

Report on
**The potential of a Franchised Livestock Service Delivery
model in Ethiopia**

Prepared for the LVC-PPD

by

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The visit consisted of a total of 4 days of research and one day of report writing. The report is inevitably limited due to this time constraint.

Executive Summary

The Government of Ethiopia has ambitious plans to achieve significant growth in the livestock sector, as set out in the Livestock Master Plan. The Ministry of Agriculture has developed a Veterinary Privatisation Road Map, which aims to rationalize livestock service delivery, focusing government resources on 'public goods' and encouraging private sector service providers to provide private goods.

For this to happen the Government of Ethiopia has a critical role to play in making space for, and supporting, a professionally-driven, quality assured private sector.

During this brief consultancy it became clear that there are some very significant challenges in the livestock input market which must be addressed urgently.

The veterinary drug market is dominated and influenced by poor quality drugs procured through government tenders. The small number of drug importers typically derives 40%-60% of their sales from government tenders and the narrow range of products they import are largely determined by the specifications set out in government procurement documents. Regional governments award procurement contracts of products registered in Ethiopia, solely on price. The veterinary profession is deeply frustrated by the poor efficacy of products in the market and it was widely reported that farmers are rejecting products made in some countries, suspecting that they are producing low quality drugs. Private veterinarians are also frustrated by the narrow range of products in the market which limits their effectiveness and inevitably forces them to compromise their professional standards.

The main recommendations from this short consultancy include:-

- 1. The Government of Ethiopia must take the lead in cleaning up the veterinary drug market**
 - a. Streamline new product registration to encourage quality manufacturers to enter market and improve the product range
 - b. Regular veterinary drug market surveillance with serious penalties for importation and distribution of poor quality products

- 2. Phase out regional government tenders for veterinary drugs ideally over 2-3 years or a maximum phase-out period of 5 years**
 - a. Regional government staff should be instructed immediately to prepare tender documents that require the provision of good quality products and product ranges and provided with guidance on fair prices
 - b. Ideally phase out government tenders for veterinary drugs completely as the government withdraws from the provision of clinical services. This is foreseen in the Road map and will be completed in most areas in 5 years or so.

- 3. Regulation should allow veterinary professionals to sell a complete range of products and services** - drugs, vaccines, clinical services, feeds, AI services, fodder, seeds, agrochemicals, fertilizer etc This is within the remit of the MoA.

4. **There is an urgent need to approve the Veterinary Privatisation Roadmap.** This will bring clarity to the rationalisation process and set out the roles and responsibilities of all the main stakeholders. This will help to unlock new, much-needed, private sector investment in the animal health and input supply sector.
5. **Support young veterinarians and AHAs with an appropriate start-up or business growth support package** – credit, business training and access to quality products etc (possibly offer an internship programme with Sidai in Kenya)

As part of the consultancy some basic guidelines for setting up a Livestock Services Franchising Business was provided based on the experience of the pioneering company, Sidai Africa Ltd, in Kenya.

Introduction

I was invited to prepare recommendations on the start-up and operations of a Livestock Services Franchising Company in Ethiopia (see Annex 1 or TORs). However for a franchising company, or any other business, to succeed there needs to be a business environment that supports the private sector, or at very least does not hinder or undermine it.

A 'level playing field' needs to be created so that the private sector is able to operate, within a regulatory and legislative framework that supports livestock professionals and business people, to build vibrant and successful businesses offering quality services to farmers and pastoralists. I have therefore devoted part of my time to understanding the current business environment and have made recommendations on steps that need to be taken to encourage the private sector and ensure it delivers a quality service.

I believe that Ethiopia has a unique opportunity to support the creation of a quality, professionally-driven, livestock services sector and not make the mistakes other African countries have made in the privatization of veterinary and other livestock-related services. For example, the Government of Kenya stopped recruiting veterinary graduates abruptly in the early 1990's. There was a small scheme to support the start up of private practitioners, in practice the gap in services was largely filled by an unregulated informal sector, dominated by unqualified people.

The Government of Ethiopia has ambitious plans to expand the livestock sector as set out in the Livestock Master Plan. For these plans to be realized there needs to be a significant increase in access to a range of good quality support services.

The current leadership of the Livestock state ministry has a genuine commitment to improve access to quality livestock products and services through a rationalization of veterinary services and the encouragement of the private sector. For this to happen the current veterinary drug market needs to be cleaned up to make space for quality products sold by professionals (this term also includes 'para-professionals', commonly known as Animal Health Assistants) at fair and sustainable prices.

Livestock professionals need quality products to do their job and offer quality services. Unless the current veterinary drug market is cleaned up livestock professionals will struggle to exercise their professional skills for the benefit of farmers.

Challenges to business success in the livestock services sector

It is not easy running a business and making enough money to make a reasonable living. There is huge level of naiveté among those who have never run a business about the challenges faced in running a business of any kind. Ethiopia has historically been suspicious of the private sector and believed that it is exploitative and seeks to make excessive profits. Fortunately those attitudes are largely a thing of the past and the private sector is now seen, properly, as an engine of economic growth and development.

During my brief visit I have heard many people say “Now is the time”...for the rationalization of livestock services through the privatization of services considered to be a ‘private good’. This has been set out in the veterinary privatization road map. I believe there is also a unique opportunity to get it ‘right’ in terms of setting standards of product quality and professionalism. It is only if a professionally-driven private sector emerges that the government can have confidence the nation’s farmers are properly served, and any hope the Livestock Master Plan targets will be met.

However, the challenges of this transformation of service delivery from state to market-based should not be underestimated. There needs to be a fundamental shift of thinking and practice from all actors, at all levels, in government, NGO and the private sector itself. Carrots and sticks need to be used to make this happen!

The rationalization of livestock services must involve all livestock professionals veterinarians, animal health assistants, animal breeders, animal nutrition experts, dairy experts etc. **Livestock keepers need access to a complete and integrated set of products, services and technical knowledge**. It will not help the sector for it to be fragmented into veterinary services offered by one business, breeding by another and feeds supplied by yet another business.

CURRENT BUSINESS CHALLENGES

In the context of a business delivering **quality livestock services** to Ethiopian livestock keepers the main **challenges** I see are:-

- Input supply chain – quality, product range, prices, registration
- Market distortion and ‘crowding out’ by government and donor-funded initiatives
- Customer buying power
- Product and service offering
- Legislation and regulation
- Costs of doing business
- Access to working capital

Input supply chain

Livestock keepers need a wide range of products and services if they are to improve the productivity and profitability of their livestock. These include vaccines, veterinary drugs (therapeutic and preventative), feeds, fodder, minerals, improved genetics, equipment etc. These inputs should be accessible to farmers in an integrated manner.

Due to shortage of time, I have focused on the issues in the veterinary drug supply chain, which are critical to the success of rural livestock service delivery businesses. There appear to be several challenges in the current veterinary drug supply chain including:-

- Quality of products available in the market
- Long registration process of new products
- Narrow range of products and equipment available
- Poorly developed distribution channels to rural Ethiopia

Quality of products available - Time to clean up the market

Products made in China or India dominate the veterinary drug market in Ethiopia. Manufacturers working to genuine GMP manufacturing standards make some of these products, but many are not made to proper standards. I have heard many complaints from veterinary practitioners about the quality of the products in the market and their lack of efficacy. I have also heard reports that there is now a widespread mistrust and rejection by livestock keepers themselves of products from certain countries suspected of manufacturing sub-standard products.

It was reported to me that a recent study found that 60% of a sample of the products in the Ethiopian market was sub-standard. If this is anywhere near correct, this is disastrous for the livestock sector and for livestock farmers. Government resources and farmers' scarce cash is being wasted on products that do not work. Drug resistance builds up through using sub-standard products which under-dose the active ingredient creating a disastrous situation. Veterinarians are deeply concerned and frustrated at the poor efficacy of many products in the market. Urgent action must be taken to clean up the market. It is better to have no product than a bad product.

Regulation, registration and surveillance

It appears that the registration of products in Ethiopia used to take 3-4 years to complete. The registration apparently follows a process of checking of manufacturing sites overseas and review of a comprehensive technical dossier. The costs of registration \$500-\$1,000/product appear to be reasonable. However once a product is approved and is in the market there is no post-market surveillance and testing of product quality carried out.

Several international manufacturers have told me that the previous, lengthy registration process, puts them off registering their products in Ethiopia. This is not the only reason, or even the main reason, but is a contributing factor to the lack of good quality products in the market.

There is widespread hope that the new National Veterinary Drugs and Feed Administration and Control Authority (Proclamation 728/20110) with its focus on

veterinary drugs and other livestock inputs, will speed up the process and carry out post-registration testing of products in the market. There is clearly an urgent need to carry out regular checks of products with severe penalties, including loss of importation licenses, for importers found to be importing sub-standard products.

The influence of government veterinary drug tenders

There is no doubt that veterinary drugs supplied through government tenders dominate and therefore influence the market in Ethiopia. Product specifications (product type, active ingredient, price, pack sizes, presentation etc) demanded by the government largely determine the nature of products in the market.

There is no comprehensive data on the total value of the veterinary drug market, \$15m was quoted at the EVA meeting, however one importer alone interviewed claims to import veterinary drugs worth \$15m, mostly to fulfill government tenders. The EVDFACA estimate that the annual value of products imported into the country to be about \$25m. However there is no consolidated data on this and so the value could be considerably higher, perhaps \$30m-\$40m, excluding products smuggled into the country.

It appears that regional governments award tenders solely on price with no consideration for the quality of the products. I have heard complaints about this issue from many international manufacturers of quality products eager to get into the Ethiopian market. They do not even bother to bid for tenders in Ethiopia, because tenders are always awarded on price alone and they cannot compete on that basis.

The inevitable effect of government tenders, as they are currently carried out, is to lower the quality of products in the country and depress prices making it almost impossible for quality products to enter, or supply, the market.

Government drug tenders also only ask for the supply of a very narrow range of products (anthelmintics, antibiotics, trypanocides and acaricides) containing a limited range of active ingredients and presentations. Private practitioners at EVA expressed huge frustration at both the quality and limited range of products, diagnostics and equipment available in the market. I learned that even 10 private practitioners, buying as a group, are not able to order a commercially viable quantity of products to stimulate their importation. Professionals cannot be professionals without the tools of their trade and they inevitably become frustrated and demoralized without them.

The National Veterinary Drug list (2002) contains a wide range of active ingredients and allows for many different presentations and so does not appear to limit drugs in the market significantly.

Distribution system

The domination of the veterinary drug market by the government also inhibits the development of an efficient distribution system. Most importers sell directly to government or wholesalers in Mercato. The Addis Ababa-based wholesalers play a critical role in selling to retail customers (whether licensed or not) and sending boxes of products to urban centres and practitioners in the country. A few importers have small satellite offices outside Addis Ababa, but they seemed to sell agrochemicals mostly.

All private practitioners, including those from as far as Borena, told me they had to go to Addis Ababa to buy stock, which is time-consuming and expensive. Only modest discounts are given for the purchase of cartons of products rather than single units of products. Significant volume discounts are not found because of the small nature of most private practitioners' business.

Importers do not have any incentive to develop a distribution network as long as their main customer is the government. This will have to change if a significant private livestock services sector is to emerge.

Customer buying power and product range

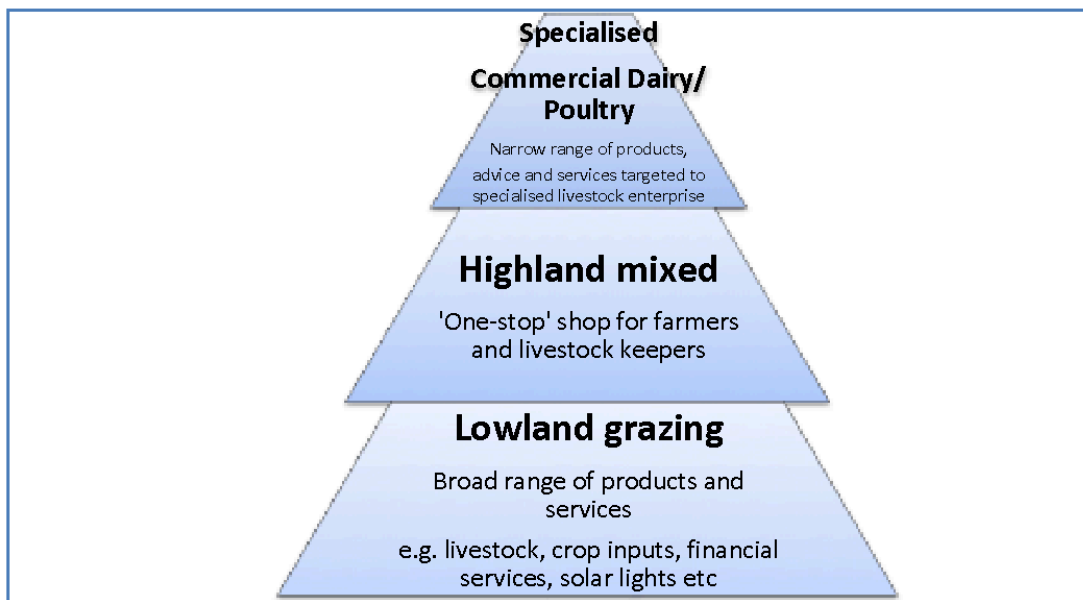
It is critical to business success that customers have sufficient cash and interest to buy products and services offered. It is obvious that livestock keepers with strong links to markets, who are regularly selling livestock products, will have greater interest and more disposable income to invest in their livestock. There is likely to be high demand for livestock products from:-

- Dairy farmers linked to the formal or informal milk markets
- Commercial/semi-commercial poultry farmers
- Cattle fattening operators and livestock traders
- Pastoralists

However experience shows that even farmers in highland mixed systems, with weak links to markets also demand products to support their valuable livestock. It is particularly important that the animals belonging to this group receive proper preventative health care, vaccinations, tick control etc. Livestock are the main asset of rural households in Ethiopia and they must be protected from disease. The loss of livestock can impoverish rural households, just as their acquisition can lift people out of poverty. Seventy four percent of highland livestock owners interviewed stated that they are prepared to pay for privately provided animal health clinical services provided charges are fair and services are professional (LVC-PPD Privatisation Baseline Survey, Sept. 2013)

The structure and nature of businesses serving livestock keepers in different locations must adapt to meet market demand and typically needs to broaden the range of products stocked the further away they are from urban centres. This is set out in the figure below.

Product and service range must match customer requirements to make businesses viable



Legislation and the enabling environment

In order for businesses to operate efficiently legislation and regulation must fit the practical reality on the ground. For example, private vets in Ethiopia are required to have two separate premises for clinical services and for drug sales and to pay two separate licence fees! This doubles the rents vets have to pay for no practical advantage. Clinical services are not offered inside premises but typically offered on farms or at a crush, waterpoint etc. Premises are not a precondition for offering effective clinical services. However diagnostic tests, drugs and equipment are.

Market distortion and unfair competition- crowding out by government, donor-supported initiatives, unqualified people etc

The private sector, in any kind of business, cannot compete with subsidized products and services offered by the government or donor-funded NGO projects. In the livestock sector the government buys and distributes veterinary drugs at subsidized prices on a cost-recovery basis. Government veterinarians are also involved in veterinary practice while enjoying a full government salary and benefits. Donor-funded projects implemented by NGOs, particularly during 'emergency' interventions often handout free drugs and offer free vaccination services, frequently putting out of business any private service provider trying to make a living selling animal health products in the area.

Subsidized products depress prices throughout the market and livestock keepers become accustomed to low prices and do not want to pay higher prices for quality products. For example 50ml of 1% Ivermectin sold by a retailer in Mercato costs 16

Birr, a high quality version of that product (made by CEVA) would retail at 93 Birr in Kenya.

The private sector will not thrive if these subsidies continue.

Currently veterinarians in private practice appear to fill in the gaps in government service delivery. They are able to sell drugs when government supplies run out or offer clinical services in remote locations poorly served by government vets.

Private veterinary practitioners need fair and sustainable prices to sustain their business support their livelihood, and that of their staff, and produce enough profits to reinvest in their business. Private business will not survive let alone thrive in the presence of subsidies.

Professionals also struggle to compete with unqualified people selling cheap animal health products and offering services. When customers are used to low prices and farmers' ignorance is exploited by unqualified people.

Ethiopia needs a means to regulate and put out of business unscrupulous people exploiting farmers.

Taxation, licensing, registration and duties

Small businesses need to keep their overhead costs as low as reasonably possible to make any profits and can be hindered by the costs of business licenses, registration fees etc. Currently vets have to have separate premises and two licenses to carry out clinical services and to sell veterinary drugs. This unnecessary regulation immediately doubles the rent and increases the costs of running a business.

Business owner and staff competence

Business skills are generally quite weak in technically qualified livestock professionals; they also tend to lack an entrepreneurial spirit. Business skills can be taught but an entrepreneurial approach is much harder to instill.

Access to working capital

Any business needs sufficient working capital to run its core operations. Businesses do not fail because they do not have products or customers but because they run out of cash to keep the business going and don't have cash to expand the business.

In the context of private livestock service delivery working capital is required to purchase stock in order to sell it. Cash then needs to be recovered from customers in order to have the cash available to replenish stock. In this cycle there are many inefficiencies that can tie up or even lose scarce cash. Managing stock is critical to success. Typically rural vet drug shops need 1-2 months of stock or more if it takes a long time to buy new stock. The stock needs to work hard for the business and should not be sitting on the shelf for too long, perhaps even past its expiry date. Stocks can be damaged or lost through theft, which will reduce the working capital flowing in the business and shrink the business without a new injection of capital.

In order to grow, businesses need more customers or their existing customers need to buy more products. Businesses will need to stock larger quantities of stock to meet growing customer demand and ensure stock is available for sale and normally a larger range of products will be required.

It is ironic that many development projects supporting private agricultural input retailers appear to take pride in not supporting their access to working capital, which is what they need to grow their businesses.

Livestock service business: advantages and disadvantages of some distribution business models

There are many different business models that could be used in building a livestock services business in Ethiopia. The efficient distribution of products has to underpin the whole company, together with effective quality control of customer service standards.

The advantages and disadvantages of different distribution and service delivery business models are set out in Table 1.

Business Model	Scalability	Quality control	Investment costs	Operating costs	Profitability	Innovation	Brand value
Branded branch network (e.g. Uchumi)	Medium	High	High	High	High	Medium	High
Business Format Franchising (Sidai)	High	High	Medium	Medium	High	High	High
Agency model (m-Pesa model)	High	Medium	Low	Medium	Medium	Low	Medium
Network with or without voluntary quality standards	High	Low	Low	Low	Low/nil	Medium	Nil

*A Kenyan supermarket

Branch networks can offer a high level of control over products and quality standards and they have the advantage that all sales will be retail sales, with higher margins. However, start up and operating costs will be very high as the company must pay for rent, staff salaries, stock etc. The roll-out is likely to be slower and more expensive than in franchising where the franchisees bear the costs of stock, rent, salaries and other expenses.

Agency networks tend to be a good way of getting one product or service, or a limited product range from a specific company, out to consumers. However most agency models do not require exclusive loyalty to one supplier and so can stock other products that may undermine and dilute the brand.

A network of businesses can be formed for a specific purpose, such as buying in larger volumes in order to obtain better price discounts. However there is likely to be little control over quality unless the members of the network adhere to a voluntary set of standards, which may not have any real meaning to customers.

A POSSIBLE LIVESTOCK SERVICES FRANCHISING COMPANY

Franchising is a continuing relationship in which a franchisor provides a licensed privilege to the franchisee to do business and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration. Franchising is a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees).

In the context of the delivery of livestock services a franchising business model offers certain advantages including scalability at relatively low-cost, quality control of products and services and economies of scale through the consolidated buying power of the franchisor.

Franchising as a business model is still relatively unknown in Ethiopia and so the conventional approach to revenue generation through taking a proportion of turnover or profits cannot be applied. Instead the bulk of the franchisor's revenue has to come from selling products to franchisees and retaining a margin on products sold.

Annex 2 provides some guidelines on the nature of the relationship between the franchisor and the franchisee.

Board, governance and ownership structure

All companies need an effective board of directors to set the strategic direction of the company and monitor performance. Corporate governance should be of a high standard to ensure the credibility and good reputation of the company and good business performance. The directors may be made up of executive staff such as the Managing Director together with non-executive directors with experience of the business.

In my opinion the ownership of the company must be independent of commercial interests, to ensure the company is able to act in the best interests of its customers and franchisees, not a commercial shareholder.

Structure and staffing of a company

The Franchising company needs a team of staff with excellent commercial management skills, as well as technical knowledge of the livestock sector.

The key skills needed at the **franchisor** level include:-

- Branding and brand development
- Marketing, sales and merchandising
- Procurement, supply chain management and logistics
- Financial and management accounting
- HR management
- Relevant technical skills

The senior management team might be made up of the following positions:-

The **Managing Director** must have a commercial background, ideally in start-ups and in building and managing businesses. Ideally they would have good knowledge

of brand development, the livestock sector and of the realities of small rural businesses.

The **Finance and IT Director** should have a commercial background and be conversant with all aspects of business and business transactions and controls.

The **Commercial Director** should drive the commercial performance of the company and must have good skills in sales, marketing, supplier relationships, procurement as well as good distant management skills of field-based staff.

The **Technical Director** should have an excellent knowledge of the livestock sector and excellent professional expertise in animal health and production. They should have good professional networks to be able to identify technical experts who can provide technical backstopping to ensure technical excellence and good product knowledge.

Field Supervisors

Field supervisors will need to be employed to make regular visits to franchisees to ensure good performance and compliance to the franchisees standards. These supervisors should have good knowledge of business management, technical knowledge as well as excellent interpersonal skills.

Business Hub Managers

Business hub managers should have good basic business skills in managing cash, stock and people and ensuring that the core business of the company runs smoothly.

Building the input supply chain and distribution network

It will be vital for the company and its franchisees to build an efficient supply chain and to be able to source and deliver a range of quality products. There is currently only one local manufacturer of anthelmintics in Ethiopia and so most suppliers will be based overseas. Most products are imported through Djibouti in containers from their country of origin.

Suppliers should be selected based on the quality of their products, prices offered and any marketing technical training support they are able to provide.

Some suppliers may already have distributors in Ethiopia in which case the franchising company may be forced to buy from them. However wherever possible products should be sourced directly from overseas manufacturers to ensure the most competitive prices and margins are obtained. At the start of the company buying directly from overseas suppliers may be difficult as the company's volumes will be small and it may not be commercially viable to import very small quantities from overseas manufacturers. Everything possible needs to be done to increase volumes as quickly as possible. This will place the franchisor in a much better bargaining position with the supplier.

Building an efficient distribution network is also important. Most distribution in rural Africa adopts a hub and spoke model. Distribution centres should be strategically located to enable efficient supplying of stock and cost-effective access to the

franchisees linked to it. The distribution hub may also have a retail outlet attached to it to showcase the brand and makes retail sales.

A possible start-up in Ethiopia might be focused in two areas to start with including in and around Addis Ababa (to support the dairy, poultry and fattening sectors) with a second area in Borena to support pastoralists and livestock traders, particularly in areas affected by trypanosomiasis

Franchisee recruitment, selection, contracting, training and support

The company's success depends on the quality and commitment of people recruited as franchisees. In order to be awarded a franchise, potential franchisees must meet certain criteria.

A franchise can be awarded to:-

1. **Individuals** who have an interest in livestock services. These can include qualified veterinarians, animal health assistants, animal nutritionists etc and private business people with no technical training but who are willing to employ qualified personnel
2. **Partnerships** with an interest in livestock services

There needs to be a legally recognized entity signing the franchise contract who can be accountable for it.

REQUIREMENTS FOR EXISTING BUSINESSES

Name (ID card); Professional qualifications (certificates); Legal registration (certificate); Membership of professional organisations

Business experience and performance

- Reasonable previous trading performance (assessment of records)
- Good trading references (written references from bank, suppliers)
- Good references from farmers (verbal references from farmers)
- Willingness to brand premises, vehicles, staff etc
- Willingness to stop buying from previous suppliers
- Valid lease on premises in good location

Personal characteristics

- Interest to run own business (demonstrated and verified performance)
- Genuine interest to work directly with farmers and pastoralists
- Willingness to work fulltime in the franchise
- Interest to learn and improve professional skills (e.g. demonstrated self-financed learning, attendance at seminars etc)
- Interest in business growth through increasing customer numbers (demonstrated attempts to grow business, stated personal goals)
- Interest to live for long period in selected location or willingness to relocate (reason to be there, e.g. home area, wife from that location, children at school)
- Good mental and physical health
- Stable family situation
- Good references from 2 respected community leaders

Business interest and experience

- Demonstrated interest to own their own business (e.g. has tried to work with farmers and earn living doing so);
- Ability to produce a basic written business plan (written plan)
- Good references from farmers (verbal references from farmers);
- Should have access to at least 20% of the start-up capital requirement (bank statement, land title deed etc);
- Identified business premises/location;
- Should be willing to work in Sidai company store for an initial period of 2 weeks depending on previous experience.

FRANCHISE STAFF

Franchises must be staffed by qualified personnel in order to offer a professional service and to comply with the law. Such staff may include:-

1. Qualified and registered veterinarians from recognized institutions who will be responsible for the use of all the controlled substances and carry out all surgical procedures.
2. Qualified animal health/livestock technicians from a recognized institution under supervision
3. Animal production, breeding and nutrition professionals (degree/diploma/certificate)
4. For accountants basic training in accounting. Any other staff that might be required should have basic training in their respective fields.
5. All staff should be committed to high ethical standards with excellent communication skills and with a focus to customer service.

The key elements of a franchise contract are listed below:-

What the franchisor will do	What the franchisee must do
Source and supply good quality products	Buy exclusively from Sidai
Allow you to use brand in an exclusive territory	Pay on time
Support marketing of the brand	Follow the Sidai guidelines on customer service and deliver excellent customer service
Provide business & technical training	Deliver regular farmer training
Open access to finance at competitive rates	Keep good records
Offer new business opportunities	Allow Sidai access to all business information
	Make themselves and their staff available for training

Franchisees training and support

Franchisees will need training and support in many aspects of running a business, including:-

- Business planning and management
- Record keeping and basic business analysis (cashflow, P&L stock and margin analysis etc)
- Inventory management
- Stock and cash controls
- Customer service

- Marketing themselves
- Farmer training
- Diagnostics
- Technical aspects relevant to their customer needs, dairy management, poultry production, camel health, diagnostics etc

This training may be through face-to-face conventional training, through regular coaching sessions with the franchisor's staff or through online training such as that offered by the African Management Initiative based in Kenya

<http://www.africanmanagers.org>

Handling poor performance

For the franchise brand to have any value there must be consistent standards of performance across the franchise network. Basic areas of compliance are the exclusive purchase of products from the franchisor to ensure quality, prompt payment to franchisor, branding in good condition, qualified staff in attendance etc. Persistence non-compliance needs to be dealt with firmly and fairly following clear procedures. If the franchisee has family or health problems then the franchisor should help them through difficult periods.

There has to be the willingness to defranchise franchisees ultimately and to take legal action if required. It is only in this way that the brand has any true value and delivers on its promise to customers.

IT Systems

There needs to be a robust IT system underpinning the company having good functionality in the following areas:-

- Accounting (invoicing, debtor management, financial and management accounting, supplier account management etc),
- Inventory and supply chain management,
- Point of Sale (POS) system (static and mobile (tablet or mobile phone) linked to inventory system with key controls in place to manage prices, margins, customers etc
- Customer Relationship Management (CRM) to enable of database of customers (franchisees, farmers etc)
- Manufacturing management (if toll/contract management is undertaken)

It would be wise to invest in an ERP (enterprise resource planning) system, designed for small and medium sized businesses, right from the start. An example of such a system is Sage Pastel, which has become an industry standard for SMEs in Kenya. Having good local technical support for the software selected would be critical.

Branding

Building a strong and trusted brand is very important in franchising. The brand must confer some marketing advantage to the franchisee. Having a strong, attractive, distinctive and consistent branding is important to project the company's qualities to its customers. Branding is much more than having an attractive logo. Everyone involved in the company must believe in and live the brand values every day. In relation to livestock services customers should see that the company is professional,

technically competent and with high standards of service. It must be a company that farmers can trust and come to rely on.

Revenue streams

The franchisor and franchisee will have a range of revenue streams including those in Table 2.

Franchisor	Franchisee
Franchise fees	Sale of products
Product sales	Clinical services
NGO procurement	Diagnostics
Training contracts	GOE contracts through sanitary mandates
Vaccination contracts	NGO contracts to supply products or farmer training services
AI contracts	Vaccination contracts
Agents for m-Birr, insurance, financial services	AI contracts
Product aggregator (milk, eggs, chickens, goats, honey etc)	Agents for m-Birr, insurance, financial services
	Product aggregator (milk, eggs, chickens, goats, honey etc)

The key drivers of profitability are the sales volumes and margins required to support an appropriate operating expenses.

Likely challenges in implementation

Franchisor staff recruitment – it is likely to be hard to find a MD and SMT that has all the skills required to run what will be a complex business. Serious thought would need to be given to making the MD or Commercial Director posts international.

Access to quality products at reasonable prices and with profitable margins – this will be a huge challenge to start with and unless this is solved the company will not be profitable

Investments in capital expenditure and working capital

Significant start-up finance will be needed to start the company in order to invest in capital expenditure and working capital, and to support the losses of the company for several years.

Current service delivery models

There are several different farm input and farmer support service delivery models being tested by NGOs, in Ethiopia, at the moment. These include:

- **CNFA Farmer Service Centre:** 6 Farmer Service Centres (FSC) have been started in Oromia. An advertisement was made to invite business people to open a FSC. A matching grant of \$40,000 was awarded to successful applicants. The FSC at Ambo was visited and the vet interviewed. The detailed financial picture could not be seen but it appeared to have a high cost base and so there must be concerns over the commercial viability of such a model.
- **USAID-PRIME Private Veterinary Pharmacies:** 22 veterinary pharmacies have been established through the PRIME project. Business Expansion grants of

\$5,000-\$7,000 are awarded for shop improvements and purchase of capital items such as refrigerators. Links with drug importers have been made through local trade fairs etc

- **SNV Agro-dealer network:** 52 agro-dealers have been established in 52 woredas. SNV supports business people who stock seeds, feeds and other inputs but do not stock veterinary drugs.
- **EVA linked Private Veterinary Practices:** There are estimated to be 50-100 vets in private practice.

It is important that the progress of these relatively new initiatives is monitored and that lessons are learned and fed into policy development, as quickly as possible.

Potential for Sidai Africa Ltd to launch in Ethiopia

Sidai Africa Ltd is interested in exploring the potential for expansion into Ethiopia. However, there would need to be a lot of preparatory work done before it could make a final decision.

The main areas of focus would need to be in mapping the current input supply chain and then building a quality supply chain able to offer farmers a full range of quality products. Sidai has an uncompromising commitment to quality and would want to fully understand the quality of products currently in the market, as well as start negotiations with quality manufacturers overseas to register new products and supply the company. Many of these companies currently supply Sidai in Kenya and might be interested in expanding into Ethiopia through Sidai.

It would also be helpful for the company to start to train Ethiopian livestock professionals by means of attachments/internships with Sidai in Kenya. The focus of the attachment would be in business management, but Sidai could also offer tailored training in, for example, commercial poultry production. Several development projects in Ethiopia expressed interest in an attachment program of this nature.

However Sidai would need additional resources to undertake any work outside its current mandate in Kenya. There appear to be some important legal constraints to Sidai's entry into Ethiopia, particularly concerning foreign ownership of distribution or wholesale businesses in Ethiopia. These would need to be checked with the Investment Authority.

Key recommendations

The Government of Ethiopia has a critical role to play in making space for, and supporting, a professionally-driven, quality assured private sector.

1. **The Government of Ethiopia must take the lead in cleaning up the veterinary drug market**
 - a. New product registration needs to be streamlined, to encourage quality manufacturers to enter the market.
 - b. Regular veterinary drug market surveillance should be carried out with serious penalties for importation and distribution of poor quality products
2. **Progressively phase out regional government tenders for veterinary drugs over the next 5 years**

- a. Regional government staff should be instructed immediately to prepare tender documents that require the provision of good quality products and provided with guidance on fair prices.
 - b. Ideally phase out government tenders for veterinary drugs completely as the government withdraws from the provision of clinical services.
3. **Regulation should allow veterinary professionals to sell a complete range of products and services under one licence** – including drugs, vaccines, clinical services, feeds, AI services, fodder, seeds, agrochemicals, fertilizer etc
4. **There is an urgent need to approve the Veterinary Privatisation Roadmap.** This will bring clarity to the rationalisation process and set out the roles and responsibilities of all the main stakeholders. This will help to unlock new, much-needed, private sector investment in the animal health and input supply sector.
5. **Support young veterinarians and AHAs with an appropriate start-up or business growth support package** – credit, business training and access to quality products etc (possibly offer an internship programme with Sidai in Kenya)

Annex 1

TERMS OF REFERENCE FOR SHORT TERM LIVESTOCK SERVICES EXPERT - FRANCHISED LIVESTOCK SERVICES DELIVERY.

BACKGROUND

Ethiopia has significant livestock resources comprising in excess of 50 million cattle, 50 million small ruminants, 8 million equids, 2 million camels and 40 million poultry. Despite decades of development efforts aimed at the sub-sector, livestock productivity remains poor. The current project (see below) will apply innovative approaches to improving delivery of animal health services with the purpose of adding value to livestock commodity chains and contributing to alleviated "poverty in livestock rearing communities.

The EC-funded project 'Improving and integrating animal health services in the livestock value chain through public private dialogue in Ethiopia' (LVC-PPD) is large, involves many activities and players and includes, as a 2.5-year sub-project, the provision of a small technical assistance team (TAT). One important outcome of the project is promotion of demand-led, private animal health delivery systems based upon accessibility, high professional standards, high quality of service and inputs and fair prices. This works towards the following activities:

- Activity 1.4 Support development of the private sector in livestock value chains
- Activity 2.5 Assure that animal health services are delivered in the whole of the Country"
- Activity 3.2 Develop evidence-based investment guidelines to channel investment into livestock value chains.

To these ends the LVC-PPD KE 2 has:

- Undertaken/overseen a series of field investigations aimed at better characterising and quantifying the current animal health service delivery systems, public and private, highland and lowland.
- Assisted the Directorate of Veterinary Services to prepare a Veterinary Privatisation Road Map - this has been finalised and awaits the approval of His Excellency the State Minister for Livestock Development,
- Undertaken a series of stakeholder consultations aimed at refining the road map; and presented the road map and related topics at a number of regional and national conferences / workshops.
- Interacted closely with the DfID-funded Private Enterprise Programme Ethiopia (PEPE) to help develop exemplary private animal health service centres, and promote establishment of a 2 national livestock services franchise company.
- Interacted with the USAID-funded Farmers Service Centre Project, the USAID-funded Prime project, and consulted with the social enterprise company Sidai Kenya.

The termination of the LVC-PPD (05/01/2015) is approaching and it is now time to use the experience and knowledge gained to develop concrete strategies to move veterinary privatisation forward. One such strategy is to promote establishment of the Ethiopian equivalent of Sidai Kenya, a livestock services delivery franchise company.

Franchise arrangements are not totally new to Ethiopia — for example the Blue Star human health franchise. By common agreement (PEPE, private sector operators) a livestock services franchise operation would be an excellent means for effective and efficient delivery of animal health services and drug and livestock equipment supplies to the farming community.

It is essential that the planning process for delivering livestock services is based upon best available facts and experience. In relation to franchising these are totally lacking in the Ethiopian livestock sub-sector.

The purpose of the current international STE input is to remedy this lack of knowledge and experience and thereby optimise the planning process.

Scope of the Short-term Expert mission

This is to inform planners in Ethiopia's private and public veterinary sectors and enable them to select the best options for private sector delivery of livestock services in Ethiopia.

An important output of this STE assignment is a report of recommendations for these planners.

OPERATING RESPONSIBILITIES AND TASKS

In collaboration with the Director and Subject-matter specialists of the Veterinary Services Directorate and the LVC-PPD technical assistance team, the STE will carry out the following tasks:

1. Familiarise him/herself with the Ethiopian context of delivery of animal health services
2. Prepare recommendations covering
 - Staffing of a Franchisor company
 - Distribution network, rate of development and principles of determining the number of distribution hubs required
 - Challenges and constraints that might be expected to occur during establishment of a veterinary services franchise operation in Ethiopia, and recommended strategies for mitigating these.
 - Criteria for selecting franchisees and suppliers
 - Recommended approaches to negotiating with suppliers
 - Training requirements
 - Maintaining professionalism and quality
 - Components of the required enabling environment for a veterinary services franchise operation.
 - Form of contracts between the franchisor and franchisees
3. To help increase awareness of the characteristics of a veterinary franchise company deliver a presentation at the 2014 EVA Annual Conference – 5th and 6th September 2014.

ORGANISATIONAL RELATIONSHIPS

The STE will be answerable to the Team Leader of the TAT and the majority of tasks will be undertaken in collaboration with senior management of the VSD and the KE2, LVC-PPD project. The STE will, as possible, consult with and assist other important collaborators in veterinary privatisation endeavours in Ethiopia, including the DfID-funded PEPE (Private Enterprise Programme Ethiopia), veterinary drug importers, the USAID-funded PRIME project.

WORKING ARRANGEMENTS AND TIME SCHEDULE

The duty station will be Addis Ababa, Ethiopia.

A total of 5 person-days, to be undertaken at the beginning of September 2014.

REPORTING REQUIREMENTS

A succinct end-of-assignment report comprising an executive summary, introduction, recommendations and acknowledgements. Any detailed material is to be presented in a series of Annexes. This report shall be submitted at least 1 working day before the end of the assignment to allow comments from the TAT team and counterparts to be incorporated before departure of the STE.

QUALIFICATIONS AND EXPERIENCE REQUIRED.

- University degree in Veterinary Medicine or Livestock Production or similar discipline
- Post-graduate qualification in a relevant subject.

General professional experience

- Minimum of 15 years of professional experience in livestock development in Africa.
- Demonstrated ability to work in multi-cultural and multi-disciplinary team of experts
- Good knowledge of the English language
- High level of skill in preparation of reports
- Excellent organisational, planning, communication and training skills

Specific professional experience:

- Good knowledge of livestock value chains in Ethiopia and the current systems for delivery of livestock services.
- Proven senior level experience in the design, establishment and operation of a livestock services franchise company in Africa

Annex 2

What Franchisees Want from their Franchisor and How to Improve Franchisee Validation

BY GREG NATHAN, MANAGING DIRECTOR,
FRANCHISE RELATIONSHIPS INSTITUTE

Over the past 15 years the team at the Franchise Relationships Institute have been using in-depth surveys on thousands of franchisees to better understand what a franchisee wants from their franchisor. The tool we use is called *The Franchise Effectiveness Survey* and it measures and benchmarks franchisee satisfaction.

This is an important topic, especially for franchisors who want to expand their networks. A franchisor that wants good quality candidates enquiring about joining their franchise system needs to also ensure their existing franchisees are satisfied with their decision to join their group!

This article provides some very practical tips on what we have learned from our research.

Help Me Develop My Business

Not surprisingly franchisees want their franchisor to negotiate deals with suppliers that will reduce their operating costs and to provide ideas and systems for enhancing productivity.

They also want regular access to useful and relevant business information that will help them grow their business and stay in control of their financial position. A benchmarking program that shares results on agreed key performance indicators is a great start.

While franchisors are often very effective in providing initial training, franchisees want more ongoing training to improve their skills in the areas of people management, business planning, goal setting and marketing. This is especially true of more mature franchisees who tend to become skeptical and dissatisfied if their evolving needs are not met.

Make My Phone Ring

Marketing is a broad term so let's be more specific. Two important factors to franchisees are advertising that attracts new customers and a strong brand. In fact many franchisees buy a franchise on the strength of the brand.

Franchisees also want a well thought out marketing strategy that will give them an edge in their local market and help with the skills to convert enquiries into sales. And they expect ongoing innovation that will excite customer interest.

Finally they value unique promotional tools such as point of sale signage and catalogues – things they would not be able to source if they were on their own.

Listen To Me

Franchisees often refer to the sense of security they get from being part of a united, cohesive group. In particular they value the opportunity to interact with other

franchisees at meetings and conferences. However they frequently refer to a desire for meetings to be more interactive.

They also say they want more opportunity to have their ideas, questions and concerns heard by their franchisor through open forums and discussions.

The introduction of operational changes without adequate consultation is particularly frustrating and puzzling to franchisees who feel they have more insight about operational matters than their franchisor.

Credible Leadership

One theme to emerge from our research is that franchisors often have clear goals for the organisation, but fail to provide franchisees with a sense of where they fit into the big picture. The result is that franchisees can feel threatened rather than excited by a company's expansion plans.

Consistent with other international research on what people want from their leaders, franchisees expect the franchisor team first and foremost to be honest and fair in their business dealings. A competent management team is also seen as essential.

Loyalty from a franchisor is important. Having supported the franchise system over a period of years they expect this to be reciprocated. For instance they may become resentful if they think the company has an unbalanced emphasis on attracting new people while ignoring the needs of longer standing franchisees.

Getting On Together

Most people dislike conflict. In fact unresolved conflict has emerged in our research as a major reason why people want to sell their franchise.

Yet some conflict is inevitable at times in the franchise relationship. Furthermore we have found that in a mature franchise system, at any time there is likely to be a certain percentage of franchisees who feel they have a serious current or impending disagreement with their franchisor. This is normal.

While this does not mean these people are in litigation or formal disputation, it does highlight the need for robust conflict resolution processes to be an integral part of every franchise system. It also highlights the need for members of the franchisor team to be able to have conversations with franchisees in which difficult issues can be discussed and resolved in a mature and respectful manner.

Show Me You Care

Franchisee advocates are vital for growing a franchise system. Our research suggests that a strong predictor of whether a franchisee will recommend a franchise to others is whether he or she feels the franchisor is genuinely concerned about his or her success.

Indeed, franchisees frequently say they would love to have their franchisor call, just to see how they are going, without any ulterior motive.

On a related matter, quick response times to calls and emails are frequently rated by franchisees as vital.

What About The Money?

Sometimes we assume that because we are in business, everything's about the money. We may forget that franchisees are people with emotions and feelings — not contracts or numbers. And while we might not like to admit it, most behavior is influenced by emotions not by logic.

While return on investment is one of the drivers of franchisee satisfaction and whether a franchisee will recommend a franchise, we have found that there are other issues such as feeling cared for, optimism for the future, confidence in top leadership and having positive relationships with other people in the franchise system that are also important.

In conclusion while a profitable franchisee is no doubt more likely to be a happier franchisee, franchisors should not underestimate the power of relationships and good old fashioned courtesy and respect in building a prosperous, happy and vibrant franchise system.

Our web site contains many tools and materials to help you along on this journey. We hope you use them wisely.