top...
just not the same amount

Crossing the Frontier from Non-Profit to Profit

MicroFranchising Focuses On BoP

- What is the BoP already buying?
- Can we provide better stuff at a cheaper price?

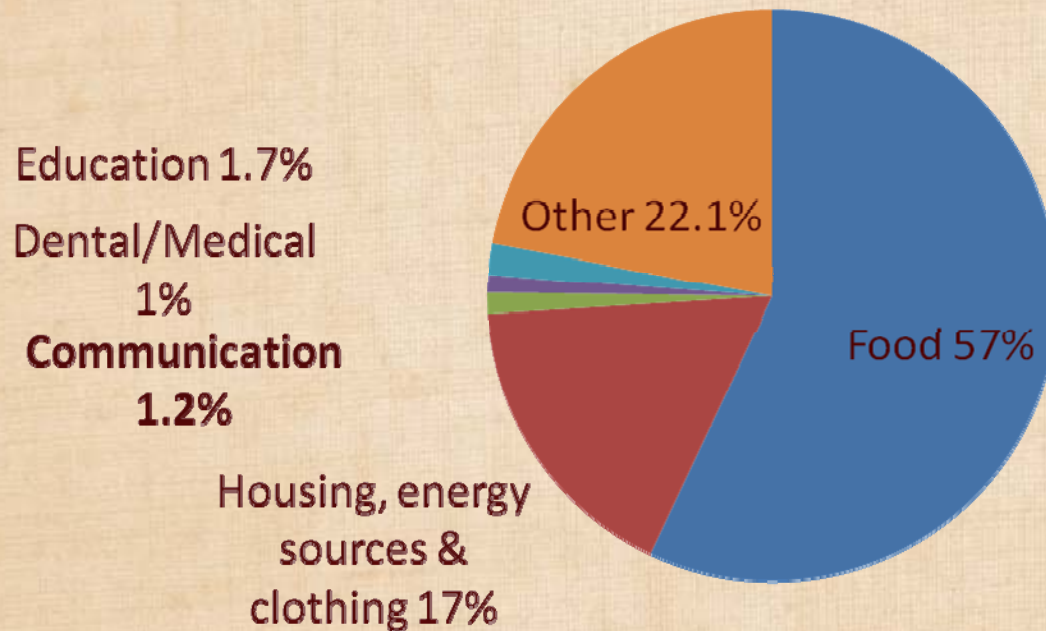
Crossing the Frontier from Non-Profit to Profit

**Bottom of the Pyramid (BoP)
Low income, not no income**

Crossing the Frontier from Non-Profit to Profit

How the 20% at South Africa's
BoP spent each Rand in 2004

Crossing the Frontier from Non-Profit to Profit



Bureau of Market Research, Unisa. 2004a. Total Household Expenditure in South Africa by Income Group, Life Plane, Life Stage and Product. Research Report No. 326, Pretoria

VODACOM

A MicroFranchising Success



Government mandate of 1994

VODACOM

A MicroFranchising Success



Government mandate of 1994

VODACOM

A MicroFranchising Success

- Now one of South Africa's most valuable companies in 2010
- The Community Phonestop: Better Stuff at Lower Cost

“Low Income does not mean No Income”, Pierre Coetzer -

http://web.me.com/reciprocity2/BOP_Lab/Publications_files/Vodacom08.pdf

VODACOM

A MicroFranchising Success

- **1.2% share of BoP Spending** – from 0 to 90,000 microfranchises in 15 years
- **Franchisor Adaptability** – ‘call per second’ leads to

VODACOM

A MicroFranchising Success

- **Customer loyalty** – portability results in net loss of a mere 6,000 on a total customer base of 24 million

VODACOM

A Community Phonestop

- Rate per minute is set at 30% of commercial pre-paid rates so customers using community phonestops can make calls at a 70% discount
- Customers purchase exactly the amount of airtime they need or can afford

VODACOM

A Community Phoneshop

- Shop owners earn on average R 9000 per month in centrally located townships site = **real franchisee profits**

VODACOM

A Community Phonestop

By May 2008

nearly 90,000 micro-franchises from 0 in mid-90s

VODACOM Benefit

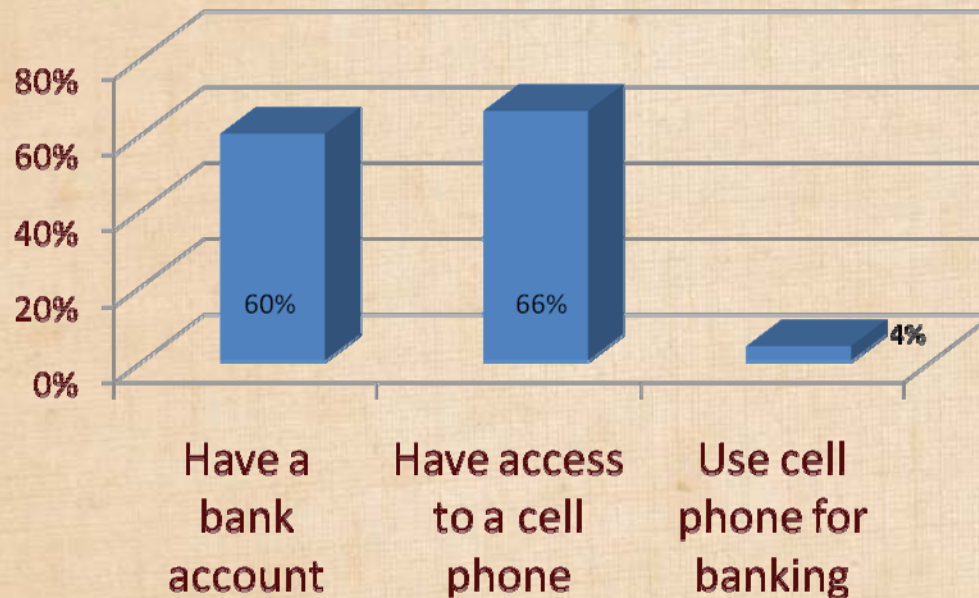
- Lower management and infrastructure costs
- Minimizes financial and business exposure
- Builds large distribution channel and brand recognition in its largest market

FRANCHISEE Benefit

- Ownership in the community
- Owner buys discounted, prepaid airtime and on-sells it
- Owner understands community's needs and has huge incentive to succeed
- Owner gets training and support from 3rd party

VODACOM

A MicroFranchising Success



South Africans over 16 yrs

Huge potential for
Vodacom and for other
microfranchises –
A cellphone is a
BANK – payment/transfers
SCHOOL - training
RADIO – news/market
ACCOUNTANT –
restocking/bookkeeping

And accessible to 2/3 of
Africans

2007 FinScope survey for FinMark Trust

MicroFranchising and Cellphone Technology

- **The future:** Spectacular economic leverage from data services
- **Tanzania:** Text message questionnaires took the stockout rate in malaria clinics from 75% down to 25%

MicroFranchising and Cellphone Technology

- **Get prices down** - India - \$0.02 per minute vs South Africa at \$0.20 to \$0.50 per minute –
- **Look to the future** – banking, education, training, stock-taking, accounting

MicroFranchising and Cellphone Technology

MicroFranchising & Cellphone Technology
Can Provide
Better Stuff Cheaper

Crossing the Frontier from Non-Profit to Profit

HOW CAN ABCD HELP?

ABCD can ensure MicroFranchising
goes where it is
needed and wanted

Crossing the Frontier from Non-Profit to Profit

All communities need the same products and services:

- Light and energy
- Water and sanitation
- Cooking stoves and ovens
- Food production and agriculture
- Health and wellbeing
- Transportation and communication
- Education and training

Crossing the Frontier from Non-Profit to Profit

- Communities at the BoP need essentially the same sets of goods and services
- We already know how much BoP is spending on these goods and services...

Cloning Success vs. Reinventing the Wheel

Huge market incentive
for franchisors
to enter the BoP market and
do what they have always done

MicroFranchising Expertise

- Simple, efficient training – 3 days to 2 weeks
- Find Locations – no more than 1 hour walk from clients
- Build Brand – credibility and loyalty
- Create efficient supply and restocking chains

MicroFranchising Expertise

- Provide appropriate contracts and legal support
- Arrange loan financing for franchisees (R 1500 to 3x GDP)
- Develop products and payment methods consistent with cash flow of clients

Bureau of Market Research, UNISA

Small business success and failure in Soweto

Prof. A.A. Ligthelm, Bureau of Market Research, UNISA

Small Business Success and Failure in Soweto: A Longitudinal Analysis (2007 – 2008)
(Research Report No. 377)

Bureau of Market Research, UNISA

- **Background:** 83% of Sowetans have no plans to move
- **Implication:** Substantial market potential because of the rapid increase in consumer expenditure

Bureau of Market Research, UNISA

- **Reasons for business success:** Highest yearly survival rate (70%) attributable to business skills
- **Examples of business skills:** Business plans, marketing policies, analyzing competition and adjusting strategies to deal with it

Bureau of Market Research, UNISA

Question: Can MicroFranchising
help with this?

Research indicates the answer

Is probably a resounding

YES!

Bureau of Market Research, UNISA

Impact of Shopping Mall Developments

Prof. A.A. Ligthelm, Bureau of Market Research, UNISA

The Impact of Shopping Mall Development in Township Areas on Small Townships
Retailers (Research Report No. 359)

Bureau of Market Research, UNISA

Retail expenditure in Soweto	In 2004, before the new malls
Total of all retail expenditure	25%
By the most affluent	9%
By the poorest households	49%

Bureau of Market Research, UNISA

Townships are emerging as the last retail frontiers for many national retailers, especially supermarket chains

Will that be at the expense of small business?

Bureau of Market Research, UNISA

- Spaza shops and hawkers employed 750,000 in 2004
- Distance related declines: 75% within 1 km reported declines; 37% of those 4 km or more reported declines

How can CSI help?

By encouraging MicroFranchising over other business models because of the social advantages..

- More people on the economic ladder
- Building more small businesses better and faster

How can CSI help?

- Giving a BoP entrepreneur a chance at success that he otherwise wouldn't have
- Spreading new technology faster and cheaper as it did with Vodacom
- Building a family culture of business ownership

How can CSI help?

- Developing a successful MicroFranchising business model is expensive and time consuming
- But history demonstrates it's more efficient than creating 10,000 stand alone businesses!

South Africa has necessary resources

- Bureau of Market Research – knows what BoP currently spends
- Franchise Association of Southern Africa – excellent infrastructure of skills: legal, business, technical, financial

South Africa has necessary resources

- Country infrastructure – transportation, energy, communications, legal, government policy to support BoP
- MicroFinance Institutions to bank the MicroFranchisee
- Commercial Banks with expertise in franchising

South Africa has necessary resources

- Supportive government policy
- Sophisticated legal and franchising structure
- Consultants and technical experts
- Mobile/smart phone system and coverage
- Superb and sophisticated banking/finance sector

South Africa has necessary resources

Successful MicroFranchises need

- Resources to design businesses with a strong profit potential within a reasonable time frame
- Active BoP urban sector to test concepts

South Africa already has Franchisors who know

- local policies and regulations matter; that quality control is essential
- their market; listen to their customers; communicate with all parties constantly; provide effective promotional advertising
- how to provide products and purchasing methods consistent with the cash flow of their customers

How small is a MicroFranchise?

- David Lehr, Mercy Corps, “MicroFranchising at the Base of the Pyramid” – businesses costing up to R 12,000 (\$1500)
- Kirk Magleby, up to 3 x Gross Domestic Product – in South Africa that’s up to R 250,000 (\$30,000)

How do we get there?

Bring all the resources together

MicroFranchising Trade Show and Convention

In Khayelitsha and Cape Town

In 2011

MicroFranchising Trade Show and Convention

- Bring together Community Leaders, Entrepreneurs, Franchisors, Bankers, Franchisees, Microfinance Institutions, Not for Profit Organizations, Angel Investors, Exceptional Students
- Mixing, talking, planning, brainstorming

When We All Win

- When everyone is getting better products and services at a cheaper price
- We will still struggle, but it will be a struggle up, a struggle with a purpose and blue sky potential
- That's an empowering vision

South Africa has all the assets it needs!

- Let's finish with a kind of ABCD exercise – lest you are thinking this is all some kind of dream very far removed from reality and South Africa's ability to realize it...

The Global Competitiveness Report 2009-2010

World Rank	Competitiveness Indicator for South Africa
2 out of 133	Strength of auditing and reporting standards
2 out of 133	Accessing credit
4 out of 133	Financing through local equity markets
6 out of 133	Financial market sophistication
6 out of 133	Soundness of banks
9 out of 133	Investor protection

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MicroFranchising – Proudly South African!

So let's get started...

Franchising in Frontier Markets

by Robin Miller

- Past 5–10 years – Acumen Fund, Brigham Young University & others provided important leadership
- Heavy players have noticed this search for “better and cheaper” stuff by and for the BoP
- Robin’s study funded by the John Templeton Foundation and International Finance Corporation, a member of the World Bank Group

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