Microfranchising in South Africa

A practical guide – Volume 1

Simanye and the Micro Franchise Accelerator

June 1, 2014
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About this report

This document is the result of a joint effort between Simanye Trust and The Micro Franchise Accelerator (MFA), who have been working together since the start of 2013 to conduct research into the microfranchising concept and into identifying the key challenges and success factors for such a model in South Africa.

If applied correctly, we believe that microfranchising has the potential to increase the likelihood of successful, sustainable local businesses that create jobs, promote local supply chain development and provide valuable services and products to under-served communities. Our goal is therefore to create, find, replicate and support microfranchises for the rural and townships context in South Africa.

As part of our collective endeavours, we have convened a working group of several other organisations and worked with each other closely to test out ideas, in order to determine what organisations in South Africa need to be aware of if they are considering adopting a microfranchising model.

This report covers one case study of a microfranchise in the South African context and also presents findings from our research as well as the working group sessions. We also provide some information on a personality testing tool that Simanye has funded which helps identify those individuals best suited to being microfranchisees and is intended as a recruitment aid for microfranchisors. Our intention is that this is just the first of many such publications as we are passionate about seeing microfranchising thrive and create positive economic and social impact in this country.

Simanye

Simanye is a group of companies based in Johannesburg, South Africa, offering a range of specialised consulting and implementation services focused on Economic Development and Broad-based Black Economic Empowerment in South Africa and Africa. This includes community development, enterprise and supplier development, social and business feasibility studies and a range of related services.

Through our trust, the Simanye Trust, we focus on innovative and high-impact solutions to development challenges, with the understanding that many development challenges are complex and interrelated and that the best way to create change is through addressing root-causes through tailored solutions. When working with communities we make use of asset-based and community driven approaches for grass-roots powered success.

For more information please take a look at our website at www.simanye.co.za or contact Lana Lovasic at lana.lovasic@simanye.co.za.
The Micro-Franchise Accelerator (MFA)

The Micro-Franchise Accelerator (MFA) is a joint venture between the Clothing Bank and the Business Place Phillipi, based in Cape Town, South Africa. It focuses on developing and managing several microfranchised models in Cape Town townships in order to support necessity or survivalist entrepreneurs to be successfully self-employed.

The MFA is a center of excellence that offers a portfolio of proven, commercially viable and replicable at scale business models (that we call franchise models), as well as a strong support ecosystem around the carefully chosen franchisees.

The MFA has worked together with Simanye over the past year in order to examine key challenges to micro-franchising in South Africa and has helped convene a working group to discuss how to address some of these challenges.

The MFA was created by two organizations – The Clothing Bank and The Business Place Philippi, which have both been working in South Africa with micro entrepreneurs for 6 to 9 years. More about them:

**The Clothing Bank (TCB)** was established in February 2010 and is a holistic 2-year Enterprise Development training program that empowers unemployed mothers to start a small retail business to help them transition from a life of dependence to being financially and socially independent, making at least R3,450 per month. TCB sources excess clothing from the major retailers in South Africa and uses this as a tool to empower and to teach. They are considered a best practice example of sustainable Enterprise Development as they have to date helped 356 women to start businesses, with collectively generated profits in excess of R12m. TCB is currently based in a 1300sqm facility in Observatory, Cape Town, which can cater for 200 women in the Enterprise Development programme. They opened branches in Paarl and Johannesburg in 2013.

**The Business Place Philippi (TBPP)** is a business support center based in Philippi Township, Cape Town, South Africa. They assist aspiring or current business owners by providing information, referrals, training, workshops, networking and business opportunities. The core of each Business Place branch is the information center, where clients are able to receive assistance in working out the next steps to start or expand their businesses. Clients may then be referred to other support organizations or SMME service providers, many of which are clustered in the same building for ease of access. TBPP is currently servicing some 250,000 people in the community of Philippi and the surrounding suburbs such as Crossroads, Nyanga and Khayelitsha.

For more information on the MFA please contact Divya Vasant at divyavasant@gmail.com.
Acknowledgements

We would like to thank everyone who made this paper possible, including the research teams and staff at Simanye and the MFA, as well as all of the microfranchises and social entrepreneurs that participated in the process in one way or another. Special thanks goes to Unjani Clinics, iShack, Edunova and Nuru Lights for providing invaluable information in this process.
Glossary

**B-BBEE**: stands for Broad-Based Black Economic Empowerment and refers to South Africa’s various legislation and policies designed to address the inequalities caused by the previous non-democratic regime. Such policies include the dti Codes of Good Practice and the Mining Charter.

**BoP**: this can stand for “base of the pyramid” or “bottom of the pyramid” and generally refers to the largest, but poorest, socio-economic group globally. In South Africa, many of the individuals in townships and deep rural areas would fall into this category.

**Enterprise Development**: refers to any services provided to businesses of any size in order to help them grow, improve or become more efficient. This can take the form of training, mentoring, loans and so forth. In South Africa, Enterprise Development also has a further definition under the B-BBEE legislation, including the dti Codes of Good Practice, which act as an incentive for companies to engage in such activities.

**Microfinance**: providing financial services, often in the form of micro-loans, to entrepreneurs who would normally not have access to finance. These are often done through group loans, as social cohesion is used to create pay incentives in the place of traditional methods such as collateral. Individual loans are also possible however.

**SME**: a small or medium enterprise.

**Survivalist/necessity entrepreneur**: a person who starts a business simply as a method to survive as there are no other opportunities, such as jobs, available.
Part 1- introduction to microfranchising

There are many different definitions of microfranchising, and this term is sometimes used interchangeably with the term social franchising. This is due in part to the significant variations in the types of models found in this space. For our purposes, we consider microfranchising to encompass any model that looks at either finding a successful micro-business model and then replicating this, with some central management, or else taking an already successful larger scale model and scaling it down for a more developmental application.

Microfranchising offers aspiring business owners and managers a standardised proven business model with access to certain centralised services such as supply chain, marketing, financing, skills transfer, and on-going management supervision. Although the concept of microfranchising has emerged quite recently, there are numerous well-known existing microfranchises around the world – such as Fan Milk (selling dairy and juice products through a unique street vending system in several West African countries) and Drishtee (an India based business that provides information technology goods and services to rural India through village kiosks). However, in general there is a lack of consolidated research into what works best in which context. In South Africa, although the microfranchise concept is not as well known or used the idea is beginning to gain momentum.

Microfranchise models

Microfranchising is a crucial tool for servicing universal needs that exist in developing nations, such as South Africa, in a sustainable and cost-effective manner. At the same time, microfranchising fills an economic development gap in identifying that not all business owners are entrepreneurs and that some might be better suited to replicating proven business models for small and successful businesses. Illetschko (2011) defines microfranchising as:

“… a development tool that adapts the proven principles of traditional franchising to the needs of very small businesses located in the developing world. The primary feature of Microfranchising is its’ suitability for replication.”

The following are some key success factors for microfranchising:

1. It must be possible to execute the business model at a micro-level with little input from the microfranchisor, while ensuring overall quality and consistency across all participants;
2. It should be replicable with limited financial resources and educational training by micro-entrepreneurs;
3. The model should be as non-complex as possible for the microfranchisees in a way that aligns with their skills and previous experience. Where possible, the concept should take more complex models and simplify them when microfranchising.

The scale, structure and objectives of microfranchising enable micro-entrepreneurs to better respond to the needs of their local community.

That being said, there are several different aspects of microfranchising that are modifiable and change depending on the desired outcomes as well as context. Some differences could include:

- **Structure**: for-profit versus an NGO structure for the central microfranchisor (although the microfranchisees themselves will always have to be profitable in order for the concept to work);
- **Support and control**: the types of support offered by the microfranchisor may vary, including how many services are centralised and to what degree (for example, whether the bookkeeping is done at the central office or by each franchisee; the kind of marketing services done by the franchisor versus the franchisee, and so on). Some level of support will always be needed but the question is whether the support is provided so that the microfranchisees can do much of the work themselves, or are some services centralised for greater control and ease of operations;
- **Ownership**: ownership of the equipment and premises may vary between the franchisor and the franchisee. If the former, it will be cheaper for the franchisee in the shorter term but will also mean less control; if the latter, loans could be provided to help franchisees pay for the equipment and premises they might need;
- **Training**: how much training and support is offered to franchisees will vary across contexts;
- **Franchise fees**: there may be differences in the types of fees that are paid by the franchisees and what services are charged for.

**Why microfranchising?**

The Small and Medium Enterprise (SME) sector is widely regarded as the driving force of economic growth in both developed and developing countries. SMEs are the growth engines of the world’s economies; yet, the overall success rate of new enterprises is not as high as it could be, and new businesses often fail. This is in spite of the fact that so many NGOs, government organisations, and other development organisations focus on finding, training and financing entrepreneurs.

So what is going wrong? We feel that there is one big mistake being made; namely, the assumption that anyone and everyone could be or wants to be an entrepreneur if simply given a chance. Many studies suggest that true entrepreneurs are not all that common – and while there is a lot to be said for an enabling context in which entrepreneurship is maximised, even in countries with the best possible context, not everyone would want to be nor should be an entrepreneur. However despite the limited success of pushing entrepreneurship as a panacea for economic development in South Africa, the focus continues to be on entrepreneurs as the only drivers of enterprise development.
Filling the gap

People are diverse with wide ranging personalities, skills and competencies. Some of these competencies are easier to change and learn and some are much harder. This is the same reason that many organisations now use aptitude and personality testing when considering job applicants for a given position – certain personalities are a better fit for certain roles and organisations. In this context, entrepreneurship is simply a business role that is hard to find a good match for personality-wise. However, it is important to note that “true entrepreneurs” are not the only types of business owners. One significantly different type is the franchise owner.

In South Africa, like in many places in the world, most new businesses fail. However, most new franchises succeed. This is a fact that is not emphasized nearly enough. The reason for this is that franchises take a lot of the initial risk out of starting a business – they often have a proven product, brand and market and can train a new franchise owner to follow the rules to success. However, this is not the only reason – franchises also do not require a true entrepreneur. They only require someone who is a good manager and who can follow the rules. These types of personality traits, unlike those of true entrepreneurs, are much easier to find in the general population and therefore much easier to train for business success.

It therefore makes sense that while true entrepreneurs should be supported through finance and other means to start their own ventures, those with a desire for a more controlled business ownership or even those searching for a job but with few options for employment, could consider becoming microfranchisees and would have a much higher rate of success.

Value proposition – literature review

When researching the concept of microfranchising, we focused on academic and peer-reviewed sources for the most reliable and scientific information. To summarise our preliminary findings, these are what the literature suggests to be potential benefits and advantages of the microfranchising concept:

- Highly suitable for replication of a proven business model, greatly simplifying the process of creating a microenterprise (DePree & Stanley, 2011);
- Leveraging a proven idea means minimal initial investment and low risk for the franchisee, and often, the necessary supply network is already in place (DePree & Stanley, 2011);
- Virtually no limit to the range of needs that can be addressed effectively through microfranchising (Illetschko, 2011) in terms of social impact;
- Especially beneficial in economies where educational options are limited and there is a weak business community – people focused on “getting by” cannot invest in resources to test new ideas and learn from trial and error (Lehr, 2008);
- Compensate for some of the shortcomings of traditional microenterprise strategies that often assume that subsistence entrepreneurs have a certain level of skills, knowledge, and entrepreneurial expertise which are necessary for venture success (Smith & Seawright, 2011);
In particular, helps low-income individuals overcome non-credit-related barriers in starting a micro-enterprise, including market access, limited marketing and training, skills and networks, and legal issues (Christiansen et al, 2009);

- Provide micro franchisees with identified opportunities, proven business models, established networks, and ready-made products or services, which increases the likelihood that low-skilled, poor entrepreneurs can succeed in new business ventures (Smith & Seawright, 2011);

- Franchisor connects franchisees to formal supply chains and formal market. Increases the likelihood that franchises can grow and expand, leading to broader economic development and job creation (Smith & Seawright, 2011);

- Franchisees’ have better negotiation power with suppliers and can reach economies of scale (Lehr, 2008; Pratt, 2009);

- Central franchisor allows for innovations developed by one franchisee to be quickly implemented throughout an entire network of franchisees (Lehr, 2008);

- Effective delivery system to provide goods and services at the base of the economic pyramid (Pratt, 2009);

- Knowledge sharing and training are integral to model (Pratt, 2009);

- Value-added benefits to micro financing institutions since microfranchising increases microenterprise success and therefore loan repayment (Pratt, 2009);

- Providing franchisee with opportunity empowers them to succeed. As the franchisee is first entrusted with something, he/she feels of value to the franchisor. On-going support and training builds trust between franchisee and franchisor ensuring they are motivated and encouraged to succeed (Pratt, 2009);

- Because franchisees operate in local communities they engender goodwill and trust within their customer base. This also means an ability to adapt to the local environment with context specific partnerships, franchisee relationships and marketing (Pratt, 2009);

- Bringing new skills, thinking and services to a community, which generates employment and stimulates the overall local economy (Lehr, 2008);

- Social benefit is delivered in line with revenue generation since micro-franchisees sell and deliver goods and services that directly benefit the end-customer (Pratt, 2009); and

- Community awareness campaigns for the product can have a multiplier effect, providing communities with better information and access to services (Pratt, 2009).

Some considerations for microfranchisors

Some key factors that may increase the chances of success of a microfranchise include:

Model

- High level of standardisation but also need to adapt to local nuances (if model is widespread across different regions);

- Understand local customs, laws and regulations before finalising operational plan;
A business idea that can be quickly codified, replicated and shared – if it takes more than two weeks to teach the model to a franchisee then it may be too complex, but again this depends on local context, and level of existing skills and opportunities;

- Use of financial and social incentives, not legal ones, to ensure contract and business compliance, since legalities may be difficult to enforce at informal micro-business level;

- Set clear expectations and reward good behaviour as a motivator;

- Finding the right franchisee – not a very entrepreneurial person, but one more focused on following procedures, with a desire to learn and so forth. The nature of good or service also determines what specific skills may be needed (physique, education level, well connected, etc.).

**Training and support**

- Initiation training and on-going training and support is important;

- Ensure trust and legitimisation – i.e. for VisionSpring they include certificates, banners and the like, all with statements that the franchisee is qualified to do eye exams (since the person is often picked from the community they will be providing service to, and the community members may wonder how he now suddenly can do this);

- Hold regular meetings at all levels of the microfranchise;

- Offer feedback system for franchisees;

- Open communication through newsletters, SMS, and so forth;

- Provide help and support services to the franchisees;

- Ensure quality control of goods and services (again through incentives);

- Franchisor is the negotiator at high level since they have more visibility and power;

- Offer financial and managerial reports that can be used to improve the business.

**Marketing**

- Franchisor controls the brand and marketing;

- Franchisee responsible for upholding the brand and making sure rules are followed (this is ensured through proper systems in place).

**Funding and finances**

- Funding for microfranchisees is needed and the funding model must be appropriate to the context (i.e. cash loans, loans in kind, profit share, etc.);

- Must become profitable at franchisee level quickly (within 6 months or so) or else will not work as the franchisees will lose interest;

- Franchisees may need additional income sources for sustainability.

**Some key challenges that also are faced by microfranchisees globally include:**

- Difficulties in achieving complete self-sustainment at franchisor level – many rely on some subsidies;
Difficulties in finding the right profile of microfranchisee;
- Resistance to charging franchising fees over time – as initially value is seen in the franchisor but down the road this value may not be clear to franchisees;
- Maintaining brand integrity and quality control;
- Finding funding.

Further background reading

As the purpose of this document is to focus more on practical experiential learning, we have only provided a high level overview of the concept of microfranchising. However, there have been several good books and articles written on the subject, and should the reader desire more of a background to the concept, we would recommend the following further reading:

- Microfranchising: How Social Entrepreneurs are Building a New Road to Development – Edited by Nicolas Sireau
- Microfranchising: Creating Wealth at the Bottom of the Pyramid – Edited by Jason Fairbourne, Stephen W. Gibson and W. Gibbs Dyer
Part 2 - South African microfranchise case study

The Microfranchise Accelerator

The Business Place Philippi (TBPP) and the Clothing Bank (TCB) have extensive experience working with hundreds of self-employed low-income people over the past decade. They have observed that in the vast majority of cases (80%), self-employed individuals at the BoP did not choose to be entrepreneurs but having few other options for income, became self-employed out of necessity in order to survive. These “necessity entrepreneurs” aim at being self-sustainable in order to support their families and themselves, but often lack the entrepreneurial attributes needed to make a business truly thrive and grow. However, although often not showing pure entrepreneurial ability, it was believed that many of these individuals could make more profit as good business managers if given a proven business model and some guidance.

The Micro-Franchise Accelerator (MFA) was therefore created as a joint venture between TBPP and TCB in order to help address the issue outlined above. The MFA realized that through linking necessity entrepreneurs to business-in-a-box “recipes” (called microfranchises) adapted to each franchisee’s skills and aspirations, they could help reduce risk and improve the high rate of failure of new business in South African townships.

So far, the MFA has already successfully piloted several microfranchise models, using the pool of potential franchisees available from their funding partners, The Clothing Bank and The Business Place Philippi.

In terms of impact, the MFA aims to offer microfranchisees a tailored solution and not a one job fits all. As a result, the vision is to have a portfolio of options that could cater to a range of franchisees’ aspirations. The goal is to have 8 different franchise models in 3 years, with 300 jobs created through both direct and second tier employment in the franchised businesses.

The MFA methodology

The MFA is a center that offers a range of aspirational, proven, commercially viable and replicable solutions for “necessity entrepreneurs”. The franchisees are expected to make at least R5,000 monthly income, with the goal of being sustainable and largely independent after 2 years on the program.

To achieve these indicators, the MFA has built a full methodology that can be described in 5 key steps to success:

- Exhaustive franchise identification process: the MFA selects franchise models that must be proven, commercially viable, replicable at scale, aspirational and allow each franchisee to

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[Image of MFA logo and Simanye logo]
make a monthly profit of at least R5,000. The MFA researches and tests each model to ensure that all criteria are respected and practical viability in the field is possible;

- **Tight recruitment process:** benefiting from the strong 15 year cumulative experience of TCB and TBPP, we have built recruitment processes and manuals that match the most motivated and skilled franchisees for each franchise opportunity. The candidates are asked, for example to run market surveys, write small business plans and prove their interest in the business chosen by demonstrating experience and resourcefulness. They are also given a life skills type test to see how they look at things such as locus of control, and how much they are affected by their situation, which ultimately helps determine overall resilience and ability to succeed. Not everyone can be recruited, and selecting those with the highest potential to succeed within the model ensures the best use of scarce resources. In the past year, with the assistance of Simanye, MFA has also begun administering a specifically designed personality test that was developed with the microfranchising model in mind. This test is still being calibrated but will hopefully be in full use soon.

- **Training:** training involves induction training at the beginning of the program, followed by an on-going training curriculum with topics such as business skills, financial skills and life skills. Each franchisee is well trained on the franchise processes and has to work in one of the existing franchises for a month before starting on their own.

- **Mentorship:** Once the franchisees start their business, they are assigned mentors that will go through performance management and record keeping on a monthly basis, support them by setting their targets and build action plans to reach targets. This process lasts 2 years in total, during which franchisees are slowly given increasing independence as they prove their ability to perform.

- **Network of franchisees and ecosystem support:** the MFA provides a range of services for 2 years to make sure that franchisee can focus on their core business, and thus ensure the long-term success of each franchisee. Feedback mechanisms to share best practices are in place to benefit from franchisees knowledge and constantly improve the franchisee performance. Although many of these core services will fade out after the two year programme is completed, the connection with the supply chain and other critical services will remain.

**MFA business models to date**

The MFA adopts and creates microfranchise models that are not only proven, commercially viable and replicable, but also aspirational – since the latter is very important and should not be overlooked in terms of motivating people and giving them hope.

The initial models were developed jointly with the MFA founders, and based on extensive experience of what works and what is appealing to the target group. The list below shows the models that have been developed and piloted to date:

- **The sewing micro franchise** uses lightly damaged and un-sellable garments from TCB to empower selected sewing potential franchisees. Bargain boxes of garments are sold for a minimal price to the franchisees, who then mend garments and sell them. It provides them...
with highly attractive clothing brands at a minimal fee with the freedom of being creative and adding a personal touch if they so choose. The current franchisees are all making a profit of at least R5,000 per month and have generated a collective profit of about R270,000 for 2013.

- **The Cobbler micro franchise** works in a similar way to the sewing, by taking lightly damaged or new shoes, bags and belts from TCB that are not sold, and converting them into attractive bargain boxes for cobblers. The cobblers repair and sell the wares in their container store, while applying and using the structure model and retail principles of the MFA to ensure success. We currently have 8 micro franchisees in our cobbler network. This model has generated a cumulative profit of the cobbler of approximately R300,000 in 2013.

- **The Nail Salon micro franchise** is an attractive beauty micro franchise where women start running a small nail salon from their own home or premises. MFA is partnering in this micro franchise with Sorbet and the Beauty Therapy Institute (BTI). This model appeals largely to the low-income ladies who are either already running an informal beauty salon or are very interested in running such a business but do not have enough certification or knowledge. MFA started four women on this model in October 2013 in order to pilot the concept. Currently the four nail salons are all on a very promising growth trend and showing early success. We have improved the model and are currently recruiting in order to reach 50 micro franchisees for this model in 2014.

- **The Micro Bakery franchise** is a model that we are currently developing with partners specialising in low-cost bread baking through a special oven technology. The microfranchise model requires the running of a small bread and pastry shop, while buying the supply from a central service provider and focusing on making healthy and affordable bread for the community. We now have 1 micro franchisee in the pipeline and are currently recruiting.

- **The Early Childhood Development (ECD) model** is about providing excellent education services, at an affordable price in low-income communities. We are partnering with GROW on this model and have opened our first ECD center in Langa (Cape Town) in early 2014.

Overall, the franchisees currently in operation have generated a collective profit of about R600,000 in 2013.

In addition to the above, the MFA is screening five new models for piloting in 2014.

**Key findings**

The MFA feels that skills development is a very important step, but the link to self-employment is obviously just as important. The core finding for the MFA and probably the main key factor of success is that all self-employed individuals cannot be considered entrepreneurs: “necessity entrepreneurs” can really be successful if they are provided with structure and support to get started.

Finding good partners was a second finding. It is very important to partner with service providers to complement and strengthen our offer and benefit the franchisees. The MFA does not aspire to be the franchisor and prefers working on supporting the building of good models where our franchisees could go to, while using our experience in doing such.
A last finding is that you have to **test everything**. Low-income communities are a very different market and we cannot assume that we know what is going to work and why. Fortunately for the MFA, we learnt this right at the beginning of our journey and incorporated feedback mechanisms into our process, including running of extensive market research, focus groups and initial piloting of the models. Having the pools of TCB and TBPP available to us is a great factor of success, enabling us to test our assumptions on our market frequently.

Overall, the MFA believes the following are key factors for the success of their microfranchise models:

- The resources from the founding partners (TCB and TBPP), including offices and experience, as well as a great pool of potential franchisees that have completed a skills development program and who trust MFA to help them further on their self-employment journey;
- Access to the pool of TCB and TBPP current participants in order to test all assumptions with the target market and make sure the model is aspirational, has a market demand and makes sense;
- Strong and experienced partners help increase the pool of potential franchisees and reduce risk; current partners include those such as skills development organizations and corporates in related upstream and downstream value chains;
- Developing and rolling-out aspirational models;
- Experience with entrepreneurship, as well as an understanding of the entrepreneurship profile of low-income communities;
- Piloting each franchise model in the field for a few months to ensure viability;
- Clear recruitment criteria and innovative recruitment techniques that can predict with reasonable certainty whether someone is likely to be successful;
- Training curriculum built from TCB experience which has proven positive impact on franchisee performance – including very strict rules for franchisees, which if not adhered to can lead to immediate expulsion from the programme. While this may seem harsh, it sets the right type of example and is a way to ensure real world development. Clear rules are set up front.
During September and November of 2013 Simanye and the MFA convened a group of microfranchisors in South Africa for two day long sessions to discuss key shared challenges to microfranchising, and brainstorm some potential solutions. The sections below show the outcomes of these working sessions.

**Key challenges faced by microfranchises in South Africa**

Although there are different models of microfranchising currently in place in South Africa, with different ways of operating, there were several key challenges and questions that were shared by most of the organisations present. These were grouped into the themes below:

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<th>Key Challenges</th>
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<td>• How do we recruit the right people for the job?</td>
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<td></td>
<td>• Should we test upfront or give a probationary period as a sort of on the job testing?</td>
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<tr>
<td>Structure</td>
<td>• How to decide what structure the microfranchise will take?</td>
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<td></td>
<td>• Centralised versus decentralised? Ownership? Profit-sharing? Equity stakes?</td>
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<td>Training</td>
<td>• What sort of training will be needed? General versus model specific?</td>
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<td>• How to continue to provide training value in the longer term?</td>
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<td>Operational model</td>
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<td>• What details need to be considered and how to tailor for context?</td>
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<td>• How to finance the model and the microfranchisees?</td>
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<td></td>
<td>• How to continue to add value in long term? What types of support provided?</td>
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<td>Scaling and growth</td>
<td>• When should you replicate and scale?</td>
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<td>• How to decide whether to scale locally, regionally, globally?</td>
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<tr>
<td>Measurement of impact</td>
<td>• How to show impact and development?</td>
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<td>• Fundraising and reporting inputs and how to sell the idea to key stakeholders</td>
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Brainstorming solutions with the working group

In addition to the questions and challenges discussed, we also brainstormed some solutions for three of the most pressing challenges:

- Finding premises for microfranchisees;
- Premise and personal security; and
- How to engage people and consult the target market.

The results of the brainstormed ideas are shown in the sections below.

Finding Premises

Finding a premise from which to operate various microfranchises seemed to be a common challenge. Everything from finding the land to suitable structure and furnishings is included in this category. Below are some of the identified key considerations for finding premises that may help other franchisors and franchisees go about doing this in a systematic way:

- Busy versus private – it is important to understand the nature of your business and what is most important for you but often busier areas get more footfall and therefore may generate more interest in your business. They can also be less safe however and this may be an issue for services requiring privacy, such as health;
- Visibility – the visibility of your location to potential customers and whether it is in a high traffic area;
- Crime and safety – whether the area is known to be safe or full of crime;
- Distance from target market – even if the location is a quiet area, sometimes your biggest market is local and it is important to consider how far people will travel to reach you;
- Financing for premises is important – perhaps the franchisor provides the premises but asks the franchisee to pay a rental fee to them (this also allows greater control) or else provides the premises through a loan which the franchisee pays through operational profits. In some cases franchisees can work from home or shared space can be used (the latter can also be good for complementary microfranchises where the opportunity to cross-sell exists);
- Microfinance – certain microfinance organisations may be willing to partner to offer financing on this (especially since microfranchising reduces default risk and therefore should be appealing to microfinance providers as a way to reduce their own lending risk);
- Certain specialist NGOs and social enterprises in the business of providing housing and other types of premises may be interested in partnership, and it is worthwhile to explore this;
- Need versus feel – what is the smallest possible size requirement to carry out the business, and at what size will customers be comfortable?;
- Ambiance (look and feel) is important and needs to consider brand and target market:
  - Aspirational – low income individuals still want good brands and attractive looks;
  - Clean and neat – especially important for food/health and related businesses;
  - Appropriate colours and ones liked in local communities/target markets;
- Lighting – should be well lit but not too harsh but again depends on nature of business;
- Branding – it is important to have common brand, but also attractive signage and other items to spread brand image;
- Merchandising – how items are displayed and how attractive displays are should be taught to microfranchisees that have stores or premises as this is important for attracting customers;
- Things to do – waiting room, magazines, and so forth. This is most important for businesses that might have wait times (nails, clinic, etc.);

Premise and personal security

Security concerns were cited as hugely problematic for any businesses operating in South Africa, but especially so for micro and small businesses working in townships and higher crime areas. This directly impacts on costs and productivity, as well as morale, and so needs to be carefully managed. Some suggestions of what to consider with respect to premise and personal safety are below:

- Premises:
  - Away from crime areas such as those with lots of gangs or shebeens;
  - Away from most busy streets but not in too much of a low visibility area as it is then easier to break in without being seen;
  - Alarm and emergency panic buttons (for more valuable storage areas);
  - Insurance;
  - Gates/fences (if practical given nature of business, or otherwise can consider container that is hard to break into with fewer entry points that can all be sealed);
  - Shared space – many businesses in one place (shared container, larger mall, etc.) as this leads to safety in numbers and other people can also watch out for your things while you are away);
  - A safe to store valuables (hidden and heavy);
  - Remote control and kill switches.
- Personal
  - Travelling with money is dangerous, so consider travelling only with smaller amounts and during safer hours or else hiring people who transport the money for you;
  - Mobile money – MTN is coming out with a new product that allows for mobile to mobile money transfer (cashless transactions);
  - Other service providers – such as banks, who can provide support of money handling or cashless transactions even at low transaction amounts;
  - Wear uniforms – so that suspicious people that do not belong on your premises after hours can be identified more easily.

Consulting the target market

When designing or setting up any project it is important to consult the market/target beneficiaries. With microfranchising the individuals that will be helped to set up franchises will often be from the same market they are serving. It is important to use a brand that speaks to them as well as their customers
and to see them and their customers as valuable sources of information in terms of how the details of the franchise should be set up in the general area.

Ideas on how to ensure that your microfranchise will be relevant and successful through harnessing community input include the following:

- Start from an asset-based premise and assume that communities always know themselves best – it is always best to ask before making assumptions;
- Using design theory may be sensible in many cases (start by asking the community, then developing a few ideas, then feedback from community, then develop a prototype and more feedback from the community, and then the final product – repeat as needed);
- All franchisees should do their own market surveys – this is a good way for them to learn their own markets, meet the right people, and also get highly useful information;
- The microfranchisor will need to have a lot of interaction with the microfranchisees;
- Ask and listen – listening is very important. Some franchisors will be experts in their field but they may not be experts in township business. It is important to build on both your strengths and the strengths of your franchisees. It is also important to let them do as much as possible as this ensure it is locally geared, and that franchisees have the most personal buy-in and ownership of the process from the start;
- It is important to balance control with self-sufficiency;
- In some cases, franchisees can build their own premises with minimal input;
- Franchisees need to have feedback mechanisms to effectively communicate back to franchisors as issues or a need for change comes up.
Focus area: incentives

Although we did not brainstorm incentives in the working group, we have agreed with the group it is one of the main challenges to keep microfranchisees interested in the mid and long term. As a result, some research was carried out by Simanye staff in order to provide preliminary advice on the subject.

Introduction to incentives

In business, there are two main types of compensation: pay compensation and non-pay compensation. It is generally accepted that a mix of the two is necessary in order to attract and retain top-quality employees. In the past, pay compensation was usually enough to keep good people on board. Today however, across many industries, salary is not enough to attract and retain good employees, and non-monetary incentives need to be incorporated. These include benefits such as work/life programs, formalising career paths, increasing special-project opportunities, and opening up lines of communications to make workers more aware of how their contributions affect company performance.

Studies have shown that praise, motivational leadership and positive recognition are just as effective in retaining good staff members as monetary incentives. However, employee recognition is more than just a pat on the back. Employees (and microfranchisees) need to feel that they are truly valued, not that they are merely getting the occasional "good job" thrown at them. Employee recognition must be meaningful.

Incentive systems are founded on the idea that effort increases as workers perceive their progress towards set goals. To be effective, incentive systems must touch upon motivation, employee skills, acknowledgement of employee successes, a clearly-defined set of goals, and a means for assessing progress. In addition, they work best when closely tailored to the goals of the organisation. The benefits of an incentive system include increased profits, reduced employer costs, and employee-driven organizational changes.

In general, incentives can be grouped together using the following categories, as defined by Clark and Wilson (1961):

1. Material incentives: tangible rewards often monetary include wages, fringe benefits, stock options, paid maternity leave and performance bonuses;
2. Solidary incentives: intangible rewards from the act of association such as sociability, status, acknowledgement, appraisal, birthday celebrations and identification; and
3. Purposive incentives: intangible rewards related to the goals of the organisation, such as working on an election of a supported candidate.

It is evident that as with human resources approaches to incentivising, franchisees require a combination of material (i.e. monetary and financial) incentives, purposive performance-based incentives and solidary incentives in the form of contact, communication, feedback and appraisal.
The South African context

“In traditional franchising, the purpose of establishing a franchise is to grow one’s business quickly in order to increase profits. In microfranchising, the focus is more on the microfranchisee and how he/she benefits from buying into a proven systematised business….micro-franchises above all are established as a poverty-alleviation tool” (Fairbourne et al, 2007: 9).

Gibson claims that the biggest benefit of microfranchising is the sustainable aspect of creating lasting businesses that ‘permanently relieve suffering and provide hope’.

According to Keizer (2008:23) “The main differences between franchising and micro-franchising are not found in the business benefits but in the personal advantages to the franchisees’. For the franchisee the move from the informal economy to the formal sector implies protection from the rule of law, in countries where this can be a serious drawback for entrepreneurship. The greatest personal benefit is that of increased self-esteem”. These personal advantages that Gibson describes are very urgent in developing countries. The acquisition of a formal franchise, even though it may be ‘micro’, is an accomplishment and has huge implications for individuals living in a society without a decent welfare system, with a large informal economy and without many employment opportunities. Incentives are important to keep microfranchisees motivated to stay with the business and stop them from leaving, often only to return to previous and unstable forms of business or to living off state grants.

According to Adato, Carter and May (2006: 228) South Africa’s poorer communities are faced with what is termed ‘exclusion’ - exclusion from opportunities to earn income, the labour market, access to assets, decision making, social services and community and family support. Exclusion makes it less likely for poor communities to be able to find, allocate and use resources. This becomes a key determining factor of longer term poverty dynamics. These authors conclude that social capital becomes more narrowly constructed and increasingly ineffective as a mechanism of access to capital for poor people in a country facing a legacy of inequality and social exclusion.

While social networks and relationships seem to contribute towards stabilised incomes, they provide very little in the way of longer term accumulation of assets or economic advancement. The ability of social networks to enable access to capital and insurance are more effective in better off households than in poor households (Adato, 2006: 239). Poverty can cause conflict over resources and other strains among family and neighbours, creating further complexity for the microfranchisee.

Needless to say, these types of complexities all contribute to the need for specific incentives and microfranchise structures which help minimise the negative impacts of the local context while maximising the potential. The next sections outline some ideas on how to establish such incentives and structures.

Incentives to consider

Some types of incentives to consider for microfranchising include:
Financial support: the provision of financial support by the franchisor is critical at the start (Sireau, 2007: 166) as the main concern for franchisees is profitability. They need to be convinced that the franchise model will benefit them financially. As time goes on, and franchisees become more comfortable, there should be the chance for clear ways to increase profitability;

Good administration and a clear path to success: the operations manual(s) is considered the most important element for managing franchisees as it contains a series of written directives detailing all standardised operational requirements. It should be clear and concise and show the detailed formula/checklist for operating the business. This helps reduce anxiety and makes things seem easier to achieve thus leading to higher compliance;

A head office with local employees should be located nearby so that support and check-ins can be provided. This helps franchisees feel safer;

Regular evaluations of franchisee performance help them track their own progress and become motivated to succeed. Contests on who is performing the best that month can also be incorporated;

According to Sireau (2011: 119), “Balance keeps a franchise afloat”. Balance needs to be found between holding people to account for breach of the operations manual and being flexible (i.e. providing guiding principles).

Mentoring / Leadership is very important, as is trust and respect (reassurance of the quality and trustworthiness of the business, distrust can pose a serious problem to the franchisor);

On-going training through reviewing sales strategies, announcing new goals, tips and lessons learned, providing advice on how to increase sales;

Understanding the needs of the franchisees;

Engagement / interaction with other franchisees (which can be done through weekly/monthly meetings).

Rewarding sales can be done directly (through keeping the bulk of profits) but also through rewarding top performers with further discounts or access to added services or status.
Recruitment of suitable high-potential individuals to be microfranchisees is a priority and yet a challenge for many microfranchisors. It is often difficult to tell who will excel at the role. A balanced type of personality is needed: on the one hand, someone too entrepreneurial will not enjoy being part of a system and will prefer to do their own thing, while someone without enough self-drive and independence to keep themselves motivated on a daily basis will also have a hard time succeeding under most models.

Due to this challenge, Simanye Trust decided to invest in the development of a tool that could help microfranchisors select the most suitable persons to be microfranchisees.

The resulting Microfranchise Development Potential (MDP) tool was developed by JVR Consulting Psychologists through consultation with Unjani Clinics, the MFA, and Simanye in August 2013. Development potential was defined as the potential of a current or prospective microfranchisee to develop certain competencies required for effective and efficient running of the microfranchisee business. In other words, the MDP tool was developed to measure a number of work-related behaviours relevant for successful performance in the microfranchisee role. However, the MDP tool is not a measure of an individual’s ability to perform in the role but rather it gives an indication on whether the individual’s behavioural preferences relevant in the work environment match up with the agreed upon profile of microfranchisees.

Although each different microfranchise model will need to set different ranges for each of the behavioural categories, the agreed upon categories for measurement are as follows:
COMPETENCIES and THEMES | DEFINITION
--- | ---
Push the Limits  
- Seeking challenges  
- Exceeding expectations | Being ambitious in looking for challenges and exceeding performance expectations.
Think It Through  
- Finding facts  
- Making decisions | Identifying different solutions to problems and making decisions.
Get It Done  
- Following rules  
- Attending to details  
- Taking responsibility  
- Being organised | Being reliable, organised, detailed-oriented and rule-following.
Care for Others  
- Helping others  
- Understanding others | Demonstrating awareness of other people's needs and feelings, and willingness to help them.
See the Possibilities  
- Creating new ideas  
- Identifying opportunities | Generating new ideas and approaches, and identifying business opportunities.
Grow the Business  
- Building people networks  
- Influencing people | Interacting with a wide range of people to build a sound network, and influencing them to sell products and services.
Keep on Going  
- Being optimistic  
- Adapting to new situations  
- Tolerating stress | Adapting to changes and focusing on the positive in order to overcome setbacks and manage stress.
The MDP tool can be a vital instrument to assist with recruitment for microfranchisees but it is not meant to be used as a sole indicator of microfranchisee development potential. This is because success depends not only on an individual’s behavioural preferences but also on the context (e.g. social, economic, political and environmental) in which he/she operates. Decisions on the individuals considered for microfranchisee training should therefore always be made with multiple sources of data in mind. This can include the use of other tools such as written assessments, interviews, role plays, reference checks and biographical information.

Simanye invested in the development of this tool as they realised that this was a critical need when it came to developing microfranchising in South Africa and beyond. Simanye are the current owners and licensors of the tool. They are currently validating the tool with the MFA but it should be available at a wider level within the next year for a very nominal fee, simply to offset the development costs and time needed to score the tests and provide support to users. It is hoped that this tool will significantly impact the selection process for microfranchisors and will be a supportive factor in the ultimate success of microfranchising in South Africa.
Part 5 - Way forward

We truly hope that this report will be the start of a regular published resource for microfranchisors in South Africa. In the next few months we intend to create a blog and forum for discussion of all things related to social enterprise, and microfranchising in particular, so that those starting out in this type of endeavour in South Africa have a place to meet and discuss as well as join or access learnings from the working group.

South Africa is a unique context with unique considerations which we hope to uncover and share so that everyone may prosper. This model has a lot of potential for future economic upliftment, and we hope to be a part of the process of helping spread the model to where it is most needed.
References


Sireau, N. (Ed.), 2011, Microfranchising, How social entrepreneurs are building a new road to development, Greenleaf Publishing Ltd, UK


