WattJet Development Projects

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The Franchise as a Development tool

The franchising model is frequently mentioned as an alternative to be considered in development projects. It is indeed a versatile development tool that can be used through Private Initiative and Public actions leading to self sustaining economic activities and Social services. Its configuration enables the integration of **Capacity Building** processes, implementation of **Access to Market**, **Access to Banking** and **Access to Information** strategies whilst prompting individual and communal/ collective initiatives, fostering financial responsibility, enabling multiple financing/funding schemes and creating incentives for growth.

Yet, franchising as a development tool has been secluded to limited sectors (Health, Telecoms) and its business cycle based on successive stages –each of them requiring differentiated business & management strategies- has been considered as a pitfall instead of an opportunity.

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As an Agribusiness **Social Franchise Entrepreneur**, founded a Start-up for the introduction of IT in small agriculture facilities to enable traceability of produce, resulting in a higher added value for small flower farms in developing countries.

Currently researching the applications of the franchising model to Rural Electrification, Rural Mobile Communication and Rural Access to Market through food franchises.

Franchises are based in the capacity of the Franchiser to replicate a production, operation or business model and to license it to multiple third parties, who in turn serve the resulting goods and services to a larger population in different geographic areas.

By licensing operational and commercial know-how, the Franchiser accesses multiple markets with limited additional capital investment. In turn, the Franchisee can tap a given market with a finished, successful and proven product facing only limited competition.

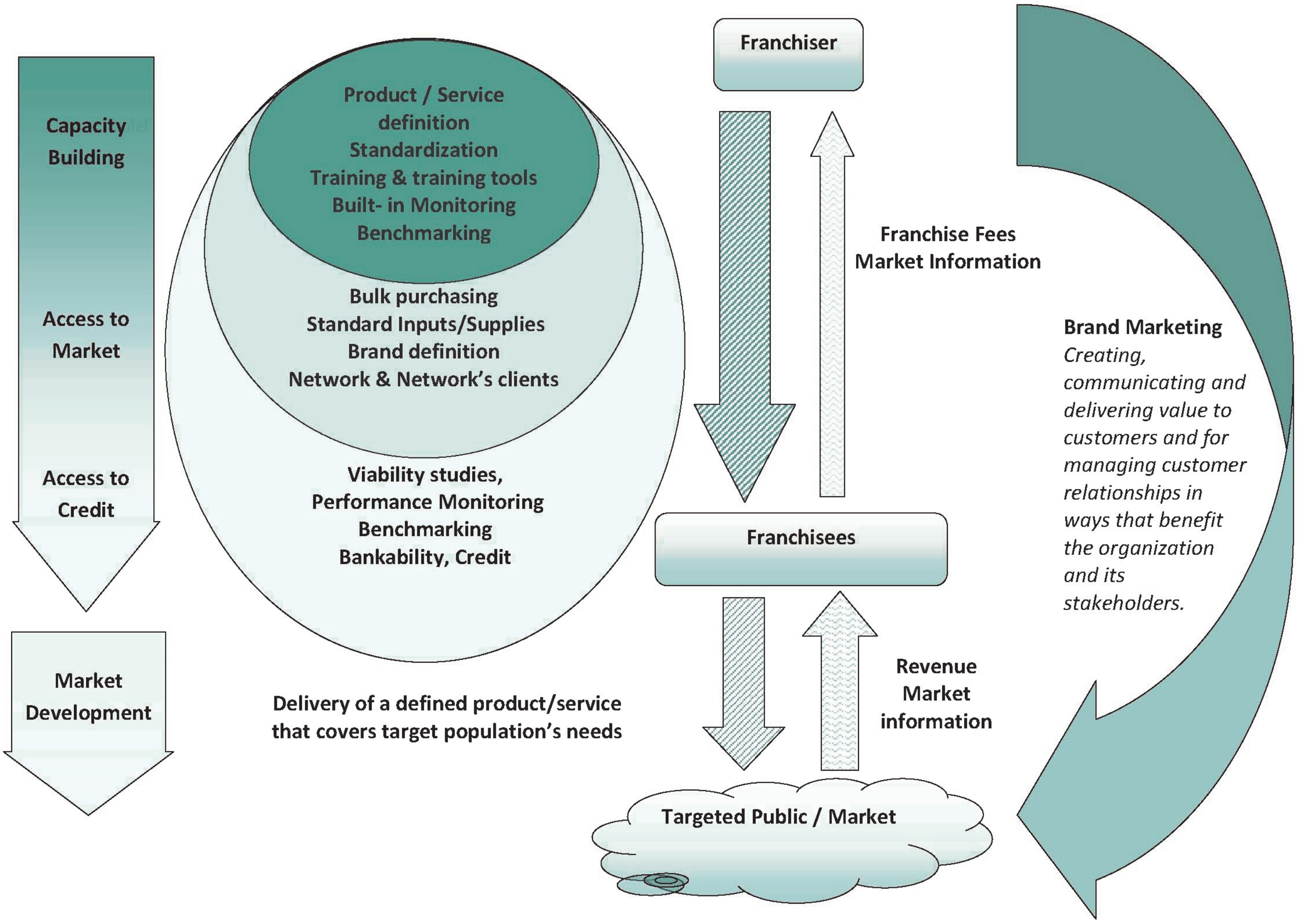
The flexibility of this configuration has allowed Commercial Franchises to successfully enter and adapt to most markets & sectors. Franchises have proven successful for large urban societies and also as an efficient and cost effective system to supply rural communities.

Among the world top 100, there are not only the expected fast food & restaurant businesses, but also convenience stores, child education, commercial cleaning, car repairs, mail & courier, dentist services, plastic surgery, tax management and others.

This flexibility has been applied to social goals developing the **Social Franchising** to be understood as a way to implement decentralized organizations capable to provide assistance, employment or care to the more disadvantaged people. **Social Franchises** replicate a system that enables them to extend those services.

Social Franchise Entrepreneurship follows the Commercial Franchise model and seeks to extend a commercial activity through a business model capable to generate revenue and become self sustainable, but focusing also on providing Capacity Building, Access to Market, Access to Finance & Information and fostering Autonomy, Financial Responsibility and Communal/Collective initiatives.

Franchise Model and its benefits for the Franchisee



Franchise configuration enables a total newcomer to create and run an operational business or activity in a record time by reducing the learning curve's slope, by providing access to a defined market and to properly assess financial variables:

1.- Capacity Building: The Franchiser's Operations Manual serves as the backbone of the production process and instructs the newcomer how to organize operations, manage bottlenecks, determine the number and category of employees, establish the job description and the training process for each position, manage procurement and inventory, understand marketing, pipeline, sales and collection and, most importantly, to establish Key Performance Indicators as early telltales enabling a swift detection of deviation and its adequate correction.
Indeed, a complete operations manual does not only train the Franchisee how to run the operation, but also how to train other people to make the operation more efficient. Its main virtue is that it integrates all aspects related to the activity and flags what repercussions of each aspect of the activity will have on the rest.

2.- Access to Market: By being part of the Franchise, the Franchisee becomes automatically defined by the brand and its operation: (i) From the sales point of view, the brand sets the framework of what customers and potential clients may expect, provides a perception of solidity and mitigates wariness of new clients/users. (ii) From the supply & procurement side, it grants access to guaranteed supply of core-business inputs of uniform quality, at a market price and at known payment terms. (iii) The brand grants the Franchisee the status of driver of a potentially successful activity resulting in better positioning towards non-core suppliers and other third parties. The Franchisee is perceived as a solid potential client to whom better discounts, payment terms and other conditions are offered. Outside the Franchise, those conditions would only be offered after some time, after proving success.

3.- Access to Credit - Bankability: Franchisers understand business plans and the importance of defining variables as a tool to build their relations with Franchisees & Creditors.

A clear definition of processes leads to: (i) a defined investment in machinery and production elements at a known cost; (ii) a clear definition of the workforce size, remuneration, productivity and maximum capacity; (iii) a straightforward provisioning and inventory management; (iv) a streamlined sale/delivery process; (v) a proven collection system. All of the above sets Capital investment, operational budget & breakeven operational point.

Also, the Franchiser's previous experience serves to estimate the potential market and its likely progression, providing in this way a fairly reliable estimate of sales, its breakdown and seasonality.

As a result, solid Cash-flow projections and Working Capital needs can be assessed and resulting from this, the Financial Ability and the Credit Capacity. The Capital Structure can be finally assessed and the project becomes bankable.

Franchiser's support is not limited to furnish this information to the Franchisee. Most importantly, the Franchiser has direct access to Banks & Creditors to whom it may provide operational & financial models, to which in turn Creditors may apply their own benchmarking system to carry the Risk assessment conforming their internal procedures and to streamline credit processing.

The Franchiser, as part of its interest in extending the Franchise, may reach framework agreements with Creditors, Banks, Funding entities (and suppliers) to facilitate the Franchisee access to credit.

A capital element to consider in the application of the Franchise model as a development tool is that ***Bankability*** *is a term that does not necessarily be linked to profitability, but just to* ***Certainty*** *(assessed risk).*

As the private sector has repeatedly proven, a solid project can contemplate subsidies for a certain period….or even during its full lifetime. This principle has been applied to multiple sectors like Power production (including Renewables & Nuclear but also Conventional fuel PP), to Railways & urban transportation, to agriculture subsidies and so on.

Hence, applying the franchise model can provide the elements to properly assess the financial requirements of small projects, and as a direct outcome, to enable a decision making process leading to establish a set of grants and subsidies precisely targeted to project needs, rendering in such way a project as a bankable one.

The Social Franchiser Entrepreneur

As opposed to the purely Social Franchising, **the objectives of Social Franchiser Entrepreneurship are to create a self sustaining economic activity** that will (i) assure the provision of certain services or goods to a given population, (ii) generate steady income for those providing such product or service and through both (iii) enable the economic and social development of the Franchisees and their environment.

In order to achieve such objectives, the model can only be applied to projects and operations in which Franchisees provide a good or service to customers that will pay for it. **It requires a transaction.**

The Franchisee receives all the benefits of the model as a development tool: Capacity Building, Access to Market, Access to Finance and Access to information, but the consolidation of the economic activity will largely depend on the permanence of the Franchise.

To achieve viability, the **Social Franchiser Entrepreneur** must solve similar problems as those of a purely commercial franchise.

In essence, the successful Franchiser must: (i) identify a product/service in demand by the market; (ii) establish integrated production processes capable to deliver a standard service/product perceived uniquely by its market; (iii) define and implement these processes allowing their successful replication; (iv) establish efficient monitoring systems for the early detection of mishaps or mismanagement resulting in substandard end product/service (v) provide added value justifying the collection of Franchise fees and prompting the Franchisee to maintain its operation within the Franchise.

The Franchise may not take off unless points (i) to (iii) are achieved, but points (iv) and (v) will determine its real success in the medium and long term.

To achieve them, the Franchiser must be capable to define and limit the range of products/services that are delivered under the Brand, must be capable to enforce training and standards, to supervise Franchisee's work and facilities, to enforce monitoring system.

In a nutshell, the Franchiser must keep a certain degree of control on the operation.

And in order to do so -and as in any other Principal-Agent environment- the Franchiser must continue to provide added value to the Franchisee, well beyond the initial stages of startup and early operation.

Whether it is through the control of supplies, the access to network, the brand bringing clients, etc, **the Franchisee must perceive that being a part of the Franchise has economic value.**

By providing value the Franchiser:

(i) Obtains the necessary resources to consolidate the perception of the brand and the operations and, resulting from it, may extend the access to the Franchise activity to a larger number of potential Franchisees;

(ii) Receives accurate and updated information of the market evolution, enabling the adaptation of the whole Franchise network to such changes.

Therefore, the Social Franchiser Entrepreneur must follow, maintain and exert the same organizational, economical, contractual and financial parameters applied by purely commercial Franchises. It is only by doing so that the Franchise may survive and continue to provide the jobs, revenue, services and other social benefits to the Franchisees and their social environment.

There are however, several major differences between commercial Franchises and Development Franchises.

1. – Providing social value

Franchise operation must be focused on growth (i) directly by acting in social and market niches that will benefit from their activity and (ii) ensuring to extend the brand to the largest number of Franchisees by maximizing the value that the Franchise provides them.

As a result, and as opposed to commercial Franchises, the **Social Franchiser Entrepreneur** will retain only the value needed to maintain and extend operations, and invest a larger share of his revenue to extend the Franchise and to increase the overall added value to Franchisees, and by doing so, will meet development goals

2.– Access to Grants and Subventions. Access to inputs at no cost.

Also, the **Social Franchiser Entrepreneur** may design its operation including a certain level of free capital/ grants and subventions. Donors, NGOs and Development entities are progressively focusing in the development of privately driven, self sustainable activities. As such, they are very open to study grant concessions, especially if these are applied to the early stages of the operation that will become self-sustainable (Capital Investment, early stage training, capacity building, etc). Social Franchise Enterprises models may also incorporate the provision of certain inputs at no cost (i.e. Experts providing initial training, etc).

In both cases, the **Social Franchiser Entrepreneur** should aim to limit the external dependence to the early stages of the Franchise and to its extension, considering new grants/ subventions/inputs linked to new Franchisees.

3. – Brand vs. Product/Service.

Resulting from the previous points, the legal environment in which the Franchise is implemented is not as important as it is for commercial Franchises. Commercial franchises need to exert legal protection of the brand in order to defend themselves from unfair competition. The Brand impersonates what they sell and by putting in place entry barriers that protect their brand, Commercial Franchises protect their sales.

As opposed to it, a **Social Franchiser Entreprise** is focused on overcoming the economic and social environment that is in itself the entry barrier. As such, the capacity to provide certain service or good in a given location impersonates the brand.

4.– Incorporation to the Franchise model of a full or partial "release" of the Franchisee

Depending on the sector and specific activity, the Social Franchise Enterprise may incorporate a model aimed to enable an economic activity to attain self sufficiency and, once it is attained, to provide the release of the Franchisee, fully or partially recovering the initial investment and destine those funds to extend the service to other Franchisees.

Developing countries have a demand for utilities, services and local goods, and that this demand can and should be met by local production.

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