# Microfranchising Entrepreneurship at the BOP: Comparison of a Startup and a Spin-off Venture

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## Abstract

Food insecurity and hunger are on the rise. Among the many underlying causes of this societal issues is the lack of access for many farmers in the Bottom of the Pyramid (BOP) to affordable and quality agricultural products, services and lucrative markets. Microfranchise has recently emerged as a potentially viable and scalable BOP business proposition model. However, the emerging literature on Microfranchising lacks empirical studies on the scalability and financial sustainability of micro-franchisors and how different forms of business organizing, startup known as Farm Shop in Kenya and a spinoff known as Agro-Estacion in Mexico affect this. Combining the Resource-Based View of a firm and Business Model Components theories, our qualitative cross case comparison analyzes the differences in the development and sustainability of two BOP ventures over the years. Our study provides insights into similarities and differences between the two extreme forms of establishing microfranchisees and how their resource foundation and business model acted as enablers or blockers.

Our findings reveal that while BOP populations share common challenges, tailored strategies for resource utilization and business model innovation are critical for success. Agro-Estacion's integration with a corporate parent facilitated access to essential resources, enhancing its scalability and sustainability. In contrast, Farm Shop's reliance on owner's limited capabilities, savings and philanthropic grants posed challenges in sustaining growth and operational stability. Moreover, the study underscores the impact of external factors such as government policies and global crises like COVID-19 on microfranchise ventures. We combine empirical findings with extant literature to discuss contributions to theory and practice for microfranchising, its evolution and sustainability in two different BOP contexts and business forms.

**Keywords**: Agriculture input and services, BOP farmers, microfranchising, startup, spinoff, resource-based view, business model components, viability and sustainability.

## Introduction

Access to quality and affordable agricultural inputs and services, such as seeds, animal feeds, fertilizers, finance, and advisory services, remains a challenge for millions of small-scale farmers living at the Bottom of the Pyramid (BOP) worldwide. Consequently, this affects food productivity and exacerbates hunger globally (Lawson-Lartego and Mathiassen, 2021). According to the latest report on the State of Food and Nutrition Security in the World by the Food and Agriculture Organization (FAO) of the United Nations (UN), an estimated 735 million people faced hunger in 2022 (FAO, 2022). This figure is unacceptable considering the advancements in food production and distribution technology. Governments, various United Nations bodies, Non-Governmental Organizations (NGOs), and Philanthropic Organizations have been investing resources to support BOP farmers and introduce them to entrepreneurship to enhance food production and alleviate hunger. Additionally, businesses and social entrepreneurs have contributed innovations and new business approaches to create entrepreneurial opportunities for BOP farmers (Lawson-Lartego and Mathiassen, 2021). However, many BOP farmers in developing economies still remain on the margins of these technological breakthroughs and investments.

Microfranchising has recently emerged as a viable business proposition and scalable model to foster entrepreneurship within the Bottom of the Pyramid (BOP) and solve several societal issues, including providing access to quality agricultural products and services, as well as addressing employment challenges at the BOP (Kistruck et al., 2015). It has gained traction in the agriculture sector as a means to alleviate the chronic lack of access to quality and affordable agricultural inputs and services experienced by BOP farmers. Many businesses and social entrepreneurs have adopted this business model, with some launching startups and investing their own capital (Chliova and Ringov 2017), while others, including well-established businesses, have established spinoff entities to cater to BOP customers (Hernandez-Cazares et al., 2020). However, there is a dearth of empirical insights regarding which pathway – startup or spinoff – holds more promise for fostering entrepreneurship and achieving sustainable outcomes through microfranchising. Additionally, there is lack of evidence on the contributions of such business model to both theory and practice.

## Theoretical Background

The initial BOP proposition has promoted the unconventional discourse that Multi-National Companies (MNC) can create a pathway out of poverty for millions of people while creating massive fortune for themselves (Prahalad 2011; Prahalad and Hammond 2002). Several case studies and research have validated this 1.0 BOP proposition in specific contexts. A number of scholars cite Hindustan Unilever Limited (HUL), a subsidiary of Unilever, as a prime example of an MNC successfully penetrating the BOP market (London and Hart, 2004) by developing its rural distribution and supply chain network with nontraditional ownership structures (Jain and Vachani, 2006). Some evidence has also revealed how the BOP proposition fosters rural entrepreneurship and contributes to increased agricultural productivity and economic growth, offering a crucial path out of poverty and food insecurity for the world's bottom billion (Collier, 2008). However, the evidence of success is limited, challenging the initial BOP proposition (Chikweche et al. 2023).

Large corporations have increasingly recognized the difficulty in making profit while addressing social needs at the BOP (Chliova and Ringov 2017; Kristruck et al. 2011; London and Hart 2010). Karnani (2007) estimates the BOP market to be small – only about 2.3 percent of the $13 trillion Prahalad suggests. Consequently, the discourse has shifted from viewing BOP solely as a market opportunity for MNC to one where MNC co-create value with BOP consumers. This BOP 2.0 proposition (Chikweche et al. 2023) has also been studied with mixed results (Lawson-Lartego and Mathiassen, 2021). In addition to MNC who have adopted this shift, numerous startup social enterprises – entities with a dual mission of profit making and social contribution – as well as other national businesses, have embraced the BOP proposition (Chliova and Ringov 2017).

The third iteration, the BOP 3.0 proposition, represents the most sophisticated stage and is still evolving. With this iteration, the focus shifts to sustainable development, highlighting the role of the BOP population as small producers in an ad hoc process, with cross-sector partnerships becoming more prominent (Chikweche et al. 2023). In this BOP 3.0 proposition, new business models are emerging to better serve the challenging environments in which BOP populations live.

One such business model is microfranchising, a variant of traditional franchising arrangements where a franchisor licenses a business concept, operational system, or trademark to a franchisee. For the franchisor, franchising serves as a growth strategy to expand across geographic markets while mitigating agency concerns and capital constraints associated with internal growth (Combs and Ketchen 1999; Lawson-Lartego and Mathiassen, 2021). Franchisees benefit by operating their own businesses with minimal risk, leveraging the franchisor's established and proven brand and standardized business format (Kistruck et al. 2015). Franchising, with more than $3.7 trillion in sales worldwide as of 2019 (Market Splash, 2023), operates successfully across various sectors, including food and restaurant, hotels, real estate, car rentals, cleaning, education, and health care (Sireau, 2011). Notably, easily recognizable franchises like McDonald's owe their success to the systematic operations "to the point that it is easy to train franchisees to replicate and scale with high degree of standardization and consistency" (Rogers et al., 2011, pp. 35-49).

While microfranchising shares many similarities with traditional franchising, it is unique in its intrinsic orientation towards creating social good and wellbeing for microfranchisees in the BOP market. The term "micro", borrowed from the microcredit concept now widely known as microfinance, denotes involvement with numerous small-scale micro-entrepreneurs (Fairbourne 2007). Existing research focuses on the potential social benefits for local communities and the microfranchisees, including job creation (Christensen et al. 2010), reduced risk from buying into a proven business system (Fairbourne 2007) and becoming part of a "democratic" network (Magleby 2007, p. 46). Other researches have also explored how agency and structure reciprocally influence the resulting social enterprise and moves necessity entrepreneurs to become opportunity entrepreneurs (Diochon et al. 2017). We also found limited studies on what motivates people at the BOP to embrace Microfranchising as an entrepreneurship endeavor (Awuh and Dekker, 2021). However, the emerging literature on Microfranchising lacks empirical studies on the scalability and financial sustainability of micro-franchisors and how different forms business organizing (startup or spinoff) affect this. Hence, *asking how the foundation model of spinoff or startup makes a difference in the development and sustainability of BOP ventures over the years*, our study aims to understand the similarities and differences between a startup microfranchise venture in Kenya and a spinoff microfranchise venture in Mexico, both serving the BOP.

## Theoretical Framework

We combined the theories of the Resource-Based View (RBV) of the Firm and of Business Model Components as an analytical framework of our research. Penrose's (1959) seminal writing on firm's internal resources and capabilities provided a groundbreaking perspective on how firms grow and develop over time. She proposed that the growth of firm is primarily driven by its internal resources, capabilities, and managerial decisions rather than by external market conditions. She argued that the firm's unique resources, such as human capital, knowledge, technology, and organizational routines, serve as the foundation for competitive advantage and growth. Penrose emphasized the importance of managerial decision-making in allocating and leveraging these resources effectively to pursue growth opportunities. Penrose's writing gave birth to the Resource-Based View put forward by Wernerfelt (1984) arguing that a firm is a vast collection of resources, in the form of tangible or intangible assets that are bound to the firm. Barney (1991) further explained that firm resources must meet VRIN (Valuable, Rare, Inimitable, and Non-substitutable) criteria to achieve sustainable competitive advantage and extraordinary performance.

The RBV theory support the idea that new firms can partly be regarded as rearrangements of existing resources or assets. Spin-offs can be seen as new entities managing existing resources originating from a mother company, whereas the resources of individual start-ups originate from elsewhere. The RBV of the firm accommodates a causal relation between the quantity and quality of the resources available and the performance of a company. RBV acknowledges that firms must also be able to adapt and change their resource base over time to maintain competitiveness in dynamic environments. In essence, the resource-based view of the firm asserts that a firm's internal resources and capabilities are fundamental drivers of its competitive advantage and long-term success. On the other hand, theory of business model provides frameworks for understanding how firms create, deliver, and capture value. Many authors have offered various definitions of a business model and there is a lack of consensus due to the fact that business model is cross sectoral and it emanates from various perspectives such as e-business, strategy, technology, information systems, and more. The literature review by Shafera et al. (2005) provide great insights and an attempt to define the components of business models. They found four major components of a business model: strategic choices, creating value, capturing value, and value network.

Based on their analysis, Shafera et al (2005) define a "*business model as a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network*". This definition includes four key terms: core logic, strategic choices, creating and capturing value and value network. Core logic implies that the firm has created a certain theory of change or cause and effect relations with explicit assumptions made that are tested and demonstrate the internal consistency of strategic choices. In effect, the business model reflects the strategic choices made by the firm. Creating and capturing value reflects two fundamental functions that all organizations must perform to remain viable over an extended period of time (Shafera et al. 2005). Firms are part of an ecosystem of actors which is considered as part of business model theory as value network. Role firms and their value creation and capturing depends on a number of actors in the value network which include first and foremost their customers, but also suppliers, partners, distribution channels and coalitions that extend the firm's own resources (Hamel, 2000).

**Differences between a Startup and a Spinoff**

Crafting a new business has different origins, but the same objective: to cover a necessity in a market. A startup is the result of an innovative solution growing independently from the original idea of the entrepreneurs. The concept of a startup as a new venture began to be a part of the businesses' school's lexicon in the 80´s. The startup was born alone, without the coverage, support or protection of a mother company or an already existing organization. It has no previous organizational structure; it began with a limited budget and a small structure. A company cease to be a startup when it is acquired by a larger company, it has more than one office, it gets revenues greater than $20 million, more than 80 employees, over five people on the board, and founders who have personally sold shares (Cockayne, 2019).

Spin-off, on the other hand, is a term that was initially used around 2004 to refer to those startups that had their origins emerging from an existing firm from where they get nurtured with resources (financial, human, organizational, knowledge, technology and sometimes branding) (Klepper and Peterson, 2004). Spin-offs usually benefit from the relationship to their parent company in various ways. Since the business idea was developed within the parent company, the spin-off venture can start, for example, with a more mature technology so that the spin-off has to invest less in technology development than other start-ups (Clarysse et al. 2011b). Spinoffs may also collaborate with their parent firms in other functional areas like production, marketing, or distribution. Collaborations are particularly beneficial if the spin-off and the parent firm have complementary resource bases so that they can exploit synergy effects from sharing resources (Parhankangas and Arenius 2003; Sapienza et al. 2004).

Spinoffs grow faster, are more innovative, and have lower failure rates than startups. (Klepper, 2001; Agarwal et al., 2004; Klepper and Sleeper, 2005). While a spin-off has several advantages that release typical stress sources suffered by most of new ventures, such as funding, cash flow, entry barriers, learning curve, organizational structure, among others, it lacks certain freedom that a startup enjoys by nature. A startup has no limit or boundaries in engaging different markets, pricing, operational policies and can change its course or strategy without the bureaucratic processes typically found in big firms. The spinoff does not suffer stress from the lack of resources, but the stress comes from the expectations of achievements in revenue, profitability, cost efficiency, policy compliance among others.

Integrating the RBV and the Business Model Components, we created the theoretical framework in Table 1 to understand the similarities and differences between a startup microfranchise venture in Kenya and a spinoff microfranchise venture in Mexico, both committed to provide access to quality and affordable agricultural products and services for the BOP population.

**Table 1: Theoretical framework**

| Dimension | Definition | References |
|---|---|---|
| BOP context | It encompasses the socio-economic profile of the BOP stakeholders and customers targeted by the venture, as well as their environment, the types of resources and networks they have access to or lack, and the challenges and the opportunities faced by the BOP population targeted by the venture face, along with how they are engaged by the venture. | Marconatto et al, 2016 ; Kolk et al, 2014 ; Prahalad & Hart, 2002 |
| Resource foundation | Internal: The source of the resources and how they are allocated, and conditions attached to them, both tangible and intangible resources such as human resources, technology, capital, buildings, and tacit and codified knowledge, as well as organizational routines.<br><br>External: It could also be resources from government, philanthropy, NGOs or from other sources. | Penrose (1959); Koster (2004); Hart (2003) |
| Business focus | It is the industry in which the venture operates and the various types of products and services it offers to its targeted customers. These may encompass a wide range of services and products, such as agricultural inputs and services including crop protection, mechanization equipment, feed and medicines for livestock, as well as other lines of business provided by the venture, such as market access, financial services and entrepreneurship education. | Porter (1980); Christensen (1997) |
| Business model | A business model is a representation of a venture's underlying core logic and strategic choices for creating and capturing value within a value network. This highlights the importance of strategic choices, value creation and capture, and the interconnectedness of ventures within broader ecosystems. The role of value networks which include customers, suppliers, partners, and distribution channels, in shaping a venture's value creation and capturing strategies is important to emphasize. | Shafera et al. (2005); Hamel (2000) |
| Sustainability approach | The approach developed by the venture and expectations from key stakeholders to achieve results , profitability and continuous growth within a specific timeline while also co-creating value for the BOP customers. | Shafera et al. (2005); Hart (2003); Lawson-Lartego and Mathiassen (2021) |

## Research Method

The how-nature of the research question combined with the "focus on contemporary events in the real-life context" in developing agribusiness firms suggest that a case study approach was appropriate (Yin, 1994). Therefore, the research was based on comparative qualitative case studies. This approach allowed us to study differences among spinoff and startup firms. Multiple data sources and theory-driven analysis, key characteristics of case study research (Yin, 2003), provided us with rich data from multiple sources across various dimensions in each case. Finally, according to Walsham (1995), case studies can also be used to build new theory or extend existing theory, which is precisely an expected contribution of this research: provide empirical account of how spinoff and startup differences can influence the development of companies.

**Comparative case study:** Our research emerged from a broader action research conducted at ANSA, a Mexican Agribusiness that was struggling with the sustainability of its business strategy. In that project as the result of the collaboration among practitioners working for the company and academic researchers, Agro-Estacion was created to generate a market strategy focused on BOP farmers. This effort allowed ANSA, the mother company, to continue operating its main business model, but at the same time incubate a new model that could anchor ANSA as a strategic partner for transnational companies. Agro-Estacion has been operating as a spinoff for ANSA for several years and has reinforced the commercial strength of the company by developing a differentiated business model for the BOP market. In a parallel process, two social entrepreneurs founded in Kenya Farm Shop, an initiative aimed at providing the lowest income farmers with access to quality and affordable farming inputs to achieve decent living and food security. Both cases focus on BOP farming market targets, aim to expand and stabilize, and have adopted a microfranchising business model in emerging economies. The main difference lies in the foundation of the firms: Agro-Estacion, the Mexican company, is a spinoff, while Farm Shop, the Kenya firm, is a startup. Comparing these two cases can contribute to address the research question: How does the foundation model of spinoff or startup make a difference in the development and sustainability of BOP ventures over the years?

**Data collection and analysis:** The theoretical framework on business model developed by Shafera et al. (2005) which includes four key components: core logic, strategic choices, creating and capturing value and value network, was used as the primary lens to observe and capture various events and to select information for data collection and analysis. When collecting information from each case in order to have synthetic and balanced information and make both cases comparable, we identified from our core and complementing theoretical frameworks five dimensions that shape and describe the two firms and their evolution: BOP Context, Resource Foundations, Business Focus, Business Model, Sustainability Approach (see table 2). We compared these five dimensions in each case to identify the core differences among the two firms' resource based and business models. This allowed us to show and discuss findings and make conclusions about the main differences between the two microfranchisees, see table 2.

Considering the nature of the research method an important challenge was to achieve balanced and symmetrical information from both cases. The main primary source of information were semi-structured interviews with the founders and leaders of Agro-Estacion in Mexico Farm Shop in Kenya. In those interviews, they narrated the process of designing the business model, founding and launching the venture, the focus on BOP markets, and multiple details and problems they faced. We also had full access to archival documents such as financial information, internal presentations, sales reports, customer database, emails and other written materials, see Table 2.

We also emphasize that one author was involved in one case, another author in the other case, and three authors are independent researchers.

**Startup: Farm Shop Microfranchise Network in Kenya**

The Farm Shop concept was conceived in 2011 by two social entrepreneurs, one originally from Kenya and the other from the US who had relocated to Kenya. Farm Shop commenced operations in 2012. In 2017, both entrepreneurs exited Farm Shop for personal reasons and sold the social business to a Zimbabwean origin entrepreneur living in Kenya. The two social entrepreneurs were driven to co-found Farm Shop by firsthand observations of the agriculture input and services access challenges during their professional experience and prior honey business venture with BOP farmers in East Africa. One of the co-founders highlighted, "*I found that many BOP small-scale farmers lack access to affordable and quality agricultural inputs such as quality seeds, fertilizer or animal feed, thus hindering their ability to increase production and earn a decent living*". Recognizing the potential of microfranchise, inspired by Jason Fairbourne's book on the subject, the co-founder saw it as a transformative approach to scaling entrepreneurship at the BOP.

**Launching Farm Shop:** The two social entrepreneurs dedicated their personal time to firsthand understanding the challenges encountered by BOP farmers and small business owners, known as agro-dealers, in Kenya. They also enlisted the expertise of a consultant experienced in healthcare microfranchising to explore the potential of microfranchising in addressing the issues faced by BOP farmers and agro-dealers. One of the co-founders remarked, "*The findings strongly indicated parallels between the microfranchise network in health clinics and the challenges we aim to address in agriculture*." Guided by the consultant, they conceptualized Farm Shop and developed a training manual leveraging insights from the healthcare microfranchise network. Farm Shop began with a single pilot shop, where the two co-owners closely oversaw the prototyping and codification of the business model and gradually added four more shops within six months. By early 2018, Farm Shop had expanded to a network of 74 shops, serving 30,000 small-scale farmers, with 50 percent being women. With a vision of achieving financial sustainability and scalability, Farm Shop aimed to grow into a network of hundreds, and eventually thousands, of microfranchisees shops across Kenya, East Africa, and beyond (Mckague et al., 2015).

**Farm Shop resource foundation:** A co-founder revealed, "*Our initial investment came from our personal savings as the two co-founders of Farm Shop*." They did not seek external commercial capital beyond their own funds. One co-founder mentioned, "*We utilized one of the bedrooms in my apartment in Nairobi for storage of the first batch of supplies and inventories*." While Farm Shop was established as a for-profit entity in the Kenyan commercial jurisdiction, it operated with a dual mission of generating profit and delivering social benefits to BOP farmers. Recognizing the potential for leveraging grants from philanthropic institutions, the co-founders pursued several opportunities and have secured at least half million Canadian dollars. These grants played a pivotal role in Farm Shop's expansion, enabling it to broaden its market reach, target various BOP farmers, including young farmers and women. One co-founder acknowledged, "*It would not have been possible without the support from philanthropic institutions and foundations, which enabled us to* *refine our model through various pilots and subsequently scale up Farm Shop*." Despite receiving support from foreign philanthropic entities, a co-founder emphasized that Farm Shop intentionally avoided receiving subsidies from the Government in Kenya due to concerns about the politicization of the government fertilizer support program. He estimated the net worth of Farm Shop to be approximately 1.8 million Canadian dollars before its sale in 2017.

**Farm Shop business model:** Farm Shop targeted small-scale farmers at the Bottom of the Pyramid (BOP) in Kenya, typically owning less than 1 acre of land and engaged in mixed farming for both subsistence and commercial purposes. These mostly middle-aged or older farmers, predominantly male, live around or slightly above the $3 per day poverty line. Before Farm Shop, they relied on unorganized markets for agricultural inputs, which were often low-quality and overpriced. To better serve these farmers, Farm Shop launched several pilot initiatives. One successful collaboration with a dairy cooperative allowed farmers to purchase inputs on credit, leading to a formal business partnership. Farm Shop also explored ways to address challenges such as access to financing and offered services like training on sustainable agriculture. Although an impact study showed positive results, the report was not available.

**Farm Shop business focus:** Farm Shop offered a diverse range of agriculture-related products to its Bottom of the Pyramid (BOP) farmer customers through its microfranchisees, including seeds, fertilizers, agrochemicals, veterinary medicines, animal feed, irrigation systems, and solar-powered small equipment. In addition to products, Farm Shop provided various services to BOP farmers, such as veterinary advisory, agricultural extension, and information on farm prices, weather forecasts, and output marketing strategies. To determine its product and service offerings, Farm Shop conducted extensive market research and tailored its offerings to meet the needs of BOP farmers while considering their affordability. Furthermore, Farm Shop innovated its service offerings by exploring options such as consignment and leveraging its franchisee network to introduce add-on products that catered to the broader needs of BOP farmers beyond agriculture.

**Farm Shop sustainability:** Farm Shop's most profitable products were seeds and agrochemicals. The co-founders reported serving 27,000 BOP farmers through 74 franchisee shops before their departure in 2017, noting that the company hadn't achieved break-even despite receiving grants and investments. The new owner, experienced in retail and e-commerce, recognized the business model's strength and potential for scaling. However, despite efforts to establish a governance board, the COVID-19 pandemic caused operational slowdowns, leading potential investors to lose interest by 2022.

**Current state of Farm Shop:** By the end of December 2022, the new owner made the decision to suspend operations at Farm Shop. Explaining the rationale behind this move, he stated, "*It was hemorrhaging more money than it was bringing in. With expenses outweighing income, it wasn't just a matter of funding, but also lacking the critical mass necessary for profitability*." Despite the suspension, the owner emphasized that operations were not permanently terminated but rather put on hold. "*I chose to suspend operations instead of canceling them because there are still viable ideas we have. If these ideas garner interest and investment, we could potentially revive the business*," he added. Furthermore, he clarified that Farm Shop had not declared bankruptcy and had no outstanding debts. As of December 2022, Farm Shop's network had reduced to 47 microfranchisees, down from over 74 at the time of purchase in 2017.

**Challenges faced by Farm Shop:** Farm Shop faced significant challenges, including financial struggles with microfranchisees defaulting on payments, and unforeseen expenses added to operational difficulties; labor disputes and tax-related issues leading to substantial additional costs; finding suitable franchisees was difficult, with new franchisees often lacking experience and quality. Suppliers breached contracts by selling directly to franchisees, undermining Farm Shop's revenue model and finally human resource constraints with the lack of consistent senior leadership on-site for problem-solving which meant the co-founders were deeply involved in daily operations. Frequent travel outside Kenya further complicated management, leading to the realization by 2015 that an exit strategy was necessary.

**Spinoff: Agro-Estacion Microfranchise Network in Mexico**

Agro-Estacion (AE) was created in 2015 as a spin-off business platform from ANSA operating under a franchise business model following an engaged scholarship research project (Hernandez-Cazares et al., 2020; Mathiassen, 2017). ANSA is one of the three biggest distributors of crop protection solutions in Mexico. ANSA's business model for accessing corn farmers faced challenges due to the emergence of multinational corporations (MNCs) and medium-sized competitors. Since its inception, ANSA developed a network of sub-distributors, consisting of small local businesses geographically located near farmers in agricultural towns and villages. Over time, some of these long-time partners expanded their coverage and sales, gradually becoming competitors as MNCs began to notice their influence with farmers and approached them. "*Our business model was expiring*," remarked some MNC managers in formal interviews and work meetings (Hernandez-Cazares et al., 2020). The firm's problem caught the interest of a group of researchers at Georgia State University, who were keen on developing a collaborative study. The research team developed a strategy aimed at resolving the firm's primary issue. This strategy also addressed a broader challenge affecting an important market segment: the base-of-the-pyramid (BOP) corn farmers in Mexico (Quinonez-Romandia, 2016). Upon concluding the research, the firm had the opportunity to break paradigms and develop a new circular business model. This model not only addressed the firm's original problem but also helped BOP farmers, enabling them to become active participants in value creation while generating profits.

**Launching Agro-Estacion in Mexico:** From the beginning, Agro-Estacion received enthusiastic support from many of ANSA's collaborators. While there were some debates among top management, suppliers, ANSA's managers, and salespersons generally viewed Agro-Estacion as a great initiative. During its launch, many people offered advice and opinions based on their experience. Some concerns were raised about potential negative reactions from ANSA's current distributors, both the loyal ones and those who had started competing. The first Agro-Estacion shop was inaugurated in November 2015 in a small town called Ayotitlan, Jalisco, with a population of 1,100, where the main income source was corn farming. Three months later, the second Agro-Estacion franchise opened in Indaparapeo, Michoacan, a small town just a few minutes from Morelia, the state capital. This opening was also a significant success, attracting many corn farmers. With the goal of providing technology and knowledge, Agro-Estacion ensured farmers a circular farm-harvest-sale process for their crops.

**Agro-Estacion resource foundation:** After selecting three candidates for microfranchising, a task force requested venture capital from the parent company. Despite some C-suite executive doubts, the board invested $60,000 USD and covered some of Agro-Estacion's expenses for six months. ANSA provided resources and opened a line of credit with special pricing for Agro-Estacion. The investment funded store development, training, and purchasing additional crop products. Agro-Estacion earned revenue through brand royalties and service fees, with support from ANSA's suppliers during store launches.

**Agro-Estacion business model:** Agro-Estacion's base-of-the-pyramid (BOP) farmers were mostly aged 60 to 75, poorly educated, and lacked access to credit, relying on government programs and U.S.-based relatives for financial support. In Agro-Estacion's circular business model, farmers received tools, seeds, and financial resources through microfranchisees. Agro-Estacion helped farmers secure government funds via "Contract Farming," where farmers delivered harvested corn to be sold to large buyers, with payments distributed afterward. ANSA, the parent company, paid a 5% commission for promoting its products through the platform. Agro-Estacion provided administrative services to microfranchisees, who in turn facilitated government paperwork for farmers. The business model also offered affordable crop insurance, which proved crucial during events like Hurricane Patricia, ensuring farmers were protected. Agro-Estacion supplied products, advice, and services to farmers, while gaining valuable data and strengthening its distribution network through franchisees.

**Agro-Estacion business focus:** Following the 2018 national governmental election, the new president canceled the "contract farming" program, which had been a vital resource for Agro-Estacion business model, providing security for all stakeholders involved in the process. Despite this setback, Agro-Estacion continued to supply the main products to its microfranchisees and received corn at the end of the cycle, which was then collected and delivered to large buyers. However, the absence of the "Contract Farming" program meant that bill collection now relied solely on the goodwill and intentions of all parties involved. Since 2018, Agro-Estacion has continued to operate without this important source of funds and security, relying instead on the knowledge and expertise of its microfranchisees in their respective markets.

**Agro-Estacion sustainability:** Following the changes in Agro-Estacion context and environment, management adjusted Agro-Estacion business model to ensure its continuity. Currently, the products and services provided by Agro-Estacion to BOP farmers through the franchisees include technical advice (for BOP farmers), administrative advice (for BOP farmers and microfranchisees), training (for BOP farmers and microfranchisees), supply of input assets: seeds, fertilizers, and crop protection products, credit (For the microfranchisee who delivers the same to the farmer), reception and marketing of the harvest (Through the microfranchisee from the BOP farmers), management of bill collection from the harvest sale. Despite the cancellation of the "contract farming" program, Agro-Estacion's sustainability relies on its micro-franchise model, which connects BOP farmers to the platform and ultimately to macro buyers. This business process creates interdependence among all participants, fulfilling the needs of BOP farmers from farming to sale. However, the platform's long-term survival is uncertain due to challenges like the aging farmer population, uncertain market futures for grains, and lack of government support. Agro-Estacion may need to rethink its strategy, potentially diversifying crops and partnering with new stores focused on high-value crops. While recent metrics show sales growth, the management faces significant challenges, threatening the firm's continuity despite its rapid growth and having reached break-even in under seven years

**Current state of Agro-Estacion:** Two of Agro-Estacion's three microfranchisees continue to operate under the same business model, with market adaptations. The Michoacan microfranchisee, led by a dynamic woman focused on corn farming, successfully drove investment in a collection center but faces a lack of family succession as her daughters are not interested in the business. The second microfranchisee, run by a couple who have become key advisors to local BOP farmers, has adapted to the transition from corn to sugar cane farming, but also faces succession challenges as their children show no interest in the business. The third microfranchisee, the first to open, is struggling with a lack of interest from its founders and family issues, with no clear succession plan. Corn farming in their area has shifted to agave, and Agro-Estacion is considering closing this microfranchise to avoid further costs.

**Challenges faced by Agro-Estacion:** The year 2023 was challenging for crop protection companies globally, with mergers, acquisitions, and stringent government regulations, especially in high-value markets. New rules demanded zero tolerance for fertilizers, crop protection products, and GMOs, leading to bans in Europe and strict import requirements. This created a supply gap and farming crisis, affecting farmers from France to the U.S. and beyond. Agro-Estacion, focused on row crops, faces difficulties as the international agenda favors large farming nations like the U.S. and Ukraine for row crops, while high-value farming is allocated to regions with favorable climates. The challenge for Agro-Estacion is that over 4 million BOP corn farmers in Mexico, dependent on corn farming, lack the resources and knowledge to transition to high-value crops, making adaptation difficult.

**Cross Case Comparison**

**Origin and conceptualization:** Farm Shop was founded in 2011 as a startup by two social entrepreneurs with experience in social enterprises and microfranchise models. The idea was conceived based on the founders' observations of the challenges faced by small-scale farmers in accessing quality agricultural inputs. Agro-Estacion, on the other hand, was established in 2015 following an engaged scholarship research project involving collaboration between Georgia State University researchers and the Top Management Team at a Mexican Agribusiness company, ANSA. The concept emerged from the need to address challenges to ANSA's traditional business model and to support BOP corn farmers in Mexico. Agro-Estacion was therefore created as a spinoff entity within ANSA.

**BOP context:** Farm Shop operated in a high-poverty context and focused on BOP farmers with less than 1 acre of land, primarily engaged in mixed agriculture practices. They served BOP farmers residing within a 5 km radius of microfranchisee shops. Weak infrastructure and a significant institutional void enabled unorthodox business practices in Kenya. In contrast, Agro-Estacion operated in a middle-income country with slightly better-off BOP farmers compared to those served by Farm Shop in Kenya. BOP farmers targeted by Agro-Estacion in Mexico typically owned 2.5 to 25 acres of land, were predominantly older, and had lower levels of education. Rule of law and contract enforcement presented fewer challenges in Mexico compared to Kenya.

**Business model:** Farm Shop employed a microfranchise approach to deliver agricultural inputs and services to BOP farmers in Kenya through a network of microfranchisees. It offered a diverse range of products and services, such as seeds, fertilizers, veterinary medicines, and technical advice. Within a five-year period, Farm Shop rapidly scaled its operations, boasting over 70 microfranchisee shop members in its network. It strategically utilized philanthropic resources to pilot and refine innovations before implementing them at scale. On the other hand, Agro-Estacion emerged as a spin-off business platform from ANSA and also embraced a microfranchise model to serve BOP corn farmers in Mexico. It provides a comprehensive suite of services to BOP farmers through its microfranchisees, including technical and administrative guidance, training, input supply, credit facilitation, and harvest marketing services. However, Agro-Estacion's scalability in terms of the number of microfranchisees was slower, with only three microfranchisees established. While both Farm Shop and Agro-Estacion adopted a similar microfranchise business model, they diverged in their strategic choices and business logic. Additionally, they leveraged different aspects of their respective value networks to support their operations and growth initiatives.

**Business focus:** Farm Shop focused on providing agricultural inputs and services to small-scale farmers, particularly those at the Bottom of the Pyramid (BOP), in Kenya. It utilized a microfranchise approach, offering a wide range of products and services such as seeds, fertilizers, veterinary medicines, and technical advisory. Additionally, Farm Shop expanded its offerings to include non-agricultural products like solar lights to address the broader needs of BOP farmers. The venture experienced rapid growth, establishing numerous microfranchisee shops and effectively serving thousands of BOP farmers. Similarly, Agro-Estacion's primary focus was on catering to BOP corn farmers in Mexico through a microfranchise model. It provided comprehensive support, including technical and administrative advice, training, input supply, credit facilitation, and harvest marketing services to BOP farmers through its microfranchisees. Despite operating as a spin-off business platform from ANSA, Agro-Estacion encountered challenges in scaling compared to Farm Shop, resulting in a smaller number of microfranchisees.

**Resources foundations:** Farm Shop initially relied on personal savings from its co-founders, later supplemented by grants from philanthropic institutions and foundations, leveraging the network of one of the co-founders. However, accessing commercial capital posed challenges, and the venture avoided government subsidies. Conversely, Agro-Estacion received initial investment and support from ANSA, the mother company, with backing from the company's management team. It capitalized on government grants and support for small-scale BOP farmers to expand its operations and enhance its bottom line. Nevertheless, it now grapples with uncertainties arising from shifts in government policies.

**Sustainability and future outlook:** Farm Shop encountered significant hurdles in attaining financial sustainability. Despite implementing various innovations aimed at addressing key challenges such as securing financing for BOP farmers, combating side selling from suppliers to microfranchisee shops, and enhancing human resource capacity, sustainable outcomes remained elusive. Moreover, the disruptive impact of the COVID-19 pandemic exacerbated operational challenges. Unexpected business expenses arose following changes in ownership, compelling the new owner to divest crucial assets to mitigate financial strains. However, difficulties in maintaining adequate cash flow and attracting new investors for additional capital infusion ultimately prompted the suspension of Farm Shop's operations. The owner has retained the venture's assets and brand name in anticipation of potential future revival. Agro-Estacion also faced challenges including microfranchisee defaults and generational succession issues, with younger family members showing little interest in managing the business. Additionally, shifts in government policy removed subsidies for BOP farmers, forcing them to lease their land and reducing demand for Agro-Estacion's agricultural inputs and services. Despite these hurdles, Agro-Estacion is adapting its business model to offer additional support for farmers amidst uncertainties stemming from changing government policies. Furthermore, Agro-Estacion remains operational but faces uncertainties regarding its long-term sustainability. To address this, the company is exploring diversification strategies and partnerships to mitigate current and future risks and ensure its continued viability. We summarize the commonalities and differences between Farm Shop as a startup and Agro-Estacion as a spinoff in Table 2.

**Table 2: Comparing Cases**

| | Startup: Farm Shop, Kenya | Spinoff: Agro-Estacion, Mexico |
|---|---|---|
| BOP Context | • High poverty<br>• Weak infrastructure,<br>• High level of institutional void<br>• BOP farmers own less than 1 acre of land and practice mixed agriculture. | • Middle-income country<br>• Relatively better infrastructure<br>• Acceptable legal framework<br>• Much older BOP farmers owning between 2.5 and 25 acres of land |
| Resource foundations | • Reliance on founders' personal savings and grants<br>• Challenges in accessing commercial capital.<br>• Avoided government's subsidies due to politization. | • Received initial capital and other resources investment and support from ANSA, the mother company,<br>• Received backing from the management team.<br>• Leveraged government grants and support for BOP farmers to expand operations<br>• Now grappling with future uncertainties due to shifts in government policies. |
| Business focus | • Provide agriculture inputs and services to BOP farmers in Kenya<br>• Facilitated BOP farmers to sell their harvest<br>• Offer additional non-agricultural products in demand by BOP farmers | • Provide agriculture inputs and services to BOP farmers in Mexico<br>• Facilitated BOP farmers to sell their harvest |
| Business Model | • Microfranchising – mostly conversion of existing micro-entrepreneurs as franchisees<br>• Leveraged philanthropic grants to pilot innovations before scaling them<br>• Rapid expansion with over 70 microfranchisees | • Microfranchising – mostly conversion of existing micro-entrepreneurs as franchisees<br>• Leveraged government subsidies to BOP farmers to increase business and bottom-line<br>• Slower scalability with only four microfranchisees |
| Sustainability approach | • Positive impact reported on BOP farmers<br>• Difficulty achieving financial sustainability<br>• Exacerbated operational challenges<br>• Unexpected expenses, asset divestment<br>• Cash flow difficulties, inability to attract new investors<br>• Assets and brand name retained for potential future revival | • Positive impact reported on BOP farmers<br>• Break-even reached<br>• Reduced demand due to government's policy change<br>• Operational challenges with uncertain long-term viability |

## Discussion

Microfranchising is gaining prominence in the BOP proposition. Many studies have focused on how it can create entrepreneurship opportunities for BOP population to alleviate poverty, scale business models, and solve challenges faced by BOP, such as access to affordable agricultural products and services (Fairbourne, 2007; Gibson, 2007; Magleby, 2007; Kistruck et al., 2011; Hernandez-Cazares et al., 2020; Lawson-Lartego and Mathiassen, 2021). However, there is a gap in knowledge regarding how various business organizing forms, such as startups or spinoffs, affect microfranchise scalability and sustainability.

In response, this research combines and leverages the Resource-Based View of the firm (Penrose, 1959 and Wernerfelt, 1984) with Business Model Components (Shafera et al. (2005) as an analytical framework to understand the scalability and financial sustainability of two microfranchisors. It also surfaces and contrasts the salient differences between Farm Shop, a startup microfranchise network in Kenya, and Agro-Estacion, a microfranchise spinoff in Mexico, while highlighting areas of commonality between the two business organizing forms (table 4). Our analyses demonstrate the different stages of the development of each venture and how the Resource-Based View as well as Business Model Components play out. This enables us to make various contributions.

## Contributions to the BOP and Microfranchise Literature

BOP context, resource foundation, business model, and the sustainability approach are four core areas of our analytical framework that offer substantial contributions to the BOP and Microfranchise Literature. While the business focus is important and influences the scalability and sustainability of both microfranchisees, its contribution is not considerable, as both microfranchise ventures have a virtually similar business focus.

***BOP Context:*** Our analysis of Farm Shop and Agro-Estacion underscores the criticality of government policies and regulation as well as the need for a stable and predictable enabling environment (Marconatto et al, 2016). Given that the BOP context by its very nature is already quite complex and challenging with institutional void (Fairbourne, 2007, Lawson-Lartego and Mathiassen, 2021), this is even more important. Business development at the BOP would also benefit from government support in the form of incentives and smart subsidies to motivate entrepreneurs. Similarly, there is a need for donors, funders, and other stakeholders to take a longer-term view of business development at the BOP and ensure that they create both the room for experimentation and iteration (Lawson-Lartego and Mathiassen, 2021). This should be accompanied by sufficient financial resources to encourage and at least partially underwrite the risk-taking that is required and to reduce the gap of the considerable opportunity costs these entrepreneurs and enterprises face when venturing to build businesses in the BOP.

***Resource foundation**:* Our empirical analyses of both forms of microfranchisors through the Resource-Based View of the Firm and Business Model Components highlight the different effects of the resource foundation (Penrose, 1959; Koster, 2004) on the scalability and sustainability of these ventures. In the case of Farm Shop in Kenya, the study found that although they managed to leverage philanthropic resources to test and quickly scale the network, accessing more commercial capital proved challenging and ultimately impossible. This negatively impacted Farm Shop's ability to inject additional capital into the business at critical times to stabilize and sustain the microfranchise venture. On the other hand, Agro-Estacion, being a spinoff, was able to rely on capital investment from its parent company without much difficulty. Agro-Estacion could draw on human resources, technology, and both tacit and codified knowledge (Koster, 2004) from its parent company to sustain the microfranchise venture at critical times. In contrast, Farm Shop fell short, especially when both initial founders needed additional support the most. Agro-Estacion heavily relied on human resources from its parent company and utilized its well-established network of distributors developed over more than four decades. Therefore, the Resource-Based View of the Firm appears to be a critical factor to consider when initiating a microfranchise venture.

***Business model****:* On the other hand, one co-founder of Farm Shop was able to effectively leverage their network to access philanthropic grants, which Agro-Estacion did not have access to. This access enabled Farm Shop to test various innovations, iterate, and grow rapidly. This contributed to the rapid scaling of Farm Shop, which stood in contrast to Agro-Estacion, which solely relied on the capital provided by the parent company and remained with the initial three micro-franchisees. Both ventures used different core logic and made different strategic choices, yielding different results (Shafer et al., 2005). We observed similar rapid scaling with another microfranchise network in Bangladesh started by CARE, which was enabled by the business model choice and the type of financial resources the network tapped into, in this case, a philanthropic grant (Lawson-Lartego and Mathiassen, 2021).

***Sustainability approach****:* Although many external factors influenced and impacted the sustainability of both microfranchise ventures, such as COVID-19 (in Kenya's case) and government policy choices (in Mexico), the business form of both ventures played a significant role in their sustainability. In the case of Agro-Estacion, being accountable to the parent company and having pressure to show returns contributed to the conservative measures taken by its management, leading to the achievement of break-even and profitability. In contrast, for Farm Shop, being a startup and not having the same level of pressure and accountability from other investors or a board of directors may have negatively impacted its current state, leading to its suspension and an uncertain future. The owners were only accountable to themselves and having received grant resources may have squeezed or diluted their management rigor or shifted their priorities. Similar trajectories have been observed in other microfranchise entities formed as social enterprises and startups, reflecting Farm Shop's experience (Mckague et al., 2015; Lawson-Lartego and Mathiassen, 2021). This speaks to the relevance of having clear accountabilities and goals to drive toward sustainability.

We can then posit that the BOP context, the nature of resource foundation, as part of the Resource-Based View of the Firm, whether a startup or a spinoff, along with its business model, have significant implications for scalability and sustainability.

## Implications for Microfranchising Practice at the BOP

Combining the Resource-Based View of the Firm (Penrose, 1959 and Wernerfelt, 1984) with Business Model Components (Shafera et al. (2005) as an analytical framework offer important insights for managers interested in developing, scaling and sustaining microfranchise ventures at the BOP. Although BOP populations tend to face similar challenges, it is important to understand various support services and leverage points to de-risk microfranchise ventures. Careful risk management, scenario planning, and organizing to advocate for the right conditions for BOP ventures to thrive all seem important (London, and Hart, 2004; Lawson-Lartego and Mathiassen, 2021). We make the following recommendations: 1) Having human resources with the required experience in the target industry is important. This showed clearly in the case of Agro-Estacion where they were able to leverage human resources and established network from parent company. Farm Shops on the other hands struggled with this. 2) Making strategic choices about how to use and optimize resources, what type of value to create, capture and distribute, and to whom, are all important (Shafera et al. 2005; Hamel, 2000). In developing and sustaining microfranchise ventures, the business model plays a crucial role. It encompasses the strategies and decisions regarding resource utilization, value creation, value capture, and value distribution. 3) A comprehensive sustainability approach is essential for long-term success. This involves not only financial sustainability but also social and environmental considerations. Managers should develop strategies that ensure continuous funding. Governments should prioritize financial and policy support for the development of microfranchise as an approach to support entrepreneurship and reduce poverty and hunger. The philanthropic sector should also invest adequately in this approach and ensure sustainability is front and center.

In conclusion, our research reaffirms that the BOP is an exceptionally complex and challenging tier within the market ecosystem for businesses to successfully operate (Lawson-Lartego and Mathiassen, 2021), irrespective of their resource base and other support or the startup versus spinoff nature of the business origin. As our analysis shows, the BOP presented a formidable arena for both Farm Shop and Agro-Estacion even though they had different business models and divergent approaches to sustainability. This overriding confounding influence of the BOP context has been borne out by various other studies (Prahalad, 2004; London and Hart, 2004; Kistruck et al., 2015). Almost twenty-five years after Prahalad's seminal publication, examples of successfully and viable businesses operating at the BOP are still few and far between (Prahalad and Hammond, 2002; Karnani, 2007; Simanis and Hart, 2008).

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