



# **Franchising Training Services in Malawi: Putting the New BDS Principles into Practice**

**BDS 3<sup>rd</sup> Annual Seminar Turin  
September 2002**

## **PRESENTATION OUTLINE**

- I. Introduction**
- II. Project Concept**
- III. Results Achieved so far**
- IV. The Picture of Sustainability**
- V. Key Experiences with Regard to  
Franchising CEFE**

# I. INTRODUCTION

## MALAWI CONTEXT OVERVIEW



- One of the poorest countries of the world
- 85% of population living on (subsistence) agriculture
- At all levels the Malawian society looks rather towards employment than self-employment
- Of 250.000 young people joining yearly the employment market only 30.000 can be absorbed in the formal sector
- Donor spoilt country

## THE TRAINING MARKET

### **Supply:**

Very weak formal private supply of entrepreneurship training: parastatals provided the bulk of (subsidised) training services

### **Demand (private sector):**

Weak; low willingness to pay

## II. PROJECT CONCEPT

## **MSMEP MALAWI (2000 – 2002)**

### **Primary objective:**

to ensure that entrepreneurship training is introduced into Malawi in a sustainable way



### **The product: CEFE ...**

... is a comprehensive set of training instruments designed to stimulate entrepreneurship development.

... uses experiential learning methods to develop and enhance entrepreneurial competencies.

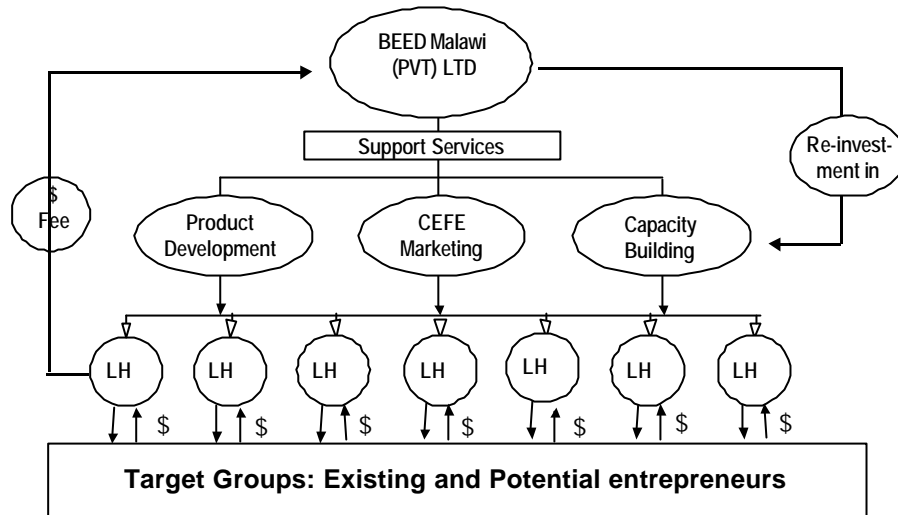
... targets existing and potential entrepreneurs and key personnel of enterprise support institutions.

## **PROJECT SET-UP**

A company BEED (Business Expansion and Entrepreneurship Development) was registered as franchisor of CEFE products:

- provided a commercial front to hide the donor face
- commercial front attracted more entrepreneurial partners
- company set-up offers a potentially sustainable structure after end of donor - sponsored project

## THE ORIGINAL FRANCHISE MODEL



## PRODUCT DEVELOPMENT/ LICENSE MANAGEMENT



### Product Development

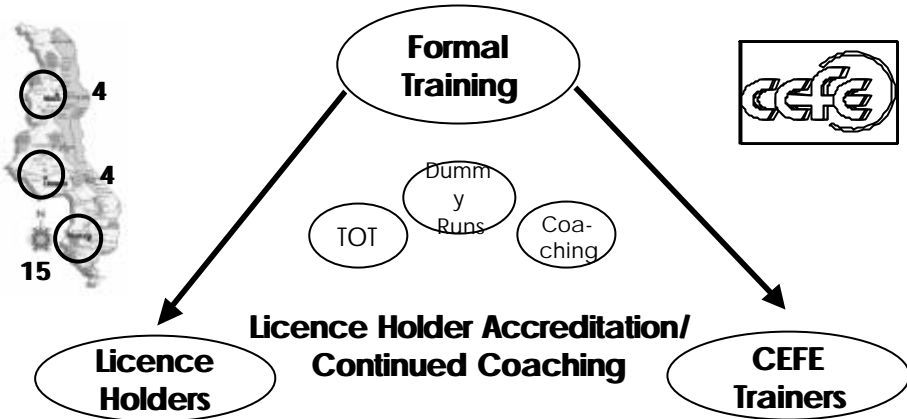
- CEFE 1 - Building Entrepreneurial Capacity (2 days)
- CEFE 2 – The Business Plan (5 days)
- CEFE 3 – Entrepreneurial Action: Refining the business plan and find funding (2 days)

### Brand and License Management

- Yearly negotiations of license fees
- Quality control of service delivery
- Management of client data base
- Memoranda of understanding with financial institutions

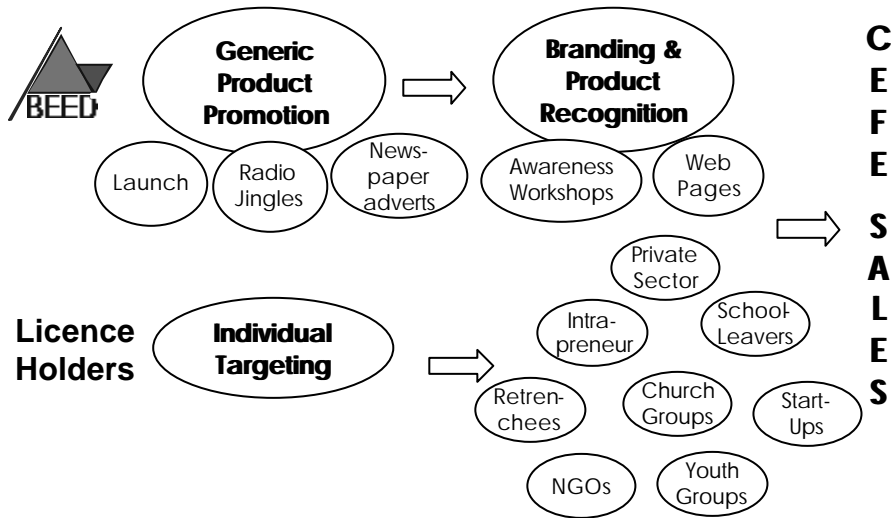
# CAPACITY BUILDING

- Trainers recruited by word-of-mouth and networking
- Trainers recruited from all levels of the market
- CEFE presented to them as business opportunity



# MARKETING

Assumption: BEED does branding and generic promotion while the LH sell the CEFE course places on their own

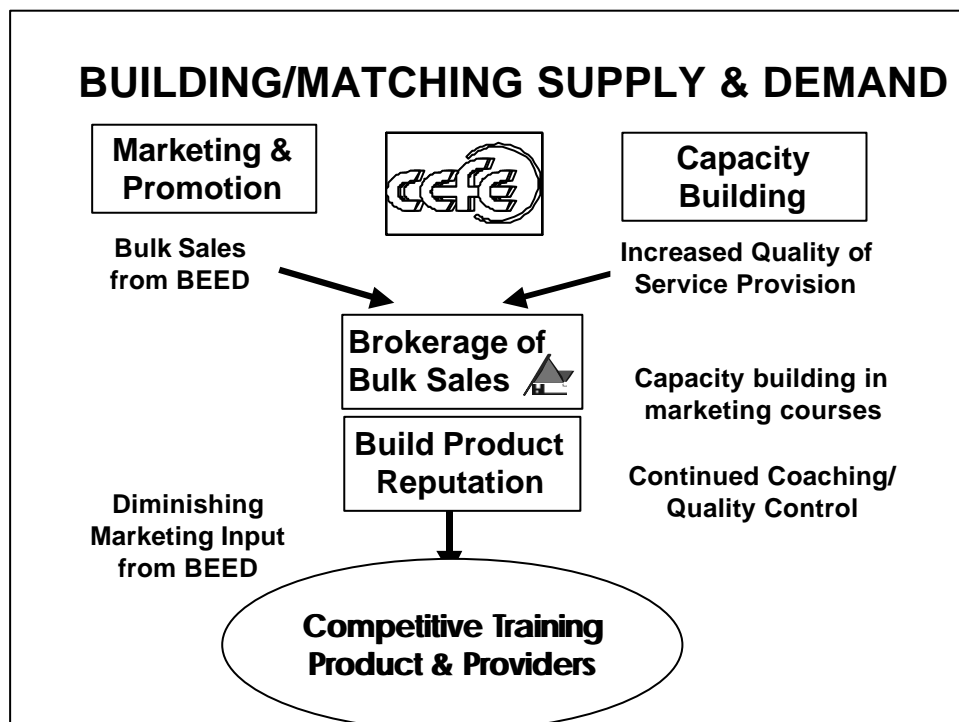


## INTERMEDIATE RESULTS & REACTION

Almost no sales were achieved! WHY?

- Overestimation of LHS' capacity to sell courses on their own in terms of marketing ability and training quality
  - Private MSME demand for training is donor-spoilt and very small
- => In order to build a reputation, the product needs to be marketed to all who can pay (incl. institutional clients)
- => Repackaging of the product from a typical donor gift to a certificate course like sold by universities and private colleges
- => BEED starts actively to sell courses:

**A clearing house strategy was used as interim model.**



## **III. RESULTS ACHIEVED SO FAR**

### **GENERAL ACHIEVEMENTS**

- 26 organisations, NGOs and private companies have become accredited LH, comprising 40 trainers of which 31 are still actively engaged
- 10 Memoranda of Understanding have been signed with financial institutions that recognise the CEFE 1-2-3 certificate in their credit assessment
- main customers: Government and parastatal organisations with contributions from participants

## **OUTREACH**

- # of final clients who fully paid for the training: 54
- # of clients paying at least cost-covering fees either themselves or through a third party other than BEED: 788
- Total no. of course places sold: 842
- Female clients: 49%
- Provider sales to SME clients (participation fees) in US \$: ca. 2 100
- Provider sales to all clients (incl. institutional) in US \$: ca. 12 000

## **SUSTAINABILITY & COST-EFFECTIVENESS**

- CEFE supplier cost recovery from individual and institutional clients: 100% of direct costs plus profit (disregarding individual provider overheads)
- Total program cost: ca. 900.000 US \$
- Total program cost per customer served: 1 000 \$
- Total program cost per supplier assisted: 35 000 \$

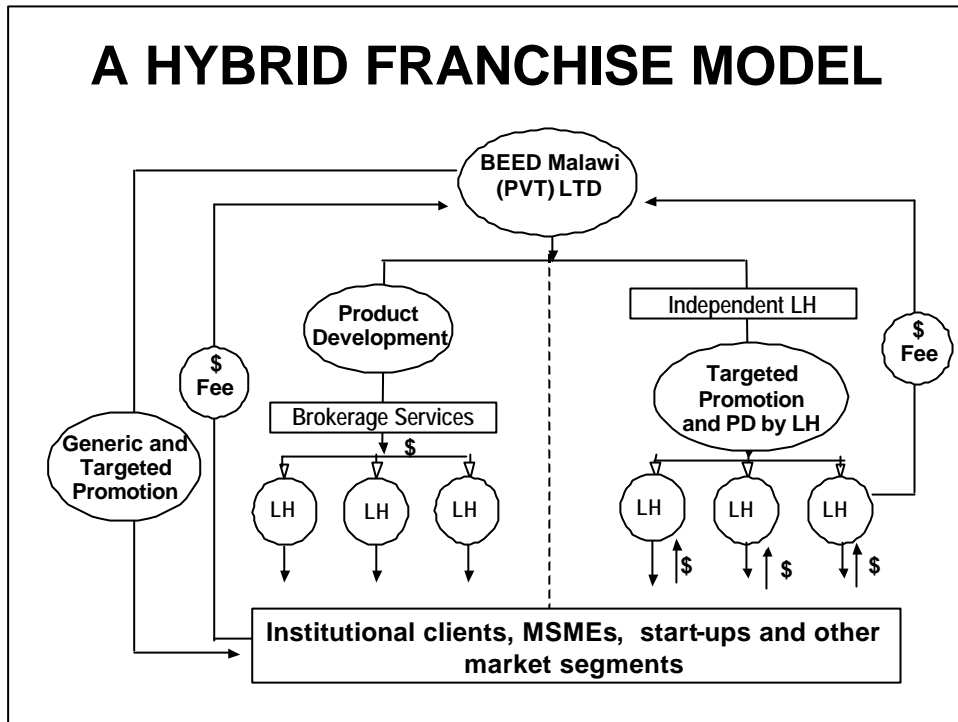
## **IMPACT**

- Customer satisfaction with the training: very high
- Repeat customers (where applicable): 30 %
- Increased customer benefits from CEFE courses: empirical evidence reports high benefits
- Increase customer use of CEFE courses: N/a

**Impact Assessment to be carried out only in 2003!**

## **IV. THE PICTURE OF SUSTAINABILITY**

## A HYBRID FRANCHISE MODEL



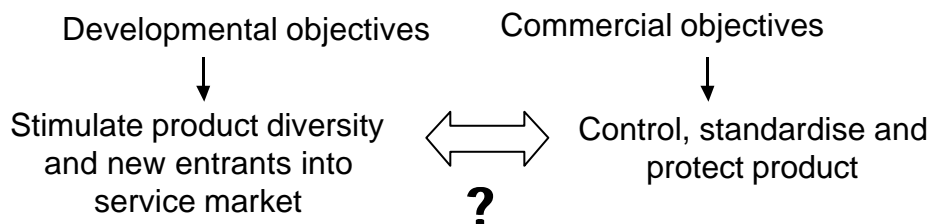
## V. KEY EXPERIENCES WITH REGARD TO FRANCHISING CEFE

## SCOPE OF ACTIVITIES

The Malawi general environment is not conducive enough to apply a pure commercial franchise model:

- BEED has to be much more active in selling/marketing than any franchisor would be
- Conceived as temporary phase in transition to a “hybrid model”

## PRODUCT DEVELOPMENT



### **Potential Approaches:**

- => Promote product development, buy and protect new products, or
- => Ignore conflict and promote product adaptations without further protection, and/or
- => Once the product is satisfyingly introduced into the market, stop maintaining the franchise system and move as facilitator to other areas of intervention

## **FINANCIAL VIABILITY**

- Threats: ineffective judicial process that makes a brand protection almost impossible thus undermining the incentives for legitimate LH to continue paying fees in a long-term perspective
- Opportunities: market potential defines income stream for BEED and thus its level of facilitating activities (capacity building, quality control etc.)

## **LONG-TERM PERSPECTIVE?**

Franchisor = BEED = Facilitator

3 potential scenarios:

- To vanish once the LH are self-sustaining in terms of product development, marketing etc.
- To transform into a loose network without franchise fees
- To concentrate as franchisor on core functions and out source increasingly the other functions to private partners

## FRANCHISING IN TECHNICAL CO-OPERATION?

- sends the right signals to the market place:
  - BEED = commercial player  $\longleftrightarrow$  not a donor
  - selling CEFE as commercial proposition  $\longleftrightarrow$  not as a gift
  - transactional relationship with LH  $\longleftrightarrow$  not treating them as beneficiaries
- Ensures that LH treat their involvement with CEFE as a commercial venture which needs to be viable  
=> strong ownership
- Choosing service providers from the lower end of the market can ensure commercial delivery there

## FRANCHISING CEFE IN OTHER COUNTRIES?

- If there is a strong entrepreneurial culture and experienced trainers: start with a franchise model right away
- If not, start with a clearing house model and see how far you get with (supported) franchisees' own initiatives to a hybrid model
- If there is supported entrepreneurial activity and variable ability to pay chose a hybrid model and move towards the franchise model

