MARKET STUDY MANUAL

Guidance for assessing markets and identifying microfranchise business opportunities

prepared by FAIRBOURNE CONSULTING
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INTRODUCTION
Equitable, profitable, and scalable businesses are necessary to effectively alleviate poverty and impact the 4 billion people at the base of the economic pyramid. The microfranchise business model has been used around the world to achieve these goals. Just as with any business, the first step to creating a microfranchise business is identifying the need that it will solve. Identifying this need comes from a strong understanding of current market needs and opportunities. This manual is designed to help the reader gain a strong enough understanding of the market to identify needs and corresponding business opportunities.

The goal of the market study presented in this manual is to develop an understanding of the current market conditions, needs, and challenges. This understanding of the market is then used to identify potential business solutions to the current challenges and unmet needs. Once possible business solutions are identified, a framework is used to evaluate those with the highest potential of success. This method helps to reduce the risk of launching businesses that do not actually solve a market need.
The market study presented in this manual is not the typical in-depth, data-intensive market study commonly taught by academics. The findings of this phase only provide a limited understanding of the true market. This is because it is very time intensive, costly, and hard to understand a market and its needs without actually trying to address those needs. It is not until someone is forced to respond with their wallet that a true understanding of the need can be determined. Hence the goal of the market study phase is to understand the market well enough to identify the needs of the market, identify possible solutions, and assess if a microfranchise business model could be a solution. The focus should then be on trying to design and launch the businesses as quickly as possible to further assess the size and strength of the opportunity.

The processes and tools in this manual are designed to help the reader quickly gain a basic understanding of the market, identify needs in the market, develop business solutions to those needs, and select the solutions with the best chance of success. It is not be possible for this manual to provide a fool proof guide to identifying a successful business solution. However, when coupled with creativity, intelligence, and hard work, this manual does provide a framework to help the reader study the market and identify business solutions.

1.2 OVERVIEW OF THE MARKET STUDY PROCESS

The market study outlined in this manual follows a process of first understanding the market and its needs. Possible solutions to these needs are identified and evaluated based on characteristics of the market, the abilities of the potential microfranchisees, and the availability of strong potential microfranchisors. The best opportunities are selected and proceed to the business design phase.
The following is a more in-depth explanation of each step taken during the market study phase:

1. **Identify Market Inefficiencies**

   This step involves first gaining an understanding of the market and looking for areas where it is not operating efficiently. This is done through a variety of data collection methods and by using different tools to organize and analyze the data. Potential business solutions are identified that have the potential to help the market operate more efficiently. This process of identifying possible solutions should be treated similar to brainstorming. Ideally lots of business ideas are identified.

2. **Evaluate Business Opportunities**

   Once a business opportunity is identified, it is evaluated based on how well a microfranchise business model would solve the underlying need and how big the need really is. This requires evaluating if the microfranchise business model is able to solve the need identified. It also requires evaluating the market size, or size of the need, and the level of competition.

   **A. Example**

   After meeting with focus groups, doing interviews, and walking around the local markets, there does not appear to be enough ice cream to meet the potential demand. A lot more people want a cold treat than are able to get it due to lack of availability and high prices. An inexpensive ice cream microfranchise business is suggested as a possible solution to this problem.

   A microfranchise business model does appear to be a good solution since the microfranchisees can bring the ice cream to the customers at a lower cost than competing ice cream parlors. In addition, lots of people have expressed interest in buying more ice cream, representing a large potential market. The only other competitors are selling homemade ice cream with varying levels of quality. A similarly priced product at a higher quality should compete well.
3. ASSESS POTENTIAL MICROFRANCHISEES’ ABILITIES, INTERESTS, AND RESOURCES

If a potential business opportunity still appears promising, then it is evaluated based on whether a potential microfranchisee would be successful operating it. This requires a strong understanding of the abilities, interests and resources of the potential microfranchisees and how they match up with requirements of successfully operating the potential business.

A. EXAMPLE

It is determined that in order to sell ice cream, the microfranchisee will need to leave their house 1-2 times per day. They will need to carry their products with them and sell for 2-4 hours per day. They will need to either have a freezer at their home or be able to pick up product from a distribution point. During interviews, many potential microfranchisees expressed interest in the business, but few own freezers. Freezers are costly, but this could be overcome by financing the purchase of a freezer or by creating a distribution network with local businesses that have freezers.

4. FINDING AND SELECTING THE MICROFRANCHISOR

The key to the success of a microfranchise business depends on the ability to find a strong microfranchisor. At this point, meetings are arranged with businesses that provide similar solutions or products. A general sketch of the business opportunity is presented and the two groups discuss how a potential business model could work. The microfranchisor is evaluated based on their interest, abilities, and resources. Ideal microfranchisors will see this as an opportunity to expand their business and be willing and able to dedicate the necessary resources to make it a success.

A. EXAMPLE

During a meeting with Happy Ice Cream, microfranchising and the basic business idea are presented. The owners/managers of Happy Ice Cream indicate their level of interest and the resources that they are willing to commit. These resources and level of interest are evaluated to determine if this partner has the ability and interest to launch a successful microfranchise business.
Business opportunities that make it to this point solve a substantially large need, are a good fit for the potential microfranchisees, and have 1-2 strong potential microfranchisors that want to operate them. Identified business opportunities are ranked and compared across these three categories and the best opportunities are selected to proceed to the business design phase.

A. Example

The ice cream microfranchise business opportunity is ranked against other potential microfranchise business opportunities. It appears be a strong option due to the large unmet demand for ice cream, the strong interest to sell ice cream from the potential microfranchisees, and strong interest from Ice Cream Man to launch a microfranchise channel to sell their ice cream. Other opportunities lack strong demand or a committed potential microfranchisor and are therefore not selected to move on to the business design phase.

These steps provide a general framework for identifying and selecting business opportunities. This is a fun and exciting learning and problem solving process. It requires being creative and looking for opportunities where others only see problems.
The heart of entrepreneurship is finding ways to make people’s lives better. Most often it starts with a problem that causes pain and desire for something better. Great entrepreneurs see problems as opportunities to help others. These entrepreneurs use business as a tool to solve these needs because it is a sustainable and scalable way to do so. The best solutions solve big problems and in doing so often generate large profits for those that solve those problems. Therefore the first step is to find solvable problems.

Once problems are identified, an entrepreneur will search for creative solutions. This often requires brainstorming lots of different possible solutions and then refining them based on the specifics of the problem. It is important to maintain a problem solving, optimistic mindset. This manual provides the framework on how to build the necessary knowledge to find problems and the necessary framework to evaluate ideas, but the creation of those ideas will be dependent on the creativity and intelligence of those using this manual.
IDENTIFY MARKET INEFFICIENCIES
As discussed in section 1.3, the heart of entrepreneurship is finding ways to make people’s lives better. People pay for goods or services that an entrepreneur provides because it makes their lives better. This however infers that before the business existed, life for some customers was not as good as it could have been. This could be represented as a pain, need, or new opportunity that was not previously available. This is one way to think about market inefficiencies.

Identifying market inefficiencies requires looking at areas where markets could improve. By looking for problems to solve, an entrepreneur is able to find new business opportunities. If the pain or need is big enough and the solution good enough, a business has a higher chance of success. The first step therefore is being able to identify big problems, or market inefficiencies. This section covers how to identify market inefficiencies and brainstorming possible solutions. It is not necessary to completely know how a problem will be solved and in fact it is highly unlikely that the first attempt at solving it will be successful. Entrepreneurship is a process of learning, adapting, and evolving the business until it properly solves the needs it is trying to address.
Identifying market inefficiencies requires an understanding of how markets should operate and some creativity to see where they are not functioning efficiently. This section provides a framework on how to do this through the following steps:

1. **Understanding Efficient Markets**
   The first step to being able to identify inefficient markets is understanding what efficient markets are like. In reality, perfectly efficient markets do not exist, but the theory of them can provide the context to be able to identify where markets aren’t operating efficiently.

2. **Market Inefficiencies = Business Opportunities**
   Areas where markets are not operating efficiently are usually potential business opportunities. These business opportunities can succeed by solving the inefficiency, using the inefficiency, or increasing/creating an inefficiency. This step requires using creativity and optimism to see problems as opportunities, not roadblocks.

3. **Collecting Data**
   This section outlines a variety of methods for collecting data. Some are standard approaches such as focus groups and interviews while other are more unconventional such as market walks and small scale selling. These are tools to gathering the data necessary to understand a market and identify market inefficiencies.

4. **Understanding the Market**
   This section provides tools that can be used to organize and analyze the data collected using the methods in the prior section. Using these tools will help provide a better understanding of the market.
A visual approach to analyzing the data can be a useful tool, particularly when working in a team. This section explains how to do use this approach.

2.3 EXAMPLE

Applying this framework to the ice cream market requires first understanding what an efficient ice cream market would look like. Everyone would be able to buy ice cream easily and inexpensively. While this world doesn’t actually exist, it can be compared to how the ice cream market actually works. Through talking to students in focus groups and interviews, demand for ice cream during lunch time may exist, even though ice cream is not available. Further research on the value chain may show that there is a gap in the distribution of ice cream to schools. Knowing what the inefficiency is and why it exists can be used to identify a business opportunity related to selling ice cream to students in school.

2.4 UNDERSTANDING EFFICIENT MARKETS

2.4.1 What is an Efficient Market?

In order to identify market inefficiencies it is useful to understand what a market would look like if there were no inefficiencies or in other words if a market was perfectly efficient. Imagine a world where there weren’t any monopolies and everyone always got the very best deal. Customers could easily find the products they wanted or needed and were able to afford those products. Companies sold products at a profit, but only enough to cover the cost of their time producing or selling the product.

In the real world, perfectly efficient markets do not exist. The most efficient markets are commodity markets where the products are essentially the same everywhere and the margins on those products are very low. Think about the market for salt. It is pretty much the same everywhere and fairly easy to obtain. The margins on selling salt are very low and the prices fluctuate primarily with the amount being produced.

Compare the salt market to the market for cellphones. There are thousands of diffe-
rent types of cellphones and some companies generate huge profits based on their unique technology or marketing efforts. Market inefficiencies such as a desire for a higher quality screen are solved with technologies while other inefficiencies such as lack of information about a product are solved with clever marketing.

2.4.2 USING EFFICIENT MARKETS TO IDENTIFY MARKET INEFFICIENCIES

When analyzing a market it can be beneficial to image what that market would look like if it were perfectly efficient. An example of this would be clothes that are very expensive in one area and cheaper in another. In a perfectly efficient market the only increase in cost between the two areas would be the cost to transport the clothes from one area to another. Thus any excess cost above that would represent a market inefficiency and may represent a business opportunity.

Understanding efficient markets can also be useful when attempting to maintain or increase the effect of a market inefficiency.
Often companies in commodity markets will attempt to differentiate their product to market it as different and unique. In doing so, they make the market a little less efficient. An example of this is the variety of brands of clothing detergent. Most detergents clean clothes, but many companies attempt to use marketing and branding to draw more attention to their products so that they can charge higher prices for those products.

2.5 MARKET INEFFICIENCIES = BUSINESS OPPORTUNITIES

2.5.1 HOW TO IDENTIFY BUSINESS OPPORTUNITIES FROM MARKET INEFFICIENCIES

Business opportunities stem from market inefficiencies in two ways. Some opportunities provide solutions to these market inefficiencies while others use or even increase market inefficiencies.

A business opportunity that solves a market inefficiency often reduces the costs related to acquiring the product or service. This cost could be the actual monetary cost of the product or it could be the cost of learning about it, finding, or accessing it. For example, it would be very inefficient for customers at one location to all
travel a long distance to buy a product. This inefficiency could be overcome if just one of them went and purchased a lot of the product and brought it back the rest of the community.

Other business opportunities use or increase a market inefficiency. For example imported European cars may have higher margins because there are fewer of them available and they are status symbols. One business opportunity might be to start a business that imports European cars to take advantage of these higher profits. Another opportunity may be gaining exclusive rights to import European cars. This would increase the size of the inefficiency, generating more profit for the entrepreneur.

In both of the cases above, the business opportunity creates value that a customer pays for. The more value that the company creates and captures, the higher its profits.

### 2.5.2 Possible Inefficiencies and Possible Solutions

Although not an exhaustive list, the table below gives examples of possible market inefficiencies coupled with possible solutions that could represent possible business opportunities.

<table>
<thead>
<tr>
<th>Possible Inefficiencies</th>
<th>Solutions (Microfranchise Value Creation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High transaction costs due to • Delivery costs • Risk of loss • Availability</td>
<td>Lower transaction costs by • Improving distribution by cutting out steps • Lowering risk with product guarantees • Strengthening the supply chain</td>
</tr>
<tr>
<td>Lack of information about • Prices • Product Quality • Where to purchase</td>
<td>Increase available information by • Establishing set prices • Using brands to communicate quality • Advertising where to purchase</td>
</tr>
<tr>
<td>Lack of Access due to • Location • Lack of credit • Availability</td>
<td>Increase access by • Increasing distribution locations • Offering credit • Opening new markets</td>
</tr>
</tbody>
</table>
2.5.3 AN ICE CREAM EXAMPLE

In the example in section 2.3, the ice cream market had several inefficiencies. It was not available (lack of access due to location and high transaction costs due to delivery costs). A solution could be setting up a more efficient distribution network that enabled sellers to bring the ice cream to this new market. The ice cream company could set up new distribution points that increase the number of customers it can serve. There are several potential ways to solve the availability problem.

2.6 COLLECTING DATA

2.6.1 INTRODUCTION

Data is an important component of good business decision-making because an individual’s perspective often gives an incomplete view of the market. An individual or group of individuals can only draw upon their own experiences and these often may not be representative of the market at large. Data collection is important because many local market conditions lack existing data sets and the way in which this data is collected is essential in ensuring its integrity and utility. When performing data collection, special attention should be paid not only to what people say, but to what they actually do. Doing so will provide a more accurate understanding the market. This section explains how to use the various data collection tools used by Fairbourne Consulting. It is not meant to be an exhaustive guide on data collection tools, but rather to provide practical guidance on how to use the tools Fairbourne Consulting has found to be most useful. Each tool is useful for collecting data to understand different parts of the market. This section is referenced repeatedly throughout this manual to provide guidance on the appropriate tool or tools for each section.
### 2.6.2 Overview of Tools

The following are the data collections tools covered in this section:

<table>
<thead>
<tr>
<th>Tool</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Focus Groups</strong></td>
<td>The process of using discussion questions to gain an understanding of market dynamics and to gather feedback from several individuals in a group setting.</td>
</tr>
<tr>
<td>2. <strong>Individual Interviews</strong></td>
<td>The process of meeting with an individual to gather data in an interview format. Data could be high level information collected with a survey or deep discussions to understand underlying needs and wants.</td>
</tr>
<tr>
<td>3. <strong>Home Visits</strong></td>
<td>Similarly to an individual interview, the interviewer meets with an individual or family, but does so at their home. Doing so allows for greater observation of how the participants live and interact with the market.</td>
</tr>
<tr>
<td>4. <strong>Meeting with Local Vendors</strong></td>
<td>Meeting with Local Vendors is a specialized case of individual interviews. These meetings can provide specific details on the market and industry of which the consumer is unaware.</td>
</tr>
<tr>
<td>5. <strong>Small Scale Selling</strong></td>
<td>A data collection method where the data collector actually attempts to sell the product or service and the results of these attempts are recorded and analyzed.</td>
</tr>
<tr>
<td>6. <strong>Market Walks</strong></td>
<td>A tool where data is collected primarily through observation of the conditions and dynamics of the market by observing it and interacting with it.</td>
</tr>
</tbody>
</table>
2.6.3 Focus Groups

2.6.3.1 Collecting Data and Generating Ideas via Focus Groups

Focus groups are usually a small group of around six to ten people who are members of a group we want to know something about. These could include potential customers of a business or potential microfranchisees. During the focus group, the group members discuss the topic we want to learn about under the guidance of a moderator. While the moderator will focus the discussion on particular questions, these questions are intended to generate a free-flowing discussion amongst participants.

Sometimes data collectors are seeking information from individuals who have not given much thought to the questions being asked. Often, people will produce more useful insights in a small group setting where they listen to the opinion of others and discuss amongst themselves each of their different perspectives. Use focus groups to generate a deep discussion about a specific topic and carefully record the different perspectives and ideas with particular attention to what the group agrees or disagrees on and why.
2.6.3.2 How to conduct a focus group

**Use the following process to conduct a focus group.**

1. **Identify the questions to be asked**

   Choose between eight and twelve questions to ask the group. They should generally relate to an overarching theme such as what the participants think about a specific type of product.

2. **Identify participants**

   Once the topic of discussion is identified, the data collector should seek participants with the most valuable opinions on the issue. Use the following guidelines in selecting participants:

   a. When possible, choose demographically similar individuals of similar age, gender, and socio-economic background. Differences in these variables can create discomfort amongst participants or bias their responses. For example, men and women may not feel comfortable discussing certain topics in front of each other. Create separate focus groups for different demographics.

   b. Create selection criteria according to the topic of discussion. This should seek to maximize the depth of discussion about the topic. This requires identifying groups that have significant experience dealing with the topic of discussion.

3. **Recruit participants**

   Offer a small incentive to members of a specific organization (such as a high school, community or business) such as money, a coupon, a good or service, or a chance to win a prize. Flyers and advertisements can be used to advertise the opportunity to participate in the focus group and the incentive offered. Once individuals express initial interest, call or communicate with each to confirm desire and availability during a specific time and location. Follow-up to remind them a day or two in advance. Recruit 10-20% more participants than you need under the assumption some will not follow through.
**4. COMPLETE REQUIRED DOCUMENTATION**
Participants should fill out a brief survey of important demographic information. This may also include information gauging their individual experience with the topic being discussed (for example, how many times they buy a particular product or how often they go shopping). They should also sign a document consenting to being recorded and to the use of their opinions for the specific purpose of the research being conducted.

**5. CONDUCT THE DISCUSSION**
The moderator should introduce the participants to the purpose of the focus group and thank them for attending. Ground rules should be established to facilitate a civil discussion such as respecting the opinions of other participants. The following guidelines should be used:

- **a.** Choose a moderator who makes the participants feel safe and respected and who is an excellent listener.
- **b.** Ask an introductory question initially that aims to engage the participants and introduce them to the topic of discussion. Use broad questions initially that maximize the number of people participating followed by more targeted questions to explore particular issues in depth.
- **c.** Solicit comments from as many participants as possible.
- **d.** The moderator should not express an opinion that would bias the discussion and should try to treat all participants equally.
- **e.** Push participants to be as detailed as possible. This can be accomplished by asking probing questions to discuss a particular issue in greater depth, asking participants to explain exactly what they mean, or asking them to give examples.
- **f.** Limit the discussion to 45 to 90 minutes to avoid fatigue.

**6. RECORD THE DISCUSSION**
The moderator (or her assistant) should record the session as well as take written notes of the topics discussed. Notes should include body language and other non-verbal clues of participant’s opinions.
7. Analyze the Results

Immediately after, the moderator should record their thoughts about the conversation. Review the recording of the conversation and identify areas of general agreement, who disagreed and why, and further topics for investigation. Pay particular attention to how demographic differences inform the opinion of participants.

2.6.3.3 Example

A data collector is seeking information about the market for ice cream. Given the broad consumption of ice cream across ages, genders and other demographics, the data collector posts flyers for a focus group outside markets, schools, and bus stops. Groups are separated by age and gender to ensure participants feel comfortable.

The moderator is seeking insights into participants’ buying habits of ice cream. Key topics to discuss would include the customers’ preferences (what types of ice cream they buy) and their ability to pay (how much and when). The moderator begins by asking general questions, such as participants’ favorite type of ice cream, followed by more targeted questions about how much they purchase, where they buy ice cream, how much they consume, and what they look for in ice cream (such as price, characteristics of the ice cream, etc.). The moderator should ask questions that identify potential market opportunities such as how satisfied the participants are with the selection of ice cream or its availability.

Immediately after the focus group, the moderator writes down impressions from the discussion, areas of general agreement, and lessons that seemed important. Later, the moderator will review the recording and try to identify additional trends or insights that weren’t initially apparent. The opinions expressed during this focus group will be compared with the opinions expressed in other focus groups.

2.6.4 Individual Interviews

2.6.4.1 Advantages of Individual Interviews

Individual interviews are useful for getting more in-depth information on specific questions. They are easier to organize than groups, and as such make good candidates for asking questions intended to highlight additional areas of research, such as other individuals, companies or products to investigate.
The following are guidelines for asking the right questions and making the most of a variety of interviews.

**2.6.4.2 How to conduct individual interviews**

Individual interviews can be conducted on a planned or ad hoc basis. The data collector should always be asking questions of people with different perspectives or experience in the market and these can range from a small questions asked of a vendor during a market walk to a phone interview with a manufacturer of a similar product.

**The following are guidelines for asking the right questions and making the most of a variety of interviews.**

1. **Be polite**

   Sea consciente del tiempo del encuestado y respete sus opiniones.

2. **Record as much information as possible**

   Always take notes and if multiple data collectors are present, converse after the interview on key takeaways. Record conversations when possible, but always receive consent beforehand.
3. CHOOSE THE BEST CANDIDATES

Ideal candidates for in-depth interviews should have significant experience buying or selling the product (or observing the market in which the transaction occurs).

4. BEWARE OF PRIMING

Priming refers to the ability of context to affect the behavior of the respondent in an interview or test-taking environment. For example, telling an interviewee the data collector is planning to launch a specific product might cause a respondent to state their intention to buy that product simply to appear polite or nice. This is the same reason one cannot gather reliable information about a business plan from family members. Always ask about past behavior to discern themes, needs and preferences in order to gauge future behavior. Questions about potential future behavior should be saved for the end of an interview to avoid corrupting a respondent’s answers to other questions.

5. ASK EACH INDIVIDUAL SIMILAR QUESTIONS

You should have a list of basic questions you ask each individual. Each interview can include unique questions that are only relevant to a single individual, but there should be a group of general questions you ask each individual (or each group of individuals, such as vendors and customers) to assess areas of agreement. After all the interviews have been conducted, try and segment their responses according to their basic demographic information. This can help assess how representative the responses are of the general population; some responses may be more valuable than others.

2.6.4.3 EXAMPLE

For a business selling ice cream to school children, the first candidates for interview would be the students who would potentially be customers. Early in the research process, these interviews can be used to identify vendors to talk to, competing products, as well as more general questions such as the students’ ability to pay and the value derived from the product. The data collector would simply request children, their parents, or vendors for a brief amount of time to ask questions about their ice cream eating habits. The data collector would be respectful of their time and responses, but also push them to be specific about vague concepts or to clarify broad generalizations (for example, when they buy ice cream).
2.6.5 Home Visits

2.6.5.1 A Unique Form of Interviewing

Home visits are a form of individual interview in which the data collector visits the subjects. This is particularly useful when the product or service would be used in the home, as these dynamics are easier to observe than in a neutral setting. Observing these home dynamics is particularly important when the good or service is being consumed by a different party than the one purchasing it, such as when parents purchase products for their children. Home visits are also useful as subjects are typically more comfortable in their home which often leads to more in-depth conversations and more honest answers to some questions.

Key questions might include the following:

- What type of desserts do you prefer? What type of ice cream?
- When do you buy sweets or candy? Why? Does the time of year matter?
- What type of ice cream do you buy?
- How much do you spend weekly on sweets or candy? What is the maximum you could spend?
- Where do you usually buy ice cream? Why? What are the most popular places to buy ice cream in your community?
- Can you buy ice cream during free time near school? If so, from whom?
- Who eats the most ice cream at your school?
- If you could buy ice cream during school, how much would you buy? What type would you buy? What type would be most popular with the entire school?
2.6.5.2 Conducting Home Visits

Home visits should be planned in advance with the consent of the home owner. Time the visits to correspond to a low-stress moment for the respondent and take advantage of the presence of other members of the family if their interaction is an important market dynamic. This is particularly important if the good or service would be consumed by multiple family members or by family members other than the one making the purchase.

The data collector should be mindful of asking personal or financial questions in the presence of others that might make the respondent feel self-conscious or defensive.

2.6.5.3 Example

In researching the ice cream market, a home visit might be a good place to understand the dynamic between parents, who may supply their children with allowances to purchase ice cream, and the ultimate consumer, the child. In all other respects, a home visit should follow the same guidelines as individual interviews.
2.6.6 Meeting with Local Vendors

2.6.6.1 The Importance of Understanding Sales Channels

Customers are only half of the market dynamic. Understanding vendors selling similar products is important because many businesses must work through third party sales channels and vendors often have unique insight into aggregate consumer behavior. Products compete with other unrelated products for shelf space, and thus must be profitable for the vendor to carry them. Focus on learning about the business, its supply chain, prices, variability in sales, types of customers, and key challenges. Make sure to ask about competing products that may not be exactly the same.

2.6.6.2 Example

Just as a consumer might look for stores that sell a particular product, the data collector should prepare a list of vendors that sell similar products. This list can be assembled through internet searches and by asking customers and vendors. For an ice cream business, this might include street vendors, supermarkets, convenience stores and restaurants. Since ice cream might also compete with candy and other desserts, we should talk about each of those to understand the entire market dynamic.
<table>
<thead>
<tr>
<th>Questions to ask vendors might include the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Why do you carry ice cream (or why not)?</td>
</tr>
<tr>
<td>2. How much money do you earn on each purchase?</td>
</tr>
<tr>
<td>3. How do you decide what dessert-items or candy to carry?</td>
</tr>
<tr>
<td>4. Who do you buy them from? For how much? How often do you buy them? How this process the same for all types of desserts or candy?</td>
</tr>
<tr>
<td>5. What are the most popular products?</td>
</tr>
<tr>
<td>6. Who are your usual customers? What are the main types of customers?</td>
</tr>
<tr>
<td>7. How much do customers usually buy at one time? When do they usually buy?</td>
</tr>
<tr>
<td>8. Are sales seasonal? How do they vary over the course of the year?</td>
</tr>
<tr>
<td>9. What are other stores, shops or vendors who carry similar products? How are they different?</td>
</tr>
<tr>
<td>10. Why did you decide to carry different products (or why not)?</td>
</tr>
<tr>
<td>11. Why are there no vendors selling ice cream near the school during the day?</td>
</tr>
<tr>
<td>12. How do you decide where to sell your product?</td>
</tr>
<tr>
<td>13. Do you need a license to sell products near the school during the day?</td>
</tr>
<tr>
<td>14. When do most of your sales take place during the day?</td>
</tr>
<tr>
<td>15. Would you carry ice cream to sell to school children during the day? Why or why not?</td>
</tr>
<tr>
<td>16. How do you decide whether to carry a new product?</td>
</tr>
</tbody>
</table>
2.6.7 SMALL SCALE SELLING

2.6.7.1 COLLECTING AND VALIDATING DATA THROUGH SALES

Although not always feasible, selling products or services at a very small scale can yield very valuable data. Small scale selling entails selling a product in the market at limited quantities. For example, in an ice cream business, some packages of ice cream could be purchased and then sold by the data collector. Ideally this should closely mimic the actual sales process in an actual business. The depth, breadth, and accuracy of the data can be much better using this method when compared to other methods. By selling the product directly, the data collector is able to experience firsthand the sales process. This gives the data collector a good understanding of who the customers are, what prices sell best, and how the sales process works. It also creates opportunities for the data collector to perform informal interviews with customers to understand their needs and gather feedback on the potential business.

2.6.7.2 HOW TO SELL AT SMALL SCALE

Small scale selling can be unnerving for the uninitiated data collector. The following process provides a framework for this data collection approach.

1. IDENTIFY THE BUSINESS OPPORTUNITY TO BE TESTED

During the data collection process, lots of business opportunities will be identified. Some of these will be easier than others to sell at small scale. Look for business opportunities that sell a physical product, because services are more time consuming to sell. Ideal products will be cheap enough to buy in quantities of 20-30 that can be sold in the street, in the market, or in other population dense areas. For products or services that are too expensive or require too much effort, small scale selling can still work, but it might not be possible to actually deliver the product or service once the customer agrees to buy. That’s okay since the goal is to gather data, and a handful of potentially unhappy consumers are not going impact any future business.

2. BUY THE PRODUCT

Buy 20-30 units of the product to sell. When buying them, be sure to follow guidelines in 1.1.7 and interview the seller. Don’t worry too much about the cost of the product; it is not expected that profits will be generated, nor are profits the goal. Data collection is the goal.
3. **IDENTIFY LOCATION AND SALES METHOD**

Once the product is in-hand, identify where it should be sold. This could be a market, busy intersection, school, etc. Think about where potential microfranchisees would try to sell it. Determine the sales method that will be tested. Will the data collector wait for customers to come to her or will she actively approach them? What will she say when she meets with a customer?

4. **SELL, SELL, SELL**

Follow through on the plan outlined in the prior step.

5. **COLLECT DATA**

Collect data on every part of the sales process. How were the customers identified, what types of people purchased products, how much did they pay, why did they buy, why didn’t they buy, how long did it take to sell one product to one customer, how long did it take to sell all of the product, what time of day was the best for sales, etc.? This sales process is also an excellent time to informally interview customers.

This method is very effective at determining if customers actually are interested in buying the product. If customers are buying, then the data collector knows there is at least some demand for the product.
2.6.7.3 Example

Children’s need/want for ice cream during lunch at school is identified during a couple different focus groups. However, it is unclear which types of ice cream would sell best. Since ice cream can be purchased fairly easily and cheaply, it is selected for a small scale selling test. The data collector decides to purchase a variety of ice cream products and to sell ice cream during the lunch hours at a couple of nearby schools. A simple sign advertising the ice cream is taped to a small cooler and the data collector sets up outside of the school. Children see the sign and come to buy ice cream. The data collector processes transactions and keeps track of the types of ice cream sold and prices paid. The data collector decides to lower the prices a little bit at the next school. As children eat their ice cream, the data collector asks them about their choices and preferences. This data is all collected, compiled and analyzed to identify important information about the business opportunity.

2.6.8 Market Walks

2.6.8.1 Why use Market Walks

Simply walking through a market to observe what people are buying and selling can yield valuable data. Use this approach to answer the following questions:

1. How are customers making decisions about what to buy? How important is the price, quality or brand of a product to these customers?

2. How much do products cost?

3. What competing products exist? How are they different in terms of the value they generate for the customer?

4. What sales tactics do vendors use to market a product? Are there signs, advertisements, discounts, or other methods commonly utilized to attract customers?
### 2.6.8.2 How to conduct Market Walks

**Some guidelines for conducting effective market walks.**

1. **Observe the buying process**

   Go to a market and identify vendors carrying the products you are researching. Buy a few samples to see how the process works. Observe others purchasing and record what features of the product they looked at before purchasing.

2. **Ask questions**

   Ask customers about the buying process. This may include questions such as what they look for in the product, why they bought at this location, why they bought a particular brand, or how often they buy the product. Make sure to ask vendors about customer habits; they have unique insight into general customer behavior that individual customers may not know.

3. **Choose a representative sample**

   Market walks should take place in the area you intend to sell the product. If you intend to market the product in a variety of regions, try to target a variety of markets (small and large, urban and rural etc.) and look for key differences in customer demographics, vendors, rival products etc.

4. **Understand the value chain**

   The customer is only part of the market dynamic. Understand why vendors carry particular products. How much do they make selling different products? How do they acquire those products? Understanding their decision making process in determining what products to sell and why is critical in making sure new products can reach customers.

   A market walk is not intended to give a comprehensive view of a market, but rather to give a brief introduction to how the market operates. It is best used as an opportunity to identify outstanding questions about the market that require some additional data collection using methods outlined above.
2.6.8.3 Example

For an ice cream business, a market walk would first identify markets where ice cream is sold. Once ice cream vendors are identified, the data collector would begin recording basic information about buyers and sellers. How many sellers exist? Do they all carry similar products? Do they only sell ice cream or other goods as well? Who is buying? Ice cream seems likely to be sold in higher quantities during warmer days, so the data collector might seek our vendors to talk to in order to validate this assumption. Try to observe what triggered a customer's intention to buy the product. Were they shopping for something else or did they intentionally seek out ice cream? How did they decide which variety to buy? Was it a picture of the product, the price, or some other factor?

These observations are recorded individually and afterwards synthesized to give a broad view of the common defining features of the market dynamic.

2.7 Understanding the Market

2.7.1 Gaining an Understanding of the Market

The first step to identifying market inefficiencies (business opportunities) is to gain a good understanding of your target market through data collection and analysis. The data collection methods above are useful tools for gathe-
There are many tools that can help to understand a market. Although it would be difficult to discuss every possible tool in this manual, the following are tools that have proven useful to Fairbourne Consulting:

1. **Consumption Diagrams**
   - Simple pie chart diagrams that represent the average daily/weekly/monthly spending of individuals and/or households. This information can be useful in determining the potential size of a market or identifying an area where they are spending too much money, which could represent a market inefficiency.

2. **Value Chains**
   - The value chain is simply the set of steps required to take raw materials and deliver a finished product to the customer. At each step value is added and captured. By analyzing the value created and captured (in the form of margins), market inefficiencies can be identified and highly competitive sectors can be avoided.

3. **Needs/Wants Analysis**
   - The key to a good needs/wants analysis is gaining an understanding of the underlying needs of a customer. When people eat out at a restaurant, it is rarely simply because they are hungry. The real reason may be because they need a place to relax or they like trying new things. These needs may have nothing to do with food and as such can be solved through other methods. Doing this analysis helps ensure that a potential business idea is actually solving the customer’s needs.
2.7.3 Consumption Diagrams

2.7.3.1 Understanding Consumer Needs through Consumption Diagrams

A consumption diagram can be a useful tool to understand a potential customer’s needs. A typical consumption diagram is a pie chart that shows much a person spends on food, clothes, rent, etc. during a typical day, week, or month (see the example). Trends and averages can be derived from the creation and collection of multiple consumption diagrams. This information can then be used to identify potential market inefficiencies (areas where they may be over spending) or give a better idea of the potential demand for a particular product (how much do they currently spend on similar products).

Often it is easy to confuse what people say they want with what they actually need or are willing to buy. A consumption diagram can help avoid this confusion by looking only at what people currently buy during a given time period. By mapping out how much a person spends on core necessities like food and rent, it is possible to identify how much is left of their income to spend on other products like clothes or ice cream. It also provides a picture of the person’s needs and spending habits.

Collecting data on consumption over different time periods can be helpful in determining what people need to survive day-to-day versus what they need on a weekly or month basis. It also provides information on how people make purchases. For example, a person may be spending too much on food because they purchase and consume it day by day. This may be because there aren’t good ways of storing it or because the person lacks enough money to buy it in larger quantities at lower prices. These inefficiencies could result in a business opportunity that solves the storage need or that provides access to financing.

2.7.3.2 How to Create a Consumption Diagram

The ideal way to collect the data needed for a consumption diagram is by watching what people spend their money on. However, this can be very time consuming. Other forms of data collection, such as interviews and focus groups, will yield less reliable data as people usually have a hard time remembering how much they spend in a given month.

When asking people about their spending habits, focus on the latest time period. For example, if you are trying to understand what they buy in a given day, ask them what they purchased yesterday. If you are asking about spending during a week, ask them about the last seven days. This will ensure that you get the most accurate data possible
because people are more likely to accurately remember recent events.

Once you’ve collected data on a person’s spending habits, identify the total amount spent and calculate the percentages. This information can then be captured in a pie chart. Ideally try gather this type of information from as many people as possible. This will allow you to create useful averages and see differences between communities and income levels.

2.7.3.3 Example of a Consumption Diagram

It is important to capture the amount spent and the % of total expenditures and to indicate the time period.

Average Daily Expenditures (Guaraníes)

- Fun; $1200, 10%
- Clothes; $1400, 12%
- Food; $3200, 28%
- Rent; $5800, 50%

2.7.4 Value Chain

2.7.4.1 Understanding Market Dynamics and Inefficiencies with Value Chains

Mapping out the value chain of a market or industry can be very helpful in identifying market inefficiencies. A value chain is simply a diagram of each step in the process of taking a raw material and delivering it to a customer as a finished good. The amount of value created and captured at each stage in the value chain can be de-
2.7.4.2 How to Map out a Value Chain

Talking to industry experts is often the best way to map out a value chain. These experts may be buyers or sellers that operate in that industry. Map out each step of the process of creating and delivering a product or service to the customer: raw materials -> production -> distribution -> retail sales -> end consumer. For example, an ice cream manufacturer should be able to tell you who they buy milk from and to whom they sell their ice cream. Once the value chain steps are identified, research the number of buyers and sellers at each step and the margins each has. If there are high margins at any step in the process then there probably isn’t very much competition and that part of the market may not be operating efficiently. This inefficiency may represent a business opportunity. Additional research to understand why that inefficiency exists is required to determine if a business opportunity truly exists.

2.7.4.3 Example of a Value Chain

<table>
<thead>
<tr>
<th>Raw Materials</th>
<th>Bulk Processing</th>
<th>Manufacturing</th>
<th>Wholesale</th>
<th>Retail</th>
</tr>
</thead>
</table>

Margins at each step?
Number of Competitors?
2.7.5 Needs/Wants Analysis

2.7.5.1 Understanding a Customers True Needs through Needs/Wants Analysis

A needs/wants analysis determines the core, underlying need or desire that customers have when they demand a product. Often, there are several solutions to the underlying need or want that may or may not be adequately solved. When these needs or wants are not adequately solved, that is a type of market inefficiency.

2.7.5.2 How to Perform Needs/Wants Analysis

Asking good, probing questions is the key to doing a good needs/wants analysis. This can be done by asking lots of questions that probe deeper and deeper until the underlying need or want is discovered. Another method is to give the person alternative solutions and seeing which ones they choose. For example, if a person expresses a desire for a car, they could be asked if a bus or motorcycle would also solve this need. If they answer that a bus could solve it, then transportation may be their key objective. If they answer a motorcycle would be better, then freedom and flexibility may be more important to them. Keep pushing until the deeper need/want is discovered. Business ideas that fulfill these deeper needs/wants will be more successful than those based on superficial needs/wants.
2.7.5.3 Example of Needs Wants Analysis

The diagram above illustrates the process of truly understanding why an individual may want a car. At first it appears that transportation and/or a need to impress their friends is the real reason. However, additional probing shows that the true needs being served have more to do with providing flexibility and freedom, building confidence, and/or impressing a potential spouse. Understanding these deeper needs will help determine what type of solution will actually solve the need of the customer. For example, they bus may solve the need for transportation but be rejected by the customer because it does not solve the true underlying need of freedom and flexibility.

2.8 A VISUAL APPROACH TO DATA ANALYSIS

2.8.1 Using a Visual Approach to Understanding Markets

Fairbourne Consulting has long used a visual approach to sharing and analyzing data gathered during the market study phase of the project. Each day team members share key findings with the team, both verbally and in written form. Over time these findings accumulate and certain patterns and trends can be identified in the data. This process of constantly sharing new information and perspectives of-
ten results in new ideas, questions, or relationships being discovered or suggested. This leads to a collaborative environment where new business opportunities can be discovered and shared.

### 2.8.2 How to Visually Share and Analyze Data

At the end of every day, the team gathers to share new findings and insights gathered during the day. These findings are usually written on Post-it notes and placed on a wall where everyone can see them. These findings could be observations, data points, and/or ideas. As these Post-its accumulate, they can be grouped according to topic or theme. These themes could include market inefficiencies, business ideas, customer profiles, spending habits, local customs, etc.

![Diagram of Post-it notes grouped by themes]

### 2.8.3 An Example of How a Visual Data Analysis Works

During the market study phase, team members may share a variety of data points such as: people eat a lot of ice cream, ice cream is twice as expensive in the peri-urban areas as it is in the urban areas, few people own freezers, it is very hot all year long, kids can buy snacks and food from local sellers during lunch time. These observations could then be grouped and used to indicate a potential business opportunity selling ice cream to kids in schools in peri-urban areas. It may not be obvious that these ideas fit together until they are viewed together visually.
3. EVALUATING BUSINESS OPPORTUNITIES
3.1 BUSINESS CRITERIA FOR EVALUATING BUSINESS OPPORTUNITIES

The prior section focused on collecting market data, evaluating that data, and looking for market inefficiencies. Many of these market inefficiencies represent market opportunities and at this point a list of potential businesses should have been created. The next three sections focus on refining this list of business ideas down to those with the highest likelihood of success. This section specifically focuses on the value creation of the business idea and the external factors affecting it. Business ideas that still appear attractive at the end of this section should proceed and be evaluated by criteria described in the next section.
3.1.1 A Note on Business Ideas

In order to ensure that the best ideas are identified, all judgment on business ideas should be reserved until the evaluation phase. In other words, any and all business ideas suggested by team members should be written down and considered, and not criticized. This approach fosters a collaborative environment where team members feel comfortable making suggestions and sharing ideas. The more ideas that are shared increases the chances of identifying a truly creative and unique solution. The refinement process should not occur in the identification stage, but should rather start in the evaluation phase described in this section.

3.2 Evaluating the Value Creation and External Factors of Business Opportunities

This section uses the following business criteria to evaluate identified business opportunities in the prior section:

1. Assessing the Creation and Capture of Value

a. First it is important to have a good understanding of the actual value that is being created and, in general terms, how this value will be created. Usually this is apparent based on the market inefficiency that is being solved, addressed, or used.

i. Example: If ice cream is not available at schools during lunch time, then the value created is the transportation and selling of ice cream near schools. Making it more convenient creates value.

b. Once the value creation aspect is understood, then it is possible to determine if a microfranchise business model is the correct model to use. Microfranchising as a business model facilitates the creation of some types of value, but not all types of value. Choosing the right business model is important to ensure the potential success of the business opportunity.

i. Example: Coca Cola street vending is an effective type of microfranchising because there is high emphasis on creating value through convenience and communicating quality via a brand. These are two areas in which microfranchising excels as a business model.
2. Evaluating Market Characteristics

a. Having an understanding the total size of the market can be helpful in determining the level of demand for the potential of a business idea. An opportunity may not be worth the effort to launch and build if the market size (demand) is too small.

i. Example: A market size of a few million dollars is not very attractive since it will require 100% share to achieve revenues in excess of a million dollars. A market size of $50 million or more is likely very interesting due the high level of demand for those products and the lower market share rates required to build a successful microfranchise business.

b. A big market size may still not be attractive enough if the competition is too strong.

i. Example: Providing electricity is a very big market. However, the power companies are incredibly difficult to compete against due to their size and massive investments (wire and infrastructure). Commodity markets (where all of the products are basically the same, like salt) are also tough due the large number of companies that essentially offer the same product.

3.3 Solving Market Inefficiencies = Value Creation

3.3.1 What is Value Creation?

People place a value on things that solve needs or wants. As described in prior sections these needs or wants are often represented by inefficiencies that exist in a market. When a business fulfills these needs or wants, solving the market inefficiency, value is created. People pay for this value and the business generates revenues. The business is profitable when the cost of providing that value is lower than the amount people pay for it.

There are many sources of value creation. These sources of value creation could come from higher quality products, better distribution, better education about the product and where to purchase it, more convenient ways of buying the product, support on how to use the product, and so on.
3.3.2 Identifying Value Creation

It is important to have a good understanding of the types of value being created in order to determine if a microfranchise business model is the right fit for a business opportunity. The focus when determining the type of value created is to look at the different market inefficiencies that are being solved. Is the inefficiency a lack of awareness about the product? Is it the increase in quality? Is it through a more efficient distribution channel that reduces the price? Why and how will this business opportunity make people’s lives better?

3.3.3 Example

Multiple inefficiencies may be addressed in the example of selling ice cream near schools during lunches. The biggest value is simply the refreshing cold treat on a hot day. That type of product would make the lives of many children better on a hot day. But ice cream already exists. Therefore, the new sources of value creation include better access to the product by having it brought to the students at their school. It could include a well-known brand that communicates the level of quality that the students should expect from the product and service. This creates value by reducing the risk of uncertainty. Value is created by offering multiple flavors so that customers can experience new things and/or choose a flavor that more closely aligns with their preferences.
3.4 IS A MICROFRANCHISE BUSINESS MODEL THE RIGHT SOLUTION?

3.4.1 WHAT IS MICROFRANCHISING?

A microfranchise is not always the best business model to solve a market inefficiency. Understanding the microfranchise business model and its key benefits will help when evaluating if it is a good fit for the business opportunity. A microfranchise is the systemization and replication of micro-enterprises that benefit from proven marketing and operational systems and from support from a microfranchisor.

3.4.2 DEMONSTRATING THE ATTRIBUTES OF MICROFRANCHISE THROUGH AN EXAMPLE

Good examples of microfranchises include companies like Fan Milk, a large ice cream business that operates in several African counties. Fan Milk provides microfranchisees with the necessary tools to be successful: access to product, a bicycle to transport and distribute the product, training, financial resources, accountability mechanisms, and marketing support. The microfranchisees use prescribed systems to operate and market their business. Consumers of Fan Milk’s products know what to expect when purchasing ice cream from a Fan Milk microfranchisee. The product, pricing, and experience will be similar regardless of which microfranchisee they buy from due to the systems, training and support in place. These different aspects of the business model create value for both the customer and the microfranchisee.
3.4.3 Evaluate Sources of Value Creation in a Microfranchise Business Model

Below are the ways in which a microfranchise business model creates value and solves market inefficiencies:

1. **Access to Products/Services**

   **A. Market Inefficiencies**
   1. Lack of physical access – the product is not available in a certain geographic area due to poor distribution.
   2. Lack of financial access – the product is not available at a price that is accessible to customers.

   **B. Microfranchise Value Creation**
   1. Broader Distribution – microfranchisees make products more accessible in more geographic areas by bringing those products to those areas without the cost of establishing new retail locations.
   2. Efficient Distribution – products are more efficiently distributed to end consumers through microfranchisees, thereby reducing the costs and lowering the price of the products.
   3. Financing – microfranchisees have better relationships and knowledge of their customers and can offer financing options to their customers (selling on credit). A microfranchisor lacks sufficient knowledge of the customer and the ability to pursue bad debts, making it very difficult to finance sales.

2. **Quality**

   **A. Market Inefficiencies:**
   1. Inconsistent Product Quality – customers experience varying levels of product quality. This can be due to a wide variety of sellers and products with few external indicators of quality. This variance in quality increases the risk of the customer receiving a poor quality product.
   2. Inconsistent Experience – customers experience varying levels of service from the business operator. This makes it difficult to know what to expect, pay, etc. This creates another risk of the customer having a bad experience.
B. Microfranchise Value Creation

1. Consistent Product Quality – the product is tightly controlled by the microfranchisor to ensure that the level of product quality is the same for all products. This does not mean that the product is of high quality, but rather that the quality is consistent. Customers know the quality of the product, reducing the risk of receiving a poor quality product.

2. Consistent Experience – the microfranchisee is trained and monitored by the microfranchisor to ensure that specific operating guidelines are followed. This creates a consistent experience for the customer, reducing uncertainty.

3. Information

A. Market Inefficiencies

1. Lack of knowledge about a product or service – customers are either unaware of a product/service or fail to understand its benefits. In some cases, receiving these benefits isn’t possible without some level of customer training (example: applying nail polish).

2. Poorly operated micro-enterprises – business owners may not have the knowledge or the skills to efficiently and successfully operate their businesses. This can result in multiple failures such as marketing, distribution, cash management, and sales failures.

B. Microfranchise Value Creation

1. Branding and Advertising – microfranchisees benefit from being part of a large company with strong branding and marketing. They are able to enjoy the marketing benefits of being part of a large company while still retaining the ability to operate their own business. This marketing and branding support communicates to the customer the level of quality of the product/service and experience that they should expect. For example, because the experience and products are essentially the same at every McDonalds, customers know exactly what to expect when they see the brand. The brand communicates knowledge about the product/service to the customer.

2. One-on-one selling – sometimes a product/service needs to be explained in order to communicate the value or benefits it offers. This can be difficult for a large company to do efficiently as the labor and management costs would be very high. Microfranchisees however are able to more efficiently sell one-on-one with the customer and explain the product/service benefits in sufficient detail to make a sale.

3. Operations and Systems Training – a microfranchisor needs their microfranchisees to be successful. To help achieve this, microfranchisors often spend a lot of time developing operations systems, providing training and supporting the microfranchisees. Trainings, systems, and support help give the microfranchisee the knowledge and skill necessary to successfully operate and build their businesses.
4. Adaptability

A. Market Inefficiencies

1. Poorly adapted products to a specific area or clientele – sometimes the way products are marketed and sold does not fit with the target demographic in a new area. Sometimes the products themselves do not create sufficient value. For example, customers in the city may expect ice cream treats that are higher quality due to the higher incomes and variety of choices that exist in the urban areas. These same products however may be too small and too expensive for rural customers. In addition, rural customers may place higher value on a larger water based frozen treat rather than a smaller milk based one. Customers in rural areas may be fine traveling short distances to purchase their products, whereas urban customers may not be willing to travel at all and require that the products are brought to them.

B. Microfranchise Value Creation

1. Customized Product Offering – microfranchisees are better able to modify the way they sell or the products they offer to their customers than large companies. They know their customers and can tailor their product offering to their customers’ needs and avoid unnecessary inventory costs. They also understand how their customers buy products and can also tailor their sales approach so that it is more effective. For example, lower income individuals may purchase most of their products on credit. Selling this way would be very difficult for a large company, but is possible for a microfranchisee that personally knows their customers.

It is important to evaluate a business opportunity by comparing the market inefficiencies and value creation of a business opportunity to the value creation of the microfranchise business model. Does a microfranchise business model help address the main inefficiencies in the market? With practice, it is possible to use this understanding of the microfranchise business model to identify market inefficiencies and potential business opportunities.

3.5 Evaluate Market Size & Competition

3.5.1 Introduction (What is it and why is it important)

After the microfranchise business model is determined to be the right one for a specific business opportunity, the next step is to evaluate the external characteristics of the market. The most important of these include assessing the size and growth of the market and the level of competition. An evaluation of the mar-
Market size and growth will help to determine the future potential growth and size of the business opportunity. An evaluation of the competition will help to determine how difficult it will be to grow and compete. Understanding the competition will also be helpful in designing the strategy for the company and how it will compete against other firms.

### 3.5.2 Determining the Market Size and Assessing the Competition

The following are guidelines for determining the market size and assessing the competition. The size and growth of a market are good indicators of the potential of a business opportunity. Understanding the competitive situation is essential to determining if there is room in the market for a new business and how to strategically position the company to be able to compete.

#### 1. Market Assessment

**A. Estimating the Market Size**

1. **Bottom-up Analysis**: A bottom-up analysis uses validated assumptions (where possible) to estimate the size of a market by starting with the number of target customers and calculating the market size based on pricing and purchasing habits.

#### B. Understanding Market Drivers

1. **Macroeconomic trends**: these trends are influenced by the overall growth of the economy, unemployment, inflation, and other macroeconomic conditions or events.

2. **Demographics**: shifts in demographics that can impact markets include things like aging populations, higher birth rates, increases in immigration, etc.

3. **Technological advances**: new technologies can influence markets by either reducing the cost of production, thereby reducing the price consumer pay for a product or by solving consumers’ needs in new ways.

4. **Politics and laws**: laws and regulations can create or hamper markets by making it easier or more difficult to start and grow a business.

5. **Cultural trends**: changes in culture and tastes can change the demand for different product/services. These trends can be influenced by marketing, foreign cultures, and/or new products/services being made available.
2. Competition Assessment

a. Understanding the competition can help determine where needs are not currently being met, what other solutions exist and the level of threat these other businesses pose to the potential success of the business opportunity.

1. Competitor maps: one useful tool for evaluating the competition is to use a competitor map. Creating one requires identifying the potential competitors, analyzing how they position themselves in the market and mapping them on a competitor map based on their strategy.

3.5.3 Market Assessment

3.5.3.1 Market Size

3.5.3.1.1 Using the Bottom-up Method to Estimate Market Size

Although not perfect, a bottom-up analysis is a helpful tool to evaluate the potential size of a business opportunity. If the market size is too small, then it will most likely be difficult for the business to become very big. In fact, it may be difficult to grow the business at all. A large market is usually an indicator that demand for a product or service is high and that there are lots of opportunities for new businesses.

A bottom-up market size estimate starts with a set of assumptions such as the number of customers, their purchasing habits, and the price of the product. Often these assumptions can be validated using the data collection tools discussed in section 2.6. These assumptions are then multiplied to estimate a total current market size. These estimates on market size are simply meant to provide a data point in the evaluation of the market. It is usually not feasible to estimate a highly accurate market size due to cost and time constraints. However, the methods discussed in this section provide the ability to assess if the market is potentially large enough to justify pursuing the business opportunity.
Every market is different and will require unique assumptions in order to accurately estimate the market size using the bottom-up method. However, the following guidelines provide a framework on how to approach the calculation.

1. **Identify the Target Market**

   who is most likely going to buying your product? How many of these customers are there?

2. **Identify the Target Consumer Characteristics**

   1. Demographics: age, sex, income, location, education, etc.
   2. Type: consumer or business?
   3. Other: interests, life style, customs

3. **How do consumers currently meet these needs and how often are they consuming these products/services?**

   a. By talking to businesses and consumers, create an estimate of the frequency that these customers purchase the product/service. Is it a daily need, a weekly need, or monthly need? What causes them to purchase the product/service? How many do they purchase each time?

4. **How much do they currently spend for each product/service?**

   a. Check current prices at businesses and by asking customers. Use the expected prices from the identified business opportunity if available.
Once an estimate of the market size is estimated, it is important to evaluate if it sufficiently large. This will depend on desired future size of the microfranchise and the level of competition that already exists in the market. It will most likely be difficult to capture a large portion of market share. Therefore, take a small percentage of the market (the exact number will vary by market) and divide it by the projected number of microfranchisees. Does this potential revenue number seem high enough to motivate the microfranchisees?

If the target market is school children that buy ice cream, then a market size could be estimated based on the number of school children, the frequency that they purchase ice cream, and the price of the ice cream.

<table>
<thead>
<tr>
<th># of School Children in the Target Geography</th>
<th>Frequency of Purchases per Year</th>
<th>Average Price of Ice Cream Products (PYG)</th>
<th>Estimated Annual Market Size (PYG)</th>
</tr>
</thead>
<tbody>
<tr>
<td>200,000</td>
<td>50 1</td>
<td>1000</td>
<td>10,000,000,000</td>
</tr>
</tbody>
</table>

- Expected Penetration Rate: 20%
- Addressable Market: 1,000,000,000
- Number of Expected Microfranchisees: 500
- Revenue per Microfranchisee per Year: 4,000,000

Does PYG 4,000,000 seem like a reasonable amount of yearly revenue given the amount of work required to operate the microfranchise? Do the assumptions seem plausible?
3.5.3.2 Market Growth Trends

Introduction (What is it and Why is it Important)

Market sizes fluctuate constantly. Some are growing, some are shrinking. It is important to at least have a general understanding of what forces are influencing the market of the identified market opportunity. Being able to calculate the exact amount of impact that a specific trend or force will have on a market is typically not feasible for cost and time constraints. However, understanding these influences will help determine if the market is expected to grow or shrink and how quickly. Growing markets make it easier for companies to grow whereas shrinking markets can make it more difficult.

The Following are Broad Categories of Market Influences:

1. Macroeconomic Trends

These trends include things like economic growth, unemployment, inflation, trade, availability of raw materials, etc. These trends can have strong positive and/or negative impact on a market by impacting the demand and/or supply for products and services.

A. Example

Trends like economic growth and rising wages can result in market growth for luxury items whereas a global economic slowdown may reduce the demand for raw materials. Diseases that kill cows could reduce the availability of milk, thereby increasing the cost of producing ice cream and reducing the demand and market for ice cream.

2. Demographics

Changes in age, sex, income, ethnicity, language, education, and other the demographics of customers can have a significant impact on the market by shifting demand for certain products/services.

A. Example

If more children are born in a given year, then there could be potentially more demand for ice cream in the following years. Better educated parents may be more likely to send their children to school to be educated. More children in school could increase the amount of ice cream sold to them during recess.
3. **TECHNOLOGICAL ADVANCES**

The release of a new technology can create a significant shift in a market. Some advances improve the benefits of products, like the invention of smartphones over normal cellphones. Other advances can help reduce costs such as a new manufacturing technology. These advances usually destroy one market with the creation of a new market.

### A. **EXAMPLE**

A new manufacturing technology could reduce the cost to produce ice cream, making it more accessible to more people and growing the overall market. Or a new flavor could be invented that appeals to more people, also increasing the market size.

4. **POLITICS AND LAWS**

Governments can create and destroy entire markets through laws, regulations, and political actions. Bribes can make it difficult to operate and too much regulation can make launching and/or running a business very costly. However, government subsidies can help grow markets.

### A. **EXAMPLE**

Increases in the number of regulations enforced on ice cream sellers could reduce the number of sellers and the size of the market. Subsidies on imported milk could reduce the cost of milk and therefore reduce the cost of ice cream. This would make it more accessible and potentially increase the size of the market.

5. **CULTURAL TRENDS**

Cultural changes can impact the types of products/services that are demanded. Consumer tastes may change, reducing the demand for one product and increasing demand for another.

### A. **EXAMPLE**

For example, as pop music becomes more popular, the demand for it increases and the size of the market grows as people buy more of that type of music. The market for traditional music may decline as consumers prefer purchasing pop music instead.
3.5.4 COMPETITION

3.5.4.1 UNDERSTANDING THE COMPETITION

A strong understanding of the competition can be valuable in assessing the potential of a business opportunity. Too much competition might indicate that it will be difficult to launch and grow the business due to the number of alternative options that customers have. It may also indicate that the needs of the market are already being met. On the other hand, very little competition can be an indicator that the market isn't very large or that there is some inefficiency that others have not been able to overcome. If there are few competitors, understanding why can help determine if the market inefficiencies are solvable or not prior to wasting time and money trying to launch the business.

A good assessment of the competition can help determine where needs are not currently being met, what other solutions exist, and the level of threat these other businesses pose to the potential success of the business opportunity. While there are lots of tools that exist to assess the competition, Fairbourne Consulting recommends
the use of a competitor map. These maps provide a quick, visual representation of the competitive landscape and can show how a potential business opportunity might be positioned to successfully compete.

### 3.5.4.2 Competitor Maps

#### 3.5.4.2.1 Competitor Maps: A Useful Tool for Visually Assessing the Competitive Landscape

A competitor map provides a visual representation of the size of the competitors and how they are positioned in the market. Blank areas in the map may indicate market opportunities. The number of companies on the map help show how many businesses are trying to solve the market needs. Their place on the map shows who the fiercest competitors are and what types of strategies should be avoided.

#### 3.5.4.2.2 Creating a Competitor Map

The following are the general steps required to create a useful competitor map.

1. Collect a list of competitors using the data collection methods outlined in section 2.6. This list should be as long as possible and include another that is a list of potential competitors. In some cases, this will result in too many competitors to list. For example, it would be impossible to list all of the street vendors for chipa. However, they can be grouped together as one type of competitive threat.

2. Once a list has been created, start evaluating each competitor based on the strength of their brand, reach, and any other qualities that have been determined to be important to the creation of value in this market.

3. Identify the key attributes that customers use to make purchasing decisions. This is a great area to use the needs analysis tool described in section 2.7.5. Ideally there should only be a few that really matter. Often at least one of these is quality. Usually quality is a much better attribute to use than price because usually higher
quality products cost more. Ideally however, both attributes should be directly tied to the market inefficiency being solved. For example, the inefficiencies may include a lack of product quality and variety.

4. Use the attributes identified in step 3 to label each axis of a chart. It may be necessary to create more than one chart in order to show how all of the competitors compete across the various attributes.

5. Plot each competitor based on how well they solve each inefficiency. Using the prior example of quality and variety, some competitors may offer high quality products, but only offer a limited variety of styles and/or types. Another competitor may focus on providing a wide variety of lower quality goods. Use company logos if possible to plot each company accordingly.

6. Increase or decrease the size of the competitor based on their market share. Determining exact market share can be difficult. Therefore collect information using the methods in section 2.6 to get a feel for the strength of the brand and the reach of the distribution as a substitute for market share. Other metrics that can be used include number of employees, marketing and advertising spending, and brand awareness.

7. Plot the proposed business opportunity on the map. Does it line up with any competitors? If so, is there a lot of overlap? Significant overlap indicates that both companies would be using the same strategy and likely targeting the same customer. Avoid these highly competitive situations where possible.

3.5.4.2.3 AN EXAMPLE OF A COMPETITOR MAP

The example below is a representation of the market for chipa in Asunción. The largest competitors are street venders. They are everywhere and as such have a distribution advantage. It is very easy to find and buy chipa. Larger companies in the market have limited distribution, but have much higher quality products than the
typical street vendor. Part of the problem with the street vendors is that there is a wide range of quality and it can be difficult to know the product quality at the time of purchase. Customers trust large companies to provide a product of consistent quality. This leaves a space open, as indicated on the diagram, for microfranchisees to compete. If consumers would prefer a high quality chipa with the convenience of the street vendors, then a microfranchise could be a good solution. Each microfranchisee would sell the same, high quality product as the larger companies, but do so in the same way as a street vendor. Customers would know what to expect due to the branding of the microfranchisee. In addition, because there are no other companies that offer these two benefits, the business will face less competition and have a higher likelihood of success.
4. ASSESS POTENTIAL MICROFRANCHISEES, ABILITIES, INTERESTS, RESOURCES
4.1 INTRODUCTION

It is important to keep the potential microfranchisees in mind when evaluating potential business opportunities. Potential microfranchisees bring a specific set of abilities, interests, and resources to a new business. If these abilities, interests, and resources are not properly aligned with the business opportunity, it is unlikely to succeed.

This section discusses the key attributes of potential microfranchisees that should be collected, assessed and used to evaluate the business opportunity. This means that part of the market analysis is gathering data on potential microfranchisees and understanding their interests, abilities, and resources. Once this data is collected and understood, it can be used to evaluate if microfranchisees will be interested and able to successfully operate the business.

For the purposes of this manual, it is assumed that a specific population, such as clients of a microfinance bank, has been identified to receive access to the microfranchise opportunities (this is the most common situation that Fairbourne Consulting has encountered). This popu-
Using the data collection methods discussed in section 3.6, time should be spent collecting data and understanding the potential microfranchisees. A profile of these potential microfranchisees can be useful in determining if they are going to be interested and capable of operating the business successfully.

**THIS PROFILE SHOULD INCLUDE THE FOLLOWING THREE AREAS:**

1. **INTERESTS**
   
   How will the interests of the microfranchisees impact recruitment and sales?
   
   a. In many cases, businesses that generate higher profits or require less work than alternatives will create sufficient interest from potential microfranchisees. However, this is not always the case and it is therefore important to understand what these potential microfranchisees are willing and interested in doing and selling. All things being equal, a person that believes in the product and enjoys selling it will be a far better salesperson than the person that does not care.

2. **ABILITIES**
   
   What abilities do the potential microfranchisees have? What can they do?
a. The abilities of a potential microfranchisee include understanding their lifestyle as well as the knowledge and skills that they possess. For example, if the typical potential microfranchisee cares for several children at home, it will be difficult for her to leave the house and sell in the streets all day. On the other hand, if the typical potential microfranchisee knows how to cut and style hair, then a business that incorporates that skill could be successful.

3. Resources

What resources do the potential microfranchisees have access to?

a. A typical potential microfranchisee will usually have access to several resources that can aid in the success of their business. This could include a car for transportation, a freezer to keep food cold, or a tight network of friends and neighbors to sell to. In some cases, a particular business opportunity will not function if the microfranchisees lack the necessary resources. Understanding the resources they have access to and the resources they will need is important for assessing the potential viability of a business opportunity.

4.3 Example

During the data collection the following profile of a typical potential microfranchisee is identified. The potential microfranchisee is a woman and a member of a local microfinance bank. She has children at home and in school. She enjoys selling, but is unable to spend all day working since she needs to be home to take care of her children. She has family members that can watch them for part of the day. Many of these women own a large freezer. She is interested in businesses that can supplement the income that her husband earns, but doesn’t need to be the primary earner in the family.

Based on the profile listed above, a microfranchise business that sells ice cream during the lunch break at the local school could work. The microfranchisee would only have to leave her house for a few hours and has access to people that can watch her children during that time period. She is likely to own a freezer where she could store her ice cream products. She would probably need a cooler in order to transport the ice cream to the school.
4.4 ASSESSING MICROFRANCHISEES’ INTERESTS

4.4.1 The Interests of the Potential Microfranchisee Matter

The first step to using the microfranchisee profile to evaluate a business opportunity is understanding the interests of the potential microfranchisee. It will not matter if they have the right abilities and resources to make the business successful if they are not interested in operating the business. In fact, microfranchisees that are excited and passionate about the business opportunity will often outperform those that simply view it as another job.

If potential microfranchisees are excited about the business opportunity they will be eager to sign up, allowing the recruiter to be more selective during recruitment. In some areas, particularly those that are poorest with very little access to opportunities, the potential to make more money will often be sufficient to generate interest. In larger cities however, where incomes are higher and there are more opportunities, potential microfranchisees will only be interested in businesses that align with their interests. These interests can include everything from the product being sold to the amount and type of effort required to sell it.

4.4.2 Assessing Interest

It is hard and not very helpful to attempt to determine interests prior to identifying business opportunities. This is because it is almost impossible to know all of the things that might or might not interest an individual and because individuals often do not know themselves what they truly want. Therefore, the best course of action is to use the business opportunities that have been identified to solicit feedback from potential microfranchisees.

Although all of the tools described in section 2.6 can be used to solicit feedback, those that have been most effective include focus groups and small scale selling (or pre-selling the opportunity). Focus groups are good because you can quickly gather feedback from a large number of individuals in a short period of time and get feedback on more than one business opportunity. Small scale selling works by pre-selling the opportunity to potential microfranchisees. Those that sign up are kept on a list and approached later if the business is launched. This can be one of
the best ways to not only determine the level of interest, but to also refine the microfranchise pitch.

When gathering feedback, be sure to explain the product, the level of work expected and required to sell it, the amount of cost involved (cost can include money, time, effort, transportation, etc.), and eventually the brand and financing options. Ask potential microfranchisees if they would be interested in operating one of these businesses and gather feedback by asking them why they are or are not interested in the opportunity.

A word of warning. Sometimes potential microfranchisees will be very interested in the business opportunity, but lose interest over time. This can occur from incorrect expectations, cultural pressures, and/or changes in lifestyle. It is very difficult to identify these issues early on. It is for this reason that Fairbourne Consulting advocates launching quickly and refining over time rather than attempting to solve all of the problems before launching. Most of these issues can be resolved by modifying the business during the Live Market Test phase.
An ice cream business that sells to local school children during lunch is presented in a focus group. The business would require that the microfranchisee pick up the ice cream and bring it to the schools to sell. Selling would occur for 1-3 hours during the lunch period at the school. Optional selling could also occur after school as children walk home.

The products, margins, and potential profits are discussed. The members of the group are asked for feedback. The members are women and most care for children at home. Their husbands earn most of the money, but many of the women want to earn some additional income on the side. They would be able to leave for a few hours to sell, but not all day long. They think the business is attractive, but they are also worried about the cost of the ice cream and risk of some of it melting.

Based on this feedback, the potential microfranchisees are asked if they would like to become a microfranchisee. Those that are interested fill out an application form and they are included on a list to contact should the business launch. A note is made to focus on reducing the likelihood of the ice cream melting when designing the business model.

In order to make clothing, both a sewing machine and the ability to use it are required. Assessing abilities is an important part of the business discovery process. A successful business will require many different abilities and it is important to determine which abilities potential microfranchisees have and which ones will need to be developed.
4.5.1 DOES THE MICROFRANCHISEE HAVE THE RIGHT ABILITIES?

Every business opportunity will require specific abilities to be successful. The most common is the ability to sell, but others can be just as important. For example, a sewing microfranchise will require that the microfranchisee knows how to sew. A hair salon microfranchise will require that the microfranchisee know how to cut and style hair. Some of these skills can be taught. However, even if they can be taught, the microfranchisee must be able to learn them.

It is important to understand the basic skills required to operate the proposed business opportunity. What skills are specific to the business (sewing, hair cutting) and which skills are more general (book keeping, managing people). Every business opportunity is different and an understanding of the required skills will improve over time. However, it should be obvious which skills are crucial to the success of the business; focus on these.

4.5.2 ASSESSING ABILITIES

The quickest and easiest way to assess abilities is to find out what people have done. What kinds of things have they accomplished? What kind of work do they or have they done? If a business requires a very specific ability, such as sewing, ask the
It is determined that the abilities required to sell ice cream include: selling, carrying a cooler or pushing a cart, traveling to the distribution point, and keeping good records. Potential microfranchisees are asked what their current jobs/businesses are. The majority spend at least a few hours every day selling already and many have to travel long distances in order to purchase the goods they sell. Many sell door-to-door carrying their inventory with them as they go. Most of them have attended enough school to learn how to read and write, but few have been able to produce good records of their sales activities. Since these individuals know how to read, write and do simple math, it is determined that bookkeeping can be taught. However, special note is made to create a simplified bookkeeping process if the business is pursued.

4.5.3 Example

The resources that a microfranchisee has access to can help determine which types of businesses will be possible. Resources do not create value by themselves, but can be used to create value. An example of this is a sewing machine. If it is not used properly, it will not create value. However, without a sewing machine, it is hard to make clothing. Look at what resources potential microfranchisees have and use this information to develop business opportunities that use these resources.
What resources to do they have access to?
(Transportation, real estate, internet, capital, time, etc.)

What resources will they need that they don’t currently have?

4.6.1 Resources and Why they Matter

Resources do not create value by themselves, but can be used to create value. For example, a sewing machine is a resource, but it of itself does not create value. It must be used by someone that has sewing abilities before it can create value. Having the right resources is essential to the success of a business. However, the resources available to the microfranchisee are evaluated last because usually the required resources can be provided to the microfranchisee if they do not already have them. Resources can include all kinds of things. For example, they can include physical things like sewing machines and scissors to cut hair. They can include monetary things like access to capital (microcredit). They can include social things such as a broad network of friends and acquaintances. They can include nontangible things like reputation. During this step, it is as important to identify the resources that individuals have as it is to understand what resources they will need. Understanding
It may be hard to identify all of the necessary resources before the business model is fully designed. However, the essential resources should be easy to determine at this stage. For example, if it is a sewing business, then a sewing machine is a required resource. Some business opportunities will not require that the microfranchisee owns any assets prior to joining the microfranchise. In those cases, all of the assets that are required can be provided in the initial microfranchise kit. The tools discussed in section 2.6 are valuable methods for collecting data on the resources of potential microfranchisees. Once the required resources are identified, data can be collected by both observing the resources that the individual has access to in their home and/or community and by asking them directly.

4.6.2 Assessing Resources

Ideally, microfranchisees would have a large freezer in their home to store ice cream for the ice cream microfranchise. At the very least, it is determined that they will need a good cooler in order to transport the ice cream from the distribution point to the school where they will sell it. In more rural areas, a microfranchisee will need a cart to help carry the cooler because the distribution point or school is so far away. Surprisingly, 40% of potential microfranchisees surveyed actually own at least a small freezer that could be used to store the ice cream. 20% own a large freezer and are willing to act as a distribution center in return for slightly better margins. Almost all of the microfranchisees either own or could afford a cart to carry their product, and many already own a small cooler. A note is made to provide the option of a cart and cooler in the initial microfranchise kit and to potentially design a way for microfranchisees to eventually buy their own freezer if they don’t already own one.
5. FINDING AND SELECTING THE MICROFRANCHISOR
Although this is section 5, keeping an eye out for potential microfranchisors should occur as soon as potential business opportunities are identified. Often there are far more opportunities than there are companies that would make good partners. Since this is a significant limiting factor on the types of microfranchises that are possible, it is important to eliminate business opportunities that lack a potential partner before wasting unnecessary time on them.

This section discusses the key attributes of a strong potential microfranchisor. Assessing these attributes for each potential partner will assist in the evaluation and eventual selection of the microfranchisor. Although it is possible to eliminate some business opportunities due to the lack of any similar businesses in the market, it is also necessary to have a good understanding of the business opportunity before being able to adequately assess the strength of a potential microfranchisor. For this reason, selecting the microfranchisor is one of the last things done during the market study.

The most important attribute of the
microfranchisor is the commitment to launch and support a microfranchise division or distribution channel in their business. Often businesses will be eager to receive help to expand and will recognize the potential of a microfranchise approach once it is explained to them. Next it is important to ensure that they have the capabilities and resources required to help launch, support and grow a microfranchise business division.

For the purposes of this manual, it is assumed that the microfranchise will be launched in partnership with a business that is already operating in the same or an adjacent market, rather than attempting to launch a completely new business. Launching a new business is incredibly risky, expensive, and time intensive. In order to avoid these risks, it is recommended that the microfranchise is launched in partnership with an existing, established business. In the event that the microfranchise manager is required to launch a new business rather than partnering with an existing business, the principles explained in this section can be used in reverse order. Instead of evaluating the potential business partner by whether or not they have the right desire, resources and capabilities, the identification of these required resources and capabilities will be valuable information to use in the design of the new business.

5.2 FINDING AND ASSESSING POTENTIAL MICROFRANCHISOR PARTNERS

THE GOAL OF ULTIMATELY SELECTING A MICROFRANCHISOR TO PARTNER WITH REQUIRES THE FOLLOWING STEPS:

1. FINDING POTENTIAL MICROFRANCHISORS

This step should start as soon as business opportunities are identified. The main objective of this step is to simply find companies that could be microfranchisors and meet with them to discuss their interest in partnering to launch a microfranchise. It is important to include all possible companies since it is difficult to know the exact resources, capabilities and interests of a company prior to meeting with them.
2. Assess Potential Microfranchisors

A. Commitment
The first and most important requirement of a good microfranchisor is their commitment to provide the necessary support and resources to launch, sustain, and grow the microfranchise. Ideally, they will be committed to making a difference in the lives of the poor, but they should also see the microfranchise business model as a tool to grow their business. The best way to evaluate their commitment is by assessing the resources they are willing to allocate to launching the microfranchise.

B. Capabilities
Unfortunately, commitment is not sufficient to be a strong potential microfranchisor. The microfranchisor must also have the necessary capabilities to compete in the market. Usually, if the company has been identified as a potential partner, it will have most, if not all, of the required capabilities because it is already operating in that market. For example, ice cream businesses would be identified as potential partners for an ice cream microfranchise, because it is assumed that these businesses are capable of making and distributing ice cream.

C. Resources
A strong potential microfranchisor has the resources required to launch and operate a microfranchise business. Sometimes a company is too small or is at capacity and does not have the financial, human, or physical resources to support a microfranchise. Being able to assess the available resources early on will help in the evaluation of not only the potential partner, but also help evaluate the potential of the business opportunity.

3. Selecting the Microfranchisor
Once a list of potential partners has been created, data regarding their level of commitment, capabilities, and resources should be assessed to determine which would be the strongest potential partner. Although this decision requires using good judgment, the decision should be based first on the level of commitment, then on the capabilities of the business and finally on resources that they have and are willing to commit.
When the ice cream business opportunity was first identified, the researchers looked and asked for suggestions of good ice cream businesses. Of these three companies were found. The team met with each of these companies. Two of them were interested. One was quite a bit bigger and had a stronger brand and better manufacturing capabilities. However, the larger firm was not willing to commit as many resources as the other company. The other company was well established, but did not have the same brand recognition. However, the other company viewed this as an important opportunity to grow their business and was willing to commit significant resources to the partnership and launch of the microfranchise business. The other company was selected as the microfranchise partner because of its commitment and resources and capabilities.

5.4 FINDING POTENTIAL MICROFRANCHISORS

5.4.1 Finding Potential Partners

Typically there are a lot more potential business opportunities than there are potential microfranchisors. And since a partner microfranchisor is needed in order to avoid the risk, cost, and effort of launching a new business, the lack of a potential microfranchisor should be used to narrow down the list of feasible potential business opportunities. For this reason, it is important to begin listing potential microfranchisors as soon as business opportunities are identified. If a potential microfranchisor cannot be identified, then the business opportunity should be abandoned.

Potential microfranchisors can be identified through a variety of sources. Some can be identified by looking for the best known brands while others may come through network connections. Identify and meet with as many potential microfranchisors as possible in order to increase the likelihood of finding the right partner. Don't be afraid of approaching new companies where a relationship doesn't already exist. Most business owners will be happy to at least meet with someone interested in helping them grow their business.
5.4.2 HOW TO FIND POTENTIAL PARTNERS

As soon as a potential business opportunity is identified, start looking for potential partners. Some potential partners may be very large companies with well established brands. These are usually easy to identify due to their well-known brand and can make great microfranchisors due to their brand, management, and distribution channels. However, these companies also tend to be bureaucratic and meeting with the right person may be difficult. Other potential partners may come through network connections. For example, Fairbourne Consulting has found it very helpful to meet with lots of different people and organizations. Try and meet with businesses, non-profits, and industry associations. Often these organizations are willing and able to make introductions to potential partners.

A list of potential partners should be kept for each business. Once the potential partners have been identified, try to visit with as many of them as possible. Even if it takes
multiple tries and/or meetings with other people, try to meet with the owners or other key decision makers in the business. Usually the owners will be most excited about the opportunity and can make the rest of the company move quickly.

During this initial meeting, prepare a very basic outline of the business opportunity. The presentation should cover the unmet need in the market, the basic product idea, and some data supporting it. It is not required to have a detailed business plan. In fact, if the idea is too detailed, the business owner will see all of the areas where it won’t work for them and dismiss the opportunity too quickly. These meetings should be more discussion based, with all parties brainstorming and working to find a way of working together. During this meeting focus on learning more about the business. What is their interest and commitment level? What capabilities do they have? What resources are they willing commit?

5.4.3 **Example**

Ice cream seemed to represent a good opportunity. Fortunately, there were lots of ice cream businesses. Three large companies were identified by talking with consumers and paying attention to local brands. The team used its internal connections to meet with one business owner and it used its connections to a local business association for an introduction to another. Unfortunately the team didn’t have any connections to the third and instead approached one of the company’s franchise owners. The franchise owner made an introduction to the franchisor manager, who helped connect the team to the right manager.

The team met with all three companies and explained the project to launch a micro-franchise business, the potential products/services, and the data supporting these ideas. One of the businesses was not interested because they did not feel that it would fit with their current strategy. The other two were very interested and were willing to work together with the team to identify the right business model.
Once a potential partner has expressed interest, it is important to assess their commitment level, capabilities, and resources. A strong microfranchisor will be committed to making the microfranchise work and will commit the resources needed to make it successful. A strong microfranchisor will have the right capabilities to help launch and support the microfranchise. A strong microfranchisor will have and be willing to commit the necessary resources to make the microfranchise successful.

When assessing a potential microfranchisor, keep in mind the key ways in which a microfranchise creates value. A strong microfranchisor will have the resources and capabilities required to create these types of value. The chart below gives some examples of how a microfranchise creates value and the types of corresponding resources and capabilities that the potential microfranchisor should have.
Other important capabilities include things that should be obvious. They should be able to supply the desired products at high quality and quantity (A note on quality: in manufacturing, high quality refers to a high level of consistent product quality and not to the cost of the product. A high quality manufacturing line consistently produces products that meet the desired specifications). They should have sufficient financial resources to not only keep their main business operating, but also be able to invest in the new microfranchise business. They should have sufficient personnel to assist with the management of the microfranchise.

### 5.5.2 How to Assess Commitment, Capabilities, and Resources

<table>
<thead>
<tr>
<th>Solutions (Microfranchise Value Creation)</th>
<th>Microfranchisor Resources/Capabilities</th>
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</thead>
<tbody>
<tr>
<td>Lower transaction costs by</td>
<td>Lower transaction costs:</td>
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<tr>
<td>• Improving distribution by cutting</td>
<td>• Efficient distribution systems</td>
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<tr>
<td>out steps</td>
<td>• Reliable and established supply chain</td>
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<td>• Strengthening the supply chain</td>
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<tr>
<td>Increase available information by</td>
<td>Communication capabilities:</td>
</tr>
<tr>
<td>• Establishing set prices</td>
<td>• Well established product offering</td>
</tr>
<tr>
<td>• Using brands to communicate</td>
<td>• Strong Marketing and Advertising</td>
</tr>
<tr>
<td>quality</td>
<td>capabilities</td>
</tr>
<tr>
<td>• Advertising where to purchase</td>
<td>• Established Brand</td>
</tr>
<tr>
<td>Increase access by</td>
<td>• Sales training resources/capabilities</td>
</tr>
<tr>
<td>• Increasing distribution locations</td>
<td></td>
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<tr>
<td>• Opening new markets</td>
<td></td>
</tr>
<tr>
<td>Accessibility:</td>
<td>Accessibility:</td>
</tr>
<tr>
<td>• Broad distribution channels/capabilities</td>
<td>• Broad, adaptable product line</td>
</tr>
</tbody>
</table>

The following provide some guidelines to assess the commitment, capabilities, and resources of potential microfranchisors. However, every business is different and good judgment should be used to assess it accordingly.
1. Commitment

- The first and most important requirement of a good microfranchisor is their level of commitment to the microfranchise. The more committed they are, the easier it will be to work with them, implement required changes, and receive access to their resources and capabilities when they are needed.

- An ideal microfranchisor will view the microfranchise as an opportunity to achieve the following two main goals:
  1. Help poor individuals in a way that does not cause significant costs to the microfranchisor’s core business. This is often the primary initial motivation to getting involved.
  2. Build a new distribution model that will grow and expand the microfranchisor’s overall business. This mindset may come later, but is needed to ensure that the microfranchisor takes the project seriously enough to continue to support and expand it after the LMT phase.

- The best way to evaluate commitment is to assess the level of support and resources that the potential microfranchisor is willing to offer. Here are some examples of the types of support they could offer:
  1. Exclusive and better pricing for microfranchisees
  2. Creation of exclusive products for the microfranchisees
  3. Free or subsidized marketing and sales materials and training
  4. Dedicated staff to support and manage the microfranchise.
  5. Allocation of distribution capabilities to the microfranchise (example: using distribution trucks from the core business to support the microfranchise)

2. Capabilities

- Unfortunately, a high level of commitment is not sufficient to be a strong potential microfranchisor. Many small companies will be very interested in receiving the help to grow their businesses, but will lack the capabilities required to support the microfranchise. Larger, more established businesses should have the necessary capabilities, and in fact, should have been identified due to those capabilities. For example, ice cream companies should be identified as potential partners to an ice cream microfranchise because they have the capability to produce ice cream.
3. Resources

a. Typically if the potential microfranchisor has the right capabilities, they will have the right resources as well (though this is not always the case – a company can have a manufacturing plant, but not enough money to buy the raw materials). A resource is something that can be used in the creation of value such as labor, land, or capital. A resource does not create value until it is used to do so, though it can be a store of value (example: money). Brand recognition could also be a resource.

b. Again, it is important to identify the general resources that a microfranchisor would need and be willing to provide in order for the microfranchise to be successful. An evaluation of the potential microfranchisor can be done once these resources are identified and information about the potential microfranchisor is collected.

1. Example: In an ice cream microfranchise, the microfranchisor should be able to make inexpensive ice cream at a consistent quality and in large quantities. They should be able to transport that ice cream to various distribution points. They should be able to support the brand through marketing and advertising. They should be able to design, develop, and provide the necessary tools for selling the ice cream such as a cooler and marketing materials. They may need to be able to provide training on how to maintain product inventory, avoid spoilage, and sell ice cream.

1. Example: In an ice cream microfranchise, it may be necessary to have employees that know how to design ice cream products work to develop a new, lower cost ice cream product. Raw materials like milk, sugar and flavoring will be needed to produce the products. Capital may be required to fund additional manufacturing processes specific to the new products or to purchase the inventory required to produce them. Additional capital may be needed for marketing or advertising support. Employees may be needed to support the management and operations of the microfranchise.
Sometimes it will be easy to choose the right partner due to having no other options. However, it is still important to understand and assess the commitment, capabilities, and resources of the potential microfranchisor in order to evaluate one potential business opportunity against another. A business opportunity with a strong microfranchisor partner should be selected over a business opportunity with a weaker partner.

Other times it will be more difficult to choose between different potential partners. Each may have different advantages and disadvantages. Fairbourne Consulting recommends choosing the partner that is the most committed, assuming that all companies have sufficient capabilities and resources to support the microfranchise. This may mean choosing the smaller company. However, if the capabilities and resources are sufficient to support the microfranchise, then the level of commitment will help ensure that they are used to do so.

An evaluation matrix can be a great tool for comparing and evaluating microfranchisors. To create a matrix, list all of the most important capabilities and resources required for the microfranchise to be successful. Also include some metrics to capture the potential partners’ level of commitment. This list will comprise the furthest left side of a table. Then list the potential partners across the top. Fill out the table and then compare the two businesses against each other. Use good judgment and the guidelines above to choose the best microfranchisor.
### Example

#### Ice Cream Microfranchise – Microfranchisor Evaluation Matrix

<table>
<thead>
<tr>
<th>Capabilities</th>
<th>Ice Treat</th>
<th>Ice Cream Man</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ice cream manufacturing</td>
<td>Ability to produce over 100,000 units per day, 30 different product types</td>
<td>Ability to produce over 50,000 units per day, 10 different product types</td>
</tr>
<tr>
<td>Broad distribution</td>
<td>Distributes to 30 different cities across country with own trucks</td>
<td>Distributes to over 50 different cities through 3rd party distributors</td>
</tr>
<tr>
<td>Marketing support</td>
<td>Large marketing and ad team</td>
<td>Small marketing team</td>
</tr>
<tr>
<td>Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand Recognition</td>
<td>90% of those surveyed know the brand</td>
<td>30% of those surveyed know the brand</td>
</tr>
<tr>
<td>Capital committed</td>
<td>Not willing to commit financial resources</td>
<td>Willing to commit money to support marketing and product development</td>
</tr>
<tr>
<td>Employees committed</td>
<td>1-2 employees will be assigned to help on this project part time</td>
<td>The owner is very involved and the microfranchise will have access to support from almost any employee it needs</td>
</tr>
<tr>
<td>Commitment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualitative Level of Interest</td>
<td>Ice Treat is willing to launch the microfranchise, but the owner has delegated it to lower level management. Willing, but not excited about the opportunity.</td>
<td>The owner is very excited and sees the microfranchise model as an opportunity to grow his business. He is self-made, and likes the idea of using business to help the poor.</td>
</tr>
</tbody>
</table>

In the Evaluation Matrix above, it should be obvious that one company is much larger than the other. The larger company appears to have better capabilities and resources. Good judgment is needed to determine if the smaller business, Ice Cream Man, is sufficiently large to support the microfranchise. If it is, then it would be the optimal partner due to the owner’s commitment level.
SELECTING OPTIMAL BUSINESS OPPORTUNITIES
6.1 CHOOSING THE BEST BUSINESS OPPORTUNITIES

The culmination of all of the research performed, as recommended by this manual, should provide enough data to decide which of all of the business opportunities identified has the greatest likelihood of success. The actual decision process will take into account factors identified during the market study as well as factors imposed by the situation (external issues, circumstances, resources, etc.). For this reason it is impossible to provide a rigid decision-making process applicable to all situations. Nonetheless, this section provides a framework that can be used to help facilitate the decision making process.

When performed correctly, this market study should yield a large amount of information. The key will be determining which information from each section is most important and using that information to make a decision. The manual has been organized so that each section, starting with Section 3 – Evaluating Business Opportunities, can be used to help reduce the list of possible business opportunities.

Section 3 is an evaluation of the market and competition of an identified business opportunity. If the market is too small or the competition too strong, the opportunity can be eliminated. However, if the market and competition are favorable, then the business opportunity is evaluated relative to the interests and abilities of the potential microfranchisees. If they don’t
want to operate that business or can’t, it is unlikely to succeed. However, if that analysis is favorable, then the identification of the microfranchisor is the key issue to resolve. Without a strong microfranchisor, the business will not succeed and may not even be feasible. At any step in this process, a business opportunity can be eliminated, saving the team time.

At this point, only those business opportunities with the highest likelihood of success should be considered; all others should have already been eliminated. These are opportunities where the market is sufficiently large, the competition weak, the potential microfranchisees are able and interested in operating it, and there is a strong potential microfranchisor to operate it. At this point, the goal is to identify which opportunities are most likely to succeed and therefore worth testing in the Live Market Test phase.

6.2 THE BUSINESS OPPORTUNITY SELECTION PROCESS

**Fairboune Consulting uses the following sets when evaluating business opportunities.**

1. Determine if there are other decision criteria external to the research and what those criteria are. Use these criteria to eliminate possible business opportunities if possible. These criteria could include specific project requirements (microfranchisees must be teenage girls), limited resources (lack of budget available to support marketing tests), working with specific partners (partners must be affiliated with a specific organization), etc. If it is not possible to eliminate the opportunity and it is more qualitative in nature, then it may need to be included in the decision table below.

2. Create a table to organize information to visually represent the data. This helps the decision makers to see as much data as possible in one place, allowing them to easily compare one opportunity against another and quickly understand all of the positives and negatives about the opportunity. This table should include a column for the business ideas, the market/competition, the potential microfranchisees, and the potential microfranchisor. It may also include any other issues identified in step 1 of this process.
3. Write the business opportunity in the Business Opportunity column.

4. Identify the key data point or conclusion from the market and competitive analysis. Ask what are the most important aspects from the analysis that will indicate if the opportunity is large enough (market size) and will be able to compete and grow (competition). Use quantitative data where possible, such as “There are only 2 competitors” or “60% of men surveyed buy this product every month.” Use qualitative data when it is not possible to use quantitative data. For example “one company seems to dominate the market from an advertising perspective” or “there are no other products on the market that are exactly the same.” These findings should go under the Market/Competition column as bullet points.

5. Identify the key data point or conclusion from the potential microfranchisee assessment. These should follow the same guidelines as the Market/Competition step discussed above.

   Quantitative: “50 women expressed interest in the business opportunity.”

   Qualitative: “Many of the women were extremely excited about the opportunity and are anxious to start.” These findings should go under the Microfranchisee Assessment column as bullet points.

6. Identify the key data point or conclusion from the potential microfranchisor assessment. These should follow the same guidelines as the Market/Competition step discussed above, though they will likely focus on one specific business. Quantitative: “Ice Cream Man manufactures 50,000 units per day” or Ice Cream Man distributes to over 50 different cities.” Qualitative: “The business owner of Ice Cream Man is very excited about this opportunity and has already organized a team to assist with the launch.” Many of these data points can come directly from the Microfranchisor Evaluation Matrix. These findings should go under the Microfranchisor Assessment column as bullet points.
Based on the table above, the recommendations would be: 1 Selling Ice Cream at Schools, 2 Nail Painting Service, 3 Selling Chipa in the Street, 4 House Cleaning Service.

*Note: More data points can be used than the 2-3 shown for each criteria above. The table above is just an example of the types of things that might be included.*
ANEXO
7.1 INTERVIEW AND FOCUS GROUP QUESTIONS

7.1.1 PRODUCTS AND SERVICES

Where did you get your food this week?
What did you buy in the village? What did you buy outside of the village?
What was the last thing you bought for pleasure—not a necessity?
Do you ever give gifts? What was the last gift you gave?
Are you saving money for any product?
What is the most valuable thing you own?
What do you need that you can’t afford?
Can you tell us about a product that is a good value?
What products do you wish you had?
What is your favorite thing you own?
Where do you find the best selection of products?
Who do you trust for after sales services?
Tell us about a time when you needed something quickly and couldn’t get it—what did you do?
What is your favorite food?
What foods are healthy?
Would you rather buy food or grow/collect it yourself?
What do you do to stay healthy?
What local remedies do you see?
Tell us about the last time someone in your family got sick.
Did they visit the doctor?
What aches, pains, and ailments do you experience daily?
What do you do about it?
How do you clean your clothing?
How do you clean your house? Your cookware?
What products, that you buy, work the best?
How do you feel about foreign products? Foreign foods?
7.1.2 Business Opportunity

What services would you like to have?
How would you like to help your community?
What is your favorite business? Why?
What businesses have been around the longest?
Why have they lasted?
What businesses have closed? What products did they sell?
Which businesses have expanded the fastest?
Which businesses are doing things in new ways?
What do you like about new businesses? What do you dislike?
What are businesses doing that is new or different from others?
Who are the business owners?
How are businesses regulated?

7.1.3 Brand

What products are the best (most reliable)?
Are there any products you buy every month?
What international products are available in your village?
What is a high quality product in the market?
What brand do you trust more? Why?

**Ask questions later about specific brands after you determine some of the most popular products.**
7.1.4 Supply Chain

How did you start this business?
How do you get your products?
How much do you spend to buy your products monthly?
What’s the process for selecting and ordering products?
How do you decide on pricing?
Do you keep inventory? How much? How do you replenish?
Do you buy on consignment or cash-and-carry?
Do you provide credit? How much? When?
How did you get this retail space?
How do you differentiate yourself from other businesses?
How do products get to villages? What are stops along the way?
What are options for cold storage in the supply chain?
What is the process for clearing goods through customs?
How do you store your inventory?
How much space do you need to store inventory?
How much does it cost to store inventory?
How long does your inventory stay on the shelf?
Is there a better way to store your inventory? If so, what?

7.1.5 Culture/Aspiration

What is your role in the community?
What jobs do women do? What jobs do men do?
What is the role of elders? Children?
Who do you trust? Whose advice do you seek?
Who is the wealthiest person in the village? How do you know?
What is your favorite place? Why?
Where do people socialize?
What is special about your village?
When do you leave town, if ever?
Which is better, village life or city life? Why?
What is your biggest challenge?
What would you do if you had more money?
What would you need to be able to make more money?

### 7.2 MICROFRANCHISOR EVALUATION MATRIX WORKSHEET

<table>
<thead>
<tr>
<th>Capabilities</th>
<th>(Company 1)</th>
<th>(Company 2)</th>
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<tr>
<th>Commitment</th>
<th>(Company 1)</th>
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### 7.2 MICROFRANCHISOR EVALUATION MATRIX WORKSHEET

<table>
<thead>
<tr>
<th>Business Opportunity</th>
<th>Market Size/Competition</th>
<th>Microfranchisee Assessment</th>
<th>Microfranchisor Assessment</th>
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