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Microfranchising at the Base of the Pyramid

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Introduction

As the search for market-based approaches to alleviating poverty continues, microfranchising is quickly emerging as a powerful new tactic. Microfranchising is a development tool that leverages the basic concepts of traditional franchising, but it is especially focused on creating opportunities for the world's poorest people to own and manage their own businesses.

Recognition of microfranchising's effectiveness is growing, but there remain many questions about how this emerging development tool is working and exactly what we can expect from microfranchising in the future. Few comprehensive studies have been conducted, and to date only anecdotal stories from the field have been available.

To begin understanding the promise and the mechanisms of microfranchising, Acumen Fund India led a workshop[1] in late 2007 on the more general topic of franchising in India. This paper builds upon the cross-cutting issues and insights uncovered at that workshop by paying particular attention to three leading microfranchising organizations that partner with Acumen Fund. Specifically, this paper introduces and explains the business models and lessons learned from Drishtee, VisionSpring (formerly Scojo) and HealthStore Foundation.

This paper starts with an introduction to microfranchising and its potential. It then takes an in-depth look at how these organizations actually work and the challenges and successes they have encountered to date. The paper ends with a brief discussion on microfinance, another very successful approach to poverty alleviation, and some recommendations on how microfranchising and microfinance can build on each other. Details on the models that Drishtee, VisionSpring and HealthStore Foundation have implemented are included in the Appendix. Examples from other franchisors that support the lessons learned are also highlighted.

Franchising and Microfranchising: A Brief Overview

Microfranchising has its roots in traditional franchising, which is the practice of copying a successful business and replicating it at another location by following a consistent set of well-defined processes and procedures. In traditional franchising, the franchisor (who owns the overall rights to the business) sells or licenses its systematized business approach to a franchisee. The franchisor typically controls many of the macro aspects of the business such as creating and marketing the brand, procuring inputs, continuously refining the model, and recruiting and training franchise operators.

Drishtee – Providing Opportunity Through Microfranchises

About 40 minutes away from the capital of Assam, India, is the village of Amlighat. With around 1,000 residents, Amlighat is no different from other small, and often impoverished, villages nearby – except for the presence of a Drishtee kiosk. Jamuna Sharma, the kiosk's owner, used to spend her days helping run her husband's local dairy farm and looking after their two children. Early in 2008, however, she became a provider of health services in Amlighat.

At a Drishtee-sponsored gram sabha (community meeting), Jamuna learned of the opportunity to manage her own business, a Drishtee microfranchise offering basic medicines and healthcare products. With an investment of $150 (financed with a one-year microcredit loan), Jamuna has begun selling products ranging from women's health and hygiene (contraceptives and sanitary pads) to supplements (fiber and glucose) and medicines targeting gastrointestinal maladies. With the money she earns each month – roughly $30 – Jamuna now exercises a degree of choice that was just not possible before. This choice – a function of greater financial freedom – may perhaps be the greatest return on Jamuna's investment.

[1] Acumen Fund is a 501(c)3 social venture fund that invests in enterprises that offer access to critical, affordable products and services to the poor through scalable, market-oriented approaches. Acumen Fund India led a workshop in October 2007 in conjunction with the Indian School of Business, Wadhwani Centre for Entrepreneurship Development, to examine franchising in India. Attendees included leading academics, Acumen Fund staff, and senior management from Acumen Fund investees VisionSpring, Drishtee, Medicine Shoppe, Ziqitza Healthcare and LifeSpring.

The strength of franchising comes from its reliance on a business model that has been tested and proven to work. Once the business model has been proven, potential licensees of this business – the franchisees – can operate subsequent outlets at lower risk. The franchisor, motivated by continued returns from the franchisee, usually provides ongoing training and support to help ensure the franchisee's success.

Compared with an individual entrepreneur, the franchisor often has better negotiating power with suppliers and is able to reach economies of scale in other areas (such as product design, use and development of new technologies, and supply chain development). The franchisor is usually better equipped to focus on marketing and growth as well. Furthermore, with the presence of a central franchisor, innovations developed by one franchisee can be quickly implemented throughout an entire network of franchisees.

Without franchising, a new business owner is solely accountable for every aspect of the business. The difficulty of this is illustrated by studies showing that 80 percent of independently owned U.S. businesses will likely fail within their first eight years.[2] Franchising, with its attendant benefits, is one way to mitigate this problem. The franchise model can work in developing country contexts as well, particularly in the form known as microfranchising.

Microfranchising follows the same precepts of franchising, though it strongly focuses on the development benefits to the microfranchisee and his or her community, and the efficient delivery of products and services to low-income consumers as opposed to the commercial and for-profit benefits to the participants of a typical franchise. Microfranchising brings already successful social entrepreneurs together with people who are motivated to create their own small enterprises (referred to below interchangeably as microentrepreneurs or microfranchisees), but who often lack the skills and capital that can lead to success. Together, they can grow the overall impact of a business and create a local ownership and management opportunity.

The power of this concept is embodied in the following quote by Thomas Friedman of the New York Times:

> "People grow out of poverty when they create small businesses that employ their neighbors. Nothing else lasts."[3]

Though very different from franchising in its size and scale, microfranchising can be as powerful an economic accelerator in the developing world as franchising currently is in the developed world. In the United States alone, franchising accounts for more than US[4] $2.3 trillion in sales annually and employs over eight percent of the US workforce.[5] Microfranchising also can benefit corporations, providing them an additional option for selling their products and services to base of the pyramid customers.

The prefix "micro" should not be taken to mean that these businesses are not fully developed entities, that they are in any way unprofessional or that the participant's aspirations are small. Just the opposite is true.[6] They are called "micro" because replicating them requires relatively little capital and their customers are low-income, which can dictate the range of products that can be sold and their pricing. Initial investments in the microfranchising organizations (MFOs) studied here

[2] Henriques, Michael and Herr, Matthias, 'The informal economy and microfranchising', Microfranchising: Creating Wealth at the Bottom of the Pyramid, edited by Fairbourne, Gibson, and Dyer (Edward Elgar Publishing Ltd., Northampton, MA, 2007), page 49

[3] Friedman, Thomas L., 'Patient' Capital for an Africa That Can't Wait', The New York Times, April 20, 2007, Opinion Section. This article was written immediately after Thomas Friedman visited Acumen Fund investee ABE in Nairobi Kenya along with Acumen's Kenya country team.

[4] All dollar amounts in this refer to US Dollars, unless explicitly noted.

[5] 'Economic Impact of Franchised Businesses: Volume 2', International Franchise Association, 2005, http://www.buildingopportunity.com/impact/index.aspx (accessed June 23, 2008)

[6] Gibson, Stephen W., 'Microfranchising: the next step on the development ladder', Microfranchising: Creating Wealth at the Bottom of the Pyramid, edited by Fairbourne, Gibson, and Dyer (Edward Elgar Publishing Ltd., Northampton, MA, 2007), pages 25, 26

range from almost nothing to up to $1,500.[7] By contrast, starting a small shop in India may require a minimum investment of $3,000, with prices for starting a fast food franchise beginning at $25,000 and increasing from there.

Microfranchising may be especially beneficial in economies where educational options are limited and there is a weak business community. New business ideas and improvements typically emerge as entrepreneurs build on existing businesses and learn from their competitors. In economies where markets are less developed and little variation exists, new idea creation is more difficult.

For people who are focused on just "getting by," finding the time and resources to test new ideas and learn by trial and error is rarely possible. MFOs bring new skills, thinking and services to the community and can help grow the overall local economy.[8] They also reduce the risk for microfranchisees because their ideas have been tested and proven elsewhere, and the microfranchisees do not necessarily need to be highly skilled or creative to implement them. And, in environments where the infrastructure is inadequate and reliable supply chains do not exist, a microfranchising organization can often provide the supply links that ensure a steady source of goods to their microentrepreneurs.

In principle, the overall success of franchising hinges on a high level of standardization. However, the examples below reveal that modification is often required to take advantage of local nuances and expand into new geographies or cultures and that all of the microfranchising approaches presented here continue to evolve over time.

With social enterprises in particular, success is measured in both social impact and in commercial terms. The microentrepreneurs themselves and how well they are able to leverage their specific knowledge, reputation, and personal influence within their communities are key determinants of the final outcomes.

Microfranchising – Is It the Cure-All?

Certainly no one instrument is a "cure-all" for the economic and social challenges in developing nations, but the initial signs of the benefits of microfranchising are highly encouraging. Microfranchising, still in its infancy, will see much iteration as models and practices are refined. As articulated by Warner Woodworth, a former Unitus Board Member and current Brigham Young University Professor, many challenges still remain. Woodworth suggests that due to the more sophisticated business processes required, microfranchising will likely work best with people who are better educated, who have the math and reading skills required to fill out reports, and who have a risk profile to handle larger financial transactions than those needed for individual microenterprise efforts.

Woodworth also notes that microfranchisees may over-borrow and create a larger spiral of individual debt than would traditional microcredit borrowers.[9] In addition, microfranchisees are tied to the franchisor and franchisors themselves can close or fail, withdrawing the support that made the business opportunity attractive and possibly leading to default on the debt those microfranchisees hold.

While these concerns are important to understand, they are not applicable to all microfranchising organizations. While a higher skill and investment level may be needed to run a HealthStore Foundation CFWshop for example, Vision Spring's Entrepreneurs are a strong contrast; they need very little formal training and only have to pay an intentionally minimal start-up fee. Other organizations have dealt with the other criticisms in similar ways.

[7] VisionSpring provides the initial inventory on consignment (about $75 worth of inventory); Drishtee has a licensing fee of $150, and HealthStore Foundation requires a $300 upfront investment supported coupled with a $1,200 low interest loan. The Appendix provides a complete discussion of the models and licensing fees.

[8] Fairbourne, Jason, 'Microfranchising', Marriott Alumni Magazine, Summer 2007, Marriott School, Brigham Young University, at http://marriottschool.byu.edu/marriottmag/summer07/features/atwork1.cfm (accessed May 15, 2008)

[9] Others, including VisionSpring Director Graham Macmillan have argued just the opposite. http://knowledge.allianz.com/en/globalissues/microfinance/alternative_finance/microfranchising_scojo.html

In addition, there are intangible benefits to microfranchising that are not easily captured but should also be understood and made explicit. For example, Drishtee's microentrepreneurs report significant increases in their self-confidence.

Finally, as the models below illustrate, some microfranchising organizations rely on continuing subsidization; the ability of many MFOs to operate on a completely for-profit basis is in its nascent stages. For example, though Drishtee is now nearing financial sustainability, the organization is still far from achieving its stated goal of 10,000 microfranchisees by 2008; HealthStore's expansion plans have resumed after a two-year hiatus spent refining their model; and VisionSpring continues to experiment with different channel approaches, including some that do not use microfranchisees.

Organizational Snapshots – Drishtee, VisionSpring, HealthStore Foundation

Drishtee, VisionSpring, and HealthStore have each chosen divergent paths in achieving their business and social goals. To set the context for understanding and evaluating their approaches a brief overview of each organization follows. The Appendix includes in-depth profiles of these entities, as well as specific details regarding their approaches to microfranchising.

I. Drishtee

Drishtee's mission is to create a network of microentrepreneurs throughout India's impoverished rural areas that sell new products and services to benefit local villages, to improve information access and to create employment. Through about 2,000 microfranchised kiosks in 14 states of India, Drishtee and its microfranchisees deliver fee-based products and services. These products and services range from the provision of computer and English-language education to insurance and microcredit loans to the selling of daily necessities such as eyeglasses, seeds and prepaid cell phone cards. Drishtee is also developing local business process outsourcing opportunities and a sales channel for locally produced handicrafts.

Drishtee was established as a for-profit company in 2000, first reaching its financial break-even point in 2005.[10] Each Drishtee kiosk, or small shop, is individually owned and operated by a local microentrepreneur who may also provide non-Drishtee goods such as digital photos, printing and stationery. Drishtee's work has proven that markets can operate successfully in even the most remote and underserved communities. Interviews with microfranchisees reveal that, in addition to raising incomes, Drishtee's efforts have created hope and a desire for self-improvement in many of the localities it serves.

II. VisionSpring

VisionSpring (VS), formerly called Scojo Foundation, is a nonprofit social enterprise that reduces poverty and generates opportunity by enabling partners to diagnose minor eyesight problems and sell affordable reading glasses that correct those problems. VisionSpring targets rural areas with the explicit goals of increasing the number of people with access to reading glasses, creating jobs for local entrepreneurs and facilitating access to comprehensive eye care. To rapidly scale, VS uses a variety of different channel approaches, including Vision Entrepreneurs (microfranchisees) dedicated solely to selling VS products and a network of partners that carry multiple products. VisionSpring has also developed a referral network for people with vision disorders that can not be helped by reading glasses alone.

VisionSpring was established in 2001 and expanded from its initial focus on India (still its largest market) to include 10 other

VisionSpring – Improving Sight and Preserving Livelihoods

In his small town, Masaiah, age 42, is well-known as one of the best weavers of traditional saris. A master of intricate designs, Masaiah had always enjoyed a constant stream of work. But a few years ago he began to experience blurry vision, and his ability to produce saris decreased by half. Thanks to the pair of VisionSpring glasses he was able to purchase from a local Vision Entrepreneur, Masaiah corrected his vision problem and his sari business is booming once again.

[10] Drishtee was marginally profitable in fiscal years 2005-06 and 2006-07, with a net loss in 2007-08.

countries in Asia, Latin America, and Africa. In its first seven years, VS and its partners sold over 100,000 pairs of reading glasses, trained over 1,000 Vision Entrepreneurs, and referred over 80,000 people for advanced eye care. VisionSpring earns 25 percent of its operating costs from product sales, with the rest coming from grants and donations. As VS continues to explore ways to improve the productivity of its microfranchisees, its distribution model is illustrating the value of working with multiple channels and of continuously simplifying and standardizing its approach.

III. HealthStore Foundation.

The HealthStore Foundation (HF) was created in 1997 to improve access to essential drugs and basic healthcare for children and families in the developing world. Using a microfranchising model, HF has developed a network of 64 shops and clinics - called CFWshops - to provide marginalized populations in Kenya with basic outpatient services and access to vital medicines. CFWshops are located in rural market centers or peri-urban and urban areas with populations of at least 5,000 people. The CFWshops are owned and run by trained health workers, primarily nurses, who make a modest living selling hygiene products and competitively priced drugs.

This network has provided for approximately 2,000,000 patient visits from low-income customers in Kenya since its inception in 2000. In May 2008, HF launched its first CFW clinic in Rwanda and over the next five years expects to create up to 12 more CFW franchise networks in sub-Saharan Africa and grow the network in Kenya to over 200 outlets. Though most of its microfranchisees are profitable, HF heavily subsidizes overall operations and recovers only a small percentage of its costs from sales. The HealthStore Foundation and its CFWshops represent a hybrid model, where philanthropic investments in a healthcare distribution infrastructure are allowing individual microfranchisees to develop profitable enterprises at the local level while effectively addressing critical health needs.

Different Models, Common Concerns: Issues in Microfranchising

The snapshots described above highlight the variation in design and implementation that is possible when different organizations use microfranchising for their product or service offerings.[11] Despite variation in mission, geography, and business models, they face many similar challenges. Understanding these issues and how to solve them has been critical for the performance of these organizations so far. In the spirit of replication and systemization, a listing of the major cross-cutting issues and potential solutions follows. Ideally, this list will enable the microfranchising community to learn from others' experiences and successes.

1. Lessons Learned in Creating the Microfranchising Model

1.1 Developing a successful microfranchising model is expensive.

Microfranchising requires one to prove the business model, test it, and document it before one can even consider recruiting and training microfranchisees.[12] All three MFOs discussed here required more money and time than their founders anticipated before generating revenues, and all three models are continually refined on an ongoing basis. Approaches that have mitigated the start-up costs and other closely related problems include:

- Start with company stores: Starting with company-owned stores and evolving into franchising at a later time allows for rapid prototyping and iteratively addressing challenges as they arise. This enables a stepwise approach that lets sales begin even before all the microfranchising pieces are in place. As new challenges arise, solutions can be implemented in a controlled environment and can generally be implemented quickly and for less cost; any potential impact on the MFO's reputation can also be lessened. Even when the microfranchising model is established, company-owned stores can be invaluable in testing new products or operational approaches.

[11] Microfranchising organizations exist around the globe, following a very broad set of approaches to implementing their models. For more information on different sectors' approaches to microfranchising, see: Jones Christensen, L.M., 'Alleviating poverty using microfranchising models: Case studies and critiques', Edited by Wankel, C., Alleviating Poverty through Business Strategy. (Palgrave MacMillan, 2008).

[12] For-profit franchises face many of the same issues; however since they are profit-motivated, the path to profitability is generally shorter, and it is easier for them to raise start-up capital. In addition, most franchisees typically operate where the supporting infrastructure – communications, roads, transportation – is already well established.

• Substitute where company stores are not available. VisionSpring's microfranchisees don't operate from a storefront, but VS is able to replicate a company-controlled model via their District Coordinators. Each District Coordinator closely supports 20 - 25 Vision Entrepreneurs (VE) in a given sales territory and can directly share in, and influence, their sales activities. By focusing on a small number of VEs, VisionSpring is able to control all of the activities in the VE channel, learn lessons rapidly and implement changes to improve effectiveness.[13]

• Leverage partners. Company-owned stores do have their limits and poor, unpopulated areas may not be feasible locations for stand-alone businesses. VisionSpring, and increasingly Drishtee, have built partnerships that leverage existing business channels. Conversion franchising, the process of converting already existing shops into the MFO's network, can also enable rapid scaling and nearer term revenue generation. In addition to having an existing customer base and location, owners and employees of a converted shop also have relevant business and operational experience. Drishtee has converted several existing businesses, especially those that were already offer training, photography or printing services, into Drishtee microfranchisees.

1.2 Microfranchising models should be well documented and simplified wherever possible.

Microfranchising seems to work best when there is a business idea that can be easily and quickly codified, shared and replicated. Simplicity should be given high priority. As one Acumen Fund workshop attendee stated: "if it takes more than two weeks to teach the workings of the model, then the franchising model is too complex!"[14] Clear and documented processes are crucial for enabling scaling, especially where simplicity is not possible.

• VisionSpring puts their "Business in a Bag." VisionSpring has a very focused mission and uses very targeted products – eyeglasses – to achieve its goals. Everything needed to run a VisionSpring microfranchise can fit into a bag or backpack, and a typical microfranchisee can be trained in less than three days.

• Healthcare offerings, however, are inherently complex. CFWshops, and medical offerings in general, need to strictly follow drug regimen and quality guidelines to ensure treatment effectiveness and safety. Almost by definition, training costs and the skill levels of the microentrepreneurs must therefore be high. To assist with compliance, CFW has strict and documented operational guidelines, backed by financial incentives, for compliance. CareShop, a different for-profit MFO of 300 licensed pharmaceutical shops in Ghana, also provides high levels of training as well as written guidelines for diagnosis, service quality and drug sales.

• Social mission goals may be at odds with the goal of simplicity. In contrast to VisionSpring, Drishtee's mission is purposely broad, and they offer more than 30 products and services that have actually increased and evolved over time. Drishtee is focused on using information technology to standardize systems and to lower costs, but management also continues to conduct more costly field-based trainings. In 2007, Drishtee began producing a product catalog to help their microentrepreneurs sell more effectively. The catalog not only includes pricing and product information, it also describes each offering's unique attributes and how best to sell it. Such innovations illustrate how Drishtee pursues their mission goals while attempting simplicity as well.

1.3 Efficient supply chains are needed, but difficult to create.

MFOs in the developing world often face an overtaxed infrastructure, a lack of transparency in distribution and regulatory environments, and the need to be in multiple geographies to reach scale. Creating efficient supply chains and solving the myriad challenges around the movement of goods and monies is particularly challenging in less developed nations. In India, for example, the monsoon season makes many roads inaccessible and can isolate the microentrepreneurs and villages they serve for long periods. In addition, Indian states

[13] Nico Clemminck and Sachin Kadakia, What Works: Scojo India Foundation, World Resources Institute, Washington, DC. June 2007, page 19

[14] Anonymous comment from the Acumen Fund India workshop held in October 2007 in conjunction with the Indian School of Business, Wadhwani Centre for Entrepreneurship Development, to examine franchising in India.

have different tax and fee structures. This has required both VisionSpring and Drishtee to modify their supply chains to mitigate these costs, often at the expense of transportation efficiency.

- The right products must be there at the right time. Supply chain is critical for CFWshops; to control drug quality, they must be able to trace the suppliers. They also need an adequate stock of medicines on-hand to meet demand. VisionSpring has a similar challenge as much of their Vision Entrepreneurs' sales occur at health camps held on specific days and times; if supply runs out, they will miss a sale. To balance the potential demand versus the costs of stocking inventory, VisionSpring staff often carries extra inventory on behalf of the VE.

- Some MFOs must also become supply-chain players. Drishtee's broad offering requires relationships with many vendors, yet each product accounts for only a small percentage of total sales. To manage costs, Drishtee developed an automated ordering system. Their web-based system easily enables kiosk owners to place orders and assists suppliers with account management. Drishtee's recent focus on supplying fast-moving consumer goods (FMCGs) to a broad range of buyers (described in the Appendix) is geared towards driving down supply-chain costs. Long-term success will depend on increasing volumes to receive a vendor's best pricing and getting those vendors to use the Drishtee order management system (many of the larger suppliers are not willing to use others' systems). Despite these attempts at efficiencies, per unit costs are likely to remain high in remote areas with few kiosks.

1.4 Location matters.

Transportation is often poor in the communities in which MFOs operate. To maximize revenues and social impact, while minimizing operating costs, the microfranchisees must be thoughtfully located and close to their customers. Most MFOs, including the three profiled here, limit competition between their microfranchisees so that each one has access to a market large enough to enable profitability; areas with too few customers cannot be profitably served.

- Be close to the customers. CFWshops are located within a one-hour walk of their target customers; this seems to be the maximum distance they are willing to travel. Drishtee's customers come from within a three or four km radius of the kiosk; their microfranchisees generally locate in the most populated village within the cluster of villages they serve. To serve more distant customers, Drishtee has introduced a lower-cost microfranchising option relying on a microentrepreneur who goes door to door (called a VRC), conducting sales from a catalog and submitting orders via the cell phone.

- More remote customers can be served if the financials are right. For certain products, such as VisionSpring glasses, the microfranchisee must cover a several-village territory to have a customer base large enough to avoid saturation of the local market (potential customers rarely buy more than one pair of glasses every two years, so once you have sold to a particular community, you must move on to the next location).

1.5 Brand matters.

Microfranchisors go to significant efforts to brand their offerings – an important strategy in building a reputation among potential consumers. Strong branding can also help attract microentrepreneurs, give them confidence, and help them overcome perception barriers within their communities.

- Image is influenced by location. Brand identity, décor and image must be appropriate for the clients. Medicine Shoppe, a large pharmacy chain in India (also an Acumen Fund partner), provides healthcare to the poor in the slums of Mumbai. They initially opened very modern shops, expecting their cleanliness and bright lighting to easily draw in new clients. Medicine Shoppe quickly found that the shop's design was off-putting, as many potential customers just assumed that their services would be too costly since the shops looked expensive. Medicine Shoppe also learned that to attract customers from the slums, the location had to be right in the slum and not just nearby. Even if the Shoppe was nearby, but in a more affluent area, their target customers were uncomfortable going inside.

- Branding brings credibility to the microentrepreneur. VisionSpring's VEs come from a variety of backgrounds and only rarely have any medical or healthcare training. They usually live in the communities in which they serve, and may have been farmers in those communities before becoming

Vision Entrepreneurs. Some customers must wonder how "yesterday's farmer became today's eye expert." To overcome these concerns, VisionSpring's Business in a Bag includes an "Authorized Vision Entrepreneur: Trained to Conduct Free Eye Screening" banner, branded materials for the VE to use for order taking and advertising, a Certificate of VisionSpring Training Completion and a Credibility Pack, containing documentation that VisionSpring's Entrepreneur model is professional and widely recognized.

1.6 Contracts and legal considerations must be situationally appropriate.

Strong financial and social incentives – not finely tuned legal language – appear key to acceptance and compliance of the contract terms. In many developing nations, businesses operate outside of the formal economy and/or only have weak legal protections available to them. If a microfranchisee refuses to pay, misuses the brand or violates the contract in other ways, the enforcement options are limited and franchisor quality and revenue can suffer. Fine print, endemic in legal contracts in developed nations, can also create mistrust in the microentrepreneurs. Thus, models must use incentives in lieu of legal language.

- Aligned incentives influence behavior. Whether it is delivery of a critical product, such as healthcare, or ensuring that reports are completed on time, rewarding good behavior is an effective motivator. HealthStore Foundation inspects its CFWshops regularly to ensure they are in compliance with drug storage and quality standards, offering financial rewards when they are or imposing fines when they are not. Drishtee will pay higher initial commissions for certain product sales to get their microentrepreneurs to invest in the training or to overcome resistance to selling an unfamiliar product. Drishtee also profiles leading microentrepreneurs on their web site and invites them to participate in training of other kiosk owners as a tool for recognition and reward.

- Community allies may be able to mediate. Educating community leaders on the value that the franchisor brings to the community can make entry into the community easier and can create an ally if problems arise. When entering a new community, Drishtee approaches the community elders and makes sure they understand how the community can benefit from a Drishtee kiosk. Drishtee also asks the elders for assistance in identifying microfranchising candidates and has relied on these relationships to help overcome community resistance to new ideas.

2. Lessons Learned in Understanding Microfranchisees

2.1 Microfranchisees are difficult to find.

Without microfranchisees, there is no microfranchising. In many areas, microfranchising is a new concept and potential franchisees are difficult to identify and/or are risk-averse. Also, the profile of a microfranchisee is not the same as that of a microcredit client, and this is difference is not understood. There is often a period of trial and error in learning what makes a good microentrepreneur for a particular business, and the best microfranchisees are not necessarily those who are most entrepreneurial. The ability and willingness to follow processes and procedures and a desire to learn are often more important than having a high risk tolerance or the ability to generate a new business idea. Even when these ideal characteristics can be identified, it may be impossible to find that type of person in the preferred or target geography.

- Community organizations are good sources of leads. Local organizations including schools and universities, financial institutions, community-based organizations, and other development entities can all serve as sources of leads for finding qualified franchisees.

- Critical skills need to be identified (and trained for). CWFshops can only franchise to experienced nurses, and though this local regulation makes recruiting difficult (discussed below), it does ensure that their microfranchisee operators will have a certain skill level. To try to identify the best entrepreneurs, Drishtee initially used various testing procedures. Over time, management has learned that entrepreneurship is a hard quality to test for and that a better predictor is the microfranchisee's motivation and education level. Ironically, those who are already financially successful or hold village offices actually tend to be some of the least motivated Drishtee microfranchisees. For Drishtee, the ideal

candidate has both selling and teaching skills or is willing to hire for the strengths they lack.

- Some models don't require specialized skills. When selecting Vision Entrepreneurs, VisionSpring looks for (a) an adequate education level that will allow him or her to run a business; (b) a good reputation and connections within the community to provide him or her with a solid customer base; (c) a need for higher income to motivate entrepreneurialism; and (d) potential leadership ability.[15]

Determining who makes the best microentrepreneur is both an art and a science, as evidenced in the Appendix.

2.2 Microfranchisees require financing.

Adequate funding for a microfranchisee is critical to the success of the overall model. Most microfranchising opportunities require an initial investment between $75 and $500, an amount that usually needs to be financed. There is often a need for ongoing capital during the business' start-up phase as well. Some financing may be available through a local MFI (see discussion below) or bank, but much of the financing burden falls on the MFO's shoulders, forcing them to offer a financial service that is usually outside of their core competency or mission.[16]

- A revenue share model can lower the financing requirements. Drishtee has significantly reduced its franchising fees (most recently from $250 in early 2007 to $150 in early 2008) by focusing more on revenue sharing based on sales. This strategy has been effective in attracting more microfranchising candidates by lowering their barrier to entry and reducing their financial risk. Drishtee also offers financing, especially for women microentrepreneurs.

VisionSpring lowers the barrier by offering an initial inventory of glasses on consignment with only a minimum upfront investment (about $12) for the screening and marketing materials needed to launch the business. HealthStore Foundation has gone through several iterations of financing to balance the need to provide initial support with the risk of overburdening franchisees with interest payments.

For every rule there is always at least one exception, and some microfranchising models have very small entry fees and quick payback periods. Fan Milk in Ghana produces and distributes a variety of dairy and drink products sold via bicycle-riding microfranchisees. Startup costs are 200,000 Cedis ($22) for a Fan Milk bike. The bike is equipped with a cooler and prominently displays the Fan Milk logo. Fan Milk provides free bike repair, training on product handling and hygiene, and awards prizes to their high sellers. The average vendor earns a profit of $5.50 per day and can often pay off their initial investment within the first two weeks of work.

2.3 Franchisees must be profitable, quickly.

Like businesspeople everywhere, franchisees usually invest to earn money – ideally more than they could earn elsewhere (although some will trade off financial return for the perceived prestige of becoming a business owner). Microfranchisees generally need to earn a profit within the first six months.[17] If they cannot become profitable, the model will not be sustainable regardless of whether overall operations are subsidized. The unit economics at the microfranchisee level must work. Importantly, even if the microfranchisee is profitable, there is no guarantee that the MFO will be, given their investments in supply chain management, marketing and overall management.

- Loans and deferred profit-sharing can cover initial fees. These policies can allow the microfranchisor time to grow his or her customer base before having to make payments to the MFO. Drishtee uses a small portion of its license fee to create a prepaid purchasing account for the microfranchisee; this ensures that he or she has enough funds to place initial orders. VisionSpring provides its initial product kit on consignment and

[15] Arunesh Singh, Regional Director Asia, VisionSpring, interview by Nico Clemminck and Sachin Kadakia, Hyderabad, India, January 2007. Reported in Nico Clemminck and Sachin Kadakia, What Works: Scojo India Foundation, World Resources Institute, Washington, DC. June 2007, page 18

[16] In developed nations, the franchising company will often finance both the initial fees and working capital as this is a highly profitably business for them beyond just the franchising. This is not often the case for MFOs as they are more focused on their mission and generally less well resourced.

[17] For-profit franchisees face these issues, but can often arrange more flexible financing, perhaps by suspending payments during the initial start-up period to allow for a more rapid positive cash flow.

only gets paid from future eyeglass sales. Likewise, HealthStore Foundation covers the costs for the clinic's building at start-up, getting repaid over time from a below-market loan that HF provides.

- Additional revenue sources may be needed for sustainability. Drishtee encourages their kiosk operators to offer photography and printing services, high-margin offerings that Drishtee does not provide. Drishtee will, however, support these efforts by selling printers, cameras and ink at cost to their franchisees. In addition, many kiosk owners carry low-margin products such as stationery, toiletries or cosmetics to increase footfalls. Most Vision Entrepreneurs do not sell eyeglasses full time; many keep their original jobs and work part-time as VEs to supplement current incomes.

2.4 Resistance to franchisee fees increases over time.

The nature of franchising requires significant one-time effort in the beginning. For example, setup of the ordering and record-keeping system and initial in-depth training sessions are typically done once. Though most microfranchisees realize that they could not be in business without this original attention, over time they may discount its importance and begin questioning the fairness of ongoing fees or revenue-sharing arrangements to which they had previously agreed. Clear solutions to this issue have not yet emerged.

- Including the MFO's margin in the sales price may reduce these concerns. Medicine Shoppe makes an initial investment in their franchisees to set up operational processes and comply with health-policy safeguards. Though they continue to provide other support throughout the relationship – training, marketing, favorable pricing for quality medicines, etc. – once this larger earlier investment is made the franchisee perceives these ongoing benefits to be less valuable. This perception initially caused defaults on revenue-share payments. Medicine Shoppe is considering adopting a fixed royalty model built into the purchase price to address this. Drishtee also builds its margin into the price they charge their microfranchisees wherever possible.

- Continue to add value with non-financial rewards. An important practice is to bring microfranchisees together to reward top performers and share best practices and success stories. Mentoring programs are also useful to get new franchisees up to speed and provide them with a way to air concerns. Ongoing training, sales contests, newsletters and continuous engagement with field personnel add value as well. CareShop Ghana publishes a high-quality newsletter with tips on improving business operations and patient care. Each issue highlights a particular CareShop owner, which raises his or her status among peers and customers; framed copies of these newsletters can often be found hanging on the walls of the microentrepreneur's shop.

3. Lessons Learned About Operating a Microfranchising Organization

3.1 Local policies and regulations matter.

Government regulation can unwittingly impact the entire business model. For example, the Kenyan Ministry of Health mandates that nurses wanting to operate their own clinics must have at least 10 years of post-licensing work experience. This very much limits the pool of possible franchisees that HF can choose from, despite the fact that Kenya has an abundance of qualified nurses. In a similar vein, Drishtee's approach to microfinance was heavily influenced by the Reserve Bank of India's requirement that only nonprofits that are partnering with banks can offer savings products.

- The "rules" are important. While seemingly obvious, practitioners and other stakeholders must educate themselves about site-specific norms, rules and regulations prior to launch. Such local regulations can prevent an organization from finding franchisees, offering them the financing they need and entering new regions, especially if they move into markets where laws and business practices are substantially different from one place to the next. Models focused on women entrepreneurs are particularly dependent on local context, since women often face greater hurdles in accessing financing and building business credentials.

3.2 Quality control is essential, particularly with health offerings.

Models that rely on large numbers of geographically dispersed microfranchisees with a high degree of local adaptation have the

greatest challenges in ensuring quality and consistency. This may be most difficult for service businesses and for healthcare in particular.

- Set expectations and rewards. The same strategies that work with direct employees – setting clear expectations, building training and compliance systems, and offering incentives designed to emphasize quality – contribute to high-quality offerings. HealthStore Foundation uses ongoing inspections (announced and unannounced) and transparent remedies to improve non-performers. There is a tradeoff; the costs of ensuring compliance can be high and may also be resisted by microfranchisees that see themselves as being particularly independent.

- Franchising may not be the best approach. Ziqitza Healthcare Limited (1298), an Acumen Fund partner that provides private ambulance services in India, initially experimented with a franchising model to increase its service area. Concerns, however, about service quality and the potential impact on both their brand and their customers' healthcare led Ziqitza to abandon franchising and concentrate on building its own network.

4. Characteristics of a good franchisor

A good franchisor, whether focusing on the base of the pyramid, middle, or high-income markets, is one who knows his or her market, listens to customers, and evolves as business conditions and needs evolve. Jason Fairbourne, a leading microfranchising advocate at Brigham Young University, noted the following traits of those who are successful: [18]

- has a comprehensive and ongoing training program;
- holds regular meetings at all levels;
- offers a feedback system for franchisee input;
- openly communicates via newsletters, memos, emails and other means of information exchange;
- makes help services available;
- provides effective promotional advertising;
- offers financial and managerial reports that can be used to improve the franchised business.

Microfranchisors in low-income markets must be committed to providing both social and economic value and must also recognize that the investment risk to the microfranchisee may be extremely high. Understanding the limited buying power of poor consumers while offering products and purchasing methods consistent with their cash flow needs are also important.

Finally, as noted earlier, MFOs must have good access to capital for both themselves and their microfranchisees. With their focus on social returns, profit margins – where they even exist – are thin.

MicroFinance: Successes and Boundaries

No discussion of market approaches to poverty alleviation would be complete without some mention of microfinance. Indeed, the power of microfinance has grown so rapidly that in 2006 the Nobel Peace Prize was awarded to the Grameen Bank and its founder, Dr. Muhammad Yunus. Professor Yunus, and those influenced by his work, have shown that even the poorest of the poor can work to bring about their own development. The paragraphs below are not intended to criticize, but rather to point out some of the limits of microfinance and how microfranchising can complement it.

Sometimes referred to as "banking for the poor," microfinance is a widespread approach that can empower the poor to bring themselves out of poverty. At its core, microfinance provides financial products and services to the poor (primarily women) to increase their options for saving and to enable them to start or expand very small, self-supporting businesses. Small loans, or microcredit, in amounts ranging from a few dollars up to $200 or higher, are offered at annual interest rates of 30 to 60 percent. And as each loan is repaid — typically within six to 12 months — these funds are reused to provide loans to other clients.

Microfinance was designed specifically to enable self-employment and ultimately increase living standards. By the end of 2006, 133 million people had access to microcredit, most of whom were women.[19] And while the debate continues on how to best measure the impacts of microfinance, there is a wide

[18] Comments from Jason Fairbourne at The Business in Development Network's 'Franchising for Development' seminar, October 2007; Varun Sahni of Acumen Fund also presented. Fairbourne's presentation can be found at http://www.bidnetwork.org/artefact-74557-en.html (accessed May 20, 2008)

range of evidence that microfinance programs can increase incomes and lift families out of poverty.[20] Microfinance is also a strong self-empowerment tool that enables the poor, especially women, to make the economic decisions that best serve them.

Despite its important role, microfinance does have inherent limitations. As loan amounts are small, with repayment starting almost immediately, the borrowers are limited in the types of businesses they can pursue. Business ideas like crafts, dairy or retail are those typically established since they require minimal upfront capital costs and offer quick returns on investment.

Many microfinance borrowers are not entrepreneurs by choice, but are rather forced to create their own employment due to the scarcity of other work possibilities. Many of them would do better following the structured approach that microfranchising offers. Lacking exposure to new ideas, and wanting to keep the risk of failure (and default) low, many borrowers simply copy what they see around them, perhaps opening yet another shop in a row of similar shops, or buying a cow to compete with existing milk producers in their village. Most borrowers are also relatively unskilled and must compete with other unskilled workers pursuing the same types of opportunities.

Borrowers would greatly benefit from help with business ideas they might not have considered, as well as access to business tools and financing options that might improve their success. New enterprises that also increase employment could benefit the whole community and offer an alternative path for crossing the poverty line.

Moving Forward: Taking Microfranchising to Scale

The lessons above cover the gamut from funding to human resource practices and offer practical insights and solutions into the broad challenges faced by MFOs and how to solve them. A common issue for all three organizations has been the need for financing for their microfranchisees. One avenue of great promise is to partner with microfinance institutions, which have broad distribution networks and know the entrepreneurs in the communities they serve. This kind of partnership could improve access to financing and address many of the recruitment and distribution issues noted above. Additionally, microfinance networks are filled with people who have already proven themselves to be reliable borrowers and entrepreneurs, providing a partner MFO with a pool of qualified microfranchising candidates.

VisionSpring and Drishtee are at the forefront of pushing models for cooperation with MFI partners, but the costs for partnering on a "one-off," or location-by-location basis, are often prohibitive. There is clearly an opportunity for an organization with broad MFI relationships[21] to solve this gap and take microfranchising even further. By working with (or representing) multiple MFOs, this entity could offer a wide choice of microfranchising opportunities within a particular community, each requiring different levels of investment and skill. Instead of just lending to expand the handful of businesses that already exist or relying on one particular opportunity, resident MFIs could promote multiple microfranchising options and even offer loans specifically targeted for microfranchisees.

This could solve both the saturation and credit constraints described above, and create additional clients for the MFI. As new and purely commercial players enter the microfinance field, the above approach would enable local MFIs to better leverage their knowledge of the communities they serve, while increasing their value to the community and also tapping into new possibilities for revenue generation. Lending against business opportunities that were already proven would decrease the risk of loan default as well. To date, this idea remains in the development stages.

[19] Daley-Harris, Sam, State of the Microcredit Summit Campaign Report 2007, published by the MicroCredit Summit Campaign, Page 2 (http://www.microcreditsummit.org/pubs/reports/socr/EngSOCR2007.pdf). Some practitioners consider this to be a low estimate as many MFIs do not report their outstanding loans.

[20] Goldberg, Nathaniel, 'Measuring The Impact Of Microfinance: Taking Stock Of What We Know,' Grameen Foundation USA Publication Series, December 2005, available at www.gfusa.org. Goldberg's work provides an important discussion of why the impacts of Microfinance can be so hard to quantify.

[21] Obvious examples of these organizations include Unitus, BRAC, Mercy Corps, Accion, Grameen Bank, FINCA, and Kashf. However, this could be done by a third-party aggregator established specifically for this purpose.

Microfranchising – Some Final Thoughts

Microfranchising is a powerful tool for addressing the challenges of eradicating poverty and creating jobs in less developed economies. In essence, microfranchising models work best when they are matched to local needs, when they are simple enough to be managed without formal business training, and when they are documented and systematized enough to scale so that both the microfranchisor and the microfranchisee can profit. The following quote from Charles Hart, the former president of HealthStore Foundation, captures truths for all of the microfranchises mentioned herein:

> "Offering franchisees ownership is an essential piece of the HealthStore Foundation's strategy. Giving people ownership of their businesses, as well as the tools, relationships, and systems to help their businesses thrive, transforms them into a powerful force for change. Too many organizations make the mistake of keeping power centralized, as opposed to empowering individuals. Ownership motivates hard work. And in countries like Kenya where corruption is a significant issue, ownership ensures accountability and changes the incentives that drive bribery and fraud."[22]

Many of the enterprises profiled here have come to value these lessons through trial and error – Acumen Fund's investees included. Though their experiences have been largely positive, these early pioneers have also had to make considerable investments of time, money, and training to make the progress they have. However, microfranchisors embracing these models will verify that the impact on job creation, the sense of opportunity, and the ability to bring critical goods and services to poor communities all combine to validate the model and the process.

Microfranchising can, and does, build skills and generate employment. Drishtee has created over 3,000 jobs, VisionSpring over 1,000, and HealthStore Foundation about 200, all while providing living standards improvements for individuals and for the communities these microentrepreneurs serve. These results from Acumen Fund's partners encourage further validation and development of the microfranchising approach. When developed carefully and executed appropriately (incorporating lessons suggested in this document), microfranchising passes the following criteria attributed to Mahatma Gandhi:

> Recall the face of the poorest and weakest man whom you have seen, and ask yourself, if the steps you contemplate are going to be of any use to him. Will he gain anything by it? Will it restore to him control over his own life and destiny?[23]

It is our hope that with increased partnerships and continued transparency among all those who are currently invested in microfranchising, investors, researchers, microfranchisors and microfranchisees can collectively guide (and successfully ride) the next wave in poverty alleviation.

[22] Flannery Jessica, Micro-franchise Against Malaria: How for-profit clinics are healing and enriching the rural poor in Kenya, Stanford Social Innovation Review, Fall 2007, Page 70

[23] Attributed to Mahatma Gandhi and often referred to as the 'crucible test'. Comments by Indian development economist and activist, Devaki Jain, as reported by Monte Leach, March 1998. http://www.shareintl.org/archives/hunger_poverty/hp_mlneeds-poor.htm (accessed June 12, 2008)

Appendix

Drishtee (Kiosks)

Overview

Drishtee's mission is to create a network of microentrepreneurs throughout India's rural areas that sell new products and services to benefit local villages, improve information access and create employment. Through about 2,000 microfranchised kiosks in 14 states of India, Drishtee and its microfranchisees deliver fee-based services and products ranging from computer and English-language education to insurance and microcredit loans to daily necessities such as eyeglasses, seeds and prepaid cell phone cards. Drishtee is also developing local business process outsourcing opportunities and a sales channel for locally produced handicrafts called Drishtee Haat. Drishtee was established as a for-profit in 2000, and has been operating on a near break-even basis since 2005.

Each kiosk, or small shop, is individually owned and operated as a microfranchisee by a local resident. Every kiosk has a slightly different sales focus, chosen from about 30 Drishtee offerings and generally coupled with purely local services such as printing, digital photography, and sales of non-Drishtee items like stationery or batteries that both generate revenue and drive customers to the kiosk.

Though most kiosks have between one and three computers, internet connectivity is available in only about 40 percent of the kiosks and the computers are generally used for teaching classes and for digital printing, as opposed to provision of information or communication services. More recently (starting in 2007) about 300 hundred Village Resource Centers (VRCs) have been established. Like kiosks, they are owned and operated by Drishtee microfranchisees but instead of having a fixed location they rely on door-to-door sales, cataloged products and mobile phone for order placement. VRCs can be started with a fairly low initial investment (licensee fee plus the cost of a phone) of about $125. They can provide all of Drishtee's products and services, but rarely offer training classes as they don't have the computer equipment or physical facility that is needed.

In early 2008, an additional model using rural retail points (RRPs) and the conversion of existing village-based retail shops into Drishtee customers was begun. The RRPs are existing businesses – generally small retail shops that make money by selling FMCGs (fast moving consumable goods) – soaps, hygiene products, biscuits, etc. They can purchase FMCGs on a weekly basis directly through Drishtee and take advantage of the economies of scale and consistency of delivery that Drishtee offers. The RRPs are not being serviced or treated as microfranchisees and do not offer the same goods or services; therefore they are only briefly here.

In 2006 Drishtee set up an independent subsidiary, Quiver, to develop services that are offered specifically through kiosk-like models. Today these services are licensed back to Drishtee with the goal of licensing them to Drishtee's competitors as well. Drishtee is Quiver's majority owner.

Microfranchising Model

Drishtee microfranchisees (more commonly referred to as Drishtee entrepreneurs or kiosk owners) are chosen primarily through a market-based approach with the requisite licensing fees. This encourages the self-selection of those who have the resources and are willing to take the risk of operating their own business. In many cases, especially with women entrepreneurs, Drishtee will provide favorable financing of the licensing fee to help remove this barrier to entry, and they also will finance initial computer and printer purchases.

The Drishtee licensing fee is payable upon application and ranges from $130 to $150 for a kiosk license and approximately $75 for a VRC license. For this the Drishtee microfranchisee receives:

- access to the full suite of Drishtee products and services;
- initial business and operational training;
- use of Drishtee branding materials (supplemental materials can be purchased for an additional fee);
- support from the local district coordinator and sales personnel;
- a wallet account at Drishtee to facilitate purchases and savings;
- ongoing access to new products and services;
- additional (though infrequent) training opportunities.

Financial Model

Revenues come from three sources.

(A) The one-time license fees described above. This fee has been decreasing over time in an effort to reduce barriers to entry while covering Drishtee's initial costs for adding a franchisee. This still remains one of Drishtee's important revenue providers.

(B) Transaction revenue based on sales. Drishtee's revenue-share agreement is based on profit margins or a negotiated vendor arrangement. Roughly 80 percent of the profit goes to the franchisee and 20 percent goes to Drishtee though these numbers vary based on the particular offering. For certain services, such as education, Drishtee is the actual vendor. For others, like healthcare, Drishtee is the service facilitator and logistics provider between a third-party vendor and the community they serve.

Drishtee earns a five percent margin on sales of the FMCG products bought by the Rural Retail Points (this only contributes a small amount to Drishtee's revenue today). As sales volumes increase, Drishtee will try to lower their RRP margins and move towards the 80 / 20 profit split described above.

(C) Special transaction fees. Drishtee engages in several one-off efforts that vary in revenue structure. These include:

- business process outsourcing services (mainly done in Bihar);
- microloan processing fees and annual interest on loans accessed via kiosks;
- e-commerce sales via Drishtee Haat, a web-based sales channel developed and run by Drishtee to promote worldwide sales of locally produced handicrafts;
- generation of listings for eBay-like services in India;
- health partnerships with revenue-sharing on secondary and tertiary care services offered through partner hospitals for offerings including prescription medicines, pathological tests and patient referral fees.

Performance Overview

By May 2008, Drishtee had established almost 2,000 kiosks through their microfranchising approach. Each kiosk caters to approximately 1100 to 1700 households (at an average of five persons per household), the majority of which have an aggregated income of less than $2 a day. Besides the kiosks, Drishtee has more than 300 VRCs and 2,000 RRPs in its network. The network stretches across 14 states in India with the potential to serve more than 1.5 million people.

With a vision to reach out to every village in the country and beyond, Drishtee has set for itself an ambitious target of creating 10,000 microfranchisees by the end of 2008 and continues to face challenges in terms of franchisee and staff retention, process documentation, franchisee servicing and supply chain management. However, in a difficult market – rural India – where there have been few successes, Drishtee remains one of Acumen Fund's most promising investments and one of only a few social enterprises serving rural markets that is close to sustainability, having achieved profitability in two of the past three years.

Lessons Learned

Drishtee is well aware that if their entrepreneurs are not profitable then they will not be able to stay in business. Because of this Drishtee encourages them to offer high-margin services, such as digital photography and printing and sales of everyday items, which are not part of the standard Drishtee offerings. The need for daily items also drives traffic to the kiosks.

Interestingly, Drishtee charges for essentially everything – a membership card in their health program, an application to sign up for computer classes, and even the application form for becoming a franchisee is charged for as part of the license fee. In rural India, many nonprofit and government agencies have provided services for free, though these have generally been low quality and unsustainable. By establishing a fee-for-service mindset, Drishtee is trying to break this "welfare mentality" while also ensuring that it covers costs for printing and distribution.

Key factors in their success include:

- embracing rapid prototyping and experimentation. Drishtee's approach is to get new services out to the field quickly, change them as needed, and stop what is not working;
- a network of kiosks that provides an ongoing lab for generating and testing new ideas;
- learning from the field, both by having headquarters' staff spend significant time in the field and by responding with products and services tailored to local needs;
- a management team very strongly committed to Drishtee's social goals.

Major challenges still to be faced include:

- The need to carry a broad range of offerings, combined with a low per-item sales volume makes it difficult to achieve economies of scale and have strong negotiating power with a supplier.
- Broad geographical coverage leads to supply chains and pricing (tax rates vary by states) that must be specific to each geography.
- Kiosk owners that focus only on one or two products can cause initial sales to spike, but once the market for that particular product is saturated, overall sales fall sharply.
- Access to financing. Many Drishtee entrepreneurs need loans from $250 to $1,250 to establish and scale their operations. In many cases, Drishtee provides financing directly, but this is not one of its key strengths (Drishtee also has an ongoing need for internal expansion capital).
- Some early-stage initiatives like healthcare have yet to yield the results expected;
- VRCs have not converted into brick-and-mortar kiosks. The initial expectation was that VRCs would eventually expand to full-service kiosks (which are typically more profitable for Drishtee and for the entrepreneur) as entrepreneur revenues and confidence increased over time.
- Yearly monsoons are a recurring dampener to Drishtee revenues and services. Drishtee has not found a way to boost its operations during the three-month period when monsoons are at their peak.

Motivating and retaining microentrepreneurs has been a constant challenge that relies on a combination of proper selection and an appropriate earnings opportunity. Though Drishtee has used various tests to identify the best entrepreneurs, these tests have been of limited use, and they have recently adopted the market approach of "survival of the fittest." In practice, female microentrepreneurs tend to perform best, but cultural and family influences on the role of women in India make it harder to recruit them. Interestingly, the entire family is often involved when the women is the primary entrepreneur, while men are much more likely to do it alone. This additional support may be one of the factors that positively influences their success.

Conclusions

Drishtee is one of the few social enterprises close to profitability and it has done exceptionally well in learning from the field and in developing a business model for each and every product it offers. Ultimately, provision of services on a for-profit basis is what will impact Drishtee's target communities and enable financial self-sufficiency. Kiosk-based models not looking at this bottom line have all failed without exception.

Drishtee has been able to meet a wide range of needs in rural villages in India. In addition to verifiable financial benefits, Drishtee has also created a sense of hope and optimism in many of the areas they serve. The Drishtee model is driven by what is learned in the field and supported by the core infrastructure, systems, training and purchasing power that result from aggregating at the center. Local staff has considerable autonomy to propose innovations and many of Drishtee's offerings have come from their input.

Drishtee must continue to increase both the "per unit" microfranchisee earnings and Drishtee's overall revenues to ensure its long-term viability. Against the backdrop of rural India and the barriers of insufficient transportation, inadequate schooling, unreliable electricity, poor internet access and India's lumbering bureaucracy, the path forward will remain challenging. And, as rural India becomes more attractive to the big distribution players such as Reliance and Bharti Enterprises, Drishtee and sustainable approaches to serving these consumers will continue to evolve.

VisionSpring (formerly Scojo Foundation)

Overview

VisionSpring is a nonprofit social enterprise that reduces poverty and generates opportunity through the sale of affordable reading glasses. It targets rural areas with the explicit goals of increasing the number of people with access to affordable reading glasses, creating jobs for local entrepreneurs, and facilitating access to comprehensive eye care. The eyeglasses themselves are also an economic development tool; without them tailors can not see well enough to thread a needle, farmers cannot sort the seeds they need for planting, and artisans cannot produce many of the handicrafts they depend on for their livelihood.

VisionSpring (VS), initially called the Scojo Foundation, was established in 2001 and began its work in India. Today it operates in 11 countries on three continents and is one of the few social enterprises to operate in multiple nations and serve over 100,000 customers. To rapidly scale, VS uses three different channel approaches: Vision Entrepreneurs who set up as microfranchisees; Franchise Partners who sell through their existing networks and may also create and manage their own Vision Entrepreneur channel; and Wholesale Channel Partners who target higher income customers that buy through retail shops. The microfranchisee network of Vision Entrepreneurs (VEs) is the focus for this report.

VS has effectively used a hybrid model that combines commercial sales via the market with grant monies. This enables them to expand their distribution of low-cost eyeglasses to many low-income communities around the world. Their work has created a simple, widely-accessible and affordable solution for addressing presbyopia – the aging of the lens of the eye that occurs in most people after age 40 which makes it more difficult to read at close range. Through this approach, VisionSpring is increasing the earnings potential of the customers they serve while also creating local jobs.

Microfranchising Model

VisionSpring trains rural community members to become Vision Entrepreneurs (VEs), capable of running their own eyeglass businesses and conducting marketing and education campaigns in nearby villages. They host one-day vision campaigns, often with support of officials and/or local health clinics, which can attract hundreds of people in need of vision care. A dedicated VisionSpring trainer provides all VEs with business and optical education to ensure that they can identify potential customers, conduct screenings for presbyopia, recommend reading glasses, and manage their business and inventory. VEs also learn to recognize conditions that require medical treatment, such as cataracts, and refer the afflicted individual to the nearest partner eye hospital.

VS provides the Vision Entrepreneurs a "Business in a Bag" that contains:

- A kit with multiple styles, colors and powers of reading glasses and screening equipment to help launch their business. The kit costs about $12 in India (non-refundable) and contains 20 pairs of glasses on consignment from VisionSpring.
- Cleaning cloths, cases, eye drops and informational brochures. The Bag contains different eye charts for testing near and long distance vision as well as "credibility packs" that contain articles from local and international publications and government officials recognizing the success of VisionSpring and the authenticity of the organization's intentions.
- Training and marketing support via co-branded materials including backpacks, display boxes, screening materials, certificates, lab coats, posters and advertising campaigns.

When selecting VEs, it is critical that the entrepreneur not only needs money, but also understands the effort required to earn income. In addition, VisionSpring looks for entrepreneurs with an adequate education level, a good reputation, connections within the community on which to build a solid customer base, and the interpersonal skills needed to work in a team selling environment and build trust while marketing to customers.

Financial Model

The business model is designed to be financially self-sustainable by generating profits at every step of the value chain. In India, each pair of glasses, which VisionSpring imports for about $1.50, is supplied to the VE for about $3.00 and sold to customers at a retail price of $4.00. Individual VEs do not pay any direct licensing fee to VisionSpring.

Internationally pricing varies, but is consistently modeled to be 10 percent of a customer's monthly income (total income, not what we might consider "disposable"). Pricing within a country, however, is consistent across all VS distribution channels, and for the end customer (non-negotiable). Other variances may exist in the processes or tools used from place to place, although VS has a new international partner manager to help consistently roll out the best approaches to all partners.

In a given month, active VEs in India (those who have sold in the last three months) work approximately 15 hours to sell an average of nine pairs of glasses, earning approximately $11 in income. Top performers sell about 25 pairs per month in 30 to 40 hours, earning about $31 per month. Since many had previously worked for $1/day, this work comprises a fairly important addition to their income. Many of the VEs hold other jobs as well.

In India, Vision Entrepreneurs account for 60 percent of VisionSpring's sales of reading glasses and 33 percent of sales of sunglasses. There are currently 130 VEs in the direct VE channel in Andhra Pradesh and over 150 additional VEs working through franchise partners around the country.

VisionSpring recovers 25 percent of overhead costs through eyeglass sales and expects to be in a similar position in 2013 at the end of their current five-year plan, albeit with a much larger customer base. The rest of their funding comes from various donors such as Scojo Vision LLC (a purely commercial venture that contributes five percent of their profits to VS), The Rockefeller Foundation, and USAID. This organization, like others, has dual goals and is getting a double bottom line return.

Performance Overview

VisionSpring has launched operations in India, Bangladesh, Mexico, Guatemala, El Salvador and Ghana and serves other sub-Saharan African nations through partners. VS currently works with nearly 30 franchise partners, from small NGOs to large multi-national corporations. These include Development Alternatives, Drishtee, SEWA, Village Welfare Society and Vedanta Resources in India; BRAC in Bangladesh; Population Services International (PSI) and Freedom from Hunger in Africa; and New Development Solutions and Fundación Paraguaya in Latin America. In 2007, VS signed an exclusive licensing agreement with PSI to make reading glasses available to PSI's 30 sub-Saharan country programs through urban pharmacies. The first countries to start this program will be Zambia, Tanzania and Ethiopia.

VS has sold more than 100,000 eyeglasses and referred over 80,000 people for advanced eye care in 11 countries. According to VS, the minimum productivity increase for each person who needs glasses and starts using them equates to a 30 percent improvement in work output and earnings.

VisionSpring has also been recognized by numerous organizations including The World Bank, New York University, Fast Company Magazine, the Clinton Global Initiative, and NuWire, and has been highlighted in The Economist, the International Herald Tribune, and Foreign Affairs, among others.

Though they are not yet profitable, VisionSpring's sales and revenues have generally grown over time though there has been monthly variance in performance. The organization continues to face challenges in finding and retaining talent (especially at the district coordinator level), building a brand presence with rural customers, creating a demand for its products, and "de-medicalizing" a product that people expect to get from a doctor. (The latter is particularly applicable in India – rural people expect doctors, not other local residents, to sell them this product.)

As of mid-2007, VS had 23 employees, 10 franchise partners and a total of 1,500 VEs.

Lessons Learned

VisionSpring is committed to making eyeglasses available to address presbyopia around the developing world and has shown a great willingness to experiment with new models and a process of continuous refinement to improve their current channels. In fact, VS recently hired a Manager of Sales Innovation to run intentional experiments around sales incentives, product line changes, and marketing approaches to identify what is and what is not working well in their sales system.

According to the "What Works Case Study, Scojo Foundation" (VisionSpring's former name), published by WRI in 2007, VisionSpring's model works due to a combination of:

- a focus on sustainability and profitability at each stage of their supply chain;
- an aggressive growth strategy both in developing their own VE channel and in working with partners;
- a replicable model across multiple geographies. Presbyopia is found consistently all over the world. Literacy rates are not a critical indicator of demand as eyeglasses are needed for sewing, cooking, repair work and other daily tasks.

VisionSpring has also effectively leveraged local relationships by using sales techniques appropriate to each respective community. For example, in India, Vision Entrepreneurs initially targeted village leaders. Once they understood the benefits of eyeglasses and purchased a pair themselves, these leaders became great references for future sales. Each customer was also asked for the names of three of their friends, often allowing the VE to get a foot in the door.

Perhaps most importantly, VisionSpring is delivering a valuable product to their customers while also providing a clear revenue opportunity to the VE sales channel. The VisionSpring products, diagnostic tools, distribution and marketing model,

and revenue model are well documented and easily understood by VisionSpring's sales channel. And, through referrals, VS is able to provide community value even among those who do not use their products.

The main challenges highlighted by VisionSpring include :

- availability of alternative products at a lower price (for example, in Delhi eyeglasses can be purchased for $2.50). While VS believes the quality of its glasses is better, customers are not necessarily discerning about the differences. (One primary quality difference is that local products use glass lenses while VS uses acrylic, which is arguably safer, definitely lighter and equally scratch-resistant). Optical shops in India's small towns charge $7.50 to $10.00 for similar quality products.
- the difficulties of building a brand. Building a brand is expensive and VS does not have the resources to advertise or to hire a dedicated marketing staff;
- the lack of cash-on-hand among prospective buyers. Cash outlay is a problem – people don't have enough money on hand – so they fixate on the initial price rather than the lifetime value;
- there is evidence that in many villages VEs stop selling much too soon, before actually penetrating the local market with any depth. In a village of 5,000 people, there might be 1,000 people who could benefit from reading glasses. Yet, the VEs often will run a vision camp, sell 10 pairs of glasses and think the market is saturated. VEs need to use multiple strategies to sell in their territories – not just camps. This requires more training; sales, marketing and persuasion skills are critical to the success of the microfranchise. (VS is working on developing new course material and experiential learning programs). In response, VS has also just implemented a system for tracking territory performance and marketing campaign effectiveness using census data based on Salesforce software.

As is typical for microfranchising organizations, their microfranchisees – in this case, the Vision Entrepreneurs – usually requires financing. This is a role that VS has been forced to fill that takes them away from both their core mission and area of competency. VisionSpring initially had some MFI partnerships to help bridge this gap. Offering glasses on consignment has also proved successful, though there are still costs for VisionSpring in terms of financing and tracking the initial inventory and in recovering inventory from non-performers.

One final challenge of the VisionSpring approach may be in the narrowness of their product offerings. Eyeglasses have roughly a two-year lifetime. This means that if you sell to a customer today, you have little to offer him or her during the next two years. Therefore, follow-on sales are essentially non-existent. In addition, even if the VEs do saturate a market, once most of the customers in a particular region have been sold to, the VE must move on to another community, incurring start-up issues each time, in order to find new customers.

The HealthStore Foundation (HF/CFWshops)

Overview

The HealthStore Foundation (HF) was created to improve access to essential drugs and basic healthcare for children and families in the developing world. In collaboration with its implementing agency in Kenya, Sustainable Healthcare Foundation (SHF), HF has created a microfranchise business model through a network of clinics called CFWshops that provide marginalized populations in Kenya with basic outpatient services and access to vital medicines.

CFWshops are located in rural market centers, peri-urban and urban areas with populations of at least 5,000 people. They leverage a school outreach program that reaches households by initially targeting children to address their core basic

healthcare issues. The CFWshop network in Kenya consists of 64 clinics and drug shops owned and operated by Kenyan nurse practitioners and community health workers who make a modest living selling hygiene products and competitively priced generic drugs for treating the specific diseases that cause 70 - 90 percent of the illness and death in their communities. This network has provided for approximately 2,000,000 patient visits from low-income customers in Kenya since its inception in 2000.

In May, 2008, HF launched its first CFW clinic in Rwanda. Over the next five years it expects to create up to 12 more CFW franchise networks in sub-Saharan Africa, and grow the network in Kenya to over 200 outlets.

Their overall goals are:

- To create a reliable supply of high quality, low cost, essential drugs and make them available to the people who need them, when and where they are needed
- To treat childhood infectious diseases in the communities where children live, thus reducing congestion in the healthcare system so that scarce resources can be applied to other diseases not so easily treated
- To reduce mortality rates for children under 5, thus encouraging family planning and lower population growth rates
- To discourage the development of drug resistant microbes by the provision and appropriate use of adequate supplies of effective drugs
- To improve community health through educational and prevention activities

The HealthStore Foundation has successfully leveraged local microfranchisees to create an efficient healthcare distribution channel that has treated millions of people at a cost below $2 per patient. They have also helped establish over 60 new business outlets. HF's emphasis is clearly social, rather than commercial and today they recover about five percent of their costs from patient service. Two company-owned outlets were opened in 2007 to serve as a model and training center for new franchisees, and to generate additional revenues for SHF.

In the discussion below, shops and clinics should not be considered interchangeable; they are, in fact, quite different. The clinics, staffed by trained and licensed nurses, are able to provide a broader range of drugs and services, and as a result they have generally been more profitable. The shops, on the other hand, are not staffed by nurses, and therefore offer fewer health interventions. Due to a combination of profitability challenges and regulations (see below) imposed by the Kenyan Ministry of Health, no additional shops are likely to open in Kenya. Existing shops will continue to operate, although many of them are choosing/being encouraged to hire a nurse and convert into clinics.

Microfranchising Model

The CFWshops' microfranchise system includes an operating manual complete with policies, procedures and forms constituting a turnkey management system. The system, if followed, enables the microfranchisees to successfully run their business and provide compliance reports back to the parent organization. Franchisees receive access to high quality, low cost drugs, management support, training, site selection assistance, and marketing, coupled with incentives to comply with good drug handing and administration practices.

Components of the system include:

- a set of rules and strict treatment standards that govern how the outlets are run and what drugs can be sold;
- a thorough training program that ensures every microfranchisee knows how to diagnose the target conditions, accurately prescribe correct medicines, and actually run his or her own business. Basic training is backed up with continuing education on clinical skills and management practices;

- a centralized procurement operation that lowers drug costs and ensures drug quality by qualifying all the medicines, buying only from reputable suppliers, and maintaining quality standards throughout the supply chain;
- a record keeping regime that compiles patient records and vital health statistics, as well as financial performance statistics for each SHF outlet;
- a consistent monitoring program that ensures every outlet is operating to standard.

All systems at the microfranchisee level are manual with paper-based records for sales and patient data. SHF field staff collect data on clinic management and performance and then channel it to the head office for consolidation and analysis.

SHF uses the combined buying power of its network to obtain quality medicines at the lowest possible cost. SHF also reserves the right to revoke a franchisee's license if the franchisee fails to comply with its rules and standards.

Financial Model

The typical CFWshop microfranchisee makes a cash investment of $300 of his or her own funds to go into business, matched by a below-market loan from SHF of about $1,200 (one percent interest, repaid over three years) to provide the balance of start-up costs and initial drug purchases. SHF covers the costs of refurbishing the clinic's site and bringing in equipment for the clinic (desks, chairs, exam table, etc.). This has an estimated value of $2,000, which is covered by donor funds. Additional financing to the franchisee may be obtained from SHF for future purchases of product stock.

When CFWshops first opened, franchisees could borrow up to 80 percent of the required capital at a rate of 18 percent. Interest payments, however, often consumed all of the shop's profits causing operational distress among owners and in turn, delinquent accounts. As noted above, loan interest rates and the amounts lent are much lower today.

The revenue-sharing model has also evolved over time. Initially SHF used a fee structure based on a percentage of total sales. This led to widespread underreporting among microfranchisees, whose incentive to underreport sales outweighed the risk of getting caught. Now, SHF has moved to collecting revenue at the time of inventory purchase, instead of sale. Its fee is built into the wholesale price of drugs provided to each shop, and the shop owners are obligated to purchase drugs at a five percent premium from SHF. No other fees are charged by SHF. Compliance with this procurement policy is monitored through site visits (both announced and unannounced).

Patients pay directly for the services that they obtain from the microfranchisee. The average cost per visit is about $0.85 at clinics and $0.53 at shops. This includes both the fees for consultation and for the purchase of any required drugs. The patients pay on a per-visit basis. In some instances, a CFWshop will treat a patient without receiving the treatment fee upfront and will try to make the collection later. Many patients have cited their ability to get credit as an important factor in choosing to come to a CFWshop. Offering credit is challenging for some of the microentrepreneurs, as there is not a strong credit management system built into the model. It takes six months for a clinic to break even once it begins operations, with many achieving profitability within those six months.

Performance Overview

After a period of consistent growth, SHF has remained at 64 CFWshops in central and western Kenya for the past two years. This was an intentional strategy to strengthen the management of existing franchisees (including transferring ownership of outlets that were not performing), to develop a fire year plan, and to make changes in staffing. It was also the result of differing views among board members regarding expansion. In addition to resuming growth in Kenya in 2008 (an additional 15 shops will be added in the second half of 2008), HF is opening a network in Rwanda and intends to expand the CFW brand into as many as 12 additional health franchise networks by the end of 2012. Company-owned outlets may be used more broadly as HF enters new markets.

Most CFWshops provide a living income to the nurses and community health workers (CHWs) who own them. Some franchisees have been particularly successful and have opened additional outlets. The attrition rate for failed CFWshops is approximately 15 percent; in most cases, HealthStore Foundation continues its mission in a failed location by arranging for new owners to take over. Initially all outlets were drug-only shops, but today about two-thirds of outlets are clinics owned and operated by nurses with at least 10 years of post-licensing work experience. Clinics have been more successful as nurses are able to prescribe and dispense a much wider range of drugs, and also diagnose and counsel patients more fully than CHWs can. One third of the outlets are drug stores owned and operated by CHWs, who do very basic diagnosis and treatment and refer sicker patients to other healthcare providers.

Individual clinics are often profitable businesses, though overall profitability for SHF is not on the horizon. In 2006, of the 46 outlets open all year, 92 percent of CFW clinics and 73 percent of CFW drug shops made a profit. In contrast, SHF required core support from the nonprofit HealthStore Foundation of almost $1 million. SHF's overall revenues depend on a combination of the number of outlets open, the margins and size of drug sales to their franchisees, and more recently on profits from company-owned outlets. Income from the franchise network still covers only a small fraction of costs with the remainder raised through grants and private donations. In total, SHF anticipates generating $335,905 from operations per year by 2011. This represents 29 percent of the total funds needed for operations, an increase from just four percent contributed in 2006. Total revenue from SHF's drug sales to outlets in 2007 was $144,860, yielding a contribution to operations of about $29,113.

A key challenge for The HealthStore Foundation is to clearly define goals and to get local management's buy in. Many microfranchisees are unclear regarding financial expectations and there are few targets today for business performance to help ensure that the clinics are profitable. Field officers are just beginning to work with the franchisees to define annual plans for sales and patient visits. If implemented properly, this improvement would lay the foundation for SHF to better project and increase future revenues.

SHF has taken several recent steps to tighten up the operations of their microfranchising model, including the opening of a centralized drug store, the reorganization of staff, and the use of company-owned outlets as role models for their franchisees. Further activities being planned consist of:

- a third-party payment system that will ensure that patients have access to care while better aligning the incentives between SHF and their franchisees;
- implementation of an electronic data management system that will improve transparency and can be used via the cell phone network;
- use of shipping containers configured as medical clinics to better standardize CFWshops format and provide better control over, and mobility of, the outlets' infrastructure.

SHF also needs to understand why almost half of its clinics are not profitable – and therefore not viable – and to get better at sharing learnings across its network.

Lessons Learned

SHF has learned while building their model. Key areas of emphasis include refining the operations standards and treatment protocols at the franchisee level; successfully recruiting nurses who come from the communities where they serve (as they are trusted and readily accepted by the community and understand the dynamics at play on the ground); and providing support to franchisees with loans for working capital, as this financing would not have been readily available on the market

Some of their learnings include:

- Because there are certain treatment protocols that health workers who are not formally trained cannot undertake by law, CFWshop's microfranchisees must have a higher level of clinical experience than community health workers.
- Ongoing and strict oversight on operations and treatment protocols helps ensure that franchisees are not engaging in practices that could incur liability – e.g. nurses who are not trained midwives attending births on their own.
- Regardless of location, it is critical to have all the basic amenities for the clinic to run well and meet hygienic standards – e.g. the clinics need to be very close to a source of clean water.
- Each microfranchisee faces a somewhat different set of circumstances and is learning how to adapt to these on her own. It is critical to constantly gather information on innovations adopted by individual franchisees that make the model more efficient and profitable and to share these across the franchisee network. SHF must provide incentives for all stakeholders to contribute to this process.
- Head office staff must be very closely linked to field operations so that communications are two-way. The center must be able to respond to emerging issues from the field, while the field needs of more awareness of strategic direction being crafted by the center.
- Overhead must be kept low at both the franchisor and franchisee levels.
- Effective training of franchisees on the methodology for properly operating a clinic is key to the success of the model. All parties need a clear understanding of their rights and responsibilities.
- Training should be based on what skills the franchisees have (in this case, medical and local knowledge) and what they lack (specific skills and experience running a business).
- Marketing and branding are critical for driving customer visits. CFWshops earn relatively low margins from consultation fees and drug sales and therefore they need a strong marketing strategy to ensure that the volume of business at the clinic level sustains their operations. Prior outreach programs were carried out as one-off events, without linking them to generating repeat business for the clinics; future activities will focus on drawing customers on an ongoing basis.
- In health (or indeed any social) franchising, strict business advocates can promote health goals, but this also increases the potential for conflict between business and health goals if franchisees become more focused on sales than on quality healthcare delivery.

Greg Starbid, Vice President at HealthStore Foundation, offers some interesting insights into its challenges: "Many microfranchises exist in environments where franchising is virtually nonexistent, and where there are dominant forces in society that act against the efficiencies and structures of franchising. Microfranchise organizations need to be aware that their fundamental challenge is knowledge/ technology transfer, i.e. transferring franchising into such an environment successfully. This takes time, the right advisors, the right training apparatus, the right staff and judgment about hiring and structure of compensation, and the right mentality of pursuing the end goals rather than processes."

HealthStore Foundation's approach to microfranchising improves the efficiency of a philanthropic model for expanding healthcare delivery, while simultaneously creating livelihoods and delivering cost-effective care. Through SHF they have built 64 clinics in underserved areas, the majority of which are profitable small businesses. At a net cost of $1-2 per patient served for the 520,000 patient visits in 2007, this is certainly an efficient model for providing life-saving treatment.

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