Agribusiness Franchising in India: Experience and Potential

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Abstract

Agribusiness or agricultural franchising is quite new in India, though it is quite commonly used in other businesses like fast food, hotel and other service industries where service quality is crucial to maintain brand equity. There have been only a few experiments in this field in the recent past by some corporate agencies, both private and public. This paper locates the rationale for franchising in agribusiness from global literature and from the Indian smallholder agricultural context where other ways of reaching small farmers or linking them with markets have not worked. It then analyses a few cases of failure and success in franchising in agribusiness by corporate agencies and compares and contrasts them for inferring on better management of franchising and its wider applicability in the Indian agribusiness context.

Agribusiness Franchising in India: Experience and Potential

1. Introduction

The low yields and low price realisation due to lack of modernization of small holder developing country agriculture has been an important issue for all stakeholders including private corporate sector involved in marketing of agricultural inputs to farmers and buying farm produce from them. Small farmers in India are in dire stress due to low farm yields, unstable market prices and lack of various other support mechanisms in the presence of declining size of the land holdings. The only few ways to help such farmers is to either help cut down their costs of production and marketing, provide stable and remunerable market access and improve price realisation or increase yields.

Agribusiness or agricultural franchising is quite new in India, though it is quite commonly used in other businesses like fast food, hotel and other service industries where service quality is crucial to maintain brand equity. There are some studies in other contexts (Africa) which examine the performance of franchising in sub-sectors of agribusiness i.e. cattle feed (Fosu, 1989). Franchising is a continuous relationship (long term partnership) in which a franchiser provides a licensed privilege to the franchisee to conduct business in addition to providing assistance in organising, training, and merchandizing. In return, the franchiser receives a certain amount from the franchisee as initial fee and sometimes also royalty on business volumes conducted. It can be product, business format or trade name franchise. The basic ingredients of a franchise system are: obligations of both the parties, initial/later/ongoing fees and mode of payment, identified/specified territory, specified duration, termination of agreement procedures, post termination confidentiality, and procedure of arbitration (Fosu, 1989; Hoy and Stanworth, 2003). An agribusiness franchise can be defined as "a right, permission, or license (often established by contract) granted by an agribusiness firm (called the franchisor or franchising agency) to another agribusiness firm (called the franchisee) for the latter to distribute, manufacture, and/or use the trade name of the former's products and services usually in a specified territory assigned to the latter firm by the former firm" (Fosu, 1989. p. 96). Further, franchising can evolve over time as seen in the case of cattle feed case study in Nigeria where the franchisor moved on from just distribution rights to the franchisee to the grant of feed mixing rights with input supply on credit and milling machines over a period of time which gave the latter better control over characteristics of products but the franchisor continued to maintain quality control by occasionally testing its products in its quality lab (Fosu, 1989).

There have been only a few experiments in agribusiness franchising in the recent past by some corporate agencies, both private and public, in India. National Agricultural Co-operative Marketing Federation of India Limited (NAFED) has 2,000 franchisees across eight states of India for selling of inputs especially fertilizers ((supplied by Indian Farmers' Fertiliser Co-operative (IFFCO)) and seeds, with 1,400 of them in U.P. alone. Similarly,

IFFCO, a government of India run national level co-operative has set up franchises in rural areas. It offers businesses like rake handling, transportation, and warehousing of fertilisers and offers help in educational and promotional activities. 1307 Primary Agricultural Co-operative Societies (PACS) have become franchisees of IFFCO. Each PACS gets Rs60,000 . for purchase of office furniture and agricultural implements. The insurance is provided by IIFCO-TOKYU)ITGIC(. By March, 2004,416 PACS had taken up transport of fertilisers from warehouse to godowns, 110 PACS transport of fertilisers from warehouses to other societies, and 79 PACS had taken up rake handling and transportation. The PACS also sell seeds, pesticides, agricultural implements, and offer credit.

A private corporate agribusiness-Mahindra Shubhlabh Services Limited (MSSL-a subsidiary of the tractor major-Mahindra) had set up dozens of franchises in rural India across states to provide one-top solutions to small farmers in mid 2000s. A few years ago, a private sector potato supply chain company (Sidhhivinayak Agri Processing Private Limited, SAPPL)) set up a network of 26 franchisees in collaboration with a development project in one Indian state (Uttar Pradesh) that provides farm input supply and produce buyback service to smallholders.

Another variant of the franchising model is that of a private entrepreneur (Zamindara Farm Solutions) set up in 2005 which todays owns 170 machines which have been used by 6000 farmers over seven years across four districts (with 300 km. radius from the original centre) and run it as a business model in an environment of over-tractorisation of the farm sector in Punjab where affordability for such costly machines is an issue and the crisis of mechanisation is seen in the presence of second hand tractor markets in the state which are held weekly or fortnightly across many mandi towns and large villages. Zamindara's investment of Rs. one million in 2005 had led to a turnover of Rs. 60 million by 2011-12. The company has now moved to a co-owner model with farmers in different places within the state wherein the farmer partner pays lower rent for self use, invests Rs. 30,000 and gets 10% share in rentals (Kakkar, 2012).

Another agribusiness start up to facilitate farmers with better inputs and extension and markets in Bihar (Farms and Farmers) has also used franchising model under which it runs nine outlets/centres called *DeHaat* across four districts which cater to a total of 4000 farmer members (who pay Rs. 200 annually each) with each in a 10-12 km. radius with services like soil sample analysis, crop selection, and technical support during the season and marketing of produce. The franchisee invests about Rs. 15-20,000 to begin with and is trained by Farms and Farmers (franchisor) for three months and profits are shred on 75:25 basis with 75% going to the franchisee. The franchisee gets serviced fee for input distribution, advisory to farmers, and output collection and caters to about 500 farmers for being viable. A major source of income is from resale of produce to large buyers — FMCG companies, food processing companies, exporters and retail chains — at the end of each season. Here, gross margins range from 2-4% in foodgrains to 12-20% in fruits and vegetables. FnF's commercial arm, Green

Agrevolution, set up in February 2012 undertakes marketing and processing of farm output (Kumar, 2013).

More recently, there has been another case of a corporate sector player using franchising route to reach rural markets. Aadhaar Wholesaling and Distribution Ltd. (earlier Aadhaar Retailing and a joint venture company of Future group and Godrej Agrovet with 70:30 equity) has 50 retail stores including 33 run by franchisees in Gujarat and Punjab, though farm input sales are a small proportion of the total sales of these outlets (10-20%) and they are not involved in buy back of produce as yet. It has moved from company owned and company operated (COCO) stores model to franchisee model.

In neighbouring Pakistan, Syngenta- an agricultural input company mainly into seeds and pesticides since 1972 with 22% market share in 2010 has moved to the franchise system called ***Naya Savera*** (new dawn) from traditional dealer based selling of farm inputs. It has three categories of the franchise based on the scale of potential business in the area. Each franchisee is bound to sell only Syngenta products. The franchisee is provided a fixed commission of 8% on the retails price and an additional 2% for achieving sales targets, support in company promotion, has to comply with policy guidelines and contribute to providing advisory service to farmers. The 2% is permitted after approval and transferred at the end of the year. The company stared with 300 franchise outlets in 1997 and reached to 700 by 2010. It has completely done away with conventional dealers to sell Syngenta products. Even Bayer has moved into franchise system in Pakistan with its *Sohni Dharti* (beautiful land) stores as has FMC with its *Sunehra Daur* (golden age) stores (Riaz, 2010).

This paper locates the rationale for franchising in agribusiness from global literature and from the Indian smallholder agricultural context where other ways of reaching small farmers or linking them with markets have not worked. Next section provides rationale for application of franchising in agribusiness sector followed by an analysis of a few cases of failure and success in franchising in agribusiness by corporate agencies and compares in section 3 and their comparison for strengths and weaknesses for inferring on better management of franchising and its wider applicability in the Indian agribusiness context in section 4. The last section concludes the paper with major lessons for franchising in agribusiness.

2. Rationale for agribusiness franchising

That agribusiness sector including farm production services is a relevant sector for franchising, that too business format franchising, has been argued well in a paper by Rudolph (1999) wherein it is determined that the sector meets the necessary and sufficient conditions for application of franchising strategy. The necessary conditions include: limited growth potential of an individual franchisee due to technological limits, availability of large number of potential franchisees to choose from the more suitable ones, existence of some feasible managerial and administrative function for franchising out for economies of scale and high switching cost, possibility of decentralised decision making for leveraging its benefit

compared with a vertically integrated system, credit worthiness of franchisor in the presence of lack of it among franchisees, and irrelevance of idiosyncratic investments. On the other hand, additional or sufficient conditions include: possibility of multiplying learning effects and creation of competitive advantage thru transfer of management skills and technology transfer, pre-selecting the most talented franchisees to achieve dynamic competition, access to credit markets for franchisor, and use of franchising as a countervailing power to oligopolistic market power of the downstream players which are also met in the agribusiness sector (Rudolph, 1999).

Franchising can also be an alternative to contract farming which fails for various reasons as there are low levels of involvement of the grower most of the time and possibilities of default on producer delivery and payments, besides short term contracts (Rudolph, 1999). Franchising helps franchisors spread faster in markets, achieve higher turnover, establish brand presence and leverage local resources and skills for growth of the brand without taking all the risk on their own. On the franchisee side, the advantages of franchising include access to credit, technology, market, marketing and higher turnover (Fosu, 1989). Within agro inputs sector, franchising can be seen as a more effective and lower cost strategy to reach rural markets compared with COCO store model- the latter attempted by many players in the last decade in India without success, or even compared with mainstream distribution channel.

3. Case studies of agribusiness franchising in India

This section describes and analyses in a comparative perspective the various cases of franchising from cooperative, private and joint (public-private) sectors to learn the strengths of each system and avoid pitfalls. There are two primary models of franchise that exist in India: public models- NAFED and IFFCO's in farm input supply and a fully private sector model (MSSL and others discussed in the introductory section), in input supply, extension and buy back of farm produce (MSSL now defunct, but is also included in this discussion as it provides a helpful perspective).

NAFED Model: NAFED has 2,000 franchisees across eight states of India., Bihar, Jharkhand, Uttaranchal, Punjab, Maharashtra, Tamilnadu and Assam for selling of inputs especially fertilizers (supplied by Indian Farmers' Fertiliser Co-operative, IFFCO) and seeds, with 1,400 of them in U.P. alone (Subramani, 2003). Most of the franchisees are unemployed graduates or ex-servicemen and they have to pay a security deposit in cash. They only need to buy some minimum stock on cash basis, costing about Rs. 10,000. The delivery is on payment basis. NAFED trains these franchisees. They are exclusive dealers of NAFED routed products in a specified territory, have to sell at NAFED determined prices, can sell only to farmers, not trade, and can't deal in competing products. NAFED charges a margin on all the products supplied to the franchisee which has to be paid on monthly basis. The franchise agreement is initially for one year but extendable at expiry. The NAFED franchisee is supposed to inform of the sales performance on a weekly basis to the franchisor. It also seeks that franchisee will put up a display board at the outlet with the NAFED service centre name and address on it and another board to display prices of

various products. Further, franchisee is to be free from any criminal case or First Information Report (FIR) or from any credit default to any institutional agency like bank or co-operative. It also specifies arbitration procedures in case of dispute.

***Tata Chemicals Model*:** In the private sector, the Tatas group through its arm Tata Chemicals launched Tata Kisan Sansar (Tata Farmer World) (TKS) in October 2004. Tata Chemicals, incorporated in 1939, is largely into manufacture of fertilizers, pesticides and salt, besides many other chemicals (www.tata.com/tata_chemicals/releases/20041026.htm). Until 2004, the two companies of the group- Rallis and Tata Chemicals -had run separate rural initiatives i.e. Tata Chemical owned a chain called Tata Kisan Kendras (Tata Farmer Centres) in U.P, Haryana, and Punjab which offered the farmers a range of services from agro inputs to financing and advisory services since 1998; and Rallis had a unique programme in M P wherein it partnered with ICICI Bank and HLL in offering farmers various services from inputs to post harvest operations and purchase of produce (Saran et al, 2004). The TKKs were operated by franchisees and each one of them covered 60-70 villages covering about 1500 farmers in 10 km. radius. The franchisee took care of relationship building with farmers and sometimes also hired out machines to farmers on rentals. These franchises worked exclusively for the company compared with wholesalers. Each franchisee made an investment of Rs. 75, 000 on his own and it was not reimbursed by the company. They also had working capital of the order of Rs. 0.3 million and were generally local agro businessmen with interest and/or experience in ago input and/or agro output sector (www.tata.com/tata_chemicals/releases/20041026.htm). The TKKs were started with the motto of providing the farmer with a package of inputs and services for optimum utilization of balanced primary nutrients; plant protection chemicals; water; seeds; post harvest services; and to develop a genuine partnership with the farmer (Talwar et al, n.d.).

In April, 2003, Rallis' operations which were not sustainable were merged with Tata Chemicals. At that time, Tata Chemicals had 11 mother centers (TKKs) and 300 franchisee TKKs (Talwar, et. al, n.d.). In October, 2004, the company (Tata Chemicals) launched its TKKs as TKSs envisioned as a one-stop shop for farmers. At the end of 2004, there were 421 TKSs which were all run by franchisees in the above-mentioned three states. These centers were linked to 20 hubs owned by Tata Chemicals. A TKS had three sources of income – sale of inputs, advisory services, and fees charged on sale of partners' goods. There were 15 partners including ICICI Bank, ING bank, State Bank of India, and agro input companies. The company also undertook contract farming in 15,000 acres of land in the crops of paddy and vegetable seeds in U.P. and Punjab, and fruits in Karnataka and Maharashtra. The produce was sold to food retail chains and exporters (Saran et al, 2004).

TKKs helped company to reach the farmers more directly by cutting down some intermediaries and dealing with the retailer only. As a consequence, the market share of the company is higher (25-30 per cent) in TKK areas than that in other areas (10 per cent). There were also Tata Kisan Vikas Kendras (TKVK, Tata Farmer Development Centres- mother

centers) which served TKS run by the franchisee and the farmer. A TKVK cost about Rs. 20-25 million and spanned a radius of 60 kms. and covered 20 TKSs. In turn, each TKS spanned a radius of around 8 kms. and 60 villages. In 2004, there were 18 TKVKs and 421 TKSs (www.tata.com/tata_chemicals/releases/20041026.htm).

On the other hand, a Tata franchisee had to invest only Rs. 0.3 million and the TKKs provided all services ranging from input supply and extension to purchase of farmer produce to enrolled member farmers for Rs. 200 per acre per year and also earned from selling inputs, charging commission (1-2%) on channelising bank loans and on sale of produce to buyers like HLL, Food world and the like. It spent Rs. 2.5-3 million per center with soil testing facilities worth Rs. 2 million each. RKKs were located in entered premises and other expenses were on training of staff and hiring experts for extension advice (Krishnamacharyulu and Ramakrishnan, 2003).

TKSs which were an upgraded version of TKKs, were one stop shops which provide services like agro inputs, extension, bulk blending of chemicals, training and dissemination, soil and water testing, farm credit and insurance access, and marketing facility with quality and convenience across 14,000 villages in three states in north India. At the village level, the organization was the Kisan Sahyog Parivar the membership of which costing Rs. 200 annually, gave access to credit at low interest rate and an insurance of Rs. 0.1 million. This was present in 256 villages. The company had 130 professional agronomists to assist the farmers. The buy back arrangement had been already provided to farmers in 60 villages in U.P. and Punjab. Farmers could also pay selectively for services of the TKS (www.tata.com/tata_chemicals/releases/20041026.htm).

MSSL Model: There was another case of a private sector player setting up franchises for farm input marketing and output handling. Mahindra Shubhlabh Services Limited (MSSL)-a farm input and output facilitation company which wanted to provide one-stop solution to farmers, had 57 such outlets in ten states in north, west and southern India, and only three of them were company owned and run. The rest were all run by franchisees. Generally, there was one franchisee in one district and it was exclusive license and business format franchising. Each franchisee had 15-25 spokes (village cluster level outlets). The franchising system made up for 2.5% of the MSSL's business. Franchisees were selected based on their agricultural input and/or output business volumes and experience in local area. Typically, a franchisee was an *arthiya* (a commission agent) or/and an agro input dealer. A franchisee employed five field staff, each one managing 100 farmers or 500 acres of a crop/s (each farmer growing at least five acres) in a village or cluster of villages, and all of them were supervised by one supervisor. For the farm advisory service, a fee of Rs. 50 was charged in cash from the farmer and the remaining (Rs. 100) in credit recovered at the time of delivery of crop. The crop was monitored regularly by the field staff. Table 1 below gives major features of the franchise arrangement. The equipment was owned by the franchisee. The

franchise contract was for three years initially but extendable. The franchisee got a commission as a distributor of inputs.

Table 1: Major aspects of MSSL original franchise arrangement

Franchise feature	Condition
Initial franchise fee charged from franchisee	Rs. 0.5 million per outlet (per district), non-refundable
Royalty fees charged from franchisee	On advisory service:12.5% in first year, 19.5% from 2nd year onwards On rentals: 5% of tractor rentals and 3% of maize harvester rental for first two years
Duration of contract	3 years initially but extendable
Commission on input sales from franchisee	3-5% of sales through franchisees,
Commission on output sales from franchisee	2.5% of sales proceeds of which 1.5% passed on to franchises

MSSL provided support like business planning for the outlet, training, business roll out, territory manager, all input supplies, and bank linkages besides promotional support and accounting packages. The franchisee was evaluated for his performance in terms of planned and achieved targets. The franchisee was also expected to carry out some local promotional activity. The franchisee owned/leased the outlet and did not have to pay any security deposit. For franchise location and franchisee selection, an intensive business feasibility study was conducted to determine the business prospects for the district in terms of selection of crops, business planning for the centre, and business roll out and launch plan. Crop selection included corporate involvement in the crop, nature of crop, yield improvement potential, and scalability. Selection of area for operation involved examining input usage levels. Operational aspects included agricultural marketing laws, credit issues, and government support. Figure 1 below shows the various linkages in the franchise system for inputs and output of the company. As can be seen, the franchisee route became too lengthy and complex to reach farmers effectively and efficiently.

The initial model's project cost was approximately Rs. ten million for the franchisee. MSSL expected many prospective franchisees to sign up, franchisees were to get assured business from farmers. The products recommended by MSSL were supposed to be of high quality, with higher selling margins. Moreover, money could be made through farm consultancy fees. The franchisee also got distribution rights for many input companies in one go without paying deposits. Additionally, there was income from equipment rentals. But, at the outset, the idea of nonrefundable sign up fees came up as a major stumbling block. Most dealers in the agricultural input industry had to offer only security deposits against which they could earn fixed deposit interest or obtain materials worth that amount immediately. Many dealers were already one stop shops dealing with a whole host of input companies as distributors, and

giving farmers advice informally (free of cost) from their shops and doing farming themselves. They also had field assistants and contract employees from input companies. Further, the agro input industry was highly credit driven with tenures of 90-180 days. Dealers with Rs. 0.5 million to invest could do business worth Rs. 10 million annually. Any new business model would have to provide an equally strong business opportunity. The project managers were taken aback when there was not a single sign up for the first phase (Singh and Bhagat, 2004).

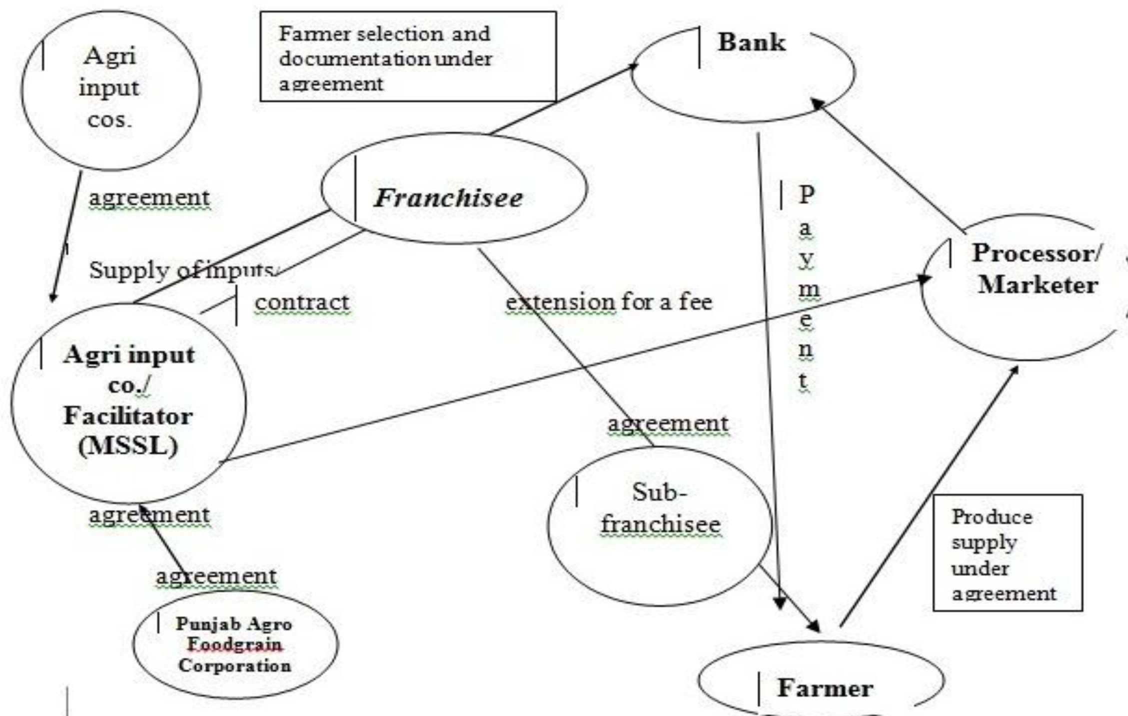

Fig.1 :The MSSL franchisee model

In just eight months, the initial investment targets were lowered to Rs. 4.7 million even though the sign up fee was maintained at Rs. 0.5 million. Further, the Information Technology driven model was abandoned as franchisees viewed it as a useless investment. After two years of effort, MSSL had managed to achieve only 5-8% of the targeted revenues and only five centres were operational against the projected target of 40. It was only by 2001 that the target of 40 was achieved and in 2002, 14 more centres were added. After that, for two years, there was no expansion in terms of number of centres. With the lowering of the project costs at the end of the third year with some restructuring, 12 centres came into operation. Four of them were joint ventures and eight were franchisees and the turnover of the project was Rs. 60 million with 65 employees (Singh and Bhagat, 2004).

At the end of third year, the business model was refined once again with sign up fee being brought down to Rs 0.3 million and the project cost to Rs. 2.7 million with a further in-built

flexibility of cutting down the costs further to facilitate sign ups. Even as new sign ups were taking place, old centres with higher investments were expecting higher levels of service and getting impatient. This led to many legal tangles and closure of centres. The model was tinkered with once again and sign up fees brought down to Rs. 0.1 million and that was made refundable. In the northern region, Rs. 0.1 million was initial sign up fee, which was non-refundable, and Rs. 0.2 million was taken as refundable deposit (table 2). Sub franchisees were given only one taluka as against one district earlier. Thus, even as the signs ups increased, closures too increased. Further, farmer appreciation of the concept of total farm solutions remained poor (Singh and Bhagat, 2004).

Most of the failure was due to wrong selection of locations, crops, and franchisees, besides the business model itself. Most of all, the company did not have much presence in fast moving inputs like seeds, fertilizers, and pesticides, and in output market in terms of processing and marketing, to make volumes and be in regular touch with the franchisees and the farmers. When it introduced its own pesticide in one state, the performance of the system improved. There were also cases of channel conflict for MSSL as the franchisees and dealers of the input companies in an area vied for the same market. The input companies were also not interested in joining hands with the company anymore. The major problems in managing the farmer interface were the defaults by farmers, reluctance of the buyers of produce to commit a premium price, and recovery of loans.

Table 2: Main features of the MSSL revised franchisee model

Franchise feature	Specification
Initial franchise fee from franchisee	Rs. 0.3 million per outlet (one in each district), with Rs. 0.2 million as refundable and Rs. 0.1 million as non-refundable, later only Rs. 0.1 million and non-refundable, but refundable in some places
Royalty fee charged to franchisee for farm advisory service and on equipment rentals	On advisory service:12.5% in 1st year, 19.5% from 2nd year On rentals: 5% of tractor rentals and 3% of maize harvestor rental for first two years
Commission on output sales to company (MSSL)	2.5% of sales proceeds which 1% (40%) to franchisees

But, one of its franchises-Bhuvi-care Private Limited, set up in Tirunelveli District of Tamil Nadu in 2002, by three agricultural engineers, who, since 1993, had run a business of selling and installing drip irrigation systems (Irrigation Engineering Services Private Limited) did well. Bhuvi-care entered into an agreement with the MSSL in May 2002 to act as a franchisee. Bhuvi-care Mahindra Krishi Vihar (BCMKV) initiated its services for paddy farmers in Tirunelveli district in 2002-I season. It grew in its farmer as well contracted acreage base in 2003 over that in 2002 (Sulaiman et al, 2004). The farmers registered at the rate of Rs.500 (approx US$ 10) per acre per season for the integrated set of services. Since 2003, BCMKV also included maize under its services and during 2003-I season, 163 farmers

registered a total area of 500 acres at the rate of Rs.250/- (approx US$ 5) acre. The registration fee in maize was reduced to Rs.150/- (approx US$ 3) acre from the next season onwards (2003 II season). The fees was reduced as the firm realized that maize requires less attention compared to paddy, and a supervisor can manage 250 acres of the crop (in paddy only 75-100 acres could be managed by one supervisor). Moreover, the franchisee also realized that since in maize, he can get more remuneration by way of input sale commissions, shelling charges, and trading commission, so the registration fee could be reduced. This would also result in attracting more number of farmers under this arrangement and the increased participation would compensate for the reduction in fee. The shelling of maize cobs is fully arranged by the BCMKV. It procures the maize for Godrej Agrovet with whom MSSL has arranged a buy-back agreement (Sulaiman, et al, 2004).

BCMKV provided all other services as envisaged by the franchisor in the model. For instance, the field supervisor of franchisee visited farmer fields once a week in the case of paddy and once in fortnight in the case of maize. For credit, it established links with ICICI Bank and the State Bank of India. All paddy farmers did not require the procurement service. But, the franchisee compulsorily procured paddy of those who did not have a good repayment record so that the loan repayment was not affected. In the case of maize, all the maize produced was procured by the franchisee who also identified one farmer as a contact farmer in each village (where it had registered farmers) to facilitate input delivery and continuous feedback. These contact farmers were paid for their services (Sulaiman et al, 2004).

The franchisee succeeded as the franchise system at the local level evolved through a series of experimentations and several failures. It is quite interesting to note that franchisee succeeded in developing this system into a viable business model by making a series of innovations to the original model proposed by franchisee which failed in its (franchisor) directly managed centre. Besides the extension plus feature of the MSSL model, and the partnership with other players being an important element, partnership with a contact farmer was an innovation introduced by the franchisee to the MSSL approach (Sulaiman et al, 2004; Singh and Bhagat, 2004). Further, franchisee innovated on the original model proposed by MSSL through a process of experimentation, reflection and learning. Realizing the un-viability of the doorstep delivery of inputs led to experimentation with contact farmers in each village to facilitate input delivery. MSSL failed to make any arrangement for the buy-back of paddy in Tirunelveli and in this process, franchisee lost heavily as it could not recover some of the loans provided to farmers. This led it to set up the seed company "Tamirabarani Seeds" to procure from selected progressive farmers and market seed quality paddy who had registered 30 acres to produce quality seeds of paddy varieties, namely, ASD-16, ADT-39, and ADT-43. The Korean paddy transplanter supplied by MSSL was not appropriate for the type of paddy cultivation in Tirunelveli and those farmers who tried it were very unhappy with the results. The franchisee compensated the affected farmers for this lapse and later withdrew this machine from its equipment rental portfolio. It also developed a transparent credit delivery system wherein each farmer was provided with a passbook that

contained details of all the transactions. It is these types of innovations to the original model that helped franchisee to expand its operations (Sulaiman et al, 2004).

SAPPL Model: SAPPL- a potato supply chain company- works through franchise model. The franchisees are the hubs from which farmers seek and obtain various services like input supply, extension advice and disposal of their output of potato on a pre-agreed price and market outlet. The franchisee are appointed by SAPPL which has extensive experience with farmers and the potato crop and works in many states of India in potato seed supply and output procurement and in turn supplies to various potato processors. SAPPL helps the system work as it lines up markets for the produce and delivers seed and other needed inputs at the franchisee level who are local persons/businesses and close to farmers as they have background in farming and related businesses locally. SAPPL provides all the information, products and even services like soil testing to the farmers through the franchisees and buys back the potato crop thus completing the whole value chain of the potato crop. This is what is needed when one talks of linking farmers with markets as this way their issues of quality and timely input supply and adequate market outlet at a fixed price for farm produce get addressed.

The SAPPL franchise contract specified the categories of the products to be supplied i.e. chemical fertilisers, organic or bio-fertilisers, micronutrient formulations, all crop protection chemicals including bio-control agents, packaging materials, seeds, potato seeds, irrigation equipment, and farm equipments, and controls retail price of the products supplied by it to the franchisees i.e. they could not sell at higher than specified retailing price which might be lower than the Maximum Retail Price (MRP) but was determined and conveyed to the franchisee by the franchisor (company). It also specified the related signage and display was as per the preferences of the franchiser. A franchisee was supposed to spare/offer a minimum investment for the business of franchising. It also offered training to franchisees from time to time as per its contract and even to farmers who were clients of the franchisee. All payments for products were made on delivery in cash or by cheque and, therefore, there was no credit sale or transfer of materials, and the franchisee paid a one-time fee to the franchiser. Thus, product ownership was transferred to the franchisees on delivery and payment for the same. But, since the franchisee was to pay a non-refundable security deposit as well, he/she could buy on credit against that amount. Further, a minimum quantity of the products supplied by the franchiser was to be maintained by the franchisee at all times. The franchisees were not supposed to sell any other brand and or packaging other than that supplied or agreed by the franchisor (Singh, 2013).

The conditions for becoming a SAPPL franchisee included: having farmer base, accounting knowledge, no political or criminal background and some investment capacity. The non-refundable fee for each franchisee was paid in the case of first 25 franchisees by a development project. A franchisee was also expected to invest a similar for inputs like potato

seeds and chemicals etc. In 2012-13, six new franchises paid the franchise fee on their own. SAPPL helped with training, input supply, and in some cases with input licenses. The franchisee in general could sell all non-potato inputs from other companies. The services offered by the franchisee *included:* supply of *i*nputs (potato and other crop seeds/pesticides/fertilisers), soil and water testing, agricultural implements, technical advisory, training, technology demonstration, and trained spray crew. Proposed services included: crop insurance, and institutional farm credit.

Some of the problems faced by SAPPL franchisee were delayed seed supply, delayed pick up of harvest due to price issue, weighing problem in buyback, withholding of payments and delayed payment for the produce and quality sometimes. A couple of them expressed inability to buy machines for rental service due to lack of funds. One of them suggested mechanical grading to cut costs and improve quality and another buy back in new crops like onion and Basmati rice. Whereas potato related inputs including potato seed supply and its buy back was an add on business for two, for others, it was extremely crucial for their viability as they were new to inputs business and depended heavily on the potato business to build their clientele base (Singh, 2013).

4. A Comparison of various franchise models

The above discussed models differ in terms of franchisor entity, nature of franchisees, terms and conditions, and commodities and business undertaken ranging from large companies to small companies and co-operatives and startups as franchisors. On the other hand, franchisees are also varied in their size ranging from small farmers to formal firms and entities.

The SAPPL franchise model was found to be more effective, as it is decentralized unlike the MSSL model, and did not rely only on existing institutions like the IFFCO model. It reached right upto village or village cluster level with 14 franchisees in one district unlike the single district based franchisee of MSSL. It did not rely on sub-franchisees to interface with the farmer. Further, unlike NAFED, it did not ask for minimum purchases. Also, NAFED and IFFCO franchises were more like exclusive dealer arrangements as they dealt only with some farm inputs. Further, SAPPL model covered both input and output sides of the value chain, atleast of potato crop, unlike NAFED or IFFCO or even Aadhaar which focussed only on farm inputs so far as its farmer interface was concerned (table 3). In terms of impact, the potato seed supply and buy back of potato on behalf of SAPPL made a big difference to the franchisee turnover which had 13-90% of total turnover from potato based business alone, it being as much 60-90% in case of new franchisees. They had farmer base of 200-500 farmers each. Most of them did not provide equipment rental as yet with one doing with own equipment. The franchisees were quite appreciative of the new business brought in by potato seeds and buy back of the produce as it was input intensive and high value business especially seed. All the franchisees had soil testing kits and processing potato testing facility. The former was used to recommend suitable inputs for the soil and latter to check the quality of potatoes for buy back.

Table 3: A comparison of various franchise models in India

Player> Major franchising aspect	NAFED	IFFCO	MSSL	SAPPL
Type of persons roped in as franchisee	Unemployed youth/ex-servicemen	PACS	Farm input sellers/output traders/commission agents	Farmers/small input traders
Duration of contract	One year	Not known	Three years	Not specified
Initial fee/royalty/commission	Yes	No	Yes-both	Yes
Exclusive business	Yes	Yes but non-competing products allowed	No	No
Input linkage	Yes	Yes	Yes	Yes
Output linkage	No	No	Yes	Yes
Dispute resolution	Yes	N.A.	Yes	No

5. Conclusions

The above analysis of the various experiences of franchising in agribusiness in India shows that it is possible to use this strategy for better farmers interface and resolving some of the supply chains and value chain issues like last mile reach, lower cost, better relationships, and scale. The commodities range from just input supply to extension plus and even output handling. That shows that all agribusiness activities and functions are amenable to franchising.

Further franchising evolves over time in developing country agribusiness situations. The various models analysed show that it is increasingly becoming an emerging model for agribusinesses whether established or startups and does deliver the goods. It is found to be more cost effective than the COCO (company owned-company operated) outlets model but as good on delivery and quality, as seen in movement of many players to this route over time in India as well as Pakistan. What seems missing is that in some cases, franchisees may need more support as they themselves are small and hard pressed to make a living out of this venture. The franchises need to be treated more than just distributors. The franchisers need to pick up local entrepreneurs and invest in them for the longer term and bring in value added services. Many times, local agencies like farmer companies or co-operatives can also be roped in as franchisees instead of individuals, for faster reach and scale up. The policy for agriculture/agribusiness can also encourage this channel as it promote local entrepreneurship and builds local capacities for undertaking value added services.

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