

## Effectiveness of the Franchise Model in the Agri-input Sector

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**ABSTRACT:** Agricultural franchising is relatively new in India. There is an increase in franchising of business in agriculture sector in recent years. In this, the Agri-input sector is major contributor of the agribusiness sector. It plays a crucial role in boosting agricultural productivity and ensuring global food security. In this sector, the franchise model has become a significant business strategy, providing a platform for distributing agricultural inputs like seeds, fertilizers, pesticides, machinery, and other essential resources. This research investigates the agricultural franchising sector in India, focusing on the Agri-input sector. The study specifically evaluates the effectiveness of the franchise model in Agri-input sector in Jamnagar and Rajkot districts of Gujarat. By surveying 200 farmers and 8 franchisees over three months, the research aims to provide insights into customer satisfaction, operational challenges, socio-economic characteristics, and profitability of franchise-based Agri-input distribution systems. Key findings indicate that most customers were male, aged 31-50, with secondary education or below, and extensive farming experience. The majority are small and marginal farmers with an annual family income between Rs 1,00,000 and Rs 5,00,000. Satisfaction levels are high for product quality but lower for pricing and availability. Influential factors in choosing a franchisee include product quality, pricing, credit availability, and franchisee reputation. Franchisees face significant operational challenges such as inadequate storage, high inventory costs, financial constraints, and seasonal variations, yet report moderate profitability driven by customer loyalty and sales volume. To enhance the franchise model's effectiveness, recommendations include improving local marketing, optimizing inventory management, and providing excellent customer service for franchisees, along with comprehensive training programs and increased marketing support from franchisors. Addressing these challenges can bolster the model's viability and sustainability in the Agri-input sector.

**Keywords:** Agricultural franchising, Agri-input sector, Franchise model, Operational challenges, Franchise operations.

## INTRODUCTION

India is one of the major players in the agriculture sector. India has the world's largest cattle herd (buffaloes), the largest area planted for wheat, rice, and cotton, and is the largest producer of milk, pulses, and spices in the world. It is the second-largest producer of fruit, vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, cotton, and sugar. The agriculture sector in India holds the record for second-largest agricultural land in the world generating employment for about half of the country's population. Thus, farmers become an integral part of the sector to provide us with a means of sustenance. According to Inc42, the Indian agricultural sector is predicted to increase to US\$ 24 billion by 2025. Indian food and grocery market is the world's sixth largest, with retail contributing 70% of the sales. India's agricultural and processed food products exports stood at US\$ 43.37 billion in FY23 (April 2022-January 2023). The agriculture sector in India is expected to generate better momentum in the next few years due to increased investment in agricultural infrastructure such

as irrigation facilities, warehousing, and cold storage. Furthermore, the growing use of genetically modified crops will likely improve the yield for Indian farmers (ibef.org). The Indian agrochemicals sector is bouncing back after a slow period during the Covid-19 pandemic and is now on a strong growth path. In 2024, the domestic market for agrochemicals is valued at \$8.22 billion and is expected to reach \$13.08 billion by 2029, growing at an annual rate of 4%. The Indian government sees the agrochemical industry as crucial and has identified it as one of the top 12 sectors for global leadership, expecting it to grow by 8-10% by 2025, according to the Federation of Indian Chambers of Commerce and Industry (FICCI). In 2022, the World Trade Organisation (WTO) reported that India was the second-largest exporter of agrochemicals, with major export markets including China, Japan, Brazil, and the USA. This growth has led to a trade surplus of Rs 28,908 crore in FY 2022-23, showing India's potential to become a global manufacturing hub (timesofindia.indiatimes.com). The agrochemicals

market is fragmented in India. Major players include (in no particular order) Bayer Crop Science, Syngenta AG, UPL Limited, BASF SE, National Fertilizer Limited, and TATA Rallies. United Phosphorus (UPL) is the top pesticide and Agrochemicals Company in India based on market capitalization, followed by PI Industries and Sumitomo Chemical (businessinsider.in).

Agribusiness or agricultural franchising is quite new in India, though it is quite commonly used in other businesses like fast food, hotel and other service industries where service quality is crucial to maintain brand equity. An agribusiness franchise can be defined as—a right, permission, or license (often established by contract) granted by an agribusiness firm (called the franchisor or franchising agency) to another agribusiness firm (called the franchisee) for the latter to distribute, manufacture, and/or use the trade name of the former's products and services usually in a specified territory assigned to the latter firm by the former firm (Fosu, 1989). Franchising is a continuous relationship (long term partnership) in which a franchiser provides a licensed privilege to the franchisee to conduct business in addition to providing assistance in organising, training, and merchandizing. In return, the franchiser receives a certain amount from the franchisee as initial fee and sometimes also royalty on business volumes conducted. It can be product, business format or trade name franchise. The basic ingredients of a franchise system are: obligations of both the parties, initial/late/ongoing fees and mode of payment, identified/specified territory, specified duration, termination of agreement procedures, post termination confidentiality, and procedure of arbitration (Fosu, 1989; Hoy and Stanworth 2003).

## LITERATURE REVIEW

The literature review summarizes findings from various research studies related to this topic. It helps identify existing knowledge about the research problem and highlights areas that require further investigation. Key relevant studies are summarized below.

Mathukiya (2014) conducted a study on the socio-economic profile of cotton farmers in Junagadh district, utilizing a sample size of two hundred farmers selected from the study area. The analysis, based on tabular methods, covered aspects such as age, landholding, marital status, education level, family type, family size, social class, and annual income. The results indicated that the majority (71%) of farmers was aged between 36 to 50 years, 39.50% were marginal farmers, 94% were married, and 58.50% had primary education. Additionally, 69% of farmers lived in nuclear families, 58% had 2 to 5 family members, 32% were medium farmers, and 46% had an annual income of up to Rs. 60,000.

Yadav (2014) investigated "Franchising as a potential growth strategy for business," focusing on why new entrepreneurs prefer starting their businesses through franchises. The study revealed that franchising is a successful option, with consumers being attracted to established brands. Data collection involved primary methods such as surveys and analysis of major, small,

and newly established franchise brands. The study concluded that franchising enables franchisors to expand their businesses to broader geographical areas domestically and internationally.

Singh (2014) explored "Agribusiness Franchising in India: Experience and Potential," examining the rationale for franchising in agribusiness based on global literature and the Indian smallholder context. The study analyzed several cases of franchising successes and failures by corporate agencies, identifying strengths and weaknesses to infer better management practices. The findings suggested that franchising could improve farmer interfaces and address supply chain issues such as last-mile reach, cost reduction, and value chain enhancement, including input supply, extension services, and output handling.

Singh (2016) conducted a study on "Institutional Innovations for Smallholder Development: A Case Study of Agri-Franchising in Bihar." The study assessed the effectiveness and inclusiveness of agri-franchising through interviews with the franchisor (GAPL), its franchisees, and surveys of buying and non-buying farmers in Vaishali and Muzaffarpur districts. Findings indicated that Dehaat (franchised outlet) farmers generally had larger landholdings than non-Dehaat farmers. While only 9% reported reduced cultivation costs, over 92% experienced increased yields. The Dehaat centers significantly contributed to smallholder market linkages and informed input use, demonstrating the potential for higher prices in the smallholder context.

Seshachalam *et al.* (2017) conducted an empirical study on the "Viability of Franchising Business Models," aiming to identify success and failure factors for franchisees and to create a "Franchise Buying Guide." The study gathered data from 146 franchisees, with 55 respondents completing the survey. The critical outcome was the Break Even Point Analysis, revealing that only 14.55% of units achieved break-even as promised by the franchisor, while 85% did not.

Shah *et al.* (2021) explored the "Profitability, Challenges, and Operational Limitations of Small-Scale and Low Budget Franchise Modules in Business Management," aiming to understand innovative techniques for implementation. The study focused on challenges faced by franchise owners, including task allocation, free-riding, product uniformity, knowledge transfer, and local advertising practices. The research concluded that anticipating challenges and applying innovative promotional strategies could improve profitability for small-scale franchises.

Bamnoliya *et al.* (2024) examined the "Problems and Challenges Faced by the Franchise Model," investigating how franchisees address these issues and the strategies they employ for marketing and improvement. Using a descriptive research design and primary data collection methods like Google Forms and personal interviews, the study focused on franchise holders in Ahmedabad. The findings suggested that franchises that maintain quality consistency, invest in training and development, and enhance their online presence are more likely to succeed. Prioritizing brand standards, adapting to local markets, and fostering

strong relationships with franchisors and employees were key factors in overcoming barriers and thriving in the franchise business.

## METHODOLOGY

The present study attempts to identify effectiveness of the franchise model in the agri-input sector.

**Research Design.** Descriptive research design was used to systematically and accurately describe the current characteristics and conditions of the Agri-input sector's franchise model. This design was used because it allows for a detailed examination of socio-economic characteristics, customer satisfaction, operational challenges, and profitability without manipulating variables. The study was conducted at a specific point in time, hence it is classified as cross-sectional. Primary data were collected from the students only once, underscoring the cross-sectional nature of the study.

### Data Collection

**(i) Primary Data:** Data collected from selected customers and franchisee owners with the help of structured interview schedule.

**(ii) Secondary Data:** Secondary data collected from customer data, balance sheets, journals, magazines and other related literatures.

**Sampling Procedure.** Convenience sampling for franchisees and simple random sampling was adopted for selecting customers (farmers) of the franchisee.

**Sample Size.** In this study, 200 farmers and 8 Franchisees were selected from the Jamnagar and Rajkot District of Gujarat.

## RESULTS AND DISCUSSION

### The socio-economic characteristics of the customers.

Based on the frequency analysis of the responses of 200 customers, as shown in Table 1, the socio-economic characteristics of the customers indicate that all 200 respondents were male. The age distribution shows that 6% were between 21-30 years, 29% between 31-40 years, 34% between 41-50 years, and 31% were above 50 years. Regarding educational qualifications, 35% of the customers were educated below SSC, 38% had completed SSC, 20% had completed HSC, 6.5% were graduates, and 0.5% were postgraduates. Farming experience varied, with 12% having less than 5 years, 31% with 5-10 years, 43% with 11-20 years, and 14% with over 20 years. The total landholding size was less than 1 hectare for 29.5% of the customers, between 1.01-2.00 hectares for 37%, between 2.01-4.00 hectares for 22%, between 4.01-10.00 hectares for 10%, and more than 10 hectares for 1.5%. Annual family income was below 1,00,000 for 1% of customers, between 1,00,000-3,00,000 for 36%, between 3,00,001-5,00,000 for 29%, between 5,00,001-8,00,000 for 24%, and above 8,00,000 for 10%.

**Table 1: The socio-economic characteristics of the customers.**

Variables	Parameters	Frequency	Percentage
Gender	Male	200	100%
	Female	0	0%
Age of customers	21-30	12	6%
	31-40	58	29%
	41-50	68	34%
	Above 50	62	31%
Education qualifications of the Customers	Below SSC	70	35%
	SSC	76	38%
	HSC	40	20%
	Graduate	13	6.5%
	Post Graduate	1	0.5%
Farming experience of the customers	Below 5	24	12%
	5-10	62	31%
	11-20	86	43%
	Above 20	28	14%
Total land holding size of customers (Ha.)	<1.00	59	29.5%
	1.01-2.00	74	37%
	2.01-4.00	44	22%
	4.01-10.00	20	10%
	> 10	3	1.5%
Annual family income of the customers	Below 1,00,000	2	1%
	1,00,000 - 3,00,000	72	36%
	3,00,001 – 5,00,000	58	29%
	5,00,001 – 8,00,000	48	24%
	Above 8,00,000	20	10%

**The factors influencing the choice of franchisee by farmers.** Garrett's ranking method was employed to identify the factors influencing the choice of franchisee by farmers. As per this method, farmers have been asked to assign the rank for all factors and the outcome of such ranking has been converted into score value with the help of the following formula:

$$\text{Percent position} = 100 (R_{ij} - 0.5) / N_j$$

Where,

$R_{ij}$  = Rank given for the  $i^{\text{th}}$  variable by  $j^{\text{th}}$  respondents

$N_j$  = Number of variables ranked by  $j^{\text{th}}$  respondents

The percent is converted into scores by referring to the table given by Garrett's and Woodworth (1969).

**Table 2: Ranks given by farmers to each factor and garret score calculation (n= 200).**

Factors	1st* 81	2nd* 70	3rd* 62	4th* 56	5th* 50	6th* 44	7th* 38	8th* 31	9th* 19
Product quality	45 (3645)	34 (2380)	33 (2046)	23 (1288)	21 (1050)	13 (572)	14 (532)	9 (279)	8 (152)
Availability and reliability	33 (2673)	34 (2380)	29 (1798)	22 (1232)	18 (900)	21 (924)	16 (608)	13 (403)	14 (266)
Credit Availability	36 (2916)	30 (2100)	38 (2356)	21 (1176)	29 (1450)	12 (528)	15 (570)	12 (372)	7 (133)
Product Range and Variety	18 (1458)	15 (1050)	23 (1426)	26 (1456)	21 (1050)	17 (748)	21 (798)	33 (1023)	26 (494)
Pricing	41 (3321)	32 (2240)	35 (2170)	22 (1232)	24 (1200)	15 (660)	9 (342)	10 (310)	12 (228)
Location Convenience	19 (1539)	18 (1260)	22 (1364)	17 (952)	31 (1550)	25 (1100)	19 (722)	27 (837)	22 (418)
Customer Service	27 (2187)	24 (1680)	16 (992)	22 (1232)	21 (1050)	19 (836)	28 (1064)	19 (589)	24 (456)
Reputation of the Franchisee	31 (2511)	26 (1820)	18 (1116)	25 (1400)	19 (950)	26 (1144)	17 (646)	22 (682)	16 (304)
Value-added services	16 (1296)	23 (1610)	17 (1054)	21 (1176)	26 (1300)	23 (1012)	19 (722)	31 (961)	24 (456)

\*Figures in the parenthesis show the respective Garrets score.

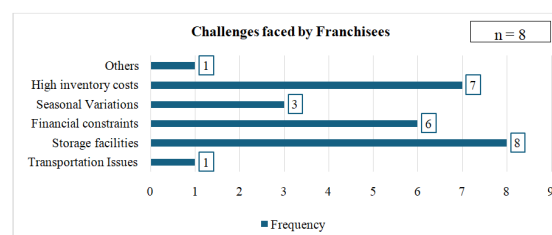
**Table 3: Ranking of the factors influencing the choice of franchisee by farmers over other Agri-input dealers.**

Tools/Activities	Garret score	Mean score	Rank
Product quality	11944	59.72	1
Availability and reliability	11184	55.92	4
Credit Availability	11601	58	3
Product Range and Variety	9503	47.51	9
Pricing	11703	58.51	2
Location Convenience	9742	48.71	7
Customer Service	10086	50.43	6
Reputation of the Franchisee	10573	52.86	5
Value-added services	9587	47.93	8

The analysis of factors influencing the choice of franchisee by farmers over other Agri-input dealers was conducted using the Garret ranking method. The results, as shown in Table 3, highlight that product quality is the most influential factor, with the highest Garret score of 11,944 and a mean score of 59.72. Pricing follows closely, ranking second with a score of 11,703 and a mean of 58.51. Credit availability is another significant factor, securing the third rank with a score of 11,601 and a mean of 58. Availability and reliability, reputation of the franchisee, and customer service also play crucial roles, occupying the fourth, fifth, and sixth ranks respectively. Other factors such as location convenience, value-added services, and product range and variety are ranked lower, indicating that while important, they are less critical in the farmers' decision-making process. These findings suggest that farmers prioritize high-quality products, competitive pricing, and accessible credit when choosing franchisees, underscoring the need for franchise businesses to focus on these key areas to attract and retain farmer customers.

**The operational challenges faced by franchisees in delivering agri-input services**

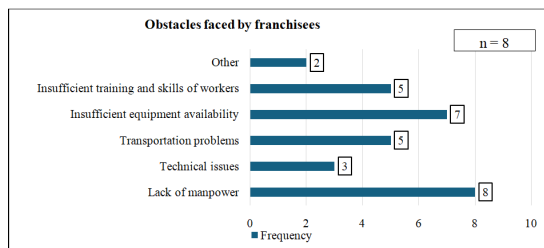
**1. The main challenges franchisee face in maintaining sufficient stock of Agri-input products**  
Based on multiple responses given by franchisees



**Fig. 1.** Challenges faced by franchisees in maintaining sufficient stock of Agri-input products.

Based on the survey, it was identified that franchisees encounter several challenges in maintaining adequate stock levels. The data was collected from multiple responses provided by franchisee owners. The primary issues reported were inadequate storage facilities, followed by high inventory costs, financial constraints, and seasonal variations and in addition to other challenges, one of the franchisee responded regarding the issue related to the price fluctuations done by suppliers.

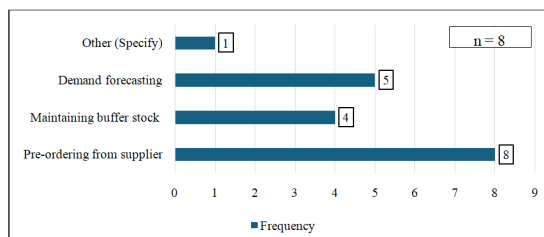
**2. The major obstacles franchisees face in providing timely services to farmers**  
Based on multiple responses given by franchisees



**Fig. 2.** Major obstacles franchisees face in providing timely services to farmers.

Based on the survey findings, franchisees face several significant challenges in delivering timely services to farmers. The primary obstacles identified include a shortage of manpower, inadequate availability of equipment, insufficient training and skill levels among workers, transportation difficulties, and various technical issues. Two franchisees reported other obstacles like regulatory and compliance delays and Weather disruptions during service providing.

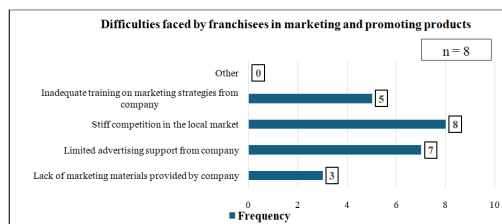
### 3. How franchisees manage the risk of stock outs during peak demand periods Based on multiple responses given by franchisees



**Fig. 3.** Strategies used by franchisees to manage risk of stock outs during peak demand periods.

Fig. 3 details the strategies used by franchisees to manage the risk of stock outs during peak demand periods, based on multiple responses. The most frequently utilized method is pre-ordering from suppliers, with a frequency of eight, making it the top-ranked strategy. Demand forecasting is the second most common approach, cited by five respondents. Maintaining buffer stock ranks third, with four mentions and in other, one of the franchisees source from other franchisee where stock is available.

### 4. Difficulties experienced by franchisees in marketing and promoting products and services to local farmers Based on multiple responses given by franchisees



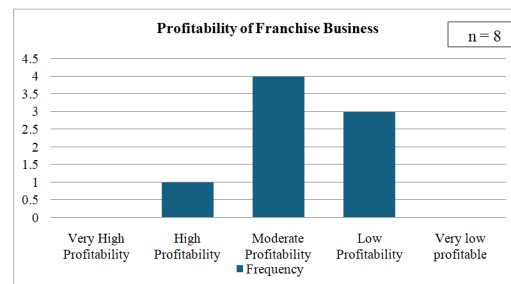
**Fig. 4.** Difficulties experienced by franchisees in marketing and promoting products and services to local farmers.

Fig. 4 illustrates the primary challenges franchisees face in marketing and promoting their products and services

to local farmers, based on multiple responses. The most significant difficulty, with a frequency of eight and ranked first, was the stiff competition in the local market. Limited advertising support from the company was the second most common issue, cited by seven respondents. Inadequate training on marketing strategies provided by the company ranks third, with five instances. Lastly, the lack of marketing materials provided by the company, mentioned three times, was the fourth major challenge.

### The profitability of franchise model in the agri-input sector

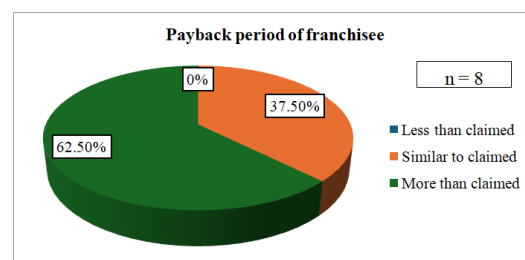
#### 5. How franchisees rate the profitability of their franchise business



**Fig. 5.** Profitability of Franchise business.

Fig. 5 provides an overview of how franchisees rate the profitability of their franchise businesses based on net profit margin percentages. Notably, no franchisees reported very high profitability (> 20%) or very low profitability (< 5%). Half of the respondents, representing 50%, rated their profitability as moderate, with net profit margins between 10-15%. High profitability, defined as net profit margins of 15-20%, was reported by 12.5% of the franchisees. Similarly, another 37.5% indicated low profitability, with net profit margins ranging from 5-10%. Overall, the majority of franchisees experience moderate to low profitability.

#### 6. Franchisee's payback period as compared to claim by company

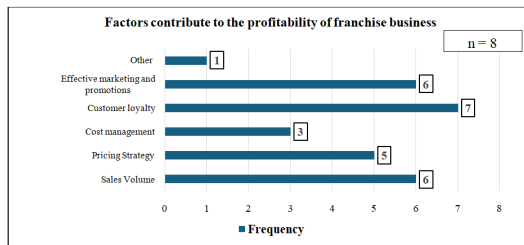


**Fig. 6.** Payback period of franchisee.

Fig. 6 examines the payback period of franchisees relative to the period claimed by the company. According to the data, none of the franchisees experienced a payback period shorter than the company's claim. For 37.5% of the franchisees, the payback period was similar to what the company had claimed. However, a significant majority, 62.5%, reported that their payback period was longer than claimed.



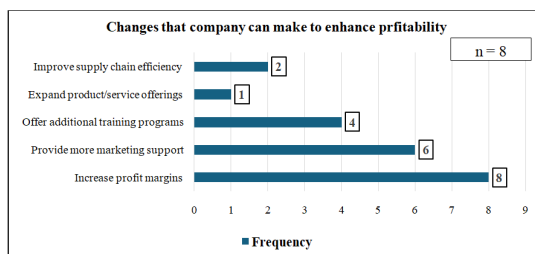
## 7. Factors contributed most to the profitability of franchise business Based on multiple responses given by franchisees



**Fig. 7.** Factors contribute to the profitability of franchise business.

Fig. 7 presents the factors identified by franchisees as the most influential contributors to the profitability of franchise businesses, based on multiple responses. Customer loyalty emerges as the top-ranking factor, with seven mentions. Following closely is sales volume and effective marketing and promotions, cited by six respondents. Pricing strategy is ranked fourth, with five mentions. Lastly, cost management, mentioned three times. These findings emphasize the multifaceted nature of profitability in franchise businesses, encompassing customer relationships, sales performance, effective marketing, pricing tactics, and efficient cost management strategies. In others, one of the franchisee specified regarding location and accessibility can also contribute to the profitability.

## 8. Changes or Improvements Company could make to enhance the profitability and sustainability of its franchise model Based on multiple responses given by franchisees



**Fig. 8.** Changes that company can make to enhance profitability and sustainability of franchise model.

Fig. 8 reflects the suggestions provided by franchisees to the company for enhancing the profitability and sustainability of the franchise model, based on multiple responses. The most frequently mentioned change, ranked first, is increasing profit margins, cited by all respondents. Following closely is the call for more marketing support, with six mentions, highlighting the importance of robust promotional strategies in driving sales and profitability. Additionally, franchisees emphasize the need for additional training programs, ranking third with four mentions, to equip staff with the necessary skills for enhanced performance.

## CONCLUSIONS

The study on the “Effectiveness of the franchise model in the Agri-input sector” focused on 200 farmers and 8 franchisees in Jamnagar and Rajkot districts of Gujarat

state, over three months. The research aimed to understand socio-economic characteristics, choice factors, operational challenges, and profitability of the franchise model. Key findings revealed that all surveyed customers were male, with most having secondary education. Small and marginal farmers formed the largest customer groups.. Product quality, pricing, and credit availability were the top factors influencing franchisee choice. Franchisees faced challenges such as inadequate storage, high inventory costs, financial constraints, and seasonal variations. Key operational challenges included manpower shortages, equipment availability, insufficient training, transportation issues, and regulatory delays. Profitability analysis showed moderate net profit margins for most franchisees and many franchisees reported lower than expected profitability. Customer loyalty, sales volume, and advertising were critical profitability factors. The study suggests that franchisees should enhance local marketing efforts and improve customer service. Franchisors should increase marketing support and offer comprehensive training programs to address skill gaps and operational challenges, thereby improving the overall effectiveness and sustainability of the franchise model in the Agri-input sector.

## Suggestions

### Suggestions for Franchisees:

— Utilize local marketing initiatives and improve visibility through effective promotions because many franchisees face challenges in local market competition and limited advertising support. Enhancing local marketing efforts can attract more customers.

— Enhance customer service and engagement by prioritizing training for staff in customer service skills and regularly solicit feedback from customers as higher satisfaction levels in customer service correlate with overall satisfaction and loyalty among farmers, influencing repeat business.

### Suggestions for Franchisors:

— Increase marketing support and resources through allocating more resources for local marketing initiatives and provide franchisees with ready-to-use marketing because supporting franchisees with effective marketing tools and strategies can boost brand visibility and drive sales.

—To address the insufficient training and skill levels among franchisee workers, franchisors should offer comprehensive and continuous training programs. This can include both technical training and customer service skills enhancement.

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