The MicroFranchise Incubator:
A Case Study on Establishing a Microfranchise Network in South Africa

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Introduction

1.1. Context

Franchising as a business model has been practised for many years around the world. Franchising is the single most successful business network model in the world today and accounts for nearly 15-25% of gross domestic product (GDP) in developed countries (Magleby, 2007). While franchising practices have evolved into various and diverse forms over time (especially through the recent proliferation of globalisation), fundamentally it is an organisational form that enables a transfer of systems via contractual arrangement involving payments of fees and royalties (Alon, 2004). In return, franchisees receive key services such as business management or operational systems, equipment and supply provisions, on-going business support, access to local and national networks and sometimes access to start up funds (Henriques and Nelson, 1997). Franchising has been shown to produce mutual benefits between franchisees and franchisors by bringing distinct advantages to franchisees including reduced risks, proven systems, and professional branding and advertising campaigns, while simultaneously benefitting the franchisor by increasing revenues through royalties or franchising fees and business brand awareness through rapid expansion. In the United States, franchising is a multi-billion dollar industry and has become the most popular way to grow business in the country, accounting for more than $1 trillion in annual sales and employing more than 8 million people (Fairbourne, Gibson and Dyer, 2007).

Microfranchising, a derivative of traditional franchising, is a relatively new phenomenon that has only been formally articulated as a model and analysed in case studies in the past decade (Christensen, Parsons and Fairbourne, 2009). It mirrors the traditional notions of business franchising, but is generally practiced on a smaller scale and is intended to penetrate markets in developing countries. Successful microfranchises are currently operating in dozens of developing countries, have been deployed in at least 18 different industries, and the numbers continue to grow year over year (Magleby, 2007).

The recent innovation and its limited glimpses of success have been viewed as a potentially powerful tool to alleviate poverty. By providing the poor with valuable services that allow them to create small, replicable and profitable businesses, microfranchising can be used as a mechanism to create jobs and help poor individuals economically empower themselves in a meaningful and sustainable way.
1.2. Case Theme and Purpose

Due to the recent innovation of microfranchising, there is a limited understanding of and knowledge about the phenomenon in both practice and theory. This report aims to provide the reader with a tangible and applicable understanding of microfranchise networks in both practice and theory through a current case study analysis. Furthermore, the case study intends to be utilised as a teaching case, in which practical lessons can be discussed and examined in a classroom setting for both undergraduates and graduates in business, strategy and social enterprise courses. Names in the case study have been changed by request in order to preserve the anonymity of individuals and organisations.

A newly formed organisation called The MicroFranchise Incubator (MFI) is a Cape Town based group developed in order to create a means to help individuals in poor and disadvantaged communities establish individually owned and operated franchises. The MFI is an organisation created as a joint venture between two already established NGOs in Cape Town The Apparel Recycler and The Enterprise Developer.

**The Apparel Recycler**

The Apparel Recycler (TAR), founded by Tania Charles and Tracy Goodman in 2010, was created in response to growing unemployment among single women in Cape Town and surrounding communities. The Apparel Recycler is an enterprise development program which provides a holistic 2 year training program to empower unemployed women to start small retail trading businesses. “The Apparel Recycler is considered a best practice example of sustainable Enterprise Development… [They] have assisted over 200 women to start a small business in 2 years, collectively they have generated profits in excess of R4m” (The Apparel Recycler, 2012).

**The Enterprise Developer**

The Enterprise Developer (TED), established in Johannesburg in 1999, is a network of small business support centres that assist small business owners (or those aspiring to be) by providing information, referrals, training, workshops, networking and business opportunities. Due to high demand of The Enterprise Developer model, further sites have been established throughout South Africa and Botswana (The Enterprise Developer, 2012).

**The MicroFranchise Incubator**
Recently collaborated to create the MFI in 2012, TAR and TED are seeking to create new business and microfranchise opportunities for individuals that have already been involved in either of their programs. The aim of the MFI is to create more business opportunities for individuals who are not equipped or do not desire to become entrepreneurs on their own, and have completed programs at either institution. MFI is seeking to operate initially as a NGO, using grant funding to explore business franchise opportunities in the area, and eventually move into the for-profit sector in order to create a self-sustaining microfranchising vehicle (J. Le Roux, personal communication, October 1, 2012).

The MFI is in its very earliest stages of formation. Tentative microfranchise opportunities have been elected and researched, but implementation of these projects have only recently begun in September 2012, and are continuing to evolve. The research of this report is based upon an intensive case study of the MFI. It documents the commencement and implementation of MFI projects in South Africa with the goal of creating a teaching case study to be used for practitioners and/or students interested in creating a microfranchise network. A case outline is depicted below:

**Introduction**
This includes a brief overview of the context of The Apparel Recycler, The Enterprise Developer, and how MFI came to be. This portion also introduces the key players involved, their roles, and the primary theme of the case – whether or not an identified project selling flat-pack furniture should be implemented.

**Contextual Data**
This section contains information about the context in which the decision-makers and key players of MFI operate in. Contextual data and historical information about South Africa, microfranchising, history of the MFI, its objectives and the players that are involved are included here.

**Body**
The main portion of the teaching case, this section examines various decision-making situations, critical incidences and their consequences. By examining a specific aspect of the MFI venture (a flat-pack furniture sale model in low income communities), this portion of the case involves the reader in very practical data collecting and decision-making processes.
Here the reader is provided with a practical situation and a departure for further class discussion about the case and issues facing MFI.

**Conclusion**

This portion consists of a classic teaching case conclusion that provides the reader with some food for thought and room to make his or her own decisions or thoughts about the future of MFI, and whether or not it should proceed with the furniture model. Teaching notes are included in order to complement the case and include various questions, issues and themes that can be used for discussion as well as complimentary readings that may enhance or help to develop lessons of the case.

1.3. **Learning Objectives**

The MicroFranchise Incubator (MFI) case study and teaching notes provide the reader with a real-time account of the process undertaken when establishing a microfranchising institution in South Africa. The case provides a very unique perspective to the reader, highlighting the fundamental steps, obstacles and successes in establishing identifying and establishing specific microfranchise business models in low income communities around Cape Town, South Africa.

By focusing on one specific franchise project (a flat-pack furniture sale model), the case aims to show the reader the steps and processes involved in creating, identifying and implementing franchise opportunities, as well as challenges faced and decision-making processes that occur in each of these phases.

Furthermore, the case highlights the distinction between decision-making processes in social enterprises versus traditional businesses. The teaching notes further demonstrate this point by encouraging students to discuss the social aspect of the organisation, including the potential franchisees involved. Some of the suggested supplemental readings also support and encourage this discussion.

1.4. **Limitations**

The limitation of this case study is the unique, but specific context from which it is analysed. The novelty of the MFI provides engagement with a new microfranchise venture in real-time, exploring the practical steps necessary to start a network in South Africa, including
immediate successes, failures and lessons learned. As such, this perspective also lacks the benefit of hindsight, and understanding of the organisation’s long-term viability, sustainability and net impact on franchisees.

While the case affords very specific insight to the research and front-work needed to identify and implement a microfranchise project, it lacks the hindsight to engage the reader in what was ultimately successful and what was not.
2. Literature Review

2.1. Background

In the late 1990s and early 2000s, C.K. Prahalad, along with Stuart Hart, J. Rogers Hollingsworth, Robert Boyer and several other authors wrote a series of articles highlighting the opportunity businesses have to expand their goods and services to untapped markets in emerging economies. Prahalad’s *The Fortune at the Bottom of the Pyramid* described the world population in terms of a pyramid, with the top as a small number of high-income consumers and the bottom as a large number of low income consumers. He popularised the term Bottom of the Pyramid (BoP) and appealed to the private sector that BoP was an overlooked and untapped market, full of potential business opportunities (Prahalad, 2010).

The Bottom of the Pyramid consists of “4-5 billion poor who are unserved or underserved by the large organized private sector, including multinational firms” that live on less than $2 per day (Prahalad, 2010, p.6). The BoP population predominantly lives in developing countries and are either unemployed, or employed in the informal sector. In sub-Saharan Africa, 72% of all employment occurs within the informal economy; in South Africa the amount is a bit more reasonable at 32.7% (ILO, 2012). There are a wide range of issues regarding informal sector economies, but a few main concerns are that informal sector workers generally have less income that is also more volatile, a lack of regulation and/or legal recognition, lack of access to basic needs, services and protection and lack of access to capital. Few informal enterprises are able to grow beyond the point of meeting immediate needs and thus are unable to provide employment opportunities or sustainability for the future. In light of the attention brought to the masses at the BoP and the informal networks in which they operate, much discourse has come about that aims to use formal business strategies as a way to tap the BoP market and bring the poor into formal economies.

In addition to Prahalad’s BoP discourse, Stuart Hart (2005) examines how global capitalism and new business opportunities can be used to drive sustainable growth for companies while simultaneously solving societal problems. *Contemporary Capitalism* (Hollingsworth and Boyer, 2003) explores the economic institutions of capitalism, and how coordinating a variety of institutional arrangements can create new networks and unique economic tools in developing countries. Jeffrey Sachs (2005) reiterates the importance of alleviating poverty through fostering economic involvement of the poor and Barrientos and Sabates-Wheeler (2006) assert that low-income markets are most appropriately fostered through local
enterprise networks that include participants from the development sector, government, community groups, companies and outside investors. Other increasingly popular literature continues to identify opportunities for using business strategies and networks in order to alleviate poverty, but also underscores the importance of grassroots-driven and locally participative shared-value creations in order to combat poverty successfully and sustainably.

Microfranchising is a unique business strategy that provides an opportunity to link informal economy enterprises with mainstream economies, providing greater access to public services, capital, greater networks, higher levels of education and skills, higher quality health services, and better infrastructure (Henriques and Herr, 2007).

2.2. Key Concepts, Theories and Ideas
Although widely defined with various interpretations, microfranchising is either a product or business format franchise that exhibits certain key traits including, “local owner(s) in a symbiotic relationships with an enabling institution; a brand or other significant intellectual property; mentoring; shared know-how codifies in an operating system; potential for replication; and an overt social mission to alleviate poverty through enterprise” (Fairbourne et al., 2007, p. 135). Microfranchising is the replication to scale of systemised businesses at the grassroots level, created from the bottom up and intended to benefit those at the BoP rather than the wealthy. Microfranchises are independently owned and operated, and intended to create income for the owner and his or her family and employees, while simultaneously providing affordable goods and services to the poor.

There are three different underlying financial structures of microfranchises, including social microfranchising, sustainable microfranchising and for-profit microfranchising (Fairbourne et al., 2007). According to Kirk Magleby (2007), there are 5 different constituencies of microfranchise networks that utilise the aforementioned financial structures depending upon their aims. These include indigenous franchisors, multinational companies (MNCs), domestic corporations, NGOs and social enterprises (who work as business creators, investors in already operating microenterprises, or utilize microequity methods), and microfinance institutions. Magleby (2007) has furthermore created a list of 14 specific types of microfranchises that have been developed to date – although he informs that the list is in no way exhaustive, and there are likely many forms in existence which are a combination or hybrid of several of the identified types.
Henriques and Herr (2007) classify microfranchises into two different models: top-down and bottom-up. Top down involves the owner of an already successful business who then grants the right to others to establish a similar business. The franchisor charges fees and obligates franchisees to adhere to specific standards in exchange for allowing the franchisor to utilize trademarks, branding, advertising campaigns, etc. McDonald’s and Seven Eleven are classic examples of top-down franchising. Bottom-up franchising collaborates a group of small enterprises in the same sector to join forces in order to improve performance, provide collective support and establish any number of other shared services to enhance collective business performance (Fairbourne et al., 2007).

The bottom-up model, which is what will primarily be examined in this case study and report, has many advantages. It works well for groups of already established enterprises, individual enterprises enjoy much more autonomy since the network is member driven, the network can offer additional group-based services like insurance and credit schemes, and individual enterprises can remain informal while their collectively allows them to enjoy enhanced bargaining power and recognition (Fairbourne et al., 2007). Disadvantages include varying levels of member ambition (which can cause frustration and varying levels of commitment throughout the network), slow decision-making due to democratic processes, and lack of protection of brand recognition and integrity due to autonomy of independent enterprises (Fairbourne et al., 2007).

2.3. The Case for Microfranchising

Advantages and Opportunities

Broadly speaking, microfranchising addresses three core problems that prevent people from becoming economically self-reliant: the lack of skills needed to grow a successful business; the lack of jobs in developing countries; and the lack of goods and services available to the poor (Fairbourne, 2006). Microfranchising has the potential to connect development practitioners with residents of poor countries, especially those in rural areas who have previously had very little opportunity for upward mobility, in achieving economic development that is self-sustaining; it can help to address migration problems (incentivising businesses opportunities in rural areas, as well as cities); and also help to create and establish new distribution networks in rural areas (Fairbourne et al., 2007).

As a franchisee, there are several key business benefits associated with participating in microfranchise networks including business-placement support, tested operational guidelines
(including pricing options, financial record templates, standards and expectations, etc.), established suppliers, access to government loans and other previously unavailable capital, and built-in support systems such as mentoring and access to professional networks (Sireau, 2011; Fairbourne et al., 2007; Christensen et al., 2009; Burand and Koch, 2010). Because microfranchise ideas and business models have generally been tested elsewhere, franchisees don’t necessarily need to be highly skilled, educated or creative to implement them (Lehr, 2008). Franchisees also enjoy personal benefits including asset development and optionality for inter-generational transfer, protection of rule of law (by being part of a legally establish network) and increased self-esteem and sense of well-being as a contributing member of society (Sireau, 2011; Fairbourne et al., 2007; Christensen et al., 2009; Burand and Koch, 2010).

Specific benefits received by NGOs who participate in microfranchise networks are an increased ability to bring long-lasting and sustainable economic self-reliance to clients and improved sustainability of their own programs. When NGOs act as franchisors, they can establish potential revenue sources from royalty and membership fees, mark-ups on product supplies or other value-added services that can eventually lead to self-sustaining program profits (Fairbourne et al., 2007). There are also various benefits for MNCs to establish franchises in developing economies including profitable involvement in sustainable development, new product creation driven by local needs, and product expansion to new and untapped markets.

There are successful microfranchise networks that exist today in many developing countries (Fairbourne et al., 2007; Christensen, 2008; Lehr, 2008; Magleby, 2006). A few success stories that have received some international attention and acclaim include SPOT taxis and Drishtee in India, FanMilk in Ghana, The Healthstore Foundation CFW Shops in Kenya, Honey Care in Kenya, Scojo Eye in Latin America and India and Vodacom phone centres in South Africa, to name a few.

The overall success of these microfranchise operations is contingent upon a high degree of standardisation (so that the businesses can be easily replicated), but also on their ability to make modifications in order to take advantage of geographic or cultural nuances in different areas and create a market appropriate for their individual communities (Lehr, 2008).
Concerns and Challenges

Doing Business in Developing Countries

While emerging markets provide a great source of new opportunities, they also present key difficulties when trying to establish microfranchise networks – or any other business enterprises. Overall, emerging markets are generally more risky and difficult to penetrate for several different reasons. There are extreme market inefficiencies in developing countries and lack of access to basic services and infrastructure and transportation, making goods and services unaffordable or unavailable (Fairbourne et al., 2007; Sireau, 2011). There is also very limited access to credit and working capital (if any) for entrepreneurs, low productivity among workers, poor working conditions, supply and marketing issues, lack of education and skills, and frequent government interference and/or corruption (Sireau, 2011; Fairbourne et al., 2007; Burand and Koch, 2010, Prahalad, 2010).

Much of the economic activity in developing markets (some measuring well over 50% [ILO, 2012]) occurs in the informal sector, making penetration much more difficult to understand and generally posing much greater political, financial, social and cultural risks that need to be considered when entering such markets.

Microfranchising in Infancy

Due to the recent emergence of microfranchising, it is considered a relatively immature business practice, and many questions remain about its proposed benefits and long-term sustainability. “While case descriptions of microfranchises exist, very little work establishes comparative data on businesses or the characteristics of people the model serves…Further, much of the extrant research offers case studies and qualitative claims. Thus, research has not investigated and compared the financial impacts of this business model between practitioners and non-practitioners” (Christensen et al., 2009, p. 3).

According to Burand and Koch (2007), microfranchising appears to predominantly be taking place off the radar of any regulatory authority, and thus remains largely self-regulated at an institutional level and lacks transparency. Transparency in measuring the performance of microfranchise networks lags far behind that of microfinance (Fairbourne et al., 2007). Alon (2004) further supports that output and employment multipliers need to be developed in order to determine the economic impact of franchising on a developing nation, and it remains to be seen if long-term consequences are predominantly positive. Measurement tools are yet to be
clearly defined and developed in the field and many microfranchises have yet to demonstrate they are financially sustainable. Pursuant to this scepticism, Christensen et al. (2009) conducted a case study on a microfranchise operating in Ghana known as FanMilk. In their study they preliminarily found positive impacts on both savings and profits due to the microfranchising characteristics of the organisation, as well an increased level of starter job creation.

**Growth and Scalability**

As previously shown, the current state of microfranchising as a business model is relatively new and underdeveloped. While some networks have tentatively proven to be successful and positively impactful, there are several outstanding issues regarding the future of microfranchise opportunities.

First and foremost is the issue of scalability. In order to fight global poverty, Sachs (2005) states a scalable system that empowers the poor while holding them accountable is necessary. While microfranchise networks do work to empower the poor and hold them accountable, how to scale and replicate microfranchises at the BoP continues to be a major challenge (Burand and Koch, 2010; Sireau, 2011).

In the informal sector (where most people live on less than $1 a day), it can be very difficult to foster market creation. How do businesses create a demand for something the poor are willing to spend the little money they have on (Sireau, 2011)? And if a market can be created in one community, how can it be scaled and replicated to be successful elsewhere? Creating a market and demand for goods and services in poor communities will continue to be a significant challenge for any business looking to operate in the BoP.

In addition to market creation, microenterprises face many other previously mentioned challenges that only further obstruct the potential scalability of microfranchise networks, including lack of entrepreneurial or skilled people in developing markets (Woodworth suggests that microfranchising often works best with people who are better educated and have math and reading skills [Lehr, 2008]), lack of physical infrastructure in order to expand, inconsistent marketing, dilution of management quality, and inability to implement updates to the business model among others. The informal and often legally unrecognized nature of spawning microfranchises make the process of effectively addressing network problems or making business adjustments very difficult (Burand and Koch, 2010).
In order to combat many of the abovementioned obstacles, Sireau (2011) offers that the main elements of microfranchise success are to build a brand name, let the locals do the work, and build trust and respect in the franchisee-franchisor relationship. Lehr (2008) adds it is important to understand the expense of developing a successful model, create efficient supply chains, document well and simplify where possible, and consider location as well as branding.

2.4. The Next Generation: Microfranchise Trending

As previously discussed, microfranchising has evolved in various ways through the process of BoP market recognition and penetration. Of the business-based approaches to BoP penetration, microfinance and microlending institutions have emerged at the forefront and are useful (if not imperative) in examining when discussing the evolution of microfranchising. Microfinance programs provide small loans to individuals (often women, and often in the informal sector) who would otherwise not have access to traditional capital in order to help them build and grow their own microenterprises. It has been in practice for the past 30 years and popularised by Dr. Muhammad Yunus who founded the Grameen Bank in Bangladesh. Microfinance is widely accepted as a successful and sustainable practice for the alleviation of poverty, and its power has grown so rapidly that Yunus and the Grameen Bank were awarded the Nobel Peace Prize in 2006 (Lehr, 2008). Today, the Grameen Bank provides loans to nearly 7 million poor people in the world, 97% of which are women. Since the bank opened, Grameen has given nearly US $6billion in loans, enjoys a 99% return rate, and routinely makes a profit (Yunus, 2007).

With the success of the Grameen Bank and various ensuing microcredit lending organisations throughout the world, microfinance has shown to be a successful way to use the tenants of capitalism in developing markets and informal sectors through economic involvement without exploitation of the poor (Yunus, 2007). In 2005, the UN proclaimed it to be the “International Year of Microcredit”, and the movement has continued to grow in developing countries until today (UN, 2004).

The overwhelming success of microfinance institutions throughout the world has prompted encouragement for additional private sector innovations. Microlending and self-employment tools have shown to be imperative for economic self-sufficiency and sustainability (Fairbourne et al., 2007). Further support for self-employment has become more emphasised, while entrepreneurs are looking to expand their microenterprises. Concurrently, multi-
national corporations have seen the success of private ventures at the BoP and are now looking for opportunities of their own to enter new markets.

From this context, the traditional idea of franchising in developed markets has inched its way into developing markets, modified itself in various ways, and become known today as microfranchising. Some in fact view the new practice of microfranchising as an extension of existing microfinancing practices. The Grameen Bank, for example, recently established a group of enterprising women known as the Grameen phone ladies who operate under a microfranchise structure, although Yunus doesn’t formally describe these efforts as such (Fairbourne et al., 2007).

While franchising provides a package, supervision, marketing and support to get a business started, it often doesn’t provide the start-up capital that is required by franchisees. Furthermore, coupling microfinance with microfranchising may help those who take microloans to further grow their businesses, as many studies show that entrepreneurs generally stop growing after taking their third or fourth loan and hardly any grow their businesses to medium-sized enterprises (Burand and Koch, 2010; Fairbourne et al., 2007; Christensen et al., 2009). Others have the expectation that microfranchising will help accelerate the growth of microfinance by creating broader and speedier economic development (Fairbourne et al., 2007). Both microfinance and microfranchises have strengths and deficiencies, and thus finding and creating synergies between the two can provide better opportunities and stronger support mechanisms for BoP entrepreneurs.

There are relatively few established microfranchise networks, especially when compared to microfinance providers. In the world today, it is estimated that there are less than 100 microfranchise networks and over 10,000 microfinance operators (Magleby, 2007). However, in just the past couple of years, there has been a trending of convergence between microfinance and microfranchising operations, in both practice and theory discourse, that is expected to continue in the future (Fairbourne et al., 2007).

2.5. Conclusion

In conclusion, the dialogue around the possibilities and opportunities of creating microfranchise networks in developing economies needs to be continued and further developed. While there is a healthy amount of research and literature around microenterprise and business strategy opportunities at the BoP, microfranchising specifically seems to still be in its academic infancy. The innovation has promising prospects for helping to combat
poverty around the world, but many questions remain as to its long term impacts, sustainability and scalability, and the barriers to entry have shown to be cumbersome and challenging. Furthermore, little work has been done to quantify impact assessments on microfranchises that have been deemed successes. The prospects for microfranchising are positive, and the numbers of established networks (as well as literature and case studies around these networks) continues to grow. By continuing to find synergies with microfinancing and other BoP economic and business support strategies, the future of microfranchise operations looks promising and hopeful.

The MFI teaching case study hopes to contribute to microfranchise literature by further exploring the process of creating a microfranchise network in South Africa.
3. Case Study Methodology

A case study is a research design that entails the detailed and intensive analysis of a single case (Bryman and Bell, 2011). While case studies have been used as a research strategy in various disciplines including business, economics, psychology and sociology among many others, the “distinctive need for case studies arises out of the desire to understand complex social phenomena” (Yin, 2001, p. 2). Case studies provide the opportunity to look at a complex set of systems holistically in the constructs of a real-life event by describing an actual situation, event, problem or decision (Harling and Misser, 1998).

Although various definitions can be found, many of which pertain to specific types of events examined, a portion of case study definition as ascribed by Yin (2003, p. 13) states that a case study is an empirical inquiry that “investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” Furthermore, due to the often indistinguishable nature between phenomenon and context in real-life situations, case study research strategy comprises an all-encompassing method of data collection, research design, approach, techniques and logic. Knights and McCabe (1997) further suggest that case studies can provide a vehicle in which different types of qualitative methods can be used together, providing a wider reach of data collection and avoiding too great a reliance on one single approach.

Case studies are often a preferred method of research when analysing contemporary events, as they have the unique advantage of dealing with a full variety of evidence (interviews, observations, documents, etc.) that might not be available from a historical perspective; however, the case study has limitations as well. The greatest concerns of case study methodology is the potential lack of rigor during case study research, the notion that they provide little basis for scientific generalisation and that they take too long and result in massive, unreadable documents (Yin, 2003). The skills for doing good case studies have not yet been defined, and thus the results and applicability for case study research continues to be challenged.

Due to the recent and current nature of the microfranchise phenomenon as established in the past five to ten years (Christensen et al., 2009), and the complexity of socio-economic, cultural and geographical systems within which social enterprises operate and by which they are impacted, this report will utilise the case study methodology. More specifically, this case study aims to examine the process of establishing a microfranchise network in Cape Town in
real-time. It documents the progress, successes and failures of the organisation as they occur throughout one project implementation, rather than in hindsight. The purpose of the case study is to provide practitioners, teachers and students with a practical account of starting and implementing a microfranchise network, along with lessons learned and discussion points.

3.1. Case Study Design
Due to the limited existing knowledgebase of microfranchising, and its lack of currently existing conceptual frameworks, this case study will primarily be of exploratory nature. The report will utilize a single design, holistic case study examining the MFI organisation. Two specific rationales for using the single case design are when the case represents a unique or extreme case, or when the case presents a revelatory situation which was previously inaccessible to investigation (Yin, 2003, p.40). As a new and unique entity with revelatory opportunities, the MFI is analysed in this report as a single case through holistic design. Furthermore, specific attention is given to the current and novel nature of the organisation, documenting processes and decisions as they occur.

3.2. Sources of Evidence
According to Yin (2003), there are six primary sources of evidence used in doing case studies: documentation, archival records, interviews, direct observations, participant-observation and physical artefacts. All aforementioned sources of evidence have been gathered and analysed in corroboration with each other, and with relevant theoretical frameworks and information. The MFI case study considers the aforementioned sources of evidence in the following ways:

Documentation of the idea conception of MFI, along with business plans, financials, market analyses, and other documented research that was conducted has been examined. Archival records relevant to the creation of MFI from The Apparel Recycler and The Enterprise Developer have also been reviewed.

Interviews have been conducted with founding members of The Apparel Recycler, The Enterprise Developer and the MFI, as well as other periphery stakeholders of microfranchising projects in South Africa. The current MFI project leader, Josephine Le Roux, as well as other project participants (including entrepreneurs and franchisees, suppliers and franchisors, and other parties interested in the microfranchise project) have been engaged on a regular weekly basis, through project participation as well as formal interviews.
Direct observation in conjunction with participant-observation has been conducted on a weekly basis with the MFI project leaders, participants and other stakeholders. MFI does not currently have its own physical space, thus observations all took place at The Apparel Recycler, The Enterprise Developer, and in The Enterprise Developers of other stakeholders.

Physical artefacts, such as products to be used for microfranchising retail purposes along with retail locations and shops, have also been considered and analysed.
4. The Case

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**The MicroFranchise Incubator: A Teaching Case Study**

Josephine Le Roux, project leader for The MicroFranchise Incubator (MFI) sat in her office, reviewing the latest reports she had received from four MBA students regarding the feasibility of creating a Do-It-Yourself (DIY) flat-pack furniture selling franchise model in townships around Cape Town. Josephine (and the volunteer MBA students from UCT) had spent the past three months researching the possibility of selling DIY furniture in townships, and it was now time for her to make a decision.

The MFI, created to grow and catalyse a portfolio of franchise opportunities, seeks to empower low-income people in order to build commercially viable microfranchise business solutions, drive growth in the small, medium and micro enterprise sector and generate socio economic development at scale. Broadly, the MFI was created to address the socio-economic disparity and high unemployment rates in South Africa by creating a sustainable means of economic development in the country.

While the MFI had only been in existence for about six months, it’s most recent success had been implementing a successful and profitable candy and snack-selling franchise in Cape Town townships. However, in order to grow and create enough traction for sustainability, MFI was going to have to make some decisions in finding and growing future microfranchise opportunities.

In order to help facilitate the research and development of new opportunities, four MBA students from the University of Cape Town were brought in to determine the viability of one identified franchise opportunity – Do It Yourself (DIY) flat-pack furniture selling in townships.
For three months, the MBA students had been researching the potential venture, but their findings weren’t very promising. The potential franchisor (Quickbuild) was a relatively new company, and while excited at the possibility to enter a new market, they were relatively unwilling to budge on their pricing and some of their furniture styles. Concurrently, focus group feedback from township and community residents indicated a high desire and sale potential for DIY furniture, but they weren’t convinced on the price, styles and colours of the Quickbuild options. Enacting the DIY furniture pilot would require a high amount of labour and capital for logistics from MFI. As a start-up organisation, the MFI had very limited funding and resources. It was important to get some successful projects up and running to ensure continued support and momentum.

In the face of these challenges, Josephine thought about all of her options. Should she move forward in partnering with Quickbuild to establish a unique and potentially very successful furniture franchise in communities around Cape Town? Or should she hold off, and spend her time and resources in more promising, but smaller-scaled pilots? The research provided by the MBA students was helpful, but their work was done and it was time to make some decisions.

4.1. PART I: Background

South Africa and MSME Sector
As a dual formal-informal economy with the highest levels of socio-economic inequality at 63.6% (as calculated by the Gini Index [Euromonitor International, 2012]), South Africa faces unique and pressing challenges for growth and job creation to narrow the large disparities that exist between races, education, genders and locations.

High unemployment rates, that regularly fluctuate between 25-30%, compounded by a lack of historical and structural entrepreneurial activity (specifically the legacy of apartheid, which limited employment opportunities for non-white populations), are further exacerbated by the high business failure rates, especially within the micro, small and medium enterprise (MSME) sectors.

Many individuals who start businesses out of necessity lack the entrepreneurial tendencies and basic business skills necessary to succeed, perpetuating MSME failures and
unemployment. The rate of business failure in the MSME sector in South Africa are at 50% (Mbonyane & Ladzani, 2010). According to recent data, labour force participation rates for South Africa are at 10-15% points below other comparable developing countries (Andrews & Marshall-Smith, 2012).

The MSME sector plays a critical role in narrowing the gap between informal and formal economies and fighting unemployment through growth. However, between 2001 and 2009 Statistics South Africa reported a 50% decrease in informal businesses in the MSME sector. In addition, Global Entrepreneurship Monitor’s 2011 report cited entrepreneurial activity rates at nearly 60% below expectation, high new business failure rates, and an established business activity rate of 2.1%, rating South Africa at 58 out of 59 for this measure of business growth (Andrews & Marshall-Smith, 2012).

Poor quality public education has also played a role in the massive skills deficit of South Africa. A lack of quality education often renders formal sector jobs unattainable to large portions of the population, while making entrepreneurial success very difficult. The majority of organisations and large companies require the completion of Grade 12 as a baseline education for entry-level jobs; however 58% of students in South Africa do not complete a Grade 12 education (Trends in Education Macro-Indicators: South Africa, 2009). This dilemma results in a major barrier to accessing formal economy jobs. Thus, self-employment becomes the only option for earning an income for large portions of the population. In 2009, 68% of people who started a business cited unemployment as the driving reason, and this number of necessity-driven entrepreneurs increased by 8% between 2001 and 2009 (Statistics South Africa, 2009 as cited by Andrews & Marshall-Smith, 2012).

Statistics from The Business and Labour Survey by Snyman (2012), suggest a shrinking SMSE sector indicated by a major decline in non-VAT registered business owners, as depicted in the table below.
A renewed government focus on job creation, and promises to improve the enabling environment around small businesses, reflect the urgent need for sustainable growth in the MSME sector. According to Andrews & Marshall-Smith (2012), conversations with various stakeholders in the MSME field indicate that many resources currently target either start-up businesses or high turnover, established ‘high impact’ businesses at the upper end of the MSME sector. It is crucial for businesses to find diverse growth solutions that lie between these two extremes. “Furthermore, new options for self-employment that recognize and address skills deficits, and provide access to essential business support services, are crucial to providing access to goods and services, and combating unemployment and systemic poverty” (Andrews & Marshall-Smith, 2012, p. 4).

Conceptually created in 2011, the MFI was established with the aim of providing franchising opportunities at the BoP in order to help facilitate business growth, create employment, and address the skills deficit in South Africa’s dual economy.

South Africa and Microfranchising
The diagram below provides a broad overview of the South African franchise system. Here a franchise is broadly defined as a chain of business units that operates with a common brand name and image (Snyman, 2012).
Franchising at both the micro and macro level has failed to gain significant traction within South Africa, which falls far behind the global franchise sector. The Standard Bank Franchise Factor 2010 Survey indicates that franchising in South Africa constitutes 12% of total retail sales, compared to 54% in the U.S. and 30% in Australia (Andrews & Marshall-Smith, 2012). Franchising in the BoP markets of South Africa are even further underdeveloped due to the lack of regulatory structure in the dual economy, lack of incentives and expertise to enter BoP markets, and the high costs and time commitment necessary to serve them.

Microfranchising is a unique business strategy that provides an opportunity to link informal economy enterprises with mainstream economies, providing greater access to public services, capital, greater networks, higher levels of education and skills, higher quality health services, and better infrastructure (Henriques and Herr, 2007). Furthermore, according to Ivins (2008), microfranchising also focuses on delivering significant social services in far-flung areas with weak infrastructure and limited resources.

The creation of the MFI was initially in response to the compelling observations made by Edward White and Tania Charles that South Africa’s current use of franchise concepts are those that work outside townships but are not working effectively within the township market to accelerate job creation. Additionally, they observed that there are no known existing microfranchise models that are operational or developed to scale in South Africa (E. White, personal communication, 2012).
Microfranchising in this context involves the replication to scale of systemised businesses at the grassroots level, created from the bottom up and intended to benefit those at the BoP rather than the wealthy. Microfranchises are independently owned and operated, and intended to create income for the owner and his or her family and employees, while simultaneously providing affordable goods and services to the poor. More broadly, microfranchising seeks to address three core problems that prevent people from becoming economically self-reliant: the lack of skills needed to grow a successful business; the lack of jobs in developing countries; and the lack of goods and services available to the poor (Fairbourne, 2006).

By facilitating franchising and providing services, resources and on-going support for all stakeholders in order to overcome challenges, the MFI seeks to expand franchising at the micro level as a sustainable means to economic development in South Africa.

**MicroFranchise Incubator**
The MicroFranchise Incubator (MFI) was conceptually created in 2011 through a partnership between Tania Charles of The Apparel Recycler (TAR) and Edward White of The Enterprise Developer (TED).

*Edward White*
Edward White began his career in the social enterprise space and, more or less, has since worked primarily in the social sector. His first endeavour after studying was creating a small, ice-cream vending business aimed at helping and employing unskilled and uneducated South Africans. After several years with an NGO leading a job creation programme in Manenberg, Edward began working at The Enterprise Developer (in Philippe) with a special interest in social enterprise.

The Enterprise Developer (TED), established in Johannesburg in 1999, is a network of small business support centres that assist small business owners (or those aspiring to be) by providing information, referrals, training, workshops, networking and business opportunities. Due to high demand of The Enterprise Developer model, further sites have been established throughout South Africa and Botswana (The Enterprise Developer, 2012).
After encountering many *necessity entrepreneurs*, those who lack entrepreneurial tendencies and basic business skills but start a business out of necessity, Edward saw a need for a different kind of service – a microfranchising opportunity where people could be provided with a “business in a box”. This would allow people who were unemployable, but also who weren’t inherently entrepreneurial, the tools and plans necessary to create a sound and successful microenterprise.

*Tania Charles*

Contrastingly, Tania Charles didn’t always lead a life in the social enterprise space. Tania first began her career as a chartered accountant, and gained various experiences in systems processing, supply chain consulting and held various positions in South Africa and the UK. Eventually, her work led her to Woolworth’s in South Africa. During her time at Woolworth’s, Tania also became involved with CB University (a university started by women that offers basic business education and business degrees). It was through CB University that Tania Charles met her future business partner Tracy Goodman. After a discussion together, Charles decided that it was the right time and place to make her move into the social sector – she leveraged her contacts at Woolworth’s along with her desire to teach and together with Goodman, created The Apparel Recycler.

The Apparel Recycler (TAR), founded by Charles and Goodman in 2010, was created in response to growing unemployment among single women in Cape Town and surrounding communities. The Apparel Recycler is an enterprise development program which provides a holistic two year training program to empower unemployed women to start small retail trading businesses. “The Apparel Recycler is considered a best practice example of sustainable Enterprise Development… [They] have assisted over 200 women to start a small business in 2 years, collectively they have generated profits in excess of R4m” (The Apparel Recycler, 2012).

The Apparel Recycler offers an opportunity for unemployed women to be part of a two year programme, in which they take a variety classes from finishing their high school degree to a wide array of business skills building classes. During this time, the women also work at The Apparel Recycler where they collect clothing overstock or damaged goods from major retailers, such as Woolworths and Pick n Pay. After fixing or re-stitching the damaged
goods, the women are then able to resell the clothing, creating a profitable microenterprise of their own.

While The Apparel Recycler has proven to be a huge success in creating new opportunities, educating and empowering women, Tania found that many women weren’t ready to leave the programme after two years. While some thrived and left to create businesses of their own, others were at a loss without the support of The Apparel Recycler and couldn’t find financially viable opportunities outside of the clothing programme. Tania saw a need for women who had graduated the programme, but weren’t inherently entrepreneurial – she saw a need to create additional opportunities that women could pick up and be successful on their own with the right amount of support.

Creating a Partnership
Edward and Tania serendipitously met at a conference for micro entrepreneurs and immediately clicked. Through each of their respective businesses (TAR and TED), both had seen first-hand the need for entrepreneurial support in South Africa. Edward often encountered need-based entrepreneurs at The Enterprise Developer who severely lacked the skills and resources necessary to create a successful business. Tania had handfuls of women, graduating from the two year programme at The Apparel Recycler, who didn’t know what to do next and lacked resources to branch out on their own.

Through various meetings and partnership iterations (working on and off with Plant Finance, a microfinancing organisation based in Cape Town), Tania and Edward ultimately decided to branch off together, creating their own plan for a new entity to be known as The MicroFranchise Incubator, equally backed by The Apparel Recycler and The Enterprise Developer.

Together, Edward and Tania created a business plan for the MFI, establishing stated objectives and a 5 year action plan. Among the first items on the action list was to hire a Project Leader who would be able to move forward with the MFI plan. While Edward and Tania were excited about the new opportunities for MFI, both still remained in their current roles at TED and TAR respectively. And thus, they decided to hire Josephine Le Roux to push forward with their vision.

Josephine Le Roux
Josephine Le Roux, a French national, started her post-university career working in microfinance at Procredit in Eastern Europe. From there she moved to Bangladesh where she trained with the Grameen Bank and Grameen Shakti. Interested in pursuing the extended services of microfinance, Josephine started to explore work with microfranchising and microenterprising with Barefoot Power, one of the first organisations to participate in microfranchising, in India. During her time with Barefoot Power, Josephine trained hundreds of entrepreneurs in successfully selling solar lamps to rural communities in India. Barefoot Power is a social enterprise that focuses on providing affordable lighting to low income populations that don’t have access to electricity through uniquely designed micro-solar lighting products (Barefoot Power, 2012).

From India, Josephine travelled to Kenya and then relocated to Cape Town where she consulted Planet Finance on various microfinance and microfranchise projects, ultimately being hired to work as the full time project leader for the MFI.

As the project leader, Josephine held a main role in the establishment of MFI. It was her responsibility to identify, research and implement various microfranchise project opportunities in the low income communities and townships of Cape Town. Josephine coordinated all activity between The Enterprise Developer, The Apparel Recycler, potential entrepreneurs, and any potential suppliers or third parties that would be involved in some of the projects.

Franchisees
The potential franchisees the MFI engages with are of varying backgrounds; however, they can be split into two distinct categories – individuals from The Apparel Recycler and individuals from The Enterprise Developer.

Individuals from The Apparel Recycler are exclusively women. The women are between the ages of 20-40, come from low income communities or townships, and almost exclusively come from a one-parent household. Most of the women have not completed their high school degrees, have children, and are looking to become subsistence entrepreneurs due to a lack of job opportunities. Furthermore, the potential franchisees have all completed, or nearly completed the two year training program at The Apparel Recycler, and thus have some established routines, relationships and networks. Beyond The Apparel Recycler programme,
however, the women have few work options and thus are looking for new sustainable opportunities in order to help financially support themselves and their families.

Individuals from The Enterprise Developer include both women and men; however the majority are men over the age of 30. The experience of The Enterprise Developer franchisees also varies greatly, however those that participated in focus groups regarding this case study were generally established business owners who were male. One such individual, Balo, is a successful furniture salesman in Philippi. Balo purchases inexpensive furniture from big box retailers (such as Macro) and resells them in a container outside of The Enterprise Developer. Balo is looking to expand his furniture enterprise by offering new and unique products (such as flat-pack furniture) and also looking to decrease his capital costs by purchasing products directly from a supplier. While other franchisees at The Enterprise Developer have different backgrounds, most are somewhat established entrepreneurs looking to grow their businesses.

While the profile for potential franchisees varies greatly between prospects at The Apparel Recycler and The Enterprise Developer, a unique characteristic of the MFI is their established networks through both organisations. Because of their connectedness to both TAR and TED, established and non-established entrepreneurs from various communities, MFI is able to collect immediate feedback on project ideas, and understand the needs of individuals from different communities around Cape Town. Furthermore, MFI has an identified group of franchisees available for each potential opportunity.

4.2. PART II: MFI Project Selection

As the lead in identifying and pursuing all franchising projects, Josephine’s first responsibility was to create a project selection process in order to identify and rank various franchise opportunities for MFI.

Due to some previous research and relationships established through Edward and Tania, Josephine was initially provided with six potential franchise opportunities, as shown below.

Exhibit 1: Initially Identified Projects
1. **Edunova**
   Edunova is a group that provides customised and cost effective human resourcing models for Information Communication Technology (ICT) in schools. By employing young adults from local schools and communities, Edunova also provides training, guiding and mentoring in order to support schools and other community stakeholders that have acquired ICT facilities and equipment (www.edunova.org). A potential franchise opportunity would be to leverage the Edunova model by creating tech shops (which also provide training, mentoring and some financial support) around major school districts.

2. **Early Childhood Development (ECD)**
   The Centre for ECD is a nation resource providing training, support and advice in the field of early childhood development. By working with local communities, organisation, individuals and parents, the ECD working on improving the education and care of children in disadvantaged communities (http://www.cecd.org.za/). Franchise opportunities would be to leverage the ECD in establishing childcare training programs in order to set up “crèche” or “preschool” models in low income communities.

3. **Itakane**
   This model involves starting an Itakane realtor office, which can established in one’s home with only a computer, a fax-2-email machine and internet connection. By eliminating harsh overheads of maintaining an office, franchisees could service all client needs from their home and pay a flat fee along with transaction costs – in turn, they would receive 100% of commission from their realty sales.

4. **Hair/Makeup**
   Due to high expressed interest in hair styling and hair and makeup products, this model involves working with a chosen make up or hair salon supplier where MFI would act as the branch manager and/or sales manager. The entrepreneurs would be team managers that sell to retailers.

5. **Wholesale Model**
Here The Apparel Recycler will start acting as a wholesaler and build TAR women into the wholesale role. Women franchisees will be the retailers to with where they can access a pool of services. Products such as candy, food, makeup, women hygiene products, among others to be considered.

6. Quickbuild

Quickbuild is a Do-It-Yourself (DIY) flat pack furniture company. DIY flat pack furniture could be sold by various Quickbuild “representatives” or “sales peoples” in low income communities at a low cost due to reduced transportation costs and reduced inventory overhead.

Source: Le Roux, 2012

Each of the six identified projects were then measured on a numerical scale (0-25) based upon criteria of capital cost, market demand, systematisation, concept viability and profitability, scalability and replication potential, ease of compliance, franchise fit, revenue for MFI and timeline. Exhibit 2 shows the project selection criteria and associating numerical scale.

*Exhibit 2: Project Selection Criteria*

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<tbody>
<tr>
<td><strong>Capital Cost</strong></td>
<td>&gt;R100,000</td>
<td>R50,000-100,000</td>
<td>R30,000-50,000</td>
<td>R15,000-30,000</td>
<td>&lt;R15,000</td>
</tr>
<tr>
<td><strong>Market Demand for Business</strong></td>
<td>No apparent demand in BoP markets</td>
<td>New product in BoP markets with potential demand</td>
<td>Mild demand</td>
<td>Strong, established demand</td>
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<tr>
<td><strong>Systematization</strong></td>
<td>Not feasible</td>
<td>Difficult or too complex</td>
<td>Feasible but un-attempted</td>
<td>Already systemized</td>
<td></td>
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<tr>
<td><strong>Proven and Profitable Concept</strong></td>
<td>Untested idea or concept</td>
<td>High potential for profitability</td>
<td>Profitable at unit level</td>
<td>Profitable at some scale</td>
<td></td>
</tr>
<tr>
<td><strong>Scalability and Replication Potential</strong></td>
<td>Not replicable or no potential for scale</td>
<td>Replication and scalability unlikely</td>
<td>Replicable, appears sufficiently scalable</td>
<td>Replicable and very scalable in target region</td>
<td></td>
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<tr>
<td><strong>Ease of Compliance</strong></td>
<td>No apparent ability to enforce contract</td>
<td>Weak enforcement levers</td>
<td>Strong, easily applied enforcement levers</td>
<td></td>
<td></td>
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<tr>
<td><strong>Franchise Fit</strong></td>
<td>No fit between franchise and franchisee pool</td>
<td>Very specific fit, may be difficult to match</td>
<td>Likely potential fit</td>
<td>High level of fit between franchisee pool and franchise</td>
<td></td>
</tr>
<tr>
<td><strong>Revenue for MFI</strong></td>
<td>No apparent ability to pay – 100% investment</td>
<td>Can invest their time and cover consulting associated cost</td>
<td>Can pay full consulting price and invest their time – core project</td>
<td></td>
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### Timeline

<table>
<thead>
<tr>
<th>from MFI</th>
<th>or MFI can create a future company and make normal profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 2 years</td>
<td>Right away</td>
</tr>
<tr>
<td>1-2 years but can work at the same time while getting full training</td>
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### Scoring Summary

| Total possible score out of 25. Priority candidate franchise will score >18 on the Franchise Potential Index. Case by case assessment of franchise opportunities, as well as relationship with franchisor and MFI knowledge of relevant markets, will contextualize the results of the Franchise Potential Index and serve as additional factors in the franchise opportunity screening process. |

Source: Le Roux, 2012

Using the scoring process as described in Exhibit 2, Exhibit 3 shows the results for all of the potential projects initially identified for the MFI.

**Exhibit 3**

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Score</th>
<th>Next Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edunova</td>
<td>14/25</td>
<td>WAIT</td>
</tr>
<tr>
<td>ECD</td>
<td>8/25</td>
<td>WAIT</td>
</tr>
<tr>
<td>Itakane</td>
<td>16/25</td>
<td>WAIT</td>
</tr>
<tr>
<td>Hair/Makeup</td>
<td>19/25</td>
<td>YES, but…</td>
</tr>
<tr>
<td>Wholesale Model</td>
<td>23/25</td>
<td>YES</td>
</tr>
<tr>
<td>Quickbuild</td>
<td>21/25</td>
<td>YES</td>
</tr>
</tbody>
</table>

Source: Le Roux, 2012

**Pilot Process**

Using the results from Exhibits 1-3, Josephine, Tania and Edward elected to move forward with the Wholesale Model and Quickbuild by putting each through a three-phase process of identifying the need, testing the product/service and implementation of the final plan.

Due to MFI’s limited staffing and resources, Josephine engaged with four students at the University of Cape Town Graduate School of Business to help her pilot the selected models. Through various meetings with the students (who were eager to gain some experience in the social entrepreneurship and microfranchise space in South Africa), it was decided that Josephine would take on the Wholesale Model, while the four MBA students would work together to help create the Quickbuild Model.
4.3. PART III: The Quickbuild Model

Background
Quickbuild is a relatively new company established by a team of three entrepreneurs Sam Johnson, Andrew Palmer and Duncan Mizer that sell flat-pack, self-assembling furniture (to the likes of IKEA) in South Africa exclusively online. Sam Johnson came into contact with the MFI through Edward, who was a long-time personal acquaintance of Sam. After a first round discussion, Quickbuild expressed an interest in working with MFI to establish presence in a completely new and untapped market – low income communities and townships around Cape Town. Concurrently, Quickbuild’s flat-pack furniture had the potential to provide relatively inexpensive and transport friendly goods to areas lacking quality furniture products.

Identifying
While a potential franchisor had been found (Quickbuild), it was important to gauge the interest level of DIY furniture for both the potential sellers (franchisees) as well as the township market in general. As such, various focus groups were held at both The Apparel Recycler and The Enterprise Developer in order to gauge the interest level of such a product. Exhibit 4 depicts the initial findings from the focus groups conducted by the MBA students.

Exhibit 4

Focus Group Feedback
Four focus groups were held between The Apparel Recycler and The Enterprise Developer. The number of people that participated excluding the interviewers was 10 women from TAR and 7 entrepreneurs from Furniture companies respectively. The three main themes that emerged from the sessions are summaries below.

The Enterprise Developer
1. Style and Quality: Quality is more important than price. People will pay more for a high quality product and there are very specific requirements for look and following trends. White is very basic and not a popular choice. The durability of assembly and disassembly is important in case the furniture needs to be moved, they will want it to look the same if reassembled.
2. Payment options: People will be willing to pay a little more for the same product if it offers a payment plan. This could be a major add value service provided by MFI to absorb the risk from the entrepreneurs.

3. Prices and profit margins: Currently entrepreneurs take a 30% profit margin on custom built product so would be willing to accept a 30% margin on Quickbuild product. The general feeling was that the prices were reasonable for a lower income segment than what they are servicing. They would be willing to sell Quickbuild products as an extension of their product line to a lower segment market. They currently service higher end customers that are willing to spend more on a customised product.

The Apparel Recycler
1. Style and Quality: Interest was expressed in the model and the women liked the design and quality of the furniture however they are interested in variety, specifically around colour schemes such as the Imbuya (dark wood) which they viewed to be the most liked colour. Flat packed furniture that needs some DIY is not a hindrance as there are enough people around to help assemble the furniture.

2. Payment options: There were concerns over payment structure. The women felt that lay buys would need to be provided as many individuals in communities would not otherwise be able to afford to purchase the furniture.

3. Prices and profit margins: There was conflicting feedback about prices, one group of women felt that Quickbuild prices are reasonable while another group felt that the prices are high in comparison to what can be found in shops in their neighbourhoods. Their community is more price conscious than quality conscious and pricing above R1000 would be deemed expensive. With The Apparel Recycler the women are able to price the merchandise at 2.5 times mark-up and one group of women felt that for it to be worth the while they need a high mark up.

**Integrated comments - General**
- Noted that there is a great demand for affordable furniture in respective communities
• Interest expressed in the micro-franchising model
• Most felt that they can sell the furniture in townships
• There are no objections to aggregating orders and waiting until the end of the month when people receive their salaries
• There are local carpenters who can custom make any piece of furniture that you like, which may be competitions
• People are used to DIY and the flat packed furniture is less likely to get damaged during transportation and delivery

Sales Method
• A catalogue and showroom to demonstrate the furniture was also identified as a useful value add, especially as the entrepreneurs would not need to stock the furniture and would only take payment on receipt of orders.
• The availability of a catalogue is crucial for selling; however a showroom is desired as not all customers are willing to buy straight from the catalogue without seeing the quality of the furniture.
• A model in which furniture is showcased at MFI could work, however it was expressed that this would only be beneficial for customers that work in and around (MFI) area (proximity a concern)

Delivery/Transportation
• Delivery options direct to customer should be made available, if they do not have their own transport, a small delivery charge could be levied
• Transportation of furniture a point of concern, this however not deemed a hindrance to being part of the franchise

Product
• The furniture is of a good quality, however there are other more trendy styles that are preferred to white
• Quickbuild quality of wood is better than the quality found in shops in their neighbourhoods
• Women like design of furniture however interested in variety, specifically around colour schemes
Women like the hang & shelve design as has multiple use – considered more functional than a i.e. shelves only concept

Quality is very important.

Type of board and runner should be a certain type. No one likes white, cherry mahogany and burnt oak are popular. Updated style.

Quality is more important than price. Pay about R7,800 for a built in cupboard.

Identified a need for 2 door kitchen units, wardrobes, and small nursery stuff.

Higher income - Prestigious to have built in kitchens and wardrobes – get own style. Not popular to buy furniture off the shelf.

Warehousing

The women felt that warehousing at Philippi was too far out for them for a collection model, but this may not be an issue if delivery model is chosen.

Prices

The price range between R400 – R2000 was felt to be reasonably affordable

With the clothing the women are able to price the merchandise at 2.5 times mark-up and feel strongly that for it to be worth their while they need a high mark up

Quickbuild prices are high in comparison to what can be found in shops in their neighbourhoods

Many communities are more price conscious than quality conscious and pricing above R1000 would be expensive

Final payment of 30% is the profit margin, 70% upfront to cover material and labour.

Payment methods

The women would allow deposit and repayments but would not deliver furniture until full payment received

They were not concerned if these sales should fall through, they seemed confident that they could still sell the furniture to another customer

Can the women have access to credit?

Concerns over payment structure; women feel that lay buys would need to be provided as many individuals in communities would not otherwise be able to afford purchase
• Lower income – off the shelf, will request a payment plan. Can push the price up if offer a payment plan.

Other questions and ideas

• Is there any start-up finance to help them get their business ideas to implementation stage and establish themselves as entrepreneurs?
• How robust is the furniture, how many times can you reassemble?
• Reputation and brand is very important for TED entrepreneurs who are currently selling furniture - they insist on a high quality as anything they sell will impact on their reputation.

In addition to gauging product interest, the MBA students also held focus groups in order to determine the process flow and practical management of such a project – including what the franchisees might need for business support and how the whole process would work. Exhibit 5 shows the findings and documentation of the project process flow.

Exhibit 5

MFI PROCESS FLOW

Set out below is a list of points of activities and interactions which are critical to the successful implementation of the flat-packing furniture franchising model. Whilst the events set out are specifically for this business, it is envisaged that these will bare applicability to any other distribution sort concept that MFI undertakes.

FEEDBACK SUMMARY

Key Drivers for Entrepreneurs

• Payment Plan – market segment not cash endowed; thus for the furniture micro-franchising concept to work, entrepreneurs would need to be able to provide consumers with some sort of payment plan. Note that big retailers that target lower to middle income households make credit lines available to customers. Similar structure would have to be made available to ensure realise sales.
• Margin – in order to make this business viable for entrepreneurs, decent margins would need to be captured. Cost of furniture needs to be extremely competitive to allow entrepreneurs to secure margins of at least 30% (furniture businesses in Philippe capture similar margins).

• Quality – in order to ensure on-going success of business, entrepreneurs are concerned with managing their own reputations. For this reason, product brand and reputation become important for them – if they are able to trust the brand, they can trade with the comfort of knowing that their personal reputations are not on the line.

Key Drivers for Customers

• Price – market segment price sensitive. Comparisons largely made to similar products available at leading furniture retailers. Would thus need to ensure that price points are competitive in comparison.

• Quality – customers prepared to pay premium for quality of goods. As furniture tends to be a long term investment, customers recognised the benefit of quality products.

• Financial access – customers willing to pay more for goods that offer financing structures as this allows financial accessibility. Lay buys or credit policies thus ideal.

• Variety in terms colour – level of variety in terms of colour schemes of furniture desirable. This is a key deciding factor for customers.

SUPPLY CHAIN DOCUMENTATION

1. Customer Places Order
   a. Viewing of merchandise
      • Catalogues: can be arranged for entrepreneurs interested in rolling out furniture franchise concept. Catalogues will be used as primary mode by which entrepreneurs market their merchandise.
      • Showroom: another option is to build out showroom to allow potential customers to get better look and feel for product offering. There are however larger costs (build up, administrative and maintenance costs) associated with this method. Due consideration to thus be paid to evaluating costs vis-à-vis benefits.
   b. Payment
Feedback from entrepreneurs suggests that selling furniture to their respective communities would be problematic if a strategy of cash sales was pursued. It has been repeatedly suggested that a lay-buy sales strategy be affected instead. Nuances of such a sales model would need to be considered; how does process work; terms of lay-bye sales; when do entrepreneurs deposit funds with MFI; what are security implications; how is this administratively managed. These are but a few points to be considered with respect to implementation of such a system.

2. Order placed with MFI
   a. Frequency
      The entrepreneurs suggested that placing one big order at the end of the month to benefit from bulk discount was acceptable. They felt that most of their customers would be willing to wait up to a month before receiving their furniture. In addition, since many of the customers would be paying the furniture off in instalments, this would not detract from buying the furniture.
   b. Payment
      The entrepreneurs did not explicitly state this but there was a feeling that since the furniture is a much bigger expense item than clothes, the entrepreneurs would benefit from extension of a line of credit / loan such as The Apparel Recycler provides.
   c. Invoicing

3. MFI places order with supplier
   a. Frequency
      Placing orders once a month is an appropriate frequency to begin with. A specific time and date to place orders by should be instituted, along with a system for placing orders. Collecting and collating orders on a mass level (in order to receive bulk discounts) is a value-added service by MFI.
   b. Payment
      Payment for the furniture can occur as the orders are placed by each individual, or as pieces are picked up from the storage areas. Payment options and platforms can be an area of value-added services for MFI.
   c. Delivery & Storage
Delivery of the orders will occur to both TAR and TED depending upon where the order was taken, and stored in the same location. There will need to be an administrative person monitoring furniture that has been sold and that are on lay bye, so that the situation does not arise that furniture on lay bye gets sold to another customer. The entrepreneurs at TAR felt that TED was a bit far out for storage and that it might be worthwhile storing some of the stock at TAR – but this depends on where the furniture is being sold. The entrepreneurs felt that the furniture would be more popular in the townships rather than the communities where they live. *Storage warehousing is a value-added service by MFI.*

d. Quality Controls
e. Communication

There will need to be some method of consistent communication to the business men/women about arrival of furniture and established collection time and place.

4. Delivery of Goods
   a. Entrepreneur collects items

Conversations with entrepreneurs suggest that whilst transportation would be an issue for most, it is not an impediment to rolling out this model. For many, transportation from storage to the end customer will be needed. Some can arrange their own transportation, but an additional service of final delivery would be useful for most buyers. Most have assumed an additional transportation fee.

*Final transportation to customer can be a value-added service provided by MFI for an additional fee.*

VALUE ADDED OPTIONS for MFI

1. Payment Plans & Options
   a. Assistance with bank accounts – the ladies at TAR have bank accounts, but non-TAR micro franchisors could be assisted.
   b. Lines of credit. The cost of furniture is much more than clothes, thus the micro franchisors (MF’s) will benefit from a line of credit (probably about R2500 – R3000).
   c. Common accounting system for all MF’s will help the ladies to manage the much more complicated sales of furniture as compared to clothing.
d. After sales support / call centre for the MF’s would be useful in the event that customers struggle to assemble the furniture.

2. Order collection on a monthly basis in order to receive bulk discounts. This was identified as a major advantage by the ladies.

3. Management of orders upon arrival, establishing collection date and times, and ensuring proper orders to the right entrepreneur will be required due to likelihood of lay byes and terms of payment.

4. Assistance with transport for collection and delivery of furniture. Delivery of orders to end customer for additional fee.

5. Catalogue of furniture options, website and common email address as well as a physical location where customers can see the furniture models to facilitate sales.

6. Assistance with negotiations and contracting with suppliers / retailers etc. Assistance with access to finance.

7. On-going mentorship (at least once a month for first year) to maintain business skills and to learn the system of marketing, ordering / invoicing and accounting as set up by MFI.

Through both processes and feedback from all focus groups, it was clear that there was a need and desire for furniture, especially DIY furniture, in low-income communities and townships around Cape Town.

However, there were some main themes identified from the focus groups that needed to be considered, including:

- Price: Pricing was consistently recorded as one of the most important characteristics of the product. While there was some discrepancy between price and quality, it was important that the franchise model provided DIY furniture at the lowest possible cost to the end consumer. Furthermore, potential franchisees found it important to make a larger margin on more expensive products – they were unwilling to sell large furniture items if their profit wasn’t high enough.

- Colour: Alternative colour options were also an important characteristic for most. The plain white products Quickbuild was offering were not highly desirable, as the current fashion was to have more personalised and colour schemed furniture. Some
stated that they would not even consider buying the furniture unless there were additional colour options besides white.

- Support Services: Aside from the product itself, most of the potential franchisees suggested that support services be provided. In order of importance, these included transport and storage services of the furniture, brochures and marketing material (including a possible showcase area for customers to see the furniture built), and some sort of lay-buy service for customers who couldn’t pay up front for large ticket items.

Testing

Once the need was identified, Josephine and the MBA students began testing various possibilities for a Quickbuild DIY franchise model. Specifically, financials needed to be created on behalf of both the MFI and future franchisees (especially since pricing was top of mind to both the franchisees and the customers). As a minimally funded organisation looking to become self-sustainable, it was important to MFI that some profit was made on their behalf in return for their services. Using the costs provided by Quickbuild, Exhibit 6 shows the first round of financial projects for the Quickbuild project.
### Exhibit 6

<table>
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<tr>
<th>Description</th>
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Source: Le Roux, 2012
According to preliminary projections, the financial viability of the Quickbuild model wasn’t looking positive. In order for a franchise to be successful, it was important for franchisees to make a decent margin on each sale. Furthermore, it was also important that MFI make a small profit in return for their support services as well. The projections in Exhibit 6 showed very slim margin opportunities for both franchisees and for MFI. Furthermore, the price to end-user had increased for most of the furniture products.

At the moment, Quickbuild was not willing to decrease their prices, and even if MFI decreased or eradicated their own cut, profit margins were still not looking optimal. In light of this, the MBA students began to consider alternative pricing options that may be more viable for both MFI and the franchisees without requiring Quickbuild to reduce their prices. Exhibit 8 shows an example of one document created to demonstrate two alternative pricing options for MFI and Quickbuild – one of which was to establish a commission based pricing platform between MFI and Quickbuild where franchisees acts as independent sellers.

Exhibit 8

Alternative Business Plan
MFI could explore the options set out below as a means of supporting and building out sustainable entrepreneurial base. In order to facilitate this on a commercial basis, MFI could earn a commission based fee based on aggregated sales levels, which include sales from options 1 & 2. For example:

- once Quickbuild orders reach R10 000 pm MFI receives 5% of sales revenue
- once Quickbuild orders reach R25 000 pm MFI receives 7% of sales revenue
- once Quickbuild orders reach R50 000 pm MFI receives 10% of sales revenue

*Figures are for illustrative purposes; these would be negotiated with supplier

Option 1: Independent entrepreneurs

Start-up entrepreneurs given the opportunity to establish furniture business (a time limit could be considered in order to spur entrepreneurs to work independently). MFI provides aggregated ordering (to allow entrepreneurs to benefit from wholesale supplier prices), storage, marketing and financial assistance (for customer; however would be risk free by way of lay buy sales).

- MFI places orders on behalf of entrepreneurs
- MFI collects and stores furniture on premises

Option 2: MFI targets established/committed entrepreneurs or entrepreneurs that have grown out of Option 1

MFI acts as an intermediary to connect established entrepreneurs with suppliers. Level support limited to marketing and show room. At this stage MFI could provide skills training to enable entrepreneurs to run all key aspects independently i.e. internal budgeting templates, lay buy processes, ordering system, website building etc.
Another alternative explored by the MBA students was to engage with other potential suppliers, and see if used, damaged, or overstocked goods could be donated to MFI. While they did receive responses and positive feedback from several retailers, initial findings and willingness to partner with MFI weren’t positive, and are documented below.

**Exhibit 9**

**EXPLORING ALTERNATIVES**

In order to make the proposed business venture more viable, the option of adopting a similar model to that used by The Apparel Recycler is under exploration. The idea is to source out of range or damaged furniture (which can be fixed, as quality is important to consumers) from existing furniture retailers with the view of selling this on to entrepreneurs (for resale) at massively discounted prices. Contact has been made with the following furniture retailers around this idea:

- Mr Price Home (no response received)
- @ Home (no current opportunity opportunity)
- JD Group (no response received)
- Massmart (no current opportunity, communication open)
- Coricraft (no response received)

Follow ups are currently underway as not all the retailers have responded to date. This remains under investigation; anticipate finality around whether or not there exists an opportunity here by end of September.

While MFI had some resources available to provide support services such as transportation, storage, collective ordering to receive bulk discounts, brochure printing and even mobile banking or lay-buy services, Quickbuild didn’t have the capability to be as flexible. Furniture colours, styles and pricing weren’t in line with focus group feedback and according to Quickbuild; there was little room for change.

*Implementing*

MFI was facing many obstacles in getting a DIY furniture network up and running. While their partnership with Quickbuild wasn’t proving to be as beneficial as hoped, there seemingly weren’t many other options at this point. Research had been conducted to identify other options and partnerships. While the external research hadn’t been exhaustive, there weren’t any signs that other opportunities were in sight.
Implementation was pending on a decision from Josephine. Should Josephine go ahead and test the Quickbuild DIY model, risking a lack of adequate infrastructure, support services and financial viability? Or should more time be spent on exploring alternative options, like new partnerships with other retailers or second hand furniture stores? Alternatively, should she drop the entire furniture option, spending time and resources on other identified pilots? Time was running out and Josephine needed to make a decision.

4.4. PART IV: Instructor’s Guide

Abstract
This case describes the strategic and tactical challenges of a unique social enterprise, The MicroFranchise Incubator, established in South Africa to provide franchising opportunities at the BoP in order to help facilitate business growth, create employment, and address the skills deficit in South Africa’s dual economy.

The MicroFranchise Incubator (MFI) was established as a joint partnership between Tania Charles of The Apparel Recycler and Edward White of The Enterprise Developer. Together, Tania and Edward hired a project leader, Josephine Le Roux, to identify, test and implement various franchising opportunities in the BoP market.

The MFI case details the project selection process of identifying microfranchise opportunities in South Africa. It furthermore explores the specific practical challenges encountered when attempting to implement a flat-pack furniture sale model in BoP communities around Cape Town. Decision-making processes around market needs, supplier relationships and opportunity costs are described and documented. The case also exemplifies how start-up enterprises can utilise local resources (UCT GSB students in this instance) to help fortify human resources when financial resources are limited.

Learning Points and Applicability
This case deals with creative and flexible approaches that are necessary when trying to combat poverty and unemployment problems at the BoP in South Africa. It also uniquely showcases the steps necessary in identifying, testing and implementing new opportunities in a
start-up social enterprise. As a very new enterprise, this case has the unique perspective of examining decision-making process from early onset, rather than in retrospect.

This case can be taught as part of an undergraduate or graduate strategy course to illustrate the challenges of start-up social enterprises. Key issues include identifying consumer needs, creating and establishing supplier relationships, financial sustainability and scalability, and data collection and decision-making processes during project implementation. A central issue for MFI is how to identify and establish franchising projects that will have long-term practical and financial sustainability. As such, this case could also be used in business, entrepreneurship and social innovation courses.

**Teaching Approach**
The teaching approach can vary depending upon the program, audience, and the audience’s level of experience. Some of the key case objectives and points for discussion can include:

1. Understanding the decision-making processes for start-up social enterprises, and considering and discussing their effectiveness.
2. Understanding the socio-economic landscape of South Africa that MFI operates within.
3. How can MFI best leverage their resources throughout this process? What are some of their current strengths and weaknesses as an organisation?
4. The pros and cons of the Quickbuild implementation options and whether or not to implement the Quickbuild franchise opportunity.
5. How best to implement the Quickbuild franchise opportunity.
6. What are the key factors in determining whether or not to implement franchise opportunities?
7. What are the key challenges in establishing a new social enterprise in South Africa?

**Suggested Supplemental Readings**

The Lehr piece provides a great overview of practical lessons learned in understanding and operating a microfranchise at the BoP. Some of the key takeaways that can be drawn into this case study specifically are lessons learned about franchisees, and the lessons learned in creating a microfranchise model.

The Lehr piece notes one of the greatest difficulties in operating a microfranchise is finding franchisees that will work within the model. As a new entity leveraging resources from two established organisations, one of the MFI’s strengths is their access to potential franchisees. More specifically, the women that have all completed the 2-year programme at The Apparel Recycler provide a solid base of potential franchisees that the MFI is familiar with, knows their weaknesses and strengths, and is attune to their business capabilities. This strength is a big differentiator for the MFI and there should be discussion about how they can further leverage this strength.

Furthermore, all of Lehr’s lessons learned in creating a microfranchise model can be discussed through the lens of the Quickbuild opportunity. Students can take all six of the lessons learned (as outlined below), and discuss the opportunities (or potential threats) of each in the Quickbuild model.

- Developing a successful microfranchising model.
- Developing a successful microfranchising model is expensive.
- Microfranchising models should be well documented and simplified wherever possible.
- Efficient supply chains are needed, but difficult to create.
- Location matters.
- Brand matters.
- Contracts and legal considerations must be situationally appropriate.


This article explores an existing microfranchise FanMilk in Ghana by using data about microfranchisees in order to explore and understand whether or not workers in subsistence
markets were benefitting from their participation as a franchisee. Baseline results indicated that this particular form of microfranchising positively impacted the franchisees through savings and profits.

It may be an interesting consideration to take the franchisee demographic data and broadly compare it to that of the MFI franchisees. While there is little factual data in this case about MFI’s franchisees, this can provide a platform to begin discussion about franchisee characteristics and what makes a good potential franchisee. This furthermore supports discussion around the importance of franchisee participation and MFI’s strength in having a strong franchisee pool for future projects.

3. Additional readings to broaden base knowledge of microfranchising as a practice in BoP markets in general can include:


**Outcome**

Ultimately, Josephine Le Roux was forced to decide whether or not to proceed with the Quickbuild model. Initially, Josephine held another meeting with Quickbuild to discuss alternative pricing models and flexible distribution options (as exhibited in the case). While Quickbuild showed enthusiasm and some willingness to be flexible with future products, few changes were made from the initial model.

While the opportunity wasn’t perfect and there were some major financial considerations, MFI decided to forego financial gain on their behalf in order to move forward with the
project and make the opportunity more attractive for potential franchisees. Although MFI would like to become financially sustainable in their own right, their main objective as an organisation is to help create business opportunities for individuals in BoP markets. In light of MFI’s stated business objectives, the potential social value add to franchisees outweighed the financial gains in this case. The uniqueness of this case comes from considering and analysing the social benefit of potential projects alongside traditional business analyses.

The first stages of the Quickbuild project were implemented soon after Josephine’s last meeting with Quickbuild. Due to the very recent nature of the project and case study as a whole, project results have yet to be determined.

Concurrent to the time of this case study, the MFI was announced the winner of the 2012 Ashoka Changemaker’s Competition for Small Entrepreneurs. As a finalist, the MFI was awarded a US $10,000 cash grant as well as a technology donation from SAP. With this funding boost, MFI looks forward to continue implementing various microfranchise opportunities throughout South Africa.
5. Bibliography


