



MICROFRANCHISING FOR SOCIAL IMPACT IN JORDAN

This report was prepared by Obed Diener, Huda El Jack, and Nour Hannun for the USAID Jordan Local Enterprise Support (LENS) Project. USAID LENS is funded by the United States Agency for International Development (USAID) and implemented by FHI 360. This report is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of the authors and FHI 360 and do not necessarily reflect the views of USAID or the United States Government.

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WHAT IS MICROFRANCHISING?

CONCEPTUAL OVERVIEW

Micro-franchising provides easily replicable enterprise opportunities with proven operational models that have potential to help alleviate poverty, enhance individual economic self-reliance, and stimulate individual, local and national economic development. Micro-franchising is a way of downscaling the concept of traditional franchising, in which a franchisor, or parent organization, manages and supports a network of franchisees operating a common business model that has already proven to be successful. The franchisee has accountability to the franchisor and in return, the franchisor provides the opportunity for full ownership and provides training and other embedded services and support that can enhance business operations, as discussed in further detail below.

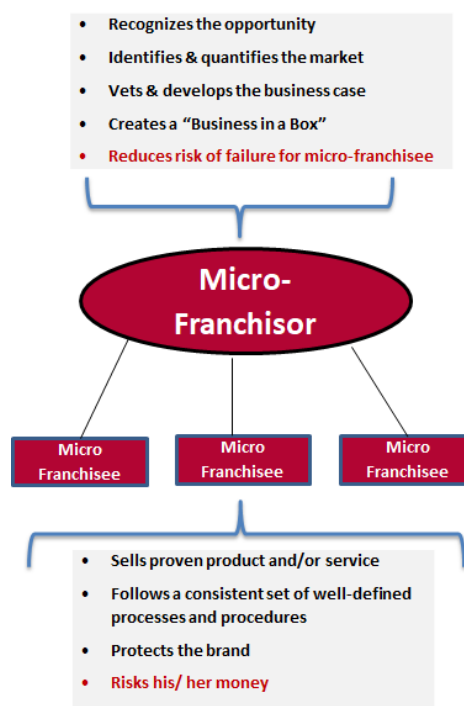


Figure 1: Micro-franchising framework with key roles and responsibilities

Unlike traditional models, micro-franchising operates on a much smaller scale, including in subsistence markets. The very low-cost base of micro-entrepreneurs allows them to operate profitably in markets in which larger companies cannot survive. Micro-franchising uses diverse business models (see typology in the section below), often more focused on aggregation, in comparison with traditional franchising. Micro-franchise fees are lower, and often fees and loan payments are spread out over time. Start-up costs can range widely from \$25 to \$25,000 depending on local economic conditions. Micro-franchising frequently involves the pursuit of social objectives -- such as providing jobs or services with social benefits -- in addition to profit.

Micro-franchisors may be 1) Social Enterprises seeking social impact as well as financial sustainability or profits, or 2) Private Companies seeking to target bottom of the pyramid market, or to engage in social development as part of a Corporate Social Responsibility (CSR) program.

Micro-franchisees will typically be entrepreneurs out of necessity (i.e. as an alternative to employment), who need continuous guidance and support as well as facilitated access to capital. Successful micro-franchisees will typically have good business management and self-management skills, as well as the ability to follow a standard set of rules and procedures.

TYOLOGY OF BUSINESS MODELS

Similar to the traditional franchise model, micro-franchisees take over certain value chain functions on behalf of a larger enterprise. In general, that function can be located anywhere in the value chain from the beginning stages of raw material collection and production (“upstream”) to the customer-facing functions at the end in sales or after-sales services (“downstream”).^{1,2} For example:

Upstream: Unilever in Indonesia is implementing an upstream micro-franchise activity. Unilever locally sources soybeans from farmers for a guaranteed price, while also facilitating best-practice sharing among the franchisees. This type of model is successfully applied internationally, such as through fair trade networks for coffee.

Downstream: In the case of Tamasol photovoltaic installation in Morocco, the franchisor trains micro-franchisees (former electricians) as Field Service Technicians who can perform minor repairs and maintenance for rooftop photovoltaic installations. Each micro-franchisee services a specific geographic area using their own tools.

BENEFITS

Micro-franchising specifically provides a solution to known enterprise development problems by providing knowledge such as a business blueprint, written job descriptions, task lists, simple bookkeeping systems, and lists of, and relationships to, buyers and suppliers. Micro-franchising doesn't require micro-franchisees to be highly entrepreneurial. Unlike other entrepreneurs, micro-franchisees need to be more skilled at copying than creating. The strength of franchises is that they provide a proven business model and system; and can insulate the franchisee from many of the shocks of the open market by providing a degree of stability, security and predictability that would be rarely attainable for independent micro-enterprises. They offer micro-franchisees a roadmap covering everything from access to supply chains, equipment and products, to routes to market, marketing and brand awareness, all of which have been pre-defined and refined by the franchisor. Thus, micro-franchising may provide special benefits to individuals who have some entrepreneurial aptitude and motivation but are not well-suited to be independent entrepreneurs (whether due to risk tolerance, personality, skills, networks, or lack of experience or capital), resulting in drastically increased odds of microenterprise success. The model addresses the major challenges faced by many MSEs by providing job opportunities to those who lack fundamental entrepreneurial skills and other assets, and who require significant support, training and access to a cost-effective supply chain.

¹ J. FAIRBOURNE ET AL. (EDS.), “MICRO-FRANCHISING: CREATING WEALTH AT THE BOTTOM OF THE PYRAMID,” 2007.

² HUERLIMANN, TOBIAS. “MICRO-FRANCHISING: APPLICATION AND SUCCESS FACTORS,” KELLOGG SCHOOL OF MANAGEMENT, 2011.

RISKS

Risks for micro-franchisees, as for traditional franchisees, can include a lack of opportunity for creativity in running the business, restrictions on geography, products or suppliers, branding risk from the performance of other micro-franchisees, and the requirement to share profits with franchisors.³

INTERNATIONAL EXAMPLES DEMONSTRATING SOCIAL IMPACT

Micro-franchising has been successfully implemented in both developing and developed countries, demonstrating the potential for both social impact and economic sustainability. A few of the many examples include:

KRISHI UTSHO, BANGLADESH -- DAIRY PRODUCTION

Dairy production in Bangladesh suffers from many challenges, including disease, low production cattle breeds, and the lack of inputs such as medicines and feed. Krishi Utsho, owned by Care International, addressed the need by developing a network of over 110 micro-franchisee agro-dealers (23% of which are owned by women) serving over 30,000 farmers with a wide variety of products and embedded services.⁴ Sales of goods ranging from feed to seeds and medicine to machinery are complemented with information and agricultural extension services, creating a one-stop solution for farmers' input supplies.

Since the micro-franchise network was launched, average milk production has increase by more than 50 %, and it is expected to rise as new strains of more productive cattle begin to produce milk. An in-house survey on 400 randomly selected farmers to measure its impact, found that

- Milk production increased by more than 50%
- Farmers' income increased by 30%
- Food spending increased by 10%
- Distance traveled and cost to access inputs reduced by 50%
- Quality of products substantially improved.
- 23% of Krishi Utsho franchises are owned by women,
- All franchisees broke even within 12 months, many have doubled revenue.
- KU as franchisor broke even within three years.

³ GOVERNMENT OF QUEENSLAND, AUSTRALIA, "ADVANTAGES AND DISADVANTAGES OF BUYING A FRANCHISE," [HTTPS://WWW.BUSINESS.QLD.GOV.AU/STARTING-BUSINESS/BUYING-BUSINESS/BUYING-FRANCHISE/ADVANTAGES-DISADVANTAGES](https://www.business.qld.gov.au/starting-business/buying-business/buying-franchise/advantages-disadvantages)

⁴ FINDEV GATEWAY, "DISCOVERING THE PROMISE OF SOCIAL FRANCHISING," 2016. ACCESSED FROM [HTTP://WWW.FINDEVGATEWAY.ORG/LIBRARY/DISCOVERING-PROMISE-SOCIAL-FRANCHISING](http://www.findevgateway.org/library/discovering-promise-social-franchising)

HINDUSTAN UNILEVER LTD. (HUL), INDIA – HEALTH AND HYGIENE PRODUCT SALES

HUL is the Indian subsidiary of the multinational company Unilever, whose nutrition, hygiene and personal care products and brands are widely recognized worldwide. Recognizing the base of the pyramid potential of the untapped rural market, HUL launched Project Shakti in 2001.

Micro-franchisors are rural women, or Shakti Entrepreneurs (SE), who sell HUL products such as soap, toothpaste, and detergent, in their villages and nearby communities for a profit. Project Shakti creates income generating capabilities by providing a sustainable micro-enterprise opportunity, with the added social benefit of improving rural living standards through health and hygiene awareness. Key results include:

- Established network of over 72,000 SEs covering over 100,000 villages throughout India.
- Touched the lives of 130 million rural people
- 9 out of 10 Indian households use HUL products
- Household income has doubled for the typical SE.
- Employment of 18,000 employees across HUL's factories and offices
- Proven profitability and commercial viability, fully self-sustaining.⁵

EDUCARE CENTRES, SOUTH AFRICA – EARLY CHILDHOOD EDUCATION

Access to quality early childhood development (ECD) in marginalized communities is a major challenge in South Africa, as in many low and middle-income countries. ECD is important socially not only for intellectual and social and emotional development of children, but also for enabling greater participation of women in the workforce. Accordingly, Educare established the GROW program in 2013, incorporating a micro-franchising model centered on social enterprise principles. As a result, 12 GROW with Educare Centres have been established by micro-franchisees, creating 50 formal jobs while serving 471 children.⁶

LESSONS LEARNED FROM INTERNATIONAL EXPERIENCE

International experience shows that identifying capable franchisors is the most important success factor for implementation. Franchisors must provide a thoroughly vetted business model, and must have sufficient expertise and capacity to manage the franchise, including:

- providing adequate training, standardized equipment, financing, and managing supply chain processes
- developing an appropriate franchise management agreement with clear terms, conditions and remedies for non-compliance

⁵ HINDUSTAN UNILEVER LIMITED, ANNUAL REPORT 2017-18," 2018. ACCESSED FROM [HTTPS://WWW.HUL.CO.IN/IMAGES/HUL-ANNUAL-REPORT-2017-18_TCM1255-523195_EN.PDF](https://www.hul.co.in/images/hul-annual-report-2017-18_TCM1255-523195_EN.PDF)

⁶GROW WITH EDUCARE CENTRES WEBSITE, ACCESSED FROM [HTTP://WWW.GROWECD.CO.ZA/](http://www.growecd.co.za/)

- establishing clear criteria for micro-franchisee selection and facilitating access to finance for start-up on reasonable terms

Without a solid franchisor, the whole model becomes null and void. As such, micro-franchising interventions must focus first on empowering the establishment and operations of franchisors, with a clearly defined business in a box that can yield a sustainable and mutually beneficial relationship with micro-franchisees. Further, design must ensure a short return-on-investment time period at the franchisee level, with immediate positive cash flow.

HOW COULD MICRO-FRANCHISING BE APPLIED IN JORDAN?

OVERVIEW OF POTENTIAL SECTORS AND COMMERCIAL ACTIVITIES

Preliminary learning from meetings with stakeholders and review of secondary data indicate that the model could be applied across different sectors in Jordan, including Agriculture / Agribusiness / Dairy, Renewable Energy, and Water Conservation. In addition, a wide range of services appear to be promising candidates for micro-franchising. Those include transportation, early childhood education, primary medical care, sales and promotions, business support to underserved governorates, after sales services, financial inclusion, and public and social service delivery.

EXAMPLE OF OPPORTUNITIES IN AGRICULTURE

Jordan is a leading producer of fresh tomatoes, yet mostly imports value-added tomato products such as canned tomatoes, tomato paste, tomato juice, ketchup, pasta sauce, etc. Globally, there is strong growth in markets for fresh tomatoes as well as for tomato sauces and ketchup. Micro-franchising could be a vehicle for enhancing exports of fresh tomatoes as well as for introducing local production of value-added tomato products using innovative methods, improved practices and quality, and ultimately achieving greater economies of scale.

As illustrated in Figure 5 below, the value chain provides ample opportunities for micro-franchises to contribute to quality upgrading and value addition. For example, specific micro-franchise applications could include:

- Agricultural input and service shops (selling seeds, tools and equipment, fertilizer, drip irrigation supplies, etc. to producers)
- Aggregation in an input shop, including food processing
- Provision of training and technical assistance to producers (e.g. hydroponic methods, integrated pest management or organic practices), those could be embedded in aggregation services
- Aggregation at the farm level, including food processing
- Sorting and packaging

Franchisors linked to local suppliers or buyers (e.g. agricultural input distributors, restaurants, hotels, supermarkets, or agricultural exporters) could hypothetically create a “business in a box” in any of the above areas, then offer it to micro-franchisees as a way to scale benefits of new forms of value addition with little risk.

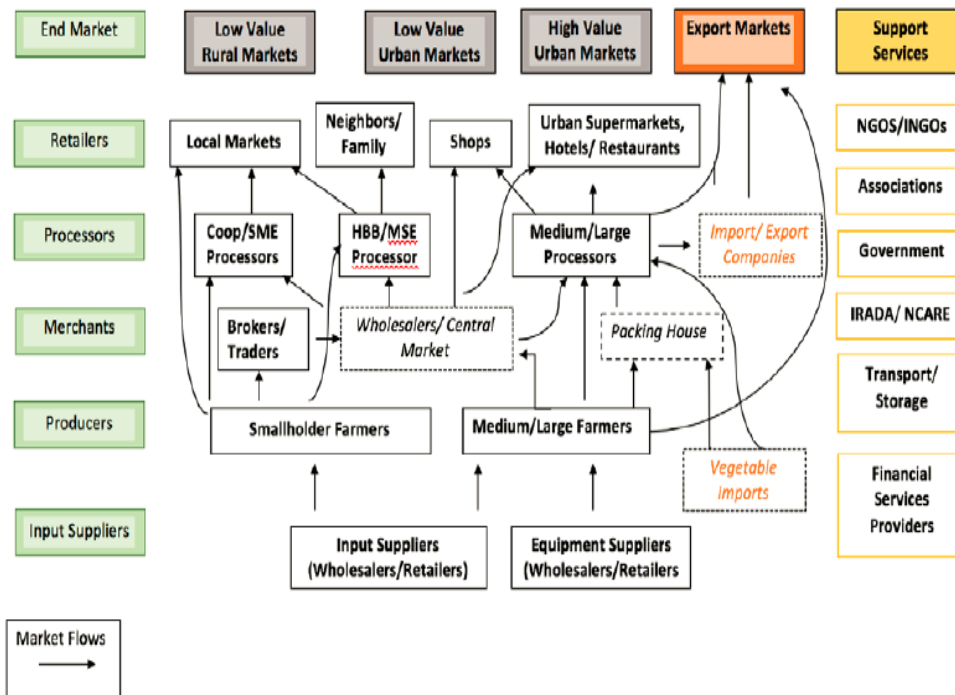


Figure 3: Jordan Vegetable & Fruit Value Chain Map (USAID LENS, 2018)

CONSIDERATIONS FOR APPLICATION IN JORDAN

Replication of international models can be an acceleration mechanism, but the model must be localized to the Jordanian context; specifically, the state of markets, target sectors, available raw materials and resources. Jordan's GDP, economy and country infrastructure are much more developed than in most places where micro-franchising is today thriving. The relatively small size of Jordan's economy limits the number of potential franchisees per franchise. As a result, a clustered intervention that establishes many franchises will be needed to ensure meaningful impact. Businesses and models will look significantly different in most cases and must be localized to meet supply and demand drivers.

Immediate opportunities for franchising are prevalent upstream – specifically in food processing – with significant employment benefits expected among women and youth. In several governorates, readiness is most evident in relation to agribusiness production, inputs, raw materials or processing. Potential high-impact customer-facing opportunities are difficult to assess, due to a lack of data on Base of the Pyramid market spending in Jordan.

Most entrepreneurs do not have the luxury of time nor patience to work through a new, unproven model. Early adopters will be social entrepreneurs and small and medium companies; they will need significant assistance in establishing their franchises. Access to finance must be facilitated for both franchisors and micro-franchisees. At the franchisor level, this may entail co-investment through one-time grants or soft loans.

It will be important to demonstrate local success stories, even if at a small scale, before engaging the larger companies. Such companies can potentially roll out micro franchising initiatives at a large scale, but rarely do before seeing proof of concept. Moreover, they will easily lose interest if the process and business case are not clear.

To enable eventual impact at a nationwide scale will require a multi-dimensional, multi partner Public Private Partnership (PPP) approach engaging social enterprises, impact investors, donors, etc. to develop a for profit model with significant social impact. This may also entail the development of an institutionalized, national model in order to generate the desired level of impact. PPPs can be a vehicle to institutionalize and incubate the model until sustainability, after which it will grow organically driven by the private sector, including private companies and social enterprises.

USAID LENS MICRO-FRANCHISING PILOTS

To test and validate the feasibility of micro-franchising as an economic development tool in Jordan, the USAID LENS program has designed and launched three pilot projects with partner franchisors in different sectors and value chain functions. Specifically, the goals of the pilot activities are to:

- Select and design projects along different parts of the value chain
- Qualify and quantify what it takes to create a successful franchise
- Validate sustainability and scalability of the model design
- Validate success and risk factors
- Identify key characteristics of successful franchisors and franchisees
- Identify needed design improvements prior to full scale implementation and replication.

Selection of pilots focused largely on finding franchisor champions that saw an opportunity and were willing to work with USAID LENS on testing the model. This did not necessarily result in the selection of the most scalable opportunities in the highest potential sectors. Key selection criteria are summarized in the table below.

Table 1: Key Selection / Evaluation Criteria for Micro-franchising Pilots (in descending order of importance)

Economic Impact	Business / Franchising Model	Partner / Franchisor	Franchisees
<ul style="list-style-type: none"> • Sector • Potential replicability and scalability of model • Projected impact on local youth and women unemployment • Community poverty/human development impact 	<ul style="list-style-type: none"> • Value chain positioning • Market demand for product • Product readiness • Governorate readiness • Geographic range/flexibility of business 	<ul style="list-style-type: none"> • Partner willingness and buy-in • Synergy of vision and design with USAID LENS • Partner business plan design • Project start-up cost for franchisor 	<ul style="list-style-type: none"> • Low financial risk to franchisees • Affordable cost of entry for franchisees • Poverty/human development impact on franchisee • Market driven proposition with a clearly defined or identified market

PILOT PROFILE #1: KAMA LOCAL GOURMET

Kama is a woman-owned Jordanian company that packages and sells quality culinary products from the Middle East. Kama is committed to becoming the leading brand for specialty foods from Jordan, and ultimately, the Middle East. The company prides itself on supporting local delicacies, providing access to unique Middle Eastern flavors to a customer base of food lovers, curious travelers and global dreamers. The USAID LENS micro-franchising pilot with Kama is supporting women producers to upgrade their products and access new markets.

Kama currently sells through direct, retail and wholesale channels. The company serves 20 Jordanian blue-chip clients (e.g. Zain, Bank al-Etihad, and Taj Mall) with gift products, and is currently working on extending its regional and international reach.

USAID LENS is supporting Kama to establish a Supply Side Micro-Franchise Model, whereby all locally sourced items for Kama are supplied through a network of approved micro-franchisees. Those include

pre-trained and licensed home-based businesses and/or production kitchens located in remote underserved governorates. Suppliers, all of whom are women, receive training, standard operating procedures and research and development capabilities, and equipment specifications, all monitored through rigid quality assurance measures. During the pilot phase, Kama is setting up over 11 micro-franchisees in Zarqa and Karak, annually supplying approximately 15,000 jars of a total of 16 different products. Franchisees are expected to generate an average income of 300 JODs per month.

PILOT PROFILE #2: JOLIE FEMME MINI SALONS

Jolie Femme, a women-owned beauty and care company, operates two full-service, highly sophisticated and fully equipped beauty salons located in the most luxurious areas of Amman. This women-owned business also operates the Jolie Femme Academy in Khaldia; the only City and Guilds Accredited Academy for beauty and care services in Jordan. Every month the Academy trains and graduates dozens of young men and women from disadvantaged communities. Unfortunately, these graduates are not able to find jobs in existing salons in Amman. At the same time, the company's market analysis suggested that there are untapped opportunities in smaller villages and cities, which do not have quality hairdressing salons, forcing hundreds of women and girls to travel to Amman to procure services at relatively high prices. Through the USAID LENS pilot, Jolie Femme is launching a micro-franchise of mini salons to enable ambitious, skilled graduates to open salons in their home towns.

During the pilot phase, Jolie Femme plans to open three salons in Qweirah, Karak, and Aqaba. Each franchise is expected to employ at least three women during the first year. The activity will include developing and institutionalizing a front facing micro-franchising model to ensure standardization and successful replication of franchisee agreements.

PILOT PROFILE #3: THE BUSINESS HUB KIOSK, BY MIGRATE

MIGRATE is a business knowledge and networking company with a network of clients across Jordan and the broader MENA region. The company provides clients with business solutions to support expansion to new markets in the region, while reducing costs and risks. The Business Hub Kiosk serves as a one-stop-shop to help companies find and promote business opportunities and access the local business-to-business (B2B) service market. Through the USAID LENS pilot, MIGRATE is establishing Business Hub Kiosks in remote cities and areas, creating self-employment opportunities while fueling local economic development in underserved communities.

During the pilot phase, the company will establish three micro-franchise kiosks (in Irbid, Mafraq and Zarqa -Azraq). Each Kiosk will offer membership services, as well as walk-in services, to local enterprises. One-stop shop service offerings will include B2B matchmaking and referrals to a proprietary database of service providers from across the broader MIGRATE network; virtual representation (address, mail receipt, signage, physical representation by support staff); flexible access to desk space or meeting rooms; business administrative services such as data entry, research, and translation; and printing/scanning/faxing. As they develop further, the kiosks will create a portal through which local companies can access service providers and markets in other kiosk locations. Each kiosk is expected to create direct self-employment opportunities, plus six supporting jobs in the first year.