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Financially Viable Training for Microentrepreneurs: The Business Model of ACCION ABCs of Business

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Introduction

Can organizations offer business training services to microentrepreneurs and recover their costs so they can operate sustainably over time? Microentrepreneurs have limited ability to pay for such services, and the large amount of capital required to develop them makes it difficult for organizations to break even without donor subsidies.

ACCION ABCs of Business¹ is a training program for microentrepreneurs that employs adult learning techniques to teach management skills. Since 1999, it has provided more than 548,000 classes to participants in 14 Latin American countries. This *InSight* describes the business model of the ACCION ABCs of Business training program, and its efforts to promote financial viability in its own operations and the operations of the institutions to which it licenses its training materials. It also details lessons ACCION has learned about providing sustainable business development services and how these lessons were incorporated into the program's structure.

Funding Start-Up Costs

High quality training programs have high development costs. ABCs of Business required an investment of more than US\$2.5 million for design and development. In 1996, this project received financial support from the Inter-American Development Bank through its multilateral investment fund (MIF). This financial support enabled ABCs of Business staff to perform market research, review existing business training services, develop modules, and pilot training courses.

The United States Agency for International Development (USAID) funded the creation of supplementary tools for training providers, such as a business planning tool, a marketing tool to help trainers develop marketing plans, monitoring and evaluation tools, product-costing software, a network learning community, and a data collection system. A companion *InSight* published in 2005 described the development, content and implementation of ABCs of Business in detail.²

The Challenge: Developing an Effective Structure to Provide Large-Scale Training

ACCION's goal was to develop a model for supply and demand of training for microentrepreneurs. This model had to provide:

- Significant coverage and impact on the clients receiving training
- Ability to recover costs (i.e. achieve financial sustainability)
- Ease of replication in different settings around the world

¹ This program has until recently been known only by its original Spanish name, *Dialogo de Gestiones* (Discussion among Managers). For more information on ABCs of Business, please visit www.dialogodegestiones.com.

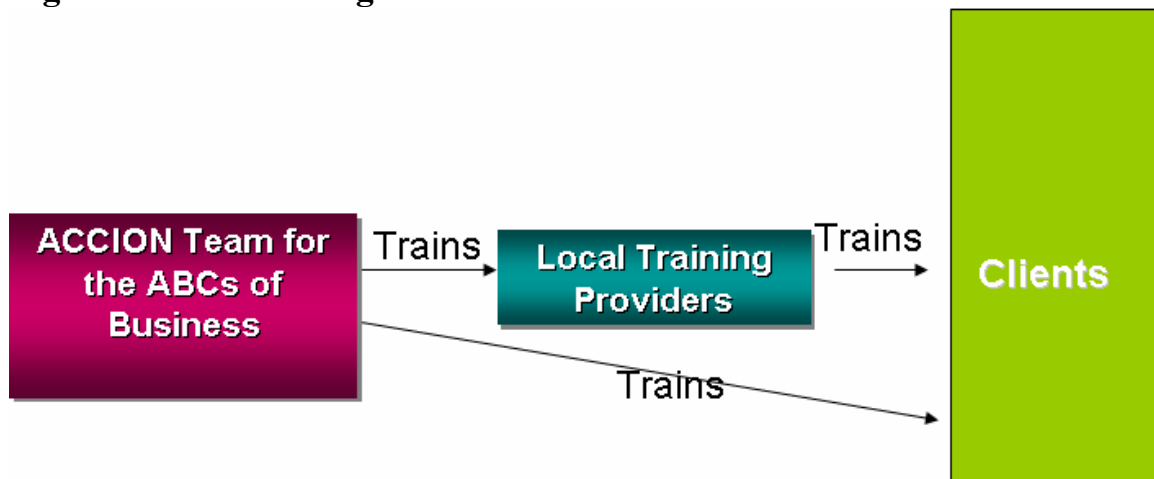
² See *InSight* No. 14, Practical Skills for Microentrepreneurs: ACCION's Experiences with its ABCs of Business training program, available at <http://www.accion.org/insight>.

A franchise system was found to be the most sustainable way for ABCs of Business to achieve scale. Institutions purchase licenses for ABCs training materials that give them the right to use the training materials and to receive other support and resources for trainers. Thus, ACCION trains the trainers.

ACCION staff trains local trainers to use ABCs of Business materials. As shown in Figure 1, the ACCION ABCs of Business team, based in ACCION’s technical hub in Bogota, Colombia, provides technical assistance to institutions that purchase licenses to provide training to their clients using ABCs of Business program materials. In a few cases in Colombia, the staff trains microfinance clients directly.

This system of training local trainers in institutions around the world enables the ABCs of Business program to reach many more microentrepreneurs than if ACCION staff were to train clients directly.

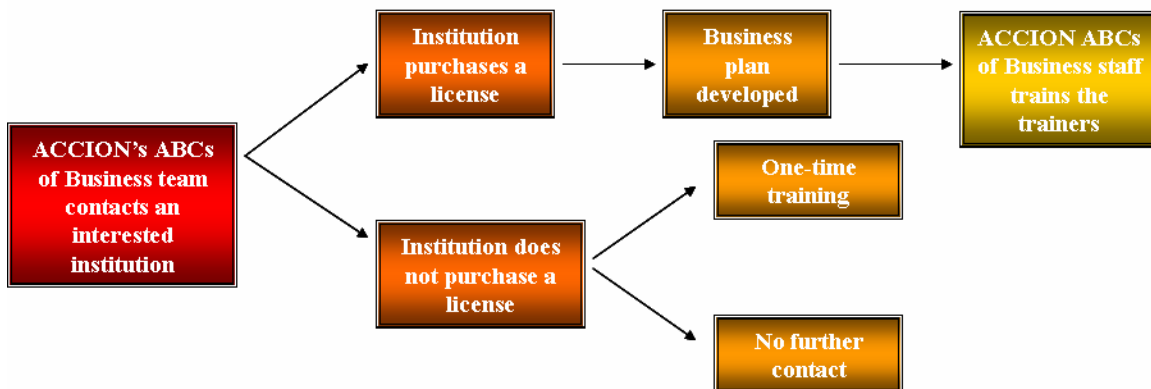
Figure 1. The Training Model of ABCs of Business



How License Agreements are Signed

ACCION staff ensures that the training institution understands and is committed to offering training before selling licenses. ACCION makes an initial contact with a potential training institution and determines whether the institution is interested in purchasing a license or receiving a one-time training by ACCION ABCs of Business staff, in a process that is documented in Figure 2.

Figure 2: How the ACCION ABCs of Business Team Forms Relationships with Local Training Institutions



If the institution agrees to purchase a license and the contract is signed, ABCs of Business staff works with the licensee staff to develop a business plan. They identify the target market segment, define an organizational structure to provide the training, create goals, analyze the competition, and identify strategies to recover costs. The plan also includes a study which estimates costs and calculates the price per participant (typically charged to the client) that will allow the newly licensed institution to break even on the training.

After planning is completed, ACCION staff trains the trainers in educational pedagogy, and in the use of educational material developed through the ABCs of Business program. This technical assistance consists of an initial 80-hour workshop to train the organization in the content and implementation of the training modules. ABCs of Business staff also conducts pilot trainings with trainers from the local institution and participant microentrepreneurs so that each trainer receives feedback on the management and use of training modules.

On occasion, some institutions do not purchase licenses for the full ABCs of Business program, but instead opt to contract ACCION staff to provide one-time trainings on topics related to business education.

Characteristics of Trainers

ACCION ABCs of Business staff provides the local licensed training provider with a suggested profile for trainers. Trainers should have the ability to manage groups, a talent for communicating with others and facilitating debate, and the skills to design, adapt and use educational material. Finally, the trainer should have both the capacity to adapt his or her knowledge to the entrepreneurial sector and the know-how to develop leadership and communication skills in others.³

³Dialogo de Gestiones. Características de los Facilitadores y Los Empresarios. *Cuaderno de Trabajo Para el Facilitador*. Module 3

Characteristics of Clients

ABCs of Business materials were developed for a target population of microentrepreneurs who have incomplete primary or secondary schooling. Although historically, ABCs of Business was developed as a microenterprise training program, 35 percent of those clients who receive training through the program do not have their own businesses, as shown in Table 1.

Category	Trade	Products	Services	Other
# Clients Attended Trainings	191,987	94,167	58,954	187,825
Category (as Percent of Total Clients)	36%	18%	11%	35%

Those individuals in the “Other” category may be thinking of creating a business, but are not yet microentrepreneurs. They include full-time students, housewives, and employees working in local businesses or for the government. Nearly 60 percent of participants do not have a current loan with a microfinance institution, including those who are microentrepreneurs. This affirms the importance of entrepreneurial training and education in itself as a supplement to credit.

The Business Model of ABCs of Business: Striving for Complete Cost Recovery

Two levels of cost recovery exist for the ABCs of Business program:

- 1) Cost recovery for ACCION in operating its ABCs of Business program
- 2) Cost recovery for local institutions who buy licenses from ACCION to provide ABCs of business training

Cost Recovery for the ACCION’s ABCs of Business Team

ACCION recovers its operating costs for the ABCs of Business program (i.e. it has achieved sustainability). Part of the reason ACCION has achieved sustainability is that the program has a diversified income base. ABCs of Business has several revenue sources, as shown in Table 2.

Year	1999	2000	2001	2002	2003	2004	2005	Average
Licenses	32%	26%	2%	0%	10%	9%	19%	14%
Workbooks	56%	66%	87%	91%	69%	71%	62%	72%
Course Materials	5%	2%	3%	5%	15%	6%	1%	5%
Fees & Professional Services	1%	2%	3%	0%	1%	11%	7%	3%
Other	6%	4%	5%	4%	6%	3%	11%	6%

License fees: ACCION generally collects a one-time fee of US\$10,000 from the participating institution which covers a non-exclusive, three-year license to implement the program in its country. In the past, the program offered country-exclusive licenses for approximately US\$20,000 per institution. Revenues from licenses totalled US\$178,000 in the period from March 1999 to December 2005.

Royalties for workbooks: Participating institutions pay ACCION US\$0.50 for each workbook used by microentrepreneur clients in each ABCs of Business course in Latin America. This has generated approximately US\$716,000 in cash revenues for the March 1999 to December 2005

period, or an average of \$102,000 a year. In Colombia, profit margins on sales of materials and course notebooks are 22 percent, and as high as 50 percent in other Latin American countries. Since ACCION began selling ABCs of Business materials, course workbooks sales have averaged about 80,000 units per year. Since licenses are only received once, these royalties have represented the majority of income for the ACCION ABCs of Business program—an average of 72 percent of total income since the program began. Since orders are fulfilled in Bogota, royalties for workbooks can also be used as a proxy of the number of people receiving training and help ACCION track the total number of participants in the program.

Other revenue sources: ABCs of Business also receives other forms of income from other course materials, including: educational games, videos and “teacher’s guides.” More recently, fees for professional services, such as one-time trainings of trainers and long-distance education, have been increasing.

Cost Recovery Over Time for the ACCION ABCs of Business Team

The revenues discussed in the previous section are used to cover the costs of the ABCs of Business program, including: personnel, marketing, training, and the development of new training modules. Table 3 shows how operational sustainability, i.e. cost recovery, has evolved over time.

Table 3: Operational Sustainability of ABCs of Business								
<i>(in thousands of US\$)</i>	1999	2000	2001	2002	2003	2004	2005	1999-2005
Total Income	\$ 244	\$ 97	\$ 89	\$ 62	\$ 216	\$ 185	\$ 165	\$ 1,059
Total Expenses	\$ 147	\$ 116	\$ 127	\$ 121	\$ 172	\$ 167	\$ 158	\$ 1,008
Operating Profit	\$ 97	\$ -18	\$ 38	\$ -59	\$ 45	\$ 17	\$ 7	\$ 51
Operational Self-Sufficiency	166%	84%	70%	51%	126%	110%	104%	105%
# Participants Attending Trainings	28,627	48,672	67,537	71,760	115,979	148,886	62,080	543,541
# Licensees	8	17	21	21	41	44	53	
# Courses Provided	2,398	3,340	4,557	4,568	6,495	7,557	3,297	32,212

In 1999, ACCIONs ABCs of Business was most profitable, because it sold a large number of licenses that lasted 3 to 5 years. Although license fees diminished for the period 2000-2002, since 2003, ACCION has been steadily covering its expenses for this program, including the core team personnel in Bogota (the largest program expense). Even with a drop in the number of trainings from 2004 to 2005, due to the departure of a key training provider, ACCION’s ABCs of Business team continued to be sustainable. Achieving sustainability is key, because a non-sustainable institution may be at-risk of ending its services when donations cease.

Cost Recovery of Local Training Institutions

ACCION has determined that the majority of local training institutions that purchased licenses to offer ABCs of Business achieved sustainability within three years of purchasing their licenses. As of December 2005, approximately 67 percent of current training providers (36 institutions in total) recovered their costs with fees from clients.

Characteristics of Training Institutions

ABCs of Business sees full cost recovery as a critical goal for its training partners offering this program. ABCs of Business selects partners carefully to find institutions that share this operating

principle. Table 4 shows the types of training institutions that purchase ABCs of Business licenses.

Table 4: Types of Institutions with ABCs of Business Licenses		
Types of Institutions	Number of Institutions	Percent of Total
MFIs and Banks	27	51%
NGOs & Universities	10	19%
Chambers of Commerce	8	15%
Private Businesses & Churches	4	8%
Secondary Schools	4	8%
Total	53	100%

Although slightly more than half of the institutions that purchase licenses are microfinance institutions or banks, other types of providers, such as chambers of commerce, universities, and secondary schools, comprise the fastest growing segment.

ACCION ABCs staff instructs licensees that training should be conceived from the beginning as a sustainable service. That is, in a three year period total operation costs should be covered by revenues and direct collections. To help franchise recipients achieve this goal, ABCs of Business staff provides assistance in developing and structuring a business plan targeting self-sustainability in a maximum of three years.

This business plan outlines the target number of participants and the price per participant which will achieve break-even. For example, a local training provider that charges US\$8 per participant and has an attendance level of 2,000 clients per year for two years, will cover its costs. These revenues are used to recover costs, including:

- ABCs of Business license fee paid to ACCION (generally fixed at \$10,000)
- Salary for local trainers facilitating ABCs of Business classes
- Workbooks and other ABCs of Business program materials (variable cost per attendee)
- Cost of facility/room where training held
- Miscellaneous costs, such as a share of overhead or refreshments for training participants

If revenues remain after the above costs, the institution has earned a profit from offering this training. Costs vary across countries, but on average, ABCs of Business clients pay an average of US\$8-\$10 dollars for a class. Each class lasts approximately 4-5 hours.

In the case of institutions that provide free or heavily subsidized training to clients as part of their social mission, ABCs of Business verifies that the institution has identified a stable stream of funding (often from a foundation or government).

Requirements for Local Training Institution Partners

ACCION ABCs of Business staff looks beyond simple willingness and ability to pay license fees and royalties in the selection of its institutional partners. In addition to a commitment to financial viability, institutions must meet the following criteria to receive a license to create a franchise:

Services Open to the General Public

ABCs of Business should be made available to any interested parties so as to attain significant coverage in its market.

Appropriate Marketing of Training Services

ABCs of Business training should be a key objective of the institution. Training should not be mandatory for the receipt of a microloan. Rather, lending institutions are directed to inform microentrepreneurs and other potential clients of the benefits of training to create demand for the program. Institutions should appeal to the prospective participants with their own marketing strategy, which should be feature the excellence of the services provided to clients and the breadth of course materials.

Service Quality

Excellent service will create and sustain a demand for training from current and potential microentrepreneurs, who will respond with a willingness to pay for it. ABCs of Business staff provides licensed institutions with access to tools including online distance training for trainers, a question and answer forum, and materials for monitoring and evaluation. Institutions are invited to share best practices through the ABCs of Business network, which meets annually. Finally, ABCs of Business staff periodically visits licensed institutions to track and adjust business plans, provide follow-up training, and recommend concrete actions for operations.

How ACCION Finds Local Training Institution Partners

When exploring the possibility of offering ABCs of Business in a new country, ACCION looks for institutions that meet the following criteria:

- History of serving clients in the informal sector
- Existing capacity to provide training services
- Background in the field of business training services

If an ACCION affiliate microfinance institution is present in the country, the ABCs of Business staff first explores the possibility of selling a license to that institution. In instances where an institution is transforming from NGO to regulated financial entity, the NGO or foundation affiliated with the financial entity often remains the ABCs of Business provider.

Lessons Learned

1. How to Identify Training Institutions that are Committed to Operational Sustainability

Not all ABCs of Business franchise institutions are financially sustainable. Their nature and institutional policies determine to what extent they are successful. Over the years, ACCION ABCs of Business staff has noted some characteristics, described in Table 5 that help them identify institutions that are more likely to remain subsidized in the long term.

Table 5: Identifying Institution That Want to Achieve Sustainability	
<i>Institutions that will remain subsidized tend to:</i>	<i>Institutions that want to achieve sustainability tend to:</i>
Have less effective management	Focus on results
Execute state contracts that force them to offer training services	Require cost-recovery as a condition for the existence of their program (or institution)
Postpone deadlines and targets	Close deals and contracts promptly
NGOs that manage or redistribute resources for private companies	Develop their own vision for marketing
	Demonstrate a desire to learn

2. The Limitations of Exclusivity Agreements

Initially, ACCION offered country-exclusive licenses for ABCs of Business team at a cost of US\$20,000 per institution. This delayed the development and implementation of an appropriate strategy to expand the program's reach in countries where licensees were unable to scale up. Currently, ABCs of Business issues non-exclusive licenses, contracting with multiple providers in the same country.

3. The Need to Monitor License Recipients

The ACCION ABCs of Business team has unilaterally cancelled more than one license due to poor execution of the ABCs of Business program, bad service quality and use of photocopied material under copyright to the program.

4. Ideal Duration of Product Licenses

The ABCs of Business program initially issued five-year licenses, which were later reduced to three years. Staff found that five years was too long a period to evaluate, and found it more effective to renew the license for an additional three-year period if the relationship between ABCs of Business and the training institution continued.

5. The Need to Diversify the Types of Clients Who Receive ABCs of Business Training

Originally, ABCs of Businesses was focused on marketing to microfinance institutions. However, in an effort to diversify the population receiving services, all types of organizations, such as non-profit institutions, banks, chambers of commerce and private businesses use ABCs of Business materials. ABCs of Business staff continues to expand the outreach of their services to a diverse group of institutions around the world.

Challenges for the Future

Unlike many other providers of business development services, the ACCION ABCs of Business program has achieved sustainability, i.e. it covers its costs with the revenues it receives. However, challenges remain. ACCION continues to explore new markets and diversify the types of institutions and clients who receive its business training services. The ABCs of Business team continues to refine its business model so that it can finance its expansion and help its licensees to recover their costs. ACCION is considering ways to increase the availability of published materials to licensees, so they do not have to be sent from Bogota. ACCION is also thinking of creating a permanent certification system for trainers so it can ensure that quality ABCs of Business services are provided across the globe.

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