



## AN INSIGHT OF THE CHARACTERISTICS OF MICRO-FRANCHISE BUSINESSES OPERATING IN SOUTH AFRICA

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### Abstract:

Microfranchising is one of the new innovative business concepts that has gained traction in the past few years, and which could provide a solution to the challenges faced by micro-entrepreneurs and stimulate the growth of entrepreneurship. Microfranchising has therefore, emerged as a potential strategy meant to rapidly scale-up entrepreneurship behaviour within the Bottom of the Pyramid (BoP). However, despite microfranchising being singled out as a panacea for economic growth globally, very little is known about the microfranchising business concept in South Africa. Resultantly, the latter is ignored from entrepreneurship discussion and discourse at both academic and policy levels. To address this gap, the study assessed microfranchising practices in South Africa, to profile the characteristics of microfranchise businesses in South Africa. The study used the interpretivism research paradigm to achieve the study objectives. Primary and secondary data were employed to collect data on the microfranchising practices in South Africa. Five in-depth interviews were successfully conducted with microfranchisees, while secondary data (microfranchisees' and microfranchisors' success stories) was employed to collect data on the former and current practices of microfranchising in South Africa. The collected data was analysed using the ATLAS.ti. The study results show that the microfranchise business exhibits traits of BoP markets, centralised inventory buying, comprehensive training of microfranchisees, decentralised inventory buying, job creation, master microfranchisee, sales orientation, self-reliance of the business, standardisation and adaptation.

**Keywords:** *microfranchising, microfranchisor, microfranchisee, micro-entrepreneurs, entrepreneurs, Bottom of the Pyramid*

### Introduction and Background of the Study

Poverty remains an on-going problem in the world's developing countries, given its impact on restricting people's ability to meet their basic needs, live lives that they value, and contribute constructively to society (Sen, 1999; Camenzul & McKague, 2015). According to BoP Innovation Center (2020), nearly 4.5 billion people live at the base of the economic pyramid, with 1.4 billion of them living in extreme poverty. An estimated 1 billion people have started micro businesses out of necessity, in order to generate income for themselves in an effort to alleviate themselves

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from poverty, due to a lack of employment opportunities (Banerjee & Duflo, 2011; Camenzul & McKague, 2015). These micro businesses are often very small, undifferentiated and unprofitable (Camenzul & McKague, 2015), because of a lack of skills, and a lack of access to markets and to the formal economy (Burand & Koch, 2010). Burand & Koch, (2010) argue that there is no silver bullet for moving people out of poverty, but however, there are tools that have shown huge success in spurring poverty and improving the lives of people at the base of the pyramid. These tools also stimulate the growth of entrepreneurship. One of these tools is microfinance, which has steadily gained worldwide attention over the years. However, the limits of microfinancing are that micro-entrepreneurs rarely grow into small or medium business, even if the owner has access to micro credit (Burand & Koch, 2011; Fairbourne, 2007). Karnani (2007) also argues that microfinance enterprise do not stimulate employment opportunities. It is in this context that microfranchising is gaining prominence and has garnered considerable interest in recent years among social entrepreneurs, non-governmental organisations (NGOs), government agencies, and the private sector, for its potential in supporting entrepreneurship among the disadvantaged in the developing countries (Camenzul & McKague, 2015; Fairbourne, 2006).

Examples of microfranchising enterprises that operate in South Africa and other countries across the world attest that there are micro-entrepreneurs who are operating their businesses successfully through microfranchising. Therefore, microfranchising, as illustrated in Table 1.1 below, compensate for some of the shortcomings of traditional micro-enterprise strategies that often assume that subsistence entrepreneurs have a certain level of skills, knowledge, and entrepreneurial expertise, which are necessary for venture success (Smith & Seawright, 2015).

Having noted the challenges micro-entrepreneurs are facing in South Africa, this study considered it opportune to assess the microfranchising practices in South Africa to profile the characteristics of microfranchise businesses in South Africa.

**Table 1.1: Examples of Microfranchising businesses**

Name	Year established and location of business	Products	Marketing or Selling method	Remarks
The Clothing Bank (TCB)	2010 Cape Town Johannesburg	Clothes	Door to door	Women micro-entrepreneurs are trained for 2 years to empower them to become financially independent. The women entrepreneurs are expected to generate a profit of R4 000 per month.
GROW Educare Center Project South Africa	2013 Kwazulu Natal	Education services to children	Door to door	Provide excellent early childhood education services at affordable prices in low-income communities while ensuring the micro owners operate them sustainable.
Vision Spring	2001 India, South Africa	Reading glasses, minor eyesight problems	Door displays in stand-alone optical shops, located within partner hospitals and surgical centers	Micro-entrepreneurs are provided basic training in selling optometry and glass products at affordable process in rural communities who have less access to optometrist and eye correction services.
Fan Milk	1960 Ghana	Dairy, ice creams and milk drinks	Door to door with bicycles.	Fan Milk Ltd provides credit and on- the-job-training to micro-entrepreneurs who act as their sales agents.

Source: Researcher's own construct

## Conceptualisation of Microfranchising

There is no universal definition of microfranchising as the concept is still in its infancy. Authors such as Fairbourne (2006) and Gibso (2007) have called it "a systematisation and replication of micro enterprises by people at the Bottom of the Pyramid (BoP) with small capital start-up." Bottom of the Pyramid generally refers to the largest, but poorest, socio-economic group globally. In South Africa many of the individuals in townships and deep rural areas, fall into this category (Lovasic & Pompei, 2014). Some authors (Burand & Koch, 2010, Erceg & Kukec, 2017) describe microfranchising as "a variety of known franchise types that have reduced investments and revenue with an aim to impact poverty by facilitating job creation economic activity and distribution of goods and services to the base of the economic pyramid markets at a profit." According to Camenzuli and McKague (2015), microfranchising is a small tested business that can be managed by an entrepreneur in a low-income market with support from a microfranchisor. Lawson-Lartego and Mathiassen (2016) define microfranchising as a variant of the traditional franchising approach, which is a contractual arrangement in which one firm, the franchisor (microfranchisor), licenses a business concept, operational system, or trademark to a second firm, the franchisee (microfranchisee). Similarly, Sunanda (2016) defines microfranchising as a small business that can easily be replicated by following proven marketing and operational concepts. A closer analysis of the interpretation of microfranchising by the various authors above, reveal some key aspects that support microfranchising. Microfranchising, therefore, is not possible without these aspects. Fairbourne, Gibson & Dyer (2007) asserts that, "a true microfranchise business must include all three components". These three components are explained below.

Micro refers to something being more than small. In a business – it is a very small business operating on a small scale and strongly focuses on the well-being of the microfranchisee and the surrounding communities (Fairbourne, 2006, Fairbourne et al., 2007). The businesses are referred to as being 'micro', as they require little capital (Fairbourne et al., 2007). Additionally, the 'micro' should not imply that the businesses are not fully developed. Rather, microfranchises are fully developed, well-functioning enterprises; far more appropriate and sustainable than the default 'copied' businesses that the women at the train station resign themselves to when trying to sell fried bread (Webb & Fairbourne, 2016). 'Micro' also signifies the low-income customers these enterprises serve, and the relatively little capital required to replicate them (Lehr, 2008).

Franchising means the replication of business procedure and involves standardised operations and everything that is connected to traditional or commercial franchising with an objective of generating profit for the business (Erceg & Kukec, 2017, Fairbourne, 2006). Combining the words 'micro' and 'franchising' gives microfranchising, which is very different from commercial or traditional franchising, as it is created to help Small, Medium and Micro Enterprises (SMMEs) entrepreneurs to start sustainable and successful businesses.

A microfranchisor is the person or company that grants the microfranchisee the right to do business under their trademark or trade name. The microfranchisor typically controls many of the macro aspects of the business such as creating and marketing the brand, procuring inputs, continuously improving the model, and recruiting and training franchise operators (Erceg & Kukec, 2017). A microfranchisee is the person who lacks skills and training of running a successful business and that gets the training and mentoring from the microfranchisor to run his or her own business under the franchisor's trademark or trade name. Microfranchise Agreement is a document that specifies all the terms on which the relationship between the microfranchisor and microfranchisee is based (Nieman & Neiuwenhuizen, 2014). It specifies all the rights and obligations of the two parties on how the microfranchise is to be operated.

Bottom-of-the-pyramid markets: This term refers to a market which consists of the world's population that resides at the lower levels of the world's economic pyramid (Timonen-Nissi, 2017). The BoP markets are often disengaged from the global market, hence they are not part of the supply chains that link developed markets with emerging markets. Additionally, BoP markets are often oligopolistic in nature due to the lack of competition. Thus, consumers in such markets often overpay for necessities such as water, housing, financial products and other products (Kistruck, Sutter, Lount Jr et al., 2013). There are several characteristics that distinguish the BoP markets from the developed markets. The three most significant ones are: (1) poorly developed or undeveloped formal institutions, (2) significant differences between developed and BoP markets in terms of formal and informal institutions, and (3) substantial institutional differences within and among BoP markets (Kostova & Zaheer, 1999, Webb, Kistruck, Ireland et al., 2010).

Unlike in developed markets, formalised property rights do not generally exist in BoP markets. This lack of formalised property rights can make it difficult for individuals to use property as collateral, which in turn, can complicate the access to capital (De Soto, 2000). Incentives for investments and property improvements decrease as insecurity over property ownership increases (Kistruck et al., 2013). Without formalised systems of monitoring, individuals need to rely on informal means of monitoring and enforcing property rights in BoP markets (De Soto, 2000). As contracts are difficult to enforce, they are mainly used to set up expectations for partnering. Legal recourse is often ruled out as an option, due to its high cost and to the relatively small sums that are generally involved in BoP market ventures.

To combat such BoP distribution challenges that arise from the nature of the cultural and institutional environment, organizations are often forced to seek out locally embedded individuals to act as agents to tap BoP market communities (Smith & Stevens, 2010). These individuals, therefore, become instrumental in garnering access to informal institutions as a means to generate acceptance of new products and services (London & Hart, 2004). However, such individuals lack professional sales skills and they have very little sense of what it is like to participate in a formal business.

The institutional voids that characterize BoP markets, also create significant agency costs when firms use locally embedded individuals to sell and distribute products (Khanna & Palepu, 1997, Kostova & Zaheer, 1999). Specifically, the weak legal institutions of BoP markets make it difficult for organizations to enforce contracts and rely on public forms of governance in the event of dispute (De Soto, 2000). Similarly, the technological and transportation infrastructures make monitoring of effort very expensive and difficult for organizations operating in BoP markets (Webb et al., 2010). As a result, firms attempting to expand into BoP markets often use hybrid governance structures, such as microfranchising, franchising or consignment. These tactics help balance the transaction responsibility placed on local salespeople with the firms' retention of control over how the products are sold (Christensen et al., 2010, Smith, 2010). However, this need to maintain control often results in significant ongoing monitoring and enforcement costs for the firms (Kistruck et al., 2013).

## Methodology

The study followed the phenomenological philosophical paradigm to gain a deeper understanding of the complexity of the extent of microfranchising in South Africa. The phenomenological paradigm of the study was concerned with how microfranchise entrepreneurs made sense of the business world around them and how, in particular, the philosopher should bracket out preconceptions in his own engagement with that world (Bryman & Bell, 2015). The interpretivist research paradigm was chosen for this study, because it enabled the researcher to understand the socially constructed meanings of the respondents from the respondents themselves. Through the in-depth face-to-face interviews and the use of the secondary data that contained the shared experiences of the microfranchisees and microfranchisors across the country, the phenomenological paradigm guided the researcher to understand the multiple realities of the respondents in their natural context. This gave rise to new and unique ideas from the respondents. In addition, the phenomenological paradigm was used for this study, mainly due to the novelty of the research topic in South Africa. Hence, the researcher felt that a qualitative approach would be appropriate to test for detailed levels of understanding – an approach which would make way for other strategies for the study. The study followed an explorative research design.

The population of interest in this study are microfranchise entrepreneurs. Due to the novelty of the microfranchising concept in South Africa, the population of microfranchising is not well-known. Judgment purposive sampling was used to select the microfranchise entrepreneurs for this study. South Africa is made up of nine provincial regions which are divided into the coastal and landlocked regions. Three provinces were purposively selected for this study with one (Western Cape) province being selected due to the prevalence of microfranchising in the province, and two from the landlocked regions (Limpopo and Gauteng). The research utilised secondary and primary data collection methods. Secondary data collection was used to explore the past microfranchising practices in South Africa. The secondary data contained lived experiences of Vodacom and the Clothing Bank microfranchisees. The qualitative collected data was analysed using the Atlas ti version 8 software. The software is ideal for coding and categorising data into themes in a systematic way.

## Results and Discussion

The research question for the study sought to establish: *What are the characteristics of microfranchise businesses operating in South Africa?* The study results revealed that microfranchise businesses operating in South Africa

exhibit the following characteristics: BoP markets, centralised inventory buying, comprehensive training of microfranchisees, decentralised inventory buying, job creation, master microfranchisee, sales orientation, self-reliance of the business, standardisation and adaptation.

**BoP markets:** The study established that microfranchising businesses are characterised by BoP markets. This is because microfranchise has emerged as an innovative business model with high potential to scale up entrepreneurship at the BoP, to co-create value with those entrepreneurs and to contribute to public goods and poverty eradication (Fairbourne, 2007).

They start their own small business very quickly by trading, mainly in the informal sector, with the clothing they buy at discounted prices from The Clothing Bank. (Respondent 1; Quote 6).

The Community Services business model stipulates that local entrepreneurs (from within the disadvantaged communities) should own and operate the phone shop franchises. (Respondent 5; Quote 4).

Vodacom launched the Community Services program in late 1994, and over time the program has demonstrated how a technology company can operate profitably in low-income, rural areas by helping local entrepreneurs become franchise operators. (Respondent 6; Quote 60).

The results show that microfranchisees operate their businesses in BoP markets. These BoP markets are often disengaged from the global market, hence, they are not part of the supply chains that link developed markets with emerging markets. Additionally, BoP markets are often oligopolistic in nature, due to lack of competition. Thus, consumers in such markets often overpay for necessities such as water, housing, and financial products among other products (Kistruck et al., 2013). These BoP markets are characterised by low income people, township and rural areas.

**Combined Approach Inventory buying:** The results of the study established that microfranchise businesses use a combined approach inventory buying. Thus, they use the centralised and decentralised inventory buying systems. Centralised inventory buying allows them to receive discounts for buying inventory in bulk from their suppliers. This enables them to enjoy economies of scale, hence, they can sell their products and services at affordable prices to their customers.

They start their own small business very quickly by trading, mainly in the informal sector, with the clothing they buy at discounted prices from The Clothing Bank. (Respondent 1; Quote 7).

The social enterprise sources its clothes and faulty appliances from bulk rejections that do not meet the specifications of a retailer, customer returns and end of range items. (Respondent 2; Quote 22).

We only buy oil in bulk so that we can receive discounts from the supplier as it is used in every car. We also carry little stock for bulbs, plugs and fuses as most of them are universal to all cars. Our stock holding is very small. Our head office only played a role in securing supplies for oil, only because the supplier has a lot of branches around the country which make it easier for them to deliver to us. With these deals the microfranchisor assisted in getting a better deal because of the buying power we have as a brand. (Respondent 3; Quote 54).

The above indicates that some of the microfranchising businesses use a centralised inventory buying system for their microfranchising business concepts. This creates an efficient distribution channel for the microfranchisors, simple and standardised to ensure that the customers are always satisfied. In explaining the simplicity of the centralised inventory buying system used in some of the microfranchising business concepts, one of the respondents indicated:

You should place order to the producer when the customers have made orders only. (Respondent 5; Quote 20).

Despite using the centralised inventory buying, the microfranchising business also uses decentralised inventory buying. A decentralised inventory buying system allows faster delivery of materials in line with local factors. Thus, the microfranchisee can purchase their inventory locally in the right quantities and quality when required.

For example, if you bring a Polo TSI for a service today, we will book that vehicle in and purchase the required spare parts from suppliers after accessing the parts that are need. So, we do not carry stock of spare parts. We only order parts that are only needed for vehicles to be serviced in that day” (Respondent 3; Quote 41).

We purchase the inventory from the list of recommended suppliers that we are given by the head office. However, our purchases are different from other branches because there are influenced by the location of the branches especially with our branches being remotely located, we have the liberty to look for our own suppliers since these branches are located very far from the recommended suppliers. We are not limited to use the recommended suppliers if the quality meets the head office expectations. (Respondent 4; Quote 53).

The above shows that microfranchise businesses use a combined approach for inventory buying. Thus, they utilise a centralised and decentralised inventory buying system. Centralised inventory buying is suitable in microfranchising business, because the microfranchisees have common needs, since they sell the same products or services, hence, purchases are made from a single supplier. This, therefore, allows them to buy in large quantities from their suppliers who give them favourable business terms. They also enjoy economies of scale through centralised purchasing, which enable them to negotiate for stock discounts from suppliers. This corroborates with Mphambela (2015), who explains that a centralised operating system that franchises fully, drives the business to success, because franchisees in the same franchise network are not competitors, but allies in the business. The adoption of a decentralised inventory buying in the combined approach, allows the purchase of individual microfranchisees’ according to their requirements. Using this approach microfranchisees can have special needs purchases from their local suppliers. This study, therefore, acknowledges combined approach inventory buying as one of the characteristics of a microfranchise business.

**Comprehensive training of microfranchisees:** The training received by microfranchisees contributes to the personal development of the entrepreneur, and consequently to the success of the business. The training provided by microfranchisors is for business management, therefore it covers all aspects of the business that entrepreneurs must know in order to successfully operate the business.

She is exposed to over 1000 hours of practical training and support, covering modules such as money management, business skills, computer skills and life skills. (Respondent 1; Quote 14).

I received a three weeks’ intensive training program, that had everything to do with [the] operating this branch from paperwork to what happens in the background, up until to the physical activities, operational day-to-day activities involved in operating a branch like this one. (Respondent 3; Quote 21).

When I need training, they do provide me. For my employees we have an online academy where there are updated of the new ways of running the business. (Respondent 4; Quote 31).

The comprehensive training they receive from the microfranchisor is of paramount importance to the successful operations of microfranchise businesses. This enables them to be familiar with the business model. Specific training provided by the microfranchisor is an important opportunity for the microfranchisee to recognize the significance of utilizing creativity, know-how, as well as social and financial capital resources. Since training is provided by the microfranchisor, the risk of starting a new business is much lower compared to starting a business from scratch for the microfranchisor (Fairbourne, 2007). Tantamount to the results from the study Gibson (2007) explained that there are several benefits for microfranchisees that are attributed to training. For instance, the microfranchisor helps microfranchisees with site selection, negotiating the terms of lease for the storefront, and establishing an effective store layout. Moreover, tested operational guidelines and different checklists help the microfranchisee both in short and long-term planning and reporting. Lastly, there are built-in support systems, where microfranchisors’ financial success is directly tied to the microfranchisees, as a result there are incentives for both actors to do their job successfully. These built-in support systems include mentors and networks with other microfranchisees, among others.

**Job creation:** Microfranchising also creates jobs that lead to the economic development of South Africa. It creates employment opportunities for people living at the BoP, hence, leading to the development of BoP communities,



especially in the developing countries such as South Africa. Microfranchising also creates employment opportunities for those who do not have managerial skills and those who are uneducated, since microfranchising are usually larger than the traditional micro enterprises.

We have the capacity to support 800 mothers trading from our five branches in Cape Town, Johannesburg, Durban, East London and Paarl. (Respondent 1; Quote 78).

The Clothing Bank provides unemployed mothers and fathers with an alternative, empowering them to become self-employed business owners. (Respondent 2; Quote 7).

The Clothing Bank is continually looking for opportunities to provide business opportunities for unemployed South Africans and recognises that most unemployed people are not entrepreneurs. (Respondent 2; Quote 29).

There are over 1800 owners and over 4400 phone shops nationwide, and each owner is empowered to staff and operate phone shops according to their own needs and preferences. Regardless of the size of their operations, owners may or may not be involved with the actual operations of their shops. Most oversee their own operations, but some opt to hire middle management. (Respondent 6; Quote 40).

The above shows that microfranchising businesses create employment. One of the biggest problems of developing countries is the lack of employment. As a result, most people are working in the informal economy, since the formal economy does not offer enough jobs. Apart from the low salaries, the working conditions in the informal sector are often poor; there is lack of formal employment contracts, and hardly any social protection. In reality, the informal economy presents one of the biggest development challenges at the moment, but the growth of microfranchising could upgrade those businesses into formal economies (Henriques & Herr, 2007). Thus, small, local businesses can enjoy the benefit of the microfranchisor's official registered status (Magleby, 2005). Potentials of creating jobs and growth are better in proven business models, such as microfranchising (Fairbourne, 2007). The notion of job creation is explained in the following extract from Respondent 8.

The main benefit of microfranchising is that we are very big job creators. We currently have close to 15 000 demonstrators in our business, so we created 15 000, although every demonstrator does not sell every month and that is the thing that goes with direct selling. (Respondent 8; Quote 14).

Following the explanations in the above excerpt, job creation becomes one of the most important benefits derived from the microfranchisees' business operations. The above prove that microfranchising creates jobs for microfranchisees and their employees, including those who do not have managerial skills. This is because microfranchises are often larger than traditional micro-enterprises (Fairbourne, 2007). In support of the employment capacities of microfranchising, Gibson (2007) explained that the development of microfranchising is recognized by many as the most innovative and fastest method to transform temporary, informal micro-enterprises into legitimate, viable businesses. However, according to Christensen et al. (2010), not many former studies have discussed the poor as employees. They see employment creation as one of the greatest benefits of microfranchising that employs people who do not generate their own business ideas.

**Master microfranchisee:** The information obtained also clarified that some of the microfranchisees hold a master microfranchisee agreement, which gives them the right to sell microfranchises to other people within their territory. Thus, microfranchisees with master microfranchisee agreements, have the right to sell the microfranchisees to other people interested in the business, whom they will manage on behalf of the microfranchisor.

Basically, we are a direct selling business. Me and my wife we are distributors of Tupperware. We buy the Tupperware from the Tupperware company which a company that is based in Brakpan and the head office is in Bryanston, it is the head office for Southern Africa. They are responsible for planning for the operation of the business including training and the other aspects of the business regarding the business. We have the main business in Johannesburg. We have other distributors across SADC countries, Ghana and Nigeria. There are about 33 distributors in the business. There are about 2 or 3 in a region. Each distributor is a business on its own. (Respondent 8; Quote 17).

One of the microfranchisees notified that they operate their microfranchise business through a master microfranchise agreement. Just like the master franchise agreement, the microfranchisee agreement gives the microfranchisee more rights than an area development agreement (Beshel, 2010). The microfranchisee that is given more rights is known as the sub-microfranchisor, while the microfranchisee that enters into an agreement with the sub-microfranchisor, is known as the sub-microfranchisee]. In addition to having the right and obligation to open and operate a certain number of units in a defined area, the master franchisee also has the right to sell franchises to other people within the territory (Beshel, 2010). This, therefore, means that the sub-microfranchisor acts as the microfranchisor. Thus, the master microfranchisee or the sub-microfranchisor takes over many of the tasks, duties and benefits of the franchisor, such as providing support and training, as well as receiving fees and royalties. This was explained by Respondent 8 in the following extract during the interviews.

Basically, we are a direct selling business. Me and my wife we are distributors of Tupperware. We buy the Tupperware from the Tupperware company which is based in Brakpan and the head office is in Bryanston, it is the head office for Southern Africa. There are responsible for planning the operational activities of the business, including training and the other aspects of the business. We have the main business in Johannesburg. We have other distributors across SADC countries, Ghana and Nigeria. There are about 33 distributors in the business. There are about 2 or 3 in a region. Each distributor is a business on its own. As a distributor we recruit sale force members in our business to become demonstrators. (Respondent 8; Quote 17).

The explanation given by Respondent 8 exhibits how the word 'distributor' and 'master microfranchise' is used interchangeably referring to microfranchisor in the framework developed for this study.

**Sales orientation:** Microfranchisees are expected to improve the sales of the microfranchisors' products or services, to ensure that they also earn high profits from the sales they make. Thus, the focus of the microfranchisees is on increasing the sales of the business through promoting and advertising the products to the possible customer.

The objective is that each woman should earn at least R4 000 per month. (Respondent 1; Quote 17).

Yes, there are. We sit down on annually basis with the business development managers from the microfranchisor. We sit down and decide on the annually budgets targets for the upcoming financial year. (Respondent 4; Quote 59).

The more you sell more the more gifts you receive. (Respondent 5; Quote 13).

There are sales targets that we are given and receive free products for reaching a certain amount of sales and these incentives increase as you sell more. We then sell these products to add on our profits. (Respondent 7; Quote 11).

They start by being demonstrators and get promoted to be managers, senior manager, executive senior manager where they get benefits such as car allowance. If they also promote a certain number of managers, they can become team leaders. The team leaders get commission for every sale they make themselves. (Respondent 8; Quote 4).

The microfranchisees also indicated that the microfranchise businesses operate on a sales orientation. This motivates them to sell more of their products and receive more incentives for having a high sales turnover. Their amount of work is reflected by the sales revenues they make for a certain period, for example, in a month.

**Self-reliance:** The data collected, shows that microfranchising businesses are self-reliant, hence, the business is sustainable. The businesses can generate enough income that can be reinvested in the business and generate enough profits that the microfranchisees can use for their basic needs and acquisition of assets that can increase in value.

The Clothing Bank is 80% self-funded and the goal is for all 5 branches to be 80% self-funded within 5 years. (Respondent 2; Quote 50).



Despite these relatively low margins and the low income per capita in rural and disadvantaged townships in South Africa, the aggregate buying power of a community provides enough revenue to support the operating costs of Vodacom and the shop owner, who is able to maintain a relatively high cash flow. (Respondent 6; Quote 34).

Self-reliance is essential for any entrepreneurial venture. The respondents acknowledge that their businesses are self-reliant. The microfranchisees therefore, operate businesses that provide them with an income that goes beyond just a day-to-day subsistence. From the interviews conducted, the study attests that microfranchisee businesses are generating enough revenue to facilitate reinvestment of profits in the business and they are growing in capacity.

**Standardisation:** Since microfranchising has some features of traditional franchising, it is evident from the results of the study that standardisation is one of the characteristics of microfranchising businesses. As a result, some of the microfranchisors insist that certain standards are maintained by the microfranchisees to ensure uniformity among the microfranchised branches.

When buying other materials, the head office requires to give the customer a guarantee of spare parts bought. There are only guidelines of how to operate the business, for example, how quotations and job cards should be made. They have put together a tick box list that contains 62 things that must be done when inspecting the car for a service, but we are not limited to that. They also have administrative procedures that they want us to follow on how a job card should be written and handled. For example, a customer must sign a job card before proceeding with repairing the motor vehicle. The vehicle must also be inspected properly for damages. (Respondent 3; Quote 60).

These procedures of operating the business need to be standard across all branches in South Africa, even though the prices differ from one branch to another. The prices are different because we use different suppliers for our inventories. The prices are also influenced by location factors, for example, we incur more transportation costs than branches that are in Gauteng. So, you will find that the remote-located branches charge higher prices than the centrally remote-located branches. We only have few products that we charge the same product. (Respondent 4; Quote 64).

Each container has been modified to fit a service counter at one end, where the phone shop control units are located and where employees are stationed to collect money and program phone time into the control units. Each container also contains at least five phones (with a maximum of ten), located within phone stalls along the walls of the container. Insulation and ventilation are also added to containers during the modification process. (Respondent 6; Quote 48).

We use catalogue books. Every month we receive catalogue books that indicate which products will be on sale and it's the one that we show to customers. Usually the products that will be indicated in the books are the ones that will be having low prices. We then move around with the books showing the customers the products on sale. After that the customers place orders which we use to buy the products from the depot. (Respondent 7; Quote 6).

We are bound by the operational rules and we must follow them. This relate to business image of the manufacturer. There are also rules for operation for distributors. One has to operate in his region as a distributor. (Respondent 8; Quote 9).

Standardisation is also essential to a microfranchising business Nieman & Nieuwenhuizen (2009) explained that established franchisors will insist that a certain minimum standard of furnishings, fittings and equipment be maintained. Standardisation is a concept that both microfranchising and franchising equally regard and enforce.

**Adaptation:** Even though microfranchise businesses are standardised, some of the microfranchise businesses do not have standardised prices for their products. This is influenced by location-related factors, which affect the cost of materials required to render services or products required by the microfranchisees' customers.

The prices are different because we use different suppliers for our inventories. The prices are also influenced by location factors for example we incur more transportation costs than branches that are in Gauteng province. So, you will find that the remote located branches charge high prices than the centrally remote located branches. (Respondent 4; Quote 63).

Adaptive pricing also stemmed from the results as part of the characteristics of microfranchising. Microfranchising business allows microfranchisees to adapt or adjust their prices to meet local conditions, which helps them to have great success (Meyer & Bernier, 2010). Therefore, microfranchisees can establish prices, depending on their local consumer's revenues and other costs such as transport cost, regulations and tariffs.

## Conclusion and Limitations

Microfranchising businesses operates in the BoP, and many of the microfranchisees reside in townships and rural areas where there are a lot of aspiring entrepreneurs with small capital. These microfranchise businesses use a combined approach of inventory buying. Thus, microfranchising use centralised and decentralised inventory buying systems. The centralised inventory buying is used to purchase common items for all partner microfranchisees. Microfranchising contributes to the South African economy through job creation that stands up against the rising unemployment rate, which fills the economic gap to a certain extent, although the study could not establish the exact number of jobs created by each microfranchising business. Most microfranchising businesses use sales orientation as a way of motivating microfranchisees to work harder. The microfranchising businesses generate enough revenue to facilitate reinvestment of profits into the business, making the business self-reliant. Hence, they can create wealth for microfranchisees. Microfranchisees are trained to operate their businesses successfully, and they also learn entrepreneurial skills from their microfranchisors. These trainings show that microfranchisors are cognisant of the notion that entrepreneurship is not inherent in all entrepreneurs, thus, some need to be equipped with knowledge to become successful. Consequently, the microfranchising business concepts equip their microfranchisees to become successful entrepreneurs.

The study recorded and established microfranchising practices in South Africa to enhance the extinct academic literature on microfranchising and entrepreneurship ventures, operating at the BoP.

The limitation of the study is:

The study was carried out using a qualitative approach, therefore it did not provide any statistical conclusions on the efficacy of microfranchising in South Africa.

Microfranchising is still in its infancy in most parts of the world, and South Africa is not an exception. As a result, most of the information is from practitioner reports recorded in other countries. Hence, it is difficult to find extensive academic literature on microfranchising.

For future research the study suggests:

Further research should collect more information on the impact of microfranchising on job creation at the BoP. The study can be used to determine the capacity of jobs created by an individual microfranchisee and by microfranchise businesses, since this study noted that microfranchising plays a pivotal role in job creation.

Literature indicates that one of the main benefits of microfranchising is poverty alleviation. As such, it would be of interest to conduct a research that assess the impact of microfranchising in alleviating poverty for those at the BoP.

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