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INTRODUCTION
Building a business is hard work. It requires creativity, innovation, and risk-taking. It’s not an activity for everyone. Furthermore, finding a way to be successful in low-income markets is an added challenge. But with every challenge comes an opportunity to accomplish something still undone; an opportunity to innovate and to build a competitive market advantage.

After four-months of testing business models and strategies, the clothing line Narella, the microfinance institution Fundación Paraguaya and the consulting firm Fairbourne consulting have developed a business model that holds the potential to realize long-term growth and sustainability both for Narella and for its individual vendors to new, low-income markets. Here, we will explore the operational mechanisms that allow that business model to function. It will also lay the groundwork for future innovations and improvements as the business model moves forward. This way, the Narella microfranchise will continue to growing and expanding into untapped markets across Paraguay.
1.1.1 DOCUMENT OBJECTIVE

This document is meant to serve two fundamental purposes: 1) allow its reader to understand the many operations that allow this business model to function on a daily basis, and 2) understand what the microfranchisor and its partners must do to successfully continue operating the microfranchise and drive its continued growth and expansion. The reader, whether the microfranchisor, a partner to a microfranchise, or someone exploring this topic for the first time, should be able to understand the full complexity of the Narella microfranchise, its key operations, and the efficient management required to maintain a successful microfranchise.

1.1.2 PROJECT OBJECTIVE

This initiative is the result of a partnership between Fundación Paraguaya and the InterAmerican Development Bank and Multilateral Investment Fund. Formally titled “Development of Microfranchises for low-income microentrepreneurs,” The initiative is meant to expand “microfranchises as a tool for economic empowerment for low-income populations in Paraguay. Its purpose is to implement microfranchises for ‘microentrepreneurs’ for committees of entrepreneurial women with Fundación Paraguaya.”

1.1.3 WHAT IS A MICROFRANCHISE?

What is a Microfranchise? A microfranchise is a “turnkey” business model that incorporates franchising characteristics such as strong branding, standard product offering or continuous technical assistance from the microfranchisor to the microfranchisee.

It incorporates a design that is sufficiently simple and accessible to micro-entrepreneurs despite challenges such as little formal education or few financial resources. The microfranchise business model should be standardized so that is can later be replicated and scaled with relative ease. The
model is specifically tailored to be launched with a small investment ($50-$1,000), in order to keep barriers of entry low and attract low-income, entrepreneurs in developing markets. Such are the communities that the microfranchise exists to benefit.

1.1.4 WHO IS WHO IN A MICROFRANCHISE?

A microfranchise is made of two indispensable parties: the microfranchisor and the microfranchisee. The relationship is two-way, with each party fulfilling its unique responsibilities to the other. If the microfranchisor does not fulfill her responsibilities to the microfranchisee, the microfranchisee may be left without product or other fundamental components required to have a business in the first place. Should the microfranchisee not fulfill her responsibility to the microfranchisor, the microfranchisor will end up incurring additional costs without income to cover the additional costs, resulting in an unprofitable enterprise.

Remember, the microfranchise is a business first and foremost. It a profitable business for everyone involved, as much for the microfranchisor as for the microfranchisee. As such, it is of critical importance that each party identifies and recognizes its role in the microfranchise. Otherwise, profitability will be more challenging to attain and the business owner has no incentive to grow their business via the microfranchise model.

1.1.4.1 MICROFRANCHISOR

The microfranchisor is ideally a pre-existing, established and successful business that has years of experience in its area of expertise. Whether it be a local, regional, national or even international firm, the business sees a strategic opportunity to realize growth into new, local markets through the microfranchise model. Via this model, as mentioned earlier, the microfranchisor will be delivering a smaller replication of their successful model, modified to increase the likelihood of success in these new markets.

What distinguishes a strong microfranchisor from a weaker one is three key factors. Firstly, the microfranchisor understands and shows enthusiasm for the microfranchise as a real business opportunity. Should the microfranchisor understand the microfranchise strictly as a social mission, it is doubtful that they will demonstrate the level of commitment and investment required to produce a profitable model with high growth potential for the microfranchise.

Secondly, the microfranchisor should already be running a proven and successful business. Working with a business that has
not yet reached maturity only introduces more risk to the microfranchise. While a young, untested business may prove to be successful eventually, replicating it during its growth stage and promoting a still untested product and business model only exposes the microfranchisees to more risk, not less. This leads to a final point: the microfranchisor should not simply have already proven itself successful in the market. It should also have achieved some level of scale. As building a microfranchise does require a period of market testing, it’s best to work with a patient microfranchisor, one that does not require the microfranchise to be immediately profitable. Typically, this will be a larger business that already have a reliable income stream apart from what it hope to procure via the microfranchise.

**CHARACTERISTICS OF AN IDEAL MICROFRANCHISOR**

No two microfranchisors are the same. As such, there is no single profile to rely on in identifying the right business to build into a microfranchise. Nonetheless, there are some key attributes that one can identify in all successful microfranchisors – attributes that help facilitate the process of testing the business and, later, scaling it.

- **Strong, established business**
- **Reliable, tested distribution networks**
- **Interest of microfranchisees in the business**
- **Evaluation of resources, capabilities and ethics using the Microfranchise Identification Rubric**

*See business model design for more detail*

---

**1.1.4.1.1 MICROFRANCHISEE**

In the ideal microfranchise, anyone can be a microfranchisee. The concept of the microfranchise is designed such that any interested person can take advantage of this “turnkey” model. Following clear instructions and managing the business as outlined in the corresponding Microfranchisee Manual, a microfranchisee should be able to realize success in their business. The successful profile of a microfranchisee will vary from microfranchise to microfranchise, depending on the characteristics of success in any given industry.

Because a microfranchise is meant to be “micro,” there are specific populations that most microfranchises target to recruit potential microfranchisees. Conceptually, the aim is to engage low-income communities, whether they are living in
poverty or near-poverty. The microfranchise model recognizes the potential growth in low-competition consumer markets, as many businesses dismiss these communities as being too risky or too under-resourced to consider for serious investments.

We’ll discuss more on the specific microfranchisee profile for the Narella microfranchise in the beginning of chapter 2, on Recruitment.

1.1.4.2 The Microfranchise Dynamic

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The nature of the microfranchisor/franchisee relationship is mutually beneficial. Again, this is a business. Should the microfranchise no longer be beneficial for either one of the two parties, or should it lack a vision of how current investments will produce future returns, the microfranchise is no longer a profitable venture. Both parties stand to lose as a result, as an exit is the only reasonable solution.

Therefore, as previously mentioned, it is important to recognize the added value that each party in the Microfranchisor/franchisee relationship offers to one another. This added value only occurs should the each party fulfill its fundamental responsibilities to the other and the key activities implied. The table above lists a brief, select list of some key added value points between the Microfranchisor and the Microfranchisee. Below, we explore them in greater detail.
1.1.4.2.1 How the Microfranchisor adds value

**Business Idea**
The business owner carries a unique industry knowledge and expertise that cannot be replicated by the microfranchisee or any partner lacking the business owner’s depth of industry experience. The business owner, then, is uniquely positioned to offer insights into the microfranchisor’s value proposition, to be later offered in the market via the microfranchisee.

**Turn-Key System**
Consistent with the last theme, the business owner uniquely understands the intimacies of his business model how it can be modified for a microfranchise model. This includes standardizing its processes so that microfranchisees that match the identified profile (see section 2) can prove successful in the business, with delivery of the support systems built into the microfranchise.

**Initial and Ongoing Training**
Among those support systems include initial and regular training from the Microfranchisor, designed to strengthen microfranchisee product knowledge, business management skills and sales strategies, among other themes.

**Marketing Campaigns and Branding**
Just as any business owner would take the lead on promoting their business and building their brand, the microfranchisor is expected to do the same for the microfranchise. Any effort to build a more recognized and trusted brand is more likely to see sales results in the marketplace, to the benefit of the microfranchisee and subsequently the microfranchisor.
• **NEW PRODUCT**

The microfranchisor is responsible for product and/or service delivery to the microfranchisee. As such, the microfranchisor is also responsible for new product innovations and offerings via the microfranchise. In many industries, such a commitment is necessary in order to meet client demands for product variety or evolving preferences influenced by fashion trends or seasonal changes.

• **WHOLESALE PRICES/DISCOUNTS**

In many microfranchises – especially ones incorporating a resale model - value is delivered to the microfranchisee in the profit margins negotiated with the microfranchisor. Business owners who are interested ways to make the microfranchise a profitable investment for their microfranchisees should offer incentivized discounts for restocking inventory, among other options.

### 1.1.4.2.2 HOW THE MICROFRANCHISEE ADDS VALUE

• **DIRECT CHANNEL FOR PRODUCT/PROMOTION FEEDBACK**

In most microfranchise models, microfranchisees are in client-facing roles, closing sales on behalf of the business. These microfranchisees offer a channel for direct market feedback on product design and quality, the effectiveness of marketing or promotions campaign, and other direct data points that the microfranchisor would otherwise have to deduce from general business performance. Serving as the microfranchisee’s eyes and ears in the marketplace, the feedback provided by microfranchisees is a key value-add that informs important business model modifications intended to improve business performance.

• **INCREASED BRAND AWARENESS**

Being on the frontlines, microfranchisees serve as brand evangelists to neighbors, friends, co-workers and other trusted relationships. A mass of microfranchisees serving as official brand representatives is a powerful complement to any microfranchisor’s marketing campaign.
• **Additional Revenue to Microfranchisor**

Naturally, whether through franchising fees charged for use of the brand, or via shared profit margins between the microfranchisor and the microfranchisee, the microfranchisor amplifies his revenue sources from the effective implementation of a microfranchise. Each active microfranchisee is a potential source of new sales, producing additional revenue for the microfranchisor.

• **Capital Business Expansion**

In many microfranchise arrangements, microfranchisees are responsible for arranging their own initial capital investment, whether via their own savings, or with the support of a third party, such as a microfinance institution (see section 1.3.2.4). With each active microfranchisee representing additional income for the microfranchise, this implies business growth for the microfranchise without direct capital investments from the microfranchisor to facilitate it. This is a significant competitive advantage over growth through traditional channels (such as investment in storefronts in new, untested markets). Growth via the microfranchise distributes risk between the microfranchisee and microfranchisor, reducing the total risk for any one party involved in the microfranchisor/franchisee dynamic. This works to everyone’s advantage.

1.1.4.3 **Partners**

To complete the microfranchise, there is a list of optional third party participants that may play a variety of critical roles in a microfranchise, whether in helping it to launch, its execution, or its expansion. Whether or not there is a third party presence, the importance of their role will depend exclusively on the design of the microfranchise. Here, we will run through a short list of potential third parties and different roles they may plan in a successful microfranchise.

1.1.4.3.1 **Providers/Contractors**

Any enterprise leans on providers to supply resources or services that the business itself does not have as a core competency. Additionally, it may be the case that the business cannot provide the good or service at a cost low enough to justify the activity. For instance, this would be the case if a third party provider sold materials to a jewelry firm used to produce its final products, or when the same jewelry firm hires a third party to produce the final product that the firm has designed. The
business owner may do this because the business does not sell enough product on a regular basis to justify hiring a fulltime production staff. Alternatively, because of lack of internal capital needed to produce these same goods at cost-effective rates, and an unwillingness to make the upfront investment to acquire said capital, it may make sense to “hire-out” the service rather than manage it internally.

Investors and/or Financiers can play an important role in the launch of a microfranchise, specifically in support of microfranchisees. To start their businesses, microfranchisees will need some initial capital investment to buy their first round of product and cover other business start-up costs. While some of these microentrepreneurs will pull from their limited savings and other will rely on family and neighborhood networks to pull the meet these initial investment needs,
One of the key responsibilities of a microfranchisor is training for its microfranchisees. The range of themes is potentially endless, running from business management and sales, to product knowledge or personal marketing. However, the microfranchisor’s expertise may not include the knowledge and skills the microfranchisees need. In which case, the best option may be hiring an outside party to train and build capacity among microfranchisees in the identified areas of improvement.

Given these conditions, financier/investor partnerships can be the best solution. These third party players can extend a loan to the microfranchisee to finance their initial investment into the business. In the case of the Narella microfranchise – as will see later – the Fundación Paraguaya fills the role of the lending partner, extending much needed capital. In the absence of capital from the microfranchisor to the microfranchisee to finance each initial purchase by a new microfranchisee, a third party financier becomes a necessity.

**1.1.4.3.3 TRAINERS**

One of the key responsibilities of a microfranchisor is training for its microfranchisees. The range of themes is potentially endless, running from business management and sales, to product knowledge or personal marketing. However, the microfranchisor’s expertise may not include the knowledge and skills the microfranchisees need. In which case, the best option may be hiring an outside party to train and build capacity among microfranchisees in the identified areas of improvement.

**1.1.4.3.4 CONSULTANTS**

Similar trainers, consultants may intervene in a project on knowledge areas that are outside of the expertise of the microfranchisor and its partner organizations. Consulting firms can provide insight into the design and implementation of new internal operations, strategies around microfranchise growth, among other themes. The most notable difference between these partners and those of contractors is that consultants are short-term relationships. As such, their services do not have to be factored into the long-term business model.
With the basic elements of a microfranchise established, the framework has been set to explore the specific case of the Narella microfranchise. We will first explore the context of this specific initiative by the Multilateral Investment Fund and its partnership with Fundación Paraguaya. This will be followed by a look at Narella, both the brand and parent company. We conclude with a broad look at the structure of and logic behind the microfranchise Narella.

1.2.1 PROJECT HISTORY

1.2.1.1 MIF/IDB INITIATIVE

The Multilateral Investment Fund (MIF) is a member of the Inter-American Development Bank (IDB). According to its website, MIF...

“...supports economic growth and poverty reduction in Latin America and the Caribbean through encouraging increased private investment and advancing private sector development. It works with the private sector to develop, finance, and execute innovative business models that benefit entrepreneurs and poor and low-income households...”
Fundación Paraguaya is a microfinance organization with 29 years of experience in Paraguay. According to its mission, Fundación Paraguaya exists “to develop and implement practical, innovative and sustainable solutions for the elimination of poverty and the formation of a dignified environment for all families.”

After years of conceptualization and design, Fundación Paraguaya launched its Poverty Stoplight initiative in 2011. The Poverty Stoplight is a simple, color-coded tool that communal bank borrowers use to self-identify their own level of poverty. They then work with Fundación Paraguaya staff to build a personalized plan for poverty reduction.

The Poverty Stoplight measures poverty along three levels: extremely poor, poor, and non-poor, graphically represented by the image of the red, yellow and green colors of a stoplight. This methodology is applied for 50 different indicators, across six different categories, including income and employment; health and environment; housing and infrastructure; education and culture; organization and participation; and integrity and motivation.

With the poverty stoplight initiative as context, the Foundation identified microfranchises as one of several options through which these women would be able to increase their income indicators for the Poverty Stoplight. Initially, the Foundation experimented with several smaller microfranchises with funding of $10,000 from the US Agency for International Development (USAID). Since 2008, the foundation has become a partner with Vision Spring, an international microfranchise that offers eye exams and reading glasses.

Fundación Paraguaya hoped to continue developing and professionalizing the incubation of microfranchises that would amplify business options available to the Foundation’s low-income clients. To realize that vision, the Foundation applied for funds with the IDB and MIF to partially finance a
multi-year project fashioned to both develop new lines of microfranchises. The project would also emphasize capacity building to continue incubating lines of new business solutions in the future. The microfranchises were envisioned as a source of supplemental income that would allow poor households to bridge the gap keeping them below the poverty line.

As part of the project, Fairbourne Consulting was contracted to help launch the first line of microfranchises with Fundación Paraguaya, and build capacity within the organization to continue franchise incubation in the future.

1.2.1.3 Market Assessment with FC

In March 2013, a 6-person team from Fairbourne Consulting arrived in Paraguay to conduct a 2-week market study, leaning on qualitative research methods to identify market opportunities for the creation of microfranchises. The team not only identified market opportunities, but also potential microfranchisors who would be interested in investing in the initiative and growing their business via a microfranchise model.

The final results of the market study were delivered in July 2013, presenting over 25 different market opportunities, and ranking them in order of potential for success, as determined by 6 indicators across categories: Market Opportunity, including Market Demand and Competition; Potential Microfranchisor, including Strength of Partner and if they have been identified; and ultimately, Women Empowerment, including interest in the opportunity and ability to perform it.

See the remainder of section 1.4 for a comprehensive look at the logic behind Narella’s selection as a strong microfranchisor option.

1.2.1.4 Franchise Design and LMT with FC

In February 2014, a two-person team from Fairbourne Consulting started working directly with the Foundation in Paraguay. After meeting with potential partners based on the results of the Market Study, three microfranchisors were identified, all of whom signed Letters of Intent expressing their commitment to participate in the microfranchise venture with Fundación Paraguaya. After ex-
ploring several different microfranchise models and value propositions, a final concept was developed. The microfranchises launched in late March 2014.

In June 2014, the microfranchise team worked to identify a new partner with whom to launch a fourth microfranchise opportunity. Potential partners were identified based on the results of the March 2013 Market Study that identified Clothing Sales as a top microfranchise opportunity.

Based on field experience with potential microfranchisees, it had been noted that lingerie specifically would be a microfranchising opportunity that would excite and motivate potential microfranchisees. After conducting more due diligence, Narella was identified as an ideal microfranchisor. Although analyzed based on a host of different factors, Narella was selected over its competition as a preferable partner for several reasons, including its experience working with vendors of the profile that make up Fundación Paraguaya’s clientele, its well-established distribution channels outside of Greater Asunción, and both Narella’s product and price points matched the preferences of microfranchisees’ likely customer segments.

Since then, the business has gone through a process of constant testing via the Live Market Test, running trends on carefully selected themes relevant to the business model, such as distribution strategies, recruitment strategies, etc. The content of this manual is the operational product resulting from this 6 month series of tests to develop and modify the business model.
Narella is a family business with more than 10 years of experience in the Paraguayan Market, designing and selling a variety of clothing. These products include women’s lingerie, sports and casual wear, as well as casual wear for men and young people. The business has been working under the brand names “Narella” and “Libra” for nearly 4 years (see section 3.2 for more information on each brand). Narella’s primary business is in producing clothing and selling via catalog through a channel of individual vendors. Narella also offers its products in four local branches in Greater Asunción, including its production factory.

As of June 2014, Narella had a channel of 1,000 vendors dispersed across Paraguay that sell its products via catalog sales. Working with Fundación Paraguaya, Narella is widening its sales channels and scaling its national distribution via the microfranchise methodology. The objective of this work is to offer Narella’s merchandise in urban, peri-urban and rural communities. The microfranchisees will represent Narella’s brand alongside Narella’s current cohort of individual vendors in their respective communities.

Narella’s market is in part defined by its competition. Brands such as Kalua and Rondina are well established in Paraguay, offering high-quality, higher-priced products that offer large margins to their vendors. These prices restrict this product to higher-income markets. On the other end of the competitive spectrum, low-income consumers were largely purchasing lingerie from street markets and other low-priced marketplaces. These products are often imported from international markets. These imported goods are frequently mass-produced, low-quality, and low-cost, making them accessible to low-income consumers.

Narella seeks to occupy a middle space between these two focal points. Narella offers form-fitting and comfortable lingerie at prices affordable to low-income consumers and still attractive to middle income customers as well. Narella recognizes that its target consumers aspire for comfortable, higher-quality clothing options that are inaccessible to them in the market place. Narella also includes models and sizes in its catalog that its customer segments either aspire to (in the case of adolescent and university-aged women) or that they identify with (in the case of older customer segments). The product is designed with fashion trends in mind.
Narella’s ambition is to allow both lower and middle-income consumers to feel attractive, self-assured and comfortable in their clothing selection.

1.2.4 THE MICROFRANCHISE

For Narella, the microfranchise is an opportunity to rapidly build and scale its sales and distribution channels. Narella’s business model is already structured to successfully recruit and grow its business via individual sales vendors. Microfranchisees will perform a similar function, with the additional support of Fundación Paraguaya and its microfranchise team. The Narella microfranchise should increase the rate of its vendor recruitment and retention rate by sourcing its new microfranchisees through Fundación Paraguaya.

Microfranchisees will work as brand representatives in their communities, selling Narella products while simultaneously promoting the brand via its catalog sales. Narella offers deeply discounted prices (40%) to its microfranchisees in their initial purchase from the microfranchisor.

In additional sales, microfranchisees earn discounts, ranging from a little to 10% to 32.5% depending on the sales volume and the channel of inventory restocking that the microfranchisee selects (see section 4.2). Extending such favorable terms to their microfranchisees allows the microfranchisor to leverage the sales/distribution channels that the microfranchisees offer, consequently growing the reach of their products into new regional markets in Paraguay.

1.2.4.1 WHY A MICROFRANCHISE FOR NARELLA

Narella meets the criteria of an ideal microfranchisor, as outlined in section 1.3.2.1. With over 10 years of experience in the clothing industry, it is a business that understands not only its target market, but also the additional market opportunities that exist outside of its current target client segment. Furthermore, Narella has demonstrated by past successes its ability to succeed in low-income markets, and to scale its distribution and sales outside of Greater Asunción. Narella has identified a niche space that has allowed the business to sustain sales, to recruit 1000 individual sales people, 500 of which maintain active sales, and to sustain 4 profitable local branches.

Building off of its proven success, a microfranchise model will allow Narella to rapidly scale its market reach, reaching communities that it has not had the adequate
channels to engage to date. These markets would be poorer communities that have an interest in higher quality products as an alternative to the low-cost, low quality products that frequently flood their markets. Alternatively, Narella products would be a competitive option to the other extreme of high quality, well-branded products with price points that are financially inaccessible, requiring credit sales on unfavorable terms to the client due to high interest on the sale.

1.2.5 Document Structure

The remainder of this document is structured so that the reader can understand the full operations of the microfranchise. The approach of the document is anchored to be comprehensive, capturing the full operations of the microfranchise. Those operations are shared from the perspective of the microfranchisee, beginning with her first enrollment into the microfranchise and continuing into her first efforts to sell and grow her business. Through each stage, the document explores the internal operations of the microfranchise that work to support the microfranchisee and increase the likelihood of her success.

It is important to understand what this document does not do. Because it is focu-
sed on the microfranchisees and the many processes that have been established to support their success, the Microfranchise Operations Manual does not explore the internal operations of the microfranchisor outside of those operations that exist to support microfranchisee success.

The first section of the document is focused on the recruitment of new microfranchisees. Specifically, it starts by identifying the profile of the ideal microfranchisee for the Narella microfranchise. Once this profile has been specified, the microfranchise business has to be promoted to encourage women who meet the target profile to sign up, and proper follow-up must be conducted to ensure the launch of the microfranchisee’s business. The recruitment process includes very specific processes to track the microfranchisee candidate’s progress toward joining the microfranchise. The section will discuss these processes in detail, including the very important component of how the microfranchisee may fund her business.

After exploring the components of the microfranchise recruitment process, we will continue following the story of our hypothetical microfranchisee as she launches her business. The launch process will follow the microfranchisee as she receives the loan she requires to finance her microfranchise. From there, we will follow her as she receives her product and first round of training within the microfranchise, officially launching her business. Often, the launch process entails many contingencies. As such, the document will also offer best practices for navigating these unforeseen events.

Once the microfranchisee has launched her business, the microfranchise has several internal procedures established to follow up with the microfranchisee and support her continued success. These follow-up procedures are several. They include conversations around the high-level management of the microfranchise, data processes to track the success of the microfranchise, the processes for acquiring new product for sale, and information the microfranchisor can offer alongside regular product sales to support the microfranchisee, such as sales and marketing promotions.

The financial elements make up the final section of the Microfranchise Operations Guide. In this section, the guide will work to define financial sustainability in the context of the microfranchise, what the microfranchisee should be focused on in order to build a profitable and sustainable business, and identify the risks that may pose serious challenges to the microfranchisee’s potential for financial sustainability.
1.2.6 GUIDING PRINCIPLES

There are a handful of guiding principles that the reader should keep in mind throughout this document. These guiding questions will help any microfranchise team make good decisions to build a successful operation for the Narella microfranchise.

IS IT PROFITABLE?

Any and all aspects of the microfranchise should be profitable. Because of the social aspect of the venture (the key objective of the microfranchise is to generate additional income for low-income communities), this is an easy element to overlook. It should be kept in mind that in order for the microfranchise to scale and be sustainable, it must first be a profitable venture.

This is also an easy point to overlook because of the many hidden, or indirect, costs of the microfranchise. These include non-monetary expenditures that implicitly impact profitability. An example would be a costly recruitment process. If the microfranchise team is investing a lot of time into the recruitment process and producing poor results in the number of new microfranchisees recruited, this has a monetary cost, because the microfranchise team is not spending that same amount of time on more profitable activities. Ultimately, every decision and investment should generate more in revenue than it does in cost.

IS IT REPLICABLE?

In the long-term, the microfranchise is meant to be scaled across regions. Implementing processes that can only be executed in a specific region impedes the microfranchise’s ability to scale. Operations within the microfranchise should be designed with the idea that the process can be replicated at scale in other regions and at greater volumes. That which cannot be replicated will ultimately constrain the microfranchise’s ability to scale.
DOES IT REDUCE RISK?

One of the objectives of the microfranchise is to reduce the microfranchisee’s risk of failure. This is accomplished in part by disbursing the inherent business risk across stakeholders, including the microfranchisor and partner organizations. Although risk cannot be eliminated from the process, it should be consciously managed. Any design of the microfranchise should aim to reduce risk for the microfranchisee, whether that is by sharing risk alongside her, or by designing operations that fundamentally reduce risk across the entire business.

IS IT FLEXIBLE?

Despite the need for scale, microfranchisees frequently need policies that can accommodate their unique circumstances. Often, a microfranchisee will find herself in unanticipated circumstances that will require flexibility from both the microfranchise team and the business model in order to accommodate her. While profitability and scalability should take priority in designing and implementing aspects of the microfranchise, flexibility should also be considered to the extent that it is not at the expense of the two former guiding principles.

IS IT EASIER/SIMPLER?

Building a microfranchise can be hard, complicated work. As such, the simpler it can be, the better. Simple processes reduce opportunities for error for all stakeholders. Simpler processes are also likely to reduce risk across the microfranchise for all stakeholders. When faced with two alternative options that lead to a single objective, the simplest option will usually be the best option.
**IS IT CLEAR?**

Consistent with simplicity is the importance of clarity. A lot of coordination is required to successfully run a microfranchise because of the many different people and groups that are involved. Miscommunication and misunderstanding can easily occur. When miscommunication occurs, it is particularly disappointing because these errors are the ones most within one’s control and the most avoidable. All stakeholders should be thoughtful and take great care to communicate clearly with others in the microfranchise. This necessitates leveraging a variety of communication channels, simple and precise language, and confirmation that what one intended to communicate is the same as what was eventually understood.

**A FINAL POINT**

The Narella Microfranchisor Operations Guide is a reference text. It is a framework for understanding how the Narella microfranchise is structured, how it operates, and what is required to keep it operating. As such, it should be frequently revisited as the microfranchise team works to build and scale the business.

With that, we have established all the premises necessary to explore the Narella Microfranchise Operations manual. Enjoy!
Comité de Mujeres Emprendedores is the name of Fundación Paraguaya’s group loan program. These all-female loan groups have a minimum of 17 members who belong to the same community and have previously known one another. Together, the group takes out a small loan ($1,000 maximum per woman), distributes it among themselves and repays as a group in four month cycles. The Foundation encourages the women to use the small loans as investments for launching small business.

RECRUITMENT

Meet Juana

Juana lives in Lambaré. She is a member of a comité de mujeres emprendedores with Fundación Paraguaya. She has been a member of the Foundation for 5 years now. Her committee consists of neighbors she has been living alongside with for over 10 years. She has two children. Her husband works in the informal sector. His work opportunities are inconsistent.

With her loan that she currently has taken out from the Foundation, Juana has started a couple of different business ventures. They have been small and not very profitable. She tried opening a small shop, but it was tough. There were a lot of start-up costs that her initial loan with the Foundation was not large enough to cover, such as rent for a shop to open up her dream store. She decided instead to clear out a room in her house and start her business out of her home.

That went well, at first. But eventually, she hit a wall. There was a sudden influx of cheap goods out of Argentina. The products out of Argentina were significantly cheaper than what her store could compete with. Though she would have liked to take advantage of the lower prices herself, she does not have a car of her own. Nor do her immediate family and friends. There was no way to transport the cheaper goods from Clorinda across the border to her home. Furthermore, her home is not immediately accessible by public transportation. Unable to compete with the current prices, and unable to source cheaper alternatives, Juana decided to pull the plug on the shop.

Like most women at Fundación Paraguaya, Juana is resilient. Recently, she’s been thinking of different products that she can resell, sourcing from Mercado 4 or el Mercado de San Lorenzo. She’s never tried direct sales before. She’s not certain what is the best way to proceed with the business. But she knows she has to do something soon. Money is getting tight. When her husband’s current work opportunity ends, there is no certainty that he will find another job opportunity immediately.

Today, Juana will be heading into the Lambaré office de Fundación Paraguay with her local committee where they will all sign for their next three month group loan. This is the money that she will be using to invest in whatever business opportunity that she finally decides on. But, as we know, she has to decide soon on what business she might launch.
2.1 MICROFRANCHISEE PROFILE

As previously discussed, the “magic” of the microfranchise is entirely dependent on the dynamic between the microfranchisee and the microfranchisor (Section 1.3.2.3). This dynamic begins with a careful identification of the ideal microfranchisee profile.

This will vary substantially depending on the nature of the microfranchise. In the case of the Narella microfranchise, there are several niche markets at work. Narella clients are largely women, ranging from adolescence through middle age. They tend to buy more lingerie than casual wear, but own both types of clothing. Although Narella does offer products for young children and men, it will still be these same customers (young and older women) making the actual purchase, with the intent of giving the product to their children or partner (husband or boyfriend). The distribution channel to these customers through the microfranchise is direct sales between the microfranchisee and the client. This may take the form of door-to-door sales, sales from a private storefront to the customer, sales on an open market day, etc. Regardless of the method of approach, the final transaction takes place between the microfranchisee and the client. This transaction will require the microfranchisee to employ specific skills from past experience. Taking all this into account, the ideal Narella microfranchisee would meet the following criteria:

- **✓ HAS ACCESS TO NETWORKS OF WOMEN**  
  (in the neighborhood, via work, friends’ work, local university or high school, etc.)

- **✓ PREVIOUS SALES EXPERIENCE**  
  (preferred, but not required)

- **✓ EXPERIENCE RECORDING AND TRACKING SALES**

- **✓ EXPERIENCE CHARGING AND COLLECTING PAYMENTS ON CREDIT**

- **✓ BETWEEN 18 AND 50 YEARS OLD**  
  (preferred, but not required)

- **✓ HAS A WHATSAPP ACCOUNT ON HER TELEPHONE**  
  (preferred, but not required)

- **✓ WILL COMMIT AT LEAST SEVERAL HOURS WEEKLY EXCLUSIVELY TO SALES EFFORTS**

- **✓ HAS A HISTORY OF MAKING ALL OF HER CREDIT PAYMENTS WITH FUNDACIÓN PARAGUAYA IN A TIMELY MANNER**

- **✓ SPEAKS BOTH GUARANÍ AND SPANISH**

- **✓ EXTROVERTED AND NOT INTIMIDATED/AFRAID OF APPROACHING STRANGERS QUE SE ACERCAN.**
2.1.1 Why to approve or reject a microfranchise candidate

The microfranchise profile is a framework. It is an unofficial scoring rubric against which you are measuring the potential for success for the microfranchisee. Doubtlessly, this profile will continue to evolve as the microfranchise evolves. The microfranchisor may learn, for instance, that the characteristics for success that define a successful candidate in a large municipality might make a less successful candidate in a rural community as the business expands. It is important to remain flexible and to allow that profile to continue evolving as the microfranchise grows, learning from its experience in the market.

Whether or not to approve or reject a candidate is more art than science. In either case, the starting point is the microfranchise profile. If the candidate does not meet the characteristics loosely established by the profile, then the candidate will have less likelihood of success. Past the profile, the candidate should be genuinely interested in the microfranchise opportunity. The desire to be successful, ultimately, is what makes the greatest difference between a successful and an unsuccessful candidate.

Remember, the microfranchise is organized so that anyone who wants to be successful can be successful. Given that, the
only circumstances in which a candidacy should be rejected outright despite demonstrating a strong desire to participate in the microfranchise and meeting the criteria of the microfranchise profile are:

1. They lack a key, indispensable resource
   (in some microfranchises, this may be a car, or a freezer, for instance);

2. They have poor credit history with Fundación Paraguaya but need a loan to invest in the microfranchise because they are unable to make a cash investment in the microfranchise;

3. Their loan officer with the Foundation is unwilling to give their recommendation on behalf of the candidate; or

4. The candidate is already a participant in one or more other microfranchises and, in the judgement of the Microfranchise Manager, their participation in one more would “overleverage” the candidate, producing deflated results across her microfranchises, or an outright collapse of her businesses.

Again, this judgment call is more art than science. Ultimately, the line will be drawn at a point defined by the Microfranchise Manager with the Microfranchisor.

Juana, from our earlier example, is typical of someone who does not clearly meet the criteria of the Narella microfranchisee profile but should still be considered a candidate. Supposing that her interest is strong, her business experience is indicative of someone with initiative and risk-taking. Despite not having experience in direct sales, her business experience has been client-facing. While she may not yet be a sales person, she certainly has the capacity to become one. She may not have a key resource (a smartphone), but she can acquire one. With two young children, she not only knows but falls within a key customer segment and, thus, has access to networks of Narella’s ideal customer segments. We know that she has good credit history and, currently without commitments aside from her familial obligations, she has time weekly to commit to sales. As such, Juana would likely have her candidacy approved in the microfranchise based on her profile, conditional on the recommendation of her loan officer.
Seated in the office of Lambaré, Juana’s committee has about an hour of waiting ahead of them. First, they hand their ID cards to the committee loan officer, alongside photocopies of the same. The entire loan disbursement process is riddled with paperwork. For committee members however, this is the norm before they finally sign to receive their cash loan.

As the committee waits, their loan officer introduces the committee to a young woman that Juana hasn’t met before. Their loan officer tells them the young woman, Julia, is another representative of Fundación Paraguaya. She is there to have a quick chat with the committee about business opportunities that the Foundation has established for its clients. This grabs Juana’s attention. Since she is looking for some additional income anyway, this may be her chance.

Julia introduces herself as a microfranchise promoter with Fundación Paraguaya. She asks if anyone has heard of a microfranchise. None of them have. But when asked about that a franchise is, one of the members of her committee, a neighbor two doors down from her home, explains the idea. A franchise is a small business or store that is a local branch of the larger business. It has its own owner, but it operates under the same shared brand. That’s exactly right, says Julia. And with microfranchises, Fundación Paraguaya hopes to build out the same concept, but through the Foundation’s microloan borrowers. These business opportunities are, Julia continues, exclusive opportunities that the Foundation has negotiated with well-established and recognized brands. Only women like Juana, her committee members, and other beneficiaries of Fundación Paraguaya can access these business opportunities. Now this, Juana says to herself, sounds interesting!

After presenting the various microfranchises to Juana’s committee in general terms, Julia began to dig into the details of the microfranchise. She handed out one-sheet summaries for each microfranchise. The material includes all the summary detail of the business, details on how to join the business and, most interesting of all, each business’ earning potential and profitability. Juana looks over the document. The numbers are impressive. She recognizes the product brands. Julia hands out a catalog of products for the women to review. She also shares sample products from each microfranchise. Now, there can be no doubt in the audience that these are quality products. But Juana is still on the fence. With all the support offered by the Foundation, and the profits that stood to be made, it looks like a decent opportunity. The support means that she will be able to at least get stared. But with the cost of the initial product kit, and the time commitment it would require, would it really be worth it?
2.2 SELLING POINTS

In promoting the microfranchise to potential candidates, there are specific selling points that are worth emphasizing. Participation in the microfranchise really is a unique and special opportunity. Few people can, with little investment, to join a business that supports them with a strong brand, distribution channels, and wholesale prices for purchases in low quantities, regular training and support, as well as a turnkey business model.

2.2.1 EXCLUSIVITY

In noting the uniqueness of the opportunity, one of the best methods for a strong recruitment pitch is emphasizing its exclusivity. All the benefits that come alongside becoming a microfranchisee are extended exclusively to loan committee borrowers with Fundación Paraguay. This is a competitive advantage that becomes increasingly clear to the microfranchisees as the presentation continues. They are likely to respond positively to this emphasis on exclusivity.

2.2.2 PROFITABILITY

Another significant sticking point is the profitability of the microfranchise. Earning potential means a lot for these candidates (as we will see below). While committing to the microfranchise requires time and effort, just like starting any business, the potential for a high return in profitability and earnings can justify the investment. In these presentations, it is very important to emphasize the microfranchise’s earning potential. As outlined in the Microfranchisee Manual and the Business Prototype document, Narella’s initial product kit has a profitability of 40%, with margins of 25%, 28.75% and 32.5% in each product restock depending on the volume of the inventory restocking. The ficha de negocios – the one page summary of the business used to promote the business details to the microfranchisees - should be clearly, simply and ideally graphically designed to emphasize key points (including the earning potential) of the business.
For all its benefits, the profitability of the business will not be sufficient to recruit successful candidates for the microfranchise. Why? Because having additional money is not an end in itself. For all of us, more money is a means to an end. For the microfranchisee, that end will be improving her quality of life by meeting more of her basic necessities than she is able to do today. In promoting the microfranchise and recruiting microfranchisees, potential microfranchisees are best persuaded by emphasizing what that additional income will mean in their daily lives. For many women, it will mean being able to cover unanticipated healthcare costs when a family member falls ill. For others, it will mean having more money to save for larger investments down the line, like a car or even higher education.

The recruiter/promoter should ask – if you had an additional income of Gs. 400.000 Mil (approx. $100) per month, what would you do with it? How would that money change your daily life? Can you think of useful ways that you can invest in your future and that of your family? This is the real opportunity that participation in the microfranchise offers to microfranchisees. Remember Juana’s question: Is it worth it? If the recruiter promotes the impact, the recruiter is better positioned to convince that candidate that, yes, it is worth it. This is the key for successfully recruiting and motivating the potential microfranchisee.

2.2.4  ADDITIONAL RECRUITMENT POINTS

- Have product samples ready for the microfranchisees to see and touch to get a better idea of what the product and business is.

- It’s easy to get distracted. Be as brief as possible without leaving out any details. Be dynamic and ask questions to hold their attention.

- Your resources – especially handouts – should try to communicate your message in the most graphical manner possible. Avoid text-heavy materials. Remember, we are all more likely to skim materials than read them through thoroughly. Materials for the candidates should be prepared with this in mind.
Juana has now sat through the entire presentation on microfranchises. She has been persuaded that this would be an ideal opportunity for her. However, she is not the only one who needs persuading. She is not sure that her husband will be as excited about the opportunity as she is. Joining the microfranchise is not free. Given the financial implications, she will need to make sure that their family can afford the investment.

Following the presentation, the microfranchise promoter, Julia, approaches each committee member individually to follow up on their interest in one of the microfranchises. Those who are certain of their interest in the microfranchise are encouraged to complete the Microfranchise Application to solicit their participation.

Juana notices that only two of her committee members have opted to complete the microfranchise application right away. There are others who are interested in the opportunity, but they insist on not filling out the application immediately. But that does not deter Julia. She directs these uncertain candidates to a different document which most of those interested willingly complete.

When Julia finds her way to Juana, Juana explains to Julia her hesitancy about filling out the Microfranchise Application without first checking in with her family. “I understand,” Julia says with sympathy. She continues, “I know that you can call me when you have a final answer or if you need any additional information, but I have seen time and time again that most people misplace the contact information, or forget to call about the microfranchise. It would be better if you shared your basic contact information with me, and I will call you back no matter what within two days. I will not share your contact information with anyone. I am only going to call you once, to follow up on this conversation, and see if you have decided with your family that the microfranchise is the right choice for you.”

Julia has done it. Juana is persuaded. She notes her name and phone number on the registration sheet before sharing a couple extra words between them. Julia now packs up and heads back to her office. Juana is off to discuss the possibility with her family, and await Julia’s follow-up phone call.

The launch date. In the case of the Narella microfranchise, the launch date has been pre-established by the microfranchisor. It will always align with the scheduled product delivery date for those microfranchisees who submitted their order requests ahead of the corresponding deadline. The microfranchise team should be sure that all parties are clear on these dates in order to minimize confusion. Microfranchisees and the microfranchising department should be reminded 2-5 business days in advance, to assure that the microfranchise loan is ready for the date indicated, and that the microfranchisee is present for the launch of her business.
3. LAUNCH
Juana, our microfranchisee, has learned about the microfranchise concept. She has been educated on how to join the Narella microfranchise and the business’ potential impact on her family’s earnings. Now, the day has for come her to officially join the business.

In this section, we will accompany Juana as she launches her personal microfranchise, paying for and receiving her initial product kit. As in chapter 2, we will continue exploring the operational components that allow her to launch her business.

**Launch Day with Juana**

This morning is launch day. Juana received a text message yesterday from Monica, the same person who called her last week to confirm the launch date. There was a reminder about showing up at the Foundation today. “Remember,” it said “to arrive at your office in Lambaré at 8a to sign for your check. Bring a photocopy of your ID card. Afterwards, please head to the Narella local branch assigned to you. There, you will receive your product and training.” The message included the address of Narella’s local branch as well. Although the message was helpful, Juana didn’t need it! She was excited enough that she would not have forgotten anyway.

Juana is familiar with the office and where it is located. As such, she did not have any problem arriving on time. She had to wait a little while. The office can be hectic in the mornings, especially today when another committee has shown up to take out their group loans. In this environment, it is easy to get nervous and not know who to talk to in order to be well received. Juana was prepared though. Monica had asked Juana to save her number on her telephone and to call her in case of any trouble at the office. She gave her a call to let her know that she was unsure what to do. Monica asked her to sit tight. Shortly afterwards, one of the loan officers approached Juana to let her know that she would be attended to soon.

As promised, she was taken care of shortly afterwards. After completing some paperwork, Juana was asked to approach the counter. There, she signed the back of her check to endorse it, but was given no cash. Instead, she was given a receipt and information on when her first loan payment would be due, exactly one week from today. And that was that. Within 30 minutes, she was out of the office, without any trouble. With her receipt in hand, she headed off toward the assigned Narella branch.
QUICK REVIEW!

Remember, there are several items that had to happen for Juana to make it this far in the process. They are listed below.

- Microfranchise Application Completed
- Approval from FP Loan Officer Confirmed
- Analysis of Microfranchisee’s Profile
- Initial Product Kit Ordered
- Loan Request to Microfinance Department
- Launch Logistics with Microfranchisor and Microfranchise Promoter
- Confirmation Call to the Microfranchisee Candidate
- Business Plan completed

3.1 LOAN ENDORSEMENT

The reason that the microfranchisee (Juana, in this case) visits the local office is to sign for the loan she had requested. In the case of a microfranchisee who has decided to make a single, cash payment, there is no need to stop in the local office. These microfranchisees can go directly to the Narella local branch to begin the launch process.

Though the process is simple, the loan endorsement does have its share of challenges. These challenges range from a nervous microfranchisee uncertain about how to assert herself in the office, to a busy office full of other people needing to be attended to, or even to a local office staff that may not be very attentive to clients in the office who have not asserted themselves and asked for help. These challenges must be identified and overcome in order to provide a seamless launch process.

Most importantly, this is the first impression that the microfranchisee has of the microfranchise. If she passes through the entire process feeling supported, with a work plan with clear objectives, and with concrete knowledge of how the microfranchise works, she will be off to a great start in running her microfranchise. A bad start can make for an unmotivated microfranchisee who will have a much harder time being successful in the marketplace.
What are the challenges to look out for on launch day?

Although the check endorsement is a simple act, the logistics include a number of challenges. Most of them include the logistics of navigating the local office on launch day. The principle concerns are listed below.

Poor attention from the local staff, or a busy office:

Microfranchisees are more likely to receive good attention if they announce themselves and are not shy about asking for assistance. Although the local office is notified days in advance that microfranchisees will be in the offices to take out their loan amounts, the local office can be a very hectic place. People do get lost in the shuffle. To avoid this, microfranchisees should be prepped in advance. Let them know that they will be well received if they say something. If they feel too timid, they should dial their Microfranchise Promoter for help.

A check not ready:

Despite being notified in advance, the office may accidently not have the check ready in time. It’s okay. Mistakes happen! The sooner we can find out and address it, the better. We do not want to waste the microfranchisee’s time. The microfranchisee should inform her Microfranchise Promoter. In turn, the Microfranchise Promoter should inform the Microfranchise Manager. Together, they should contact the Manager of the local office to see if an immediate solution is possible. If not, reschedule the launch for the following day with very apologetic words to the microfranchisee. Make sure that the office follows through the next day. The same mistake twice in a row is not permissible.

3.1.1 Why is there a loan endorsement?

A very important observation of the microfranchise program is that microfranchisees do not receive cash for the microfranchise from the Foundation. Instead, upon signing for their loan (more on this shortly) the microfranchisee only receives a receipt as proof of signing the loan, not the cash itself. The payment is later delivered to the microfranchisor.

Instead of cash, the microfranchisee receives the initial product kit. The purpose of this policy is to not give an opportunity to the microfranchisee to spend her capital
on any item other than the initial product kit. This is also important because the value of the loan is the exact cost of the initial product kit. If any of the value is spent on any personal expenditure rather than on the initial kit, the microfranchisee will not have enough capital to pay for the kit. This is exactly what we hope to avoid.

As of October 2014, checks processed by Fundación Paraguaya via its microfinance department for microfranchisees are released in the name of the microfranchisee. As such, for the microfranchisor to receive payment for the product kit, the microfranchisees must endorse the check, making it payable to the microfranchisor. For this reason, microfranchisees that finance their business via a loan must arrive at the local office before taking out their product with Narella.

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**Juana**

Juana has now arrived at her local Narella branch. When she walks inside, she is greeted there by a familiar face. It is Monica, with whom she had been in contact over the phone. It is a pleasure to see her, even though Juana still remains somewhat unsure about what to expect next. “Don’t worry,” Monica explains, “Everything here will be just as I explained on the phone. We have three things to do over the next hour: complete a short training so that you have all the information that you need to start your business, sign the Letter of Understanding committing you to the Narella microfranchise, and take out the product for your Initial Kit.” Still timid, Juana nods her head to show she understands. And she does. Monica continues to engage Juana in small talk until, eventually, the local branch manager is ready to receive them with the product request Juana had made more than two weeks earlier.
3.2 PRODUCT LINE

The microfranchisee collected her product order for the initial product kit weeks earlier and is receiving it now as part of the launch process. These products have been selected from the Narella microfranchise’s 2 product catalogs: Narella, which includes more of the sports and casual wear, and Libra, with a greater focus on lingerie.

Between these two catalogs, Narella offers five general product categories, including: 1) children’s wear, 2) men’s wear, 3) women’s sportswear, 4) lingerie and 5) women’s casual wear and plus sizes. All five of these product groupings are pictured below.

Once the microfranchisee is in the office of the local branch, she will receive her initial product kit. She will review her order sheet with the local staff in order to confirm whether or not all the contents of the kit are consistent with her product requests. The local staff will work with her to rectify any discrepancies between the initial product kit and what the microfranchisee had ordered. The local branch can correct errors either by ordering new product from the microfranchisors, or replacing the incorrect product with items found in the branch’s inventory that might better match the original order request.

As mentioned earlier (section 2.2.2, and in the Microfranchisee Manual), the initial product order is made available to microfranchisees at a 40% discount. This is a one-time offer is available exclusively to microfranchisees sourced from Fundación Paraguaya. Of this original product order, Fundación Paraguaya will finance the first
Gs. 390,000 of the value of the kit.

Microfranchisees are expected to pay the remaining balance of the initial product order. They will pay this balance during this launch process, having confirmed the contents of the initial product kit. Microfranchisees will be able to finance this either from personal funding sources, or from payments that they can collect from clients when they place their order with the microfranchisee.
3.3 TRAINING, PT. 1: GETTING STARTED

After confirming the contents of her Initial Product Kit, Juana will sit with Monica, the microfranchise promoter, to receive her induction to the microfranchise.

This a very important component of the launch process. Using the Microfranchisee Manual, microfranchisees learn all of the processes and policies of the microfranchise. This document is integral. Upon receiving it and signing the microfranchisee’s Letter of Intent, the microfranchisee commits herself to complying with all of the content of the microfranchise manual. Listed below are the sections of the microfranchisee manual, highlighting the important points that should be emphasized during an induction training.

**INTRODUCTION**

These two pages simply welcome the microfranchisee to the business and re-introduce the concept of the microfranchise. This is a simple review of information that the microfranchisee should already have been introduced to over the course of recruitment.

**INITIAL PRODUCT KIT**

In this part of the microfranchisee manual, the microfranchisee learns details about much of the process that she has already experienced. This includes the exact content of the initial product kit, the value and use of the product catalogs, and the launch process. The launch process entails three major steps, including receiving the product catalog and collecting orders, delivering orders to the microfranchise team, and receiving the final order and microfranchise training. In receiving her microfranchisee manual and product, the microfranchisee is completing the final step of the launch process. Much of this she will have already learned from the business flier that she received during the presentation of the microfranchise opportunity, and in one-on-one conversations with her assigned microfranchise promoter.
The processes for inventory restockings are covered in more detail later in this document (section 4.2). Here, however, it is worth noting that submitting product orders is not the only way that microfranchisees can restock their product inventory. Microfranchisees can also purchase product directly from Narella’s local branches, or purchase product in Narella’s production factory. Each of these three processes have their respective advantages and disadvantages, product selection, and discounts available to microfranchisees. This range of options allows microfranchisees to select the process that best meets their needs and well as the preferences of their clients.

The discussion of prices will reference the microfranchisee price guide (ficha de precios) that microfranchisees rely on to efficiently navigate the sales process. The scaled discounting system can easily confuse microfranchisees otherwise. This same section of the document clarifies how microfranchisees should make their payments for their inventory restockings, whether that is in person at the local branch where they are receiving product, or via deposits with Visión Banco or via Giros Tigo, a mobile payment system.

Lastly, this section also covers business standards that the microfranchisee must maintain in order to continue as a microfranchisee and recommendations for sales made on credit. The importance of sales on credit cannot be overemphasized for the microfranchisee. Credit sales must be handled very responsibly and delicately to ensure that clients meet their payment obligations to the microfranchisee. It is of the utmost importance that the Microfranchise Promoter spends extra time confirming that the microfranchisee understands the credit sales recommendations. Credit sales that are managed irresponsibly will inevitably result in clients not meeting their payment obligations to the microfranchisee.

This, or selling too many products on credit, inevitably leaves the microfranchisee without sufficient operating capital to restock products, disallowing her to continue making sales for her business.
**Processes**

This section outlines required sales reporting and documentation that the microfranchisee is responsible for.

**Business plan**

Previously discussed in detail in section 2.3.4, the business plan should already have been completed with the microfranchisee via telephone during the confirmation call (section 2.3.3.), before the launch date. This is a second review of the work plan for the microfranchisee. The Microfranchise Promoter should take advantage of this opportunity to further reinforce and fix in the mind of the microfranchisee the personal goals that she has set for herself. This second review, together with more to come via the follow-up visits conducted by the Microfranchise Promoter, will be important opportunities to not only effectively support the microfranchisee, but to emphasize the important role that goals have in increasing the likelihood of success for the microfranchisee.

**Letter of Intent**

The letter of intent is the final step for inscription into the microfranchise. The letter is a non-binding contract in which the microfranchisee declares that she has reviewed in detail the content of the microfranchise manual and understands all of the processes and policies of the microfranchise. By signing the document, the microfranchisee declares that she is committed to abiding by the policies of the microfranchise in order to officially form part of the business. She also recognizes that her participation in the microfranchise can be rescinded as a consequence of not meeting the required minimum standards of the microfranchise.

**Contact Information**

This is simply a list of contact persons for the microfranchise, including contacts with Narella, Fundación Paraguaya, and a list of addresses for all of Narella’s branches where microfranchisees can restock their product.
3.4 RESCHEDULING

Our microfranchisee, Juana, is a special case. She was punctual. She showed up on the date and time originally set during the confirmation phone call. While there are certainly cases like Juana’s, there also are many microfranchisees who experience unanticipated delays, arrive late, or may need to cancel and reschedule their launch date. Worse still, these microfranchisees may also be uncommunicative about changes in their schedule.

Planning and scheduling launch days requires a large amount of logistical coordination around across a variety of parties, including Fundación Paraguaya’s microfinance department, the Foundation’s local office, Narella’s local branch, the Microfranchise Promoter, etc. This allows ample opportunity for error or poor coordination. To minimize this, the logistical aspect should be handled with care.

The Microfranchise Promoter is the person responsible for coordinating with the microfranchisee. The Microfranchise Promoter should be in frequent contact with the microfranchisee over the course of
the launch day, even if the microfranchisee does not take the initiative to call and inform the Promoter of schedule changes. Periodically calling to check-in, the Promoter should leave no excuse for the microfranchisee not to inform of schedule changes. In the case that the microfranchisee does not answer her phone, the Promoter should not be afraid of sending a text message, using phone applications such as Whatsapp, or even reaching out to the candidate’s loan officer in order to establish contact with the microfranchisee.

If it is confirmed that an alternative launch date must be arranged, all of the affected parties should be informed of the change, and the Microfranchise Promoter should first confirm with the microfranchisor that the new launch date is feasible for the local branch.

In the case of Fundación Paraguaya providing financing, the microfranchisee’s loan officer should also be informed. As mentioned earlier in section 2.3.3, if the microfranchisee’s loan was released that day, it is only valid for 5 business days. As such, the microfranchisee will have a short timeline for rescheduling (4 business days more). The microfranchisee should also know that the interest on her loan begins accumulating from the original launch date. It is not prorated for the rescheduled launch date, or the date on which she finally signs and endorses her check. Her first loan payment will be due 7 days after the original launch date.

A willingness to reschedule is one expression of flexibility that the microfranchise requires. All the same, microfranchisees should be allowed to reschedule once and once only. As outlined, rescheduling can prove to be a time consuming activity that pulls resources away from additional recruitment of new microfranchisees and follow-up with microfranchisees already launched. Communicating to the microfranchisee that a firm policy exists for rescheduling the launch date once and only once will help filter out unserious candidates from the pool.

Lastly, microfranchisees can simply cancel and say that they do not want to participate in the microfranchise. This may happen because they misunderstood the business implications and otherwise felt poorly informed about the commitment. In other cases, they may no longer believe that the microfranchise will be profitable for them. Perhaps the microfranchisee was planning on purchasing in a single cash payment but no longer has the cash to cover the payment.

Whatever the reason, there are no lasting consequences. If anything, it is generally preferable that the candidate decide to
not participate before launching her microfranchise as opposed to leaving the microfranchise after completing the launch process. In these cases, the microfranchise promoter should fill the Resignation Report (informe de abandono, section 4.1.3).

The printed loan check will expire within a week’s time without her signature, without having any effect on the franchisor or the franchisee. Although cases of this nature are not optimal and should be kept to a minimum in order to not waste resources recruiting candidates who do not become franchisees, there are no long-term consequences to consider as a result of their cancellation.
4.

FOLLOW-UP
Now that Juana, our microfranchisee, has successfully taken out her product with Narella, she will begin to operate her microfranchise. We have seen the operational framework that exists to recruit and launch candidates into the microfranchise. We will now explore the moment when the microfranchisee takes direct control of her business.

In exploring the microfranchisee’s management of her microfranchise, we will be working through the various components that make up the support framework of the microfranchise. These components constitute the elements of follow-up that have been built to support Juana and her microfranchise. As we will see, these intertwining processes not only give the microfranchise operational structure, but they also reduce the microfranchisee’s risk exposure, provide her with technical assistance, build her capacity for success, etc. In effect, these are the elements that deliver the benefits of the microfranchise, as originally outlined in section 1.3 of this guide.
To begin understanding the microfranchise operations, we will identify its actors. As of October 2014, the microfranchise management team consists of a collaborative effort between Fundación Paraguaya and Narella. We will need to consider how their roles intersect, differ, and reinforce one another. This information will better position the microfranchise to become its own venture, independent from its partnership with Fundación Paraguaya, once it has been scaled. This will require the microfranchise to assume all management functions within the current microfranchise structure.

As of October 2014, Fundación Paraguaya has played the frontline role in managing the microfranchise in the Fundación Paraguaya-Narella partnership that makes up the Narella microfranchise. This does not ignore the fact that this business is ultimately that of the microfranchisor, Narella. Nonetheless, the process of shifting full,
direct responsibility for market performance and business operations to Narella has not yet taken place.

Some of these microfranchise management roles will eventually transition to the responsibility of the microfranchisor, while others will continue to belong to Fundación Paraguaya. In the image to the right, those roles in the column to the far right will always belong to Fundación Paraguaya. In contrast, those elements in the center column, vertically located under Narella in the hierarchy, are roles that should eventually transfer to the responsibility of the microfranchisor, Narella.

### 4.1.1.1 Microfranchisor Responsibilities: Fundación Paraguaya & Narella

In the introduction, we discussed in detail the general function of the microfranchisor with respect to the microfranchisee in a microfranchise, and how partnerships can complement this dynamic. We will undertake that same effort here, concretely distinguishing the microfranchisor responsibilities that have been temporarily assumed by Fundación Paraguaya from those currently assumed by Narella.

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<thead>
<tr>
<th>Microfranchisor Responsibility</th>
<th>Narella</th>
<th>Fundación Paraguaya</th>
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<tbody>
<tr>
<td>Business Idea &amp; Strategy</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Turn-Key System</td>
<td>- -</td>
<td>x</td>
</tr>
<tr>
<td>Initial &amp; Ongoing Training</td>
<td>- -</td>
<td>x</td>
</tr>
<tr>
<td>Marketing Campaigns</td>
<td>x</td>
<td>- -</td>
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<tr>
<td>New Products</td>
<td>x</td>
<td>- -</td>
</tr>
<tr>
<td>Wholesale Pricing Discounts</td>
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<td>- -</td>
</tr>
</tbody>
</table>
First, let’s consider Narella. According to the table above, the concept of the business was born of a collaborative effort between Fundación Paraguaya and Narella. Narella was identified as a potential microfranchise (according to the same process described in the introduction). The concept of the Narella microfranchise was from there developed in regular conversations and negotiations with the microfranchisor. And currently, strategic decisions concerning the course of the business (such as approaches to expanding the business into new markets, design of the microfranchise profile, reposition policy) have been ideas that are designed and negotiated hand-in-hand between the microfranchisor and its partner, Fundación Paraguaya.

This is very different from other aspects of the microfranchise. There are some efforts that must be assumed by the microfranchisor. Production and introduction of new products is among them. Additionally, making discounts available that impact the microfranchisee’s profit margins are also functions of the microfranchisor. Narella’s own marketing of its business, which indirectly promotes its microfranchisees, is an effort that has – to date- not been a function that the Foundation takes responsibility for.

Ultimately, the division of responsibilities can be very loosely recognized as the following: efforts which are standard operations of Narella’s core business and also require some influx of financial investment – these are responsibilities that stay with the microfranchisor, and efforts that are newly introduced with the launch of the microfranchise, and require little to no monetary investment outside of project funds provided by the Inter-American Development Bank—these are efforts that Fundación Paraguaya has assumed.

As such, Fundación Paraguaya has taken responsibility for many of the operational functions of the microfranchise. As mentioned earlier, it is understood that these same functions will eventually transition to the microfranchisor.

4.1.1.2 Management Staff

The Narella microfranchise management staff includes staff of the microfranchisor Narella as well as staff of Fundación Paraguaya. For Narella, the critical players include the company owner (the microfranchisor) and the Local Branch Managers. Although not concretely defined in the microfranchise management structure, their respective functions within the microfranchise are distinct from one another.
The General Manager (often times the CEO, Founder or Owner of the business) plays a very high-level role in the business. Decisions of financial consequence (changes in discounts offered to the microfranchisees, investment in marketing opportunities, etc), are often negotiated with the company owner and will need his approval to be implemented. Large strategic questions also fall within his purview. Should the microfranchise launch a new brand sold exclusively via microfranchisees? Should the microfranchise introduce a new product line? Should the microfranchise begin a phase of large and rapid expansion into areas where there are no local Narella branches? Questions of this nature carry a substantial financial implication and also impact Narella’s market position. These matters are negotiated with and approved by the company owner.

Narella’s branch manager also personally attends to the microfranchisees who are taking out product. She gives microfranchisees their proof of purchase for the initial product kit. The branch manager will work closely with the Microfranchise Promoter to confirm product requests and corresponding payment amounts due to the microfranchisor. Similarly, the company owner is the source of complete historical information on inventory restocking volumes with the Microfranchise Manager.

For Fundación Paraguaya, the microfranchise manager is the only role with management responsibility. This role will eventually be assumed by Narella. Aside from the many responsibilities already named in previous sections of this guide (such as coordinating loan requests by potential microfranchisees with the Foundation’s microfinance department), the microfranchise manager is also responsible for all microfranchise operations. In practice, this means database management, supervision of the microfranchise promoters, recommendations for changes in the business
model, implementation, monitoring and evaluation of new business policies, etc. The set of responsibilities vary widely but – ultimately – the microfranchise manager bottom lines planning and execution of any activity related to the microfranchisees.

Despite the partnership with Fundación Paraguaya, the microfranchise is the microfranchisor’s venture. Shared responsibility for its management and operation is strictly a temporary arrangement. As such, its direction is the decision of the microfranchisor. This is what is implied by the vertical hierarchy of the management structure, with the microfranchise manager reporting to the microfranchisor. Although, under the terms of the partnership, the microfranchise manager reports internally to a supervisor within Fundación Paraguaya, the manager’s authority is subject to that of the microfranchisor within matters of the Narella Microfranchise.

4.1.1.3 Field Staff

Outside of the microfranchise management team, there is the microfranchise field staff. This field staff consists of the microfranchise promoters (impulsoras). These are the team members that work directly with the microfranchisees. They are responsible for recruitment of microfranchisees, activating them in the business, personal follow-up with them in the field, and well as data collection and data entry for regular reporting.

While the management team has important roles to play in the direction and development of the microfranchise, the field staff is what ultimately permits its regular operation. There are two reasons for this. First, many microfranchisees will need a lot of support in acquiring the behaviors that are necessary for successful performance in the microfranchise. Working with these microfranchisees can often times be a challenging, high-touch process. The work requires frequent follow-up with microfranchisees on an individual basis, providing regular guidance and assistance. The work of the microfranchise promoters reduces the risk of microfranchisees committing errors in running their businesses.

Second, microfranchise field staff are collecting data on a daily basis on the performance of the microfranchise. As we will see later in this chapter, the microfranchise promoters are responsible for collecting a wealth of data from microfranchisees on the effectiveness of recruitment processes, data on financing for initial product kits, execution of launches in the FP offices and in the Narella local branch, sales and reposi-
tion, effectiveness of marketing, market reception of product, and sales performance. Without the field staff maintaining regular contact with microfranchisees in the field, the ability to collect data that inform on the performance of the microfranchise would be far more difficult, if not impractical. Such data is a necessity, as many of the strategic business decisions made by the Narella microfranchise team are rooted in the data points and empirical observations of the field staff. This informed decision making structure permits decisions that are based on the reality observed in the market rather than the conjectures, preferences or even prejudices of the decision maker.

Microfranchise field staff management, like the microfranchise manager role, is assumed by Fundación Paraguay but will later transition to the microfranchisor. The microfranchise promoter reports directly to the microfranchise manager and has no other contact with the microfranchise management team outside of launch days for microfranchisees (remember, the microfranchise promoter is present during microfranchisee launch days to deliver the introduction training to the microfranchisee; for more detail, review section 3.3), or any
The microfranchise promoters are understood to be field staff because over half of their time is spent outside of the central office. They work to recruit, launch and follow up with microfranchisees. Our current focus is the last of these points, the follow up process. The objective of these visits is two-fold. First, microfranchise promoters should be working to support microfranchisees to confront and overcome whatever challenges they experience in operating their business, and to obviate any potential challenges. Second, the follow-up visits are used to collect data on microfranchisees. This data is later used by the microfranchise management team (the microfranchise manager and corresponding staff with the microfranchisor) to analyze business performance and make strategic decisions affecting business design.

4.1.2 Monitoring and Data Collection Processes

4.1.2.1 Follow-up Visits

The microfranchise promoters are understood to be field staff because over half of their time is spent outside of the central office. They work to recruit, launch and follow up with microfranchisees. Our current focus is the last of these points, the follow up process. The objective of these visits is two-fold. First, microfranchise promoters should be working to support microfranchisees to confront and overcome whatever challenges they experience in operating their business, and to obviate any potential challenges. Second, the follow-up visits are used to collect data on microfranchisees. This data is later used by the microfranchise management team (the microfranchise manager and corresponding staff with the microfranchisor) to analyze business performance and make strategic decisions affecting business design.
A week after taking out her product, Juana has sold half of the content of her initial product kit. At about 10a, there is a knock out on the front gate. As she looks past the front door, she sees Monica’s smiling face – the representative from Fundación Paraguaya that she last saw 7 days ago, when she launched with the microfranchise.

“Welcome! It’s a pleasure to see you!” Juana enthusiastically greets Monica and welcomes her into her home. During the launch day, they had agreed for Monica to visit her home a week later. In fact, Juana had forgotten all about the arrangement, but Monica called her two days ago to reconfirm the visit and the hour. “Don’t worry,” Monica told Juana in their call. “I’m not swinging by to supervise or manage your work for you. Remember when I told you that I would be working to support you and your business. Well, I want to visit to see if there are ways that I can be helpful, and to collect some of your feedback on your experience, so that we can continue improving the business by working with you.” With that in mind, Juana agreed that it wouldn’t be a bad idea to check in.

After inviting Monica to share a serving of tereré with her, the two sit outside of the home on the patio. Monica begins asking general open ended questions, “How is the microfranchise going so far?” she starts. “What has been the feedback of your clients? What do they think of the product and the prices?” Juana reflects. So far, it has been a pretty positive experience. And she shares that same commentary with Monica, but offers very little additional commentary. Juana is not used to being interviewed in this way. Is there a right answer, she wonders. What exactly is Monica expecting her to say? What does she want her to say? Are there consequences for not having the right answer?

Because Monica is meeting with Juana face-to-face, she can see Juana’s discomfort: she is not keen on making eye contact and can be seen anxiously fidgeting with her hands. How can Monica make Juana more comfortable to get honest answers from Juana? Knowing that only honest and comprehensive feedback can get the microfranchise onto the right track, Monica will need to move forward with the interview while putting Juana at ease. But how?
Microfranchise promoters have several ways that they can interact with microfranchisees. They can visit microfranchisees in their homes and communities. Microfranchise promoters can also meet face-to-face with microfranchisees in one of Fundación Paraguaya’s local offices. And because many microfranchisees have cell phones, microfranchise promoters can often follow up with their microfranchisee via a phone call. Each of these three ways has costs and benefits.

Home and community visits are encouraged over the other two follow-up methods. In an interview with a microfranchisee, it can be difficult to collect all the information solicited. This is frequently the result of miscommunication and misunderstanding between actors. Visiting the community of the microfranchisee offers opportunities to overcome this. Home visits give the microfranchise promoter more time to have a thorough conversation with the microfranchisee. Microfranchisees are more likely to receive the microfranchise promoter with the understanding that, as a guest, they will be sharing time and trust between them. This rarely is the case in over the phone exchanges with microfranchisees.

Furthermore, visiting a home and community puts the microfranchisee in greater context. The microfranchise promoter now observes directly the first-level market that the microfranchisee is operating in. Are there local shops or individual sellers in the community that provide direct competition to the microfranchisee? Are there lines of public transportation that easily allow the microfranchisee to get out of the community? These are observations that the microfranchisee may not think of sharing in her commentary. The microfranchise promoter will glean these insight only by physically visiting the community where the microfranchisee lives, placing the microfranchisee’s comments in greater context.

Home visits also have the advantage of building greater trust with microfranchisees. The more personal the interaction is, the better. Each interaction should be understood as an investment into a long term relationship between the microfranchise and the microfranchisee. Despite these advantages, home visits also have their constraints. Travel to and from the community and meeting with the microfranchisee are time consuming. These visits take away from time that the microfranchisee promoter can spend on other activities. The essentially restrict the microfranchisee’s work capacity. As such, although home visits are ideal, they should be done in balance with other work priorities.

The second way of visiting microfranchisees is face-to-face visits in the local office. These are easier to coordinate, as many microfranchisees will have to visit the local office sooner or later, because of loan payments. This fact facilitates many of the logistical implications of face-to-face visits. And because these visits are face-to-face,
they still foster important relationship building. Still, they have two disadvantages to home and community visits. First, office visits do not allow the microfranchise promoter to observe the microfranchisee in the wider community context, foregoing additional observations that may contribute to the post-visit analysis. Second, microfranchisees do have other activities aside from their office visit. Because these office visits are often shorter, perhaps only 15 or 20 minutes, microfranchisees may not be as generous with their time for a lengthy interview as they would be during a home visit.

The third option is a phone interview with the microfranchisee. Microfranchisee promoters should rely on this option only in the face of time constraints due to competing priorities. Phone interviews can be an acceptable option if the microfranchise promoter already has visited with the microfranchisee on multiple occasions and, as such, already has an established relationship with the microfranchisee. Phone call follow-ups are not encouraged because microfranchisees are unlikely to lend the microfranchise promoter much time for a thorough conversation, for the contextual information lost in not having a face-to-face conversation and, lastly, because phone conversations are not as conducive to relationship development.

### 4.1.2.1.2 Types of Visits

After a microfranchisee launches, the microfranchise promoter that launched the microfranchise should aim to meet with the microfranchisee weekly for the three following consecutive weeks. Each visit will have a specific yet complementary objective. Each visit will contribute to a final goal: supporting the new microfranchisee in launching her new business. It should be understood that the microfranchise is more likely to realize long-term success if it can launch and demonstrate successful business behaviors within the first month of launch. These consecutive visits from the microfranchise promoter in the microfranchisee’s first month of operations can help achieve that end.

The image below lays out the various follow-up visits in relation to one another. The sections below discuss these visits in further detail.
The initial visit should be performed a week after the launch date. The purpose of this visit is to acquire initial feedback from the microfranchisee. The questions are general, but all aim to understand on a detailed level how the microfranchisee’s business launch was received by her initial market (typically, this is going to be her community), as well as to gather initial feedback from the microfranchisee. The purpose of this visit, primarily, is to listen; the microfranchise team wants to gain an idea of both the microfranchisee’s market and how she is operating her business. The questions, then, should be open ended and with the intent to get the microfranchisee talking. Some examples of such questions include the following:

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<thead>
<tr>
<th>Objective</th>
<th>Questions</th>
<th>Objective</th>
<th>Questions</th>
<th>Objective</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring &amp; Observation</td>
<td>• Understand how microfranchisee is doing at a detailed level</td>
<td>Accompanying</td>
<td>Accompany the microfranchisee while she makes sales and restocks (optional) to observe her sales tactics.</td>
<td>Offer Support &amp; Revise the Business Plan</td>
<td>Offer various solutions and best practices of the microfranchise.</td>
</tr>
<tr>
<td>• Sign the Letter of Compromise</td>
<td>• Obtain and understand her comments</td>
<td></td>
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<tr>
<td>• Schedule the first visit for the following week</td>
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<tr>
<td>• Revise the business plan (goals, sales methods)</td>
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<tr>
<td>1st Follow-up</td>
<td>2nd Follow-up</td>
<td>3rd Follow-up</td>
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Chisee Reorder Product and Implement the Best Practices of the Microfranchise

4.1.2.1.2.1 Monitoring and Observation
• Which products of your initial product kit have you already sold? Who have you sold them to?

• Have your products been well received by your customers? What do they say about them?

• What is your opinion on the quality and price of your products?

• What are some of challenges you have had to face so far? How has your experience in the microfranchise been consistent with your expectations?

• What has been your sales approach? Have you extended credit to your clients? Why or why not?

• What have you done with the revenue that you have received from your initial sales?

As this is your first conversation with the microfranchisee since she launched, and because you want to have a robust understanding of her business and her market, there will be plenty to talk about. Plan for a 20-30 minute interview with the microfranchisee. Be sure to close the interview with answering any questions the microfranchisee may have, and letting her know that you plan on visiting her again twice over the next two weeks. The microfranchise promoter should also be sure to schedule a time, place and date for next week’s face-to-face meeting with the microfranchisee.

4.1.2.1.2.2 Sales Accompaniment

The second in-field meeting should be used to observe the microfranchisee in action. In order to have a complete understanding of her operations and how she is running her business, the microfranchise promoter should shadow the microfranchisee in the field. The microfranchise promoter should observe how the microfranchisee is handling her product, interacting with customers, presenting her product and business, and closing her sale – among other important themes.

These observations are critical to understanding not only whether or not the microfranchisee is successfully managing her
In week three, the microfranchise promoter makes her final weekly visit to the microfranchisee. The focus of this visit is primarily to offer feedback to the microfranchisee based on information collected during visits over the two previous weeks, as well as sales performance since the launch date. This is also a key coaching and troubleshooting opportunity, and should be approached accordingly, as this maybe the last time that the microfranchise promoter and microfranchisee will see one another in person for the next month or more, depending on the volume of microfranchisees, and whether or not a regular microfranchisee meeting cycle has been instituted.

Lastly, this visit should be used as an opportunity to update and improve the business plan. When the original business plan was crafted, it was based on the expectations, ambitions and conjecture of the potential microfranchisee. Now with two weeks with her product in the field and some experience making sales, the microfranchisee is better positioned to revise her sales goals based on her experience in the market. As such, the microfranchise promoter should seize this moment to review business performance to date and revise the business plan goals. The following section on Business Plan Adjustment (Section 4.1.2.1.2.3) discusses this in greater detail.

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round of clients, her new business plan should be more focused on new clients she can reach out to in order to increase her client portfolio. It should also consider what additional sales can be made to folks who have remarked favorably on her products and prices. Her plan should include concrete steps to revisit those potential clients, both those who may have already made a purchase and those who still have not.

Lastly, another important element of this plan should include a new concern for the microfranchisee: collecting pending payment obligations. In all likelihood, our microfranchisee will have made some sales on credit. As such, she will still have clients that owe her payments for products already delivered. As such, the microfranchisee promoter should review and revise any plan that the microfranchisee has for collecting these pending payments. If the microfranchisee does not have such a plan, they should develop one together. Without such a collections plan, the microfranchisee runs a greater risk of not collecting and incurring losses as a result.

4.1.2.2 Delivery of sales receipts

Included in the initial product kit is a booklet of blank inventory receipts. These sales receipts serve three purposes. First, they are proof of payment (or pending payment) from the microfranchisee to her client. Second, the booklet is formatted so that filling out a sales receipt leaves additional two copies. One of these copies is for the microfranchisee to keep for her own records. The information captured on it should be recorded into a separate record keeping system that the microfranchisee will use to track her sales and product inventory. Third, the final copy of the sales receipts should be delivered by the microfranchisee weekly to her assigned office of Fundación Paraguaya. The office will have a labeled deposit box designated specifically for receiving sales receipts from microfranchisees. This information will be collected with the sales information of all the microfranchisees in order to track overall sales, revenue and inventory business performance for the entire microfranchise.

The delivery of this sales information to the local office is critical. Without this data point being collected directly from microfranchisees, there is no direct tool available to track real business performance. Information on product repurchases made by the microfranchisee can be collected from the microfranchisor with ease. But this data point will only allow the microfranchise
team to infer sales and inventory information. If will not report whether or not the microfranchisee actually sold what product she purchased from the microfranchisor. Furthermore, even under the precarious assumption that the microfranchisee has sold all of the product that she has purchased from the microfranchisor, information from the microfranchisor cannot report at what final price point the microfranchisee sold her product, if it were sold at the established price with the entire payment collected at once, or if the product were instead sold on credit. These important data points can only come from the microfranchisee.

Delivery of the sales receipts to the local office is one potential reporting tool, but it has its challenges. Microfranchisees are likely to misplace payment receipts. Other microfranchisees will not use the payment receipt book in the first place. Microfranchisees are asked to deliver their sales receipts weekly, concurrent with their weekly loan payments in the local office so as to increase the convenience of delivering this information. However, not all microfranchisees will need to make weekly stops to the local office because not all microfranchisee will have a microfranchise loan to make weekly payments on (either they have already paid off their microfranchise loan, or they financed their initial product kit out of pocket).

Given these challenges, the microfranchise team should strongly consider incentivizing the delivery of these sales receipts to the office. This does not have to be a costly initiative. For instance, each sales receipt delivered can be used as an entry in a monthly raffle for the microfranchisees for a small gift, such as free dinner, entry into an entertainment venue, a household kitchen item such as a small blender, etc. Such an arrangement also favors microfranchisees who not only keep proper records, but also those who sell to a greater number of clients. Arrangements of this nature carry a price, but a relatively small one compared to the benefit of collecting reliable sales data on a weekly basis.

Also important, and previously mentioned, are sales records that come from the microfranchisor. These records are recording product sales made by the microfranchisor to the microfranchisee. They give an indication of the regularity of activity of the microfranchisee, the products that she has in demand, and her inventory rotation. As previously explained, this information alone would be incomplete. The benefit of collecting this data from the microfranchisor is its reliability. Because the Narella microfranchisor receives all order requests to their factory, the microfran-
The extent of analysis that can be performed on the microfranchise is proportional to the amount of data (both quantitative and qualitative) that can be amassed on it. The amount of data is secondary, however, to the quality of the data collected.

The Narella Microfranchise is operating among low-income groups in a data-poor market. Aside from the data collected via the processes established by the microfranchise, there is very little extant data that is useful for developing and improving this microfranchise. As such, the reporting structure and the subsequent analysis of that data is a high stakes measure. Proper operation of the reporting structure and gaining useful, actionable insights from the data it collects are both very important for the microfranchise.

What follows is a review of the reports included in the reporting structure, the type of data that each report collects, and what that data should be used for. Following a review of all the reports included, there will be a short review of the recommended types of analysis that should be conducted for the microfranchise. Finally, we will discuss the Key Performance Indicators and Metrics used to track growth and overall performance of the microfranchise.

All of the reports listed below can be found in the appendix section at the end of this manual.
4.1.3.1 List of reports, the data collected and their use

1. Registration Sheet (Hoja de Registro)

The registration sheet was previously discussed in section 2.3. During the presentation of microfranchise opportunities, micro-credit borrowers who are listening to the presentation should fill out this document. On it, they will also be able to note which microfranchise opportunity they are interested in. After noting their interest, the microfranchise promoter will note on the same document whether or not this potential microfranchisee has received the recommendation of their loan officer. This document can be used to tally the following information:

- The total number of micro-credit borrowers who have heard about microfranchise opportunities
- An authoritative reference for which candidates have the recommendation of their loan officers
- The rate at which loan officers are giving their recommendation for interested microfranchisees
- The rate of microfranchise interest (Number of interested as a percent of all presentation participants)
- Conversion rate of interested microfranchisees into launched microfranchisees (Number of activated microfranchisees as a percentage of those interested)
- Rate of interest of specific microfranchises (Number of interested microfranchisees for business X versus business Y, as a percentage of all interested microfranchisees)
2. Microfranchise Application (Solicitud)

The microfranchise application was previously discussed in Section 2.3.1. As mentioned there, the microfranchise application is the formal request to participate in the microfranchise. For the microfranchisor, it is a tool to capture the full profile of the microfranchisee.

Because of the comprehensiveness of the document, and the key qualitative profile of the microfranchisee that it captures, a full list of the metrics that can be captured using this document is beyond the scope of our current exercise. In fact, many metrics of interest will depend on the specific question that the microfranchise team is interested in answering. We will discuss some key data points captured on this report and how they may be used, in general terms, to gain insight into the microfranchisee or the microfranchise overall.

Some key data points captured include:

- Level of education
- Address (urban, peri-urban or rural market)
- Size of family
- Previous sales experience
- Current employment and primary source of income
- Intended funding for initial product kit
- Access to internet and use of online communication tools (Whatsapp, Facebook, etc.)

This information can be used to observe any general trends across all microfranchisees between sales and level of business activity with education levels, years of experience in sales, baseline income levels, number of dependents, etc. Any consistencies in observed correlations should not be interpreted as explanatory factors (this information, being self-reported and often incomplete, may not be sufficiently robust for analysis using explanatory regression models), but can be used to build a general narrative to better understand and narrow down the microfranchise profile. This information, interpreted alongside the microfranchise feedback in follow-up visits, can add powerful insights into the microfranchise.
3. BUSINESS LAUNCH REPORT (INFORME DE LANZAMIENTO)

The Business Launch Report is meant to be completed by the microfranchise promoter once they have launched their new microfranchisee (see Section 3). This report serves to confirm that the microfranchisee has now been activated, having received and paid the microfranchisor for her initial product kit. This report is broken into two important sections. The first section focuses on the launch itself, tracking data such as:

- The microfranchise launched (Narella)
- Monetary value of the Kit
- What steps were taken during the launch process (loan and product received, initial training on microfranchise processes, finalized business plan, etc.)

Additionally, the report tracks detailed information on the microfranchise loan, if the microfranchisee has received one. These details include the total loan principal, the interest rate, length of the payment period, date that the loan was activated, and the day of the week the microfranchisee will have to make her weekly payments. This information is largely useful in not only tracking the total number of loans extended (a key performance indicator), but also – when combined with the Credit Status Report (report 8, below), an analysis of the performance of the microfranchise loans can be conducted. Other useful analyses include a look at variations between the value of the initial product kits compared to the value of the credit loans, as well as the range of interest charged on microfranchisee loans. These are all factors that influence the microfranchisee’s perception of the business, and may also influence their performance in product sales or even in loan repayment.
4. **Follow-up Report (Informe de Seguimiento)**

The follow-up report is a simple report that is largely qualitative in nature. The report contains the interview notes from the microfranchisee follow-up visits discussed throughout section 4.1.2 on Data Collection. The report requires information on the nature of the follow-up with the microfranchisee (such as, was it in the office, over the phone, in a community visit? What type of follow-up visit was it?). The importance of this report is to capture the full, direct commentary of the microfranchisee, as well as plan for the next communication with the microfranchisee. This report is an important part of closing the feedback loop, and is likely to provide the most direct tool of amalgamating and processing information on the business performance of the microfranchise.

5. **Sales Registration Report (Registro de Ventas)**

This report collects the sales information collected from the sales receipts discussed in section 4.1.2.2. This is sales information tracked by the microfranchisees that the microfranchisee then delivers to their local Fundación Paraguaya office. This form tracks what items have been sold by the microfranchisee, at what price, if they sold their product in a single cash payment, or on credit over several weekly payments.

By itself, this report gives a picture on the sales performance of the microfranchisee. From it, we can calculate not just revenue, but also profits, cash-on-hand and accounts receivable. This information will allow the microfranchise team to infer how well the microfranchisee is operating her business (for instance, is she selling too much product on credit?) as well as the microfranchisee’s power over pricing (are microfranchisees lowering their prices for their customers? Are they selling them above the suggested retail price, etc.). Paired with the Inventory Repurchase Report, this document allows the microfranchise team to accurately estimate inventory holdings (Products purchased – products sold = inventory remaining.) Similarly, pairing this report with the Follow-up Report allows broad insights into microfranchisee business management.
6. Inventory Repurchase Report (Informe de Facturas, Reposiciones)

This report collects the sales information collected from the sales receipts discussed in section 4.1.2.3. Similar to the Sales Registration, this report tracks product purchases made by the microfranchisees. It is collected directly from the microfranchisor. In the absence of the Sales Registration report, this document can be used to infer revenue potential (assuming that all the purchased products were sold at the microfranchise’s suggested retail price). The frequency of repurchases is also a useful indicator for estimating the microfranchisee’s level of engagement with the business. Even without the Sales Registration, this document can also be used to determine which products are most popular among microfranchise clients. This may inform product supplies in the future, from the microfranchisor to the microfranchisee.

7. Sales Strategy Report (Manera de vender)

This is a simple report that aims to track sales approaches and their changes. It captures simple data points, including the following:

- Days of week when the microfranchisee goes out to make her sales
- Hours worked making sales
- Whether or not a family member accompanies the microfranchisee to make sales
- If the microfranchisee is making sales from her home, from an established storefront that she owns or has access to, or if she is making door-to-door sales
- If the microfranchisee has made her sales in her community, or is leaving to make sales in other areas, and where those areas are

This information can be used to help identify the productivity of microfranchisees (revenue per hour worked), or to test assumptions made around sales strategies or in the business design (does this product sell best in the microfranchisee’s community? Do microfranchisees make more sales by venturing into other communities? How does having a family member’s assistance affect sales volume?).

The document should be completed by the microfranchise promoter during follow-up visits with microfranchisees.
8. Credit Status Report (Estado de Crédito)

The Credit Status Report is a simple document that tracks the weekly loan payment compliance of microfranchisees. The microfranchise promoter should be filling this report out on a weekly basis for all of her microfranchisees that are paying an outstanding loan. Updated payment information can be found on Fundación Paraguaya’s internal database on micro-credit borrowers. The report simply tracks if the weekly payment has been made, in what amount, on what date, and, if the payment was late, by how many days. Keeping this information in a single sheet for all microfranchisees allows the microfranchise team to run a simple analysis on loan repayment compliance, answering questions such as “How many of our microfranchisees are defaulting on their loans? Among the defaulters, what characteristics in their profiles or loan amounts distinguish them from the other microfranchisees?” This analysis can have meaningful impact on the design of the credit policy in the future.

9. Resignation Report (Informe de Abandono)

This final report lists the name and motivation for microfranchisees that decide to no longer participate in the microfranchise. This report should be completed by the microfranchise promoter whenever a microfranchisee in her portfolio definitively informs her that she would no longer like to be a microfranchisee. Keeping this report updated will allow the microfranchise team to keep a clean list of active microfranchisees. Also, it can serve as an important red flag for subtle (and consequently, pernicious) problems with the microfranchise. If there are deep but unobserved problems with the microfranchise, exiting waves of microfranchisees would be an obvious indicator of it. The commentary section of this report should be treated as a thoughtful exit interview. Thus, the microfranchise promoter has an important opportunity to capture the exiting microfranchisee’s commentaries on why she is leaving the microfranchise.

The report also includes a list of standard reasons for leaving the business, including finding long-term employment, illness, etc.
**Google Forms**

This data should be collected on a regular basis. Each of these reports exists online, formatted on Google Forms, and is managed by the microfranchise manager. Those collecting this data (in most cases, the microfranchise promoters but, in some cases, the microfranchise manager) will need to input it into the Google Forms. By inputting them into Google Forms, the data will automatically be collected into online spreadsheets that are also managed by the microfranchise manager.

The microfranchise manager is the key team member responsible for conducting all analysis based on the data collected, and also manages who has permission to access the uploaded data sets. The information uploaded in the online spreadsheets is immediately ready for data analysis and manipulation.

As a matter of precaution, it is best to download these spreadsheets onto one's personal computer before manipulating the data for analysis. Because the online spreadsheets save changes automatically, any unintended changes will be immediately saved in the online document.

### 4.1.3.2 Key Performance Indicators and Recommended Analysis

The wealth of data collected on the Narella microfranchisees themselves, their business performance, their general commentary and other factors can be layered over one another in countless ways, leading to a wealth of different analyses that can be performed on the business. The only real restriction on the analysis that can be performed is the question that the microfranchise team is interested in answering.

There are some analysis and key metrics that the microfranchise team should be tracking daily and revisiting on a very regular basis. What follows is a discussion of the key performance indicators that should be tracked, as well as some of the standard analysis on the microfranchise that should be considered on a regular basis.

#### 4.1.3.2.1 Key Performance Indicators: Microfranchise Level

Overall, the microfranchise should be interested in 1) whether or not it is making a profitable income for its microfranchisees, 2) if the microfranchisees are actively par-
To track these numbers, the microfranchise team should actively track the following Key Performance Indicators (KPIs):

- Total number of Initial Product Kits sold
- Microfranchisees with inventory restocks, or initial kits sold in the last 60 days
- Total number of microfranchisees who have resigned from the business
- Total spending by microfranchisees on product to sell (this is divided into two categories: 1) spending on initial product kits and 2) spending on restocking)
- Median inventory restocking (in order to gauge the volume of a single restocking)
Additionally, the microfranchise team will want to track how many microfranchisees have funded their business using a microfranchise loan versus a single cash payment. This number is relevant to the microfranchises’ accessibility to microcredit borrowers who are interested in joining the business, affecting the scalability of the business.

The image below is a summary of the Key Performance Indicators for the Narella Microfranchise as of October 2014.

An “active” microfranchisee is considered one who has purchased new product, or launched their new microfranchise, within the last 60 days.

A very important metric not listed in the summary above is the profitability of the microfranchisees. This data point is dependent on having the self-reporting, sales receipt collection process operational (see Sections 4.1.2.2 and 4.1.3.1). Without having complete and accurate reporting of sales volume and the real price points microfranchisees are using in the field, profitability can be inferred but not concretely calculated with certainty.
Another set of important metrics is of operational importance, tracking the microfranchise team’s performance in microfranchisee recruitment, scaling the microfranchise (new launches), and following up with active microfranchisees. The relevant metrics are used to observe the performance of the microfranchise promoters and are listed in the table on the next page.

<table>
<thead>
<tr>
<th>Microfranchise Recruitment</th>
<th>Scaling the microfranchise</th>
<th>Follow-up</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 New Microfranchise Applications</td>
<td>Number of microfranchisees launched</td>
<td>Number of microfranchisees visited</td>
</tr>
<tr>
<td>2 Number of Microfranchise Presentations</td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>

These numbers should be updated on a daily basis via the Google Forms database online, entered into the Daily Report form. This form is discussed in greater detail in Section 4.1.4.1 on Managing Field Staff. These numbers should be compared against weekly goals in order to determine whether or not performance is ideal. These goals will be set by the microfranchise manager and based on the team’s capacity, current priorities set for the microfranchise (recruitment of new microfranchisees versus data collection on microfranchisee performance, for instance), the number of active microfranchisees, and their level of engagement (what is the ratio of active to inactive microfranchisees?), among other factors.

The remaining analysis recommended to be performed by the microfranchise manager is a more in-depth look at the high level data covered under KPIs. As such, the analysis to be mentioned can be performed using the data collected in the 9 reports listed above, and data from the daily report, discussed in Section 4.1.4.1.
This is a comparative analysis. That is, it compares the number of microfranchisees launched in one microfranchise versus that of other microfranchises. It also compares the number of microfranchise applications pending to be launched with the number of microfranchisees launched. A table summarizing the performance is listed below.

### 4.1.3.2.4 Analysis of Microfranchisees Launched

<table>
<thead>
<tr>
<th>Microfranchise</th>
<th>Applications</th>
<th>Launched</th>
<th>Not Launched</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfranchise A</td>
<td>Aug 3 Set 15 Oct 25 Nov 1</td>
<td>24 55%</td>
<td>8 12</td>
</tr>
<tr>
<td>Microfranchise B</td>
<td>Aug 8 Set 13 Oct 10 Nov 1</td>
<td>19 59%</td>
<td>3 10</td>
</tr>
<tr>
<td>Narella</td>
<td>Aug 16 Set 32 Oct 46 Nov 3</td>
<td>32 33%</td>
<td>7 58</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>Aug 27 Set 60 Oct 81 Nov 5</td>
<td>75 43%</td>
<td>20.7% 46.2%</td>
</tr>
</tbody>
</table>

For the Narella microfranchise, of the 97 microfranchise applications completed, only 32 became active microfranchisees, a 33% conversion rate. Meanwhile, only 7% of microfranchisee applicants dropped out of the launch process and never became active microfranchisees (Resigned). And 58 of the 97 applications (60%) collected in these four months were not launched at all (pending). These women are still interested but either have not received their initial product kits yet, or have perhaps have not submitted their order at all. Because the launch process for the Narella microfranchise is still a complicated one compared to the other Fundación Paraguaya microfranchises, the bottle neck in the application process is not surprising.

Compare this with Microfranchise A. During the same period, Microfranchise A received 44 applications (less than half as many as Narella), but only 12 (27%) of them are still pending. Comparatively, Microfranchise A is recruiting less microfranchisees and, thus, has lower growth potential. But the Narella microfranchise is performing relatively poorly at making sure that microfranchisee applicants are passing through the application process. In fact, Narella is doing the worst job turning interested microfranchisees into active microfranchisees (the other two businesses have conversion rates above 50%).

This analysis suggests that there is room for improvement in Narella’s recruitment and launch process. It also seems that the microfranchises can learn from one ano-
The microfranchise manager should be familiar not only with overall sales and restocking numbers, but how that performance is distributed among the listed microfranchisees. Below is a sample summary table showing the distribution of product repurchase data. This information comes from the Inventory Repurchase Report, with data provided by the microfranchisor.

This data is easily compiled together using a pivot table in Microsoft Excel. This information is useful as the microfranchise manager can take the high level data and have a better understanding of the level of engagement of individual microfranchisees, measured by the number of product repurchases. Furthermore, this analysis demonstrates whether high level data is indicative of the performance of average microfranchisees, or if the outlier performance of “superstars” is skewing the overall performance. Finally, if microfranchisee sales information is not being reliably captured, the information in the table above can be used to estimate a baseline profit for active microfranchisees. The difference between product spending and the sum of product retail prices will give a rough estimate of microfranchisee profits in the case that the microfranchisee has sold all of her product.

<table>
<thead>
<tr>
<th>MICROFRANCHISEES</th>
<th>ID NUMBER</th>
<th># PRODUCT REPURCHASES</th>
<th>SPENDING ON NEW PRODUCT</th>
<th>TOTAL RETAIL PRICE (FOR RESALE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M.FRANCHISEE A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M.FRANCHISEE B</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M.FRANCHISEE C</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.1.3.2.5 Repurchases

The microfranchise manager should be familiar not only with overall sales and restocking numbers, but how that performance is distributed among the listed microfranchisees. Below is a sample summary table showing the distribution of product repurchase data. This information comes from the Inventory Repurchase Report, with data provided by the microfranchisor.

This data is easily compiled together using a pivot table in Microsoft Excel. This information is useful as the microfranchise manager can take the high level data and have a better understanding of the level of engagement of individual microfranchisees, measured by the number of product repurchases. Furthermore, this analysis demonstrates whether high level data is indicative of the performance of average microfranchisees, or if the outlier performance of “superstars” is skewing the overall performance. Finally, if microfranchisee sales information is not being reliably captured, the information in the table above can be used to estimate a baseline profit for active microfranchisees. The difference between product spending and the sum of product retail prices will give a rough estimate of microfranchisee profits in the case that the microfranchisee has sold all of her product.

4.1.4 Motivating, Training and Troubleshooting

Another important aspect of keeping the microfranchise on a successful path is making sure that both the microfranchisee team, and the microfranchisees, feel supported. The follow-up visits are a fundamental component of the support that
Microfranchise promoters are the frontline contact between the Narella microfranchise and the microfranchisee. Their role is not an easy one. As such, they will need direction in successfully meeting the responsibilities of their role.

In the following section, we will discuss in greater detail the management of the microfranchise promoter(s) responsible for working with the microfranchisees, as well as communication channels with microfranchisees. Additionally, we will look at the role of monthly group meetings between groups of microfranchisees, which can be a powerful influence tool to support microfranchisees.

**4.1.4.1 Managing Field Staff**

Microfranchise promoters are the frontline contact between the Narella microfranchise and the microfranchisee. Their role is not an easy one. As such, they will need direction in successfully meeting the responsibilities of their role.

What are the responsibilities of the microfranchise promoter? They are listed in detail in the role’s job description, which can be found in the appendix of this Operations Manual. But in general terms, the microfranchise promoter is expected to:
The Daily Report (first mentioned in Section 4.1.3.4, and listed the Appendix) exists to track the microfranchise promoter’s fulfillment of these key responsibilities. Completed at the end of every business day, the microfranchise promoter logs the activities she completed that day. What she reports is then measured on a weekly basis to track progress against established goals for the microfranchise, as identified by the microfranchise manager and the microfranchisor. The daily report is also used as a tool to confirm that the microfranchise promoter is also filling out the other necessary reports, based on her activities that day. Consider the following example.

**Daily Report: An Example**

Monica, the microfranchise promoter, has returned to the office after visiting with Juana in the field. She not only met with Juana, but with two other microfranchisees in an adjacent community. Earlier in the day, she had presented to a committee of women interested in become microfranchisees. Of the 17 women who heard the presentation, 4 of them expressed interest in the Narella microfranchise. Of these four, only one completed the Microfranchise Application.

Before her workday ends, Monica will have to enter her daily results into the relevant online reports using Google Forms. Based on her results she will need to complete the following:

1. **The Daily Report**

Here, Monica will fill out the appropriate fields to indicate that she accomplished all of the following:

- Identify, recruit and launch new microfranchisees, facilitating the scaling of the business
- Support and manage active microfranchisees to success
- Collect and log data critical to improved business performance
**a. 1 presentation of microfranchise opportunities, with 17 participants and 4 interested persons**

**b. Received 1 Microfranchise application**

**c. Conducted 3 microfranchisee follow-up visits**

**d. Launched 0 new microfranchisees**

### 2. Registration Sheet

Here, Monica will list the names and basic information of the four microfranchisees interested in joining the Narella microfranchise and their basic information.

### 3. Microfranchise Application

Monica will input all of the data collected on the Microfranchise Application, and then deliver the original, hardcopy of the document to the microfranchise manager.

### 4. Follow-up Report

Monica will complete one Follow-up Report for each of the microfranchisees she visited (3 reports in total). Each report will include the name and identification number of the microfranchisee, as well as detailed notes on what happened during the visit, including all feedback offered by the microfranchisees.

The Daily Report captures the microfranchise promoter’s daily work productivity. It also outlines what other reports the microfranchise promoter should be filling out that day. The Daily Report should be filled out every day, regardless of the microfranchise promoter’s productivity. That means, if the microfranchise promoter has 0 productivity for the day (no home visits, no new recruitment, no new microfranchisees launched), she should still complete the report, inputting 0 in all relevant fields. This also implies that she has no other reports to complete for the day.

Alternatively, in the case of a productive day, the Daily Report outlines what other reports the microfranchise promoter needs to complete in the work day. For each measured accomplishment, the microfranchise promoter must be sure to complete the corresponding Google Form online.
There are several communication channels that the microfranchise has to maintain contact with microfranchisees. Some are more direct and effective than others. However, the more direct the communication is, the more expensive it is, measured in terms of time and related opportunity cost.

### Loan Officers

The loan officers of the microfranchisee’s local office of Fundación Paraguaya are the most effective and direct for communication with microfranchisees. In many cases, the loan officer is the person that guided the microfranchisee through the steps to become a member of Fundación Paraguaya’s comités. For that reason, the loan officer will often have more trust with the microfranchisee and more history with her. Furthermore, the loan officer is likely to know more of the microfranchisee’s personal and community contact. This is because the loan officer is not just working with the microfranchisee, but her entire comité of micro-credit borrowers. This gives the loan officer more influence over the microfranchisee. The loan officer is a powerful resource in working with the microfranchisee.

Coordinating with loan officers is challenging. They have a suite of responsibilities that fall outside of the scope of the microfranchise. As such, they are likely to prioritize their other, more immediate responsibilities over those of the microfranchise. Furthermore, the loan officers are less likely to be deeply intimate with the more recent information on the microfranchise. As such, even though they have more influence over microfranchisees, their effectiveness in communicating important information is constrained by their mastery of information related to the microfranchise.
Microfranchise Promoters

As mentioned many times over, the microfranchise promoters are the first line of communication with microfranchisees. Although they do not carry as much influence as the loan officers, they do build a relationship with microfranchisees over time. As such, they do have the potential to play an influential role with the microfranchisee. Unlike the loan officer, the microfranchise promoter is deeply knowledgeable about the microfranchise. Because the microfranchise is her entire responsibility, and because of her proximity to the microfranchise manager, she is a key communication channel between the microfranchise manager, the microfranchisor, and the microfranchisee. The microfranchise promoter and the loan officer both carry the most influence when communicating directly with the microfranchisee via face-to-face communication.

Group Meetings

Group meetings are an important communication channel, but they come with a unique set of challenges. The advantage of Group Meetings is not only the face-to-face contact, but the group-wide reinforcement that microfranchisees receive. A message from the microfranchise promoter or microfranchisor can be validated by fellow microfranchisees. This can have a unique staying-power for microfranchisees. On the other hand, speaking to a group is complicated. The greatest challenge is the opportunity for miscommunication. With each microfranchisee receiving little to no individual attention, it is easier for a microfranchisee to slip through the cracks; she may leave the meeting giving a tacit impression that she understood all the information that had been communicated, when in fact she did not. Because of the group setting, she may be less inclined to ask questions or ask for clarification on information that she does not completely understood. As such, communicating important updates from the microfranchise will have to be carefully managed during group meetings, in order to confirm that the information was actually received and understood by all of the meeting participants.
**Phone Calls**

Although less time consuming, phone calls are a significantly less effective communication channel than face-to-face contact or group meetings. Nonetheless, phone communication is a necessity, often for logistical reasons. In order to coordinate logistical planning with microfranchisees, to arrange follow-up visits in the field or in the office, or to invite them to participate in a group meeting, the microfranchise manager will have to contact them over the phone. The challenge is that microfranchisees generally are not interested in spending much time on the phone. Furthermore, like most people, microfranchisees screen their phone calls and will not answer a phone call that they are not interested in. As such, phone calls should be used in moderation to communicate with microfranchisees, as a channel for planning logistics and for sharing important or urgent information.

**Text Messages and Whatsapp**

Text messages have a monetary cost associated with them. Whatsapp messages are free. They also carry a low opportunity cost (they do not take up much time to compose or send). As such, they are more convenient to the microfranchise promoter and the microfranchisee. However, they are not received with the same level of gravity by the microfranchisee as face-to-face communication. Additionally, character limits and reading sets a limit to how much information can be communicated via text message or Whatsapp. Lastly, access to smartphones and the internet constrains who can be communicated with via Whatsapp, and literacy levels eliminate both options for some microfranchisees. As such, although both channels are the most convenient means of communication, the microfranchise should be mindful about who will be able to access the messages. Also, information shared via these tools should be simple and easy to communicate. These are best used for reminders, promotions, soliciting simple information, or an entry point for a larger conversation (“If interested in more information, call me at the following number”).
FACEBOOK AND OTHER FORMS OF SOCIAL MEDIA

In the near future, this can be a promising tool for communicating with microfranchisees. Many microfranchisees will have access to Facebook via free Facebook access offered by Paraguayan phone companies such as Tigo. Aside from Facebook, there is not currently an online, social networking platform that most microfranchisees will be using. In light of this, Facebook and the microfranchisee’s website should be used as tool for sharing information with microfranchisees, but not as the first line of communication with them. Furthermore, one must realize that information shared on social networks will only reach a subset of microfranchisees. The microfranchise cannot assume that information shared via these channels will reach the entire microfranchise network.

4.1.5 MONTHLY GROUP VISIT/METTINGS

The influence of peers with whom the microfranchisee can identify is one of the most powerful influence tools available to the microfranchise. This is largely because hearing information from peers who share the same experience and broad perspective as the listener add instant credibility to whatever message is being shared. If a microfranchisee’s peer demonstrates that she can successfully operate the microfranchise and all of the components of it, she immediately adds credibility to the message. The microfranchisee herself is immediately more likely to believe that she too can be successful.

The range of messages that fall into this category are not all as high-level as “yes, this business can be a success.” Instead, they can be more specific and dive into the unique details of the microfranchise. For instance, what are the most popular sales items that Narella is offering during this season? Although the representative from the microfranchisor can answer that question, it best for a microfranchisee to answer as she will add more validity to the answer than the microfranchisors, since she is actually the person making those sales.

As we will see in greater detail below, these meetings are multi-purpose. They are a forum for additional training to microfranchisees, the sharing of best practices, and troubleshooting any uncertainties that microfranchisees may experience.
In order to take full advantage of group meetings, there are some general guidelines and recommendations to keep them running smoothly and accessible to microfranchisees. These recommendations are listed below.

### Keep it Short

Microfranchisees are busy people! In addition to running their business, they are often stretched between various family and household obligations. They often skip out on time-consuming obligations because, frankly, they have other things to do.

In order to attract the greatest number of microfranchisees, make sure that meetings are not too long. Oftentimes, 30 minutes to 1 hour will do. The first meeting may be longer, because there will be more information to cover. However, once meetings become regular, the group meeting can often be limited to the following:

1. Collecting any information that microfranchisees were requested to deliver
2. Important announcements
3. A short training on an important concept
4. Question-and-Answer/Group Discussion time
5. Awarding the Incentive (see below).

None of these activities should take more than 15 minutes. Several of them (1, 2 and 3) may take as little as 5 minutes. Remember: if the meetings are short, microfranchisees will see them as a small investment for a good return.

### Best in the Afternoons

Based on the first October 2014 meeting with Narella microfranchisees and general feedback, monthly meetings will have more attendees if they are scheduled in the afternoon. Microfranchisees often perform many of their obligations in the morning, including dropping children off at a school. As a general rule of thumb, they will have more availability in the afternoon, shortly after lunch hour.
Regular and predictable

Keep meetings predictably on the same day and at the same time. For instance, the second Tuesday of every month, at 2pm. The same meeting place would also be ideal. Over time, the regularity will become an expectation. By keeping uncertainty around logistical questions to a minimum, there is less likelihood for any miscommunication with microfranchisees about meeting logistics.

Stay engaging

Inevitably, meetings can be boring. But if they are too boring, microfranchisees will be less likely to learn or return to the next meeting. Keep boredom to a minimum by creating engaging activities. Break the microfranchisees into groups to keep them chatting among themselves. Ask questions during the training portion of the meeting to keep them talking and thinking. The more that microfranchisees are talking rather than the meeting moderator, the better.

Follow-up

No one learns well by hearing something only once and never again. The microfranchise team must be sure to follow up with microfranchisees to help them retain their learnings. This can be done by touching on meeting results in follow-up visits, or even by sending text and Whatsapp messages that reinforce topics that were mentioned during the recent microfranchise group meeting.

Snacks

It’s not just about bribing meeting participants to come by offering food. More importantly, providing snacks at the meeting is a small gesture of appreciation for their participation. And a small gesture can go a long way.
4.1.5.2 Sample Agenda

A sample agenda for an hour long group meeting may look like the following:

1. Welcome and Snacks
   - 5 min.
2. Important Announcements and Questions
   - 10 min.
3. Training Theme and Group Activity: Closing the Sale
   - 20 min.
4. Follow-up Questions and Group Discussion
   - 15 min.
5. Closing & Raffle
   - 5 to 10 min.

Total Time
- 1 hour

Group meetings are not simple to moderate. An ineffective moderator can easily run the meeting for the time limit that had been pre-established. Make sure to respect the time of microfranchisees by communicating to them they can feel free to leave as their schedule requires. And, if the microfranchise has communicated that the meeting will be an hour long, the meeting moderator should control the flow of the conversation so as to respectfully keep the pre-established agenda, unless the microfranchisees suggest otherwise, by way of group consensus.

4.1.5.3 Sharing Best Practices, Troubleshooting and Resolving Challenges

The group meeting is most valuable when microfranchisees have the opportunity to interact with one another. They can provide insight to one another that the microfranchise team may have overlooked. As previously mentioned, the credibility that their shared experience brings can be inspiring to other microfranchisees. These group conversations fall into three broad categories, discussed below.
**Sharing best practices**

This is the best use of group discussions. Often, the group meeting will be made up of active microfranchisees. Among them, there will be a distribution of microfranchisees, from the high performing microfranchisees down to the underperforming ones. In an ideal conversation, high performing microfranchisees will be sharing their secrets of success with underperforming ones.

There are several ways to instigate this sharing of best practices. One is simply to identify high performing microfranchisees in front of the entire group and ask these microfranchisees what they are doing that allows them to be successful. They can also be directly asked to share their general advice with other microfranchisees. Another useful format is to divide the larger group into smaller groups. These groups should be previously divided such that there is at least one high performing microfranchisee in each group. Together, this group can be given a list of question to answer among themselves. A summary of their responses can be shared with the larger group at the end of the exercise, and used as a catalyst for a discussion with the entire group.

The objective in either case is to get a high-performer in conversation with underperformers. In most cases, anything that the high-performers share will be useful to all other microfranchisees.
Troubleshooting

Microfranchisees are bound to come to group meetings with questions that will need clarification, situations that they encountered in the marketplace that they are not sure how they should have been handled, or even annoyed with service they may have received from the microfranchisor when trying to purchase new product. Most often, this will not be a singular experience. Other microfranchisees are likely to have had a similar experience. For that reason, it is best for the microfranchise team (namely, the microfranchise manager) to tackle these challenges directly and transparently, in front of the entire group. Additionally, if possible, a representative from the microfranchisor should also participate in the meetings to address these challenges. It is important that microfranchisees feel immediately attended to and that their concerns are taken seriously.

Resolving Challenges

In some cases, microfranchisees may act to undermine, or challenge this business. This should be handled delicately. In the case that misinformation is being promulgated, the group meeting is a key opportunity to dispel rumors. Challenges to product quality, variety, recommended price points among other topics may arise here. What is more important is to persuade microfranchisees that the microfranchise team is acting on their concerns, within the confines of the evolving business model (see the Live Market Test ‘How-To’ Guide). What is most important in addressing these challenges is working to maintain microfranchisee faith in the business model, and to integrate their concerns and feedback into the model, to the extent that is actionable.

4.1.5.4 Incentives and Recognitions

Group meetings are a unique opportunity to recognize high performance, motivate microfranchisees to accomplish their personal goals, and to incentivize or reward them for doing so. Below are some ways to incentivize meeting participation and recognize high performers.
As we discussed previously, microfranchisees can find many reasons to not attend group meetings. This is a significant hurdle. There is very little value that group meetings can offer microfranchisees if too few attend. As such, one way to bolster attendance in by offering rewards for attendance. Aside from snacks provided to attendees, a raffle for all meeting attendees is a simple, inexpensive incentiv
e. By raffling off a single prize among all meeting participants, microfranchisees will feel appreciated and recognize the additional benefit that comes just from showing up. The prize should be inexpensive but useful to the average microfranchisee. This may be a household good, an item for personal or family use, or even a deep discount on a product for sale by the microfranchise.

Group recognition can be of personal value to any microfranchisee. This recognition, like the incentive mentioned above, can be take the form of a physical reward. Alternatively, a simple verbal recognition can be just as powerful for motivating and inspiring microfranchisees. It leaves the group with a demonstration of what is possible, and the recognized microfranchisee with a sense of accomplishment. This recognition can produce greater motivation to microfranchisees if framed as

4.1.5.4.1 INCENTIVES

4.1.5.4.2 RECOGNITIONS
Juana has all sold out of her product. Two weeks have passed since she met Monica and received her Initial Product Kit from the Narella local branch. Although she no longer has any inventory remaining, Juana does have several requests for new product from her clients. For that reason, Juana knows that it is time to head to her assigned Narella branch and restock her inventory for sale.

During the launch of her Narella microfranchise, Monica trained Juana on all of the microfranchisee processes entailed in the business, including how to restock her inventory (see Section 3.3). Juana does not remember all of the material that they reviewed during the training. But she does know that it was all in her microfranchisee training manual that she received during the launch. “Remember,” Monica told her, “all the information that we are covering today is in here. Be sure to refer to it if you have any questions. My phone number is in the manual as well, in case you’d like to contact me directly.”

In the manual, Juana found all the information she needed to understand the inventory restock process. The manual detailed the restocking process, the discount rates associated with various purchase amounts, as well as the different procedures required for repurchasing via catalog or in one of Narella’s local branches. With this information in hand, Juana realized that in order to make the most profit, she should make her sales and new orders via catalog, just as she did with her initial product kit. But, because one of her clients wanted her request as soon as possible, Juana will head to one of Narella’s local branches to find her client’s request.

4.2 PRODUCT DISTRIBUTION AND INVENTORY WITH ANECDOTE

Juana Restocks Her Inventory

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The next day, in the Narella branch, she approached a staff person and identified herself as a newly launched microfranchisee with the business. Juana was well received. Just as the microfranchisee manual indicated, she was reminded of the 25% discount that she was entitled to, with no purchase minimum.

One of the products that her client had asked for, however, was not in stock at the requested size at the local branch. The local branch manager reminded Juana that, although the product was not immediately on-hand in the storefront, she could still order that exact product in the size that she needed within the current ordering period. Although it would entail a two-week wait, she would receive the exact size and product that she needed, with the same 25% discount that she was entitled to.

In fact, the store manager reminded her, if her total order amount was over Gs. 600,000, she could earn an even greater discount on the product. Relieved, Juana opted for this option, knowing that she would have to explain the inconvenience to her customer.

The product selection was reviewed in Chapter 3. The following section will explore the microfranchise’s distribution channels and restocking policies.

4.2.1 Microfranchisee Restock Process

The Microfranchisee Restock Process should be understood as the distribution network as well. As of October 2014, the following process was the manner in which microfranchisees restocked their product inventory to sell to their customers.

Information detailing future steps toward scaling this distribution network for expansion outside of Gran Asunción can be found in the Narella Microfranchise Expansion Plan. The discussion will narrowly expound on the distribution model and restock process established for the microfranchise within Gran Asunción.

It should also be noted that the Narella Microfranchisee Manual also details the distribution and restocking process for the microfranchisees.

The Narella Microfranchise offers various channels through which microfranchisees can restock their product. This includes restocking directly in any
of Narela’s four local branches, directly in Narella’s production factory, or via catalog orders. Each one of the channels offers different discounts (profit margins) on the products available, as well as different forms of payment. Here, we will take a look at each one of these channels to better understand the options that exist for microfranchisees.

### 4.2.1.1 Inventory Restocking via Catalog

This process looks exactly like the process that the microfranchisee originally went through in her initial product kit. The microfranchisee should have the current season’s catalog to offer the latest product selection to her clients. Once the microfranchisee has collected the product requests of her clients, she can now deliver those same product requests to the microfranchisor. There are three ways via which she can do this: 1) deliver the order sheets to the Narella branch that she has been assigned to, 2) call the production factory and leave her order via phone, or 3) or submit her order by email, if she has internet access.

Regardless of the channel that the microfranchisee selects, she will have to make her selection by the pre-established deadlines in Narella’s order calendar, as demonstrated in the image to the right. When microfranchisees make their product requests by one of the deadlines (examples highlighted in the calendars to the right), microfranchisees can expect their product requests to be ready by the following deadlines. This allows the microfranchisor two week periods to make all of the products requested. Should the microfranchisee miss the pre-established deadline, her requests will not be ready for the upcoming deadline, but the one afterwards. For that reason, it is very important for microfranchisees ordering by catalog to meet the pre-established deadlines. Otherwise, she will prolong the waiting period for her product requests by an additional two weeks.

The 2-week waiting period is a significant disadvantage to ordering via catalog. If microfranchisees can navigate this process effectively, ordering by catalog is perhaps the most important value add of the Narella microfranchise. With the catalog, microfranchisees can offer their clients the opportunity to order exactly the product that they are interested in. As a result, microfranchisees run substantially less risk in maintaining an inventory of products that their clients are not interested in. In fact, order by catalog reduces the need to maintain a product inventory.
Just as important, the microfranchisor offers favorable profit margins to microfranchisees that purchase product via the catalog. Regardless of the purchase volume, microfranchisees will earn at least a 25% profit margin on all sales. This margin increases to 28.5% and up to 32.5% depending on the size of the inventory repurchase.

The advantages of ordering product via the catalog are obvious: clients have a broader selection of products, and microfranchisees have higher profit margins. However, microfranchisees may be interested in purchasing product directly from the local branch instead of submitting a product order. Narella has 4 local branches that are strategically located throughout Greater Asunción. Many of them will allow for an easier inventory repurchase process, should they be conveniently located by microfranchisees.

### 4.2.1.1 INVENTORY RESTOCKING VIA LOCAL BRANCH

<table>
<thead>
<tr>
<th>Volumen de Compra</th>
<th>Descuento (margen de beneficio)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hasta Gs. 600.000</td>
<td>25%</td>
</tr>
<tr>
<td>Gs. 600.000 – Gs. 1.500.000</td>
<td>28.75%</td>
</tr>
<tr>
<td>Más de Gs. 1.500.000</td>
<td>32.5%</td>
</tr>
</tbody>
</table>
Purchasing from a local branch has two advantages. First, while product orders may have some room for error (the product does not arrive in the right size, color, or perhaps it does not look as the client had anticipated when she placed the order, etc), product purchased in the store front is on hand for microfranchisees to see before purchasing it for their clients. Second, and more important, is that there is no two-week wait period for products purchased in the local branch. Unlike the catalog process, microfranchisees can purchase their product directly in the store front and deliver it to their clients in the same day.

This advantage comes at a price, however. Aside from being limited to the product selection and sizes available in the store at the time of purchase, three of these four locations offer microfranchisees smaller profit margins from the microfranchisor, as low as 10%. Even purchases in the highest volumes have lower profit margins than purchases by catalog order. As such, microfranchisees have a clear monetary incentive to make their purchases via catalog, despite the convenience of purchasing new product at one of Narella’s local branches.

The third inventory restocking option that exists for microfranchisees is to purchase product from Narella’s production factory, or from Narella’s local branch that is specifically designated for microfranchise purchases. This process still has the disadvantage of a limited product selection for clients. The advantages, however, are strong. Microfranchisees can quickly turn around client orders (so long as the product is available in the branch). Additionally, unlike the other three Narella branches, microfranchisees that shop either in the production factory or in the microfranchisor-designated branch location will have access to the same profit margins offered to orders via catalog, at the same purchase volumes, as listed in the table to the left.

<table>
<thead>
<tr>
<th>Monto de Compra</th>
<th>Descuento</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hasta Gs. 600.000</td>
<td>10%</td>
</tr>
<tr>
<td>Gs. 600.000 – Gs. 1.500.000</td>
<td>15%</td>
</tr>
<tr>
<td>Más de Gs. 1.500.000</td>
<td>20%</td>
</tr>
</tbody>
</table>
If a microfranchisee maintains a set inventory, it will come with several advantages. Maintaining an inventory ensures that customers will always find the merchandise they are interested in purchasing. The business will gain the reputation of always having what the customer wants and needs. It will allow clients to avoid the two week waiting period between submitting the product order and receiving the finished product. With an appropriate volume of inventory, the right prices, and quick sales, a microfranchisee can be very profitable.

### 4.2.2 Inventory Management

<table>
<thead>
<tr>
<th>Purchase Volume</th>
<th>Discount (profit margin)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hasta Gs. 600.000</td>
<td>25%</td>
</tr>
<tr>
<td>Gs. 600.000 – Gs. 1,500.000</td>
<td>28.75%</td>
</tr>
<tr>
<td>Más de Gs. 1,500.000</td>
<td>32.5%</td>
</tr>
</tbody>
</table>
This is accompanied with a set of disadvantages. An unwise amount of capital can be tied up in inventory. If the inventory is of unpopular product, that will leave the microfranchisee without liquid capital (cash) to continue operating her business. Inventory carries other challenges: a microfranchisee will need to have the space in her home to keep her merchandise. There is also risk of theft. Merchandise that a microfranchisee loses to theft cannot be replaced. Given these challenges, although the two-week waiting period can be costly to microfranchisees interested in delivering product to their clients, ordering via catalog can eliminate the need for holding inventory, allowing microfranchisees to avoid the many challenges of inventory management.

Regarding inventory, microfranchisees are left with two options: 1) a microfranchisee can maintain her own personal inventory on hand or, 2) she can purchase new product from Narella upon request, not keeping a product inventory for her business.

### 4.2.2.1 Keeping an Inventory

If a microfranchisee decides to keep an inventory, she will need to turn over her inventory as quickly as possible. That means making more sales. This is the only way for her to have operating capital. It will also keep her as profitable as possible. This is challenging, however. Clothing products do not have a high rotation with clients. As such, in order to turn over inventory regularly, microfranchisees that decide to keep inventory will need to invest in growing a customer portfolio that is greater than their community, or their immediate family and friends.

This strategy carries additional risk because the microfranchisee will have to purchase more product before selling everything that she currently has in stock. It will require learning what is the right amount of stock to maintain for her client portfolio, as well as which products and sizes are most likely to sell. Most importantly, the microfranchisee will want to avoid a mistake common among many business owners: tying up too much cash in inventory. This results in a low-cash scenario. The best way to have cash on-hand for the business is to increase the inventory rotation, maintaining a constant (or growing) sales rate.

### 4.2.2.2 Without any Inventory

The Narella microfranchise’s catalog-based business model presents microfranchisees with the option of not maintaining a personal inventory. As previously
In this section, we will review general advice on sales and marketing products from both the perspective of the microfranchisee and the microfranchisor. Promoting the microfranchise is critical not only for recruitment and scaling the microfranchise (previously discussed), but also growing sales and acquiring new clients. As discussed in the introduction, just as microfranchisees have a responsibility to promote their products in the marketplace, microfranchisors have a responsibility to their microfranchisees of supporting them in growing their micro-enterprise. This section will explore both sides of this coin, in the specific context of Sales, Marketing and Promotions. First we will discuss the perspective of the microfranchisor, followed by the perspective of the microfranchisee.

4.3.1 MICROFRANCHISOR

4.3.1.1 BUILDING THE BRAND

In the introduction to this manual, we discussed in general terms the responsibilities that microfranchisors have to microfranchisees. Among them is building out the brand. Microfranchisees count on a strong brand to promote their own micro-enterprise. Any action that the microfranchisor does to promote its larger business is in the interest of the microfranchisees as well.

Although not universally known, the Narella brand is already established in many communities in Greater Asunción. This is due to the proliferation of Narella catalogs in the area, and its existing network
of 1,000 Narella vendors, 500 hundred of which are active. Many vendors are already located in Greater Asunción. As such, there are a number of communities in Greater Asunción that recognize both the Narella and Libra brands.

Narella can continue promoting its brand by leveraging traditional marketing campaigns over a variety of media platforms. Currently, although Narella has an online presence, it is out of date (its most recent online catalog is from winter 2014) and not robust. The company does not have a Facebook Page. These are easy, small steps that can be taken to continue positioning the Narella brand, to the benefit of microfranchisees.

Additionally, microfranchisees recruited via Fundación Paraguaya are often from communities where Narella has little market share. As such, Narella should be considering how it can increase its brand recognition in low-income communities that may be further isolated from its network of storefronts, scaling up its distribution through low-income vendors both within and outside of Greater Asunción. Efforts to continue building brand strength and recognition where it has less strength can better position the company against its competition.

4.3.1.2 Promoting the Microfranchisees

Currently, the Narella microfranchisor does nothing to directly promote its network of microfranchisees. Small efforts can be taken to change that, promoting microfranchisees using the two key sources of brand strength that currently exist: the network of local storefronts and Narella’s website.

In the case of the storefronts, Narella should consider providing information that promotes its network of microfranchisees. This may take the form of visual advertisements notifying customers that Narella merchandise may be available in a customer’s community via a Narella microfranchisee and providing information about getting in contact with a customer’s local microfranchisee. Similarly, greater online presence that draws attention specifically to Narella’s network of microfranchisees would also bolster their sales. Both strategies, or others like them, are particularly valuable because Narella would directly communicate to its network of established clients that microfranchisees are a reliable source for acquiring Narella merchandise. This direct promotion and validation is valuable to microfranchisees.
4.3.1.3 Promotions to the Microfranchisees

The microfranchisor can also support microfranchisees by offering them special promotions in addition to what is already available via the repurchase discounts.

These promotions directly incentivize microfranchisees to purchase more product, just as it would another set of clients. These special offers also may motivate inactive microfranchisees to re-engage with the business, as they are likely to earn more money by taking advantage of the promotional opportunity. And lastly, similar to the microfranchisor’s marketing efforts, microfranchisees will inevitably be supported by the microfranchisor’s efforts to support the success of their business.

Ideally, promotions are regular events, limited in time, and directly communicated to microfranchisees so that everyone interested in taking advantage of the microfranchisor’s promotion will be able to do so. These promotions may include lower prices, but they may also allow microfranchisees to take additional product at a standard price. Independent of its form, promotions should be easy for microfranchisees to capitalize on. For this to happen, the offer should be simple to understand, and sent to them via text message or Whatsapp – to ensure their simplicity. Promotions are most effective if they are available for a limited time only. The sense of urgency inspires microfranchisees to act, and keeps them eagerly anticipating any upcoming officers.

4.3.2 Microfranchisee

4.3.2.1 Sales Strategies

Sales are often the most intimidating part of the enterprise because they are arguably the most important. The reason the microfranchise exists is to make profits for microfranchisees. Profits are made by selling product. Microfranchisees may be intimidated about approaching clients, not knowing enough about the product, or other aspects of managing the business.

Microfranchisees should take comfort in knowing that no one is born a salesperson. It takes practice to become a good salesperson. With that in mind, they should never hesitate to get as much experience as they can selling their product. The more they practice, the more success will come their way.

Let’s start off our discussion by defining exactly what a “sale” is. A sale is the transaction that occurs when a customer gives the microfranchisee money in ex-
change for a product or service that they provide them. Sales (and the money that comes in to the business as a result of sales) are the life-blood of any business. Without sales, there is no business.

A successful salesperson is one who enters into a conversation with the customer. She discusses what the customer is looking for by asking questions and attempting to uncover the customer’s needs. The salesperson can then present her product in any way that will convince and motivate the customer to buy. A successful salesperson asks and listens and then makes suggestions. A bad salesperson makes suggestions before she finds out what interests the customer.

A successful microfranchisee is knowledgeable about her product. She points out the benefits of the product in which the customer shows interest. She then asks the customer what features of the product interest them.

### A Microfranchisee Must Ask Herself

- How will you attract customers?
- What will you do to ensure a high volume of sales in your business?
- What are the characteristics of a successful salesperson?

### There Are Seven Parts of Any Sales Situation

1. **Trust Building**: Establish trust with prospective buyer

2. **Qualifying**: Qualify, classify, and identify the customer.

3. **Finding REAL need**: Find the need that the customer wants satisfied. It is important to fulfill an emotional need.

4. **Presenting**: Present the product or service and teach the customer about the benefits.

5. **Closing**: Close with the customer. Help him/her make a decision.

6. **Follow up**: Follow up to see that the customer is happy with the service or product. Do they have friends with the same need?

7. **Repeat business**: Continue after the ‘sale’ to market to the customer to get repeat business.
There are several sales closing techniques that can be very beneficial to microfranchisees. These are strategies that can be used specifically to help a client reach a final decision on making a purchase. These strategies include:

**Alternate Choice Close**

This close presents the customer with a choice. Regardless of what choice he makes, the sale is closed. For example, “would you like the first jeans I showed you, or the second pair?” or, “I can deliver your jacket on Tuesday or Thursday. Which do you prefer?” These are examples of alternate choice closes.

**Sharp Angle Close**

This is conditional and usually starts with the word “if”. For example, “If I can get the merchandise at the price we discussed by tomorrow, would you like me to order it for you?” This close tends to commit the customer to a specific action. The salesperson asks, if she performs a specific action, then will the customer commit to doing something in return, in this case, buy the product.

**Impending Event Close**

Uncovering a future event can provide the sense of urgency a microfranchisee needs to motivate the customer to decide now. For example, “I know you want to get the tennis shoes to your son as a graduation gift. If we place the order today, I can guarantee it will be here before he graduates.”

**Puppy Dog Close**

Get the customer to try the product. For example, encourage the customer to put on the sweater, smell the perfume, test drive the car, or hold the puppy. This simple close works much of the time.
Narella microfranchisees are in a very fortunate position. They can leverage a strong and well recognized brand in order to promote their merchandise. This unique position does not mean, however, that microfranchisees can afford to forego their own, individual marketing efforts. Here, we will take an in-depth look at what marketing can look like on the microfranchisee level.

**4.3.2.2 Marketing: Leveraging the Brand**

Marketing starts when the microfranchisee identifies her customer’s need and ends when her product that meets that need has been delivered to a satisfied customer. Before a microfranchisee can start selling what her market will buy, she first needs to find out what her target customers are looking for.

In order to find out the preferences, wants and needs of her customers, the microfranchisee will have to talk to them (otherwise known as “market research”). One type of research involves talking with people about their purchasing habits and their impressions of a certain product. If there is a specific product within Narella’s selection that the microfranchisee thinks will be popular, she should show it to her potential clients and friends, and ask them if they would buy it on a regular basis. If you don’t yet have an idea of what you want to sell, talk to people to see what kinds of products they want to buy but don’t because they can’t find them at a convenient location, or find out what they already buy on a regular basis.

**4.3.2.2.1 Marketing is about matching client needs with the product.**

Before trying to sell Narella products to a specific community or market, the microfranchisee must first understand her market’s needs. She can identify the customer’s need by asking questions. Do your price points, product quality, and style meet the needs of your potential clients? If not, the microfranchisee has the wrong target market and should identify other clients to sell to.

All people share the same BASIC needs, and our efforts to fulfill these needs explains much of human behavior. A person
will not try to fulfill a much higher need if a more basic need has not been met. That is why it is difficult to sell insurance to someone who is hungry. In the case of Narella, microfranchisees should be aiming to sell their product to clients who value stylized, quality clothing. In most cases, these will be clients whose other, more basic needs are largely already met.

To market their products, Microfranchisees need to ask questions, such as what would this customer be:

- thinking & feeling?
- hearing while using our product, from their friends or family?
- seeing while using our product in their environment?
- saying & doing while using our product?
- experiencing as a pain point or fear when using our product?
- experiencing as a positive when using our product?
4.3.2.3 **PROMOTING THE PRODUCT**

**ADVERTISING**

This is what most people think of when they think of marketing. We can see by now, however, that marketing is much bigger than this alone. Advertising is what catches the customer’s eye and differentiates the business from its competitors. Advertising is what attracts new customers. For example: Displaying the nicest products in the window so that is the first thing that the customers see when they pass by.

Microfranchisees can vouch for their product by using it. There is no better way to promote your product and persuade your clients that you believe in it than by using it yourself. The more a microfranchisee can publicly demonstrate that she believes in Narella, the more her clients will as well.

As discussed above, microfranchisees should also use the promotional tools that they have been provided by Narella. Obvious ways of standing out include using the Narella branded product bag (included in the initial product kit), wearing Narella branded product, or keeping the product catalog on hand at all times. These are easy ways for the microfranchisee to communicate to her customers that she is an official part of the Narella brand, and a trusted source of Narella merchandise.

**PRICE**

Although microfranchisees receive pricing guidelines from the microfranchise, they are ultimately the owners of their business. As such, microfranchisees enjoy the right to modify their pricing as they see fit. Higher prices always mean more personal earnings to the microfranchisee. However, prices can also be reduced to entice customers. For example, a microfranchisee may offer a more attractive price in comparison to competitors in order to attract customers.
5.

FINANCIALS
In this section, we will consider the financial operations of the microfranchise. This discussion will be narrowly focused on the financial sustainability, and profitability, of the microfranchisee. The limited focus is due to the lack of transparent data points available on the financial operations of the microfranchisor. The overall financial sustainability of the microfranchise and microfranchisor will be determined, in part, by the business design that the Live Market Test produces.

Furthermore, the financial sustainability of the franchise is sure to evolve with the growing scale of the Narella microfranchise, as it extends outside Gran Asunción and reaches for national scale.

5.1 FINANCIALS - OVERVIEW

Financial sustainability is just as much a question of the present as it is of the future. It is a question of making sure that the real costs of the business are calculated such that a profitable enterprise can be scaled for microfranchisees. We will be
considering financial sustainability in the context of the Narella microfranchisee.

It should be stated that, unlike most enterprises, microfranchisees start out with a clear advantage. Profitability for the Narella microfranchisee is secured in negotiation with the microfranchisor.

In Narella’s case, the microfranchisor has already guaranteed a 10% minimum margin on product purchases made in the store front and a 25% minimum if ordered via catalog. This minimum exists independent of the order volume. The microfranchisor has set a floor on the profits of a microfranchisee, assuming that the microfranchisee is regularly making sales, thus rotating out her inventory.

All the same, the microfranchisee does have additional costs that are not calculated in the profit margins offered by the microfranchisor. These include the cost of the microfranchisee loan (the principal and interest payments on the loan, if the microfranchisee funded her microfranchise through Fundación Paraguaya), transportation costs (for sales and inventory restocking), and other costs of sale that may vary from one microfranchisee to another. Because of this, the true profit margin will vary by microfranchisee, as will additional costs that she has taken on to run her business.

A final, general point on financial sustainability is that the financial model (as first calculated in the business design phase, discussed in detail in the Business Design Manual), may realize a constant flow of change. When initially building the model for the microfranchisee’s income and costs, there are a lot of unknowns. As such, the assumptions that underlie the financial model may be educated guesses. As the microfranchise operates, more of these unknowns will become known. When the microfranchise team has new, concrete information that changes one of the original assumptions of the financial model, the financial model should be updated so that it better reflects the microfranchise’s reality.

5.3 THE INCOME STATEMENT

The income statement is fundamental for determining the financial sustainability of the microfranchise. Tracking the microfranchisee’s revenue against her cost is ultimately what informs the microfranchisee if she is earning a net profit. If, instead, she is producing a net loss (her costs are greater than her revenue), then she will either need to reduce her costs or increase her revenue until the business is finally profitable. Profitability is a necessary element of financial sustainability.

Below is a sample income statement for a typical Narella Microfranchisee.
From the outset, we should note that the sample included above is explicitly focused on the microfranchisee’s operations once she is maintaining regular product restockings. It does not include income from the initial product kit. Because of the favorable margins (40%) and the higher product volume in the initial kit, the microfranchisee’s total annual earnings – as well as her earnings after paying off her microfranchise loan - would be higher than the amount included above.

For the Narella microfranchisee, there exists a narrow set of monetary costs that need to be considered in the microfranchise. These costs are the same ones that the microfranchisee must consider when building her business plan with the microfranchisee promoter. These are the product costs, the weekly loan payments with interest, and transportation costs.

### 5.3.1 Costs

#### 5.3.1.1 Product and Loan Costs

For the first set of product that the microfranchisee purchases (the initial product kit), the loan payments and the product costs are the same. Why? Because each weekly loan payment that she makes over her first 12 or 16 weeks (16 weeks in the sample income statement above) as a microfranchisee are payments to cover

<table>
<thead>
<tr>
<th>Hoja de Ingreso</th>
<th>Por Quincenal</th>
<th>Por mes</th>
<th>Año</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Product Sold</td>
<td>500</td>
<td>1,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Cost of Good Sold (with 25% discount)</td>
<td>375</td>
<td>750</td>
<td>9,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>125</td>
<td>250</td>
<td>3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costos Adicionales</th>
<th>Por Quincenal</th>
<th>Por mes</th>
<th>Año</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Loan Payments*</td>
<td>52</td>
<td>104</td>
<td>416</td>
</tr>
<tr>
<td>Transportation**</td>
<td>20</td>
<td>40</td>
<td>480</td>
</tr>
<tr>
<td>Profit (in USD)</td>
<td>53</td>
<td>106</td>
<td>1,848</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>25</td>
<td>440</td>
</tr>
</tbody>
</table>

*16 weekly payments of Gs. 26,000
**Consists of two round trips per week
As mentioned above, transportation costs should also be considered in modeling the income statement of the microfranchisee. Within Asunción, a one-way ride on inner-city buses costs Gs. 2,400. These costs quickly add up. Aside from the transportation costs entailed in restocking product (we assume that the microfranchisee will take a public bus roundtrip every time she purchases new product, a total cost of Gs. 4,800), most microfranchisees begin building their business within the communities where they live. These distances are walkable and do not imply a monetary cost. However, if a microfranchisee begins selling product in communities outside of walking distance as her business grows, she will likely incur greater transportation costs. This should be reflected in her income sheet. In order to cover these increased costs, the microfranchisee will need to sell additional product. These calculations should be determined by the microfranchisee with her respective microfranchise promoter in her business plan (see section 2.3.4).

5.3.1.2 Transport Costs

In addition to the loan payments, there is the cost of purchasing new product. Here, in the income statement above, we have assumed that the microfranchisee has set a monthly goal to produce Gs. 1,000,000 of revenue (more on this in the Income section below). To accomplish this, the microfranchisee will need to sell Gs. 500,000 every two weeks. Purchasing the corresponding amount of product would qualify her for a 25% discount (see section 4.2), resulting in a product cost of Gs. 375,000 every two weeks (or Gs. 750,000 monthly). After including transportation costs (see below), the income statement above shows a profit of Gs. 53,000 for the microfranchisee while she is still paying back her microfranchisee loan. Upon meeting her credit obligations, these same sales will produce substantial profit for the microfranchisee.

These calculations assume that the microfranchisee will sell her product at the retail price, and in a single cash payment, rather than offering extended payments and charging interest. Offering credit sales would generate interest revenue, resulting in higher profits for the microfranchisee.
For the microfranchisee, selling product is the only way to earn revenue. In fact, without sales, there is no business. In the case of Narella, each product will carry a 25%, 28.75% or 32.5% profit margin, when the product is purchased in bulk (above Gs. 600,000 or Gs. 1,500,000 in retail value, respectively, to obtain the higher of the three rates) and sold at retail prices. This is true for products ordered via catalog, purchased in the production factory, or in the indicated local branch of Narella’s four locations. In the other three locations, purchase discounts levels are 10%, 15% and 20%.

There are limited opportunities to increase the profitability of the microfranchise past increasing sales. Although the microfranchisee can aim to decrease costs, there are limited ways to do that. These include reducing transportations costs (which would only drop total costs slightly), and buying lower cost products. Alternatively, microfranchisees can increase revenue (and thus profit) by selling their product on credit. The interest earned on these sales represents additional revenue for the microfranchisee. However, these sales come with risks. These challenges are discussed in section 5.5.

Because of these challenges (limited ability to reduce costs, and the complicated risks associated with credit sales), the only real way to increase profit for the microfranchisee is simply by selling more product. This not only increases the profit margin (up to 32.5%) but the revenue value. Any other strategies would require a change in the microfranchisee’s business model.

The sale of the initial product kit (and all products thereafter) generates revenue for the microfranchisee. A portion of this revenue will be set aside for the explicit purpose of covering additional product costs and transportation costs. This is the microfranchisee’s operating (or working) capital. This is the cash that the microfranchisee needs to cover related business expenses. Her decision of how much should be set aside for the microfranchise, covering transportation and product expenses, directly determines how much product she will be able to purchase and sell. That
Microfranchisees can earn additional revenue on each sale if the product is sold on credit. At first glance, this appears a simple way to increase revenue: the interest collected on each credit sale ultimately means additional revenue for the same volume of product sold.

However, this first glance only tells half the story. There are two substantial challenges with selling on credit. First, selling on credit also adds additional costs. Collecting payments from clients over time entails additional time tracking paid and unpaid accounts, time spent following up with delinquent clients, and possibly additional transportation costs that result from this follow up.

As such, although the product cost on each sale is the same for each item sold, the transaction costs are higher for credit sales than cash sales. Microfranchisees interested in credit sales must be careful to contain these transaction costs, or to charge interest on credit sales that exceeds not only the transaction costs, but also accounts for the risk of late or unpaid accounts.

Second, credit sales affect cash flow. With a cash sale, if the microfranchisee sells a clothing item today, she will receive the value of that item in cash today. However, on a credit sale, the microfranchisee will not have that cash for possibly weeks to come. Though the microfranchisee may have earned substantial revenue according to her records, there is a risk that these accounts will never be paid. Perhaps more importantly, having less cash today means that she can purchase less restocked product today.

And fewer products means the microfranchisee has fewer products to sell and thus, less revenue. The point is that, when handled poorly, credit sales can be detrimental to the microfranchisee’s cash flow, robbing her of operating capital that is critical for running the microfranchise. Poor cash flow management is a critical threat to a successful microfranchisee.

For these reasons, microfranchisees must be diligent about their credit sales. Should a microfranchisee choose to sell on credit, she should be sure to abide by key best practices. These can be found listed in detail in the Microfranchisee Manual.