

# MicroFranchising

A Powerful Tool  
in the Fight  
Against Poverty

# MicroFranchising: A Powerful Tool in the Fight Against Poverty



# MicroFranchising: A Powerful Tool in the Fight Against Poverty



# MicroFranchising: A Powerful Tool in the Fight Against Poverty

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?

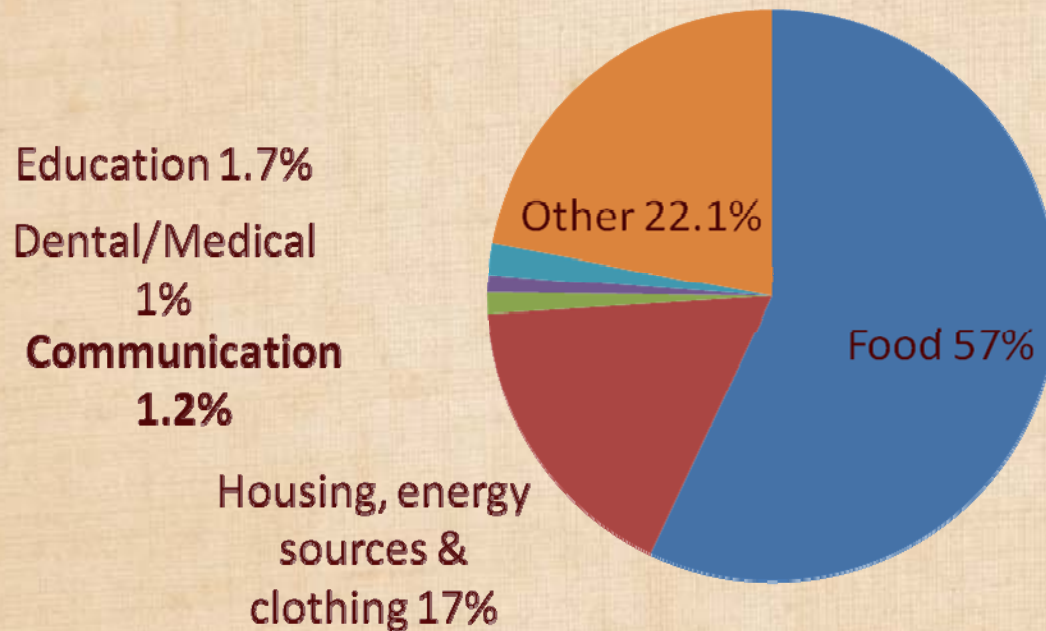
# Crossing the Frontier from Non-Profit to Profit

**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](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**

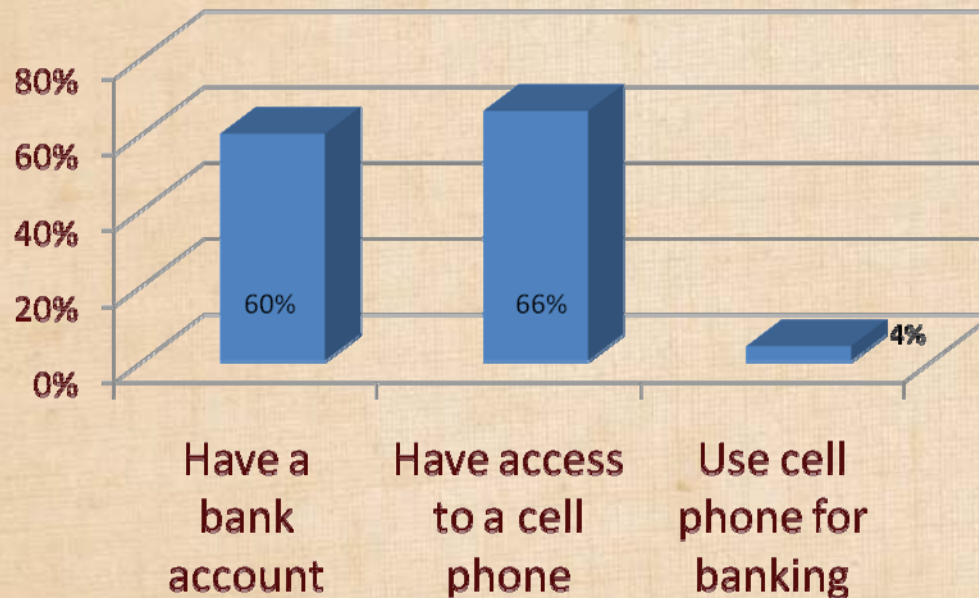
- Lower management and infrastructure costs
- Minimizes financial and business exposure
- Builds large distribution channel and brand recognition in its largest market

### **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

© 2009 World Economic Forum, p. 283

# 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

# MicroFranchising

A Powerful Tool  
in the Fight  
Against Poverty