Current Best Approach:
Rural Pharmacy Franchising

Report to Linked Foundation
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I. Executive Summary

The purpose of this document is to outline the current best approach to rural pharmacy franchising, drawing lessons from social, commercial, and clinical franchising models. The ultimate goal is to inform operational and investment decision-making for Linked Foundation and its partners, with a focus on Latin American markets.

The report begins with an overview of the Latin American health context and the unique health burdens of the region as well as a snapshot of the rural pharmacy franchising model. Linked Foundation is currently invested in three pilots in this sector: Tiendas de la Salud (TISA) in Guatemala, Fonkoze Boutik Sante in Haiti, and BOSI in Mexico. Each of these endeavors have approached rural pharmacy franchising differently but they all share the goal of increasing access to medicines and ultimately, improving health outcomes for rural communities.

The framework for assessing the current best approach for this model is based on a standardized – though not prescriptive – trajectory for franchise growth. This occurs in four stages: business planning, proof of unit viability, proof of cluster and network viability, and managed expansion. In each stage of franchise maturation, five key levers were identified for sustainable growth: people, location, logistics, metrics, and financing. Key decision points for each lever are outlined at the beginning of each stage of franchise growth. The resulting framework summarizes the current best practices of franchising that can be applied to rural pharmacy franchising.

The learnings in the document can help guide smarter investment decisions for Linked Foundation, both in support of their current portfolio and in future model expansion. This could be in the form of direct consultation to investees and partners, as well as the development of a franchise assessment tool, which could help to standardize internal assessment of investment opportunities.

II. Background

The Latin America Caribbean Health Care market is growing quickly. Despite a strong regional push towards universal healthcare, there is still high out-of-pocket spending and a great deal of opportunities for improving access to health services and quality of care. Healthcare challenges in Latin America are varied, with a shift towards non-communicable diseases as lifestyle and demographic changes have increased rates of diabetes and cardiovascular diseases. In Mexico for example, NCDs are responsible for 75% of all deaths.[1]

Access to medicines and basic healthcare is a major challenge for communities in developing country contexts. In Latin America, this is especially acute because of the strong role of government in healthcare delivery and payment. This creates a very different ecosystem in which to operate for healthcare providers and innovators. This government involvement, while showing a great willingness from the government to invest in healthcare, has in some cases provided obstacles to healthcare access through various regulations, barriers to funding, and difficulties in operating effective public-private partnerships. This context of high government involvement is a key differentiator for the healthcare access in Latin America and a crucial part of the effectiveness of any initiatives in the region.

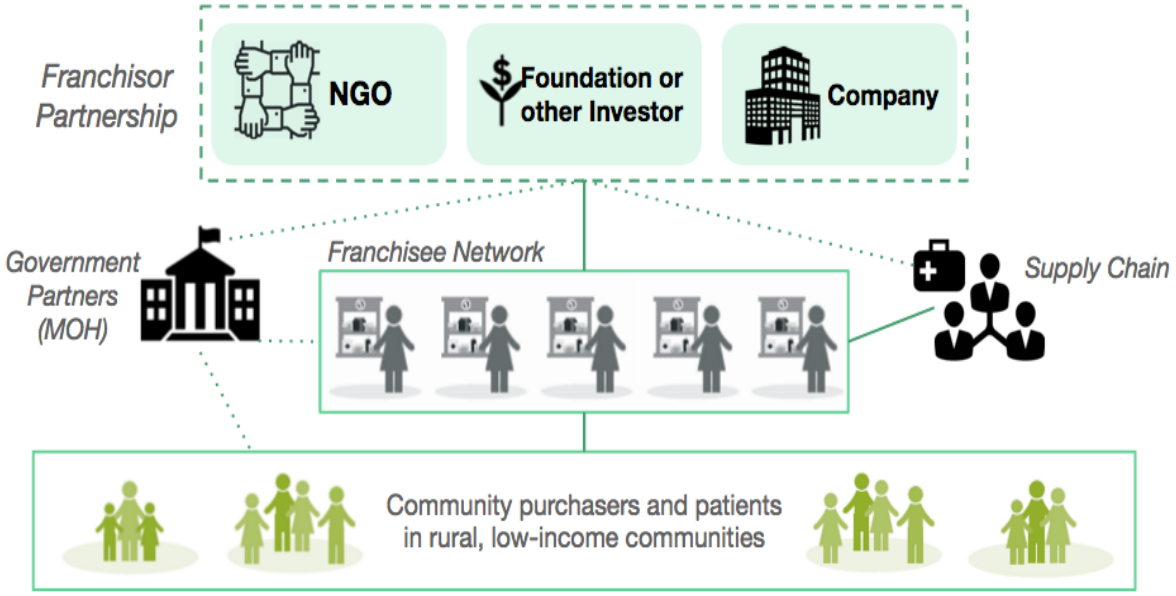
Over the past eight years, Linked Foundation and Global Partnerships have led the charge in developing rural pharmacy franchise models for Latin America that seek to ease the healthcare burden in high-risk countries. Rural pharmacy franchising has proven to be an innovative yet complex endeavor. Additional piloting and analysis are necessary to determine long-term viability and success.

[1] Escobar, et. al., “Healthcare Innovation in Latin America and the Caribbean: A Focus on Emerging Trends and Market Opportunities in Brazil, Colombia, and Mexico,” Innovations in Healthcare, Working Paper 16-01, 2016.

III. Rural Pharmacy Franchise Model

The rural pharmacy franchise model established by Linked Foundation and Global Partnerships (GP) is intended to generate shared social and economic value for stakeholders. The model itself is not prescriptive and varies according to the contexts where they work. Rural pharmacy franchising combines principles from both the commercial and social franchising sectors. An overview of the definitions of each segment is available in Appendix 1.

Figure 1 *Rural Pharmacy Franchise Model*



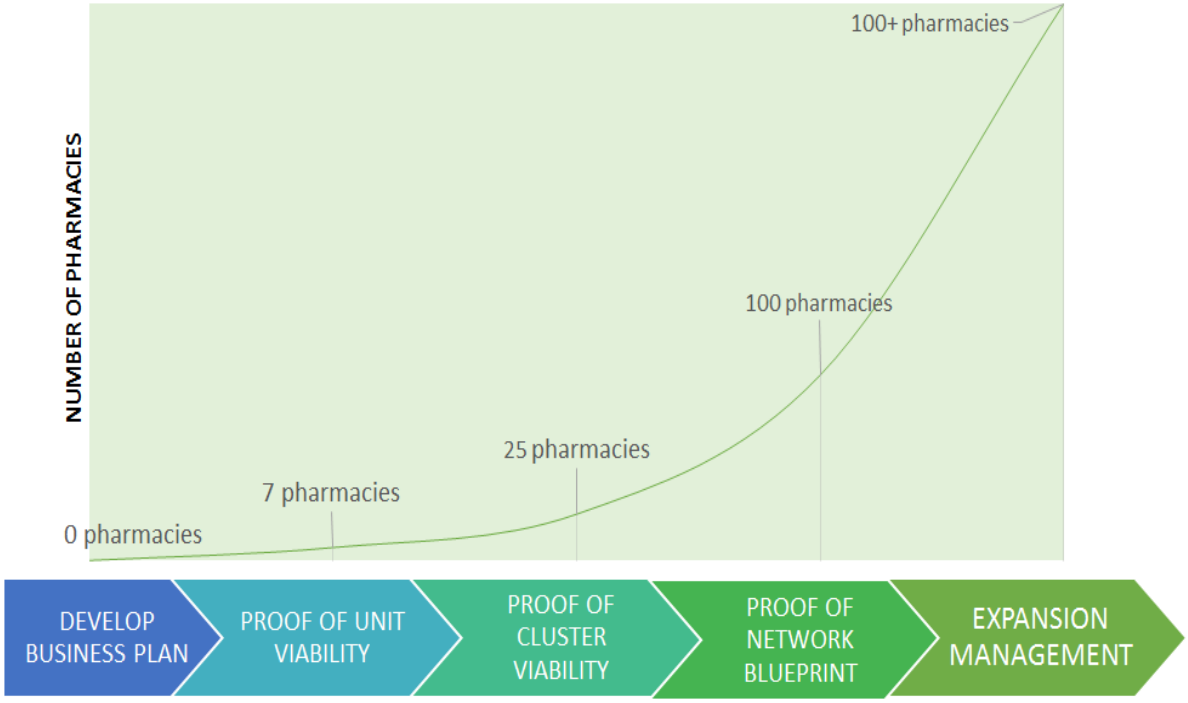
On the most basic level, the model used by Linked and GP is founded on the social impact goal of improving long-term health outcomes and livelihoods for high-burden, remote communities in Latin America. In order to achieve this goal, the model builds on three main objectives: increasing access to medicines, raising livelihoods and income-generation potential, and achieving financial sustainability for the franchise overall. The best approach for this model has been generating “patient capital” and building out the franchise in a phased approach, with a path to long-term local ownership. This means moving away from reliance on donors and grants, toward profit-driven investors or commercial takeover.

How Rural Pharmacy Franchises Scale:

The maturation process for a rural pharmacy franchise can be broken down into five key steps: the business plan, proof of unit, proof of cluster, proof of network, and expansion.

As outlined in Figure 3 below, the business planning process is the first step in defining the market, product/services mix, and core capabilities, followed by the proof of unit viability. A unit is defined as a single store or point of sale. Once the unit viability is established, units are grouped into clusters (small, geographically proximate groups of units) and a network (an interconnected group of clusters). Finally, the franchise enters the expansion phase in which new areas or regions are viable areas to expand into using the basic network blueprint already established.

Figure 2 *Template for Scaling Rural Pharmacy Franchise*



Please note that the numbers included in Figure 3 are meant to be illustrative rather than prescriptive. The exact size and growth trajectory of the franchise will depend on the market(s) of operation and business plan for the enterprise.

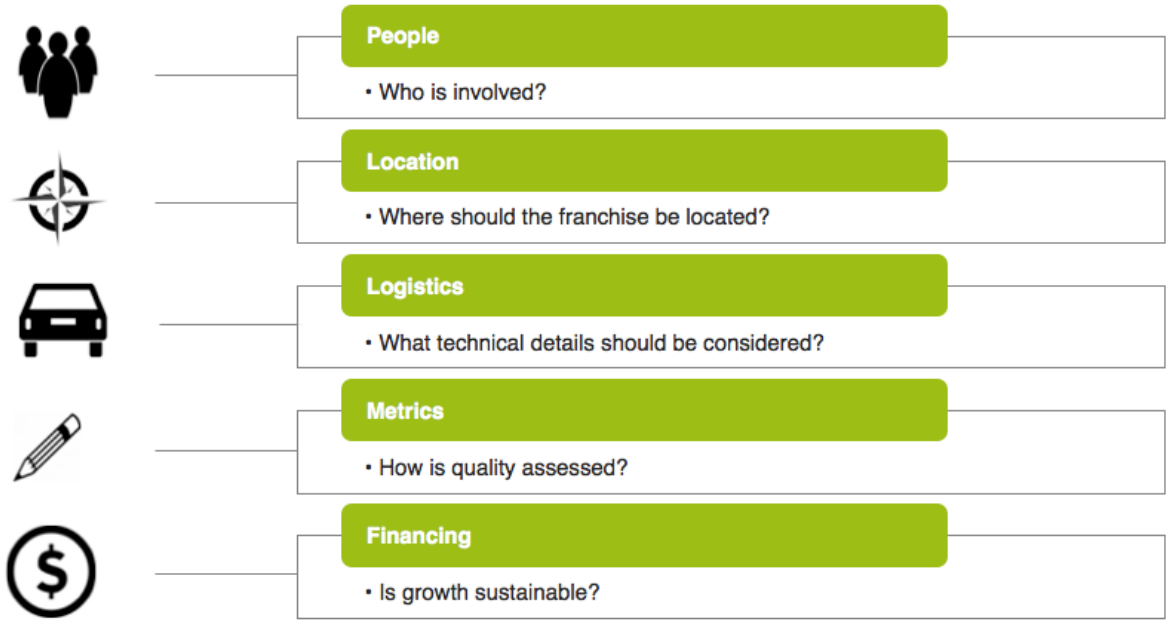
IV. Current Best Approach: Introduction to Framework

In order to define the current best approach for rural pharmacy franchising, we conducted a review of the current portfolio of Linked Foundation investments, as well as best practices from the commercial, social, and clinical franchising sectors. We organized our findings according to the stepwise maturation process of franchises (as outlined above) and developed a framework for thinking about the key levers associated with growth. While the information below is framed as recommendations, readers should approach this with some flexibility, recognizing that the model and individual decision points will vary from context-to-context.

Framework:

The inherent value of a franchise is the ability to scale quickly and deploy a standardized model to more places. The franchising of rural pharmacies provides a unique and effective way to quickly bring access to medicines to rural communities. In successfully developing and then scaling these models however it is crucial to ensure sustainability at each phase of expansion. This enables the model to bring maximum impact at the right cost and with minimum risk to the vulnerable communities in which they are operating. The key levers identified for sustainability are: People, Location, Logistics, Metrics, and Financing.

Figure 3 *Five Levers for Current Best Approach Framework*



The use of these levers as key indicators for success at each phase has been developed into a framework that summarizes the current best practices of franchising that can be applied to rural pharmacy franchising. This can be used by Linked Foundation to evaluate their current future investments' sustainability and chance of success, and by Linked Foundation's investees to expand their models sustainably.

See Appendix 3 for full version of Framework.

V. Detailed Assessment of Current Best Approach

1. Business Model

Before launching into franchise operations, a business plan outlining the core market(s), products/services, and unique capabilities of the enterprise is essential. The founding organization(s) must evaluate growth options based on the individual context in which they are operating and create a flexible, ever-evolving roadmap for projected growth.

Figure 4 *Business Plan: Key Decision Points*

Criteria	Business Plan Decision Points
People	Define role of franchisor and central operating structure: ✓ Franchisor (NGO operating in the local context focused on universal health coverage and/or access to medicines) ✓ Startup investment partners providing grants or equity ("patient capital") ✓ Commercial/corporate partner Identify local support partners: ✓ Government partners, especially in the Ministry of Health, to align with existing systems and regulations *Optional:* Local bank or MFI for franchisee loans Outline roles and begin recruitment and training for implementing agents: ✓ Franchisees ✓ Community promoters
Location	✓ Conduct market analyses to understand health burdens, demand patterns, and competitive landscape in target geographies ✓ Select pilot communities ✓ Map target regions for expansion
Logistics	✓ Set product portfolio mix (medicines and non-medicines) for target communities ✓ Source products for pilot ✓ Determine supply chain and distribution needs for pilot and expansion
Metrics	✓ Develop social impact monitoring system, monitoring and evaluation plan
Financing	✓ Establish financial plan and accounting system ✓ Set compensation schemes ✓ Develop growth plan and projections on sales

Operating structure and franchisor: In the planning phase, the founding organizations should define the partnership model operating the franchise, maintaining some flexibility, especially for the entrance of a corporate partner.

In the commercial sector, franchises typically include just two key entities: the franchisor (an established company) and the franchisee (someone who agrees to pay fees and obey certain rules for the rights to sell the goods or services of the franchisor). In the rural pharmacy space, the franchisor often begins as a nonprofit or nongovernmental organization (NGO) supported by a donor organization. But when the ultimate goal is financial sustainability and a movement away from donor funds, Linked Foundation and Global Partnerships have found that commercial partnerships are essential for financially-sound local ownership.

Tiendas de Salud (TISA) from the Linked Foundation portfolio in Guatemala provides an illustrative case study of the unique partnerships at play in rural pharmacy franchising.

Figure 5 *Case Study: Defining Franchisor Roles in TISA (Guatemala)*

TISA emerged in 2008 from a collaboration between Mercy Corps, a global humanitarian agency, and Linked Foundation. From 2008-2011, Mercy Corps and Linked tested various microfranchising arrangements. Linked provided $400,000 in grant financing for the project and sales of medicines in the tiendas grew steadily, catching the eye of Farmacias de la Comunidad (FdeC), the largest pharmacy chain in Guatemala. Leaders at Mercy Corps and Linked saw that FdeC could supply the financial and human resources necessary to reach rural communities on a large scale, and in mid-2012, agreed that FdeC would integrate TISA into its own operations.

Today, FdeC is the sole owner of the franchise and Mercy Corps remains an advisor. FdeC brought resources and expertise to the operation, including supply chain management and securing long-term financing for TISA through a relationship with the Guatemalan bank BanRural.[2]

Planning for the transition from the "patient capital" support (startup equity in the form of a grant, without the expectation of immediate financial returns) of Linked Foundation to the commercial ownership of TISA has been essential for the model's success. Franchisors in the rural pharmacy space should conduct stakeholder mapping exercises from the beginning to identify these potential partners and initiate outreach. Commercial entities may not buy into the project from the beginning but sound business planning and proof of operational viability and profitability will attract for-profit partners.

[2] Lehr, David, "Making a Healthy Exit," *Stanford Social Innovation Review*, Spring 2014, 57.

Local support partners: With the franchisor structure in place, the management core should identify and reach out to local support partners, including the relevant Ministry of Health (MoH) and/or microfinance institutions (MFIs), to align with existing regulations and systems. Depending on the health care structure of the selected geography, the MoH may have community health centers, community health workers, or referral systems that could prove to be valuable resources to the franchise. The location, hours, and services provided at government health posts will likely be instrumental in shaping demand for medicines at the pharmacy.

Depending on the fee structures established between the franchisor and franchisees (more on this below), it may also be crucially important for the franchisor to identify local banks or microfinance institutions (MFIs) with whom to partner. If appropriate, these financial institutions would serve as loan providers for franchisees opening stores in the rural pharmacy franchise model.

Franchisees: In order to begin outreach to individual franchisees, the franchisor must set the criteria for selection. This will ensure that the right people are selected to serve as franchisees and that they have a stake in the success of the model.

Setting criteria for the selection of franchisees is an essential part of the rural pharmacy franchising business plan process. As franchisors begin to do this, it is important to keep in mind that criteria may vary depending on the location of the individual unit and demographics specific to that community. If the goal of an individual unit is to maximize sales and profitability, some important attributes of potential franchisees might include:

- Literacy
- Education level
- Business experience
- Income level
- Health knowledge
- Gender
- Trust within community

Franchisees should have some basic literacy, education, and business knowledge in order to accurately manage the point-of-sale, accurately fill prescriptions, and maintain financial records. In a qualitative evaluation of the TISA model, store owners (franchisees) were found to be generally more educated other community members. The franchisor should also consider the income levels of the individual franchisees. They should seek out individuals whose livelihoods will be improved by participating in the endeavor.

Health knowledge or experience will also help franchisees link up with the local healthcare environment, perform diagnostic or provide counseling, where appropriate. All of these elements combined will help franchisees to build or reinforce trust within the community. Gender may also be an important consideration, depending on social impact goals and cultural contexts. From a social impact perspective, recruiting female franchisees may be part of an overall objective of improving women’s income generating opportunities. From a cultural perspective, women may be more accessible for other women seeking health care or counseling, especially pertaining to menstruation, family planning, or reproductive health.

Location

Market placement: The franchisor should select the market for the franchise model based on local health burden and demands, infrastructure, access to health facilities, market size, income levels and willingness to pay, distance from distribution centers or other points of sales, and existing competition. The team designing the franchise should undertake market analyses before setting up shop to ensure there is a clear understanding of the local environment. With market information in-hand, the franchisor should select the pilot communities and map target regions for expansion.

Logistics

Point-of-sales: Once the geographic locations for the pharmacy point-of-sales are established, the next step is to determine what the scale of the store or kiosk for the franchisee model. Will these be independent, standalone storefronts? Will they be cupboards inside franchisees homes? The scale, organization, and format of the point-of-sale may vary by location (with larger, standalone stores to service larger markets and small kiosks to serve smaller communities). Criteria for unit size will be an important factor in the business plan.

Product mix: Franchisee stocks should offer a diverse basket of goods that attract consumer interest, including basic over-the-counter medicines, health products, and pharmaceuticals based on the demonstrated demand of the market. From the social franchising sector, CARE Bangladesh's Rural Sales Program (RSP) provides evidence that the sale high-profit goods such as sugar, soap, diapers, and detergent can help boost franchise visibility in rural communities, generate awareness about the point-of-sale, and help to boost subsequent sales of basic medicines.[3]

Supply chain: From the beginning, the franchisor needs to establish a sustainable, efficient supply chain that fits the local context. This might include the use of discount purchasing for franchisees (TISA model) or the mobilization of community promoters (FUDEIMFA model).

Metrics

Measuring social impact is essential for designing and implementing a pro-poor rural pharmacy franchise. This can be thought of in two parts: health outcomes for target populations and economic livelihoods for the franchisees.

Health outcomes: Tracking and assessing health outcomes is essential for understanding the contribution a rural pharmacy makes to a community or population of people. The Social Franchise Metrics Working Group (SFMWG) identifies five indicators to consider upon assessment. These include the socio-economic breakdown of the clientele, the health impact

[3] Dolan, Catherine, Mary Johnstone-Louis, and Linda Scott, "CARE Bangladesh Rural Sales Programme (RSP)", Said Business School cases, March 2012.

on the community, the quality of the services, the cost to the franchisor, and health market expansion. SFMWG suggests that streamlining these indicators throughout pharmacy franchising could lead to a better understanding of what works and what does not in a particular context. As the franchise expands, however, indicators including 'health impact on the community' may be challenging and costly to determine. As an alternative, the franchise may want to consider surveying customers and surrounding populations to better understand how the pharmacy is meeting the needs of the population. Ideally, data collection should be harmonized with the Ministry of Health, local clinics, and other pharmacies in order to create a holistic picture of local health demographics.

Solid financial planning: The franchise must be based on a solid base of startup capital and a long-term plan for financial investment and growth. The key action items for financial planning include:

- ✓ Acquire startup capital
- ✓ Develop growth plan and target investees
- ✓ Outline growth phases and projections on sales, health impacts
- ✓ Set investment and compensation schemes
- ✓ Set sales targets for pilot geographies

2. Proof of Unit Viability

The creation of the first unit of a franchise is the first instance at which the business plan and execution can be qualified and tested for full expansion. Within vulnerable populations such as those served by rural pharmacies it is crucial to ensure the idea and execution is viable first on a small scale. Due to their mission for scale, social franchises tend to have a faster acceleration through the proof of unit, but this should not be forgotten at the expense of long term success.

Figure 6 *Proof of Unit: Key Decision Points*

Criteria	Decision Points: Proof of Unit
People	✓ Establish franchisee buy-in ✓ Begin developing franchisee-franchisor communications tools ✓ Roll-out public awareness and education efforts
Location	✓ Set up first point-of-sale location ✓ Confirm geographic scope of promoter oversight
Logistics	✓ Develop franchise manual and training ✓ Identify and troubleshoot supply chain inefficiencies ✓ Confirm ideal product mix for point-of-sale
Metrics	✓ Confirm financial break-even point ✓ Achieve initial benchmarks on: equity, quality, costing, and health outcomes ✓ Cost out scaled growth plan based on initial findings
Financing	✓ Establish profitable product mix ✓ Revise financial model for scaled growth

As the unit-level viability is still relatively small-scale, the relationships between partners should be built on frequent interactions and strong relational contracts in order to create trusting environments and build the foundation for a successful program.

Franchisee investment: In the unit development and proof of concept phase, franchisors must also consider to what extent franchisees will take a stake in their individual enterprises. An important lesson from commercial franchising is that personal and financial investments are essential for maintaining high-quality, high-return franchises. The renowned fast-food chain McDonald's provides a clear example of how franchisee investment enables a strong, innovative network.

***Figure 7** Case Study: Franchisee investment in McDonald's (global)*

McDonald's is the world's largest chain of hamburger fast food restaurants. Of its approximately 36,000 outlets, more than 80 percent are owned by franchisees.[4] Under a conventional franchise arrangement, McDonald's owns or leases the land and building and the franchisee pays for equipment, signs, seating and décor.

Franchisees are selected through a rigorous application process and screened according to the following criteria: 20-year singular commitment, prior business experience, people skills, and financial standing. In order to qualify for a conventional franchise, McDonald's requires that the buyer pay a minimum of 25% cash as a down payment toward the purchase of a restaurant and the remaining balance must be paid off within seven years. While McDonald's does not offer financing plans, they enjoy benefits through relationships with international lending institutions.

During the term of the franchise, franchisees pay McDonald's the following fees:

- Service fee: a monthly fee (4.0%) based upon the restaurant's sales performance
- Rent: a monthly base rent or percentage rent that is a percentage of monthly sales

The franchise agreement allows McDonald's to reach new markets and achieve greater scale while cutting costs, risk-sharing with franchisees, and providing freedom and innovation to local owners.[5]

While organizations like TISA will never operate on the same scale as McDonald's, rural pharmacy franchises seeking long-term viability must consider lessons from the commercial sector. Timeline commitments and fee structures for franchisees have been lynchpins for corporate success and individual ownership.

In its current form, most rural pharmacy franchise models do not set minimum year commitments or require startup capital investments for franchisees. TISA helps store owners get startup loans from BanRural but the profit-generation structure (margins set at 20 percent, with store owners buying medication at a 20 percent discounted price from FdeC and ostensibly reselling them at market price) is not sufficient to make TISA a high-profit endeavor for the franchisees. FUDEIMFA suffers from a similar challenge. In this model, the franchisor purchases medicines in bulk from local suppliers at wholesale prices, holding medicines in a central warehouse until community promoters distribute supplies to all points of sale. FUDEIMFA franchisees pay nothing upfront and make a 10 percent commission on revenue generated from medicines sold.[6]

In the proof of unit stage, rural pharmacy franchises should carefully consider the model of franchisee buy-in and compensation. While startup fees should be low in order to minimize the financial burden, there may be value in implementing investment and fee structures to incentivize franchisee performance.

[4] Kate Taylor, "McDonald's to Refranchise 3,500 Restaurants Worldwide," *Entrepreneur*, May 5, 2015, https://www.entrepreneur.com/article/245809, accessed April 10, 2016.
[5] "Acquiring a Franchise," McDonald's corporate website, http://www.aboutmcdonalds.com/mcd/franchising/us_franchising/acquiring_a_franchise.html, accessed April 10, 2016.
[6] "Sustainable Health Solutions for People Living in Poverty in Latin America," Global Partnerships, 2015, pg. 40.

Recruitment: As the franchise program moves from the business plan to execution, the first test of the plan is in the recruitment of the franchise owners. Finding the right people based on the business plan criteria provides a first qualification of the business plan. At such an early phase in the franchise, each franchisee must be invested in the success of the model, to enable it to scale and reach its full potential. CFW in Kenya recruited nurses with an entrepreneurial background (as per their own definition) in order to guarantee this success.

Franchisee-franchisor communication: The connection between the franchisee and franchisor is one of the most important relationships to establish in order to enable trust and effective running of the program. This should be established early on in order to refine the messaging and build trust with the first members, and hopefully later strong advocates, of the franchise. FUDEIMFA has done this effectively, building a sense of goodwill with their community pharmacists by making them feel valued with recognition for Christmas and Mother's Day. There may be further opportunities to engage and build trust with franchisees through the increased penetration of mobile technology in rural areas, and the possibilities that the mode of communication brings.

Public-awareness and education: In order for a rural pharmacy franchise to be successful, community members must know that it exists and that it is part of a trustworthy association. At a unit level this can be done through community leaders and organizations, and the creation of promotional materials. On a unit level these can be coordinated centrally, and provide a first opportunity to receive feedback and insights into the viability of the model when scaled. This feedback on a small unit level will be crucial as the model expands, and will enable the long term viability of the model.

Choosing first location: The specific physical location of the first unit(s) is a key component for success, and to qualify the model and provide the right learnings for expansion. For many commercial franchises the location is one of the most crucial aspects of the success of the franchise: Haagen Daaz looks for stores on the sunny side of the street, Dunkin'Donuts looks for locations with high foot-fall, and Blink Gyms seek to be located near commuter hubs in Manhattan. For rural pharmacies this location, particularly when looking to qualify the model at a unit level, should be representative of the overall business plan, and take factors such as distance from a hospital, clinics, and distance from the community centers into account.

Figure 8 *Case study: Blink Gyms (New York)*

Blink Gyms have adopted a pro-active location strategy to ensure that they reach their target population of non-habitual gym goers. They have found communities in which there are high concentrations of non-gym goers, and then secured locations that see high footfall and are in high traffic areas, such as by subway exits. They have qualified this model first as a company owned expansion, and are now moving into franchising.

Supply chain feasibility: The proximity of the first units to the planned central depot is an important consideration at the unit level to enable the first users of the franchise. This will help them guarantee success, and build the right network of supply chain, mitigating the risk of out of stock medicines. The challenge of out of stocks has been prevalent in many existing rural pharmacies, and this time at a unit level provides the right opportunity to test the supply chain. This also requires strong involvement from the private sector partners, to understand how the supply chain will operate in real time and not just on paper.

Franchise manual: While the business plan is the overarching blueprint for success, the franchise manual is the operational translation of that plan into a guide for all future franchise owners. It is at this unit viability level that this franchise manual should be written and refined. In some cases, it may also be worth not actually franchising the model financially until this manual is written. Instead, many commercial franchises actually began their businesses with whole-owned stores and only expanded into a franchise when this was successful and they felt they had a scalable model. Subway's success is a product of that.

Figure 9 *Case Study: Subway (global)*

The very first Subway store was owned by the franchisor, only expanding into a franchise after 9 years of business. This enabled the owner to guarantee his franchisees that he was selling a working business model, and ensured that he had a model that franchisees could successfully replicate. The creation of a thorough operations manual has enabled consistent quality and service as Subway has expanded regionally and globally. Today, Subway is the second largest franchise in the world behind McDonalds.

Promotor mobilization: Based on other social franchising models, promotor mobilization coupled with mobile monitoring systems would be an ideal mix in many markets. The social enterprise Living Goods uses Community Health Promoters (CHPs) to collect stocks of products from distribution points and travel back to rural villages to sell their goods. In Uganda,

Living Goods partners with BRAC to support over 100 branch locations so that agents are usually no more than five miles away from a supply point. They take physical inventories every month and aim to maintain two month of buffer stock at all times. They are also piloting the use of motorbike delivery and mobile applications for diagnosing basic illnesses and providing SMS notifications for money-saving promotions. All of these efforts combined help to improve supply chain projections and increase demand.

Troubleshoot inefficiencies: When the franchise is still on a small scale the supply chain in particular can be tested and improved. The process of ordering and collecting medicines, as well as running the financing and monitoring of the program can be followed closely and adjusted quickly. This is also where different uses of technology can be piloted and introduced, such as mobile ordering systems or reporting programs. During this time training programs can also be piloted on a small scale, and get feedback with regards to what is useful for the franchise owners.

Initial benchmarks: The unit viability phase is the time to focus on the delivery of quality and management costs. Assuming that the assumption on the need for wider access to healthcare are correct in the initial assessment, by focusing on internal metrics the program can ensure it develops a sustainable model that can be scaled. This also limits the amount of data needed to be collected, in addition to the already hands on approach assumed at this phase.

Product mix for break-even point: This is also the ideal time to understand the right product mix for the point of sale, and refine the appropriate inventory. The sale of complementary consumer product goods can be a crucial revenue driver for rural pharmacies, and this unit phase provides the opportunity to understand that product mix with regards to the consumer. LivingGoods implemented the sale of consumer goods as a way to guarantee profitability for its franchisees. Today it now includes the sale of cookstoves and water filters, as well as baby food and condoms. This balance of a portfolio enables its financial sustainability. This mix will vary depending on the community, and the location of the franchisee, but a preliminary idea of profitability should be established on the unit level. Achieving financial viability early on will hopefully accelerate long-term scale by attracting more investors and partners.

Scaled growth plan: The financial management at the unit level must be constantly monitored in order to adjust business plan as needed. As the unit viability is established, some of the parameters established in the business plan in general and financial model in particular may have changed. By updating the financials and understanding the long term sustainability the plans for expansion can be revised based on this viability. This guarantees a move to scale that is sustainable and continues to support vulnerable populations rather than launch and leave.

3. Proof of Cluster and Network

Moving into the cluster and network phases is where the scale of the rural pharmacy franchise model is truly tested. With a viable unit, the franchise now expands to a variety of communities, bringing a much higher degree of complexity. This complexity must be well managed in order to achieve the desired scale, and partners and community buy-in become key components of the success at this phase.

Figure 10 *Proof of Cluster/Network: Key Decision Points*

Criteria	Decision Points: Proof of Cluster and Network
People	✓ Establish brand identity, buy-in ✓ Solidify tie-in with government services ✓ Confirm utility, efficiency of network communications ✓ Define franchise leader in scaling
Location	✓ Define cluster/network size ✓ Solidify tie-in with government clinics, services, referrals
Logistics	✓ Establish regional procurement, distribution model ✓ Adapt product mix based on markets ✓ Address key stopgaps, including stock-outs
Metrics	✓ Ensure consistent accounting, financial management system ✓ Troubleshoot monitoring systems; adapt metrics ✓ Achieve investor, partner buy-in to achieve reach
Financing	✓ Establish strong accounting and financial monitoring system ✓ Re-visit investor and partner buy-in and support

Strategic selection: As the franchise expands, the selection of the right franchisee becomes less personal for the franchise, and more of a part of the process. It is during this time of expansion that particular care must be made as to how the franchisee as selected, to ensure that the model is not jeopardized as it expands by less qualified franchisees. TISA in particular has seen as it grows that balancing franchisees that have basic business and financial literacy, with an understanding of healthcare that satisfies its customers, has been problematic, and is defined as one of the core challenges as it expands today.

Brand identity: Enabling the cluster of employees to identify as a group is key for credibility as the cluster expands. Marie Stopes International has used its *BlueStar* brand to create a uniform brand identity across regions and even countries.[7] This is also a cost-saving tool for the franchisor, as common marketing materials can be designed and produced. When this branding is combined with training credentials also provides credibility to the organization and

[7] Establishing and Scaling Clinical Social Franchise Networks, Global Health: Science and Practice. Volume 3, Number 2, 2015. 185

the franchisees.[8] LivingGoods has used its brand to create uniforms for its employees, creating a recognizable workforce that literally wears their pride for the organization every day.

When the franchise moves to a cluster level this is also where financial incentives become important, however there are other important incentives that can be provided to the franchisees: respect in the community, business and healthcare training, a sense of belonging to a team.

As the network expands, one of the most crucial partnerships is with the government, who as willingness to work with the private sector increases globally, should be a strategic partner in using social franchises to increase access and rural livelihoods.

Strategic placement: When moving from unit to cluster, rural pharmacy franchises should look for strategic partners on a community level to bring into the franchise model. MSI and PSI have done this, and look for existing facilities they could recruit into a franchise. They conduct this identification while they map populations and health data to determine the right client needs. This enables their cluster to build with individuals who are already used to the business, and are willing to improve. They have clear recruitment guidelines that are designed to minimize attrition and de-franchising, effectively keeping costs down. By building locations around franchisees who may already have some pharmacy or medical experience, the franchise could build more efficiently, and help the store owner create a more sustainable business.

Promoter oversight: As the franchise expands, having the right oversight becomes crucial. Within the rural pharmacy model the dispersed and remote nature of many of the pharmacy locations can create a challenging logistical problem for the franchise promoters to ensure they can provide adequate support to the franchisees. As the franchise moves to a cluster and then networked scale, being aware of the promoter limitations is key in choosing locations. The presence of promoters should be enabled by the location choices of the franchise.

Government tie-in: Government services and clinics are an important health provision in many communities, and as the rural pharmacy franchises expand they should work with these clinics rather than in competition with them. This is especially important in clusters where there is a government service nearby with free medication. These insights with regards to the peripheral services to the clinic must inform the location decisions, and the franchises must adapt accordingly. TISA's experience shows that opening close to a government clinic with free medications is highly detrimental to a business, and does not allow for sustainable growth.

[8] David Lehr, "Microfranchising at the Base of the Pyramid." Acumen Fund Working Paper. August 2008.

Procurement and distribution model: As outlined in the unit viability considerations, out of stock medicines presents one of the widest challenges for rural pharmacies, and subsequently as the model goes to scale this barrier must be addressed directly. The creation of a wider distribution model at this phase is one of the key challenges, and must be engaged on with corporate partners as well as with government partners where possible. This could be made up of smaller regional distribution networks with nearby towns, or with passing suppliers, depending on the specific market context.

Product mix: As the rural pharmacy franchise goes to scale, it will begin to be clear that the same product mix may not work for each region. There must at this point be a flexibility in the product mix, and an understanding of how that mix changes the financial viability of the region. Again, this flexibility will enable scale, and ensure that the right services are being offered for the specific population.

Expand metrics: It is at this move to scale that healthcare metrics can be integrated into some of the quality assurance metrics to ensure that the goals of the pharmacy franchise are being achieved. This however must be done in the context of lean research principles, to avoid overloading new franchise owners and busy pharmacy promoters in their daily work. When starting to reach scale, especially with the early

Accounting and financial management system: As the control of the franchisees dilutes through scale, it will become critical for the financial stability of the franchise that consistent accounting and financial management is maintained. This is established in most cases through the franchise manual, but when practised widely may become more difficult. It is in this case that the ability of the franchise promoter to have access to the franchisees, and the use of the technology becomes a crucial enabler.

Investor, partner buy-in: The scaling of the franchise presents the opportunity to get true buy-in from corporate partners and investors as they are able to tangibly see the scale that is being achieved with the model. The move from cluster to network is the perfect chance to provide the next round of information to partners, and raise funds as needed for expansion. This on-going reporting of performance to partners on the financials and overall metrics will also maintain the strong relationships established at the outset.

4. Expansion

After the cluster and network have been proven, expansion occurs as the franchise grows into new, diverse markets. Often, expansion includes growth across borders into foreign markets. As the franchise expands into new contexts, the need to consider each one of the four criteria becomes crucial for sustainable expansion.

***Figure 11** Expansion: Key Decision Points*

Criteria	Decision Points: Expansion
People	✓ Engage with the Government (Ministry of Health) and the National Health Insurance Authority (NHIA) ✓ Engage with the community to ensure context-appropriate approach ✓ Identify potential franchisee to manage locations ✓ Conduct franchisee training on client relations
Location	✓ Identify strategic considerations to expand accordingly ✓ Determine market viability ✓ Review policy environment to ensure compliance
Logistics	✓ Conduct supply chain analysis ✓ Map the distribution structure of the goods and services ✓ Conduct standardized competency training to new personnel ✓ Construct and maintain vertical communication channels between the franchisee and the franchisor as well as horizontal channels among the franchisees
Metrics	✓ Demonstrate unit viability ✓ Prove cluster viability ✓ Conduct financial analysis of expansion ✓ Construct clinical guidelines that align with national guidelines of the region ✓ Construct and maintain monitoring mechanism to assess the social and financial objectives of the franchise
Financing	✓ Conduct break even analysis ✓ Assess financial risk of expansion ✓ Consider ability to account for risk

After deciding to expand into a particular context, the franchisor must understand who to engage in order to establish and maintain the franchise. The franchisor must also consider the government, specifically the ministry of health and the national health insurance scheme, the community who will be receiving the services, as well as the potential franchisees.

Franchisor and the government: In order to ensure sustainable expansion, the franchisor should engage with the government to establish a relationship and gain support from the National Health Insurance Scheme. The choice of whether or not to mandate government accreditation of pharmacy owners is up to the franchisor. As in the case of the Well-Family Midwife Clinics and /BlueStar Pilipians in the Philippines, engagement with the government to support accreditation services for its franchise owners ultimately increased the quality of the franchise. The accreditation also incentivized franchisees to engage in the franchise. However, the cost of accreditation must be taken into account upon engagement should the financial obligation be prohibitively costly for franchisees.

Franchisor and the community: The franchisor should also connect with the community. As in the case of TISA, a strong relationship with the community is crucial to unit, cluster, network, and ultimately international expansion. Drawing from the case of clinical social franchises in Ghana and Kenya, the franchisor must connect with the community in order to ensure the needs of the community will be met through the franchise. The franchisee must also set the expectations of the community financially. Expanding franchisees into communities that are unfamiliar with payment systems or for-cost medicine is a challenge. Franchisees should set expectations for the community and explain context-appropriate payment systems.

Franchisor and the franchisee: The franchisor must identify and build a relationship with the franchisee. The franchisor must determine the franchisees qualifications, roles, and responsibilities. The franchisee must see value in engaging with the franchise network. In MSI's affiliate Banja La Mtsogolo (BLM) potential franchisees are able to talk with current franchisees. The conversation is able to lend credibility to the franchisor and build trust vertically and horizontally. Open communication between the franchisor and the franchisee must be fostered initially upon breaking into new markets. The communication must be maintained throughout the establishment and life of the pharmacy.

Franchisee and the community: The franchisee must connect with the community. As clinical social franchises in Ghana and Kenya revealed, provider-client relationships are important for franchise growth. In the study conducted on these franchises, clients cited the client-provider relationship as the reason for attending the franchise. Franchising was also found to foster client-provider relationships by ensuring a standard quality of care and positive provider-client interactions. As a result, provider training on business practice, patient counseling and customer service were considered more beneficial by franchise owners than providing technical input, branding, or clinical support.

Location

Where do you expand? After accounting for the financial viability of the model, the franchisee must understand where to expand. The franchisee must be strategic in understanding the context in which the franchise will thrive. Population Services International (PSI) and Marie Stopes International (MSI) conduct an assessment of both the health market and the policy environment to determine the feasibility of expansion.

Contextual factors are also considered during the assessment. According to the study of PSI and MSI conducted by Thurston et al., these factors include:

- Adequate institutional capacity for medical outpatient care
- Demand from poor and underserved populations for driven health activities
- Unmet medical need by public sector
- Government willingness to engage with the private sector
- Clients or third-party-payers are willing to buy health services
- Clients or third-party-payers are willing to pay for health services through private out of pocket or public health insurance schemes
- Sufficient resources are available to establish and maintain a franchise

Strategic expansion: The franchise must consider the location of the expansion strategically instead of opportunistically. Strategic considerations, including financial sustainability, institutional capacity, and market viability must be made before making the decision to expand. As in the case of Blink Gyms (referenced above), rural pharmacy franchises should expand strategically rather than opportunistically.

Market viability: The franchise must consider not only the demand for health goods and services but also the ability of the population to pay for these services. As Thurston et al. suggest, in their assessment of scaling up clinical social franchise networks, the client or third-party-payers must be able to pay for health services through private out of pocket payments or public health insurance schemes. The authors explain that social franchises are the most successful in areas where lower-income clients are already paying for private sector health care. In contrast, franchisees in areas where wealthier clients corner the market on private sector services have not proven to be as successful.

Policy environment: Upon expanding into new markets, the franchisor should ensure that the policy environment is conducive to the distribution of a franchised package of goods and services. Regulations concerning the distribution of certain medical products or the ability of a distributor to distribute these products should be assessed before moving forward with the expansion venture. Minimum clinical standards should be adhered to upon establishing a franchise in a new context. When expanding into foreign markets, international franchise law must also be identified and adhered to throughout the process.

How do you expand? Expansion entails a complex set of logistical factors that must be considered before engaging in new markets. Logistical concerns from obtaining the goods and services to their distribution to process assessment should be discussed before expansion. Financial projections must accompany these logistical considerations in order to ensure the feasibility of the expansion.

Supply chain analysis: In order to expand into a new market, the franchisor must conduct a supply chain analysis of the medical goods and services available within the region. The analysis should incorporate an understanding of the goods and services available within the context as well as the goods and services that would need to be provided or subsidized.

Distribution structure: The franchisor should consider the distribution structure of the goods and services for each context. A mapping of the transportation of goods and services to each center should be conducted in order to ensure that the locations are accessible and able to be serviced consistently. The storage capacity and electricity constraints of each center should also be considered.

Training delivery: Standardized competency training should be delivered to franchisees within the new market. Training should be consistent and include information concerning the products and services provided by the franchise. As in the case of TISA, offering a training on management and medication distribution is useful in facilitating effective decentralization. Additional training on business management, accounting, and client-based interaction could be optional depending upon the context and the request of the franchisee.

Figure 12 *Case Study: Franchisee Training for TISA (Guatemala)*

Tiendas de la Salud (TISA) is a micro-pharmacy franchise that works to increase access to medicine in rural communities. Franchises are owned and operated by local community members. Health products are sourced locally from manufactures including Farmacias de la Comunidad at reduced costs.[9]

Franchisee owners are provided with basic health and business training as well as a startup loan and support from periodic supervisory visits. The combination of the demand-driven supply structure, locally sourced products, business and health training, and high levels of communication allows TISA to mitigate logistical concerns and grow the franchise effectively.

Communication channels: In order to manage expansion, the franchisor should construct and maintain channels of communication with franchisees. The communication channels allow the franchisee to receive support from the franchisor and allow the franchisor to monitor and support the franchisee as needed. In the case of TISA, expansion was successful as a result of quick feedback of information and subsequent ability to adapt the model to respond to the context.

[9] Center for Health Market Innovations. (Published January 2015). Highlights: 2014. Results for Development Institute, Washington, D.C. Available at HealthMarketInnovations.org.

Metrics

As the franchise expand into foreign markets, the need for maintaining quality assurance in diverse contexts is crucial. Although each objective of the franchise should be monitored throughout the growth of the franchise, quality assurance is particularly important when assessing expansion. Standardized quality of medicine and clinical care are necessary to build client trust and achieve better health outputs. The franchise should leverage the monitoring mechanism established during the initial phase, the business plan, to assess quality assurance with financial sustainability.

Quality Assurance: The franchise should ensure that minimum standards for goods and services are aligned with national standards. In doing so, the franchise should construct a governance policy that regulates quality, client satisfaction, and incident reporting.[10] Open communication between the franchisee and the franchisor is essential to collecting, assessing, and using information to inform decision making.

PSI and MSI have collected a checklist of steps that are useful to assess the quality of the goods and services provided[11]:

- Establish clinical minimum standards aligned with national standards
- Issue clinical governance policy, which includes requirements for clinical quality audits, client satisfaction surveys, and incident reporting protocols
- Deliver competency-based training on the package of franchised services, including training for procedures, comprehensive client counseling, infection prevention, management of clinical emergencies, and referrals
- Facilitate supply of appropriate commodities and equipment
- Provide quarterly supportive clinical supervision and routine use of quality monitoring audits
- Conduct independent audits of the quality assurance system and practices

Figure 13 *Case Study: Population Services International (Nepal)*

psi

In Nepal, Population Services International (PSI) equips franchise staff with electronic tablets. The software provides staff with a clinical reference guides and introduce training tips. The table also allows staff to submit real-time data concerning supply and demand.

As a result, the tablets promote standardization of quality across the franchise while improving data collection. The tablet also increases access to the resources needed by the clinics that would otherwise need a more centralized intervention.

[10] Thurston S, Chakraborty NM, Hayes B, Mackay A, Moon P. Establishing and scaling-up clinical social franchise networks: lessons learned from marie stopes international and population services international. Glob Health Sci Pract. 2015;3(2):180-194. http://dx.doi. org/10.9745/GHSP-D-15-00057.
[11] Ibid.

Upon expanding a franchise from a cluster to a network of clusters, the franchisee must prove financial viability. Unit and cluster viability must be substantiated and the costs of expansion must be accounted for in financial projections. In the case of FUDEIMFA, the franchise was scaled too quickly without accounting for financial considerations. The result was an ultimate scaling back of stores that led to financial losses and inefficiencies.

Financial Analysis: The franchise must have the financial capacity to enter into a new market before expansion. Unit and cluster viability must first be proven. The target market must then be assessed to determine the financial viability of entrance. A break even analysis that takes the new context into account must be conducted. Considerations including the financial risk of entering into a new market and the ability of the franchise to mitigate this risk should also be considered within the analysis. Should the franchise not have the financial capacity to maintain operations in the face of slow growth, the franchise may want to reconsider expansion.

VI. Applying Lessons Learned

Assessing the Investment: The learnings in the document can help guide smarter investment decisions. The investor should use the criteria identified at each stage of growth to assess the quality of each potential investee. Ideally, an investee should complete the requirements sequentially, starting at the business plan stage of growth. The checklist, however, is not meant to be a rigid, one-size-fits all approach. Instead, it is meant to present general considerations that each franchise may want to consider as the organization develops. As a result, the investor will want to consider if each item on the checklist is appropriate to evaluate the investee upon conducting the investment assessment. Should a potential investee meet the majority of relevant items within the checklist, the investee presents a strong investment opportunity. Should a potential investee not meet the majority of relevant items within the checklist, the investor may want to reconsider the investment.

Supporting Current Investees: The lessons in the document can also help investees construct more effective and sustainable franchises. Using the document, the franchise could conduct a self-assessment to determine what items within each criteria are currently addressed. The assessment could help to inform real-time decision making to strengthen the quality and outreach of the franchise. Understanding the components of best practice programming may also help the franchise scale more effectively as their model develops.

Should investors want to take a more hands on approach to investee assessment, the investor could work with the investee to integrate checklist reporting for each stage of growth. The investor could use the checklist as a tool to understand the progress of the franchise as well as the potential risk of the investment. The approach would require time and resource investment from both the investor as well as the investee but could result in a sustainable franchise with stronger health outcomes.

Appendix 1: Definitions for Sector Franchising

Commercial Franchise	Franchising is a method of distributing goods or services. A franchise is a type of business in which someone (the franchisee) agrees to pay certain fees and obey certain rules for the right to sell the goods or services of an established company (the franchisor) and benefit from its business methods, trade secrets, goodwill, professional training, and operating assistance.[12]
Social Replication	Social Replication refers broadly to taking your organisation, programme or a set of core principles to other geographic areas. The International Centre for Social Franchising (ICSF) divides social replication into three broad types of strategy based on level of control from the concept originator or center: ● Dissemination (sharing knowledge about a social innovation) ● Affiliation (forming an ongoing relationship with others to replicate a social innovation) ● Wholly owned (spreading innovation through owning and operating new sites)[13]
Rural Pharmacy Franchise	Rural pharmacy franchises seek to increase access to lifesaving medicines for hard-to-reach communities through microfranchising of basic pharmacy storefronts. This approach combines the market-oriented business model of the commercial sector and the social impact objectives of social replication.

Commercial franchisors need to claim fees from franchisees in order to finance the central support systems and create profit. Social franchises operate on a spectrum, with one end being social enterprises that operate using a for-profit model, and at the other end money often flowing outward as grants from the franchisor. Rural pharmacy franchising blends these two approaches, with the overall goal of improving health outcomes through access to medicines but in a financially-viable and sustainable way.

[12] Perkins, Eric C. and Justin M. Laughter, “Fundamentals of Franchising Your Business,” Hirschler Fleischer, Attorneys at Law, 2008, pg. 2.
[13] Social Replication Toolkit, ICSF, 2015.

Appendix 2: Current Linked Foundation Portfolio of Rural Pharmacy Models

Program	Country	Affiliated Partners	Model	Scale
TISA	Guatemala	Mercy Corps, Farmacias de la Comunidad	Storeowners receive business support in the form of a startup loan and monthly supervisory visits, basic health and business training, and purchase medicine from Farmacias de la Comunidad pharmacies at a 20% discount (which they sell at retail price, keeping the 20% profit).	70 stores in operation with Farmacias de la Comunidad now managing all operations
BOSI	Mexico	Mercy Corps, Farmacias Similares, Financiera Súmate	Same model as TISA. Storeowners purchase medicine from Farmacias Similares pharmacies at a 30% discount which they sell at retail price, keeping the 30% as profit.	3 Pilot Stores
Fonkoze Boutik Sante	Haiti	Fonkoze	Part of Staircase out of Poverty model, where microfinance clients will learn how to own and operate self-sustaining health stores that generate income and have a health impact in the community. Designed to be a scalable, sustainable model that delivers “over-the-counter health products at low but competitive costs, as well as provides basic health counseling and screening services to the local communities.”	Early stage of development

Appendix 3: Current Best Approach Framework

	Business Plan	Proof of Unit	Proof of Cluster/Network	Expansion
People	✓ Define role of franchisor and operating structure ✓ Identify partners ✓ Outline roles for franchisees/agents	✓ Establish franchisee buy-in ✓ Develop communications tools ✓ Roll-out public awareness and education efforts	✓ Establish brand identity ✓ Solidify tie-in with government services ✓ Confirm utility, efficiency of network communications ✓ Define franchise leader	✓ Engage the Government ✓ Engage the community ✓ Identify potential franchisee ✓ Train on client relations
Location	✓ Conduct market analyses ✓ Select pilot communities ✓ Map target regions	✓ Set up first point-of-sale location ✓ Confirm geographic scope of promoter oversight	✓ Define cluster/network size ✓ Solidify tie-in with government clinics, services, referrals	✓ Identify strategic considerations ✓ Determine market viability ✓ Review policy environment
Logistics	✓ Select portfolio mix ✓ Source products ✓ Determine supply chain and distribution	✓ Develop franchise manual and training ✓ Identify and troubleshoot supply chain inefficiencies ✓ Confirm ideal product mix for point-of-sale	✓ Establish regional procurement ✓ Adapt product mix based on markets ✓ Address key stopgaps	✓ Analyze supply chain ✓ Map distribution ✓ Construct communication channels
Metrics	✓ Develop monitoring system	✓ Confirm financial break-even point ✓ Achieve initial benchmarks ✓ Cost out growth plan	✓ Ensure consistent financial management system ✓ Troubleshoot monitoring systems; adapt metrics ✓ Achieve investor buy-in	✓ Demonstrate unit viability ✓ Prove cluster viability ✓ Analyze finances ✓ Align guidelines
Financing	✓ Establish financial plan and accounting system ✓ Set compensation schemes ✓ Develop growth plan	✓ Establish profitable product mix ✓ Revise financial model for scaled growth	✓ Establish strong accounting and financial monitoring system ✓ Re-visit investor and partner buy-in and support	✓ Conduct break even analysis ✓ Assess financial risk of expansion ✓ Consider ability to account for risk