

Building on a good idea

Microfranchising offers a solution to small township businesses

By John Schärger

With the high levels of poverty and unemployment present in South Africa, particularly in township communities, many people living in these areas are forced to start their own business ventures out of necessity in order to survive. Every year many of these businesses fail, plagued by different issues ranging from a lack of capital, to a lack of financial or accounting knowledge, to having no functional business plan to speak of.

One of the major challenges for businesses located in the townships is the lack of financing opportunities available; thus while even in instances where the implementation of an idea may be sound, lack of capital leads to a hastened fold-up for the business. Although the government of South Africa has formally adopted a policy of proactive support of entrepreneurship, providing business assistance to all entrepreneurs is beyond South Africa's financial and human resource capabilities.

In response to this, the Centre for Innovation and Entrepreneurship (CIE) at the UCT Graduate School of Business, and The Townships Project, a Canadian non-profit organisation, have set up a collaboration to raise awareness of the opportunities for microfranchising within South African townships, and to provide a platform for the best businesses to become franchisable. The programme aims to kick-start microfranchising in South Africa by holding a tradeshow and workshop in Khayelitsha, Cape Town from 31 August to 2 September 2011: the Microfranchising Launch.

The initiative was brought about by various luminaries of entrepreneurship, microfinance, franchising and social development, including Mike Herrington, director of the CIE; Yvonne Radinku, founder and CEO of Tetla Financial Solutions; Martha Deacon, founder and CEO of The Townships Project; and Peter Moyanga, franchise consultant to the African Development Bank and a McDonalds franchisee, amongst others.

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The Microfranchising Launch is designed to find the best microfranchisable businesses in rural areas, informal settlements and townships in South Africa. This will be done through a network of people and organisations in which potential businesses will be vetted by experts to determine whether they are suitable to be microfranchised.

The team believes that the most effective way to successfully alleviate poverty and create job opportunities is by taking a "four wheel drive mobile" approach.

The first wheel is asset-based community development, which focuses a community on what it has rather than what it lacks. It helps a community identify its strengths and then discover how to use these assets to achieve its goals. Microfinance, the second wheel, then supports the emerging initiatives within the community. The third wheel is corporate social investment, sought

from local companies to support the community initiatives, and the fourth wheel is to use microfranchising to systematise, replicate and brand businesses. Mobile recognises that mobile technology can bring dramatic efficiencies to the operation of small businesses through banking, accounting, restocking, training and other functions.

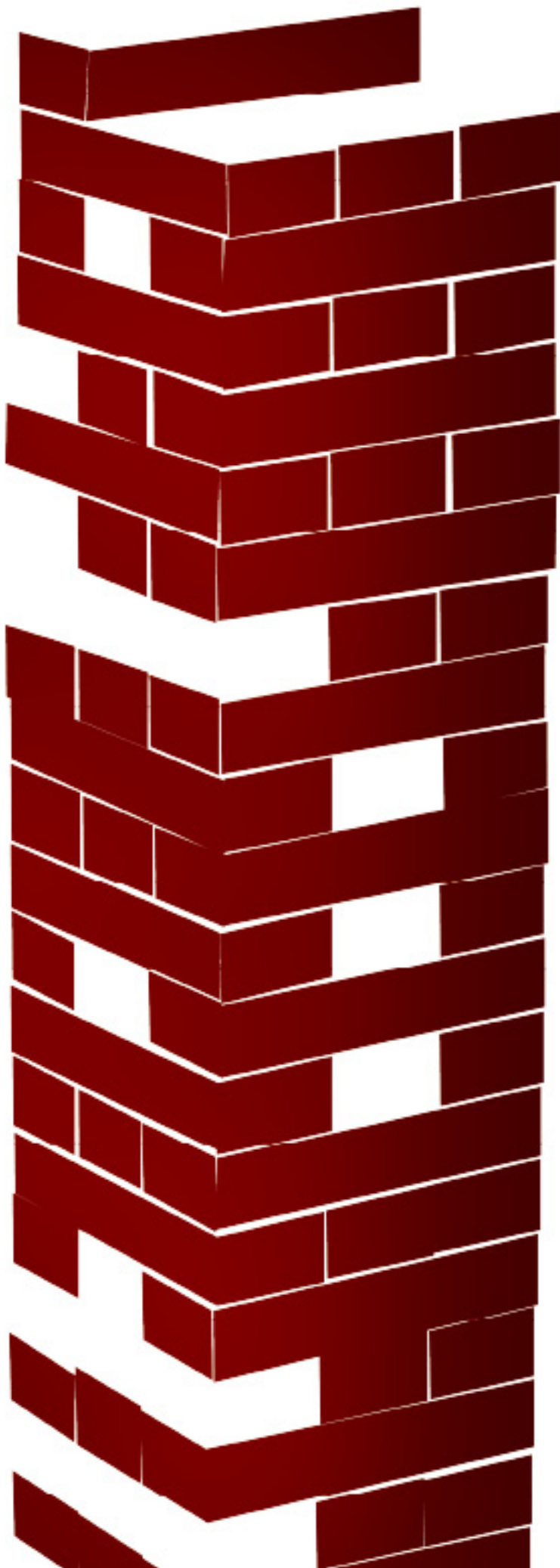
But what exactly is microfranchising?

Broadly defined, a microfranchise is a tiny, successful business which has been branded, systematised, and replicated according to a model which is profitable to both the franchisor and the franchisee for a price equal to a microloan.

"Undoubtedly franchising has been the most successful business model ever created and this, coupled with the availability of funding through microfinance, has the ability to transform the fight against poverty. Microfranchising is a natural development from these ideas in that it systematises, brands and replicates tiny businesses, which can be funded through microfinance, while taking advantage of the economies of scale and mobile technology," says Mike Herrington.

Integral to the concept of microfranchising is the concept of microloans, which are loans used to start or expand small businesses.

"To date microloans, which are non-consumer loans, have grown slowly in South Africa, but the formal banking system is becoming more aware of their importance. For example, the Community Banking department at



Standard Bank has established 14 microfinancing facilities around the country. This builds on the contribution of the Small Enterprise Foundation, Women's Development Businesses, Marang Financial Services, Tetla Financial Solutions and other NGOs," says Herrington.

He adds that microloans on their own have limitations, and that it is important to show communities the importance of starting and supporting local businesses.

"In effect microfranchising and other commercial solutions can offer borrowers the chance to buy themselves a job. We believe that by integrating microfranchising into other methods of poverty alleviation we can achieve the most benefit for a community," he says.

It is the aim of the Microfranchising Launch to find a new set of microfranchises annually, to support the best of these with finances and skills so that they, in turn, can provide more job opportunities in the townships of South Africa.

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The new initiative has three components: an annual competition to source the best microfranchises or microfranchisable businesses; an annual trade show and workshop, attended by the winners of the competition as well as potential investors; and finally an internship programme for local and international graduate students, to assist these businesses to implement the franchise business plans developed at the trade show and workshops.

"Together with the CIE we're scouring South Africa to find not only local microfranchisable opportunities which can be developed into sustainable businesses, but also investors who will ensure that the best ideas can be brought to fruition. The key lies in raising awareness of the potential for microfranchising as a fundamental element to combating poverty and unemployment in South Africa," says Peter Moyanga, a McDonalds franchisee and former Chair of the Franchise Association of Southern Africa.

If successful the venture will prove that microfranchising and other commercial solutions, when used in combination with existing tools for social change, can provide a powerful solution to poverty by creating businesses that have minimal start-up costs, and that are systematised, replicable and branded.