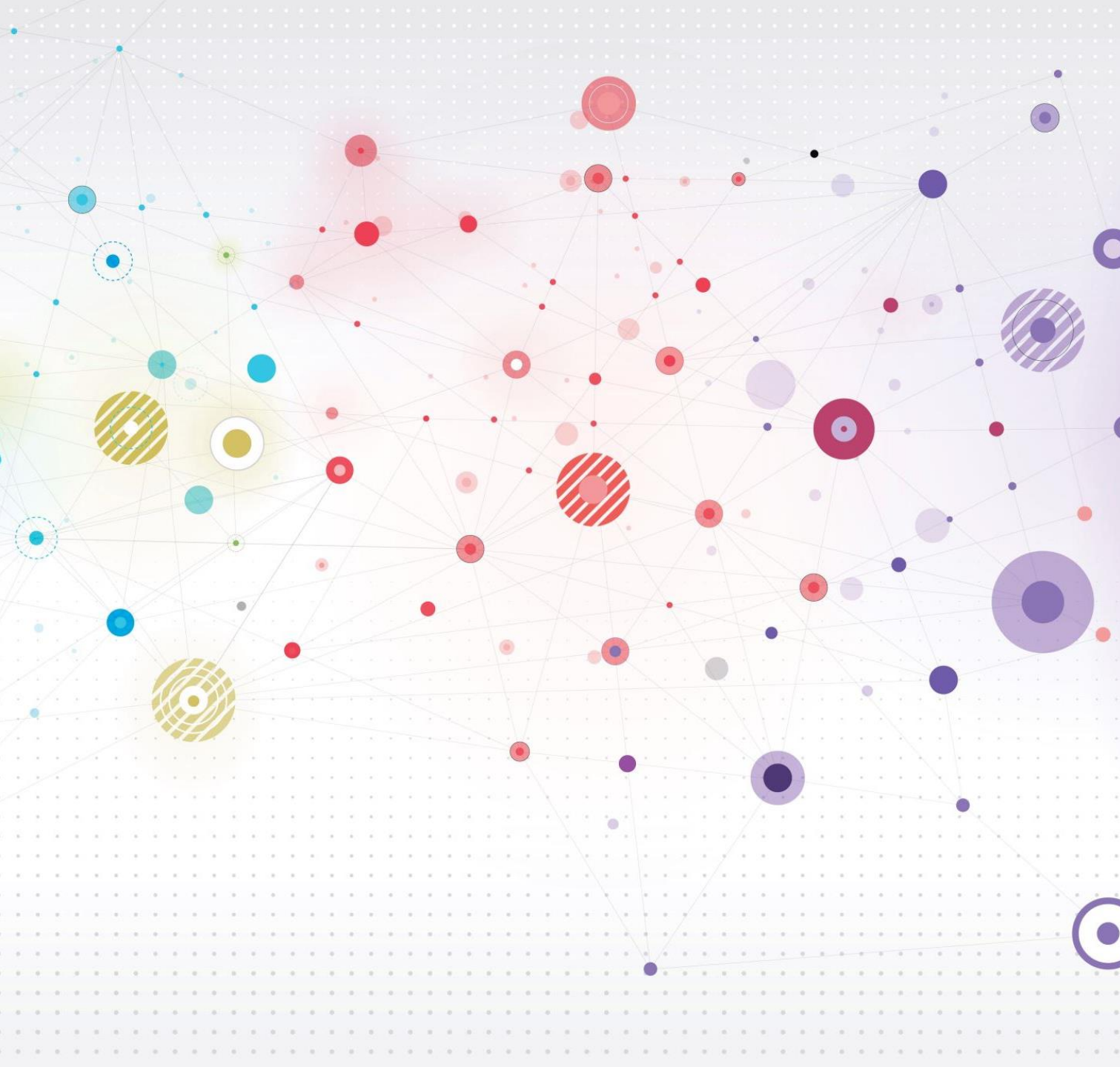


An abstract network diagram on the left side of the slide. It features a complex web of thin grey lines connecting various nodes. The nodes are represented by circles of different sizes and colors, including red, blue, yellow, and purple. Some nodes have internal patterns like concentric circles or stripes. The background is a light grey grid of small dots.

Microfranchising Entrepreneurship at the BOP

*Comparison of a Startup and
a Spin-off Venture*

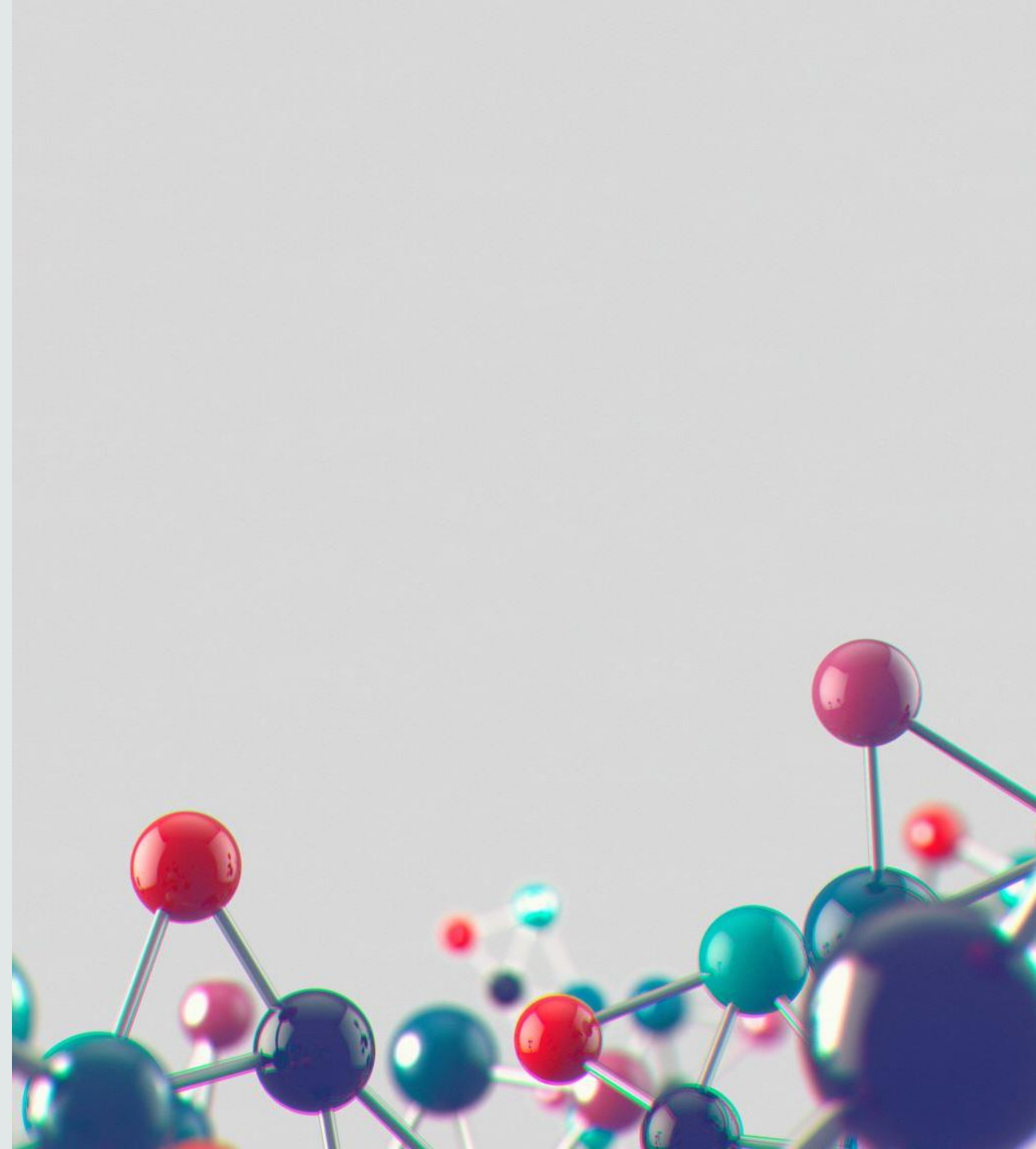
L. Lawson-Lartego
S. Quinones-Romandia
R. Hernandez-Cazares
F. Jiwa
L. Mathiassen

The Research



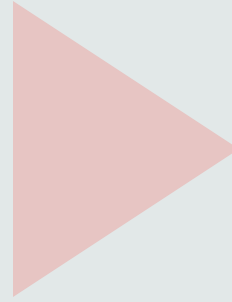
Context

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.



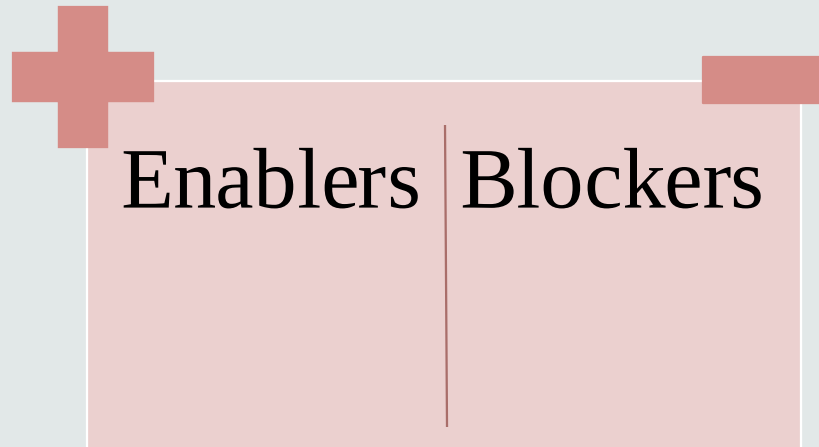
Context

Qualitative cross
case comparison
analyzes



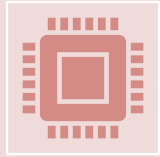
The differences in
the development
and sustainability
of two BOP
ventures over the
years

Similarities



Differences

Microfranchising Model



A 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).

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.



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.



VRIN (Valuable, Rare, Inimitable, and Non-substitutable).

Theoretical Framework

Components of business models. Shafera et al. (2005)

- Strategie choises
- Creating value
- Capturing value
- Value network



“Business model as a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network” Shafera et al. (2005).



Four key terms: core logic, strategic choices, creating and capturing value and value network.

Theoretical Framework

Startup, born alone, without coverage, support or protection of a mother company or an already existing organization. No previous organizational structure; limited budget and a small structure. Ceases 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, 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).

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. 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

Comparative case study

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, AgroEstacion was created to generate a market strategy focused on BOP farmers.

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.



Research Method

- 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.

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



Considering the nature of the research method an important challenge was to achieve balanced and symmetrical information from both cases.



Semi-structured interviews with the founders and leaders of Agro-Estacion in Mexico Farm Shop in Kenya.



Archival documents such as financial information, internal presentations, sales reports, customer database, emails and other written materials.



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

- Conceived in **2011** by two social entrepreneurs, one originally from Kenya and the other from the US who had relocated to Kenya. Comenced operation 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.
- **Launching Farm Shop:** conceptualized Farm Shop and developed a training manual leveraging insights from the healthcare microfranchise network. single pilot shop.
- Four more shops within six months.
- **2018** expanded to a network of 74 shops, serving 30,000 small-scale farmers, with 50 percent being women.



Startup: Farm Shop Microfranchise Network in Kenya



Farm Shop resource foundation



Initially personal savings



\$500,000 CAD from philanthropic institutions



Net worth of FS: 1.8 Million CAD

Startup: Farm Shop Microfranchise Network in Kenya

Farm Shop business model:

- 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.
- Predominantly male, living around or slightly above the \$3.00 per day poverty line who relied on unorganized markets for agricultural inputs, which were often low-quality and overpriced.
- Collaboration with a dairy cooperative allowed farmers to purchase inputs on credit, leading to a formal business partnership.
- Access to financing and offered services: training on sustainable agriculture.



Startup: Farm Shop Microfranchise Network in Kenya

Current state of Farm Shop:

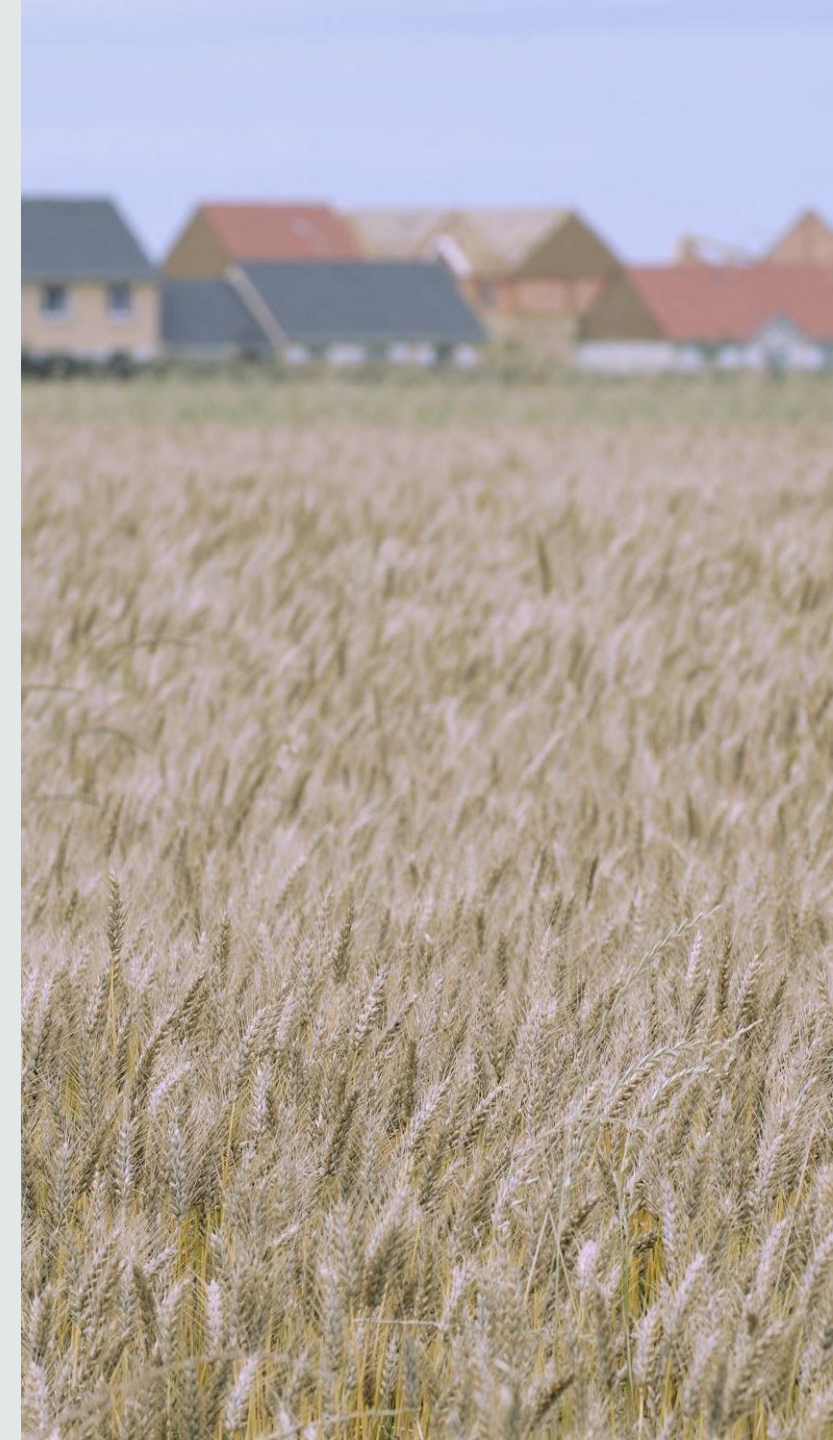
- By the end of December 2022, the new owner made the decision to suspend operations at Farm Shop. Explaining the rationale behind this move, he stated, "It was hemorrhaging more money than it was bringing in."
- Despite the suspension, the owner emphasized that operations were not permanently terminated but rather put on hold.



Startup: Farm Shop Microfranchise Network in Kenya

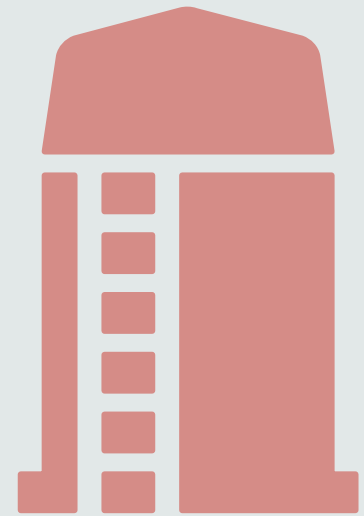
Challenges faced by Farm Shop:

- Financial struggles with microfranchisees defaulting on payments.
- Unforeseen expenses added to operational difficulties.
- Labor disputes and tax-related issues leading to substantial additional costs.
- Suppliers breached contracts by selling directly to franchisees.
- 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.



Spinoff: Agro-Estacion Microfranchise Network in Mexico

- Created in 2015 as a spin-off business platform from ANSA.
- Operating under a franchise business model.
- ANSA's business model for accessing corn farmers faced challenges due to the emergence of multinational corporations (MNCs) and medium-sized competitors.
- A collaborative study was developed at GSU, where a strategy was created to aimed 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).



Spinoff: Agro-Estacion Microfranchise Network in Mexico

Launching Agro-Estacion in Mexico:

- During its launch, many people offered advice and opinions based on their experience.
- 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.



Spinoff: Agro-Estacion Microfranchise Network in Mexico



Agro-Estacion resource foundation:



The board invested \$60,000.00 USD and covered some of Agro-Estacion's expenses for six months



The parent company provided resources and opened a line of credit with special pricing for the Spinoff



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

Spinoff: Agro-Estacion Microfranchise Network in Mexico

Agro-Estacion business model:

- AE's 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.
- AE's circular business model: farmers received tools, seeds, and financial resources through microfranchisees. AE helped farmers secure government funds via "Contract Farming," where farmers delivered harvested corn to be sold to large buyers, with payments distributed afterward.
- The parent company, paid a 5% commission for promoting its products through the platform.
- AE provided administrative services to microfranchisees, who in turn facilitated government paperwork for farmers.
- Crop and life insurance, which proved crucial during events like Hurricane Patricia, ensuring farmers were protected.



Spinoff: Agro-Estacion Microfranchise Network in Mexico



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, 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.



Spinoff: Agro-Estacion Microfranchise Network in Mexico

Challenges faced by Agro-Estacion:

- Challenging crop protection companies globally, with mergers, acquisitions, and stringent government regulations, especially in high-value markets.
- Zero tolerance for fertilizers, crop protection products, and GMOs, leading to bans in Europe and strict import requirements.
- 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.
- 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.

Comparing Cases

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

Discussion and Conclusion



Microfranchising is gaining prominence in the BOP proposition. (Fairbourne, 2007; Gibson, 2007; Magleby, 2007; Kistruck et al., 2011; Hernandez-Cazares et al., 2020; Lawson-Lartego and Mathiassen, 2021)



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



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