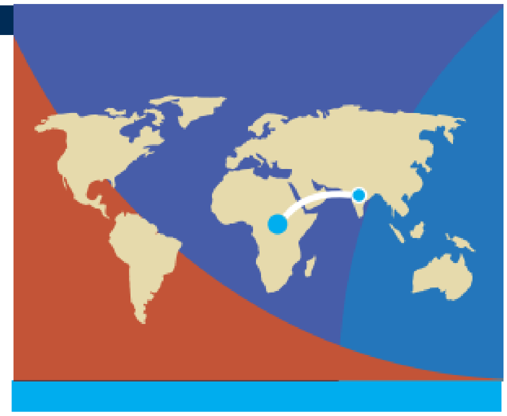
Expanding the business into Africa through "Franchise route"



Many a times, it may not be the best idea to expand the business in a new geography by setting up own operations in the form of wholly owned subsidiary or a new firm. This route to expand to Africa would require a considerable amount of capital investment and a medium to long term lag period when the business starts getting returns from Africa operations.

While expanding the business from India to Africa, an inclusive business can also face challenges like language and cultural barriers, lack of access to distribution network, and region specific technical expertise etc. In such scenario, partnering with a local counterpart who has better understanding of the business environment and is better equipped to lead the front in the Africa can be a better choice. Inclusive Partnership can be of many forms such as trade partnership, Licensing, strategic alliance, joint Venture and franchising.

This document provides an initial checklist of assessing if an enterprise is ready to partner and things to consider while opting for "Franchise route".

UNDERSTANDING "FRANCHISING"

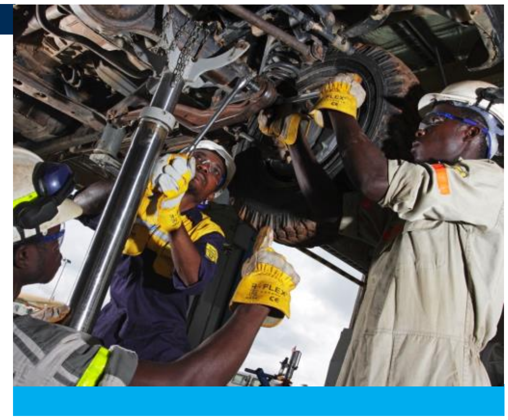
"Franchising" is a type of business replication in which a business (franchisor) allows the other party (franchise) to use its proprietary knowledge, process and trademarks with an objective to sell its product or service under the franchisor's name. For gaining the franchise license, franchise partners pay the inclusive business one time upfront and/or annual licensing fee. Besides this, there is revenue sharing from the business on periodic basis.

WHAT CAN A FRANCHISE ROUTE TO EXPANSION BRING TO THE TABLE?

- *Scaling the business rapidly in a new geography: Through franchising mode, a business is able to establish large number of franchises in short period of time without paying for overheads and hence increase its geographic footprint in the region rapidly*
- *Local business knowledge in a new geography: Local businesses bring in the experience of working with the end consumer, understanding of their requirements and connectivity with the distribution channel players. Since they have worked closely with the potential target market, therefore, will have greater trust equation with them. A product or service routed through the franchise partner is more likely to be accepted by the target community*
- *Access to already established distribution network and entry into new markets- This is important especially in case of businesses with commoditized product or services businesses. To make sure the business is able to reach every nook and corner of the destination country leveraging on already established distribution network of a franchise partner can be a viable option go for*

WHEN IS "FRANCHISING" BEST MODE OF BUSINESS REPLICATION IN AFRICA?

The decision of whether to go for a franchise route for expanding to an African country will depend upon many factors related to organization, business model, and macro environment which make it imperative for a business to opt for "Franchise Model" in order to succeed in African market. Some of these factors have been explained below:



Organization factors that can lead to Franchising

- *When access to capital is limited for Africa expansion: When the organization has only, limited capital to commit to Africa expansion. When going for franchise, the inclusive business's investment will be limited to costs involved in franchise selection, training the human resource and assistance in opening and monitoring the franchise operations in destination country, whereas the capital used to set up the local operations is borne by franchise*
- *When management lacks region specific expertise and management resources are limited: In this case also the organization can leverage upon the expertise that an local counterpart would bring in and hence reduce the learning curve as well as requirement of resources while entering African market*
- *When management is willing to share control of business: When management is willing to share the control of business in form of franchise in lieu of competencies that the franchise partner can bring in to run the business in Africa*

Business model related factors

- *When the inclusive business has brand equity at global level: When the product or service being offered by inclusive business has global recognition, the franchisee can build the market base leveraging on the parent company name and expand its business*
- *Type of product or services being offered: In cases when the product or service being offered is commoditized and therefore the business model can be easily replicated with appropriate amount of training, the inclusive business can go franchise route in Africa*
- *When the business model is affected by cultural sensitivities, language barriers: Since a local partner would have workforce from the community itself, their last mile workforce is integrated with the community at better level and hence would be better placed to sell a product or offer services in Africa*
- *When consumer requires financing support to buy the product: Local partner having good network with micro finance institutions can mitigate the problem of consumer financing in inclusive businesses dealing with high cost products and services*

Macro environment related factors

- *When a franchise is the only legal way to enter market of destination country in Africa: The laws and regulations in different African countries differ. It's necessary to investigate the different legal ways to partner in the destination country. If franchise is the only legal way to partner, it becomes a forced choice for the business intending to enter the destination country*

FINDING THE RIGHT FRANCHISE PARTNER

Deciding about "who" the right franchise partner should be

- *For a successful franchise business it's necessary that strengths of the potential franchise partner are in line with the business requirement. Thus a business needs to do required due diligence on the potential franchisee partners before selecting them:*
    - *The franchisee partner should have enough on ground experience: Since the franchise is going to lead the business in Africa with minimal supervision from inclusive business, it requires the franchisee partner has required skill set, experience and able workforce to carry out business in franchisor's name.*
    - *The franchisee should have good understanding of the franchisor's business model: To replicate franchisor's model, it is imperative that the franchisee has sound understanding of objectives and modalities of the original business model*
    - *The franchisee should have required financial strength: Since opening a franchise requires huge capital investment from the franchisee's side in establishing physical infrastructure, employing human resources, operating capital to carry out the day to day business, he should have good financial standing*

RISKS ASSOCIATED WITH A FRANCHISE LED EXPANSION AND WHEN IT MAY NOT WORK?

- *There is lack of involvement from the inclusive business in developing franchise network: The franchisor needs to spend required time and capital in the franchise model else, a low involvement franchise model may easily fall apart. This is because after all, the franchise is borrowing the name and trademark of original business and hence it's necessary that all franchises carry out business in a standardized manner*
- *The partners do not have alignment on objectives of a franchise led model: When the objectives of two partners in franchise model are in different directions there may be a possibility that franchisee is not successfully able to replicate the business*
- *The level of expertise, investment or assets brought in by the franchisee is inadequate for running the business: In scenarios when there is imbalance between levels of expertise brought in and investment made by the franchisee is not at the level the business requires, there is likelihood of failure of the partnership. Thus the inclusive business must make sure that the potential franchise partner has the right kind of expertise to run its business. It can be done by assessing its past work, communicating with the existing or past partners and clients of the potential candidate for the franchise*
- *Location of franchises not being appropriate: Right location is a very important factor for a successful business. Thus unless the franchisee opens the franchise at right location, it might be difficult to make it a success*