Grant Thornton

Franchising in India: A rural perspective

August 2020

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Disclaimer

Foreword

The ongoing COVID-19 crisis offers many opportunities for franchise businesses that can make a difference locally using technology.

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For over a decade, most private companies have realised the potential rural India exhibits. These companies are competing not only to expand but also to sustain different business models. Expansion of any business, especially in rural India, involves significant investments of both capital and human resources. To overcome such challenges, the franchising business model comes across as a viable alternative. The franchising business in India currently offers excellent opportunities to the new international and local brands entering the market.

According to Franchise India, franchising has witnessed an impressive growth of around 30-35% over the last four-five years and the overall turnover is estimated at around INR 938 billion. Currently, the sector contributes nearly 1.8% to the Indian GDP and is estimated to contribute to around 4% by 2022.

Government initiatives such as Startup India, Make in India, Digital India, ASPIRE and others are encouraging people to pursue entrepreneurship. These initiatives haved helped create a pool of opportunities for both the private companies and the entrepreneurs in rural India. Further, efforts are on to explore a cost-effective, efficient and sustainable last-mile delivery model to ensure that the basic products and services are available to every individual in India.

The ongoing COVID19 crisis has impacted economies world over. Business and sectors got a massive hit as the government had implemented nationwide lockdowns to curb the spread of virus. However, amidst crisis, the pandemic also offers a pool of opportunities for businesses such as franchise, which are highly capable of making a difference at local level using technology. Considering the dynamic nature of lockdowns, franchises can not only mitigate the operational risks but also ensure supplies and support especially in rural areas.

Private players such as DTDC, Vakrangee Limited, Patanjali, IFFCO ebazar, and Connect India through their emphasis on rural India are taking India to the next level. These companies have managed to boost rural entrepreneurship, increase the level of financial literacy, access to basic services, such as banking, ATM, insurance and create an alternative livelihood besides agriculture.

Studying the potential and opportunity offered by rural India, Grant Thornton in India is delivering a series of sector-focused insights on how the government and companies are developing an inclusive strategy to embrace both the urban and the rural consumers.

In this report, we explore various aspects of franchising business, its impact on rural India and acceptance across various sectors and players.

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Executive summary

The government is focusing on nurturing the idea of entrepreneurship and start-ups, which are backed by the initiatives that involve learning and upgrading relevant skills through Skill India and Right to Education

In India, disparity in the per capita rural and urban income has been persistently high. Earlier, a large number of people migrated from urban to rural areas in search of better economic opportunities. So, to improve the socio-economic conditions of the vast majority of population, several government initiatives have been rural-focused. They aim to make the country's rural economy self-sufficient by creating various employment opportunities.

Today, various sectors across India have benefitted by increased consumerism, which is a result of high disposable income, growing young population and changing consumer tastes and preferences. The retail and the consumer service sectors are expected to play a major role in the consumption boom in India. The growth in these and the increased opportunities outside agriculture have given rise to an entrepreneurial appetite, across the country.

Most private companies are looking to tap into the pool of opportunities in rural India. One of the promising business models through which the companies are making the most of these opportunities is franchising.

India is the second largest franchise market in the world after the United States of America (USA) with about 4,600 operating franchisors and 0.15 - 0.17 million franchisee outlets in 2017. The industry is expected to contribute approximately 4% to the GDP of India by 2022. Franchising is not only a great way to encourage self-employment, but also a huge employment generator. The franchising industry is estimated to have employed over 14 million people, which is almost 10% of the total estimated Indian workforce.

An IBM study estimated that 90% of Indian start-ups fail within five years. Whereas, the success rate in franchising is about 85%. This is due to multiple factors such as low initial investment, reduced costs, better margins, and provision of training and support that matches the present low-risk appetite of rural entrepreneurs.

The skilled and aware rural populace of India is opting for occupations outside agriculture as their source of income. Further, in order to persuade people to take up entrepreneurship, the government has launched various initiatives such as Start-up India, Make in India and Aspire. These initiatives help to create a pool of opportunities for both the private companies and the people in rural India.

The government, along with the private companies, is continuously exploring a cost-effective, efficient and sustainable last-mile delivery model to ensure the basic products and services are available to every individual. Since, opening new bricks-and-mortar branches in every location is not feasible, many companies have adopted franchising model to increase their customer reach. This model not only increases employment opportunities but also ensures timely delivery of services to consumers.

Some players such as Amul India, OYO Hotels and Homes, Vakrangee Limited, Patanjali Ayurved Limited and Iffco eBazar Limited are taking India to the next level of franchising through their rural India focus. Presently, these companies are delivering variety of products and services by substantially strengthening their business models. Though a lot needs to be done, yet access to basic services like banking, ATMs, logistics, and assisted e-commerce is a reality even in the remotest corner of the country. These companies have managed to boost rural entrepreneurship, increase the level of financial literacy, created an alternative livelihood for the rural population.

This report helps understand the various facets of the franchising business, sector-wise range of key promises that franchising model hopes to deliver and finally, deep dives into few companies and their business models.

India overview

Macro-economic outlook

According to the International Monetary Fund's (IMF's) World Economic Outlook, India grew 5.8% in FY20 an increase from 4.8% in FY19. This growth can largely be attributed to a rebound from the transitory shocks (demonetisation and implementation of the Goods and Services Tax), strengthening investments, and robust private consumption. An encouraging trend is witnessed in India, where in the last five years, the per capita GDP, private consumption and number of households with annual earning above USD 5,000 million have increased significantly. Moreover, the table below also shows an optimistic economic growth forecast till 2022.

Income and consumption

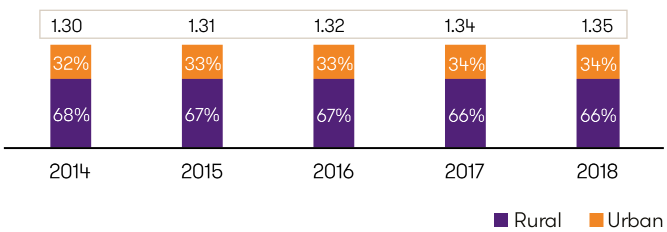
	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Nominal GDP (USD billion)	2,089	2,262	2,534	2,695	2,801	3,226	3,461	3,822
GDP per capita (USD at PPP)	6,124	6,567	7,054	7,686	8,336	8,922	9,689	10,568
Private consumption per head (USD)	924	1,003	1,115	1,175	1,221	1,381	1,466	1,598
Number of households (million)	243	247	251	255	259	262	266	270
Households with annual earnings above USD 5,000 (%)	40%	44%	50%	54%	58%	66%	71%	76%

Source: Economic Intelligence Unit (EIU)

Population growth

According to the World Bank, the share of India's rural population is around 66%, which means a large share of the workforce resides in the rural areas. A marginal rise in the level of urbanisation every year is due to multiple reasons such as migration of people to urban areas in search of employment, better living conditions and the declining interest in the agriculture sector.

Total population in billion



Source: World Bank

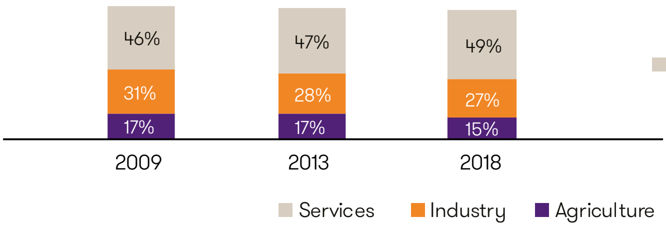
Structural shift in employment across sectors

The Indian economy has witnessed a steady evolution since liberalisation. Consumerism has risen due to a rise in young population, high disposable income and increasing urbanisation. Traditionally, agriculture was the primary source of employment in India, followed by the industry and the services sector. In 2009, when agriculture contributed to around 17% of the GDP, it provided employment to over 52% of the workforce. However by 2018, the agriculture sector's contribution to GDP dropped to 15% due to multiple factors.

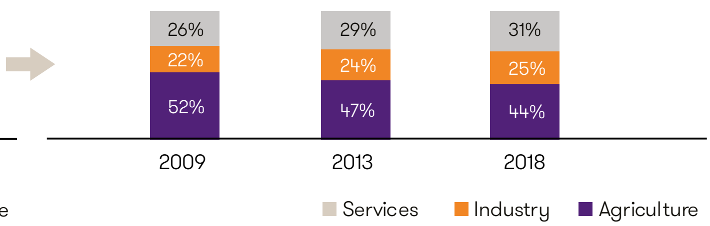
A major shift is witnessed from 2009 to 2018, when a large percentage of workforce has migrated to the services sector.

Today, the country has gradually moved towards manufacturing- and services-based economy, with the sectors contributing 27% and 49%, respectively, to the GDP in 2018 and together providing employment to over 55% of the workforce.

Sector-wise contribution to GDP (%)



Sector-wise workforce distribution



Source: Statista 2020

Private sector participation in rural India

According to the United Nations, despite an increase in the urbanisation, more than half of India's population is still projected to be rural by 2050. This creates an opportunity for the public and private players across sectors to channelise the rural workforce and expand their business in rural areas. Currently, private players like Mahindra and Mahindra Limited, Bajaj Auto Limited, Hero Motocorp Limited, Patanjali Ayurved Limited, Amul India already have significant presence there. Whereas, players like Vakrangee Limited, Fino payment bank, DTDC Express Limited, Iffco eBazar Limited and others have penetrated the market through their unique franchise-based business models. Most of the companies have realised that the growth and development of the rural India is critical and essential for the overall growth and inclusive development of the country.

Growth in the service sector and increased opportunities outside agriculture has given propulsion to a huge entrepreneurial appetite. Until recently, a big part of the marketing and franchise expansion was done to target the urban population. But the marketing and franchise potential of the rural India is rapidly growing as it remains a largely untapped market. Over the last decade, franchising has become one of the most profuse and practicable ways of expanding businesses in India. It is also becoming increasingly popular among domestic and international players across sectors. It enables young entrepreneurs to participate in an already established business and play an active role in its journey.

Franchising in India

Understanding the business

Franchising is growing at an impressive pace in India. According to Franchise India, franchising has witnessed a growth of around 30-35% over the last four-five years and the overall turnover is estimated around INR 938 billion. Currently, the sector contributes nearly 1.8% to the Indian GDP and is estimated to contribute to around 4% by 2022.

Overview

As a fastest-growing economy, India has tremendous potential for franchising business. With a high percentage of young population, a franchise model will develop well through shared ownership. Till 2017, the Indian franchise market was about INR 938 billion. In India, franchising as a growth and expansion route has been prolific across sectors. As per Franchise India, there are about 600 national-level players that operate through 50,000 outlets and employ about half a million people.

Franchising: A tried and tested formula

Today, several private companies are looking to diversify and expand at an optimal cost. Expansion of any company involves the risk associated with significant investment of both capital and human resources to run the location. Thus, for higher reach and better service to every customer, a large number of companies adopt the franchise business model. Under this model an authorisation is granted by the company to someone who can sell or distribute its goods or services under mutually agreed terms. When franchised, the franchisee provides the capital as well as the human resources required for expansion to the franchisor.

Under the franchise agreement, a franchisor is able to expand its services by optimising cost, keep a check at quality measures and increase margins. International franchisors like McDonald's and Kentucky Fried Chicken (KFC) and Indian players like VLCC and Crossword book stores are few who stand to benefit from this model. On the other hand, a franchisee not only gets to acquire the formula of a proven and efficient business but also gets the benefits such as brand association, management assistance, training and marketing assistance.

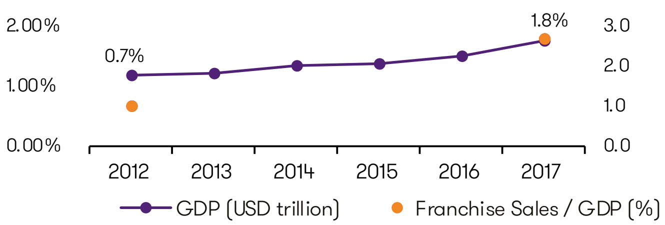
Types of franchising

Over the years, franchising model has evolved significantly but in principle, all the variants trade-off the same deal of handing over the success formula in return for a fee. Currently, there are four basic types of franchising:

- Product or trade name franchising: Under this, the franchisee gets the rights to use the trademark/brand name of franchisor to sell his products or services in return for a fee. The franchisor also offers training and assistance to the franchisee to ensure his brand quality. This method is most commonly seen in the automobile and petroleum industries. Companies like **Toyota** and **Ford** follow this model.
- Manufacturing franchising: It provides a franchisee with the right to manufacture a product and sell under the franchisor's name. This method is regularly adopted in food and beverage industry. Some of the prominent companies following this type of franchising are **Coca Cola** and **Pepsi**
- Business opportunity ventures: Under this category, a business owner purchases and distributes the products for one specific company. In return for a fee, this company must provide customers and accounts to the business owner. This method is used by vending machine and distributorships.
- Business format franchising: Similar to product or trade name franchising, it permits the franchise to use franchisor's products/services and brand name. In addition, it also provides the right to use the entire business format of the franchisor. Some of the notable examples of this type of franchising are **McDonald's** and **Pizza Hut.**

Bata India Limited, India's largest manufacturer and marketer of footwears, is a great example of business opportunity ventures franchising. It is among the first to adopt retail franchising model in India. The company has a vast network of 1,000 retail and 200 wholesale outlets and **over 600 franchise stores** in India.

Contribution of franchising to India's GDP



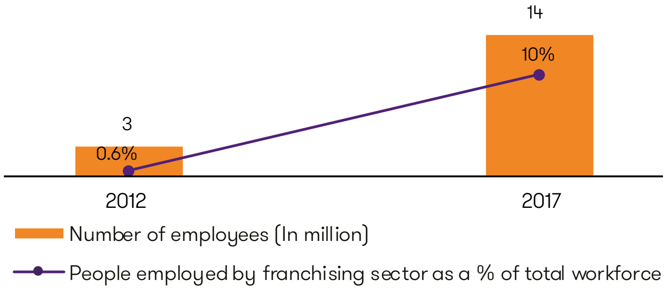
Source: India Inc. and GT analysis

> The franchising industry contributed around 1.8% to the GDP of India in 2017, growing from 0.7% in 2012. The industry is expected to contribute approximately 4% to the GDP by 2022

Contribution to employment

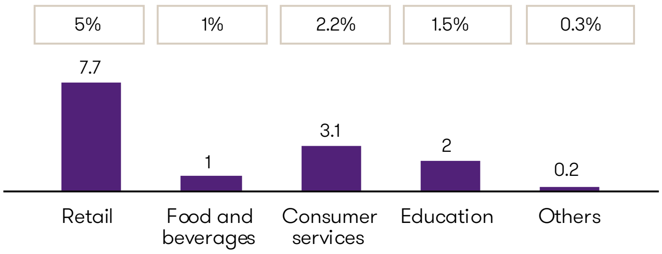
Franchising encourages self-employment and is also a big employment generator. A single franchise store employs five to 30 people. The franchising industry was estimated to employ 14 million people in 2017, which is almost 10% of the total estimated workforce.

In addition to direct employment, franchising has also generated a push for indirect employment. The indirect employment is estimated to have created an additional 1.8 million jobs in 2017 across key franchising sectors. The service-oriented franchisees, including food services sectors, are expected to generate maximum indirect employment.



Source: Industry reports, National Skills Development Corporation (NSDC)

Estimated number of employees in franchising in 2017



Source: Industry reports, National Skills Development Corporation (NSDC)

Around 7.7 million people were required in the retail franchising in 2017. The number was the highest in any sector, accounting for 5% of the total workforce in India. The number of employees required across other key franchising sectors such as food and beverages, consumers and education sector were 1 million, 3.1 million and 2 million people, respectively; accounting for 1%, 2.2% and 1.5% of the total workforce, respectively in 2017.

Factors affecting the business

Growth drivers

India provides a plethora of opportunities to the market simply because the number of consumers is so high. Currently, several companies across various sectors such as food and beverage, retail, consumer services, healthcare and others are adopting franchise business model across the country. Franchising enables the companies to increase their geographical presence by optimising the costs.

Franchised outlets in India have built such a massive consumer base mainly by focusing on Indianisation or customisation of product or services, thus connecting with the customer segment and catering to their specific needs. The demographic shift that India is experiencing with its middle class has led to an increase in their disposable income. Due to this shift, there has been a consistent growth in the number of consumers for branded products and franchised names. However, there are multiple other factors influencing the franchising model to become such a huge success such as:

Lower rate of failure

Franchises have a lower rate of failure as compared to the start-ups. According to a study by IBM and Oxford in 2016, 90% of the Indian start-ups fail within first five years, against only 15% of franchises. Since the business concept has already been worked out with the existing loopholes been fixed, the model today is efficient, low risk and low cost over any start-up. Thus, making it more appealing to the investor.

Increasing income and purchasing power

Indian disposable income was approximately INR 131 trillion in 2018 and is expected to double by 2025. The rising income levels in rural and urban India have resulted in increased spending on discretionary items as against necessities. This rise in income and spending capacity across India coupled with increased awareness, has created substantial demand for domestic and international brands. A large number of companies are expanding beyond tier-I cities and increasing their presence by adopting the franchise model.

Privatisation in different sectors

With the rapid privatisation in India across various sectors such as education, healthcare, telecommunication and others, there is a constant rise in the influx of international brands in the country. With this increase, the scope for franchising has also gone up. Today, companies across sectors such as EuroKids, Ferns N Petals, Vakrangee, Connect India and DTDC are key examples of successful privatisation and franchising in India.

First-time entrepreneurs

The newfound entrepreneurial spirit of young Indians has led many individuals to enter the franchise business. Presently, around 35% of all the franchise owners have been first timers in business. These entrepreneurs choose franchising due to the range of benefits it offers such as reduced risk, association with an established brand, training and support, etc.

Challenges faced by Franchisee

1 Royalty payments

It impacts the profitability of franchisees. High royalty payments act as a hindrance for franchisees during the initial and maturity stages of the franchise life cycle.

2 Cannibalisation

Many franchisees suffer from phenomena of cannibalsation, wherein a new franchise operations become successful, in part or in whole, by 'stealing' business from existing franchisees in the same market.

3 Lack of control

Owning a franchise may give the franchisee a sense of autonomy and control, however, the severe restrictions in terms of branding, sourcing from standardised vendors, marketing initiatives and product specifications impose restrictions on the operation and strategy of a franchisee.

4 Inadequate communication by franchisor

Lack of effective, honest and transparent communication between the franchisor and franchisee leads to chaos and differences between the two parties. Communication is not limited to the passing of decisions, it entails encouraging the franchisee and enabling free flow of ideas and suggestions between both parties.

5 Limited access to skilled labour

High levels of illiteracy in rural India have hampered the growth of the rural non-farm sector. Although many organisations have set up skill training centers in rural India to deliver vocational training and help individuals get more employment opportunities, there has been little incentive for firms to invest in rural markets compared to urban markets.

Various franchising models in India

Franchising business models in India

A business model is a framework for finding a systematic way to unlock long-term value for an organisation, while delivering value to customers and capturing value through monetisation strategies. There are different types of business operating models globally across various industries, of which franchising is a key business model. Before investing money in a business, franchisees and new entrepreneurs, one should always scout for a well-planned business format or model that promises good returns on investment. Any company can operate through the following business models:

Franchise-owned outlets

It involves franchisee's own investment for setting up an outlet. The risk of investment of the company is shifted to the franchise holder. The franchise operator strategically plans operations such as recruitment, marketing, purchase etc. as he/she is well versed with the local market dynamics. It usually operates better than the company and delivers faster growth for the business.

Company-owned stores

It involves company's own investment for setting up the store. These outlets usually involve higher capital, and relatively slower growth. However, the company tends to generate higher return on investment as no middle men is involved.

A detailed understanding of these business models

	Franchise owned franchise operated (FOFO)	Franchise owned company operated (FOCO) and company owned franchise operated (COFO)	Company owned company operated (COCO)
Overview	All operational rights and responsibilities lie with the franchisee	Under FOCO, the franchise owns the business but the brand and the operations are handled by the company with regular reporting done to the franchisee on performance of the business. This model is usually signed under profit sharing basis where the company gets a bigger share of the profit compared to the franchisee as it is company operated	In this model, the store/outlet is looked after by the company staff and the company has complete control over business operations
		Under COFO model, the franchise will be owned by the franchisor. The franchisor will be responsible to set up the store and provide goods to be sold. The franchisee shall be responsible for store operations including sales generation	

	Franchise owned franchise operated (FOFO)	Franchise owned company operated (FOCO) and company owned franchise operated (COFO)	Company owned company operated (COCO)
Pros	• In this model a franchisee makes the investment. As a result, he/she is self-motivated and does everything possible to ensure the success of the business • It is possible to grow the business exponentially, as multiple outlets provide economies of scale and increase margins • All operational rights and responsibilities lie with the franchisee; hence the franchisor can invest more time on growing the business	FOCO is • less risky for franchisee as franchisor takes care of the entire store operations • franchisee gets a minimum guarantee of revenue earned Under COFO, • The business ownership still lies solely with the company, while the franchise can be changed when company identifies a more profitable franchisee	• The company has complete control over business operations • Complete charge of supply chain management due to no middle men involvement leading to less wastages and shrinkages • There will be a well-maintained basic infrastructure as per the company standards and high quality maintained • The entire profit belongs to the company
Cons	• The responsibility of supply chain gets split among franchisor and franchisee, which leads to higher chances of wastages and shrinkage • The franchisor- franchisee relationship could be critical • All the operational cost has to be borne by the franchise itself	The franchisor-franchisee relationship could be critical	
Key sectors	Applicable to all industries	Food and beverages, health and wellness	Retail, consumer services such as courier business
Key brands	Sankalp Restaurant, Vakrangee Limited, Ferns N Petals	Jumbo King, Goli Vada Pav, Berco's, Pizza Hut, Domino's , McDonald's and KFC	Taco Bell, Café Coffee Day, Haldirams, Fast Trax and Bikanervala, Ferns N Petals

Besides relying solely on COCO model for expansion, franchisors nowadays are offering a combination of various models FOCO, COFO and FOFO models to provide more flexibility and reduce risk.

Models on the basis of territory size

India provides a plethora of opportunities to the market simply because the number of consumers is so high. Currently, several companies across various sectors such as food and beverage, retail, consumer services, healthcare and others are adopting franchise business model across the country. Franchising enables the companies to increase their geographical presence by optimising the costs. Franchised outlets in India have built such a massive consumer base mainly by focusing on Indianisation or customisation of product or services, thus connecting with the customer segment and catering to their specific needs. The demographic shift that India is experiencing with its middle class has led to an increase in their disposable income. Due to this shift, there has been a consistent growth in the number of consumers for branded products and franchised names. However, there are multiple other factors influencing the franchising model to become such a huge success such as:

Direct or unit

A single-unit franchise agreement gives the franchisee the right to open one franchise unit that is typically protected by guarantee of exclusivity for a certain geographical area. Giving too much territory would limit the franchisor's goal of having maximum penetration and giving too little would affect the sustainability of the franchise. The franchisor is usually expected to provide ongoing product and marketing support to the franchisee. In return, the franchisor typically commands a percentage of profits as royalties in addition to the initial franchising fees. This model offers a significant amount of control for the franchisor and involves a two-party contractual agreement between the franchisor and franchisee. Some of the brands offering this model in India are Lakme, VLCC and HiFi.

Multi unit

The franchisor grants to an entity the right and the obligation to establish and operate more than one franchised unit. For a multi franchisee, there is an area developer agreement that specifies the number of units that the multi-unit franchisee will open, in what time period and in which specified territory. Typically there is a specified time period in which each individual unit must be opened under the agreement. If that is not adhered, they can risk losing their rights to open any further locations under the agreement. Many of the real estate franchisors such as RE/MAX have a strong focus on multi-unit franchising.

Area development

In this model, area developers are granted exclusive rights for a broad geographical location to own and operate their own franchise outlets and develop further franchisees for franchisor. In most area development models, franchisor enters into a two-party agreement with the franchisee and is expected to provide ongoing support to the franchisee thus offering a decent degree of control to the franchisor. However, the franchisor will likely share a percentage of royalties with the area developer.

The area developers may not be responsible for the management of each franchisee unit as their role is only to open the agreed upon number of units in the specified territory. At the most, they may minimally oversee the franchisees, assist in site identification and offering financial and legal assistance. Many companies in the quick service restaurant industry such as Subway offer this type of model.

Master franchise model

This is a very popular mode of international franchising, whereby the franchisor seeks out a sub-franchisor in another country and gives them the exclusive rights to open franchise outlets themselves within a certain territory and/or grant franchises to sub-franchisees. There are two agreements involved in this case, an international agreement between the franchisor and the sub-franchisor (master franchise agreement), and a national franchise agreement between the sub-franchisor and each of the sub-franchisees (sub-franchise agreement).

The franchisor grants all the rights and delegates the duties to the sub-franchisor, who is in charge of the enforcement of the sub-franchise agreement and of the general development and working of the network in that country. Typically, a master franchisee is granted at national level, however, given India's size and cultural diversity, a hybrid model between an area developer and a national master franchisee such as a regional master franchisee, covering smaller areas, requires serious consideration. In India, international brands such as Gold's Gym, Hard Rock Cafe and domestic brands such as Jumbo King and The Chocolate Room have pursued this route.

Joint venture model

This is another popular model in international franchising. In this, an international entity enters into a joint venture with a local entity to create a new firm that functions as a master franchisee. The established firm takes care of the operations of the international brand in the country. The local partner has an in depth understanding and knowledge of the country, and of its consumers, in addition to this, they also provide real estate to the international brand.

Both the parties are equally involved in the project in terms of money, time and effort. With the help from the master franchisee, the international brand can scale faster in the country. There is a new trend in the industry wherein international brands are entering into a joint venture with a venture capital firm, rather than the business houses in India. For example, Burger King entered into a joint venture with Everstone Capital, a private equity firm, to enter India and scale business across the country.

Multi-brand franchise

It is a franchising model that allows opening of several franchises under different brand names. Under multi-brand franchise model, each franchise operates individually instead of operating under one umbrella. Also, each store might have a different concept and a different market.

Multi-brand franchising enables a franchisor to open very different businesses. This model is often adopted by operators to diversify their income.

Various benefits of this models are:

- Easy to operate seasonal business- By opening a different business franchise, the operator is not dependent on a single revenue stream.
- Easy to co-promote- Multiple business offering can easily be promoted, without incurring additional cost of advertising and marketing.
- Established customer base- Once the franchise overcomes the challenge of building customer confidence it gets easier to utilise the same customer base for its diverse range of service or product offering.

Current market landscape for franchising in India

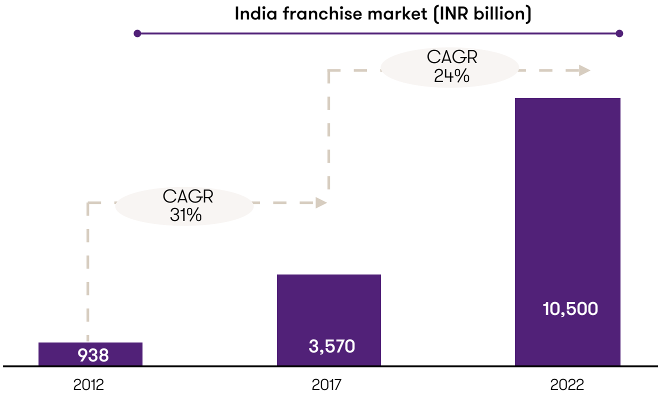
Key sector adopting franchise model

Globally, India is the largest franchise market in the world after the United States, with about 4,600 operating franchisors and 0.15-0.17 million franchisees in 2017. Of these, around 26% franchise buyers were women in individual capacity or as couple-led family business.

Today, India is home to more than 3,800 domestic franchisors that have adopted different models. Some of the pioneers of Indian franchising are Patanjali, Titan, Kidzee, Vakrangee, Raymond and Amul. Several industry verticals such as food and beverage, education, retail, health and wellness and consumer services have been leveraging their growth by franchising their products under several formats.

Franchise market size

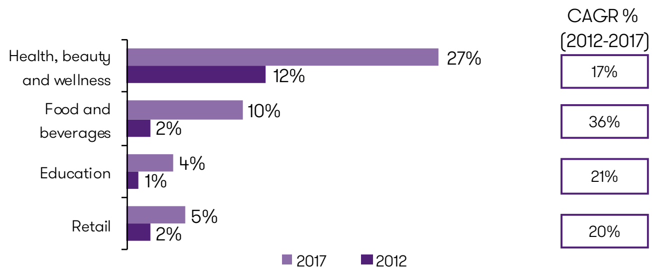
The franchising business in India was worth INR 938 billion in 2012. In 2017, it reached INR 3,570 billion, growing at a compound annual growth rate (CAGR) of 31%. The market is projected to reach INR 10,500 billion by 2022, growing at a CAGR of 24%.



Source: IBEF, ET retail, GT analysis

Franchise penetration across various sectors

Franchising as a percentage share of the revenues of its respective industry is estimated to have grown the fastest for food and beverages sector, a CAGR of 36% from 2012 to 2017. Further, franchising as a percentage of revenues of the total industry within health, beauty and wellness, food and beverages, education and retail sector, is estimated to have accounted for 27%, 10%, 4% and 5% share, respectively in 2017.



Source: IBEF, CARE ratings, NRAI, Statista, GT analysis

Continued growth across sectors

The key industries that possess immense prospects for the successful franchise opportunities are retail, food and beverages*, health, beauty and wellness, consumer services and education and training. The individual growth and potential of these key industries will drive the growth of the overall franchise sector in India.

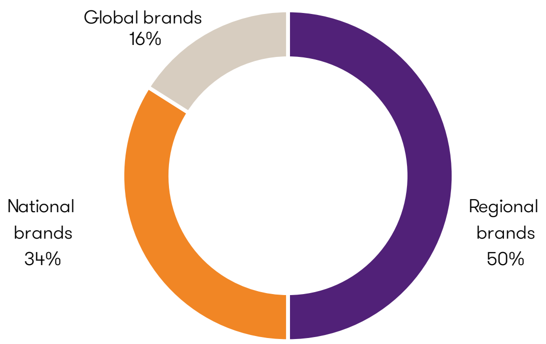
A detailed understanding of business models

Industry	Sector-wise franchising market size (INR billion)	Market size CAGR % (2012-2017)	Number of franchise outlets	Number of outlets CAGR % (2012 - 2017)
Retail	2012: 741 2017: 2,545	28%	2012: 13,280 2017: 45,000	28%
Food and beverages*	2012: 47 2017: 318	47%	2012: 5,700 2017: 27,000	29%
Health, beauty and wellness	2012: 38 2017: 212	41%	2012: 2,750 2017: 17,700	27%
Consumer services	2012: 66 2017: 283	34%	2012: 14,800 2017: 49,100	45%
Education and training	2012: 47 2017: 212	35%	2012: 8,100 2017: 29,500	36%

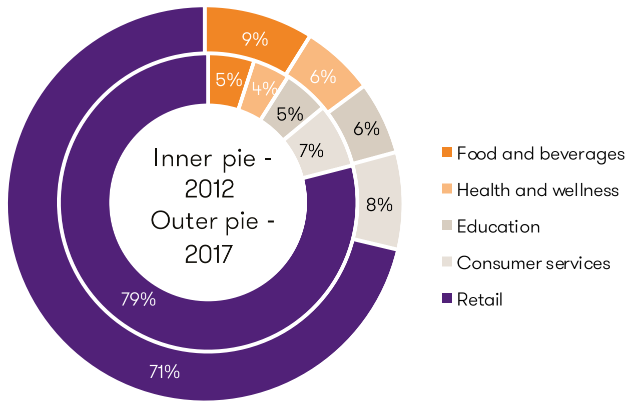
Source: IBEF, GT analysis

* Indicates food service industry

Market share by type (2017)

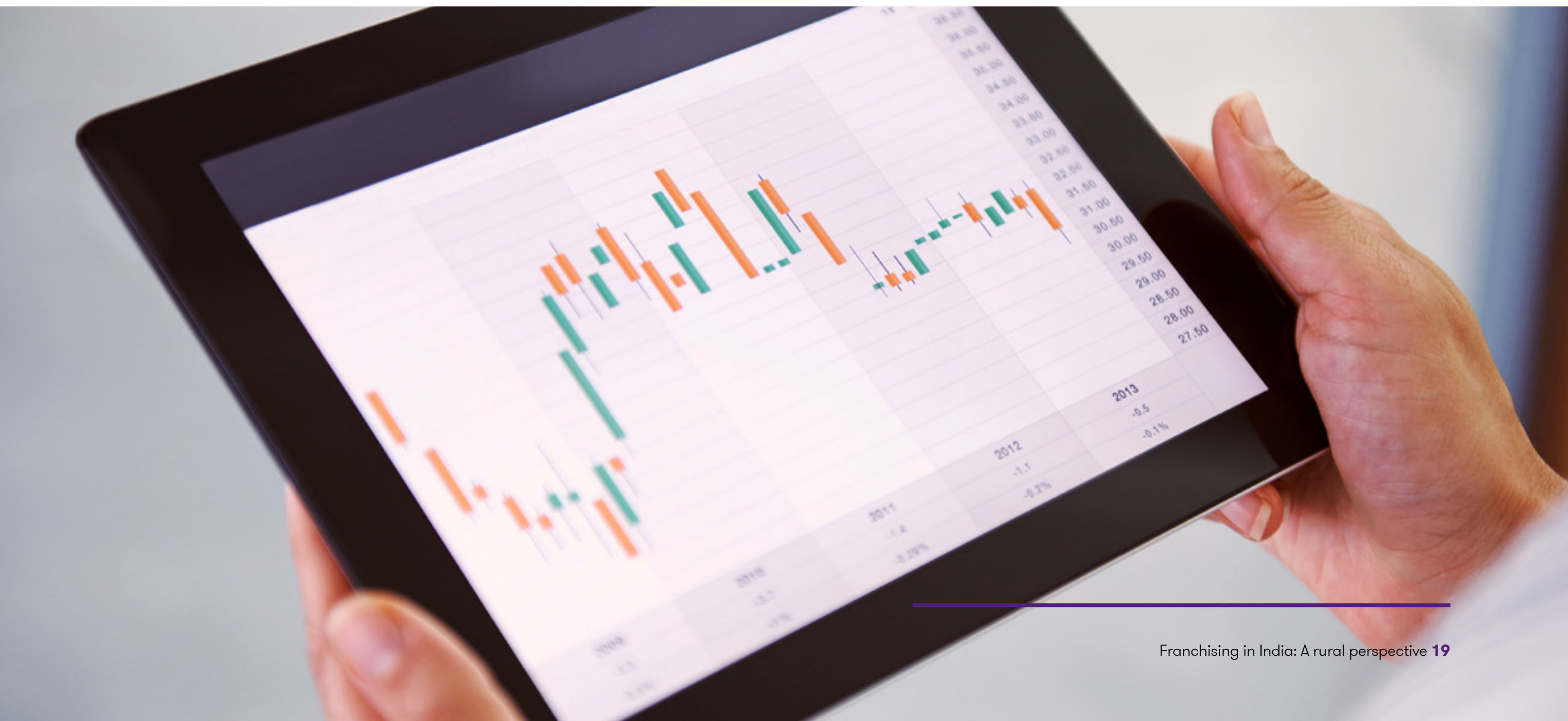


Market share by sector (2017)



Source: Franchising.com

- Consumer services, health and wellness, and food and beverages are expected to drive majority of the growth in the franchising industry.
- Over the years, the retail sector has dominated India's franchise industry, with a major share of over 71% in 2017, however, its share has been estimated to have declined from 79% in 2012.
- Regional brands such as Jumbo King, Pind Balluchi, Giani's, HiCare and others have dominated the franchising market accounting for a share of approximately 50% in 2017.



Franchising opportunity attractiveness

Retail

Franchising is one of the most popular business formats among organised retailers, specially in the rural areas. The average return on investment in the industry has been around 19% to 25%, with a payback period of 2.3-3.9 years. The revenue per square feet (sq ft) is between INR 20,000 and INR 50,000 per annum.

Sector	Investment (INR lakh)	Area (sq ft)	Royalty (% of sales)	Franchise fee (INR lakh)	Return on investment (%)	Payback period (years)
Apparel	15-20	1200-1800	10-15	1-2	20-25	2-3
Consumer durable	23-26	1000-1500	-	-	20-25	2-4
Jewellery	250-350	1000-1500	-	2-3	15-20	3-4
Music, books and stationery	12-15	600-800	-	-	35-40	1.5-3
Furniture and furnishing	40-45	1200-600	10-12	2-5	15-20	4-5
Pharmaceuticals	8-10	400-600	0-1	1-5	15-20	3-5
Food and groceries	20-25	1000-1500	8-10	3-5	18-22	1-3

Food and beverages

Franchising in new concepts like quick service restaurants (QSR), café/bars and fine and casual dining has witnessed a jump. The average return of investments in the industry has been around 21%-26%, with an average payback period of 1.5 to 3.8 years. The revenue per sq ft ranges between INR 7,200 and INR 9,900 per annum.

Sector	Investment (INR lakh)	Area (sq ft)	Royalty (% of sales)	Franchise fee (INR lakh)	Return on investment (%)	Payback period (years)
QSR	30-40	500-1000	6-8	2.5-5	20-25	1-4
FSR	25-30	1000-1500	6-8	5-10	15-20	3-5
Cafes/bars	30-40	500-1000	6-8	5-10	25-30	1-3
Kiosks	10-15	250-300	6-8	1-2	25-30	1-2

Health and wellness

The key segments include salons, fitness, slimming and spa accounting for a market share of 60%, 25% and 15%, respectively. The sector requires high capital investment for growth and growth in urban areas has outpaced that of rural areas. The average return on investment in the industry has been around 27% to 32% with a payback period of one to three years. The revenue per sq ft has ranged between INR 7,600 to INR 10,800 per annum.

Sector	Investment (INR lakh)	Area (sq ft)	Royalty (% of sales)	Franchise fee (INR lakh)	Return on investment (%)	Payback period (years)
Spa	40-50	1400-1600	10-15	10-20	25-30	1-3
Salon	40-45	1400-1600	-	5-6	30-35	1-3
Fitness	70-80	1500-2200	6-8	8-10	25-30	1-3

Source: Franchise India and GT analysis

Consumer services

The consumer services segments mainly include travel services, financial services, cleaning, real estate and transaction services, with the highest franchise penetration in financial services. The average return on investment in the industry is 23% to 33% with a payback period of 0.5 to 4 years. The revenue per sq ft has ranged between INR 6,600 to INR 9,000 per annum.

Sector	Investment (INR lakh)	Area (sq ft)	Royalty (% of sales)	Franchise fee (INR lakh)	Return on investment (%)	Payback period (years)
Travel	5-10	1200-1600	-	3-5	40-50	1-2
Financial	10-15	500-1000	-	0-0.5	5-15	2-6

Education

Owing to the demographics, education has been one of the most sought after sectors by franchisors. The average return of investment in the industry is around 27.5% to 34% with an average pay back period of 1.25 to 2 years. The revenue per sq ft ranges between INR 120 to INR 600 per annum for pre-schools and INR 14,400 to INR 20,400 per annum for IT training.

Sector	Investment (INR lakh)	Area (sq ft)	Royalty (% of sales)	Franchise fee (INR lakh)	Return on investment (%)	Payback period (years)
Pre-school	10-15	1200-3000	10-20	1-5	10-18	1.5-2
IT training	15-20	1200-1600	-	2-5	45-50	1-2

Source: Franchise India and GT analysis

Trends that transformed the franchising industry

Changing consumer tastes and preferences

Rapid urbanisation, penetration of internet services and growing per capita income have led to a change in consumer tastes and preferences. Today, Indian consumers are more aware about global brands and products. Thus, it is driving the demand in the country for brands such Patanjali, Levis, McDonalds, Subway and others. Such a strong growth in demand is pushing these brands to expand their footprint across the country.

Entrepreneurial culture

Over the last decade, the spirit of entrepreneurship has been instilled across India from urban cities to rural villages. The Global Entrepreneurship Monitor estimates nearly 20% of Indians (aged 18-64) intend to start a business in the next three years. Additionally, India has more than 11% emerging entrepreneurs (against a global average of 12.6%). The government of India with initiatives such as Startup India is emphasising on the entrepreneurial potential of India. The growing entrepreneurial activity has been a major driving force in the adoption of the franchise business models, with many international and homegrown brands opting to franchise their retail network in India.

Expansion into rural areas

Following the growing share of rural disposable income and to reach the vast rural population base, large number of companies are opening locations in rural areas. The local commercial growth and the increasing spending power of people in these areas is a massive opportunity for franchise operators. Vakrangee is a noteworthy example of a successful franchisor that has over 15,000 Kendras with more than 70% outlets in Rural India. Through these Kendras, rural population gets access to basic banking services, e-commerce and other services. Another example is KidZee Gramin, an initiative by KidZee, one of the world's leading names in the pre-school market, which focuses primarily on tapping the rural areas.

Multi-brand franchisees

Initially franchisees were satisfied with having one brand under their name. However, this was not the case in 2018. The year witnessed a rise in a number of franchisees that were associated with more than one brand. It is believed to increase the cash flow procedure, ensuring protection against loss and failure in the business.

Advantages

Franchise over start-ups

With start-ups much time and money is spent in trial and error, but a proven franchise may eliminate many of those challenges. One can open a franchise with little or no previous experience in a given industry. Also, franchises have a higher rate of success as compared to start-up businesses. Their success rate is around 85%. Unlike the start-ups, the franchises often have an established reputation and structured work practices.

Training and support

Since sufficient training and support is provided regularly, it's not necessary for franchisees to have prior business experience. Also, trainings prepare new owners for all facets of the business.

Capital required

The capital required for setting your own business is much less for a franchisee as compared to a start-up. Furthermore, it is easier to secure finance for a franchisee than raising fund for a start-up idea.

Marketing and advertising

Most small-business owners find it difficult to invest extensively in marketing and advertising, which is a necessary component. Therefore, most franchisors provide advertising help and direction. Further, over a period as the number of franchisees increases, so does public awareness of the franchise, which can be a remarkable advertising advantage. Often, franchisees located near one another can also advertise together, thus reducing costs.

Multi-brand franchise

Unlike the start-up, an investor has an option to invest and partner with one or multiple franchise at the same time. More commonly, they do so to diversify their income.

Disadvantages

Agreement bound

Since both franchisee and franchisor are bound by a legal franchise agreement, that document dictates how to run the business, leaving little room for creativity. The franchise agreement restricts the franchisee on matters like where to operate, the products to sell and the suppliers that can be used.

Connecting performance

Negative performance of one franchisee can affect overall franchisor's reputation and brand image.

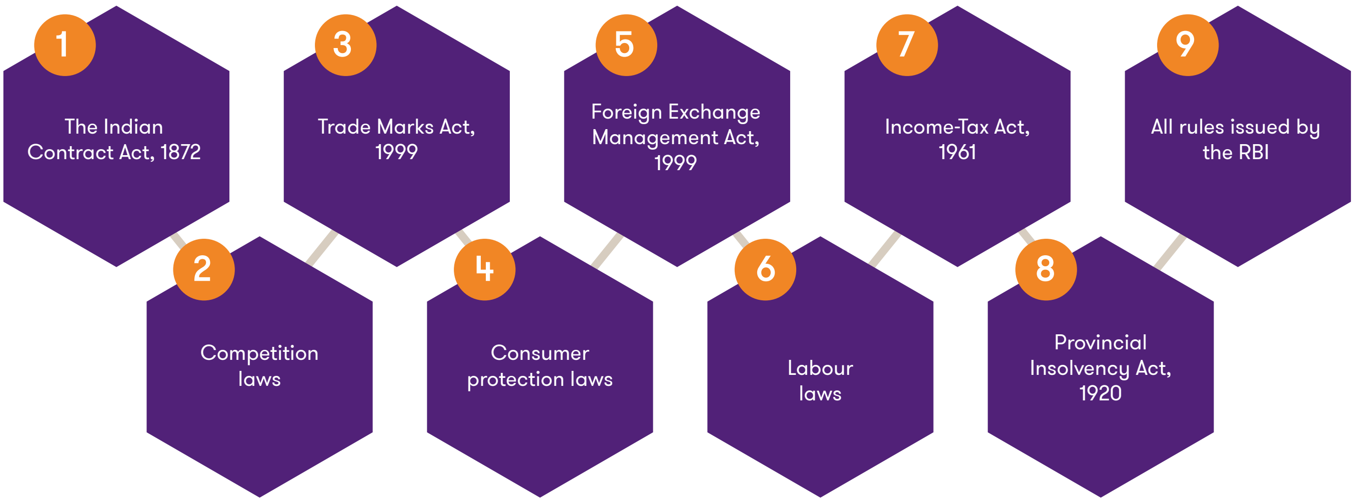
Fixed fee concern

Buying a franchise implies ongoing sharing of profit with the franchisor. Additionally, there are cases wherein the franchisee is not making profits and is still bound to pay a fixed fee.`

Regulatory scenario, initiatives, FDI

Rise of private equity and relaxed Foreign Direct Investments (FDI) rules are making it attractive for international companies to invest and expand across India. Currently, India does not have a comprehensive legislation related to franchising, which means that there are no direct, potentially restrictive regulations on franchisors. The entry of international brands in India is guided by foreign exchange laws, which include the Foreign Exchange Management Act (FEMA), 1999, which was replaced by the Foreign Exchange Regulation Act (FERA), 1973, in June 2000 and several other important laws and regulations. At times, adhering to multiple laws creates challenges for global franchisors. This lack of direct regulation creates significant confusion as a patchwork of national and regional laws which arbitrarily governs franchisor-franchisee relationships The lack of clear cut regulations, which is otherwise present in countries such as Australia, Japan, the US and Malaysia is disadvantageous for prospective franchisees and franchisors as they are not under any obligation to make all the required disclosures.

Some of the relevant laws and regulations in the context of the franchisor- franchisee relations in India are as follows:



1. The Indian Contract Act, 1872
Depending on the provision in the franchise agreement, this Act may govern the agreement between the foreign franchisor and Indian franchisee. It provides the requirements for all aspects of the franchise agreement (For example, offer, acceptance, consideration, validity and termination).

2. Competition laws
These laws prohibit provisions related to production, supply, distribution, storage, acquisition and control of goods or provision of services that cause or are likely to cause an "appreciable adverse effect" on competition within India.

3. The Trade Marks Act, 1999, the Designs Act, 2000, the Patents Act, 1970, and the Copyright Act 1957
These laws govern trademarks, patents, registered designs, and technical assistance required for franchising agreements.

4. Consumer protection laws
Under these laws, Indian consumers are provided remedies in the event of product defects and service deficiencies.

5. Foreign Exchange Management Act, 1999
It governs payments in foreign currency. A cross-border franchise arrangement would normally involve such payments that can be made to the foreign franchisor without any approvals.

6. The Industrial Disputes Act 1947, the Contract Labour (Regulation and Abolition) Act 1970, and Employees Provident Fund and Miscellaneous Provisions Act 1952
They govern the labour laws in India. Different labour law issues can arise depending on the nature of the franchise agreement and the amount of control the franchisor has over the franchisee's business operations.

7. Income-Tax Act, 1961
This Act oversees the tax aspects of any franchising arrangement in India.

8. Provincial Insolvency Act, 1920
The provisions under this act oversee the disputes involving the creditor and debtor, the notice of inability to pay, benefiting one creditor over the other and the notice of surrender of estate amongst other provisions.

9. All rules issued by the RBI
Guarantees in favour of a foreign franchisor may require approval of the **Reserve Bank of India (RBI)**.

Foreign investment and franchise establishment

While franchisors may not imagine themselves to be investors, many franchisors inadvertently fall into the category of foreign investors, and are thus beholden to the rules of FDI. A foreign franchise becomes a foreign investor when:

- A franchisor directly owns outlets in India
- Master/regional franchisee has some degree of corporate ownership

Many foreign franchisors open their own outlets in India, usually to capture a portion of the profits or simply to serve as a training facility for new employees . In other cases, a master or regional franchisee, which a foreign company partners with, may already have some degree of foreign ownership. In both cases, franchisors are participating in FDI.

FDI regulations can significantly reshape a franchisor's legal responsibilities in India. For instance, previously, it was mandated that single-brand retail companies with over 51% FDI must source a minimum of 30% of the value of their goods from Indian companies. However, recent relaxations for the foreign single-brand retail companies, such as limiting the local sourcing to 10%, provided they export 20% of their products to other countries has made India more attractive to the foreign retailers. Most retail franchises fall into the single-brand category and previously sourcing 30% of their products from Indian companies had proven to be a challenge.

Further, foreign retailers often struggle to secure regular access to quality products that can accommodate the scale of their production. Also, retailers selling specialty items can find domestic sourcing requirements extremely challenging. Hence, franchisors should regularly monitor changes in the FDI regulations.

Discovering the entrepreneurship potential of rural India

India holds enormous pool of opportunities across various sectors in rural India. With increased awareness and disposable income, Indian rural populace is exploring their entrepreneurial side through start-ups and various franchise models. Further, to discover the business potential of rural India, it is important to introduce a commercial paradigm to the rural market, which addresses the social needs of the community, provides easy access to credit and generates profit and employment.

India’s entrepreneurial environment

The consumer services segments mainly include travel services, financial services, cleaning, real estate and transaction services, with the highest franchise penetration in financial services. The average return on investment in the industry is 23% to 33% with a payback period of 0.5 to 4 years. The revenue per sqft has ranged between INR 6,600 to INR 9,000 per annum.

According to the **Hurun Global Unicorn List 2019,** there are 494 unicorns in the world in 25 countries. With 21 unicorns, India has emerged as third-largest ecosystem for more successful start-ups right behind China and the US, but is ahead of Britain.

According to the **Global Entrepreneurship Index, 2018** by Global Entrepreneurship Development Institute (GEDI) **India** is ranked 68 out of 137 countries.

India’s remarkable performance was largely due to the significant contribution from key government initiatives such as **Startup India, Make in India, financial inclusion** and others. Moreover, the role of entrepreneurship in rural India and creating jobs in Indian labor market is in itself noteworthy.

The rural India

Over a decade, the government is focusing on nurturing the idea of entrepreneurship and start-ups, which are backed by initiatives **Skill India** and **Right to Education**. It is due to some of these initiatives the skilled and aware youth of rural India is evolving and exploring opportunities beyond agriculture and farming. Their increased appetite for risk is the key driver of government vision of nurturing rural entrepreneurship.

Need for rural entrepreneurship

Rural entrepreneurship plays a major role in helping India achieve its developmental goals. A large number of people migrate to urban from the rural India, which has multiple levels of impact on not only on balancing the economical distribution of wealth and prosperity, but it also adds to tremendous pressure on the infrastructure of the city, stress and distress. However, there is an urgent need for rural entrepreneurship largely due to:

Great disparity in rural and urban income

Majority of rural populace is either directly or indirectly dependent only on agriculture for income as compared to urban counterpart who have created multiple avenues of income. Thus, due to this imbalance a large gap between rural and urban income.

Regional development

The government and private players together have realised the relevance of regional development by focusing on providing education, access to basic banking and ATMs, opening bank accounts and others.

Reduce poverty and migration

By promoting rural entrepreneurship, people get multiple income opportunities besides farming and that too with moving out of there own village. It slows down urban migration drastically.

Optimum utilisation of resources

With large manpower residing in rural India, large companies today have realised its immense potential and size of the untapped market. But, expanding geographically would prove expensive without involving rural entrepreneurs. Thus, companies would any day prefer low cost business model to utilise the abundance of resources in rural India

Increase in awareness of rural population

The vast role of an entrepreneur are not restricted only to create employment and income sources. It is the duty of an entrepreneur to increase the knowledge and awareness of the society or community they are serving.

Challenges for rural entrepreneurship

Over the last decade, there has been a surge in entrepreneurship activity across India. Change in government policies and a shift in the business environment have fuelled this unprecedented growth in India. However, entrepreneurs in India still face a host of problems, overarching regulations and cumbersome procedures that act as impediments to the exponential growth of this sector.

Entrepreneurs in rural India face unique social and cultural challenges in taking up certain jobs. Low appetite of taking risks and lack of training and awareness often acts as a barrier. Besides, limited access to financing and lack of effective institutional structures makes things even worse. Furthermore, lack of quality infrastructure and poor penetration of internet and broadband services in rural cities (tier-V and VI) impede the growth of entrepreneurial activity in rural India. Lastly, the bigger deterrent to the development of rural entrepreneurship is the prevalent perception that it is unprofitable.

Entrepreneurial advantages

Although advantages of entrepreneurship have been widely accepted, it has certain set of challenges as well. But despite its challenges, the popularity of entrepreneurship, it can be said there exists a model within entrepreneurship that offers similar set of benefits. It offers a large base of employment opportunities by minimising the risk and it is easy to connect with the rural masses. To increase the economic activities across rural India, it is necessary for the private companies and people living in rural areas together to adopt measures like franchising.

Private companies perspective (Franchisor)

Multiple factors affect the exposure of private players in rural areas, such as: CAPEX requirement, operational costs, regulations (if moving to different state or country), target market, logistics and others.

In a franchise model, they just have to look for a right partner, who aligns with the company's vision, has significant local presence and connect with the people around.

Advantages

Low cost – In franchising the initial investment, working capital and other costs are borne by the franchisee. Thus, franchising costs are relatively less than owning a store

Easier expansion – Leveraging financial and human resources, the franchise model helps franchisors to expand rapidly and preempt competitors in local markets

Stronger connect with locals – Local entrepreneurs at the grass root level are familiar with perception and demands of local consumers. Leveraging such information can help a franchisor to meet the needs of the local consumers in a cost-effective manner.

Franchise buyers perspective (Franchisee)

Often choosing start-ups over farming is not a preferred choice for an individual in rural India as it requires in-depth business expertise, funding to sustain a new idea and involves maximum risk and lack of training.

Whereas, in franchise business model, individuals are aware that they will gain an established running system, years of knowledge from the franchisor, a successful brand and business model, as well as continuous training and interrupted support.

Advantages

Low cost business model – Adopting the existing business model costs much less than starting a new business from scratch.

Growth of a company – As a franchisee, you are responsible for upholding and building the brand image of an established brand. Working alongside the franchisor, the franchisee is not only responsible for sales but also in growing brand awareness and maintaining the positive perception amongst customers.

Training and support – Unlike the start-ups, the franchisor offers frequent support in the form of managerial and technical help, research and development, quality control and training.

Risk gets mitigated – Franchisee gets an opportunity to be associated with an established company. Thus, the risk of performance and image is shared by both franchisor and franchisee.

Consumers perspective

Consumers find difficult to connect and cannot trust the intent of any international or domestic company opening its store in rural India.

Low awareness and literacy levels make situation worse to believe in a product or new service being offered. Thus, to overcome such challenges it is best to adopt a franchise business model.

Through franchising it becomes easier for the consumer to connect with the franchisee holders as he/she is a local resident and his intent hardly gets questioned. For companies, too, it is easier to connect with masses and penetrate deeper in the market with optimised cost.

Advantages

Availability of service and product at a reasonable cost – Since the challenge for a large number of private companies entering rural India is overcome through a franchise. Thus, large number of products and services reach to rural population at an affordable price

Access to large number of services such as banking, ATMs, e-commerce and others – With greater focus on financial inclusion and service such as banking and ATMs as basic necessities. The government has rolled out multiple scheme and initiatives to support the rural populace. Thus, consumers get access to these services through local franchisees.

Higher confidence while spending – Usually, the franchisee is a local resident of the region he/she is servicing. Generally, a franchisee is aware of the needs and preferences of local consumers. This relationship instills greater confidence amongst the local consumer base, which hardly ever question the franchisee's intent

Currently, private players like Vakrangee Limited, Connect India E-commerce Services Private Limited, DTDC Express Limited through there unique franchises business models, have made the difference focusing largely on rural India. They have not only helped creating employment but also improved living conditions of people living there. Besides, players like Vakrangee have made a huge impact by promoting government initiatives like Pradhan Mantri Jan Dhan Yojana (PMJDY), direct benefit transfer (DBT) and others to rural masses through there efficient franchise model. Through Vakrangee's extensive franchise network with 10,000+ operational NextGen Kendras and with 15,000+ NextGen Kendras in onboarding process, the company provides multiple services, such as financial, assisted e-commerce, e-governance and logistics services to individuals residing in semi-urban and rural cities. Vakrangee is fully equipped to play an active role in this rural entrepreneurship sector and is in the process to create many of entrepreneurs across India. On the other hand, DTDC with its 10,500 franchise stores connects rural India to other parts of India and world with its strong logistics services offered.

Understanding COVID-19 and its impact

Towards the end of 2019, the world witnessed the outbreak of coronavirus (COVID-19) disease in China. By January 2020, the World Health Organization (WHO) declared COVID-19 a pandemic, as the virus had spread over 190 countries with the United States of America, followed by Brazil, being the worst affected. The impact of this pandemic on businesses in general, and franchising in particular, cannot be ignored. As the number of COVID-19 cases increase daily and governments struggle to develop a strategy to contain the spread of virus, like every other sector, the franchising community too must prepare itself for the new normal.

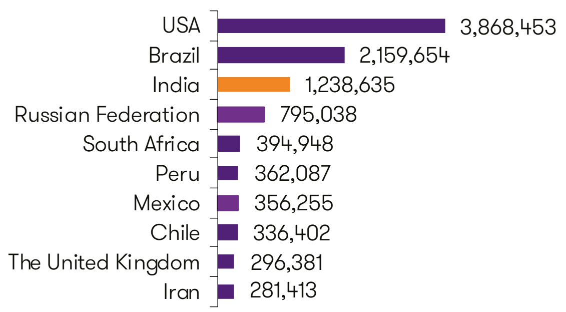
Overview

The rampant spread of COVID-19 has severely affected most economies globally. The outbreak of the pandemic disturbed political, social, economic, religious and financial structures of the world. World's largest developed economies such as the USA, the United Kingdom, Germany, France, Italy, Japan and many others are currently in deep stress. The WHO has been working closely with global experts, governments, and other health organisations to provide suitable precautionary and preventive measures to the countries.

The unprecedented outbreak of the ongoing crisis poses multiple threats and challenges for the economies globally, such as, economic slowdown, reduced trade, supply chain disruption, commodities and logistics challenges, employment and others.

Globally, as of 23 July 2020 there have been 15,012,731 confirmed cases of COVID-19, including 619,150 deaths, reported to WHO. With the number of cases rising, India is at third position in terms of confirmed cases.

Highest number of confirmed cases Country- wise



World Health Organization as on 23 July, 2020.

India story

India reported its first confirmed coronavirus case on 30 January 2020 in Kerala. Since then, the number of cases have been spiraling. **As of 8 July 2020, there have been 742,417 confirmed cases of COVID-19 with 20,642 deaths in India. The government has taken several strict measures to curb the spread of the virus.** The country announced its first ever nationwide, 21-day lockdown towards March end, which later got extended till May. The goal was to flatten the curve and using the time to plan and resource responses adequately.

Impact on franchising and some key sectors of the economy

The COVID-19 pandemic has triggered a deep economic crisis where fundamental changes will take place in how people, businesses, and economies function in India. The franchising community in India has never experienced a crisis like this. The immediate effects are apparent with the shutdown of salon, pre-schools, K12 schools, food outlets, retail shops and others. Some franchise chains, such as those in travel and tourism, retail, food and beverages, are likely to witness a lost demand that is largely irrevocable. However, with economic adversities, new industries and opportunities have emerged bringing with it a renewed hope of recovery. Businesses offering door-step banking, telemedicine, online doctor consultation, online retail, online education and others will largely witness a positive impact.

The impact of COVID-19 on franchising business would vary depending on the overall impact on the sectors. Some sectors and businesses that will benefit while some adversely affected are highlighted below:

Industry	Demand side impact	Supply side impact	Net impact	
			Online	Offline
Food and beverage	Changing consumer behaviour triggered by social distancing guidelines are likely to keep the demand weak till COVID-19 pandemic continues	No or less demand even post the lockdown along with other restrictions have resulted in many restaurants, cafes and bar to shut operations in the country, especially in urban areas	+	−
Pharma	Amidst ongoing health crisis, demand for essential and daily medicines has gone up. Further, due to uncertainties with respect to supply from China, people are buying more and stocking essential medicines	Classified under essential category, supply witnessed minor disruptions. Moreover, with people being hesitant to step out and visit stores, online pharmacy and teleconsultations have increased	+	+
Beauty and wellness	Frequent visit to salons, gyms and others to be bygone tale post the lockdown. However, being essential part of lifestyle, the demand will gradually pick up with all precautionary measures	With upskilling, innovation in products and taking precautions, supplies to gain momentum post lockdown with increased costs. Gyms offering online classes and personalised salon services like Urban Company are likely to be a new trend	−	−
Education and training	Sudden shift to online learning is relatively new for India. With strict social distancing measures, online education and skill development is likely to be preferred over traditional institutions	Post lockdown dynamic and innovative approaches would be required by traditional schools and institutions for uninterrupted services competing with online players Byju's, Unacademy and others	+	−
FMCG and retail	Due to the prevailing uncertainty and fear of virus large number of people are staying indoor. Thus, demand for FMCG is expected to rise with online delivery model picking up increasingly	From local Kirana stores to online businesses, such as, Bigbasket and Grofers, have played a significant role ensuring FMCG supplies amidst lockdown. Being under essential services, both online and offline stores are likely to increase post pandemic	+	+
Financial services	With the ongoing liquidity concerns and lockdown, demand for Business Correspondents, ATMs, internet banking and others services is set to increase for individuals and businesses to access basic financial services	With ease of norms by the RBI and introduction of new scheme and support by the government supplies are to improve	+	+

Public and private sector support

Measures taken by Government of India

The government was proactive to take preventive and all essential measures to curb the spread of coronavirus in India. Moreover, with due support from state governments and private companies, the ground-level implementation of these measures was also ensured. Some of the actions taken by the government are:

Lockdown 1.0 (23 March-14 April)

A 21-day nationwide lockdown was announced on 23 March. The lockdown was enforced with the need for uniformity across all states and had invoked powers under the National Disaster Management Act, 2005. During the lockdown, all essential services were allowed and access to all essential commodities and medicines was available, which also included banks, ATMs, petrol pumps, hospitals and grocery shops. However, all transport services such as air, rail and roadways were suspended until 14 April during lockdown 1.0.

Lockdown 2.0 (15 April-3 May)

Subsequent extension of lockdown post 14 April till 3 May was implemented aimed at achieving satisfactory containment of the virus spread. Areas with no new reported cases or minimum risk from coronavirus were given some relaxation.

Lockdown 3.0 (4 May-17 May)

The Ministry of Home Affairs (MHA) had announced revised guideline extending the lockdown period with the aim of flattening the curve. Under this lockdown, the central government strategically bifurcated the country into three zones: Red, Orange, and Green. The zones were decided based on the spread of the pathogen and recovery rates in zones. The identification of zones remained a dynamic process, with state governments overseeing developments in COVID-19 cases on a zonal basis, to curtail any resurgence in cases.

Lockdown 4.0 (18 May-31 May)

In this phase, considerable relaxations were given. However, it still prohibits all domestic and international travel, metro rail service, running of schools, hotels, restaurants, etc.

Unlock 1.0 (8 June onwards)

With over 70 days of nation-wide lockdown focusing on saving lives, government shifted its focus on protecting livelihoods along with lives. The first phase of 'Unlock India' began 8th June onwards, as the government relaxed parts of lockdown areas. Malls, restaurants, hotels and places of worship were reopened selectively across the country beginning June 8 as the businesses prepare for new normal.

Financial support as economic boost

Besides strict implementation of nationwide lockdown to curb the spread, the central government also ensured financial support through fiscal stimulus and key sector reforms to protect lives and livelihoods in India.

On 26 March, the government announced an economic stimulus package worth INR 1,70,000 crore (USD 22.5 billion). Through this package, the government had launched Pradhan Mantri Garib Kalyan Yojana, to provide INR 500 to every woman with a Jan Dhan account. Later, Prime Minister Narendra Modi unveiled the broad outlay for a comprehensive package of INR 20,00,000 crore under the Atmanirbhar Bharat Abhiyan campaign to build a resilient India. At as much as 10% of GDP, the campaign emphasises to create a self-reliant India and the need to promote local products and brands so that the nation builds a robust supply chain as per global standards.

Key franchises in India

Key players in franchise industry in India

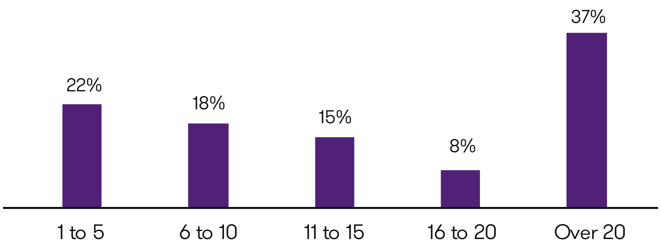
After 1990, the model of franchise management was introduced in India, with the start of the era of liberalisation. Initially, the model was only adopted by few education institutes and information technology companies. But today, the franchise model has been adopted across various sectors in India. According to the Franchise India, currently there are 4,600 franchisors in India with 50% regional brands, 34% national and 16% global brands in franchising sector in India.

List of key franchises across India (no rank is assigned)

S. No.	Franchise Name
1	Natural's ice cream
2	Pepperfry
3	Oyo Homes & Hotels
4	Karachi Bakery
5	Amul India
6	Mother Dairy Fruit & Vegetable Private Limited
7	Vakrangee Limited
8	Motilal Oswal Financial Services Limited
9	Louis Phillipe
10	Manyavar
11	Biba Apparels
12	Raymond
13	Siyaram Silk Mills
14	EuroKids
15	Gati Limited
16	UClean
17	GreenLands
18	Brain Checker Techno Services
19	Angel broking
20	Edelweiss Broking Limited
21	Monginis Food Pvt Limited
22	Looks Salon
23	Snap Fitness
24	Shahnaz Husain Group
25	Central Perk 7
26	Kurlon Enterprise Limited
27	Dr. Lal Path Labs Limited
28	Liberty Shoes Limited
29	Fab India
30	The belgian waffle co.
31	Apollo Tyres Limited
32	Bikanervala Foods Private Limited
33	Hero Motocorp Limited
34	Geetanjali Salon
35	VLCC Health Care Limited
36	Maruti Suzuki India Limited
37	Kalyan Jewellers
38	Ferns N Petals
39	Tanishq
40	Khadim's
41	Westside
42	HiCare
43	Jumbo King
44	Cocoberry
45	Lakmé Salon
46	G-Tec Computer Education
47	Laziz Pizza
48	Kidzee
49	Prestige Xclusive
50	MedPlus
51	US Dollar Store
52	Bachpan
53	LensKart
54	Jawed Habib Hair & Beauty Limited
55	Cotton king
56	Little Millennium
57	Chaat Lounge
58	British Academy for English Language
59	NYPFC Foods Private Limited
60	Frontier Biscuit Factory Private Limited
61	Giani's
62	Florista
63	Sanfort
64	The Poly Kids
65	IBT Institute
66	Brewberrys – The Coffee Bar
67	Pind Balluchi
68	Autoz Spa
69	DTDC Express Limited
70	Amore Gelato
71	MakeMyTrip Limited
72	Juice Lounge Juice Bar
73	Kids Age
74	Bragnam
75	Studio11 salon & spa
76	Pabrai's Fresh & Naturelle
77	JIE Pre-School
78	Coffee Culture
79	Punjab Grill
80	Keva Ayurveda
81	Lifespan Wellness Private Limited
82	Cafe Desire
83	The Millennium School
84	TMC Shipping
85	Würfel Küche
86	Parantha Express
87	The Great Kebab Factory
88	Carz Express
89	Felicita Foods
90	Makoons
91	Rollfie
92	The Embassy
93	Mahindra First Choice
94	Talwalkars Health Clubs Ltd
95	Gati Limited
96	NIIT
97	Aptech learning
98	Inexpress
99	Patanjali Ayurved Limited
100	Elvy

Source: Franchise Asia, Frankart global and GT Analysis

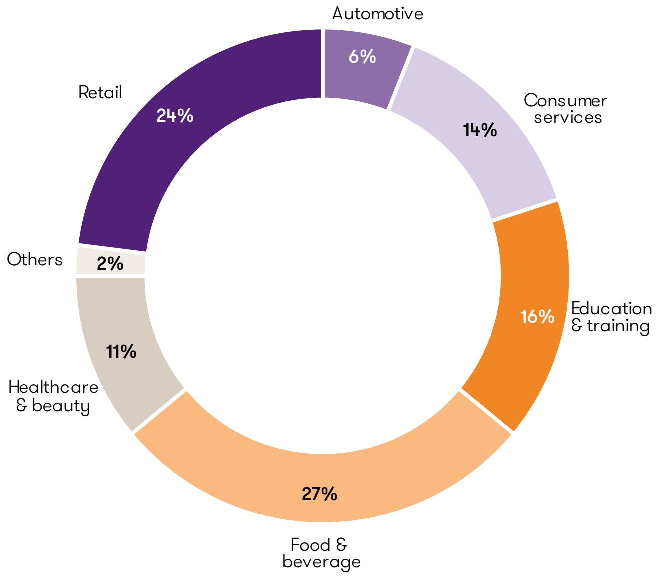
Years of operation in India



Source: GT Analysis

India's rich diverse culture is reflected in its population and the key to the success of any franchise within India lies in accommodation of the market. The needs and tastes of India's consumers are unique, and over 22% brands of the top 100 franchise in the last five years have adopted franchise model focusing on the preference of the Indian market. Over a decade, franchising business has witnessed a significant growth by assisting companies such as **with companies such as Raymonds, Patanjali Ayurved Limited, Bikanervala Foods Private Limited** expanding their presence and optimising cost. Whereas, at local level every franchisee not only gets a lucrative employment opportunity but also becomes an active contributor to the growth of the company.

Top 100 franchises split according to industry



Source: Franchise Asia and GT Analysis
Others include: Print Media and Oil and Gas 1% each.

Over the years, food and beverage franchises have consistently dominated the franchise sector within India. Currently, one-third of new food outlets in India are established through franchise systems. Due to rising demand and frequent innovations in the industry, it is estimated to double its workforce, providing plentiful employment within India by 2022.

Further, retail, healthcare and beauty and education are also attractive markets for franchising. But, it is the consumer service market that has picked up in last couple of years. Today, with companies such as **Vakrangee, DTDC, MakemyTrip,** etc. consumer service has entered the rural arena as well.

Sector-wise key players in franchise market

Consumer services

The consumer service accounts for nearly 14% of the top 100 franchises in India. With franchisors being largely concentrated in financial services, logistics, hotel, courier and cleaning services. The players in the industry have an experience of around 30+ years with almost all having a pan-Indian presence.

Key players	OYO	DTDC	Vakrangee	Gati Logistics	LinQ store
About the company	One of the fastest-growing hospitality chain of leased and operated hotels, homes, managed living and work spaces	One of the leading express parcel service providers in the country	Leading technology company that provides banking, insurance, e-governance, e-commerce, and logistics services	Pioneer in express distribution and supply chain solutions, with a strong presence in Asia Pacific region, SAARC countries and India	An assisted e-commerce retail chain that provides digital services through it's stores to the rural audience
Number of exclusive franchise outlets	23,000+ (both exclusive and non-exclusive outlets)	10,500	10,000+ operational NextGen Kendras with 15,000+ NextGen Kendras in onboarding process	540+	1,500+ (both exclusive and non- exclusive outlets)
Years of operations in India	◕	●	●	●	○
Geographical reach	●	●	●	●	◑
Store exclusivity	Both exclusive and non-exclusive	☑	☑	☑	Both exclusive and non-exclusive
Market position*		Top-tier		Middle-tier	New entrant

* Based on number of outlets

Low ○ 0-6 years ◔ 6-12 years ◑ 12-18 years ◕ 18-24 years ● More than 24 years High

Food and beverages

The food and beverage sector dominates India's franchising sector accounting for 27% of the top 100 franchises in India. Majority of the growth in the organised space is expected to come from the expansion of franchising chains, where there are several options to choose from such as fast food, ice cream parlours, juice bars, bakeries and restaurants franchising. The players in the industry have an experience of around 39+ years with the top-tier players having a pan-Indian/global presence, and middle- and bottom-tier player having a regional presence

Key players	Amul	Mother Dairy	Monginis	Jumbo King	The Belgian Waffle Co
About the company	An Indian dairy products company managed by a cooperative body. They also have cafes, which are exclusive outlets for entire range of Amul products	An Indian company that manufactures, markets and sells milk, milk products and other edible products.	An Indian pastry and bakery chain with outlets in different cities in India and Egypt	It is a chain of fast food restaurants specialising in regional flavours like vada pav	A food franchise that provides freshly baked waffles across India.
Number of exclusive franchise outlets	9,500+	1,000+	900+	100+	200+
Years of operations in India	●	◕	●	◔	○
Geographical reach	●	●	◕	○	◔
Store exclusivity	☑	☑	☑	☑	☑
Market position*		Top tier		Middle tier	New entrant

○ Less than 12 years ◔ 12-24 years ◑ 24-36 years ◕ 36-48 years ● More than 48 years

* Based on number of outlets

Education and training

The education and training sector accounts for nearly 16% of the top 100 franchises in India with franchisors being largely concentrated in the pre school, higher education and IT training space. The players showcased in the industry have an experience of around 13+ years of experience with the players across all tiers having a PAN India or global presence.

Key players	Kidzee	NIIT	Aptech	Brangam	Bachpan
About the company	A pioneer in early childhood care and education, Kidzee is one of the largest preschool chains in Asia	It is an Indian MNC that offers learning management and training delivery solutions to corporations, institutions and individuals	It is a global learning solutions company that is involved in the education and training business	It is a research oriented company that offers programs in pre-schooling, abacus learning and skill development	It is established under the parent company S.K. Educations Pvt. Ltd. and offers play school franchises
Number of exclusive franchise outlets	1900+	1100+	2,163	126	1200+
Years of operations in India	◑	●	●	○	◑
Geographical reach	◕	●	●	◕	◑
Store exclusivity	☑	☑	☑	☑	☑
Market position*		Top-tier		New entrant	Middle-tier

* Based on number of outlets

○ Less than 5 years ◔ 5-10 years ◑ 10-15 years ◕ 15-20 years ● More than 20 years

Health and beauty

The health and beauty sector accounts for a share of approximately 11% of the top 100 franchises in India with franchisors being largely concentrated in the fitness and salon/spa space running exclusive outlets. Providing quality service experience is essential in the segment and many of the businesses employ machinery, often patented, to serve their customers. The players in the industry have an experience of around 32+ years with a regional, pan-India.

Key players	Jawed Habib Hair &beauty	Snap Fitness	Shehnaz Hussain beauty	Talwalker's	VLCC
About the company	It is one of the largest retail chain of hair salons in India spread across more than 110 cities	It is a chain of health and fitness clubs operated in more than 20 countries	It is a professional beauty care and salon company having a global presence	It is India's largest chain of health centres with over 150 gyms spanning across 80 cities	It manages one of the largest chains of slimming, beauty and fitness centers across Asia
Number of exclusive franchise outlets	500+	2,500	400+	152	330+
Years of operations in India	◔	○	◑	●	◕
Geographical reach	◕	●	●	◕	●
Store exclusivity	✓	✓	✓	✓	✓
Market position*		Top tier		Middle tier	New entrant

○ Less than 10 years ◔ 10-20 years ◑ 20-30 years ◕ 30-40 years ● More than 40 years

Retail

The retail sector accounts for the second-largest share (24%) of the top 100 franchises in India. The franchisors are largely concentrated in the apparel, pharmaceutical, jewellery, consumer durable and footwear space. The players in the industry have an experience of around 43 years with a pan-Indian presence.

Key players	Raymond	Louis Phillipe	Patanjali	Liberty Shoes	IFFCO ebazar
About the company	A diversified company with majority business interests in textile & apparel sectors. Has presence across diverse segments such as FMCG, engineering and prophylactics	A subsidiary of Madura fashion and lifestyle and is one of the leading Indian brands of men's apparel	Deals in ayurveda and herbal products in food, personal care and home care and is one of the fastest-growing FMCG companies of India	One of the leading manufactures of leather footwear in India retailing through multi-brand outlets and exclusive showrooms	A 100% owned subsidiary of IFFCO, which is engaged in the business of delivering agri inputs and services to the farming community at a reasonable price through retail outlets
Number of exclusive franchise outlets	1,100+	250+	5,000+	400+	768
Years of operations in India	●	◑	◔	●	○
Geographical reach	●	●	●	●	●
Store exclusivity	✓	✓	✓	✓	✓
Market position*		Top-tier		New entrant	Middle-tier

* Based on number of outlets

○ Less than 10 years ◔ 10-20 years ◑ 20-30 years ◕ 30-40 years ● More than 40 years

Key franchises with semi-urban and rural presence

Over the last couple of years, many private companies have realised the significant contribution of the rural India. Most of the companies across sectors were earlier uncertain of expansion in rural India due to multiple factors. With business models like franchising, a large number of rural populace is choosing self-owned business. This decision to own a franchise over farming and migrating to urban cities is in itself a major shift in employment preference.

S. No.	Company Name	Sector	Semi- Urban and Rural presence
1	Oyo Homes & Hotels	Consumer service	✓
2	Gati Limited	Consumer service	✓
3	Vakrangee Limited	Consumer service	✓
4	DTDC Express Limited	Consumer service	✓
5	LinQ Store	Consumer service	✓
6	Amul India	Food and Beverage	✓
7	Mother Dairy Fruit & Vegetable Private Limited	Food and Beverage	✓
8	Monginis	Food and Beverage	✓
9	Jumbo King	Food and Beverage	✗
10	The Belgian Waffle Co.	Food and Beverage	✗
11	KidZee	Education and training	✓
12	NIIT	Education and training	✓
13	ApTech	Education and training	✗
14	Bragnam	Education and training	✓
15	Bachpan	Education and training	✓
16	Jawed Habib Hair & Beauty	Health and Beauty	✓
17	Snap Fitness	Health and Beauty	✗
18	Shehnaz Hussain Beauty	Health and Beauty	✗
19	Talwalker's	Health and Beauty	✗
20	VLCC	Health and Beauty	✗
21	Louis Philipe	Retail	✗
22	Raymond	Retail	✓
23	Patanjali Ayurved Limited	Retail	✓
24	Liberty Shoes	Retail	✗
25	IFFCO E-bazar Limited	Retail	✓

Private players that have made impact in rural India through franchise business model

Consumer services	Education and training	Food and beverage	Retail
1 Oyo Homes & Hotels	1 Kidzee	1 Amul India	1 Raymond
2 Gati Logistics	2 NIIT	2 Mother Dairy Fruit & Vegetable Private Limited	2 Patanjali Ayurved Limited
3 Vakrangee Limited	3 Bragnam	3 Monginis	3 IFFCO E-bazar Limited
4 LINQ Store	4 Bachpan		
5 DTDC Express Limited			

The franchising market in rural India is presently dominated by the consumer service sector. Companies like Oyo, Vakrangee, DTDC, Gati Logistics, Linq and others through their franchise model are catering to the needs of rural masses, nurturing entrepreneurship and giving new means of livelihood.

Followed by consumer services, the education and training sector are increasing their customer reach in rural India. With major support from the public sector through initiatives like skill India, not only the overall education and trainings levels have improved in rural India, rural populace is also preferring the importance of salaried employment and self owned business.

Large sectors like food and beverage and the retail have also witnessed a rapid growth in rural India. Some of the prominent players that already have made an impact are Amul, Mother Dairy, Patanjali, Raymond among others.

Benchmarking key franchises in rural India

Key company parameters

	Vakrangee	DTDC	LinQ Store	IFFCO ebazar	Connect India
Year of establish-ment	1990	1990	2016	2016	2015
Company overview	• With over 25 years of experience, Vakrangee is a technology-driven company, focused on creating India's largest network of last-mile retail outlets. • In 2011, the company started its franchisee business. However, it adopted a non-exclusive model through which the company had opened 44000+ Kendras (outlets) • In 2018, they had 3,348 exclusive NextGen Kendra outlets. Further, in 2019, number of exclusive Kendras increased enormously to 9,069. Moreover, as of today, they have 10,000+ operational NextGen Kendras with 15,000+ NextGen Kendras in onboarding process across India.	• Headquartered in Bangalore, DTDC has one of the largest logistics and courier company. • Presently, DTDC has wide geographical reach across India along with a global presence • With more than 10,500 franchised outlets, DTDC boasts off over 12 million shipments per month • Recently, with new world retail, they have diversified their service offering with financial services, packaging and office solutions, and utility bill payments, etc.	• Started in 2015, the company brings e-commerce to Tier-III and below cities of India through LinQ Stores • LinQ aims to be a platform for producing low investment opportunities in the retail and e-commerce business for entrepreneurs across India	• IFFCO ebazar is a 100% owned subsidiary of IFFCO. Its outlets are operating under the brand name of IFFCO ebazar • The main objective of these outlets is to provide modern retail experience to the Indian farmers by delivering agricultural inputs and other services under one roof	• Connect India provides logistics services • With a vision to create a pan-Indian last-mile delivery network, covering 25,000 pin codes by leveraging the existing economic assets, such as the bricks-and-mortar retailers and the Digital India platforms by engaging in a robust mobile-first platform.
Product/ services offered	• E-commerce • E-governance • Banking and financial services • ATM • Insurance • Logistics	• Courier services • Supply chain solutions • New world retail (travel service, utility bill payments, etc.)	• E-commerce aggregator (retail, travel, healthcare, insurance, pharmacy, money-transfer and other services)	• Biofertilisers • Water soluble fertilisers • Micronutrients • Plant growth promoters • Agro chemicals • General insurance	• Reverse logistics • Cash on delivery • Domestic and international couriers • Banking services • Micro warehousing • E-governance • Drop boxes and booking centres • Aided e-commerce
Business model	• Franchise owned franchise operated • Company owned company operated	• Franchise owned franchise operated • Company owned company operated	• Franchise owned franchise operated • Company owned company operated	• Franchise owned franchise operated • Company owned company operated	• Franchise owned franchise operated

Source: Vakrangee- Company data, DTDC, LINQ, IFFCO, Connect India-Company Website and GT primary interviews

Benchmarking parameters

1. Geographical reach

The number of states served by the company

2. Number of outlets

The number of exclusive and non-exclusive franchise/company-owned stores

3. Rural penetration

The percentage of outlets opened by the company in rural areas

4. Range of products/services offered

Number of services/products offered by the company

5. Average customer footfall

The number of customers that walk in the store/outlet on a daily basis

6. Turnaround time

The time taken for a franchise to set up an outlet, including documentation, verification and infrastructure set up, etc.

7. Revenue per franchise unit

The average revenue a single outlet/store typically generates

8. Working capital requirement

The money needed by franchise to finance the working capital for running the outlet

9. Return on investment

The returns that a franchise generates on the investment made by the franchisee

10. Breakeven period

The time taken for a franchisee to recover the initial investment and working capital

11. Initial investment

The total capital expenditure (in INR lakh) requirement for a franchise

12. Area requirement

The area in sq ft requirement specified by the franchisor for the franchise outlet

13. Franchise satisfaction survey

A third-party survey conducted for checking if the franchise is satisfied with the franchisor

14. Standardised branding of the outlet

Any raw material, equipment, hardware and others things, if required, are specified by franchisor for the franchisee

15. Training and support

Training, qualifications, management support and programmes established by the franchisor to assist the franchisee in setting up and running the business

16. Commission/royalty to franchisor

A pre-defined revenue sharing arrangement between the franchise and the franchisor

17. Average number of employees per outlet

The average number of employees required by franchise for handling the business

18. Quality certifications

Whether franchises are recognised by any government agencies/bodies, etc.

19. Awards and recognition

The awards/recognition granted to the franchisor or the franchise

20. Unique features of franchise

The features/business model that differentiates the franchise from others

Key franchising players in rural India

	Vakrangee	DTDC	LinQ Store	IFFCO ebazar	Connect India	GT analysis
1. Geographical Reach	Low High	Low High	Low High	Low High	Low High	Over the years, players such as **Vakrangee and DTDC** have expanded there geographical reach enormously across India. Vakrangee is the largest in terms of state-wise reach, with its 10,121 outlets across 26 states. On the other hand DTDC, with 10,500 outlets across India, has expanded globally as well.
2. Number of outlets	10,121	10,500	1,500+	768	3,500 +	While **Vakrangee** started its franchising business in 2011, it moved to exclusive physical outlets 'NextGen Kendras' in 2018. As of February 2020, they have opened 10,000+ operational NextGen Kendras with 15,000+ NextGen Kendras in onboarding process across India.
3. Rural penetration	Low High	Low High	Low High	Low High	Low High	In terms of rural penetration through franchise model, companies such as **IFFCO ebazar and Vakrangee** have made remarkable contribution, with 80% and 70% of their stores in rural India, respectively. Interestingly, in rural areas of Uttar Pradesh, Rajasthan and Maharashtra, Vakrangee alone has over 1,500+ outlets in each states.
4. Range of products/ services offered	Low High	Low High	Low High	Low High	Low High	**Vakrangee and Connect India,** both provide a wide range of consumer service. Some of these services include banking, assisted e-commerce, e-governance and logistics. Additionally, Vakrangee also offers ATMs service through their white label ATMs. Connect India offers courier solutions similar to DTDC, including reverse logistics.

Key takeaway

As of February 2020, Vakrangee with 10,000+ operational NextGen Kendras and with 15,000+ NextGen Kendras in onboarding process has one of the largest geographical reach with presence in 26 states. DTDC, with 10,500 outlets, has expanded globally as well. In terms of rural presence, IFFCO ebazar and Vakrangee, both have over 70% of their stores in rural areas. Both Vakrangee and Connect India offer a wide range of services, including banking, ATMs, assisted e-commerce, e-governance and logistics. Both of these companies supports government initiatives such as Pradhan Mantri Jan-Dhan Yojana (PMJDY) and Direct Benefit Transfer (DBT) in Tier-4, -5 and -6 cities of India.

Source: Vakrangee- Company data, DTDC, IFFCO, LINQ and Connect India- Company Website and primary research and GT Analysis

	Vakrangee	DTDC	LinQ Store	IFFCO ebazar	Connect India	GT analysis
5. Average customer footfall (daily)	50 - 80	10 - 15	15 - 25	25-30	15 – 20	Vakrangee with is exclusive NextGen Kendras, has witnessed average daily customer footfall of 50 to 80 customers. Their white label ATMs and assisted e-commerce services are the key footfall drivers. Over 13% of its outlets have seen footfalls with more than 100 customers on an average, which indicates the consumer attractiveness for the large pool services.
6. Turnaround time (days)	30 - 60	15-20	15-20	20- 30	45 -60	The average time to set up a franchise outlet is the lowest for **DTDC and LINQ** (around 20 days), followed by **Vakrangee and Connect India** (around 30-45 days). Setup time is higher in case companies offer banking and ATM services due to licences and approvals requirement from government which can take around one to two months.
7. Revenue per franchise unit (INR lakh/ month)	0.8 – 2	0.4 - 1.5	0.5 - 3	7- 8	0.6 – 0.8	**Vakrangee, DTDC, LinQ, IFFCO ebazar and Connect India** have been able to achieve significant growth based on earning potential from their products and services. IFFCO ebazar has the highest average revenue per franchise outlet (around INR 7 to 8 lakh a month from retail sales), followed by **Vakrangee**, which earns a revenue between INR 0.8 and 2 lakh per month on commission from services.
8. Working capital requirement (INR lakh/ month)	5 - 10	0.25 - 1	0.5 - 1	NA	NA	Typically, the working capital required to operate a franchise is INR 0.25 to 1 lakh per month. However, high working capital is required for **Vakrangee** (between INR 5-10 lakh) because of cash requirement for ATM services.

Key takeaway

The average customer footfall for Vakrangee is between 50 to 80 customers. Interestingly, According to an independent survey conducted on over 3,000 Vakrangee NextGen Kendras, more than 13% of their outlets witness daily customer footfall of more than 100 customers. In terms of turnaround time (time to setup a franchise), DTDC, IFFCO ebazar and LinQ franchised outlets can be set up in around 30 days. However, in case of Vakrangee turnaround time is high largely due to licences and approvals requirement for services such as banking, insurance, ATMs and others from government which can take around one to two months. High revenue per franchise unit in case of IFFCO is largely driven by retail sales which is dependent on market demand. Similarly, high working capital requirement for Vakrangee is due to cash requirement for ATM and banking services.

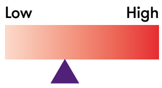
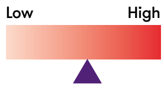
Source: Vakrangee- Company data, DTDC, IFFCO, LINQ and Connect India- Company Website and primary research and GT Analysis

	Vakrangee	DTDC	LinQ Store	IFFCO ebazar	Connect India	GT analysis
9. Return on investment	30 %	>20 %	20 %	10 %	15 - 20 %	**Vakrangee** offers significantly higher return on investment (ROI) around 30%. It is largely due to the diverse range of service it offers
10. Breakeven period (months)	12- 18	4 – 9	4 – 6	24- 36	9 – 12	The average payback period of the invested capital for **DTDC and LinQ** is minimum (around 6 months). The breakeven period is maximum in case of **IFFCO** as the sale of its products largely depends on the market demand. However, for **Vakrangee** the average pay back period is around 15 months, due to the relatively high initial one-time investment (which includes installation of ATMs).
11. Initial invest-ment (INR lakh)	4 - 6.5	0.50 - 1.5	1 - 2	1 - 2	1 - 2	Initial investment required to setup a franchise outlet of **LinQ, IFFCO ebazar and Connect India** is INR 2 lakh. It is even less for DTDC. However, for **Vakrangee**, the investment cost is relatively high largely due to installation cost of white label ATMs and other services and interior costs.
12. Area requirement (sq ft)	65 - 300	300- 450	150- 300	200- 400	> 250	Area required to setup a franchise ranges between 65 to 400 sqft. Additionally, companies such as **DTDC** have it mandatory to have their outlet on ground floor and facing road. Further, DTDC has categorised its franchise based on area, location and other factors. Similarly, **Vakrangee** offers different kinds of franchisees such as gold, silver and bronze based on area required.

Key takeaway

Most of the franchisors have created multiple outlet formats, and give franchisees based on factors such as location, initial investment, area required, services/products offered, etc. Currently, franchisors such as LinQ, IFFCO ebazar and Connect India offer their franchisee for around INR 1 to 2 lakh of initial investment. While Vakrangee outlets have higher initial investment cost, their franchisee can earn returns of around 30% with average pay back period around 12-18 months.

Source: Vakrangee- Company data, DTDC, IFFCO, LINQ and Connect India- Company Website and primary research and GT Analysis

	Vakrangee	DTDC	LinQ Store	IFFCO ebazar	Connect India	GT analysis
13. Franchise satisfaction survey	✓	✓	NA	NA	NA	In the independent customer survey for **Vakrangee and DTDC**, the franchise holders have expressed their satisfaction with the franchisor. For example, a survey highlighted that 89% customers trust the quality of services offered by **Vakrangee** franchisees, signifying the comfort of the customers in carrying out banking and ATM transactions at the outlets.
14. Standardised branding of the outlet	✓	✓	NA	✓	✓	Companies such as **Vakrangee, DTDC and IFFCO** ebazar ensure standardised look and feel across their outlets, which provides exclusivity and consistent consumer and service experience. Recently, Connect India has adopted brand and design guidelines. Hence, it is moving away from non-exclusive outlets to exclusive outlets to ensure brand consistency.
15. Training and support						A successful franchisee has significant dependence on the support and training provided by the franchisor. **Vakrangee and DTDC** offer a wide range of training and support services to the franchisee. Both the companies provide marketing support, offering online training by respective **relationship managers** and on-ground field-level training by respective **field staff** at regular intervals. Additionally, as mandated by the Reserve Bank of India (RBI) and other agencies, **Vakrangee** ensures franchises to be Indian Institute of Banking and Finance (IIBF) and Insurance Regulatory and Development Authority of India (IRDAI) recognized.
16. Commission / royalty to franchisor	20 - 35 %	10 %	20 – 30 %	90 %	20 – 40 %	**DTDC** has the lowest revenue commission payout to the franchisor, which is 10% of franchisee's turnover. However, IFFCO's franchise model works on retail margins largely driven by the market demand.

Key takeaway

Consumers today prefer outlets that offer high-quality customer service experience. Companies such as Vakrangee and DTDC have been able to deliver such services and standardised experiences to their customers by providing a range services with trained staff.

Source: Vakrangee- Company data, DTDC, IFFCO, LINQ and Connect India- Company Website and primary research and GT Analysis
NA indicates data not available

	Vakrangee	DTDC	LinQ Store	IFFCO ebazar	Connect India	GT analysis
17. Average number of employees per outlet	1- 4	2-4	1 -2	1 -2	2 - 3	The average number of employees required per outlet is around one to four. **DTDC and Vakrangee** offer multiple franchise models, such as Category A, B and C in case of DTDC and gold, silver and bronze in case of Vakrangee. Therefore, the number of employee per outlet depends on the choice of franchise model.
18. Quality certifications	✓	NA	NA	NA	✓	To safeguard the quality of services offered by every franchisees, **Vakrangee and Connect India** ensures its franchisee holds necessary certifications. Some of these certifications, which are mandatory as per the RBI and other government agencies, are IIBF's banking certification for running banking operations and IRDAI's insurance certification for becoming insurance agent for sale of Insurance products. Also, every franchisee undergoes regional manager or any other authority approval to ensure the franchise is setup as per defined guidelines. Vakrangee had appointed Grant Thornton to conduct quality analysis of NextGen Vakrangee Kendras.
19. Awards and recognition	• Guinness World Records title in 2019 for the most stores launched simultaneously (1,107 Nextgen Kendras launched at the same time and same day) • Financial services retailer of the year in 2019	DTDC Supply Chain Solutions was honored with "Best e-fulfillment center" award at India Cargo Awards-North & East 2016. DTDC has been awarded the best franchisor award for the tenth time in a row by Franchisee India	NA	NA	NA	In January 2019, **Vakrangee** achieved a remarkable landmark. They received **Guinness World Records** title for the most stores launched simultaneously (for 1,107 new Nextgen Kendras at the same time and same day). They also have been recognised by Franchisee India as top 100 franchisee in India and by the Indian Retail Awards as Financial Service Retailer of the year 2019. Similarly, Vakrangee has been recognised as the largest clients for Amazon.
20. Unique features of franchise	• Zero franchise fee • Attractive ROI and quick payback of capex • Zero inventory model • Last-mile infrastructure and technology support	• Premises should be in a strategic location and on the ground floor • 5% of marketing cost borne by the company	Zero inventory model	Owned/rented godown for storage is mandatory	Zero franchise fee	Vakrangee and Connect India have a significant impact with their unique last-mile delivery network. Vakrangee has 10,000+ operational NextGen Kendras with 15,000+ NextGen Kendras in onboarding process across India, out of which over 70% are in rural India. Through these Kendras, rural India gets access to a wide range of services.

Source: Vakrangee- Company data, DTDC, IFFCO, LINQ and Connect India- Company Website and primary research and GT Analysis

NA indicates- Data not available

Vakrangee puts best efforts to keep more than 10,000 Kendras operational providing emergency and key essential services during COVID-19 crisis

Amidst ongoing COVID-19 crisis, companies like Vakrangee limited with over 10,000 Kendras (outlets) are operational and providing essential services. During the 60-day lockdown, these self-owned and franchised outlets were not only providing key essential services but also supported the government by extending the scheme such as Pradhan Mantri Jan Dhan Yojana (PMJDY), direct benefit transfers (DBT) amongst others to the beneficiaries. With over 80% of Vakrangee's outlets in Tier 5 and 6 rural locations, it benefits the unserved during such unprecedented times. Vakrangee has a throughput of INR 4,600 crore through ATM and banking services for the month of April and May 2020.

Vakrangee Kendra outlets are one-stop shops for:

- Banking services
- ATM services
- Online pharmacy
- Telemedicine health services - including unlimited tele and video consultation with expert doctors and home blood test facility
- Online shopping of groceries

Some key steps taken during lockdown:

- Vakrangee had launched telemedicine services with Aetna (a CVS Company) just before the lockdown. The service includes online consultation (all across the country) and blood testing facility at home (in some selected pin codes).
- Being classified under essential services as per the MHA guidelines, Vakrangee had designed ID cards for franchisees and staff to enable them to commute easily to the outlet and provide uninterrupted services.
- A letter addressed to district collectors and local police was issued to franchisees to take necessary permission at local level. Thus, ensuring operations as per the guidelines. On timely submission and approval of the letter, franchisees and its staff were permitted to commute and work at the outlets.
- Vakrangee shared social distancing and sanitisation guidelines with all franchisees and the same are being followed by them.
- Vakrangee assisted its franchisees, through various marketing campaigns, informing the customers that their Vakrangee Kendras are operational and providing essential services.
- Apart from assisting customers in rural parts of the country, Vakrangee had launched a mobile van in Mumbai. The main aim of this service was to address the urban customers who were not able to move out of their societies for essential services. This van provided services such as ATM, banking BC point, telemedicine, online pharmacy and online grocery.
- Government had launched Pradhan Mantri Garib Kalyan Yojana through which they provided INR 500 in the bank account of every woman with a Jan Dhan account. Vakrangee Kendras were important cash withdrawal points and a huge customer increase was witnessed for withdrawal during the disbursal period.
- Even though not being a viable option, many Vakrangee franchisees went an extra mile to provide doorstep banking to its customers (old women, disabled customers, etc.) who were unable to visit the outlets.

List of sources

Data	Source	Link
GDP of India	World Bank	https://data.worldbank.org/country/india
India population	World Bank	https://data.worldbank.org/country/india
Income and consumption	Economic Intelligence Unit (EIU) report	
Sector wise contribution to GDP	Statista 2020	
Workforce dstribution sector wise	Statista 2020	
Number of employees in franchising industry	NSDC website	https://nsdcindia.org/industry-reports
Franchise market size in India	IBEF and industry estimates	https://www.ibef.org/news/firsttime-entrepreneurs-propel-indian-franchise-biz-industry-pegged-at-us-150-bn-in-5-yrs
List of top 100 franchise companies across India	Franchise Asia website	https://india.franchiseasia.com/information/thetop100franchisesinindia2017/
	Frankart Global website	https://www.frankartglobal.com/top-100-franchise-business-opportunites-india
Number of outlets, turnaround time, area requirement, ROI, royalty of DTDC	DTDC website	https://www.dtdc.in/Franchisee-overview.asp
Share of franchising in India (by type)	Franchising.com website	https://www.franchising.com/articles/india_the_next_big_hot_spot_for_global_franchisors.html
Vakrangee	Company data	
DTDC	Company website, GT primary interviews	
LINQ Store	Company website, GT primary interviews	
IFFCO ebazar	Company website, GT primary interviews	
Connect India	Company website, GT primary interviews	

Commonly used terms in Franchising

Franchisor – The company that grants a third-party licence to use its trade name and business system in return for a fee

Franchisee – The company that operates a franchise. The franchisee pays a fee to conduct business under the franchisor's name and system

Franchise agreement – A legal and binding contract between a franchisor and franchisee, detailing the respective roles and responsibilities of each party. The contract is usually prepared for a several year term, and needs to be renewed after expiry of the period. Usually a franchise agreement cannot be transferred, sold or assigned without prior approval of the franchisor

Franchise fee – An up-front fee, usually payable upon signing of the franchise agreement. The fee gives the franchisee the right to use the franchisor's name, logo and business system. Commonly, the franchise fee also represents consideration paid for initial training, site selection, operations manual and onboarding provided by the franchisor prior to commencing operations. The franchise fee is amortised over the life of the franchise agreement.

Royalty – An ongoing fee the franchisee pays the franchisor on a periodic basis, which can be weekly, bi-weekly or monthly, or throughout the term of the franchise agreement. The royalty payments represent compensation for the continuing services provided by the franchisor in training, operational assistance, marketing and so on. Royalties are either fixed amounts based on the percentage gross of sales, or based on a sliding scale, with graduated breakpoints

Non-disclosure agreement (NDA) – It is also known as a confidentiality agreement or NDA contract or NDA document with any person it transacts with. The NDA is a legal document that protects any confidential information and discussions concerning the business from being disclosed to a third party. Through eight important clauses every NDA must have to protect the confidentiality of trade secrets

Trademark – A type of intellectual property, trademarks are distinctive names or logos of a particular product or service, used to distinguish it from others. A trademark has to be registered with a country's patent and trademark office. Trademarks can be exclusively used by the owner, and no one can use it without prior permission of the owner. A part of the franchise's value is the right to use a recognised trademark.

About Grant Thornton in India

Grant Thornton in India is a member of Grant Thornton International Ltd. It has 4,500+ people across 15 offices around the country, including major metros. Grant Thornton in India is at the forefront of helping reshape the values in our profession and in the process help shape a more vibrant Indian economy. Grant Thornton in India aims to be the most promoted firm in providing robust compliance services to dynamic Indian global companies, and to help them navigate the challenges of growth as they globalise. Firm's proactive teams, led by accessible and approachable partners, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients, and help them find growth solutions.

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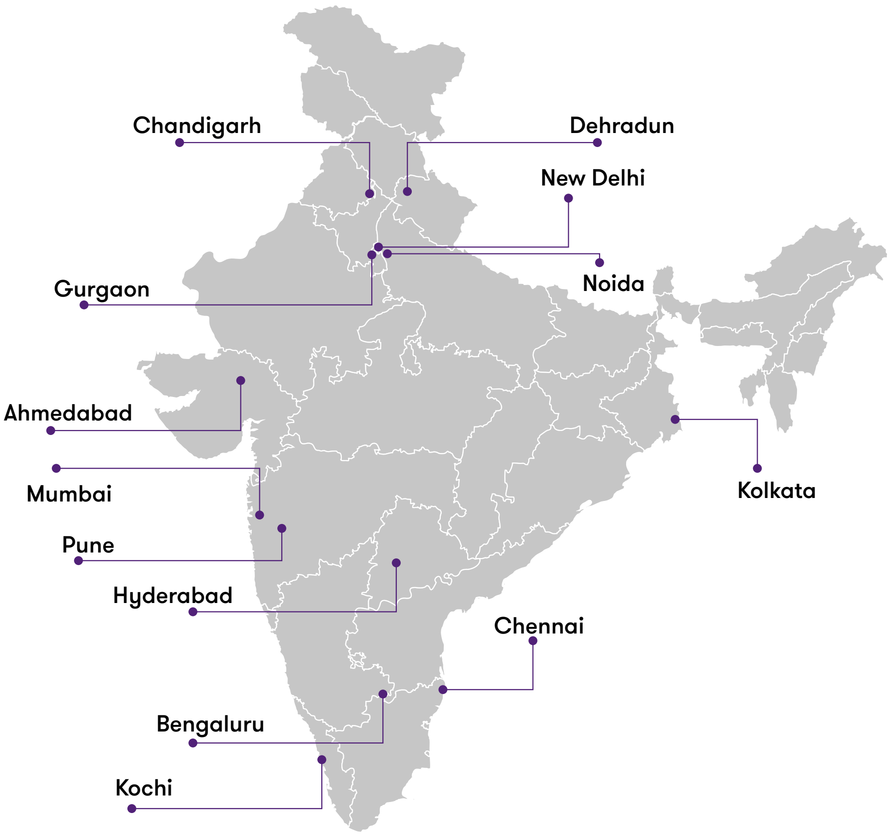

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