

FRANCHISING CEFE

**Experiences from Malawi
2000 - 2002**

**Background paper for the Business Development Services
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Presented by

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LIST OF ABBREVIATIONS

BDS	Business Development Service
BEED	Business Expansion and Entrepreneurship Development
CEFE	Competency based Economies through Formation of Enterprises
GDP	Gross domestic product
GTZ	German Agency for Technical Co-operation
ILO	International Labour Organisation
LH	Licence Holder
MSMEP	Micro, small and medium enterprise promotion project
TEVETA	Technical, Entrepreneurial, Vocational Education and Training Authority
TOT	Training of Trainers

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0. INTRODUCTION

With regard to the termination of the GTZ-sponsored Micro, Small & Medium Enterprise Promotion Project MSMEP Malawi this paper has been prepared in order to analyse the approach chosen and the results achieved against the background of the New Paradigm for BDS market development. It coincides with the annual conference on BDS 2002 in Turin, and complements the PowerPoint presentation given there. It provides some details for the interested reader; for more information please refer to the webpage www.cefemalawi.com or contact the authors under info@gfa-management.de.

1. PROJECT HISTORY AND CONCEPT DEVELOPMENT

1.1 Country background

Malawi is one of the poorest countries in the world with an average per capita income of US-\$ 180. It is a landlocked country with about 10.8 million people. Its development prospects are hindered by a number of natural, social, cultural and economic constraints: limited natural resources, environmental degradation, extremely high population pressure, and a population growth per year of 2.4%. The HIV-AIDS rate is more than 20% and life expectancy has fallen below 40 years.

Malawi's economy is dominated by agriculture and relies heavily on tobacco; farming activities contribute 37.6% to GDP and about 90% to rural employment. The urban economy is characterized by a few large and medium sized companies and many micro to small survivalist businesses. However, at all levels of society most Malawians look towards employment rather than self-employment. Currently, an estimated number of more than 200,000 young people enter the labour market in Malawi each year. In contrast thereof, only 30,000 to 35,000 new jobs are annually created in the formal sector.

1.2 The BDS (Training) Market in Malawi

GEMINI 2001¹ found that approximately 6% of all surveyed businesses in Malawi had used some type of Business Development Service though it is likely that the concentrations of usage are greater in Small, Medium and Large Enterprises than in Micro Enterprises which form the vast majority of those surveyed by GEMINI 2000. 23% of the MSEs reported having received some form of training (half of it being free training from family members).

More detailed market research² done in Malawi showed that most problem solving in MSME businesses is internal. Additionally, managers turn to other individuals or businesses in their immediate 'network' for problem solving. The provision of services may be informal as well as formal. The study also found out that with regard to services used to improve *operational efficiency*, businesses are using a wide range of externally provided services: most commonly legal, transportation, distribution, computing and accounting with frequency of use increasing with enterprise size. With regard to BDS used to develop *operational and strategic capability*, training was the most often cited service, with technical training more common than business skills or strategic planning training. There was

¹ Ebony Consulting International, National Statistical Office, Kadale Consultants, Wadonda Consult: Malawi National Gemini MSE Baseline Survey, May 2001

² Jason Agar/Sheena Orr: BDS Market Research and Segmentation, April 2001

evidence of subsidised provision for at least part of the cost of training. Overall satisfaction with the training was mixed.

On the supply-side, formal private supply of entrepreneurship training was rather non-existent. In the past, parastatals or donors have provided the bulk of (subsidized) training services. These courses are mostly fully sponsored, inclusive of accommodation, daily allowances and transport. However, with regard to MSMEs, the survey revealed that these standardized courses are mainly offered in English, often last too long and are mostly offered on a full-time basis, which prevents many of the business people from attending the courses.

Overall, the study concluded that there is apparently greater private sector BDS provision both by businesses and individuals on a paid-for basis than previously recognised. This existence of paid-for Business (Development) Services challenges the view that SMEs cannot 'afford' to pay - the problem rather may be more about willingness to pay which is influenced strongly by donor subsidies and probably also low satisfaction given the mixed experience stated with training.

An assessment of the training market was done by BEED at a stage when the project focus (training) and choice of product (CEFE) had already been made. Other BDS markets may have been more appropriate for intervention, but with regard to the weak demand and supply in the training market with constraints on both sides to potentially react upon, an intervention can be justified.

1.3 Project History & Background

The MSME (Micro, Small and Medium Enterprise) Project in Malawi is a mutual effort of the Ministry of Commerce and Industry (political host), GTZ (commissioning) and GFA Management/ifo Institute for Economic Research (implementing). Launched in February 2000, its overall goal is that potential and existing entrepreneurs in the micro, small and medium enterprise sector make better use of their economic opportunities. Its primary objective is to ensure that CEFE (see Box 1), a business training package developed by the German technical co-operation over the last twenty years, is introduced into Malawi in a sustainable way.

Box 1: What is CEFE?

CEFE is a comprehensive set of training instruments designed to stimulate the small and medium enterprise development process. It uses experiential learning methods to develop and enhance the competencies of existing and potential entrepreneurs and key personnel of enterprise support institutions so that they can foster an environment favourable to enterprise development.

Originally the MSMEP had a very strong organizational focus: its aim was to build up the training capacity of three pre-selected partner institutions and to deliver them a high quality CEFE product. It was assumed that once the organisations have the knowledge they automatically would begin to offer and sell training courses. Potential demand side constraints were

neglected or ignored. There was no elaborated plan about a self-sustaining delivery mechanism, that once kick-started, would work on its own and guarantee a permanent and qualitative supply. The original concept wholly mirrored the old-fashioned thinking in project strategy and planning that was prevailing at the time of the project design in the mid nineties.

In 1999, when the project was eventually subcontracted to GFA Management, the New BDS Paradigm had already had his theoretical breakthrough. The people involved in project implementation now felt a need to review the original concept and to adopt it according to the new BDS market development paradigm. As such, the major objective of the MSMEP was defined: The development of a commercial CEFE service market to deliver entrepreneurship and business training to the micro, small and medium enterprises in Malawi.

The approach chosen was an innovative, fully commercial franchising model, and thus experimental in nature. From the old approach the project took over the – supply-driven – assumption that there was an existing or potential demand for entrepreneurship training and that this demand would be large enough to create a sufficient revenue stream to make the franchising system viable.

1.4 The Franchising System

The franchising mechanism as applied in the MSMEP project is quite simple and in general does not differ much from common commercial approaches (see Box 2).

The first step taken was to create a private company, BEED (Business Expansion and Entrepreneurship Development) Pvt. Ltd.. This was done for several reasons:

- The BEED company enabled the donor-sponsored MSMEP project to hide behind a commercial front and to attract more entrepreneurial partners.
- The company offered from the very beginning a structure that could increasingly take over its functions as a facilitator and survive the end of the donor-sponsored project.
- From a legal point of view, it is more convenient to register a trademark CEFE with a company than a project of technical co-operation: CEFE has been registered by BEED as a Malawian trademark in order to get the exclusive rights for its distribution.

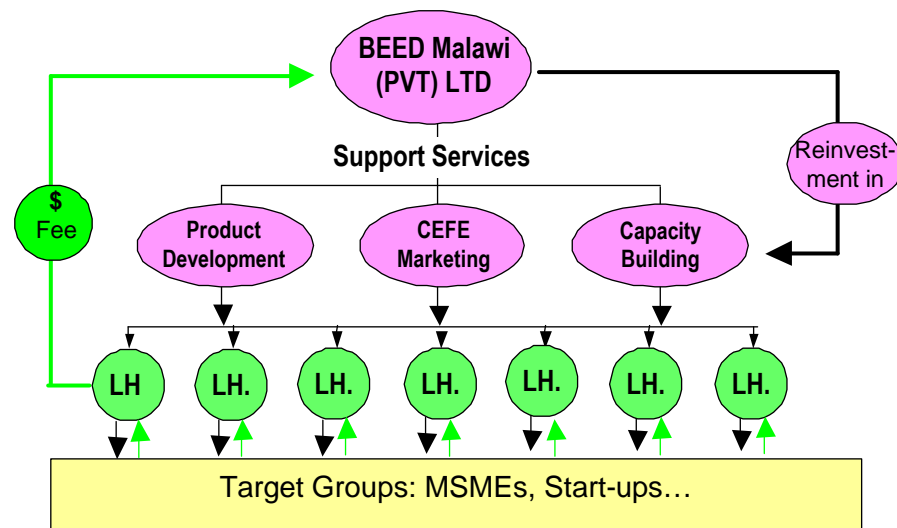
Box 2: What is Franchising?

Franchising is an arrangement whereby the sole distributor of a service or a product gives exclusive rights of local distribution to independent trainers and consulting companies in return for their payment of franchise fees and conformance to standardized operating procedures. Well-known worldwide commercial examples are e.g. McDonalds and 'The Body Shop'.

BEED is owned by a Malawian (successful in his private business of human resource development), but until the end of the external funding fully

managed by the international project team leader. The graph below represents the originally chosen approach.

Graph 1: The Franchise Model



LH = License Holder

In the following, the different aspects of the franchise model and how they developed in practice are presented.

1.4.1 License Agreement and Management

After an initial investigation, BEED approached mostly existing private sector training providers and offered them an additional training product to add to their repertoire. BEED's offer consisted of training in, ongoing product development of, and promotion of an internationally recognised course. Once trainers had been trained and certified, they were sold a franchise or a license – the right to sell CEFE courses in Malawi. In addition to paying the franchise fee, these License Holders (LH) would purchase from BEED the certificates for their students. This would give BEED an income stream as well as allow the project to monitor the popularity of the CEFE course. The LH were also expected to get involved in the marketing campaign, meaning the selling of their courses.

The franchise agreement promises rights to course materials the trainer had been certified as competent to teach. By accrediting single courses, BEED expects to attract also people with strong subject knowledge (such as university lecturers) who may be interested only in specific courses.

The contract awards the franchise to an organisation with specifically mentioned trainers, with the clear proviso that the organization cannot present the CEFE course with other, unaccredited, trainers. If the trainers wanted to act on their own and left the organisation, they were required to sign their own franchise agreement and pay the fee.

1.4.2 Capacity Building

Trainers were recruited by word-of-mouth information and networking. CEFE was presented to them not as a donor-driven product, but as business opportunity with the chance to earn interesting income from CEFE sales to different client groups.

Anyone with some exposure to training and who was willing to commit to the entire program and Licensing agreement, was accepted as trainee. The potential License holders then underwent the CEFE “Training of Trainers” 4 week course. Unlike other projects and with its hidden donor face, BEED did not pay any subsidy or allowances for the attendance of the TOT.

Ultimately, after 2 ToTs 40 trainers out of all three major Malawian regions became CEFE trainers. They have diverse educational backgrounds and professional experiences, and selected individually the target market they feel best suited to deliver. A conscious attempt was made to ensure that service providers from the bottom end of the market were included to conform to the principle of subsidiarity. In retrospect, the project rather rushed into the recruitment of CEFE trainers without having a strict yardstick for their selection. This resulted e.g. in trainers -though committed- with only little MSME-related working experience. It must also be said, however, that there is very limited scope for choice in this regard in Malawi.

Regarding the certification of the trainers, the importance of enforcing quality training standards from the beginning was soon revealed. The project believes the TOT trainers fell into the trap of being so positive and encouraging, (as trainers are supposed to be to their students) that they accredited everyone, even if some trainees were not really up to training standard. In order to improve the quality of supply, BEED carried out additional trial runs to assess the trainers’ coaching competency. During these courses, a further accreditation process, independent appraisers rated the trainers’ capability with a system of one, two or three stars with three stars as best grade. Two- and three-star trainers are eligible to run CEFE courses as lead-trainers, 1-star trainers only as Co-trainers. Active trainers are, by chance, fairly evenly divided into the three star rating categories.

1.4.3 Market Research and Product Development

The original standard CEFE course lasts between 2 and 4 weeks. To adapt it to the Malawian context, this course has been broken down into three smaller 2 to 5-days-modules (CEFE 1-2-3), which are as follows:

- **CEFE 1** - Entrepreneurship Career (2 days): Building entrepreneurial capacity by developing entrepreneurial strengths, goal setting and strategic thinking
- **CEFE 2** – Entrepreneurial Plan (5 days): Marketing, Production and Process, Organization and Management, Finances and Business Plan

- **CEFE 3** – Entrepreneurial Action (2 days): Refining the business plan and find funding

All courses can be attended separately, but they are also offered in a package or to make participants attend them in line. CEFE 1 and 2 can be attended independently from each other, but both together are a pre-requisite for CEFE 3. During the last course the trainees have to demonstrate their capability to run a business by designing their own business plan. Successfully passed participants will be awarded a 'CEFE 1-2-3 Certificate in SME Management'. This 'mini-MBA' has been recognized by many financial institutions in a Memorandum of Understanding with BEED and will be considered in their credit assessments.

Grounded on the recognition that training on a stand-alone basis is a risky venture, the project soon decided to develop new BDS products on the basis of BDS market research results. First ideas were focusing on products like business consultancies: Experience from other countries also shows that people who had attended a start-up training often subsequently demanded follow-up business advice. However, due to the project's premature closure (after 4 years instead of 6) these efforts had to be pulled back.

In the narrow context of CEFE, other courses (e.g. advanced management courses on human resources, marketing, and finance) are already designed and ready to be implemented. However, the project decided first to build a solid basis for the supply and demand of CEFE 1-2-3 courses.

1.4.4 Marketing

After the first ToT had been finalized, the project started an extensive promotion campaign ("Scattergun Approach") directed to the general public to create awareness of and for CEFE.

The marketing started with a flawed assumption: BEED delivers the product and the LHs would sell it. So the marketing efforts of the project were generic branding, not aiming to sell seats on specific courses. At first, BEED tried to sell CEFE as you would soap or any other fast moving consumer good. A considerable amount of money was spent on posters, print adverts, radio adverts and programs, t-shirt and prize give-aways, and launches. However, at the end of the campaign while there was some awareness created in terms of branding/name recognition, this did not translate into significant sales. The little bit of interest expressed dried up when it was revealed that not only it was expected from the participants to pay for the course, but they were not being handed a loan at the end of it.

The project had to realise that:

- A training product that had been introduced in a 'supply-led' way, and without market-based research was difficult to sell.
- As the marketing/branding approach was not designed correctly, the branding efforts were not effective.

- The LH were not active enough and thus not able to sell CEFE-courses on their own.

At this point, the project decided to change its initial strategy and started a more market segmented approach of direct marketing and diversification, i.e. to offer different clients courses that were tailored to their specific needs, based on the CEFE methodology. Additionally BEED began to market directly itself i.e. it started to acquire its own 'bulk sales' orders in order to bring CEFE onto the market, in a new set-up of BEED as a Clearing House.

This process and the details will be described in section 1.5.2. The amended marketing strategy as presented below is a consequence of these changes.

A full-time BEED marketing manager was hired. Based on the results of the market research, the market was redefined from "everybody" to specific groups (associations, private sector companies, employed people with unemployed relatives living with them, NGOs, government parastatals). Our target customers changed from being from potential and existing entrepreneurs to "all who can pay for the product".

Part of the new marketing effort was to re-package the training course from something that looked like the same thing other funded agencies offered for free in the past, to a certificate course like those offered by universities and private colleges, which automatically come with the expectation of having a fee. Print work was re-designed with a professional, serious business look. Marketing calls on potential clients were extremely positive and indicated important potential sales. The marketing team then refined the strategy to focus on 2 areas and a total of five customers that would generate income the quickest. One area is vocational schools; the other is 'bulk sales' customers (parastatals slated for privatisation, and government poverty alleviation programs). Both proved very successful.

1.5 The Development of the Institutional Set-up

1.5.1 Stage 1: The Original Franchise Model

During the first project phase, BEED experienced problems that made the project move from the original approach (see graph 1) to new ideas:

A main reason was the fact that the private MSME demand for entrepreneurship training is very small and difficult to open up, especially due to the fact that in the past donors offered courses for free which reduced the willingness to pay cost-covering fees.

Secondly, BEED vastly overestimated the trainers' preparedness to market themselves. They interpreted BEED's promise of promotion assistance to mean "we will bring you all the customers you can handle" instead of what BEED meant, which was "we will pay for generic branding so when you do

your own marketing, your customers know what CEFE is.” Although some trainers arranged courses on their own, it was only a small amount. In addition, the overall project period was unexpectedly reduced from at least 6 to 4 years, so that immediate action was required.

The project concluded that with further capacity building measures in training quality and marketing for the LH, and with an amended marketing approach it would still be possible to sell CEFE on a cost-plus basis. However, it all depended on the successful introduction of CEFE into the market which would then allow the LH to market themselves once people are aware of the CEFE-product and its positive reputation.

Given these circumstances, with the aim to built a reputation and to built a solid financial basis for the LH the project decided to consider clients as all those who are able and willing to pay– which led BEED in the first place to the institutional clients rather than to MSMEs.

1.5.2 Stage 2: The Interim Franchise Model: Clearing House

Since the beginning of 2002 BEED acts as a clearing house and does brokerage of sales. This means it carries out its own marketing and signs contracts with bigger customers, above all institutional clients. Being an integral part of the direct-marketing strategy, BEED offers them CEFE-courses that are tailored to their specific needs. Furthermore, it provides the logistics and manages the training calendar. The crucial difference in comparison to the previous model is that BEED now hires the License Holders as its associate trainers to carry out the courses. This also means that BEED pockets the profit.

It also enables BEED to maintain good files on student numbers and to conduct follow up activities to gauge effectiveness of the training. The central coordination of courses allows for effective equipment and materials’ administration (the special soft boards, training and course materials, etc.).

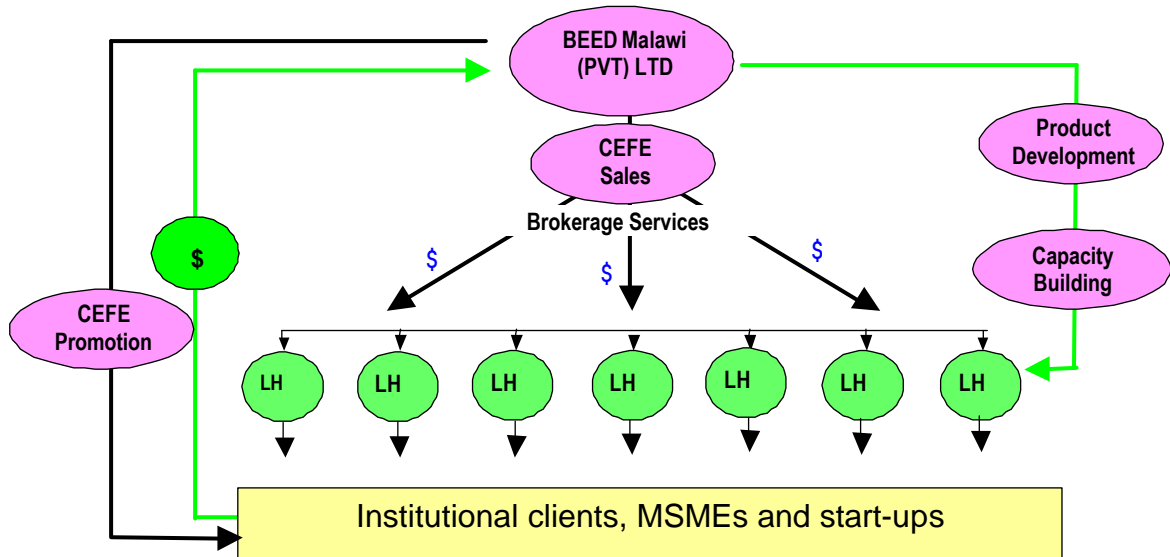
Many clients prefer this model because the image projected by BEED appears more legitimate than an individual small-scale trainer who may not even have an office. It also simplifies things for the client who needs a lot of training – one company to deal with instead of numerous small ones.

Under this model, the trainers/LH are still independent operators. BEED pays them no salary and no benefits. They are still franchisees in that they must be trained and accredited by BEED.

The current approach is in contrast to its originally envisaged market development approach and is considered only as an interim stage. The rationale behind this strategy is not to reward the License Holders for their passivity or inability of finding own clients, but to encourage them to look for their own clientele by revealing the calculations and the profits which are made by BEED - money the LH could have earned, if they had acquired the orders on their own.

Graph 2 below presents the interim franchise model.

Graph 2: The Clearing House Model



2. RESULTS ACHIEVED SO FAR

Up to now the MSMEP has achieved the following outcomes:

26 organizations, NGOs and private companies have become accredited Malawian CEFE License Holders, comprising 40 trainers. Currently, 22 license-holders and 31 trainers are still actively engaged with the project. They are represented throughout the three main regions of the country (South, Central and North).

In order to facilitate access to credit of the CEFE course participants, 10 Memoranda of Understanding have been signed with financial institutions that agreed to recognise the CEFE 1-2-3 training certificate in their credit assessment.

At present (August 2002) the project is still in the clearing house stage. Due to the above-mentioned tedious and bureaucratic sales process when dealing with institutions, BEED is just now beginning to break into the institutional market.

The vocational schools program proved very successful. As only a very limited number of trainees from TEVETA or other vocational training institutions will be able to find formal jobs upon graduation, CEFE entrepreneurship training helps them start their own business. No vocational school in Malawi has had up to now business training as a part of their curriculum.

Working with the chosen schools, the full 9-day CEFE program was divided up into as many sessions as needed to complete the course during the school's normal calendar. The courses were sold to the national training authority TEVETA (Technical, Entrepreneurial and Vocational Education and Training Authority) on a full cost recovery basis. The response from the students and the schools has been overwhelmingly positive. As a result, TEVETA, the national vocational training authority will embark upon a process of accrediting CEFE under its new competency based modular training system. Under this system, BEED will become an approved service provider to all accredited training institutions, and can access financial support from the recently introduced Manpower Development Levy for CEFE training.

Other major customers are

- 10 government parastatals slated for privatisation, which hence need CEFE as part of the Social Safety Net/retrenchment package;
- a government poverty alleviation program that gives money to communities for self help projects; the communities have to handle the project money themselves and thus need business training; and the
- A Government Ministry, starting a co-operatives program whose members would benefit from business training.

The sales from any one of these three potential clients are going to be substantial (more than 100 000 \$) and will be spread over the entire country, with more than 1 000 trainees. What has prevented actual massive sales to date is the slow process of dealing with Government and donors. It takes endless months until the programs are finally defined and approved by the Government, then they are submitted to the donors, who could take several months. When approved, the training courses have to be formally advertise for bids to provide training services and allow 45 days for responses, evaluate the responses, award the contract, and only then can training be scheduled. There is nothing BEED can do to speed up the waiting process except nurture the client along.

A lot of courses for rural micro entrepreneurs have been sold to a German Rural Development project, with 1/3 cost-contribution on behalf of the trainees.

A very interesting activity has been the trainers' own initiatives: Having noticed that individual attempts to get 15-20 students together for a course have failed, they now combine efforts: some of them bonded to offer and run courses together on a full cost-plus basis.

The table below summarises the main outcomes of the project so far in terms of an adapted PMF³. Note that the period in which the MSMEP is marketing CEFE courses starts in spring 2001 when the first CEFE LH were accredited. Significant course sales were achieved only in 2002. As normally an impact assessment is done earliest 8-12 months after a course, no exact data are available with regard to impact. Empirical evidence shows that a high percentage of former CEFE participants improved their business practice and profitability. Some existing entrepreneurs reported that already during the course in a marketing field exercise they got new contracts with a considerable sales volume due to an improved marketing approach. It can also be assumed an increase in investment as CEFE course participants are linked with banks with which BEED signed a MoA, and thus have easier access to credit.

³ For a comparison with other CEFE-projects see the Vietnam BDS conference 2000 paper: The PMF for BDS applied to CEFE projects in Laos, Thailand and Sri Lanka by Chris Reichert, Christian Lempelius and Jim Tomecko, April 2000

Table 1: PMF – Outreach

Goal 1: Outreach (Scale and Access) – Assessing BDS Markets		
Objective	Indicator	4/2001 – 9/2002*
Market size (demand)	# final clients who <u>fully</u> paid for the training	54
	# clients paying at least cost-covering fees for training either itself or by a third party other than the MSMEP	788
	Total no. of course places sold ⁴	842
	Total no. of training participants of which are SMEs	N/a
Market size (supply)	Providers' sales to SMEs directly (participation fees), in US\$	Ca. 2 100 US \$
	Providers' sales total (incl. institutional clients), in US\$	ca. 12 000 US\$
Market penetration	% of potential SME market reached with a CEFE course (the project area is the whole country: ~570.000 rural and urban SME in Malawi with less than 50 employees)	ca. 0,1%
Number of CEFE providers	Providers with similar product	In Malawi, there were previously no other CEFE-training providers; the project trained 26 CEFE – offering organisations; entrepreneurship training in general is offered by around 11 major organisations in Malawi
Number of CEFE service types	Number of CEFE products promoted	3 different CEFE products currently offered by BEED; 3 other are ready to be marketed

⁴ a participant who attended CEFE 1,2,3 is triple counted

Well distributed, wide price range for CEFE trainings	Price range: total price incl. payments by institutional clients	5-15 US \$ /day for CEFE courses; for other comparable training products in the market: 0.5 – 70 US-\$ /day ⁵
Average price per unit of CEFE training	Average price paid by SME (participants fee) per training day for CEFE courses	6 US \$
	Average total price (incl. payments by institutional clients) per training day per participant	10 US\$
Multiple users	Number and proportion of multiple customers	Not applicable, normally single use service
Market distortion	Average total subsidy content in % ⁶	All courses were fully paid by clients (in the average 84 % of all direct trainings costs was contributed by a third party, i.e. institutional clients, and 16% by trainees)
	Average subsidy content from BEED ⁷	0% (no cost-contribution to variable costs, overheads not taken into account)
Deepen the market: reach underserved groups	Female clients	49%
	Microentrepreneurs (<= 10 employees)	5-10%, many of the remains being potential start-ups like graduates from vocational training
	% of target market reached	n.a.

⁵ source: TEVET-Vocational, Entrepreneurial and Business Training Directory

⁶ Trial-run trainees are not considered

⁷ Trial-run trainees are not considered

Table 2: PMF – Sustainability and Cost-Effectiveness

Goal 2: Sustainability and Cost-Effectiveness – Assessing BDS Suppliers		
Objectives	Indicators	4/2001 – 9/2002*
Achieve supplier sustainability	CEFE supplier (here: BEED) cost recovery of operational cost from clients fees	100% of direct costs plus profit (disregarding overheads)
	CEFE supplier (here: LH) cost recovery from individual and institutional clients	100% of direct costs plus profit (disregarding overheads)
Improve program cost effectiveness	Simplified cost-benefit assessment (total program cost/ year : aggregate program benefits for entrepreneurs/ year)	Cost/year: 300.000 \$ Benefits unclear so far
	Total program cost	~ 900 000 US-\$
	Total program cost per customer served	~ 1 000 US-\$, but decreasing *
	Total program cost per Licence Holder assisted	35 000 US-\$
	Total program cost per \$1 increase in supplier revenue	Not available

* Important: it has to be mentioned that the project needed around 1 ½ year to set up the franchising system. Figures were provided from the time were marketing in any kind of courses started, which was in April 2001.

Table 3: PMF – Impact

Goal 3: Impact - Assessing BDS Customers/ SMEs		
Objectives	Indicators	4/2001 – 9/2002*
Increase customer acquisition of BDS	Customer satisfaction with a CEFE course	According to course end evaluation sheets: very high ⁸
	Repeat customers	29% ⁹
Increase customer benefits from BDS	% of customers who improve business practices	High; (impact assessment to be carried out in 2003)
	Increase in employment	(impact assessment to be carried out in 2003)
	Change in investment	High, as CEFE course participants are linked with banks (impact assessment to be carried out in 2003)
	Increase in sales ¹⁰	High (impact assessment to be carried out in 2003)
	Increase in profitability	N/a (impact assessment to be carried out in 2003)

⁸ The response of the participants was overwhelmingly positive (>95% ticked the happy smiley (illiterates) and good/very good (literate)),

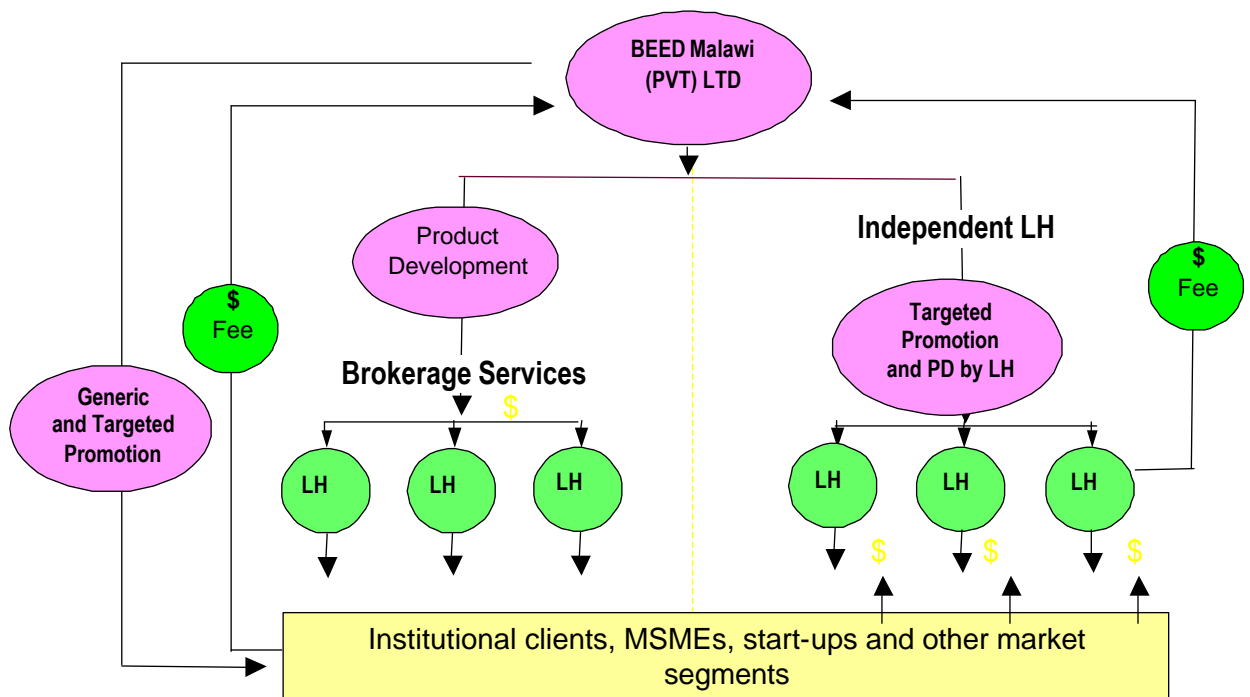
⁹ 59 participants didn't buy the full CEFE 1,2,3 package in one go; of these later 17 purchased CEFE 2 or/and CEFE 3

¹⁰ In one course during a market research day all 13 participants came back with promised or even signed contracts!

3. THE BEED PICTURE OF SUSTAINABILITY

Graph 3 shows the franchising model, as it is envisaged by the project to be the final project outcome:

Graph 3: The Hybrid Franchise Model



It is assumed that more and more entrepreneurial License Holders will take the bait, put more effort into marketing and sign their own contracts when they fully realize the extent of the potential profit margins. Initially, License Holders have been most attracted to targeting the institutional market, as this segment obviously is the most attractive one in terms of purchasing power. The project however will encourage them to look also for other market niches, as not all of them will be able to serve the institutions. This market segment will be anyway saturated sometime.

From the point of view of BEED, this shift will curb its profits. However, there is still the GTZ-sponsored MSMEP, which represents the project's developmental interests – which will support the License Holders to getting more of their own clients. As not all of the License Holders apparently will be capable enough to acquire regularly their own orders, a hybrid franchising model is envisaged with the more entrepreneurial LHs working mainly independently and reaping the resulting rewards. The original target group of Malawian individuals is being served increasingly in this way. The other LH work as associated trainers for BEED. In fact, a company like BEED has comparative advantages with regard to bulk sales customers that may never be achieved by any individually operating LH. It may therefore well be that with regard to institutional clients, a long-term function of BEED could be to acquire business, tender then the orders and hire the LH who offers the most competitive bid.

This strategy will be in line with the BDS principles of Best Practice and its market development approach. By combining the two methods (franchise and clearinghouse) chances for sustainability in Malawi are high. The clearinghouse option gives the LH a sense of security, while the franchise option appeals to their desire to do a bit better.

After all external project support will have finished in the end of 2003, BEED is supposed to continue the original functions of capacity building (in accordance with qualitative or quantitative needs), product development, marketing and licence management. The level of activities will be defined through the income from sales commission, the annual licence fee and the income from course sales independently of the BEED clearing house function. The business plan established for BEED revealed that with a lean structure (one marketing manager and one secretary) and the projected income (even if conservatively estimated) there are high chances that BEED will maintain its activities to the mutual benefit of the LH, the Malawian owner of BEED and the customers.

4. KEY EXPERIENCES

As there was no similar previous approach, the project learnt a lot through trial and error. Some key lessons are outlined below:

4.1 Assessment of results

So far the numeric results are quite promising: In comparison to other CEFE projects, the franchise approach with BEED presents very good results in terms of outreach (600 trainees/year), CEFE supplier cost recovery (100% of direct costs), programme cost-effectiveness (costs per participant: 1.000 \$, cost per supplier assisted: 35.000 \$). Subsidies were paid by BEED only exceptionally at the very beginning to provide “appetizers” in order to attract targeted, paying clients.

Unfortunately there is so far no data available yet in terms of impact as the project is operating only for 2,5 years. Thus, it is too early for a final assessment of the approach. However, the project is optimistic that it achieves the objective of building a reasonable number of self-sustaining CEFE-course providers with increasing sales. Some hints for this successful development are that the LH improve more and more their service quality, they improve their capacity to market courses on their own, and the product gets increasingly into the market with a positive feedback.

4.2 Lessons Learnt in the Specific Malawian Context

The lessons learnt in a specific project context relate mainly to four areas: the institutional set-up, the franchise agreement, marketing and capacity building.

Pre-requisites for a CEFE-franchise on the *institutional set-up*:

The Malawi general environment is apparently not conducive enough to apply a pure commercial franchise model in Malawi due to the small MSME market, the weak entrepreneurial culture, donor-distorted competition etc. The hybrid model was necessary to open up the market.

The lessons with the *franchise agreement* are:

- 1) get a lawyer to look at the contract
- 2) write in plain English, not in cumbersome lawyer language
- 3) award franchises on a course by course basis
- 4) specify clearly who the license holder is – an organization or an individual; if an organization, set out clearly what happens if the trained trainers leave employment

The lessons in *marketing* are: you need to...

- examine the market carefully – is it aware that it needs the product? If not, think carefully about how to make them aware!
- have a budget for marketing and promotion
- define who can pay for CEFE courses

- be prepared to invest time if a target group requires dealing with government or donor groups
- co-ordinate training of LH and marketing to avoid large gaps where trainers aren't working
- be absolutely clear on who is responsible for LH income – (who will get them customers?)

The lessons in *capacity building*:

- While selecting trainers establish minimum requirements such as MSME experience
- A single CEFE TOT training is not enough to deliver quality CEFE training – much more practice and hands-on experience is required before trainers are able to lead a training in a way paying clients expect them to
- Calculate lots of support for the LH to bring them up to par in terms of not only the CEFE training, but basic business etiquette, computer skills, marketing and promotion, etc.

4.3 Experiences with Franchising in BDS Market Development

4.3.1 Franchising and Developmental Projects

The rationale and details of the Malawi CEFE franchise system have been described in the previous chapters. It is similar to most franchisors. However, there are two major aspects in which a development project and specifically the BEED CEFE franchise is different from a normal commercial franchise approach, with regard to the developmental versus commercial interest of a franchisor, and the scope of activities of a franchisor:

1) BEED has explicit development objectives to stimulate a market for sustainable entrepreneurship training. **It is in the commercial interest of a 'normal' franchisor to control such a market, to standardise and protect its product to prevent excessive new entrants or illicit copying. In contrast, BDS market development seeks to promote product diversity and differentiation and new entrants to service markets: the more innovation the better.**

Some options to deal with this inherent contradiction are possible, e.g.:

- The franchisor could buy a new product from the developer, protect it with a similar franchise scheme, train trainers in the use of the new product and accredit them. However, this appears to be difficult and an administration-intensive approach (what is a new product that deserves registration and protection?).
- The franchisor could ignore minor adaptations as long as there is no quality problem, and as long as they are done by accredited trainers. Once there is a solid financial basis of the franchisees, the developmental objective is achieved: In case that there are no other

reasons to maintain it (e.g. capacity building, networking etc.) the whole franchise system may end anyway.

2) Most franchises emerge out of a highly successful parent business that has already established its product and customer base. What is franchised is the recipe, all the critical ingredients that contributed to the success. Due to reasons explained earlier in Chapter 1.5, in our CEFE case **BEED has to be much more active in selling/marketing than any franchisor would be**: As broker, it directly markets CEFE courses to potential clients, and acquires bulk sales for the LH. This income is not pocketed or disbursed as profit to shareholders, but entirely re-invested in the activities of BEED.

As outlined above, this clearing house function is supposed to be only temporary and reflects the need in Malawi (and maybe many other countries) to facilitate the introduction of the new product into a very weak market, where supply and demand side normally would need intensive support with different instruments. There are reasonable indicators that a viable hybrid model can be achieved within the remaining project period until December 2003.

4.3.2 Financial Aspects of the Franchise Approach

Furthermore, a normal franchise arrangement is based on on-going revenue streams to the franchisor from its franchisees (and indeed a continued set of benefits/services received by the franchisee from the franchisor). With regard to the experience of CEFE Malawi, two potential constraints are especially important:

- Even if it were desirable (from a development perspective) to protect the brand, it is unlikely that the project, or BEED Malawi (Pvt) Ltd in the longer term would be able to do so. The judicial process in Malawi is not known for its effectiveness (as it is not in many developing countries), and the costs and time involved would probably be prohibitive. Extensive imitation or reproduction would serve to weaken the brand's credibility and undermine the incentives for legitimate licence-holders to continue paying BEED in a long-term perspective.
- Franchise-models depend to some extent on market potential; in Malawi (like in many other developing countries) there are clear limits to growth in terms of new licence holders, while the market can only absorb so much entrepreneurship training before becoming saturated. The future will show whether the currently projected sales materialise, and how many LH can live from it. The present figures indicate that a third in-take of CEFE-trainees and potential LH is soon necessary, meaning also that outreach and income stream from commission on sales will be considerable and also allow for further support of the LH by BEED.

Overall, in our case the project estimates that BEED could have - from a financial point of view – a long-term future. However, is it desirable?

4.3.3 BEED - a Long-Term Franchisor?

Actually in this case BEED as franchisor is a facilitator who does not have implicitly a long-term role. The project considers two main scenarios as possible for its future role:

The facilitator BEED acts (in the medium-term) as in a hybrid model until the majority of LH's is capable of succeeding independent of BEED support/sales of CEFE courses. It then withdraws from these activities.

Alternatively, in case LH need support in the long-term, BEED continues to act as a facilitator, but concentrates more and more on core functions of quality control, licence management and franchise protection. The other functions (brokerage, capacity building, marketing etc.) are increasingly sourced out to other private service providers that have been identified and connected with the LH, and who could take over the support services that BEED offered.

Both options would be in line with the developmental objective of the project, and offer good chances for sustainability.

4.3.4 Assessment of the Franchise Model

Although a commercial evaluation of the CEFE franchise's potential in Malawi shows limited market potential and a certain risk, this does not undermine its developmental value. By entering the market as an ostensibly commercial player, selling CEFE as a commercial proposition and developing a transactional relationship with licence-holders, the project is sending the right messages to the market place. It ensures that licence-holders treat their involvement with CEFE as a commercial venture which needs to be viable in local markets.

4.3.5 Franchising CEFE in Other Countries?

If there is a strong entrepreneurial culture and an adequate pool of experienced trainers who just need one CEFE TOT to be ready for the market, it may be possible for the LH to market directly to the end user, and to use a franchise model right away.

If not, use a clearinghouse model, do the marketing and sell yourself on behalf of the LH. In heavily donor-sponsored countries the institutional market can be regarded as part of the demand, which facilitates entry into the market, allows the reputation of the product to be built, and gives the LH experience. It may also assist the penetration of the lower end of the economy. However, in this case the trainee is not any longer the same as the client who pays for the training. In order to ensure ownership a cost-contribution should be charged. Other additional approaches have to be developed also to open up the private market as far as possible without subsidies.

If there is 'supported' entrepreneurial activity (such as e.g. Malawi's employed people who have private businesses on the side), demand at all levels for the services, and variable ability to pay chose a hybrid model

where you start off as a clearinghouse while trainers develop confidence and ability, and encourage them to go independent, so that you can finally get to the franchise model as main set-up.

4.4 The BDS Paradigm Applied in Practice

In this chapter selected key elements of good practice in BDS market development that were applied in the MSMEP project are reviewed and assessed whether they worked.

4.4.1 Business –like and Demand led

With BEED as the commercial front the project successfully hid its donor-face. The whole language of the BEED team changed e.g. from “target group” to “clients”, “project” to “company” in order to build a coherent image of a commercial venture.

From the very beginning, it was made clear that both parties – LH and BEED have to invest respectively with giving and taking as defined by the licence agreement. This included that the main inputs from BEED were non-monetary goods, and no subsidies: LH must pay for using the product (mainly certificate fee), and no allowances for meetings or training workshops were paid.

BEED does not provide any service directly to MSMEs, only the LH do. Since CEFE was introduced as a profit-making product, the biggest part of the LH are entrepreneurs who are motivated by the prospect of making money out of it and carefully calculate whether the investments they have to make are worth the profits they can derive from it.

As a result: the business-like appearance and acting of the project helped to attract partners as LH who had entrepreneurial motivations and were close to the clients (MSMEs). However, this approach implied also that the project has no control over the sort of clients being serviced, and may not address the needs of the disadvantaged target groups originally envisaged. As the bigger institutions or companies are easier to sell to, there is the natural tendency of the LH to first target them. Once financial sustainability of the course on offer is ensured, the project plans to facilitate servicing of lower income groups more vigorously through adaptation of the course so that they are more affordable, and by means of targeted marketing.

4.4.2 Developing an Explicit Picture of Sustainability

From the very beginning it was the concern of the project team to develop a structure that allows for sustainability. Options chosen changed in the course of time, but bearing the need for an exit strategy in mind helped the project when it was decided to phase out the project much earlier than projected to adapt quickly the strategy accordingly.

As a result: Considering potential exit strategies from the very beginning is crucial for project success.

4.4.3 Tight Performance Measurement

As most LH are commercially oriented they are not motivated to spend money or time on data collection which they cannot take any advantage of. Thus, the project only requires from them to distribute registration forms and questionnaires to the trainees in the end of courses and to provide the names and addresses of them after so that the project can follow-up on the entrepreneurial development of the former clients.

As a result: The LH are willing to do what is required from them as it is easy to do and does not consume time or financial resources. The project has the funds and capacity to evaluate the aspects that are interesting from a donor's point of view, but not in the commercial interest of a LH.