



Kellogg
School of Management

Micro-Franchising: Application and Success Factors

Tobias Hürlimann

September 29, 2011

Agenda

Drishtee in Rural India

Introduce the environment in rural India, explain Drishtee's approach and show some examples of Drishtee's work

Micro-Franchising

Present a framework to assess micro-franchising opportunities, determine required infrastructure and learn about success factors

My Internship

Give you an impression of the work during my summer internship at Drishtee

Agenda

Drishtee in Rural India

Introduce the environment in rural India, explain Drishtee's approach and show some examples of Drishtee's work

Micro-Franchising

Present a framework to assess micro-franchising opportunities, determine required infrastructure and learn about success factors

My Internship

Give you an impression of the work during my summer internship at Drishtee

DrishTEE operates in rural India – an environment with low income, low education and weak infrastructure

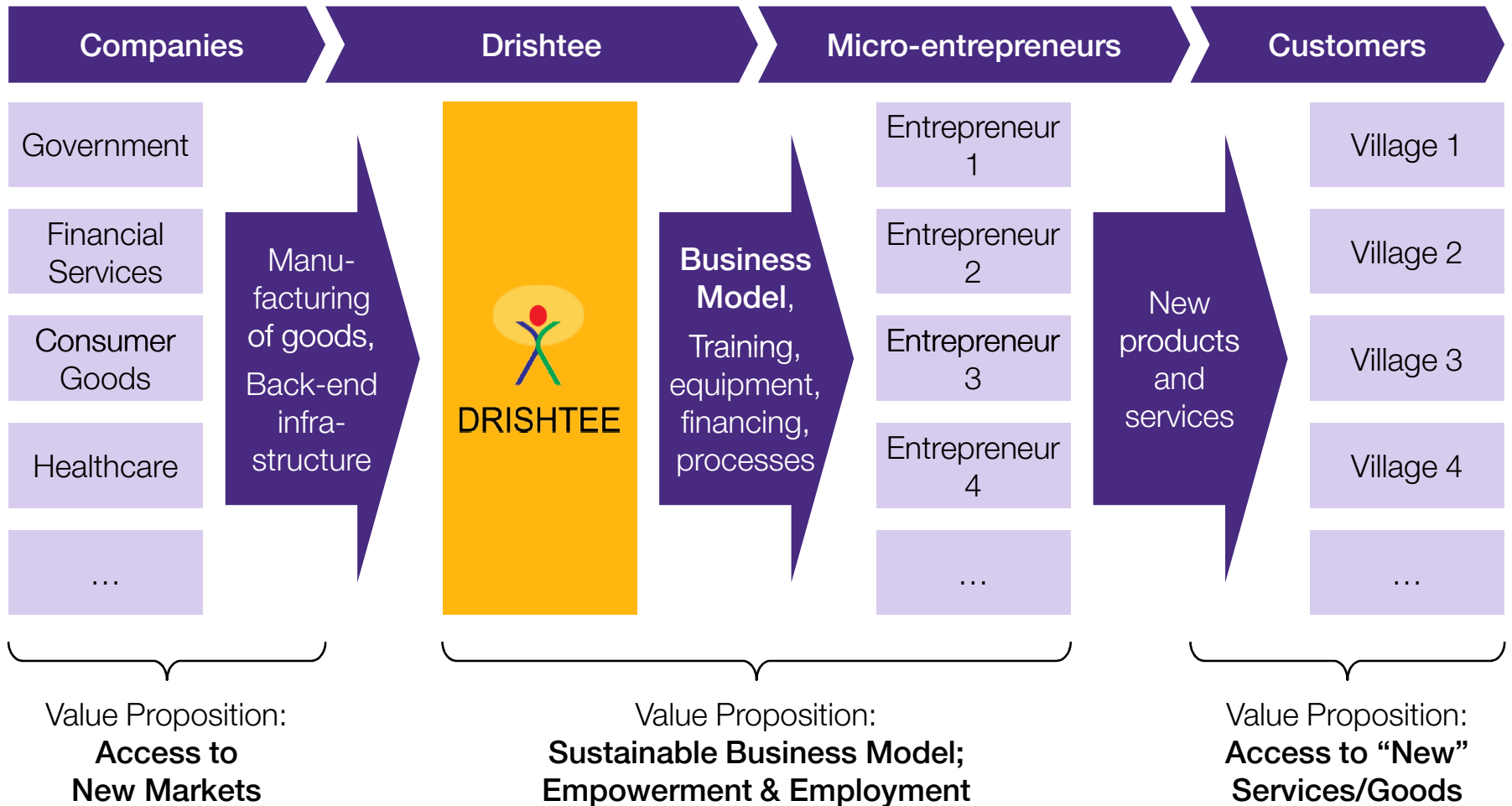


Source: DrishTEE

A Typical Indian Village in Numbers

- Average population: 6,200 people
- Main occupation: Agriculture (60%)
- Literacy rate: 52%
- Households electrified: 26%
- Average electricity/day: 4 hours/day
- Telephone penetration: 12%
- Bank accounts: 10%
- Loan defaulters: 60%
- **Average rural family earns less than \$70 a month**

Drishtee provides rural micro-entrepreneurs with a business model and all necessary infrastructure

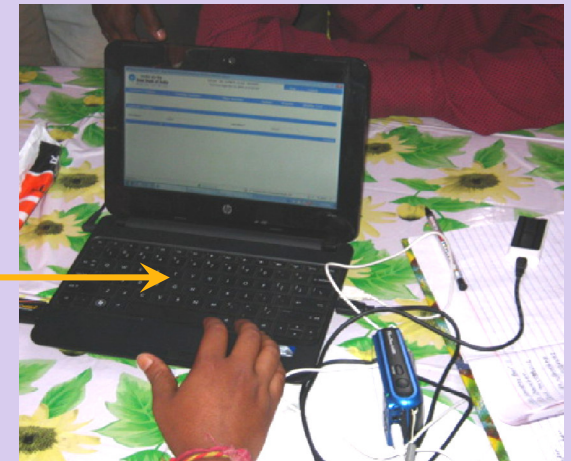


Example Financial Inclusion: Basic banking services provided by one-man bank branches in small huts

Problem

- 51.4% of farmer households do not have access to basic financial services and adequate credit
- Bank branches often miles away (take hours or longer to reach)
- The poor often cannot afford the minimum deposit of a regular savings account

Drishtee's Approach



- Micro-entrepreneurs run one-man bank branches
- Access to checking accounts and micro-credit
- Back-end banking infrastructure provided by large Indian bank
- Hardware used:
 - Computer or Netbook
 - Biometric scanner
 - Wireless internet access
 - Digital Camera
 - Printer

Source: Report of the Committee for Financial Inclusion (2008), Field Trip to Assam; Drishtee

Example FMCG Distribution: Distribution to rural shops and kiosks using an auto truck

Problem

- Normal distribution doesn't reach rural areas
- Rural shops buy products from big shops at town or hub villages
- They don't get full retail margin as wholesalers keep a portion of it
- They have to travel to buy products.

Drishtee's Approach



Drishtee Warehouse

- Drishtee procures various products
- Storage in Drishtee's district warehouses



Drishtee Truck

- An auto-ricksha truck is loaded with goods
- One truck covers 40 shops a day on a 30 miles trip



Shops

- Shopkeepers buy goods when Drishtee truck stops by their shop

Agenda

Drishtee in Rural India

Introduce the environment in rural India, explain Drishtee's approach and show some examples of Drishtee's work

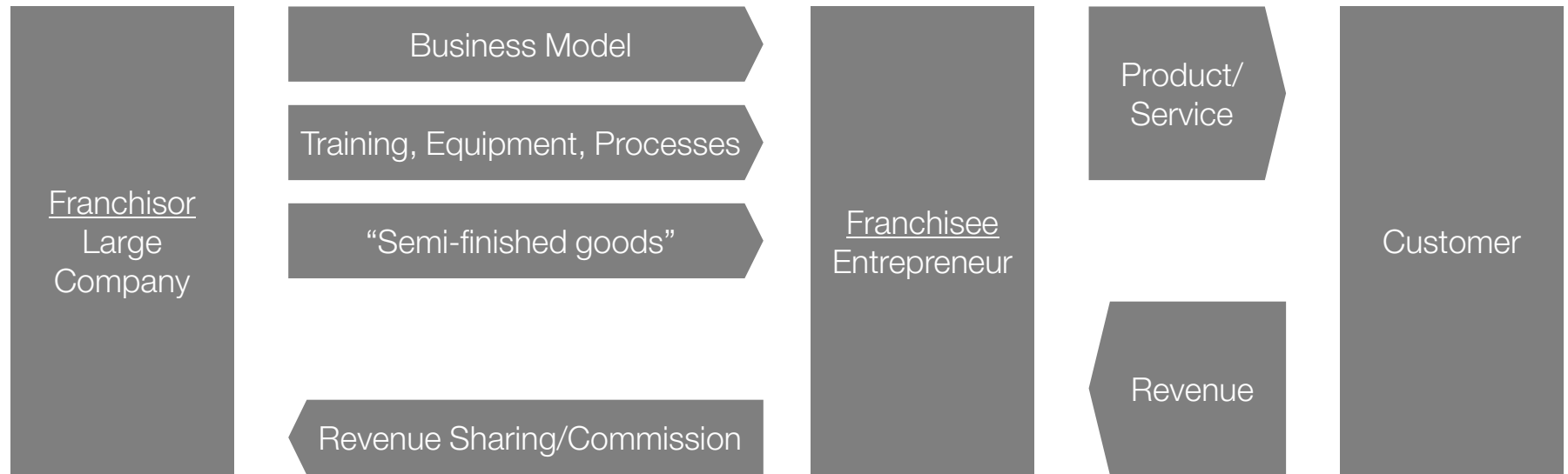
Micro-Franchising

Present a framework to assess micro-franchising opportunities, determine required infrastructure and learn about success factors

My Internship

Give you an impression of the work during my summer internship at Drishtee

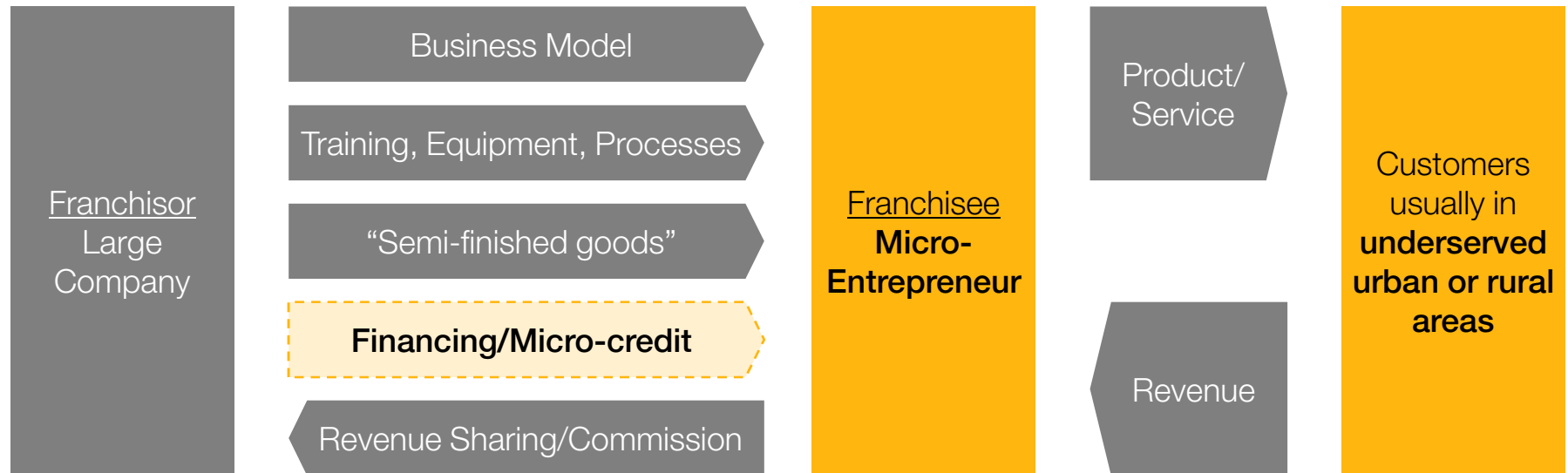
Franchising well-known tool in developed countries to provide a proven business model to entrepreneurs



Advantages of Traditional Franchising

- Provides entrepreneurs a proven and successful business model
- Enables companies to extend their market reach without large capital expenditures
- Alignment of incentives reduces agency concerns

Micro-Franchising is the application of franchising to poor and underserved areas with a social component



Advantages of Traditional Franchising

- Provides entrepreneurs a proven and successful business model
- Enables companies to extend their market reach without large capital expenditures
- Alignment of incentives reduces agency concerns

Additional Advantages for Micro-Franchising

- Entrepreneurship opportunities for poor people
- Provides Access to new products/services to underserved villages and remote rural areas
- Empowerment of weak social groups (e.g. women, lower class/lower caste persons)

Framework to assess opportunities, determine needed infrastructure and key success factors

1 Characteristics of Businesses Best Suitable for Micro-Franchising

2

Infrastructure
Requirements

3

Success Factors for
Micro-Franchising Systems

Framework to assess opportunities, determine needed infrastructure and key success factors

1 Characteristics of Businesses Best Suitable for Micro-Franchising

Existence of an Access Problem

Standardized Features & Pricing

Easy to Understand and Sell

2 Infrastructure Requirements

Train and Educate
Entrepreneurs

Provide Standardized
Equipment

Provide Supply Chain
and Processes

Provide Financing

3 Success Factors for Micro-Franchising Systems

Aggregate
Businesses

Employ a Sustainable
Commission Structure

Use and Protect
Your Brand

Work with Local Partner or
Gain Local Knowledge

Select the Right
Entrepreneurs

Be Prepared to
Adapt Constantly

Focus on Simplicity
and Efficiency

Replace Legal Fine Print
with Incentives

Framework to assess opportunities, determine needed infrastructure and key success factors

1 Characteristics of Businesses Best Suitable for Micro-Franchising

Existence of an Access Problem

Standardized Features & Pricing

Easy to Understand and Sell

2 Infrastructure Requirements

Train and Educate
Entrepreneurs

Provide Standardized
Equipment

Provide Supply Chain
and Processes

Provide Financing

3 Success Factors for Micro-Franchising Systems

Aggregate
Businesses

Employ a Sustainable
Commission Structure

Use and Protect
Your Brand

Work with Local Partner or
Gain Local Knowledge

Select the Right
Entrepreneurs

Be Prepared to
Adapt Constantly

Focus on Simplicity
and Efficiency

Replace Legal Fine Print
with Incentives

Agenda

Drishtee in Rural India

Introduce the environment in rural India, explain Drishtee's approach and show some examples of Drishtee's work

Micro-Franchising

Present a framework to assess micro-franchising opportunities, determine required infrastructure and learn about success factors

My Internship

Give you an impression of the work during my summer internship at Drishtee

Drishtee Internship Timeline:

Worked on four different topics over the summer

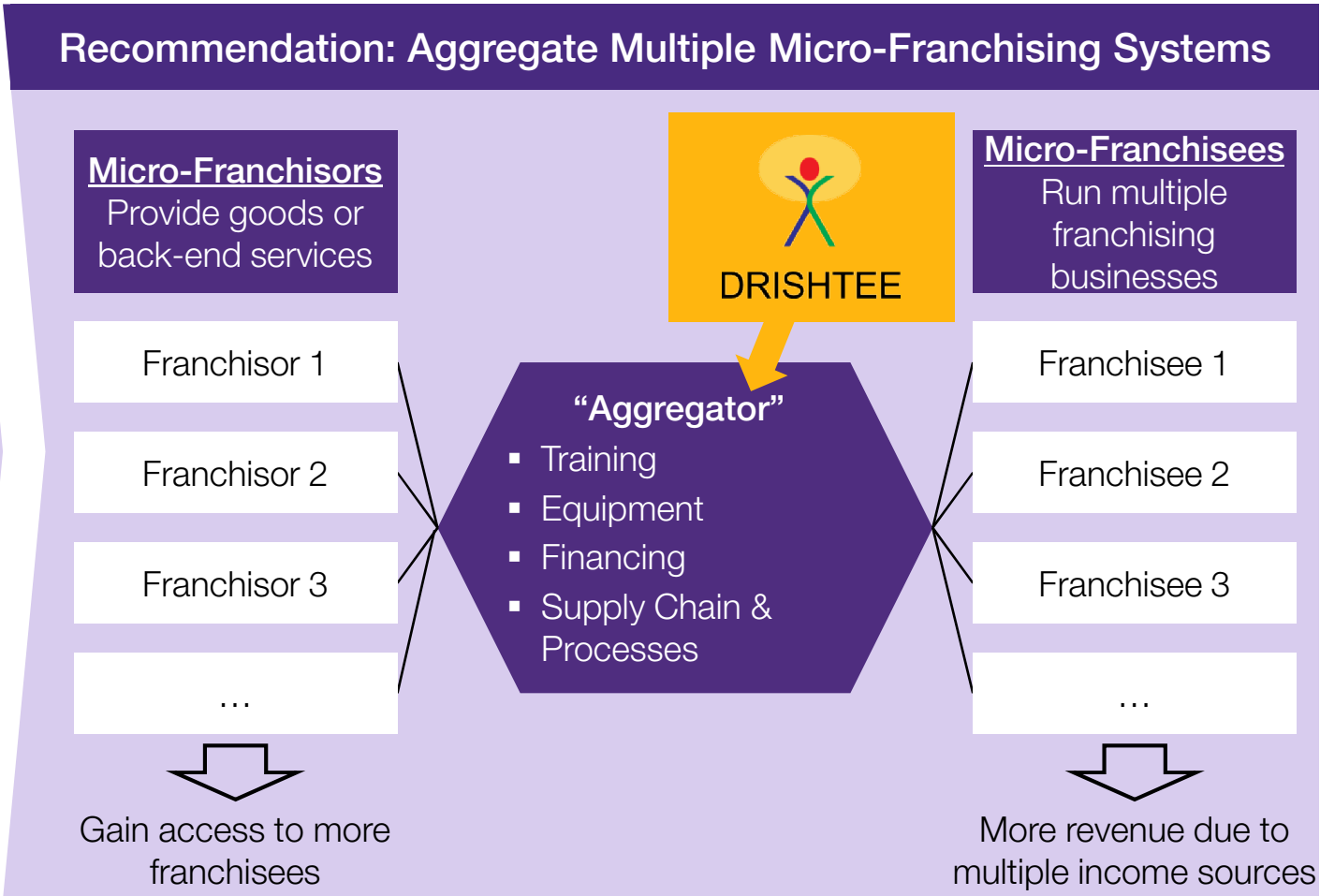
June 2011	July 2011	August 2011
Drishtee's "One-man Bank Branch" Business		FMCG Distribution Business
<p>Cash Management: Developed methods to reduce the problem of cash accumulation at rural one-man bank branches</p>	<p>Field Visit to Assam</p>	<p>Truck Loading: Optimized Truck Loading Efficiency</p>
	<p>Commission Structure: Analyzed long-term sustainability of current commission structure for Drishtee and its franchisees</p>	<p>Designed User-Interface for a Mobile Point-of-Sale Application</p>



An “Aggregator” like Drishtee helps making micro-franchising sustainable

Problem

Revenues from one micro-franchising business **often not sufficient** to sustain the micro-entrepreneur’s business

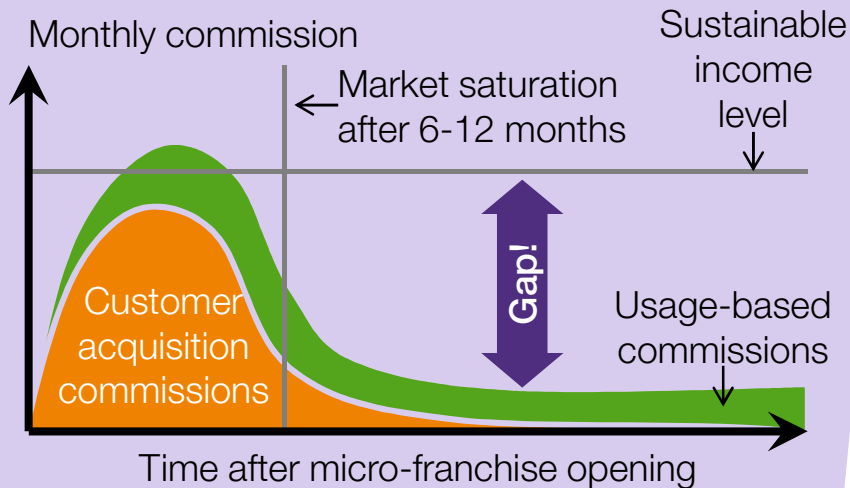




At Drishtee, commission structure too focused on customer acquisitions

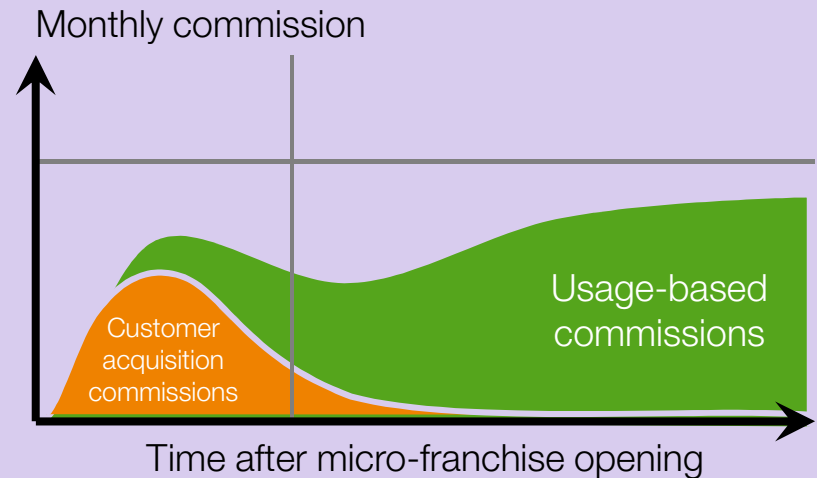
Problem: Commissions Unsustainable

- For service-based micro-franchising systems, **commission structure should provide sustainable revenue during start-up phase and in later phases**
- At Drishtee, commission projections from current commission structure looked like this:



Recommendation: Balance Commissions

- Ensure a **more balanced distribution** of commissions between customer acquisition and usage-based fees
- In total, commission may **still be below sustainable income level**, but this can be alleviated via business aggregation





When deciding on truck loading, past sales performance not considered

Problem: Inefficient truck loading

- Local managers decide what to load onto the trucks used for FMCG distribution to small rural shop and kiosks
- Analysis of the truck loading efficiency revealed suboptimal behavior:

Past sales performance

Typical observed behavior

SKUs that sold out last time

Same quantity next time

SKUs that did not sell at all last time

Same quantity next time

Recommendation: Consider past sales

- Consider past sales performance when deciding about loading of SKUs
- Drishtee's intranet system to make an automated recommendation on what to load on the trucks:

Past sales performance

New default behavior

SKUs that sold out last time

Increase quantity next time

SKUs that did not sell at all last time

Reduce quantity next time

Thanks!

Thanks, Drishtee...

- Deependra Solanky
- Geeta Sangha
- Satyan Mishra
- Nitin Gachhayat
- Sudhir Gupta
- KB Singh

**...for giving me an
interesting and
meaningful internship!**

Thanks, CRTI...

- Mohan Sawhney
- Parminder Sawhney

**...for making all this
possible!**

Thanks, CRTI Fellows...

- Asha Rao
- Ben Neuwirth
- Bryan Lee
- Jen Helms
- Sara Lo

**...for the great time
we had in India!**

Backup

1 Not all businesses are equally suitable for micro-franchising

BACKUP

Characteristics of Businesses Best Suitable for Micro-Franchising

Suitable Business Model

- Value chain with high CapEx/OpEx requirements in non-customer-facing parts/back-end
- High cost structure in customer-facing part for traditional sales channel (e.g. shops, branches)
- Low cost structure for customer-facing activities possible if done by micro-entrepreneurs

Suitable Market Environment

- Existence of an access problem for a customer group or area: next best alternative is
 - Technically inferior
 - More expensive
- Demand too low for traditional sales channels to be profitable, but high enough to support micro-entrepreneur

Suitable Product

- Simple and easy
 - Easy to understand
 - Easy to sell
 - Easy to use
- Standardized features
- Standardized pricing

2 Once a business model has been selected, the franchisor needs to provide infrastructure

BACKUP

Infrastructure Requirements



Train and Educate Entrepreneurs

- Training since most micro-entrepreneurs have no formal business education
- On-going education about changes and best-practice sharing



Provide Supply Chain and Processes

- Micro-entrepreneur does not have the capacity and capital to set up any back-end processes
- Interface between franchisor and franchisee needed for e.g. service delivery, reordering



Provide Standardized Equipment

- Micro-entrepreneurs often cannot evaluate what equipment works best for them
- Standardized processes and consistent customer experience require standardized equipment



Provide Financing

- Franchisor must provide start-up capital or pre-negotiated deal with micro-credit company
- CapEx, working capital and recurring charges/fees must be pre-financed

3 Success of micro-franchising system mainly depends on several key success factors

BACKUP

Success Factors for Micro-Franchising Systems

Aggregate Businesses

- Revenue from one MF business often not sufficient
- Bundle multiple MFs

Sustainable Commission Structure

- Avoid focus on either customer-acquisition or usage-based commissions

Use and Protect Your Brand

- Brand can help overcome reservations
- Quality control to protect brand

Local Partner or Local Knowledge

- Local regulations and traditions need to be understood
- Not possible from HQ

Select the right Entrepreneurs

- Need passion and some education
- Middle income class often best suited

Be Prepared to Adapt Constantly

- No MF system perfect from start
- Constant “morphing” of business required

Focus on Simplicity and Efficiency

- Only simple processes viable in rural areas
- Do not forget efficiency over growth

Replace Legal Fine Print with Incentives

- Contracts not understood, fine print seen as sign of mistrust
- Use incentives instead

Micro-Franchising versus Micro-Credit, Micro-Consignment and Donations

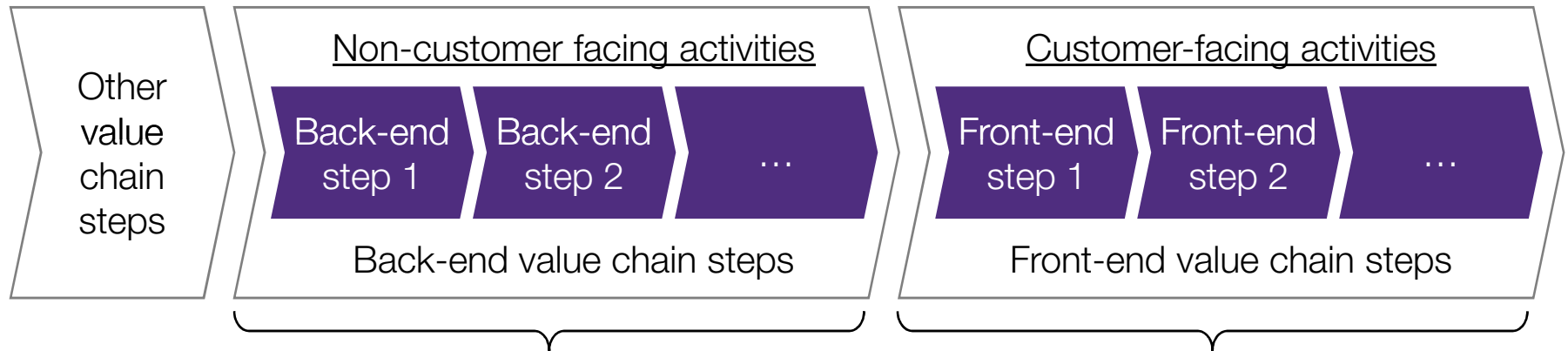
BACKUP

	Donation	Micro-Consignment	Micro-Franchising	Micro-Credit
Risk for Entrepreneur:	None	Low	Medium	High
Delivers Proven Business Model:	X	✓	✓	X
Purpose:	Ensure survival	Creating entrepreneurial opportunity with a well-defined, proven business model		Seed capital for individual business

Value Chain Criteria for Suitability of Business Models for Micro-Franchising

BACKUP

Front- and Back-end value chain steps are separable (do not necessarily need to be performed by the same company)



Required
CapEx/OpEx
Investment:

High

Traditional channels: Medium to High
Micro-Entrepreneurs: Low

Examples of Micro-Franchising Types along the Value Chain

BACKUP

