Propaís: striving for the Future of Micro-Franchising in Colombia

Teaching case

Abstract

Propaís was a Colombian non-profit organization founded in 1994 by the public and private sector. By October 2018, Castrillón, general manager of Propaís, was concerned about the future of the micro-franchising project (MFP). The MFP was core to Propaís mission and it promoted the creation of 70 new enterprises, which generated 350 direct jobs and produced over US$ 1 million in annual sales. IDB-MIF had announced its decision to retire its financial support as of May 2019, generating great uncertainty regarding the feasibility of the project. The path was uncertain, and the alternatives did not seem to offer clear solutions.

Key words: Inclusive business; micro-franchising; stakeholder analysis; value-mapping tool; value creation, value destroyed, and opportunities for value creation

1. Introduction

On October 16, 2018, María Lucía Castrillón, Propaís' manager, was driving to the organization's headquarters. Trapped in traffic on a gray morning in Bogota, she wondered what to do to ensure continuity for the "Micro-Franchising Development in Colombia" project (MFP). Propaís had started this initiative in 2012 –with funding from the Inter-American Development Bank (IDB) via the Multilateral Investment Fund (IFM)–[1] to promote sustainable income sources for Colombia's vulnerable and low-income population, supporting business expansion through micro-franchises.

María Lucía would have to report to the project team that IDB/IFM had confirmed their decision to withdraw from the project in May 2019. Propaís had less than seven months to formulate and launch a new strategy to keep the MFP alive and support the micro-franchises established across Colombia. She feared the project had no clear future and felt responsible for the fate of the new entrepreneurs' dreams.

María Lucía remembered many business success stories that not only benefited the entrepreneurs themselves but also created new jobs. She vividly recalled the words of gratitude of people like Juan Arango, an Antioquia-based entrepreneur who had launched his café franchise to rebuild his life after having been displaced by violence; Jesús Ramírez, a "Café Arangos" franchisee once unemployed who, at the latest Propaís meeting held two months before, had proudly stated that his business produced a monthly income of COP$ 5 million (US$ 1,700) after only three years; or Ángela Velazco, an "Alitas Colombianas" franchisee, who acknowledged that the support she had received made her an entrepreneur in record time. These

[1] Inter-American Development Fund – Fondo Multilateral de inversión, https://www.iadb.org/es/recursos-para-empresas/fondo-multilateral-de-inversiones%2C5763.html, accessed on September 28, 2018.

small businesses might not survive without a viable alternative to continue MFP, that had proved to be instrumental for Propaís' mission.

With all that in mind, María Lucía started the meeting with a question: "What are we going to do to prevent this dream from ending here?" And then she added, "we cannot let our entrepreneurs down". Propaís had devoted over four years of hard work and invested nearly US$ 2.5 million of its own resources and external financial contributions to pioneer franchising in Colombia. 70 new business ventures had been started by 70 new entrepreneurs, with over US$ 1 million in sales and 350 new jobs created.

Ending the project was not an option for her. Expanding franchisees would be left without support; prospect franchisees would lose their opportunity; five jobs would be lost for every franchise missed, and the franchise creation pace would come to a halt. María Lucía reminded her team that studies on franchising models reported a failure rate of nearly 25% during the first year and 40% before their fourth operating year, if the franchises did not receive any support. Thus, the three-year continuity accomplished by these entrepreneurs did not suffice to guarantee their future endurance.

Two options emerged. First, if Propaís wanted to continue leading the project, it needed to secure new cooperation resources. Propaís' experience in orchestrating the MFP with IDB-IFM support had taught that securing outside funding could be both uncertain and time-consuming. Seven months was a very tight schedule, considering that building the project and negotiating with the IDB had taken nearly five years. Propaís lacked the resources to support the project on its own during such a long negotiation process and did not intend to abandon its micro-entrepreneurs in the meantime.

The second option involved transferring the project knowledge to some of Propaís' allies, so that they would scale-up the micro-franchise model. Team members considered a number of partner Colombian organizations viewed as key to move forward. These organizations included Colombia's Trade Ministry, which wanted to support business ventures involving population groups affected by the country's armed conflict; local Chambers of Commerce, which hoped to expand their service portfolio for their members; Postobón, a beverage company trying to benefit its distributors, and Coomeva Foundation, with its large number of its family compensation system beneficiaries.

Propaís' team agreed that transferring knowledge to these allies would pave the way for a nationwide project scaling, but two concerns still worried them. On one hand, every partner had its own interests and priorities (either regional or based on their respective beneficiaries' traits), which might exclude some existing and potential entrepreneurs. On the other, they feared that without Propaís leadership, proper coordination and follow-up mechanisms, the initiative might fade away in a couple of years. The path ahead looked uncertain, and the alternatives at hand seemed unclear in terms of offering effective solutions. Was Propaís ready to pass the micro-franchise project onto other players, or should it continue leading the initiative?

2. Propaís

Propaís, a mixed nonprofit organization, was created in 1994 to organize cross-sector public-private support programs for Colombia's business sector, focused largely on small companies. It comprised 76 members (nine public agencies and 67 private organizations). Among public-sector members it included Colombia's Trade Ministry, Agriculture Ministry, National Learning Service, National Planning Department, National Guarantee Fund, Labor Ministry, and Education Ministry. The list of its private-sector members featured organizations such as Confecámaras, Coomeva Foundation, Postobón, and Bogota's Chamber of Commerce, among others. Propaís sought to strengthen Colombia's business fabric by fostering the development of micro-, small-, and medium-sized enterprises. Its mission statement read,

> Propaís seeks the development of micro- and small-sized enterprises, working strategically and jointly with public and private agents. The organization's operations focus preferably on promoting policies, creating information, and carrying out programs that prove relevant for this sector.

Propaís worked in three areas: (i) assessing co-funding projects with public and private resources; (ii) business and regional strengthening via orchestrating and developing support projects for the social, business, and economic growth of Colombia's micro-, small- and medium-sized enterprises (MSMEs), and (iii) promoting markets for micro- and small-sized businesses.

In its second focal field, Propaís, with 23 years of experience, stood as Colombia's only organization propelling micro-franchise projects. As María Lucía put it, "No other institution in Colombia did the work Propaís carried out." In fact, the organization brought together public and private players to implement the micro-franchise model in order to foster economic development across Colombia and its regions, creating new jobs. Propaís expected this initiative to be replicated by its allies, promising to transfer its knowledge to that end.

The key players in the MFP included franchisers, who developed and sold a branded business model, and franchisees, who bought them. Propaís offered franchisers the training and support required to implement the micro-franchise strategy and expansion plan. It also provided franchisees the opportunity to become entrepreneurs with lesser risk by acquiring a proven business model (**Exhibit 1**).

3. Colombia and Micro-Franchises

By 2018, Colombia, a South American country located at the center of the continent, had a population of nearly 49 million people and a per-capita GDP of US$ 6,300. Its unemployment rate had dropped from 15% in 2003 to around 9%, but its Gini index, as reported by the World Bank, was 0.53, while over 30% of Colombia's population lived below the poverty line. Colombia ranked among Latin America's most economically stable countries, while it remained among the ones with the highest inequality.

After decades of domestic armed conflict with FARC –one of the most aggressive and the oldest guerrilla force in Latin America– and struggling with drug trafficking for years, Colombia reached a peace agreement in 2017. This agreement brought a number of challenges, notably including the engagement of the private sector to find employment and legal business solutions for nearly 10,000 Colombians who remained outside the law, according to the official demobilization records submitted by FARC to Colombia's government, as well as over 8.5 million citizens listed in the Victims' Single Record (RUV), who needed to rebuild their lives after years of attacks and displacements as a result of the conflict.

Colombia was also facing new challenges because of the flow of immigrants coming from neighboring Venezuela, as a result of its political and social instability. According to official data, over two million Colombians who had settled in Venezuela for decades and over 1.1 million Venezuelan nationals had moved into Colombia in 2014-2018 looking for better living and job opportunities.

To address business and employability issues, franchises, an expansion model that enabled entrepreneurs to start market-proven ventures with lower startup risk, had emerged in Colombia. From 2005 to 2017, franchises had risen from 110 to 450, meaning that franchisees' stores had grown from 3,000 to nearly 11,000. Based on Colfranquicias' data, this growth resulted in 45,000 new jobs.

4. IDB-IFM SCALA Latin America

From 2013 to 2018, IDB-IFM carried out the SCALA project to "Foster Low-Income Population's Economic Empowerment Via Inclusive Distribution Networks." To contribute to increasing poor and low-income micro-entrepreneurs' income in Latin America and the Caribbean, IDB-IFM invested US$ 3.285 million in co-funding resources through a multi-alliance model. IDB-IFM's SCALA project offered partners non-refundable funding for Inclusive Distribution Networks (IDNs). The business models supported were required to provide beneficiaries –especially female household heads and youths– with business capabilities and access to funding.

Supported IDN projects included initiatives such as Plan Barrio Nestlé (*Nestlé Neighborhood Plan*), which hinged on the distribution of Nestlé-branded products at low-income neighborhoods in the Dominican Republic; and Brazil's Danone-Kiteiras project, which employed low-income women to promote, sell, and distribute dairy products door to door in their neighborhoods. It also comprised, Yamaha's engine repair and maintenance shops, operated by low-income communities in Surinam (https://observatorioscala.uniandes.edu.co/es/observatorio-scala/casos-scala, accessed on October 28, 2018).

5. The Micro-Franchise Project: Propaís- IDB-IFM Alliance

As part of the SCALA project, Propaís accessed US$ 1.332 million in co-funding resources from IDB-IFM to build its MFP in Colombia. With this initiative, Propaís hoped to "help increase the scale of micro- and small-sized enterprises' operations by designing and applying a business-format micro-franchise model."

The co-fund contributions to the project, adding up to US$ 1,208,150, came from a number of partners who provided financial or in-kind resources. Postobón –Colombia's largest non-alcohol beverage company– contributed US$ 50,000 a year. In turn, other allies, such as Chambers of Commerce, Coomeva Foundation or the Corporación para la Mujer (*Corporation for Women*) made in-kind contributions, including working hours, snacks, and logistic support for events.

Propaís' franchising project came about as a means to fulfill the organization's mission and to pursue its strategy. As Luis Martínez, project head, elaborated,

> This project matched one of Propaís strategies, which focused on business and regional strengthening… Our franchising clients were micro-, small- or medium-sized enterprises; if we supported their business growth, using a micro-franchise strategy, we would drive Colombia's business development.

The first step involved formulating and setting up the project, with Propaís' board support. The proposal was submitted to IDB-IFM, approved for 42 months and launched on November 20, 2014.

To tackle the first challenge related to "raising awareness and promoting the notion of micro-franchises", Propaís held dissemination events to offer a better understanding of: (i) the types of processes and procedures required for a franchising agreement; (ii) the capabilities that micro-franchise entrepreneurs needed to succeed; and (iii) the practical implications of a franchise – both for franchisers and franchisees.

The project's execution stages (**Exhibit 2)** required to strengthen Propaís' capabilities. In three years, Propaís forged alliances with 60 partners, provided technical support to 52 enterprises, and certified 217 entrepreneurs as potential franchisees. Additionally, it held 11 business rounds to gather franchisers and prospect franchisees and developed 47 micro-franchises. The project operated in Colombia's major regions, and franchisers were largely located in the Cundinamarca, Valle del Cauca, Antioquia, and Atlantic Department.

Under Propaís' supervision, building a micro-franchise had an average cost of COP$ 28 million (approximately US$ 10,000). This cost included technical support, a diagnosis of franchisers' business, and the elaboration of a plan to set up a micro-franchise, encompassing all the strategic, financial, operating, legal, and commercial issues involved. The IDB-IFM funding allowed Propaís' MFP to cover 50% of all franchise setup costs, asking franchisees to pay for the remaining 50%.

6. Micro-Franchising Project Outcomes

For Propaís, the MFP results (**Exhibit 3)** were encouraging, but as Luis Martínez pointed out "it hadn't proven an easy task". Some potential entrepreneurs had failed to acquire franchises, despite attending Propaís' training courses –some because they could not secure a loan, and others because they were just interested in the training itself. One franchisee returned the acquired franchise on account of poor financial returns. At the same time, some franchisers, while having completed the preparation process to execute a micro-franchising strategy, had failed to sell their first franchise. Others left the project after receiving consulting support and taking advantage of the grant offered by IDB-IFM (50% of consulting fees). To add to this concern, a corruption attempt was unmasked, as one franchiser had asked a consulting agency to pretend conducting the advisory process in order to secure the IDB-IFM grant and share it in equal shares. Finally, there was also great uncertainty about the future of many consulting agencies created to support the whole process.

With the project deadline (March 2019) closing up, 55 out of Propaís' 57 partners were still not able to develop the whole process by themselves. The partners that wanted to replicate the model faced constraints regarding their target segments. For example, Mincomercio was only able to work with conflict victims; Coomeva could only serve its members; Medellin's Chamber of Commerce was only able to cater to the needs of its members, and its operating scope focused on Antioquia only, and Postobón's efforts were restricted to the food industry. Additionally, allies found it hard to secure funding sources to continue providing the grants to cover 50% of consulting process expenses that IDB-IFM had offered.

Referring to Propaís' project, a Mincomercio official noted, "The population associated with the project is not the most vulnerable." Among both franchisers and franchisees, only one individual was included in the census of Colombia's armed conflict victims, while most participants had enjoyed access to a higher education. The project failed to reach the country's poorest areas and population (**Exhibit 4**).

a. Franchisers

The project catered to Colombian companies that were interested in expanding their business via franchises. Participating firms had to comply with all legal requirements for formal businesses, including paying their employees a salary equal or above Colombia's current minimum monthly wage (SMMLV), which stood at US$ 260 in 2018. These companies also needed to have registered trademarks, more than two years in business, and prove profitable. Propaís corroborated this information reviewing the firms' financial statements.

Out of the 52 franchising firms in the project, 47% were micro-ventures; 42% were small enterprises, and medium-sized companies accounted for the remaining 11% (**Exhibit 5**). Franchisers charged franchisees an entry fee for brand utilization and knowledge transfer that ranged between US$ 0 and US$ 10,000, plus a 5% sales commission on average.

Franchisers sold their brand, their business model, and their expertise. With micro-franchises, they could earn royalties, improve their brand positioning, and increase their market share. A franchiser put it as follows,

> We provide franchisees with all the knowledge required in a full-time, one-month-long program, and we offer them support on issues associated with recruiting, human resource management, accounting, as well as financial, tax-related, and technical matters. In exchange, we receive an entry fee, a 5% royalty on sales, and we gain on brand positioning.

Propaís supplied technical support to franchising companies, helping them to get ready for their expansion via franchises. To this end, the organization engaged consulting firms with franchising expertise and paid 50% of the consultancy fees with resources provided by IDB-IFM, while franchisers paid for the remaining 50%. Propaís referred to this support as technical assistance. An official from Propaís explained,

> At the technical assistance phase, the participating company's business expansion plan was formulated, using the micro-franchising model. This stage encompassed four modules: Marketing, Operations, Finance, and Legal Affairs.

Once franchisers completed their technical assistance phase, their core business model processes were streamlined, and their companies were ready to expand. In addition, franchisers could attend the micro-franchise marketing events, known as business rounds, organized by Propaís to accelerate their growth. A potential franchisee remarked, "I went to the business rounds and bought a micro-franchise confidently, as I knew I had Propaís' support."

b. Franchisees

Propaís characterized franchisees as people with an entrepreneurial spirit who dreamed about having their own business and viewed franchises as a life project. Out of the 70 franchisees involved in the project, 63% were women; on average, they were around 37 years old. A female franchisee of Alitas Colombianas, a company that sold chicken wings, noted,

> To me, this is a life project. I partnered with my husband and my brother to raise the capital for us to start our own business. We knew very little about the food industry, and I am not very good with numbers. That is why I believe the support we received from the

> franchiser proved crucial. We decided to acquire an Alitas Colombianas franchise, and we managed to break even in our first month in business.

More than half the franchisees participating in the project had a similar performance. A Propaís official commented, “Breaking even in the first month of operations showed how the micro-franchising project reduced financial risks for startups by replicating a proven business model.”

A franchisee of Café Arangos, a company that marketed coffee products, put it as follows,

> I got my Engineering degree in 2012 and became unemployed in 2016. My wife supported our home. I had no capital to start a business, but I had plenty of dreams and willingness. I saw this venture as a life project. I learned about Propaís’ from a friend, and I found the Café Arangos franchise. Propaís helped me to secure a loan with one of its partners, and with other loans that my wife got, I bought my franchise entirely on debt. After a year in business, my revenues neared COP$ 5 million (US$ 1,667), after paying off the loans’ instalments.

Propaís held briefing meetings with potential entrepreneurs, providing information on MFP. These meetings were attended by 3,466 people. Those who were interested in acquiring a franchise moved on to the next phase and received training from Propaís on administrative issues and business skills. A Propaís official added,

> We characterize a prospect entrepreneur as an individual with the potential to acquire a micro-franchise (potential franchisee). To become certified, these entrepreneurs must have attended at least three full-day training sessions in the Business, Operations, Finance, or Legal Affairs modules, as well as the workshops on business skills.

Potential entrepreneurs certified by Propaís attended the business rounds, where the supply –franchising firms– met the demand –potential entrepreneurs. According to Propaís,

> Business rounds were half-day events held with at least ten business owners and 100 to 500 guests. It was also instrumental to involve partner organizations that could offer complementary services for entrepreneurs and business owners, such as real estate and press agencies, loan and micro-loan financial institutions, among others. We carried out 12 business rounds, where over 50 proven business models were offered.

7. Allies

Among Propaís 76 partners, María Lucía and her team believed that the key allies to ensure project continuity were Colombia’s Ministry of Trade, Industry and Tourism; Postobón; the Chambers of Commerce, including Medellin’s Chamber of Commerce, and Coomeva Foundation.

The partner organizations acquired the micro-franchising expertise possessed by Propaís in two ways: first, supporting the project –some even participating in Propaís' Advisory Council– and, second, at training courses delivered free-of-charge by Propaís to all its partners who wished to attend. Also, every Propaís ally could rely on the project's partner network, including consulting firms. As a Coomeva Foundation official recalled,

> Coomeva joined this micro-franchising project for two reasons: first, the good reputation and credibility we draw from participating in project conducted by Propaís and funded by the IDB, and, second, because it helped us to advance our business strengthening and social responsibility mission.

a. Postobón

Postobón, a private, 100% Colombian company that manufactured and marketed non-alcoholic beverages, had been operating in Colombia for 111 years. Its product portfolio included water, fruit juices, sodas, tea, and energy drinks. With assets in excess of US$ 1 billion, Postobón totaled revenues for US$ 541 million in 2017 (https://www.postobon.com/).

With its shared value program, Postobón led the Minimarket 2x3 project, aimed at creating and formalizing 37 stores, with 22 of them owned by armed conflict victims and 15 owned by demobilized guerrilla members rejoining society. Every Minimarket 2x3 employed three-armed conflict victims or three individuals in reintegration process. Overall, partner organizations and Postobón contributed COP$ 3.1 billion (US$ 1 million) to this project. This initiative won the 2013 Emprender Paz (*Starting Peace)* award, and Postobón's allies in this venture included Colombia's Ministry of Trade, Industry and Tourism. As a Propaís official pointed out, "The Minimarket 2x3 project pioneered micro-franchising in Colombia."

While this company only catered to the food industry in alignment to its corporate purpose (for example, it could not promote personal care franchises), Postobón wanted to include Propaís' initiative in its shared value program. The company participated in Propaís' Advisory Council –the board for its micro-franchising project– and invested US$ 50,000 a year in the project. Postobón operated nationwide and was a well reputed company. However, a new risk was emerging for its business, as a domestic tax on sugar-containing beverages (which represented a large part of its portfolio), was in study to prevent their potential harmful effects for human health.

b. Colombia's Ministry of Trade, Industry and Tourism

Colombia's Ministry of Trade, Industry and Tourism, commonly known as Mincomercio, (http://www.mincit.gov.co/) formulated, adopted, led and managed the country's overall economic and social development policies associated with production industries' competitiveness, integration, and development, as well as micro-, small-, and medium-sized companies. It was also responsible for policy setting on foreign trade of goods, services, and technology, executing international commerce plans, programs and projects; foreign investment promotion, domestic trade, and tourism. Mincomercio joined Propaís' Advisory Council but later withdrew due to differences in the understanding of micro-franchises. A Mincomercio official explained,

> The Ministry was an ally of Propaís' micro-franchising project, but we had different approaches. To us, micro-franchises should focus on poverty reduction, and we only worked with victims of Colombia's armed conflict. We couldn't use our funding to support entrepreneurs or business owners who did not meet this requirement. Propaís needed flexibility to manage resources; they didn't have restrictions on fund utilization. Propaís could offer a grant for technical assistance to a company with the capacity to expand, even if their franchisees were neither poor nor armed conflict victims. We couldn't.

Whenever franchisers or franchisees were included in the census of Colombia's armed conflict victims, Mincomercio was able to use its funds to help them start and expand a business. If franchisers did not qualify as part of this population group, Mincomercio might contact armed conflict victims and train them to become franchisees, even reaching out to remote areas in Colombia. None of the franchisees in the project were victims of the armed conflict; the only member of this group involved in the project was a franchiser of a coffee store company.

As Mincomercio was a public agency whose leadership changed every four years with general elections, its support to the project might be compromised by a government change. Still, the Ministry could support poverty mitigation programs, and micro-franchises could play a role in that strategy. As a Propaís representative elaborated,

> Colombia's Ministry of Trade is an official and national nonprofit agency. It has the resources to fund an executive team and to co-fund training and technical assistance services, as well as business rounds and seed capital requirements. In turn, the officials' turnover in these public agencies threatens the continuity of knowledge when a minister change. Then, direct contacts may be lost, and interactions may have to start from scratch. This makes execution processes difficult, particularly in a four-year project.

c. Medellin's Chamber of Commerce

Chambers of commerce were nonprofit business and union associations, whose every administration, management, and hiring practice was subject to Private Law rules. Their purpose zeroed in on safeguarding and promoting Colombian business community's overall interests. A particularly active Chamber of Commerce was the one located in Medellín, in the Antioquia region, one of the fastest growing in Colombian. Medellin's Chamber of Commerce (CCM,) (http://www.camaramedellin.com.co/site/) had spearheaded a micro-franchising project before Propaís launched its own. CCM's project was also funded by IDB and had a nationwide scope.

Gathering business owners in Antioquia, CCM had partnered with Propaís from the beginning of MFP, offering the entire model to its members. Leveraging its great influence, CCM engaged franchisers and franchisees in the project: nine out of the 70 micro-franchises created were based in Antioquia. CCM also decided to create a franchise line and include it in its operations. A CCM official recalled,

> Influenced by Propaís' micro-franchising project, we chose to create a service unit dedicated to franchises, offering support to business owners by means of outside consultants and training potential entrepreneurs. The Chamber provided institutional support to franchisers and franchisees when problems arose. The franchising unit assessed companies and determined their readiness to expand with the franchise model. Once firms were cleared, a franchising model was designed, contemplating financial, commercial, legal, and operating issues, plus, in addition to what Propaís' project offered, a corporate governance model.

Other Colombian Chambers of Commerce might join Propaís' project to secure regional scope. However, as every Chamber of Commerce had regional reach, aligning their goals while pursuing different strategies could not be easy. As a Propaís official explained,

> Chambers of Commerce serve as business benchmarks and opinion leaders in every region; as result they wield significant rallying power, both among business owners and entrepreneurs. I believe these are the organizations with the greatest influence in the business community, and they enjoy a sound reputation. However, their scope would only be regional, not national. Chambers of Commerce charge for the services they provide, and that may prove a hurdle for micro-ventures and small enterprises, as they may not be able to afford paying 100% of technical assistance fees.

d. Coomeva Foundation

Fundación Coomeva (FC) was part of a group of 17 organizations, including a bank, a healthcare service provider, and a social club, that reported to a cooperative. Standing at the helm of a business group, this cooperative was a nonprofit association where workers or users simultaneously acted as company contributors. It had been created to collectively and efficiently produce or distribute goods and services to meet the needs of its members and its community at large.

FC (http://fundacion.coomeva.com.co/) joined Propaís' MFP driven by the opportunity to offer micro-franchises to its members. The project matched FC's mission: "contributing to the development of its members, their families, and the community, promoting and supporting Colombian entrepreneurs and business owners with a comprehensive business development model." FC became a project ally since its inception, using its influence among its over 245,000 members to fill the events held to train entrepreneurs. FC's 20,000 business owner members and over 2,000 suppliers had the potential to become franchisers.

Unlike Propaís, FC was able to reach remote areas in Colombia thanks to its nationwide scope. As the micro-franchise model was part of its operations, FC's support to franchisers and franchisees would not stop if the project ended. FC expected its membership base to grow due to the interest sparked by micro-franchises. As a FC's representative noted,

> We have been part of this project since its creation, and we have experienced the entire learning curve with Propaís. An improvement opportunity lies in offering loans to both franchisers and franchisees. We have a micro-loan line of up to COP$ 50 million (US$ 17,000), and we don't just stop there. As the Cooperative owns a bank, Bancoomeva, we can offer preferential interest rates to both franchisers and franchisees.

FC offered loans and micro-loans to franchisers and franchisees, relying on the Cooperative's bank. However, to access Coomeva's services, individuals needed to become members and make monthly contributions. A Propaís official summed it up as follows,

> Coomeva Foundation was a nationwide ally that offered the possibility to access loans and micro-loans. In fact, it featured a credit line for business owners and project entrepreneurs. It stood as one of the most important allies for the project and offered all its components. Loans were granted only to members. Coomeva was a cooperative, and, to become a member, people had to apply for membership and make monthly solidarity contributions. Some entrepreneurs and business owners may view this more as a cost than a benefit. That is, not all business owners and entrepreneurs were interested in joining Coomeva, and, if they were not members, they could not access FC's services.

8. The Final Meeting

When María Lucía asked whether Propaís should continue leading the project or hand it over to one of its allies, a significant debate ensued among her team members. Some saw Mincomercio or the Chambers of Commerce strengths, but others feared that these partners might restrict the initiative to their own beneficiaries, excluding others.

As the team engaged in a long discussion, the day came to an end. The question remained, should Propaís stay on as the leader of a micro-franchising initiative, or should the organization leave the project in the hands of one of its allies? If so, to whom? What solution would better serve Propaís' mission to promote micro-franchises in Colombia?

Exhibit 1 –Franchise Examples

In Barranquilla

- Picaditas: A Barranquilla-based company created in 1995, Picaditas operates five product points of sale, offering snacks, nibbles, finger food, appetizers, hors d'oeuvres, and pre-packed lunchboxes to provide a food-sharing experience for unforgettable celebrations. http://www.picaditas.com.co/.

In Bogota

- Alitas Colombianas: Started in 2015, this company sells chicken wings in small bite sizes, with innovative flavors and excellent prices. It operates four points of sale in the nation's capital and has created 19 direct jobs and 29 indirect jobs. http://www.alitascolombianas.com.co/wp-content/uploads/2017/04/Dossier-Alitas-Colombianas.pdf.

In Cali

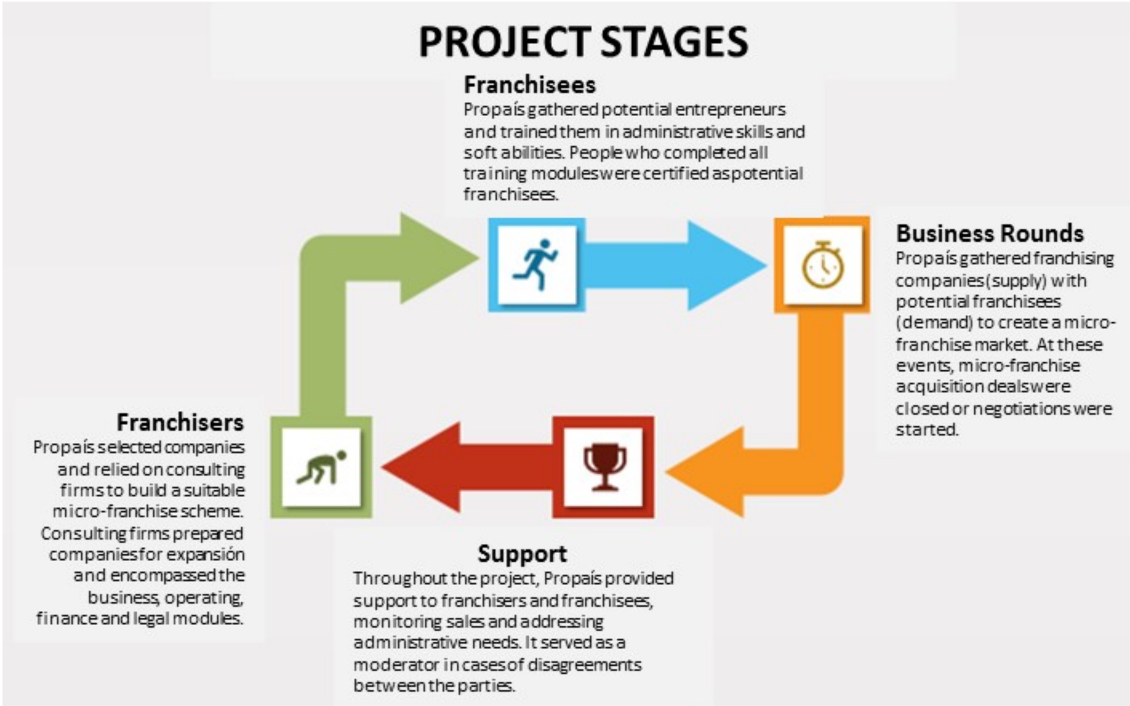
- Flying Dogs: This firm markets hotdogs that deliver the original New York City hotdog experience, adding traditional ingredients. It currently features seven franchises and 13 wholly-owned points of sale. https://es-la.facebook.com/flyingdogs.com.co/.

In Medellin

- Café Arangos: This chain of specialty coffee stores was founded in 1999 and sells coffee and coffee-based products. It has created 13 direct jobs and seven indirect ones, while it owns two points of sale and two micro-franchises. It also participates in events. http://www.cafearangos.com/.

Source: Propaís reports, 2018.

Exhibit 2



Source: Authors based on Propaís reports and documents, 2018.

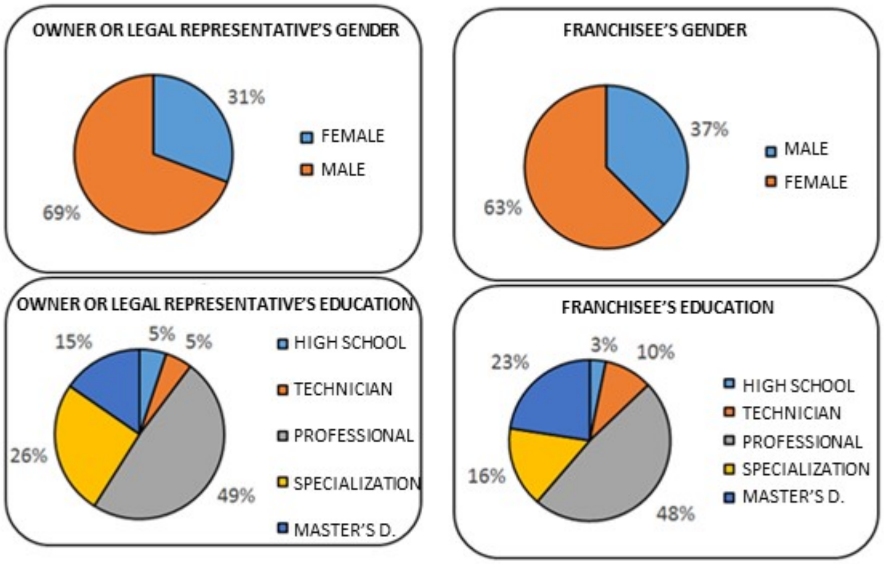
Exhibit 3

Project Results (Propaís MFP)	
Investment	US$ 2,611,765
Micro-franchise setup cost	US$ 10,000
Number of franchises established	70
Sales of established franchises	US$ 1,000,000
Entry fee	US$ 0 to US$ 10,000
Average sales commission paid to franchisers	5%
Number of franchising companies	52
New entrepreneurs	70
Number of direct jobs created	350
Number of entrepreneurs briefed	3466
Number of entrepreneurs certified	217
Project allies	57
Technical assistance to franchising companies	52
Technical assistance period length	4 to 6 months
Business rounds	11

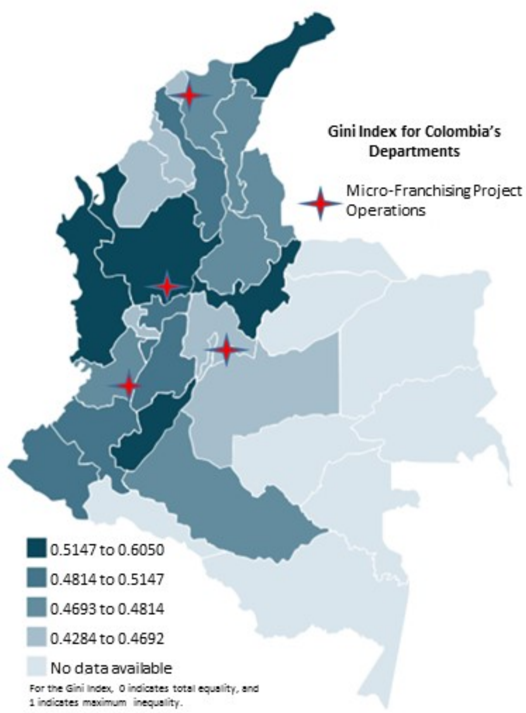
Source: Authors based on Propaís reports and documents, 2018.

Exhibit 4

Beneficiary Population Description



Source: Authors based on Propaís reports, 2018.



Source: This chart was elaborated with the Gini Index map prepared by Universidad Nacional, available at: http://unperiodico.unal.edu.co/pages/detail/conozca-el-mapa-de-la-desigualdad-del-ingreso-en-colombia/, accessed on October 29, 2018.

Exhibit 5

Colombian Companies classification

Colombian Companies		
Type	**Headcount**	**Total Assets**
Micro-ventures	10 employees or less	Equivalent to or below 500 SMMLVs
Small enterprises	11 to 50 employees	From 501 to 5,000 SMMLVs
Medium-sized company	51 to 200 employees	From 5,001 to 30,000 SMMLVs
SMMLV: minimum legal monthly wage (COP$ 781,242 or US$ 260)		

Source:
http://www.mincit.gov.co/mipymes/publicaciones/imprimir/2761/definicion_tamano_empresarial_micro_pequena_mediana_o_grande, accessed on October 29, 2018.

Propaís: striving for the Future of Micro-Franchising in Colombia

Teaching note

1. Case Summary

Propaís (propais.org.co) was a non-profit organization founded in 1994 in Bogotá (Colombia) by the public and private sector represented by 76 partner organizations (nine public and 67 private). The main public partners of Propaís were the Ministry of Commerce, Ministry of Agriculture, National Apprenticeship Service, National Planning Department, National Guarantee Fund, Ministry of Labor, and Ministry of Education. Among the private ones, there were Confecámaras, Carvajal Foundation, Corona Foundation, and Santo Domingo Foundation (http://propais.org.co/nosotros/socios/ - accessed 05/15/2018).

By October 2018, María Lucía Castrillón, general manager of Propaís, was concerned about the future of the micro-franchising project (MFP) developed since 2012. The MFP was core to Propaís mission of seeking "the development of micro and small businesses through strategic work, carried out jointly by public and private actors". It promoted the creation of 70 new enterprises, which generated 350 direct jobs and produced over US $ 1 million in annual sales.

Only a few days earlier, IDB-MIF, co-financer of the project, with a total investment of US $ 2,540,150, had announced its decision to retire its support as of May 2019, generating great uncertainty regarding the future feasibility of the project. However, to María Lucía ending the project was not an option. Propaís had invested time and money to become a reference in the structuring of franchises and had consolidated a network of allies. She felt responsible for the small entrepreneurs and feared that without MFP support, both franchisors and franchisee would lose the opportunity to undertake business and the potential to create five direct jobs for each franchise.

In a meeting with Luis Fernando Martínez (project director) and Carlos Zambrano (regional coordinator), Castrillón and her team had to seek solutions to keep the project going. Martínez proposed two options. Propaís could continue to manage the project but would need new financial resources from donors and investors. An alternative, Propaís could transfer its knowledge and processes to its allies (such as the Ministry of Commerce, the Chamber of Commerce of Medellín, private foundations or companies) so that they could scale up the micro-franchise model. However, both options implied a long negotiation process, and they had only seven months before IDB-MIF support ended. Moreover, Propaís did not have enough resources to support the project alone during any transition.

If the model of micro-franchises was given to the allies, the initiative could be scaled up and the number of established micro-franchises would multiply. But choosing the right allies was not easy either since each one had their own interests and aims, which could result in different criteria for franchisors and franchisee selections and development. It might exclude several of the micro-entrepreneurs currently involved or leave out potential ones.

Propaís' team was concerned about the people they had supported to find a new living, overcoming unemployment, and violence. They kept well in mind the testimony of gratitude of people like Juan Arango, a businessman from Antioquia who began his coffee shops franchising model to rebuild his life after being displaced by violence. They also remembered, Jesús Ramírez, a franchisee of Café Arangos who, after having spent more than a year unemployed, proudly reported earnings of US$ 1,700 a month, thanks to his involvement in the MFP. The path was uncertain, and the alternatives did not seem to offer clear solutions.

2. Case Usage and Approach

This case deals with an inclusive business model and the challenges of creating, delivering and capturing value. It also deals with opportunities for value creation for a wide range of stakeholders. Students must identify the organization best-suited to follow-up and scale the MFP while generating social value.

This case can be used in sustainable development, entrepreneurship and social responsibility courses that are a part of undergraduate and MBA curricula. It also can be used in Sustainable Management Masters or executive education.

It can be part of a course in which the learning objectives aim for students´ critical thinking and practical thinking development. The case gives the students the opportunity for analyzing and appraising value creation by different organizations as well as developing decision-making capabilities, posing the dilemmas that arise from the selection of the best-suited anchor organization(s) to undertake an inclusive business distribution program.

3. Learning Objectives

This case may enable the students:

1. Knowledge-concepts

- To identify multiple stakeholders participating in an inclusive business initiative aiming for value creation for society.
- To recognize an inclusive business initiative as a way of creating, delivering and capturing economic and social value amongst different stakeholders.

2. Skills

- To employ the value mapping tool to evaluate the value created and destroyed as well as the opportunities for value creation by a mixed (public-private) non-profit organization.
- To select and recommend the best anchor organization to implement (follow-up) an inclusive business initiative pondering the value created and destroyed, and the opportunities for value creation by the organizations analyzed.

4. **Suggested Assignment Questions**
   1. What are the main challenges María Lucía is facing on October 2018?
   2. What are the main challenges for the MFP?
   3. If you were María Lucía, who would you be worried about? Why? What stakeholders would be affected by the decision of closing the project in May 2019?

5. Theoretical Framework and Suggested Readings

The case analysis and discussion may be supported by the article by Bocken et al., 2015 related to value analysis (N.M.P. Bocken, P. Rana & S.W. Short, 2015. Value mapping for sustainable business thinking, *Journal of Industrial and Production Engineering*, 32:1, 67-81. To link to this article: http://dx.doi.org/10.1080/21681015.2014.1000399). The authors introduce the value mapping tool adopting a qualitative approach to value analysis (TN-Exhibit 4). They propose it to analyze a firm's current value proposition in terms of opportunities for new value creation, value missed, and value destroyed.

To further understand the VMT model, instructors can use Bocken N.M.P., Short, S.W., Rana, P. & Evans, S. (2013) A value mapping tool for sustainable business modeling. *Corporate Governance*, 13 (5), 482-497.

I. Class Discussion and Analysis

The case is designed for a 90-minute class session. The key learning issues in the case center on how an inclusive business initiative can face the challenges of growth and scaling-up in the light of social value creation. Students should deal with the dilemmas regarding sources of financing, knowledge transfer, and selecting and managing a network of allies. Class discussion unfolds with questions grouped in five blocks, as seen in TN-Exhibit 1.

TN-Exhibit 1. Teaching Plan

Questions	**Main topic**	**Time**
If you were María Lucía, who would you be worried about? Why? Should Propaís continue with MFP or pass it to some allied organization? Vote on option	Motivation question to engage students in class discussion Identifying Propaís's MFP results and challenges	Block 1 10´
Who are MFP main allied organizations? What are their roles and capabilities? What are the organizations that could be considered as allies to follow-up or scale the MFP project?	MFP main allies: roles and capabilities. MFP key allies for potential scale-up.	Block 2 15´

Considering the outcomes of Propais´ MFP, what is the current value created, captured, missed, destroyed, and opportunities for value creation (Value Mapping Tool/VMT)? If any of the allies replace Propaís as the MFP leader, which were the main changes in the VMT? Are there negative outcomes? What shortcomings and opportunities can you identify? Why?	Use of the value mapping (Bocken et al., 2015) for Propaís MFP and their stakeholders. Changes in MFP VMT when other allies replace Propaís as the MFP leader.	Block 3 40´
What is the organization best-suited to follow-up and scale the MFP?	To select and recommend the best anchor organization to implement (follow-up) MFP initiative pondering the value created and destroyed, and the opportunities for value creation.	Block 4 20'
Closing: lessons learned (takeaways)	Lessons learned	Block 5 Closing 5´

After having complied with the teaching plan designed (TN-Exhibit 1), the instructor may organize another 60-90 minutes class session. In this second session, the students are asked to design alternative action paths aiming for value creation. The students would ponder the value created and destroyed by the organizations studied and evaluate the opportunities for additional value creation and capture through new activities and relationships. This debate may enable students to propose feasible strategic plans for value capture and creation. This pedagogical objective is linked to strategy design, combining performance skills with creative thinking.

A. Block 1: Propaís's Current Challenges

Q.: If you were María Lucía, who would you be worried about? Why?

This question is aimed at identifying MFP main beneficiaries and ponder the impact of the project by October 2018. The students are expected to focus on franchisors and franchisees and the extent to which MFP has supported them and matched their expectations. They would also discuss the current impact of the project in terms of the number of participants, the jobs created, and types of business promoted (see TC-Exhibit 3).

TN-Exhibit 2. Propaís results and challenges

Results	**Challenges**
70 new franchises established, 70 new entrepreneurs, 350 direct jobs created	Financial support for MFP
Sales of established franchises (US$1 MM)	Development, replicability, and scale-up Choosing the right allies with their own interests and aims
Operation in Colombia's major regions (Cundinamarca, Valle del Cauca, Antioquia, and Atlantic Department)	Increase regional and national scope
Entrepreneurs certified (217)	Three-year continuity accomplished by entrepreneurs did not suffice to guarantee their future endurance
Franchising development know-how & Technical assistance to franchising companies (52)	Propaís did not have enough resources to support the project alone during any transition
Franchising market development (11 business rounds)	

After understanding the current situation, students may be asked to vote on the option: Should Propaís continue with MFP or pass it to some allied organization? The result should be written on the blackboard and reviewed again in the closing section.

B. Block 2. Propaís's allied organizations: Roles and capabilities

Q: Who are MFP main allied organizations? What are their role and capabilities?

This discussion block aims at pointing out the complexity of Propaís's allied organizations' network evidencing their roles and capabilities. In this section, students would have to analyze the main allies that María Lucía and her team are considering as potential anchor organization for future MFP development and scale-up in terms of their current role and capabilities for value creation (TN-Exhibit 3).

TN-Exhibit 3. Allies roles and capabilities

Allied Organization	Roles	Capabilities
IDB-IFM	Financing and Operation follow-up	Financial & Technical support
Fundación Coomeva	NGO ally	Coverage/Members: • 245,000 • 20,000 business owner members and 2,000 suppliers Bank Coomeva (financing MFP)
Minister of Commerce	Public sector-Government ally	Regulation Financing Seed capital Reaching out vulnerable population (armed conflict victims) Reaching out Colombian remote areas
Cámara de Comercio Medellín (Medellin´s Chamber of Commerce)	Private non-profit corporate ally	MFC experience Legitimacy & goodwill
Postobón	Private for-profit ally	MFC experience Seed capital

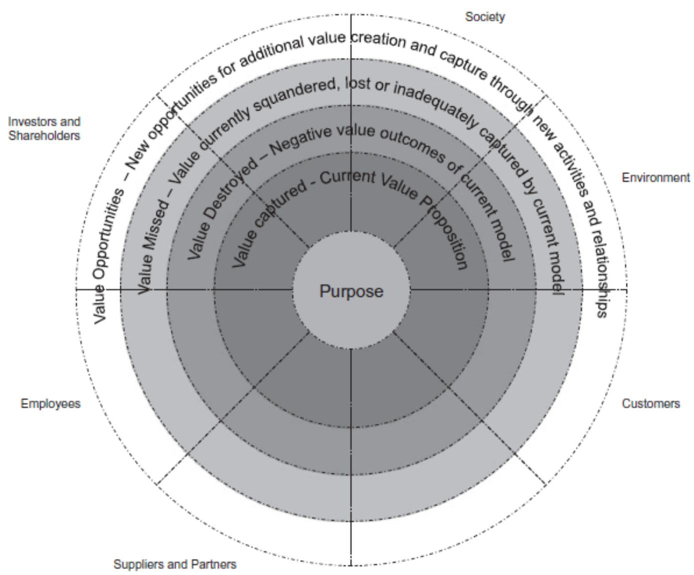
At some point during this discussion, students may realize that analyzing the potential of these organizations as MFP future anchors may require a more in-depth consideration of the value creation process, under a stakeholders' relation approach.

C. Block 3. Propaís and allied organizations value maps

Q: Considering Propaís´ MFP current outcomes what is the value created and destroyed, and the opportunities for value creation?

The instructor would ask students to form teams of five students and take 20 minutes to apply the value- mapping tool (Bocken, et al. 2015, p. 68) in class (TN-Exhibit 4). If necessary, the instructor should ask the students to explain the value mapping methodology before its application. The students will receive a printed format to complete, considering the following stakeholders for Propaís: franchisors, franchisees, allies, government, and Colombian society (TN- Exhibit 5).

TN-Exhibit 4. Value Mapping Tool Model



Source: Bocken et al. (2015, p. 68).

Each team would apply the VMP to Propaís completing the exercise. Students need to present the value proposition, the value captured, the value missed, and the value destroyed and also the opportunities for value creation, for the current MFP program.

TN-Exhibit 5. Propais Value Mapping Analysis

	Franchisers	**Franchisees**
Value Proposition	Preparing companies for expansion	Starting a wholly-owned business with low risk
Value captured	Consultancy with a 50% grant Standardized processes to build franchises Strengthened business model for franchising Business credibility/reputation enhancement as a result of association with Propaís Franchisees acquire franchises at business model marketing events	Proven business models Low-risk opportunity to start a business Self-employment and income improvement possibility Acquiring business expertise and managerial skills as a result of training Getting to know over 50 business models at franchise marketing events
Value missed	Companies that, despite undergoing the entire process, did not sell their franchises	Potential entrepreneurs who did not become franchisees due to lacking loans Opportunity cost as a result of investing (training) in potential entrepreneurs who did not become franchisees

Value destroyed	Mistrust caused by corruption suspicions (intention to keep IDB's grant without actually using consultancy services) Companies that withdrew from the project and used consultancy resources	One franchisee returned the franchise acquired due to poor economic returns
Opportunities for new value creation	Creating a franchise division as part of the operation, so that business support does not end Providing support for at least 5 years in operation Setting up a support and follow-up phase spanning 5 years into franchise operations. Holding franchise marketing events with contributions from members or allies	Engaging banks as allies to secure credit lines with preferential rates for entrepreneurs Establishing franchisees' profile before their project enrollment Improving the connection between training and franchise acquisition Setting up a support and follow-up phase spanning 5 five years into franchise operations

	Allies	**Government (Mincomercio)**
Value Proposition	Model transfer for replication	Driving economic development via micro-franchises
Value captured	They captured the micro-franchising scheme They joined the project's ally network (strategic networking), including consulting firms Training sessions for their associates and members Enhanced credibility/reputation as a result of their association with an IDB-funded project executed by Propaís Fulfilling their business strengthening and social responsibility mission	Micro-franchising model An input to draft a franchise law that does not yet exist in Colombia Input for public policy making 90% of the franchising organizations associated with the project are micro-ventures and small enterprises
Value missed	55 out 57 allies do not offer the complete model Allies interested in replicating the scheme have restrictions to offer the model Mincomercio to armed conflict victims Coomeva to its members CCM to members or only in Antioquia Postobón to food industry players Allies have not found funding	

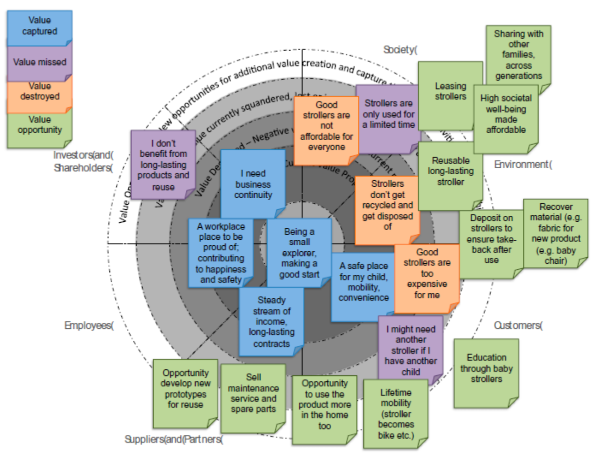
	sources to offer the 50% grant provided by IDB	
Value destroyed	New consulting firms were created and might struggle if the project ended	
Opportunities for new value creation	Transferring the model to non-ally organizations with the capability and interest to replicate the initiative Finding diversified funding sources to offer the 50% grant to franchisers for the consultancy process Expanding model coverage and replication	The alliance between Mincomercio and Propaís to reach out to conflict victims to become franchisees Promoting the formulation of public policy to give long-term continuity to micro-franchises Institutionalizing the micro-franchising initiative

	Colombia's Society	IDB-IFM
Value Proposition	Employment, mitigating vulnerability, and regional development (not only in the nation's capital)	Project execution, fully accomplishing all goals
Value captured	70 new businesses paying taxes 350 new formal jobs 90% of the franchising organizations associated with the project are micro-ventures and small enterprises 69% of male franchisers 63% of female franchisees 64% of female employees Is the business owner population increased its share of women?	Project goals were accomplished Metric compliance Enhanced credibility because project objectives were accomplished Mission advancement Information to justify operations with Colombia
Value missed	The population engaged in the project is not the most vulnerable social group Only one individual belongs to the conflict victim population 90% of franchisers had at least undergraduate education and 40 years of age on average 87% of franchisees had at least undergraduate education and 37 years of age on average Youths, excluded groups, vulnerable segments? The project did not reach remote areas, such as Amazonas, Vaupés, and Guainía, because of lacking Chambers of Commerce Overall, 16 Colombian departments were not covered. See Exhibit 4 with a map highlighting department with project	Lost focus on inclusive distribution target population SCALA

	operations (ideally linking the map with the Gini inequality index to show that the most excluded populations have not been reached)	
Value destroyed	Opportunity cost as a result of failing to serve the most vulnerable population groups	
Opportunities for new value creation	Relying on allies to reach the 16 departments neglected and to engage the most vulnerable population groups	Securing funding for new business strengthening projects

After the teams´ discussion, the instructor may invite students to present their main conclusions to the class, following the VMP application (TN-Exhibit 6).

TN-Exhibit 6. Value Mapping Tool Application



Source: Bocken et al. (2015, p. 76).

Ones the teams finish a VMT for Propaís´ current MFP, the instructor will ask the following question:

Q. If any of the allies replace Propaís as the MFP leader, which were the main changes in the VMT? Are there negative outcomes? What shortcomings and opportunities can you identify? Why?

The students may answer identifying the following issues:

Coomeva	**Ministry of Commerce**	**Medellin´s Chamber of Commerce**	**Postobón**
Missed Value They only can offer services and support to their affiliates	**Missed Value** They only can offer services and support to population registered on	**Missed Value** They only can offer services and support to the	**Missed Value** - They are only interested in offering services and

Opportunities for value creation - They can offer credit lines with preferential interest rates - They can offer an additional credit opportunity by a pre-approved loan of US17.000 for each new affiliated franchisee	the census of Colombia´s armed conflict victims **Opportunities for value creation** To offer the MFP to the more vulnerable population in Colombia	micro-entrepreneurs in Antioquia Region **Opportunities for value creation** - They can offer the MFP to all the current businesses signed the Chamber in Antioquia (More coverage & dissemination) -They can offer supplementary services and training to the MFP members. For example, training in corporate governance strengthening models	support to their suppliers and distributors. **Opportunities for value creation** They are the only ally with enough cash flow to offer seed capital to their stakeholders to develop the MFP

Block 4. Selection of best anchor organization and recommendations

Q: What is the organization best-suited to follow-up and scale-up the MFP?

In this section students will be required to select and recommend the best anchor organization to follow up and scale-up MFP initiative. To do this, students would be asked to ponder the value created and destroyed by Propaís and the other organizations studied (Coomeva, Ministry of Commerce, Medellin´s Chamber of Commerce, and Postobón) and evaluate their opportunities for additional value creation and capture through new activities and relationships.

To help students identify the best-suited organization, the instructor may ask the specific questions as, *where do you see the main value creation opportunities? Why?*

Finally, students would be asked to select one organization and support their selection. At this point, the instructor can return to the initial voting and reflect on any change regarding the initial opinions on Propaís keeping the leadership of MFP or looking for another anchor organization.

D. Block 5 - Closing: Lessons Learned

To close the class discussion, the instructor may ask the student to reflect on the lessons learned and takeaways, as follows:

- An inclusive business initiative engages a variety of stakeholders: suppliers, beneficiaries, allies, society, employees, government, donors and multilateral institutions, among others. Therefore, an inclusive business initiative value proposition should consider the needs, expectations, and capabilities of a wide range of stakeholder to assure its sustainability.

- The scale-up of an inclusive business initiative needs a strong anchor organization capable of creating value and capturing new value opportunities through new activities or relationships (networks, partners, among others).
- Selecting an anchor organization requires an in-depth analysis of the value created, captured, missed and destroyed, and opportunities for value creation, within a vision of a social relational interaction process (a stakeholder approach).
- VMT supports the identification of opportunities for value creation and the selection of the best-suited organizations to achieve sustainability of inclusive business initiatives.

II. Blackboard Plan

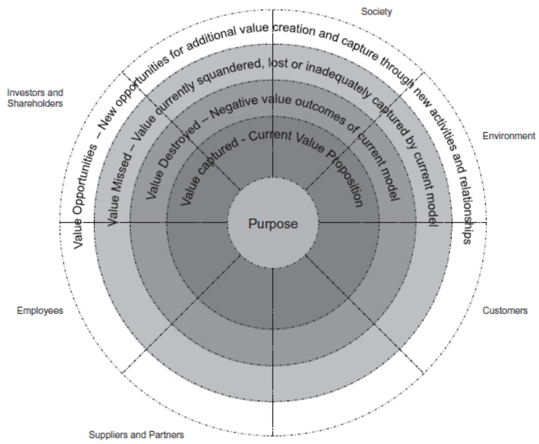
1. Blackboard 1: Propaís' current challenges

Results	**Challenges**
Impact (numbers)	$
Regional coverage	National scope
	Choosing right ally
	Development, replicability, and scale-up
	MF endurance

2. Blackboard 2. Propaís' allies: Roles and capabilities

Allied Organization	**Roles**	**Capabilities**
Bid-IFM	$	$ and technical support
Coomeva	Ally	Coverage $
Minister of Commerce	Ally	$ Coverage: Vulnerable population & remote areas
Cámara de Comercio Medellín	Ally	Experience Legitimacy & goodwill
Postobón	Ally	Experience $

3. PowerPoint with Value Mapping Tool

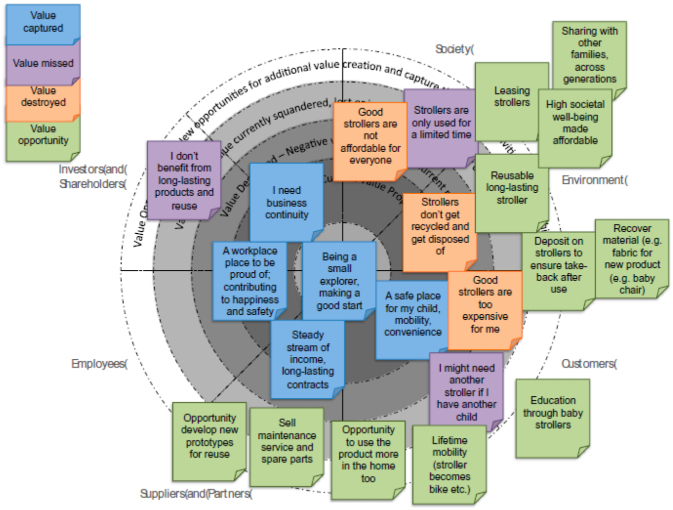


Source: Bocken et al. (2015, p. 76)

4. Blackboard 3: Propaís Value Mapping Analysis (Each team will present its Propais´ VMP)

Stakeholders	**Current value proposition**	**Value captured**	**Value missed**	**Value destroyed**	**Opportunities for new value creation**
Franchisers					
Franchisees					
Allies					
Government (Mincomercio)					
Colombia's Society					
IDB-IFM					

Instead or besides of the tables, the instructor can ask students to build a map following MVP application (TN-Exhibit 6).



Source: Bocken et al. (2015, p. 76).

5. Blackboard 4: Checklist of changes when an ally replace Propaís as leader of MFP

Coomeva	Ministry of Commerce	Medellin´s Chamber of Commerce	Postobón
Missed Value Opportunities for value creation	Missed Value Opportunities for value creation	Missed Value Opportunities for value creation	Missed Value Opportunities for value creation

6. Blackboard 5. Selection of best anchor organization and recommendations

Best Organization	**Value created**	**Value destroyed**	**Opportunities for value creation & value capture**	
			New activities	**Relationships**
Propaís				
Coomeva				
Minister of Commerce				
Cámara de Comercio Medellín				
Postobón				

7. Blackboard 6. Lessons learned and takeaways

Inclusive business ---------- Multiple stakeholders
Scale-up ------- strong anchor organization
VMP ------ in-depth analysis of the value creation
VMP ------ opportunities for value creation & strategic plans for value capture and creation