IMAGE: SOME PARTICIPANTS OF THE USAID LENS MICRO-FRANCHSING PILOTS

MICRO-FRANCHISING IN JORDAN
FORMATIVE EVALUATION PRÉCIS

USAID Jordan Local Enterprise Support Project (LENS)

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This précis presents abridged findings and recommendations from the longer formative evaluation undertaken by Manafeth Consultants for the USAID Local Enterprise Support Project (LENS). Text has been synthesized and re-numbered for concision and may depart slightly from the original document.

BACKGROUND

The USAID Jordan Local Enterprise Support Project (USAID LENS) is a five-year project that supports small business growth to strengthen Jordanian communities against economic adversity. USAID LENS brings together local government, business owners, and key community groups to collaborate on initiatives that boost economic development and create jobs. These initiatives support the growth of micro and small enterprises (MSEs) and are designed to be inclusive of women, youth and the underprivileged.

WHAT IS MICRO-FRANCHISING?

Micro-franchising applies concepts from traditional franchising, in which a franchisor, or parent organization, manages and supports a network of franchisees operating a common business model that has already proven to be successful. Franchisees are accountable to the franchisor and, in return, the franchisor provides the opportunity for full ownership and provides training and other embedded services and support that can enhance business operations.

Unlike traditional models, micro-franchising operates on a much smaller scale, including in subsistence markets. The very low-cost base of micro-entrepreneurs allows them to operate profitably in markets in which larger companies cannot survive. Micro-franchise fees are lower, and often fees and loan payments are more spread over time. Micro-franchising frequently involves the pursuit of social objectives -- such as providing jobs or services with social benefits -- in addition to profit.

Micro-franchisors may be social enterprises with a dual mandate for social impact and financial sustainability, or private companies seeking to target bottom of the pyramid markets. Micro-franchisees are typically entrepreneurs out of necessity (i.e. as an alternative to employment), who need continuous guidance and support as well as facilitated access to capital (USAID LENS, Micro-franchising for Social Impact in Jordan: Business Case and Model for a National Micro-franchise Incubator-Accelerator, 2018).

In 2018 USAID LENS presented a business case for a National Micro-Franchise Incubator-Accelerator,[1] and over the course of the next year supported three pilot micro-franchise initiatives directly with

- Jolie Femme, a beauty salon;
- Migrate, a business support provider (BSP); and
- Kama Local Gourmet, an artisanal food production company.[2]

USAID LENS posited that micro-franchising could be a model that would provide readily replicable enterprise opportunities to help alleviate poverty, enhance individual economic self-reliance, and stimulate individual, local and national economic development. In order to assess the benefits and challenges to the Micro-Franchise Model (MFM) in Jordan—in contrast to standard microenterprise models—USAID LENS solicited *Manafeth Consulting and Training* to conduct a formative evaluation in 2018-2019. The overall goal of the evaluation was to assess whether the MFM has social and economic development potential in Jordan.

METHODOLOGY

The evaluation followed a quasi-experimental design with treatment and comparison groups.[3] The treatment group included the three micro-franchisors and the fourteen micro-franchisees that participated in the USAID LENS interventions. The comparison pool comprised of businesses similar to the treatment group, including businesses that received no donor support and cases who received similar capacity-building support from USAID LENS in the presence of a 'parent-like' firm. The methodology was originally structured to use a matching approach that would identify a similar comparison group through statistical measures of distance. However, due to serious frame deficiencies, missing contact information, and poor matching performance, the evaluation team abandoned this approach and instead reverted to a purposive sample. The evaluation team generated the list of candidate businesses by sector, size, and location through online research and referrals from USAID LENS and its beneficiaries.

The driving selection criterion for comparison 'micro-franchisors' was that candidate companies needed to have a relationship with analogous child companies. The criterion for comparison 'micro-franchisees' was that candidate companies needed to want to grow. The evaluation team undertook a telephone screener survey to assess qualifying businesses, and from this pool, used

1 USAID LENS, Micro-franchising for Social Impact in Jordan: Business Case and Model for a National Micro-franchise Incubator-Accelerator, 2018

2 Micro-franchising for Social Impact in Jordan, USAID Jordan Local Enterprise Support Project (LENS), Micro-Franchising Pilot Project Report: Jolie Femme Micro-Franchise Salons; Micro-Franchising Pilot Project Report: Developing the Business Hub Kiosks Powered by Migrate; Micro-Franchising Pilot Project Report: Kama Local Gourmet Micro-Franchising Project, USAID, 2018-2019.

3 The term "comparison group" is preferred over "control group" to emphasize the quasi-experimental nature of the assessment. Subjects of study were not randomized to receive treatment or control conditions.

selective human judgement to select a comparison group that was as close as possible to the treatment group. Comparison group were matched sector to sector, where food production companies for examples were compared to micro-franchisor and analogue food companies.

Some key limitations of the method include:

- The number of pilot cases is small: only three micro-franchisors and 14 micro-franchisees. The findings give valuable indicative information, but caution and judgement should be employed when generalizing MFM for wider implementation.
- The USAID LENS grant funding of the three MFM pilots had a short implementation window of less than a year.
- Though efforts were made to obtain as balanced of a sample as possible, purposive sampling always remains subject to untestable assumptions that the sampling bias is ignorable.

KEY FINDINGS

Finding 1: Micro-franchisors were highly driven by social motives, even when these came into conflict with economic motives.

The social development elements of the MFM were validated by the three pilots, with the micro-franchisors clearly seeking social development aims. The micro-franchising pilots took place in marginalized areas in the governorates of Mafraq, Irbid, Zarqa (Azraq) and East Amman (Mgabalein); focused on engaging women and other marginalized groups; and initially waived the 10% fee, until micro-franchisees can demonstrate profitability. Positive, but somewhat dependent, relationships also formed between the micro-franchisees and the micro-franchisors, leading to very high levels of support by the micro-franchisors across logistical, technical and managerial areas. Particularly strong linkages were developed between women at the micro-franchisor and micro-franchisee levels, contributing to a sense of empowerment and a drive to include more women in the businesses. This social development approach stood in contrast to start-ups and traditional franchisors, which more frequently focus on the profit motive. While the social motives led to successful outcomes, it does bring into question the ability for the MFM to scale and operate sustainably.

Finding 2: The MFM enhanced the economic participation of marginal groups such as women and rural populations, and showed plausible potential for sustained job creation.

All three micro-franchises work outside the Governorate of Amman Municipality (GAM) in marginal communities. Furthermore, two out of the three micro-franchises hired women as micro-franchisees. Though this was in part driven by USAID LENS' mission, the team's conversations with micro-franchisors indicated that they were themselves enthusiastic about targeting these groups. It is still early to assess the full employment impact from the pilots, but the assessment found that prospects for sustained job creation remained plausible and encouraging.

Finding 3: Standardization was a central feature of the intervention that allowed micro-franchisees to quickly put in place processes and approaches for success.

The research team found that the MFM gave informal, unregistered, and home-based businesses the opportunity to enter the market with lower risk compared to independent start-ups. Creation of standard operating procedures (SOPs), manuals, and implementation roadmaps (designed by USAID LENS and critical to understand the business process) allowed micro-franchisors and micro-franchisees to obtain knowledge quickly—prompting business registration and accelerating operation to as little as four months. This was of particular importance to low-income entrepreneurs and/or those residing in rural areas (e.g. Karak, Mafraq, etc.) who were less educated and may lack viable business ideas/projects or even lack the appetite to open a business on their own.

Finding 4: The MFM provided important training in business skills for enterprising Jordanians—skills development that could be even better delivered through an incubator model (and more systematically).

An entrepreneurial background is not a requirement for prospective micro-franchisees. However, some management skills among micro-franchisees are important to the success of the model. At the pilot stage, micro-franchisees received their turn-key enterprises and significant training and support—including standard operating procedures (SOPs), manuals and implementation roadmaps, access to markets, and linkages across micro-franchisees. This helped micro-franchisors to run their business smoothly, allowing them to expand geographically with cost efficiency and reduced effort, even in absence of entrepreneurial experience. The MFM could benefit further from the systematic provision of services offered by traditional incubators, such as business training, mentoring, coaching, legal and accounting services, and access to finance.

Finding 5: Micro-franchisors faced more difficulty than anticipated in selecting micro-franchisees, and it took time to establish trust and partnership.

All three micro-franchisors selected their micro-franchisees based on pre-determined criteria, but two micro-franchisors in particular were uncomfortable with the level of risk required in sharing the brand name with unknown partners. The process of identifying micro-franchisees in general was a challenge. In the case of Jolie Femme, a target geography was selected in which consumers were ultimately not interested in the brand name of the salon. However brand expansion was a major priority for the micro-franchisor. In the case of Kama Local Gourmet, the decision was made to minimize the independence of the micro-franchisees to reduce risk. Some communities were also resistant to signing contracts—which were deemed essential to the MFM. Finally, a lack of technological awareness and experience among more rural and marginalized micro-franchisors somewhat slowed the uptake of innovations in marketing and sales.

Finding 6: The supported micro-franchise environment (SMFE)—i.e. the role played by USAID LENS but, potentially the role served by an incubator/accelerator in the future—increased the chances of business success.

Micro-franchisors expressed that having an existing SMFE that provided a financial grant, support in SOPs and manuals, mentoring and follow up, provided them with the opportunity to mitigate risks. In fact, all three pilot micro-franchisors stated they could not have pursued this model without the SMFE due to limited financial and technical capacity. This suggests that at this stage of development the subsidized support of the SMFE is a critical success factor in the MFM.

Finding 7: As defined now, the MFM is more encompassing than traditional franchising, capturing the specific needs of micro and small businesses and their micro-franchisees.

The research team found that the food company micro-franchisees in particular were operating more as suppliers than traditional micro-franchisees. The evolution of the MFM model proved challenging to some participants, who lacked a full understanding of their roles, responsibilities, and potential. Some challenges arose in this area in the pilot case of Kama Local Gourmet, where the autonomy of micro-franchisees was more limited than in other sectors. In the food sector there was a very high requirement on the part of the parent company for standards and quality assurance to be maintained. Expectations for the partnership could be managed differently in this sector to ensure that the parties in the franchise are both achieving their goals.

Finding 8: Though similar in many respects, traditional franchising (TF) and MFM differ in ways that require different legal structures and financial arrangements.

As with MFM, TF was seen by the team as a cost-effective way of expanding a business; it is less capital intensive, and easier to manage operationally than other models such as joint ventures. As with MFM, traditional franchisors found it difficult finding the right would-be franchisees with relevant financial capability and operational background.

One of the most noticeable differences between traditional franchising and micro-franchising observed in the study was the inclusion of a social goal in micro-franchising. Differences were also identified in the payments systems, franchisee selection requirements, and legal framework. Particularly, traditional franchisors did not find that the lack of a legal framework for franchising in Jordan negatively impacted their business, as most were following regional and/or international laws due to the nature of their business relationships.

SELECT RECOMMENDATIONS

Recommendation 1: The MFM would benefit from a graduated scheme that increases the financial return to the micro-franchisor over time, as a percentage of profits, royalty fees, or service charges. It is theorized that this will improve sustainability and increase the level of commitment of the micro-franchisees, while keeping payment contingent on early business success.

Recommendation 2: Additional training should be provided to micro-franchisees in areas of business operations, management skills, and use of technology for operations and marketing. SOPs, manuals and milestones, and implementation roadmaps should be carefully developed and adhered to by both parties.

Recommendation 3: Selection of micro-franchisees could benefit from a more careful assessment of the particular geographic location, as well as consideration of the implications of registered/unregistered status of prospective businesses. Implementers should be cognizant of the significant amount of time required to identify a pool of micro-franchisee candidates, form trust between parties, and build capacity.

Recommendation 4: A dedicated micro-franchising incubator-accelerator entity would likely build on the findings in this report, leading to the coherent development of a robust legal framework to govern the model. Combined with a funding mechanism, such an approach would serve as an SMFE that could provide grants, incubation, training and mentoring services, and coordination of support networks between micro-franchisees, among other services.