

# A qualitative study on the characteristics of micro franchise business models in Selangor, Malaysia

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## ABSTRACT

The micro franchise concept is one that provides business opportunities to low-income and poor populations. The business concept has been acknowledged as one of the tools to eradicate poverty, because the concept has provided opportunities to the poor to own and operate proven successful business. Nonetheless, the concept is yet to be fully embraced by the poor and low-income populations in Malaysia. Even if the concept is embraced, little is known about the characteristics of micro franchise businesses in Malaysia, especially in the State of Selangor. The purpose of this research is to investigate the characteristics of the micro franchise business model embraced by the franchisees in the State of Selangor. A qualitative, exploratory, method was employed and in-depth semi-structured interviews were conducted on 10 franchisees in Selangor. Content analysis was used to analyze the data which resulted in generating the codes, categories and themes for this research. Affordable investment is the most significant reason for the franchisees in Selangor to venture into the micro franchise business. However, the micro franchise is only affordable for middle-income group and not for the poor or low-income group. It was also revealed that the business format franchise is the most preferred model for micro franchise businesses because of the simplicity of the business model. The research has provided an insight into the micro franchise businesses in the State of Selangor

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**Keywords— Business format, characteristics, franchise, micro franchise, model.**

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## I. INTRODUCTION

ways Micro franchise is a replicable business model that meets the demand of small and medium businesses [1], [2]. It is also a subset or duplication of the franchising concept, in which standardized products and services are disseminated on a small scale [3]. The Ministry of Domestic Trade and Consumer Affairs (MDTCA) defines a micro franchise as a business package with initial investment costs of less than RM50,000 (USD12,000) and is targeted at the B40 and M40 groups [4]. The concept of a micro franchise has long been popular in Western countries, but it has only recently gained traction in Asian countries, particularly in Malaysia. Nonetheless, the concept is yet to be fully embraced by the poor and low-income people in Malaysia. Selangor, being the most populous state in Malaysia should have high demand for micro franchise businesses, but this was not the case because the franchisors are not willing to offer micro franchise business packages due to low profit margin [5]. Even if an entrepreneur adopts a micro franchise business, little is known about the characteristics of such businesses because scholarly papers on the issue are scarce, especially in Malaysia.

The qualitative explanatory method was employed, and the data was collected through an in-depth semi-structured interview with the selected franchisor and franchisees. The micro franchise business has evolved into a business model that assists the country in its economic recovery, by providing business opportunities and employment [6]. Hence, this study is essential as the findings will assist the government in encouraging more people to participate in a micro franchise business to improve their economic well-being. Therefore, this research aims to investigate the characteristics of the micro franchise business model in Malaysia, particularly in the State of Selangor. In achieving the research objective, one research question has been developed, such as “Why do the franchisees in the State of Selangor embrace the micro franchise business model?”

## II. LITERATURE REVIEW

The micro franchise can be broken into two components: micro means small, and franchising refers to the systemization and replication of successful enterprises by providing service to poor communities [7]. The micro franchise is simple enough for people without an educational background to operate and the franchisor develops a detailed and promising operating system [8]. Interestingly, the beauty of micro franchising, also known as social franchising, is that it allows the franchisees to achieve both financial and social goals [9]. The social goals in franchise business may include reducing the initial and on-going fees, providing additional support services and offering community development programs.

There are various franchise models discussed by previous researchers, such as business format franchise [10], [11], product franchise or trademarks franchise, conversion franchise, and area franchise [10]. Both traditional franchise and micro franchise adopts similar models and the differences are more towards its mission, objectives and scales. One of the most critical aspects of the micro franchise business model is that the business can provide opportunities to underprivileged people and communities. The Health Store Foundation (HSF) in Kenya, Honey Care Africa (HCA) in Africa, Drishte (DT) and Shakti Amma (SA) in India, Patrimonio Hoy (PH) in Mexico, and Fan Milk (FM) in Ghana are all the successful micro franchise programs that provide business opportunities to underprivileged groups such as local villagers, poor women, and small farmers, and serve the underprivileged communities by providing access to medicine, access to high quality consumer products, creating job opportunities, access to building material for low income clients [11]–[14].

By adopting the micro franchise business model, the business is able to reach its break-even, create savings, and scale-up the operation [12], [15]. Micro franchise provides opportunity to own a ready-made business and thus achieving break-even, create savings and ability to scale-up the operations are achievable. The low start-up cost or initial capital outlay is also one of the micro franchise business model's features. It is interesting to note that Patrimonio Hoy in Mexico has zero start-up costs so that everybody can participate in the business. However, in return, they have to make a weekly deposit to the franchisor [16]. **Table 1** summarizes the characteristics of micro franchise business models in the selected countries.

**Table 1 – Characteristics of micro franchise business models adopted by the franchisees**

	<b>HSF</b>	<b>HCA</b>	<b>DT</b>	<b>SA</b>	<b>FM</b>	<b>PH</b>
Franchise format	Business format	Hunter/gatherer/farmer	Business format	Sales agent	Sales agent	Local promoter
Business activity	Health-care	Honey producer	Services	Retail	Retail	Construction
Purpose	Provide access to essential medicine	Provide training and market access to small farmers	Make under-privilege people more self-sufficient	Provide access to high quality household	Create jobs/business	Provide access to building material to low-income clients
Start-up cost	USD300	USD160	USD200	USD 220-330	USD 33	None
Sales/profit margin	USD 600 yearly	USD 200-250 yearly	USD400-USD700 monthly	USD15 to USD22 Monthly	USD 0.73 per unit	USD2.50 Per client
Fees	Not required	Not required	Not required	Not required	Not required	Weekly deposit
Target franchisee	Licensed nurses	Small farmer	Villagers	Poor women	Poor people	Low-income people
Intermediaries	NGOs/funders	NGOs/funders	NGOs/funders	SHG/NGOs/funders	NGOs/funder	NGOs/funders

The intervention of intermediaries, such as the government, non-governmental organizations (NGOs), and private funders, is another significant component of the micro franchise business model, especially in providing financial assistance. In starting up the micro franchise business, the sources of financing could be derived from microloans, grants, personal savings, loans from friends and siblings [12].

### III. METHODOLOGY

This research used a qualitative design based on the rationale that this study represents the views and perspectives of the participants and studies the meaning of informants' life under real-world conditions. Therefore, standard questionnaires will not be adequate to answer the research question. The philosophical perspective adopted for this research is

interpretivism, as it involves in understanding on the actions of the franchisees in embracing the micro franchise model. The qualitative method adopted is the exploratory method, as this research attempts to explore and provide information on the characteristics and type of micro franchise business model adopted by the franchisees.

The informants of this research consist of micro franchisees from the food and beverage industry, as 42% (382) of the franchise business are from this sector [17]. The participants in this study were chosen using purposeful and snowballing sampling strategies. Purposive sampling is effective when it is properly used in selecting the participants [18]. 10 research informants have been selected based on the sampling strategy used and all the research informants were contacted via phone calls to set for an interview appointment

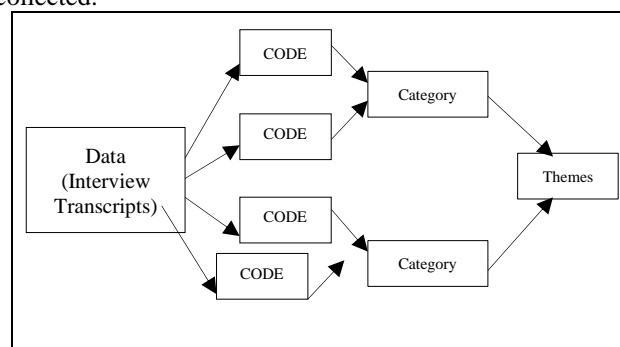
The data was collected in stages from August 2020 until March 2021 using in-depth semi-structured interviews. The interview guide was adapted and modified from the previous micro franchise research by FUNDES, a non-governmental organization in Latin America [19]. Initially, 20 participants were chosen, but by the 10th participant, the interviews had reached saturation since no new codes and themes had been identified while examining the interview transcripts. An inductive research strategy was used in this research, starting with data collection and then proceeding to derive generalisations using the inductive logic. **Table 2** shows the data of the list of participants for this research:

**Table 2- List of Research Participants**

Label	Participants	Business Set-up
P1	Franchisee	Kiosk at Mall
P2	Franchisee	Kiosk at Mall
P3	Franchisee	Unit at Food Court
P4	Franchisee	Unit at Food Court
P5	Franchisee	Kiosk at University
P6	Franchisee	Kiosk at Mall
P7	Franchisee	Kiosk at Mall
P8	Franchisee	Kiosk at Shop entrance
P9	Franchisee	Kiosk at Mall
P10	Franchisee	Kiosk at Mall

All of the research informants gave verbal consent after being briefed about the research. The interviews were audio-recorded and held at the informants' business sites. The interview was conducted by the first author, a female, having a doctoral qualification and possessed 10 years of experience in education industry. The third author introduced 3 participants and interviewed one of them. The recorded interviews were first transcribed verbatim, manually from the audio recordings. Each interview lasted for 1 hour to 1.5 hours.

In analysing the data, content analysis was used, and the analysis was carried out in stages. For data analysis, the informants are labeled as P1 – P10 to preserve their anonymity. The transcripts were then coded manually using the open coding method. After the interview transcripts were coded, the codes were put together under common categories and later developed into themes. **Figure 1** illustrates the coding process undertaken for this research. The final stage is the interpretation of the data as the data do not “speak for themselves” [20]. In this research, triangulation is used as the procedure to validate the data collected.



**Figure 1 The Coding Process**

## IV. RESULTS

This section presents the findings of this research based on the codes and themes derived from the data analysis. **Table 3** revealed that 70% of the participants are female, 60% are in the age group of 36 to 45 years and 100% of the participants are from the middle-income group. The demographic data also revealed that the participants of the micro franchise business are those from the middle-income group with a household income of RM4,800 to RM10,000. **Table 4** shows initial codes and categories derived from the transcripts, which are then grouped under common categories.

**Table 3: Demographic Data of the Participants**

Item	Categories	%
Gender	Male	30
	Female	70
Marital Status	Married	90
	Single	10
Age	25-35	30
	36-45	60
	46-55	10
Status of Income	Low Income	0
	Middle Income	100
	High Income	0

**Table 4: Codes and categories**

Research question: Why do the franchisees in the State of Selangor embrace the micro franchise business model?		
Informant(s)	Codes	Categories
P2, P3, P4, P7 & P8	a) Ability to invest of RM25,000 b) Use of own savings c) Invest using compensation money d) Use of other business sources e) Low-cost business f) Savings from the previous job	Affordable investment
P1, P2, P3, P4, P5, P6, P7, P8, P9, and P10.	a) Easy business concept b) No experience needed c) Training provided d) systematic business	Business format

	e) Training provided	
	f) Brand recognition	
	g) No skills needed	
	f) No franchise and royalty fee	

Based on the initial coding, the most significant categories that emerged from the data analysis are affordable investment and the adoption of business format franchises.

#### **Affordable micro franchise for middle income group**

The participants agreed that the micro franchise business ventured by them is affordable and low cost in terms of the initial capital outlay required. In this regard, P3 confided as follows: “The capital of RM20,000 (USD4,700) is from savings. It is worth it. People can afford it”. P2 has a similar opinion who stated: “At first, I wanted to invest in two franchises, but I can’t afford it, so I only invested RM20,000 (USD4,700) for a single franchise business, and I use own savings”. The findings are, to some extent, at odds with those of micro franchise scholars such as [11], [21], who revealed that the micro franchise business is for the poor people and not for the middle-income group.

#### **Adoption of micro franchise business format**

The micro franchise model adopted by the franchisees in Selangor is the business format model. The characteristics of business format include the availability of standard operation procedures, standard products and services, no skills and business experience needed, availability of training, strong brand recognition and absence of royalty fees. P3 expressed as follows: “Franchise business is easy, you don’t have to start from scratch, the brand already established, you just follow the procedures to ensure the quality of the product, and it is profitable”. A similar opinion was shared by P04 who confided as follows: “It is a ready-made business. Everything is there. You just have to follow. It is worth it, and I am really satisfied with the quality of the product”. The findings are broadly in harmony with previous findings, which suggest that the business format is the best franchise format because it provides access to products and services, rights to trade under a common brand and received comprehensive operating procedures [10].

### **V. DISCUSSION**

The critical aspect of micro franchise business concept is to provide business opportunities to the poor people. However, it was intriguing to see that all of the franchisees interviewed are from middle-income group as evidenced in **Table 2**. In other developing nations, such as India, South Africa, Mexico, Ghana, and Kenya, the micro franchise concept assists the poor or low-income population in generating revenue and providing job opportunities. Micro franchising should be the potential option for social enterprises looking to grow to a significant scale at the bottom of the pyramid (BOP) [22], but this was not the case in Malaysia.

The characteristics of the business model adopted by the participants were found to be similar to the other business format model embraced in other developing and poor countries. The simplicity of the business model was one of the most appealing aspect of micro franchise business that drew the participants in. The straightforward model makes it simple to run the business. It was also noteworthy to notice that all the micro franchise businesses activity are in the food and beverage as there are currently no micro franchise businesses in other industries due to the tiny number of franchisors offering the micro franchise business package. For instance, Malaysia only has 12 franchisors offering micro franchise packages as of 2021, which is a very small number when compared to the 1,091 registered franchisors [23].

Essentially, the purpose of micro franchise businesses in Malaysia, particularly in the State of Selangor is to provide business opportunities rather than to benefit underprivileged people. Unlike the micro franchise businesses such as Honey Care Africa, Health Service Foundation, Drishte, Shakti Amma, Fan Milk, Patrimonio Hoy, all have the purpose of serving the underprivileged communities and at the same time providing business opportunities to the poor people, such as providing access to high quality consumer goods, access to medicine, access to building material to low income people, create job opportunities, training to small farmers.

From the literature, it has been observed that micro franchise business should serve its purpose and benefits the poor people. Despite Malaysia’s efforts in promoting the micro franchise business, the purpose and the target participants are

yet to attain its full potential. So forthcoming research may focus on investigating the micro franchise business model in other States and identify the reasons on the low participations of the poor in micro franchise business. The suggested future research may benefits future researchers, and specifically the policy makers in creating a micro franchise business that attracts the poor people and at the same time benefits the poor communities.

## VI. CONCLUSION

The micro franchise is a business tool that helps low-income and underprivileged groups to start and own a business. Nonetheless, the affordability of micro franchise business in Selangor seems to fit the middle-income group and does not serve the purpose and intention of micro franchise concepts. The concepts that can create business opportunities for the poorest communities seem not to be well suited with the phenomena in Selangor and thus, receive less participation from low-income and poor people. The business format franchise is the most preferred format for the micro franchise business model due to the simplicity of the model that makes it easy to operate.

## VII. ACKNOWLEDGMENT

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