

## Adie Microfranchising, France

*This case study presents a new, innovative model of supporting the unemployed in business creation by offering them a turn-key business franchise, along with training, counselling and other supports. It presents the objectives and rationale for this approach and describes how the model works. The case study also discusses the initial results achieved, the challenges faced in setting-up the scheme and the conditions for transferring it to another context.*

### Objectives

The mission of Adie is to finance and support the unemployed who wish to create their own business and who cannot get a standard bank loan. Adie's target clients are low-income entrepreneurs who lack access to standard financial services, namely the unemployed, people who receive social welfare benefits and those with low educational attainment. Adie's principal support schemes provide microcredit at market rates (up to EUR 10 000) and assistance when applying for national and local start-up grants and non-interest bearing subordinated loans. In addition, Adie staff and volunteers provide post-loan business advice to clients in the areas of business management, administrative requirements, marketing and legal advice.

Adie has recently introduced a new initiative to support entrepreneurship by low income entrepreneurs through giving them access to franchises, carrying with them a business idea, model, possible support from the franchisor or other franchisee peers and a brand. The objective of the microfranchising project is to facilitate entry into the entrepreneurial process with a lower level of risk. It aims to support the microfranchisees by providing them with a product or service, and a "turn-key" business model that has already been tested.

### Rationale

Research undertaken by the French National Institute for Statistics and Economic Studies has found that there are two main barriers that discourage business creation in France: difficulties adhering to administrative requirements and a fear of not being able to access sufficient start-up financing (INSEE, 2011). These barriers are even greater for potential entrepreneurs from disadvantaged groups since they typically have little savings, low skill levels, poorly developed networks and lack experience with entrepreneurship. Adie aims to address these barriers by facilitating access to financing and a suite of start-up supports.

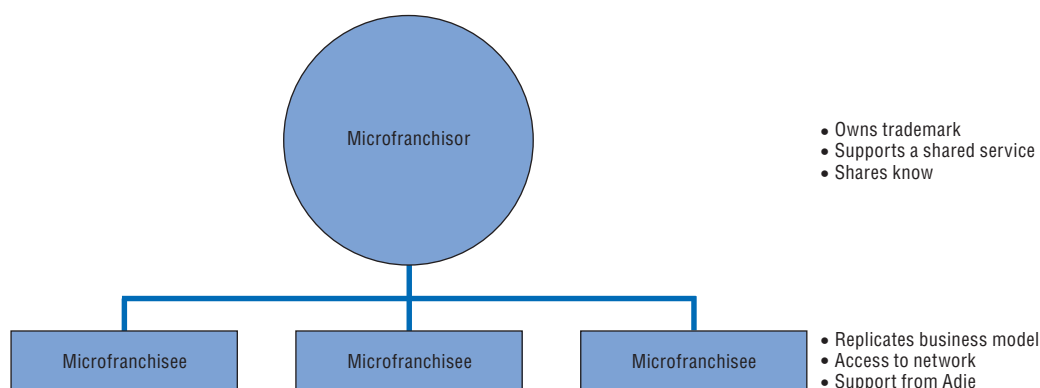
Adie launched its microfranchising initiative because an increasing number of people visited Adie's branches with a willingness to create their own business but no viable business idea. Traditional franchises are not affordable for low-income entrepreneurs and therefore not a potential route into entrepreneurship for this group.

## Activities

The microfranchising scheme differs from Adie's traditional support schemes in that the clients do not propose their own project. Instead, Adie introduces clients to the different microfranchising networks to find a suitable project. Adie provides the microfranchisees with a full array of integrated services, including a personal needs assessment, support developing a business plan, business advisory services, training and finance.

The microfranchising concept can be explained by dissecting the term into its two roots: micro and franchising. The “micro” in microfranchising refers to the social aspect of assisting the poor at the base of the economic pyramid. “Franchising” refers to the systematisation and replication of enterprises. Thus, the Microfranchising Scheme uses the replication process of a franchise but applies it to those who are disadvantaged to alleviate poverty. This system differs from traditional franchising in one important respect: microfranchisees are unlikely to be able to sell their ownership stakes to another operator. What microfranchisees “own” is not the right to certain assets, which are minimal, but rather a particular relationship with the microfranchisor. The general framework is illustrated in Figure 9.1.

Figure 9.1. **Adie microfranchising framework**



Adie microfranchising “turn-key” business models are simple, accessible and can be easily replicated. Microfranchisees benefit from access to a trademark, know-how, shared services and assistance provided by the microfranchisor. The franchisors are selected and developed through Adie's relationships with national and international business groups (e.g. Veolia, SAUR, L'Oreal). Adie is responsible for identifying and testing the robustness of the different projects and negotiates the franchising arrangements. Adie has a dedicated staff of 2 full-time employees, 1 intern and 10 volunteers.

To create a franchise in this scheme, the microfranchisee is required to provide or acquire the start-up capital for their franchise. This is typically less than EUR 10 000 and microcredit from Adie can be used. Candidates are selected through an interview process that assesses their motivation and qualifications. The franchisees are either admitted directly into the scheme, or Adie proposes training to help the candidate develop their skills.

There are contractual relationships between the microfranchisor, microfranchisee and Adie. Microfranchisees must provide a small amount of royalties to the microfranchisor for the right to use their business model. A majority of microfranchise projects are concentrated in the retail and service sectors. This includes, for example, graphic

designers, house painters, florists, grocers, beauticians, restaurants, architects, farmers and photographers. There are two models of microfranchises (Box 9.1).

#### Box 9.1. Types of Adie microfranchises

##### 1. Partnerships with large companies

- Large job creation potential (minimum 200 microfranchisees targeted per network).
- Example: Microfranchise O2 Adie, which is a network of gardening microfranchises. It was launched in 2011 and is currently a network of 30 gardeners.
- Other projects are being studied for their potential, including street food vendors and household services such as ironing.

##### 2. Partnerships with entrepreneurs

- Medium job creation potential (approximately 50 microfranchisees targeted per network)
- Examples: i) *Chauffeur&Go*, which is a short-term chauffeur service that was launched in 2010. It had 90 drivers in its network in 2013 and aims to grow to at least 130 drivers by 2015; ii) *Mon Coursier de Quartier*, which was launched in 2015. It is a cyclotaxi service that provides passenger transportation and small package delivery.
- Other driver services are being assessed for their potential as a microfranchise network.

Adie manages the network of microfranchises through its local agencies. It also provides financing which is either provided through Adie's microcredit schemes or through a dedicated microfranchise investment fund. For those seeking microcredit, microfranchisees apply through the standard microcredit procedures where an application is made to a credit committee that is composed of Adie staff and volunteer business managers, accountants, and bankers. The investment fund, *Adie Microfranchise Solidaire Investissement*, has a mandate to support and finance the creation and development of microfranchising networks by acquiring equity shares in the capital of microfranchising businesses. Both financing instruments base their decisions on the capacity and motivation of microentrepreneurs, as well as the feasibility of the project.

### Challenges encountered

Several institutional and external barriers had to be overcome to conceive and implement the Microfranchising Scheme. The administrative environment created some challenges as complex national legislation does not always support social innovation. For example, there are education and certification requirements for bicycle repair people or home delivery services. This impacts microfranchisees since many of these low-skill occupations require training and certification. Adie will propose and guide training, but this cost and time-investment is borne by the microfranchisee. One of the objectives of the scheme is to overcome this challenge by proposing business models that do not require training or certification.

Another challenge faced by the scheme is selecting appropriate clients who will likely succeed at operating microfranchises. Adie uses motivation and education as predictors of success but the experience to date has not been successful at refining the selection criteria to better predict success as a microfranchise operator.

As Adie develops this scheme, it faces a number of strategic challenges. First, there is a challenge to scale-up the scheme at a low cost. The scheme relies on volunteer business professionals to help select candidates and to deliver training and support. Increasing the scale of the scheme requires more volunteers and more staff to train them. Second, organisers would like to strengthen the linkages between the microfranchising scheme and other Adie support offerings such as advice and training. Third, there is a need to improve linkages between the microfranchisees and financial institutions so that the microfranchise networks can grow.

## Impact

To date, the Adie Microfranchising initiative has developed three microfranchise networks, creating more than 150 self-employed jobs. Five other microfranchise projects are currently under study or at a pilot phase. The cost of this project is approximately EUR 8 000 per job created, substantially less than the total cost of supporting an unemployed person with unemployment benefits (EMN, 2014).

In addition to creating jobs, the microfranchising model can improve job quality for low-income earners. In the O2 network of gardeners, microfranchisees typically become profitable after 3 months and earn approximately 1.5 times the minimum wage (EMN, 2014).

Adie's social microfranchising is based on a profitable business model both at microfranchisor and at microfranchisee levels. This two-level profitability is supposed to secure long-term sustainability of the microfranchise networks. Whereas microfranchisees theoretically have to be able to break even very quickly, microfranchisors typically reach their break-even point after two to three years of activity. *Chauffeur&Go*, Adie's first microfranchise network, was launched in 2010 and became profitable in 2013.

## Conditions for transfer

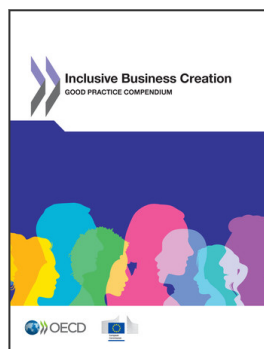
Adie's Microfranchising Scheme has been designed with the aim of ensuring that both the business models of microfranchisor and microfranchisee are sustainable. This two-tiered objective aims to ensure the long-term sustainability of each network. Key factors that should be taken into account in seeking to replicate this model elsewhere include the following:

1. *Simplify the entrepreneurship process.* One of the key features of microfranchising is that it transfers a proven business model to a new entrepreneur along with assistance and support. This eliminates the need to "re-invent the wheel" for new entrepreneurs. Many of the benefits of microfranchising derive from the mutual dependence between franchisor and franchisee. Franchisors want to protect their relationships with their microfranchises and the best way to do that is to see them succeed. Microfranchisees, in turn, owe their entire business to their special relationship with the franchisor. This link provides security for franchisors to invest in franchisees confident that both will reap the returns.
2. *Ensure microfranchisees can access business development services.* Adie provides some support to the microfranchisee, which complements the support directly provided by the microfranchisor. Training and individual support increase the chances of success for the new entrepreneur by ensuring that they have sufficient entrepreneurship skills and providing encouragement.
3. *Leverage the expertise of the microfranchisor.* The role of the franchisor is critical in this scheme. It is important that their business model be simplified and transferable. They must also be willing to support the microfranchisee with training, support and quality control.

4. *Build a small staff with expertise and enthusiasm.* The scheme's staff should be able to not only manage the project but also actively support both microfranchisees and microfranchisors. It is important to have key staff members with knowledge and experience in entrepreneurship, entrepreneurship education training, financing and related training and coaching to provide technical support. It is also important that they have an enthusiastic attitude to promote the scheme, develop relationships with potential microfranchisors and manage the daily activities such as conducting intake interviews.
5. *Develop appropriate selection criteria.* To help ensure the success of microfranchising, it is important to build microfranchise networks around business models that have the potential to grow. Important considerations are: i) the size, accessibility and sustainability of the market; ii) the soundness of the business model at both franchisor and franchisee levels; iii) the expertise and support of microfranchisors; and iv) the transparency and balance in the three-way partnership between the organiser, microfranchisor and microfranchisee.

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