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LOCAL ENTERPRISE DEVELOPMENT :
FRANCHISED TEA KIOSKS IN INDIA

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Through increased productivity and profit-making small enterprises, owned and operated by local people, appropriate technology answers the challenges of rural and semi-urban development. This marriage of modern science and technology to local resources and existing skills is improving the productivity and incomes of tens of thousands of poor, but gifted people, throughout the Third World.

Appropriate Technology International (ATI) implements its mission with public funds made available by the United States Congress through the Agency for International Development. ATI's program is carried out in cooperation with the Employment and Enterprise Development Division of the Office of Rural and Institutional Development within the Bureau of Science and Technology of the Agency for International Development.

PREFACE

This article on Solar Tea Kiosks in India describes one of ATI's early project successes. Lessons learned while implementing this and other projects --both successful and unsuccessful--contribute to the body of knowledge on which ATI bases its current applied research program to identify cost-effective development strategies.

Although this project created employment for more than 2,500 people with slightly more than \$25,000 in ATI assistance, the technology which was supposed to be the focal point of the original project was not successful. Specifically, the Franchised Tea/Coffee Kiosks point out the important role market forces play in technology choice. Here the appropriate technology, the solar heating component, was not widely accepted because it did not contribute significantly to the profitability of the kiosks.

Before investing substantially in the development or adaptation of a technology intended to be used by poor people, commercial analysis must first determine whether the potential increase in income will offset the time spent by the beneficiaries in learning to use the technology.

This project proves that technology for the sake of technology is a very ineffective development strategy. Successful identification and dissemination of technology relevant to the needs and resources of the poor, which the poor can master, require a multi-disciplinary approach. Such issues as commercial viability, profitability, and entrepreneurship must be considered in addition to adapting the technology to the resources and circumstances at hand.

Ton de Wilde
Executive Director
ATI

January, 1986

MADRAS, INDIA

It's dawn in Madras. A motorscooter halts in front of a roadside Kiosk, identified by a large black and red overhead sign as a FOOD (Foundation for Occupational Development) enterprise. A smaller sign atop the metal stall credits the Central Bank of India for extending the loan to make this tea/coffee stand possible. A young man, between 25-30 years old, immaculately dressed in the dhoti, the traditional dress of South India, parks and secures the motorscooter. He begins to make coffee and tea and to set out the cakes, samosas (South Indian snacks), and soft drinks he will sell during the next 15 hours.

Throughout Madras--alongside major, and not so major roads, at railway stations, bus stops and on the grounds of government office buildings and museum and other public gathering places -- and in more rural areas, some as far away as 250 miles--this scene is being repeated as some 280 FOOD "franchisees" begin their work day. For each kiosk owner, the next 15 hours hold forth the promise of earning approximately 70 Rupees (\$6.00) cash profit, impressive earnings in a nation where the average yearly per capita income is \$164 (U.S.). The figures are even more impressive when one learns that, prior to "joining the FOOD franchise family," the vast majority of these young businesspeople, were unemployed.

Loyola Joseph, President of FOOD, and Executive Director of FOOD's parent organization NAESEY (National Association of Educated Self-Employed Youth) claims his idea of a network franchise of tea kiosks was "accidental." When he started exploring business opportunities in India in 1970, he investigated a wide variety of possible entrepreneurial ventures.

"I wanted to open a kiosk myself," he recalls. However, when he approached the government ministry to negotiate for the rental of a site, he was told that the Government did not work with individuals; it could only work with organizations. Thus, before he could even begin to negotiate with the complicated Indian government bureaucracy to establish his own kiosk, he had to start a society--a social welfare organization.

Employment Opportunities for Youth

"I was aware of the large numbers of educated unemployed people in India , and although I am first and foremost a businessman, and always wanted to be a businessman, I also wanted to help the people," he explains. "I didn't see any reason why I couldn't accomplish both goals simultaneously."

Although Joseph never did open his own kiosk, in October, 1976 he founded NAESEY, the National Association of Self-Employed Youth. NAESEY's first program involved setting up small tea kiosks or stalls, to provide self-employment opportunities for educated, unemployed young people. FOOD, also a registered society, is the "child" of NAESEY. While NAESEY started out by emphasizing the development of self-employment schemes in urban areas, FOOD was to work in rural locales with school drop-outs. In day to day operations, however, the difference between the two is indistinguishable.

ATI involvement with FOOD began in late 1980 with a grant of approximately \$25,000 to enable the organization to establish 300 sites in rural and semi-urban areas for tea/refreshment kiosks to be owned by FOOD members. Because all sites are located on government land--roadsides, railway stations and bus stops--FOOD needed to not only obtain the endorsement of the Railway Board (national) for rights of way, but also was required to coordinate with numerous district offices. Each district office held independent authority to grant permission to establish a kiosk.

In spring, 1981, ATI granted FOOD an additional \$2,500 to purchase two portable temporary kiosks which are used to determine the market prospects and profitability of a proposed location.

Joseph claims the success or profitability of a kiosk "does not depend on a person's education, or even on his competence. The essential factors are location of the stand and the owner's being there....the number of hours a man will sit." Joseph says he cannot stress too often the importance of being at the stand. "Remember, if a worker--not the owner--takes just one cup of coffee, it erases the profits from the sales of 10 cups of coffee."

All kiosk owners move into proven locations--sites which have been pre-tested for potential success. Sometimes the FOOD kiosk is next to a government-owned stand, or across the street from a private, non-affiliated stall. Joseph explains that today there are approximately 10,000 kiosks in Greater Madras. "There's one on every corner, right next to each other," he acknowledges. "But that's good," he adds. "It shows the market is there--look at the blocks and blocks of similar vendors in other metropolitan areas, both in India and throughout the world."

Solar Energy Component

Indians, he says, take many coffee/tea breaks each day. "This way they know where to come for their snacks. They go to a FOOD stand; they like the taste of the coffee; they get used to it. From then on, they either go to this FOOD stand, or if they happen to be in another area of Madras, to another FOOD kiosk. They know the coffee/tea will taste the same because the ingredients and the proportions of milk and sugar are always the same. The same snacks will be offered, and the prices will be identical."

Initially, the Food kiosks drew large crowds of on-lookers because of their "solar" energy component. Pipes in the roof of the kiosks heat water to around 170 degrees F. The preheated water is used to wash dishes. Although, the savings in kerosene costs were negligible, Joseph recalls that the promotional value was "tremendous." On his office wall, a framed newspaper story headlines "Solar Tea Kiosks." Today, Joseph comments, this feature is not functional on all units and the novelty of the solar energy no longer draws crowds of curious customers. However, owners/operators who have been accustomed to using the preheated water consider it a necessity.

Franchise Benefits

FOOD operates much the same as do other franchised fast food businesses (i.e. McDonalds, Wendys, Dunkin Donuts) in the U.S. and other Western nations. All FOOD kiosks carry the same items, purchased from suppliers identified by FOOD. These suppliers, such as small bakeries, or farmers who own several cows, are also individually owned businesses or micro-enterprises. The kiosks themselves are built and assembled by small metal workshops, which are also FOOD contractors. Thus, directly and indirectly, each FOOD kiosk employs approximately 10 people.

FOOD negotiates with the Government to obtain the site for the kiosk at nominal rents (rent averages 40 Rupees--\$3.50 US a month). The coffee/tea kiosks are manufactured, set up and fully stocked at a price of approximately 10,000 Rupees--far less than the cost of a traditional tea shop. FOOD then helps arrange a commercial loan at 10-11% interest from the Central Bank of India; the loans are to be repaid within 30 months. Working capital costs are limited and returns are high.

Since FOOD's reputation with the Bank (and the subsequent availability of loans to FOOD members) depends upon the overall collective performance of its stall owners, FOOD employs four monitors to verify repayments and to determine any reasons for late/non-payment. Initially, FOOD itself collected the loan repayments from its franchisees and then paid a lump sum to the Bank. Today, the kiosk owners individually repay their loans directly to the Bank. FOOD represents kiosk owners in disputes with the Bank over late payments and acts as their representative in discussions with the Government over such issues as relocation of the kiosk.

In such cases, Joseph explains that FOOD "nurses the sick units to recovery." The kiosk owner may be given emergency assistance; occasionally, the location may be changed. If temporary conditions, such as the Government's laying drainage/sewage pipes have closed a road and made a location temporarily unprofitable, Joseph may negotiate with the Bank to suspend loan repayments for a stipulated period.

A Profitable Business

But, the loan ultimately must be repaid. Recently, Joseph personally confiscated, under the watchful eyes of the local police, two kiosks where the owners were in long-standing default on loan repayments. "If one person could willfully default and get away scot free, everyone would default," says Joseph, justifying why he is known "to take such a hard line." He considers himself a businessman first--and a social service provider second. "In terms of bank finance and repayment, this is first and foremost a business."

Joseph meets with all FOOD Kiosk owners at FOOD headquarters the last Sunday in each month to reinforce the FOOD/ philosophy and to exchange information on problems confronting small enterprises and the solution to these problems. In addition, traveling staff monitors conduct local meetings several times a month.

All members of FOOD are FOOD "beneficiaries"--i.e. kiosk owners or prospective kiosk owners. Members pay an initiation fee of 10 rupees and an annual membership fee of 12 rupees (\$1 U.S.) but membership fees are collected only after an unemployed young person opens his kiosk. All kiosk owners pay to FOOD a fixed service fee of 50 Rupees (\$4.25 U.S.) each month. Profits average 2,000 rupees (\$180 U.S.) a month; rent amounts to 40 rupees a month. The average monthly profit earned by a kiosk is a bit more than the average per capita yearly income in India.

Before being "given" a kiosk site, the potential kiosk owner must actively participate in FOOD programs. The applicants meet with government officials who allocate the kiosk sites, negotiate with raw materials suppliers, etc. FOOD benefits from the "volunteer" unpaid staff; the unemployed youth thus become familiar with the Food philosophy and day-to-day operations of a successful small enterprise.

Once a site is identified, and the financial papers signed, the new "small entrepreneur" is sent to work for two weeks in a successful kiosk. Here he learns from hands-on experience. "Customer feedback is another important ingredient in the learning process," says Joseph. "If the customer doesn't like the taste...if you're using too much sugar, the customer will let you know."

Kiosk Owners Today Compared With Ten Years Ago

Initially, the kiosk owners (under NAESEY) were the educated, unemployed...usually graduates of the University of Madras, who were identified by the University or government employment officer. Now that FOOD is well-known, young people self-identify. As a result, kiosk owners today range from 8th grade school drop-outs to college graduates. There is always a waiting list for kiosks, comments Joseph, who says he can determine in a 5-minute screening conversation, if an applicant "has the attitude and dedication to hard work" which he deems essential for success. Many tea/coffee stands are "momma and poppa" businesses; husband and wife are joined by adult children, brothers-in-law, etc.

FOOD policies promote the work ethic and reward loyalty and service. Workers in kiosks or who hold other jobs in the central organization are given preference in purchasing their own kiosk, and are priority wait-listed. Although a few stands do sell cigarettes, official FOOD policy discourages this. Cigarette smokers tend to linger over their coffee/tea; at FOOD kiosks, fast turnover of cups of tea is the goal.

Joseph says he notices a distinct difference between unemployed young people applying for kiosks today as opposed to the early years --1976-81. The first applicants were willing to work harder and had a more positive approach, he says. Today, he adds, "young people--even if they are unemployed and aren't earning anything--are more concerned with social issues and try to take short cuts to earn 'easy money.' They tend to be more corruptible." For the most part he attributes this to the fact that "avenues to earn money in India today are much more limited than ten years ago."

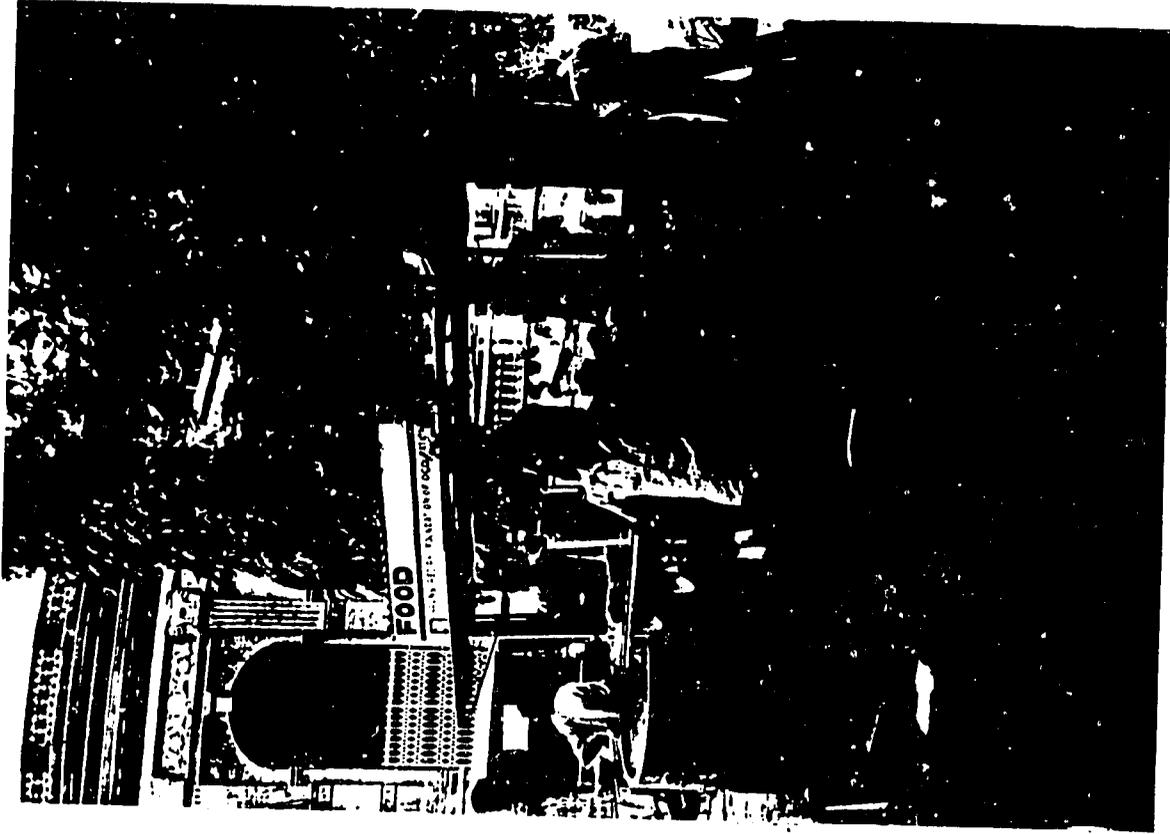
"In India, we need to open up new areas for employment," he says emphatically. FOOD is pioneering several self-employment schemes, such as franchised retail kiosk outlets for eggs, chicken, and poultry products, and fresh and frozen fish.

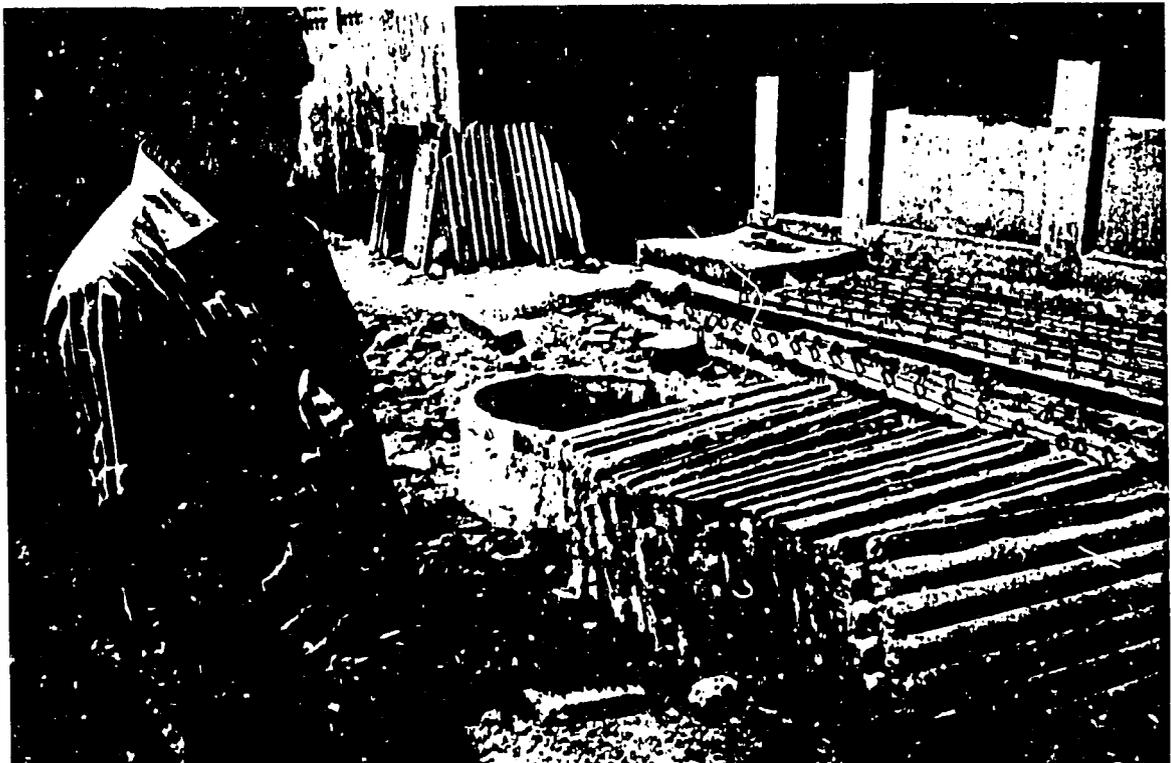
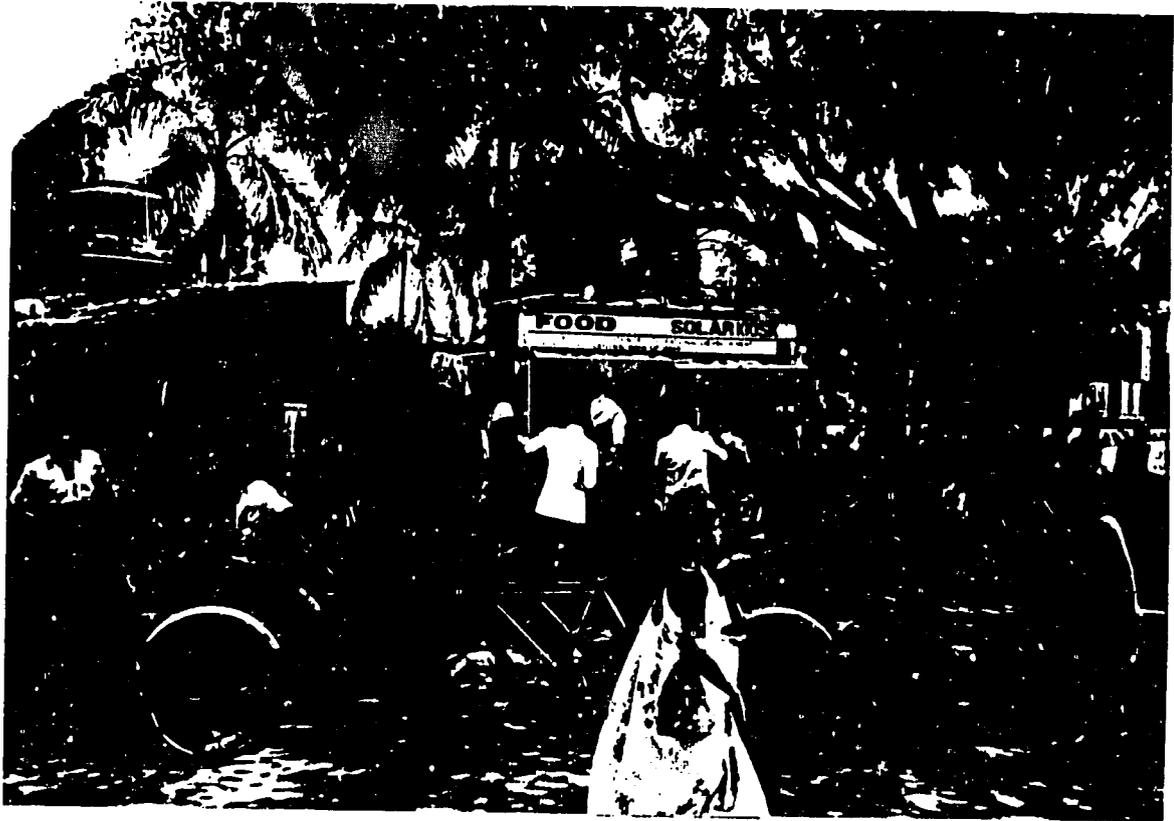
Joseph, however, still sees self-employment as the road to success. He plans to educate his only son, now age 10, only "to Indian standard 10th grade." "He will have to be an entrepreneur and make his own future," he says, "just as FOOD members have to make theirs."

Future Efforts

What about Joseph's future? Today the kiosk idea has been widely accepted throughout India. As a result of Joseph's initiative, the Government of India alone lets space for 100,000 kiosks nationwide. Joseph personally no longer finds any challenge in establishing kiosk-type operations. Presently, he is devoting his energies to pre-fabricated low-cost and slum housing schemes, which he hopes to establish in a franchise-type operation. He also is experimenting with milk preservatives "to keep milk for 20 days so that the owners of two or three cows needn't be dependent on instant sales to middlemen." He is interested in various irrigation technologies. Joseph envisions a time in the not too distant future when plants may need to be watered only once every 40 days.

All of his ideas do have one central theme: the strength of the group, which he believes is the quickest way to benefit large numbers of people. Not only is this approach humanitarian, he notes, but it also is practical. He explains that in India, with a population of 760 million, the government understandably favors groups. "For example, take my FOOD kiosks. An individual trying to open one kiosk would never be able to survive," he believes. "But 300 kiosks--or 3,000 kiosks--that's power."





FOUNDATION OF OCCUPATIONAL DEVELOPMENT (FOOD)

It is now widely recognized that self-owned micro-industries, self employment and commerce, employing an individual, a family, or a small group of people, are a major source of employment for the poor and landless. It is also recognized as being one of the few sectors that might conceivably absorb large numbers of the growing population at a relatively low cost per job created. This recognition has brought with it a desire on the part of Governments, voluntary agencies to identify methods by which resources can be channeled in to this sector.

The fostering of self employment, however, is hampered by the apparent paucity of voluntary organisations who have any direct experience with this scale of enterprise. Experience with larger industry, with planning or with community development is not always relevant.

"FOOD" has been created to fill this gap.

"FOOD" draws people principally from the vast number of successful social workers and specialists who have proven their ability to design and implement socio-economic Projects and programs. Many of them have worked for the nationalised banks, for voluntary Agencies in Socio-economic Project.

By drawing on voluntary organisations, and utilizing only persons with direct and practical experience in either or both design and implementation of various projects, "FOOD" fills an obvious gap in the present field

"FOOD" think like business persons. Thus, the projects develop will reflect business and will provide employment and income for the poor over the long run.

"FOOD" can provide consultants who are specialists in a particular Project. It can provide people experienced in planning programs covering a wide range, to meet a wide range of needs.

"FOOD" can :

- Help to organise and develop strategies on Socio-economic programs for other organisations in the field.
- Assist Governments, design strategies for development.
- Conduct studies to identify particular project feasibility.
- Provide both technical assistance and training in the development and implementation of particular Project.
- Identify local and international product, markets and develop marketing organizations.
- Assist in the development of Socio-economic projects as part of integrated packages of rural or urban development.
- Evaluate the impact of socio-economic projects and programs on the employment and income of the poor
- Assist financial institutions, on integrated Rural Development and Block Development Programs. conducting indepth survey.
- Suggesting suitable socio-economic. projects & Business plan.
- Act as co-ordinating body in Project formulation implementation, follow up and recovery.