
LOAN MARKETING EFFECTIVENESS OF DSA AND FRANCHISE MODELS: A COMPARATIVE STUDY OF NBFCS IN VIDARBHA

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Abstract

Growing dependency on intermediary-based channels of loan marketing has accompanied intermediary-based NBFCs expansion in India in a bid to provide greater access and economies of scale. Among them, the DSA model and the franchise model have become one of the most successfully developed mechanisms of sourcing retail loans, especially in markets with a high level of diversity. The paper is an empirical study in which the marketing of loans performed by DSA and franchise models involving NBFCs in the Vidarbha region of Maharashtra are compared. Based on a descriptive and analytical research design, primary data were gathered on 240 respondents, half of whom decided to acquire loans through DSA and the other half through franchise. The effectiveness of loan marketing was measured on various levels, such as efficiency in conversion, turnaround on the loan, quality of documentation, young delinquency, and customer satisfaction. The results indicate that the franchise-based loan marketing is far much better than the DSA model in hedging conversion rates, processing efficiency, in line with compliance standards, portfolio quality and in customer satisfaction. Statistical analysis proves that there is a significant difference in general effectiveness of the two models. The paper finds that franchise arrangements provide a more organised and lasting model of loan marketing by NBFCs that enjoy heterogeneous market conditions in a regional market at the same time noting that tighter governance and incentive matching are needed within the framework of the DSA.

Keywords: Loan marketing effectiveness, Direct Selling Agents, Franchise model, NBFCs, Vidarbha region, Financial intermediation

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INTRODUCTION

In India, this has seen an increase in the retail credit growth based on hybrid go-to-market architectures that blend institutional underwriting with outsourced origination and local relationship intermediation. These channel options, in the case of NBFCs, are not simply operational, but have determined the cost of customer acquisition, turnaround time, quality of documentation, early delinquency risk, and uniformity of customer experience across geographies. The financial services multi-channel distribution research demonstrates that the essence of the more than one channel is better market coverage and better demarcation, however, the value of the method is determined by channel integration and governance (Cortinas, Chocarro, and Villanueva, 2010; Easingwood and Storey, 1996). Practically, NBFCs are frequently deployed through channels using middlemen to

reach underserved or price-sensitive borrowers and provide sales reach in an insignificant increase in branch investments.

In this context, it is possible to identify two different governance solutions to the last-mile of loan marketing and sourcing; the Direct Selling Agent (DSA) model and the franchise model. DSAs typically are separate sales intermediaries that are compensated based on disbursements, which are usually commission-based, and have lender-side credit and operations groups. Franchise format, in contrast, anticipates replicating an outlet-level capability of origination with standardized processes, branding, monitoring which is typically backed up by training, shared technology, and formal controls, which have the ability to decrease variability in customer treatment and documentation. The major contributions in terms of those who have conducted the basic research on franchising place franchising as a regime of governance to balance growth and local entrepreneurial activity as well as to deal with agency problems via contract and monitoring frameworks (Lafontaine, 1992). Franchising has also been conceptualized as a scalable institutional framework of micro-lending in financial intermediation environments, in which local information providers offer advantages of information and enforcement, but incentive problems are transparently addressed (Bubna & Chowdhry, 2010).

Vidarbha region can provide a policy-relevant and managerially significant context in which such a comparison can be made as the region is home to the heterogeneous groups of borrowers (urban, peri-urban and rural), uneven access to formal banking system and high reliance on relationship-based provision of credit. According to the evidence of agent banking studies, the specific traits of the local market, faithfulness of the agents, resources and oversight have a significant impact on channel undertakings and use (Gupta and Singh, 2023). Such results indicate that the evaluation of any success of the marketing of loans to Vidarbha cannot concentrate merely on the measurements of volumes, but need to include the quality of governance and sales incentives, the discipline of the compliance and the sustainability of the channel economics.

It is on this basis that the present study encourages a comparative analysis of DSA and franchise models to NBFCs in Vidarbha in the context of the future work through a multidimensional view of effectiveness: (i) efficiency in acquisition (lead-to-disbursement conversion/cost-to-acquire), (ii) quality in process (documentation/verification accuracy, turnaround time), (iii) quality in portfolio (early delinquency/mix of rejections), and (iv) and customer outcomes (clarity of terms/satisfaction/g The necessity of the lens is supported by the studies of the incentive-based intermediation and the situations in which the selling and advising activities conflict with each other and once remuneration is highly volume-sensitive, it is more likely to face mis-selling (Inderst & Ottaviani, 2009). Similar indicators of the retail finance landscape in India show that the point of sale is the inconsistent in sales practices and disclosures, which highlights why channel governance is a crucial factor when the product is complex or when the financial literacy of the borrower is lower (Halan & Sane, 2017).

LITERATURE REVIEW

The body of scholarly work that has been found to be relevant to DSA and the effectiveness of franchise-led loan marketing has four overlapping streams, including: multi-channel distribution of financial services, agent delivery model as well as determinants of performance, franchising as a method of governance and incentive conflicts at intermediary sales.

The former stream verifies that financial services have been long utilizing a variety of channels to increase coverage, intensify product possessions, and cater to heterogeneous consumers. Pioneering

studies on multi-channel distribution in financial services are other studies which emphasize that the multi-channel distribution of services may offer better coverage and responsiveness, however, channel proliferation has coordination costs and risks of inconsistency of service when not well integrated (Easingwood and Storey, 1996). The later extant of evidence with customer-level behavioral data indicates the multi-channel behavior can be determined by variety and extent of customer relationships, suggesting that financial institutions have an opportunity to benefit when the channel design is reached with customer complexity and cross-selling potential (Cortinas et al., 2010). Further studies involving several channel usages as a paradigm, channel choice is not simply a technology question; it is simply a perceived convenience, perceived trust, and perceived expectations of service, which is directly that of the frontline interface- just where DSAs and franchise are present (Coelho and Easingwood, 2008). Together with this stream, the suggestion is that the effectiveness of the channel can and must be measured in two aspects (efficiency outcomes, coverage, acquisition) and relational/service outcome (experience consistency), as opposed to disbursement volume itself.

Stream two is concerned with agent based delivery and determinants of intermediary performance. Although a lot of this literature is formed around agent banking and correspondent models as opposed to loan DSAs directly they are informative since the main challenge-outsourcing the customer facing acquisition and service to local agents poses the same type of challenge in terms of control, supervision and incentive. Rural Indian experience reveals that agent activity is subject to the operational practice, agency commitment and attention, resource, the character of supportive received and market characteristics; more to the point, the performance is not necessarily greater in the denser markets, implying that the channel productivity is relative to the local organization and management rather than the potential of the local demand (Gupta and Singh, 2023). These and related settings also report that agent networks will make access more available and scale-able, although they must be cautiously designed to incentivize behavior, provide liquidity, and monitor to make agents viable and services delivered (Cull, Ehrbeck, and Holle, 2018). Further studies emphasize that there is heterogeneity on the outcomes of agents (such as gender-related processes), which supports the idea that the airport of channel design interacts with local social context and agent abilities (Chamboko, Ghosh, and Simba, 2021). In the case of NBFCs in Vidarbha, the findings mean that the performance of DSA/franchise will depend on training, standardization of the processes, verification infrastructure, and the extent to which the frontline is under the supervision of NBFC.

The third stream describes the reason as to why franchising may prove to be a good scaling strategy in agency constraints. The agency theory based research on franchising reveals that the expansion of the principals (franchisors) and the increased effort of the local ones (franchisees), whose local information is better and who have stronger effort incentives, can be facilitated by franchising and that the contractual conditions and monitoring of moral hazard and dilution control can be regulated (Lafontaine, 1992). Franchising has been suggested as an institutional solution to microfinance in finance-related environments to exploit local capitalists (agents) paying attention to both the strategic default and multi-borrowing issues through coalition and governance structures (Bubna and Chowdhry, 2010). This literature gives a theory behind the fact why outlets based on franchise-based loaning are probable to offer superior uniformity of the procedure and may even enhanced portfolio, on the condition that the franchisor (NBFC) invests in norming, screening by arrangement, and enforcement.

The fourth stream is directly related to intermediation incentives and risks of harming customers, which are at the core when considering the effectiveness of loan marketing in terms other than volumes. One of them is that when a sales intermediary needs to prospect as well as advise there are

the considerable sales incentives that may bring about mis-selling; the optimal contracts may involve the exchange of sales effort with the suitability and the quality of disclosures (Inderst & Ottaviani, 2009). The retail banking market of India provides evidence of material gaps in reporting and product appropriateness at point of sale based on audit practices, demonstrating that incentive compensation and lack of regulated atmosphere may be converted into consumer damages and reputational exposure (Halan and Sane, 2017). In the case of NBFCs between DSAs and franchises, the implication of this literature concludes that the completion of compliance (complaints, misrepresentation incidents, documentation integrity) should be effective, rather than merely acquisition speed or approval rates.

Synthesis and positioning for the present study

Existing literature defines the strategic importance of multi-channel distribution and the significance of agency governance on agent based models whereas the franchising theory has provided a route towards uniformity and regulation of local origination at large scale. No empirical research has compared DSA-type loan originating with franchise-based originating in NBFC settings, in particular at the regional level in India. This gap is filled by the current study that has used a coherent framework of effectiveness (efficiency, process quality, portfolio quality and customer outcomes) in a comparative analysis between DSA and franchise models among NBFCs in operation in Vidarbha.

Objective:

The main aim of the research will be to comparatively analyze the performance of Direct Selling Agent (DSA) and franchise based loan marketing models adapted by the Non-Banking Financial Companies (NBFCs) in the Vidarbha region and in relation to effectiveness in customer acquisition efficiency, quality of operations and portfolio performance and customer satisfaction. The research also aims at evaluating the impact of the variation in governance, incentive system and local market involvement of two such models on the loan conversion rate, turnaround time, startup delinquency and adherence to regulatory and ethical practices in retail lending.

Methodology:

The research design will be descriptive and analytical, as it will compare the loan marketing effectiveness between the Direct Selling Agent (DSA) and franchise models applied by NBFCs in the Vidarbha region. Primary data were gathered by use of structured questionnaire to the loan marketing intermediaries, branch/franchise managers and retail loan customers who were sourced by both DSA and as franchisees. The selection of the respondents (240) was divided to 120 in DSA model and 120 in franchise model. The sample was selected considering both models to be adequately represented by the sample population in key districts of Vidarbha to be able to make any statistical comparison. The stratified random sampling method was used to represent heterogeneity of the urban, semi-urban, and rural areas. In keeping with contextual and analytical rigor, secondary data were collected based on the NBFC internal reports, industry publications and peer reviewed journal articles. The data has been analyzed using descriptive statistics, independent sample t-tests, and chi-square tests to assess the different marketing effectiveness indicators which included loans conversion rates, turnaround time, accuracy of documentation, occurrence of early delinquency and customer satisfaction. The methodology selected can be explained by the fact that it is appropriate to compare structured channel models and indicate statistically significant differences in performance among marketing intermediaries.

RESULTS AND DISCUSSION

This part describes a comparative study of the loan marketing efficiency of the DSA written form and that of Franchise models that NBFCs are using in the region of Vidarbha. This is analyzed based on the primary survey data obtained involving 240 respondents (120 DSAs and 120 Franchise-based

cases) each. Meanwhile, key performance indicators that are used to determine the degree of loan marketing effectiveness include loan conversion rate, turnaround time, documentation accurate, early delinquency incidence, and customer satisfaction. Proper statistical measures are used to explain the dissimilarities among the two models.

Table 1 Loan Conversion Rates between DSA and Franchise Models

Model	Average Leads Generated per Month	Average Loans Disbursed	Conversion Rate (%)
DSA	52	21	40.38
Franchise	48	25	52.08

The loan conversion rate in the franchise model (52.08) is better as opposed to the DSA model (40.38). In spite of the fact that DSAs bring more leads to fruition, franchise outlets change more percent of leads into actual disbursements. This implies that there are standardized processes, enhanced screening of borrowers and closer supervision, which make the franchise model to have a high conversion efficiency.

Table 2 Average Turnaround Time (TAT) for Loan Processing (in Days)

Model	Less than 5 Days (%)	5– 10 Days (%)	More than 10 Days (%)
DSA	28	46	26
Franchise	45	40	15

The size of preferences on loans that are franchise-sourced (45), as opposed to DSA-sourced loans (28), is significantly greater in five days. The DSA model records more instances of a delay beyond ten days indicating a lack of efficiency in terms of documentation loopholes and incongruence gaps. The nature of the workflow of the franchise model and the feature of on-site verification would seem to improve the speed of processing.

Table 3 Documentation Accuracy and Compliance Levels

Model	High Accuracy (%)	Moderate Accuracy (%)	Low Accuracy (%)
DSA	34	44	22
Franchise	56	32	12

There is a significant improvement in the documentation accuracy of franchise-based loans with as much as 56 in the high-accuracy rating in comparison with 34 in the DSA model. The reduced accuracy levels are more common in the case of DSAs, which do not perform well in monitoring compliance and rely more on commission-based sourcing. Better documentation under the franchise model minimizes rework, risk of rejection, and regulatory risks by NBFCs.

Table 4 Delinquency Incidence

Model	Delinquency Observed (%)	No Delinquency (%)
DSA	18	82
Franchise	10	90

The delinquency rate is particularly significantly higher in loans obtained by DSA (18%) compared to those obtained by franchise (10%). This indicates that franchise outlets do more effective initial credit check and counseling of the borrowers. Reduction in delinquency under franchise system is better quality in portfolio and risk management to NBFC.

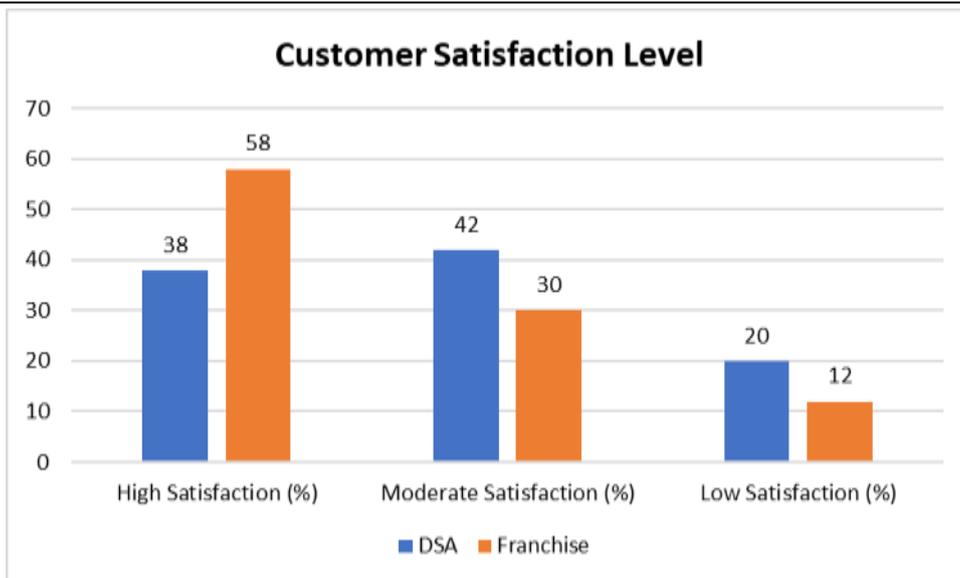


Fig. 1 Customer Satisfaction

The level of customer satisfaction is also significantly greater with borrowers that were sourced by franchise outlets with 58 percent indicating high levels of customer satisfaction as compared to 38 percent under the DSA model. This can be explained by more open communication of conditions of a loan, uniform branding and after sales services provided by franchise outlets. The increased dissatisfaction rates in the DSA model are symptoms of inconsistency in service quality and disclosure policies.

Hypothesis: There is no significant difference in loan marketing effectiveness between DSA and franchise models of NBFCs in Vidarbha.

To test the above hypothesis independent sample t-test has been applied, the results are as under:

Table 5 Overall Marketing Effectiveness Score

Model	Mean Effectiveness Score	Standard Error	t-value	p-value
DSA	3.42	0.09		
Franchise	3.89	0.07	4.18	0.000

The results of the t-test indicate that there is a statistically significant difference in overall marketing effectiveness of the two models in liquidity lent by means of loans ($p < 0.05$). The greater mean effectiveness is higher in the franchise model which implies better performance on efficiency, quality, risk and customer related sides. Therefore, the null hypothesis is discarded and the franchise model proves to be more efficient compared with DSA model in Vidarbha scenario.

It is evident that the empirical results indicate that franchise-based loan marketing is better off in comparison with the DSA model on the critical indicators of effectiveness. Whereas DSAs lead to generation of lead and geographical scope, franchise models are more efficient in converting, processing, greater compliance, superior portfolio and customer satisfaction are also higher. Such findings highlight the strategic significance of governance structure and standardization of the process in improving the effectiveness of loan marketing of the NBFCs in the regionally diversified markets such as the Vidarbha.

CONCLUSIONS

This investigation report has empirically determined the relative effectiveness of marketing a loan in terms of Direct Selling Agent (DSA) and franchise modes as applied by NBFCs within the Vidarbha region. It is evident that the DSA model can be used to achieve a high level of lead generation and market presence, however, it has a comparatively lower level of performance in terms of loan conversions, turnaround time, accuracy of the documentation, the quality of the portfolio and customer satisfaction. By comparison, the franchise model has proven to have better performance in most of the dimensions of effectiveness attributable to standard operating procedures, enhanced supervising, improved staff training, as well as better cohesion in marketing and credit evaluation functions. The fact that the difference in overall effectiveness is statistically significant proves that the governance structure and the design of incentives are very influential in determining the eventual outcomes in marketing loans. The paper finds that franchise-based marketing of loan is a more sustainable and risk-averted business model to an NBFC in a heterogeneous and relationship market like Vidarbha.

Recommendations

According to the results, NBFCs are recommended to plan wise to market loans franchise-wise and especially in the semi-urban as well as rural regions where consistency of the process, and education of the borrowers plays a vital role in loan issuances. In the case of the DSA model, NBFCs would need to upgrade the systems of governance through the standardization of onboarding, periodical training, quality measurement based on performance, tighter compliance audits and lessen documentation errors and premature delinquencies. The combination of the reach of the DSAs with the process rigidity of the franchise outlets, a hybrid approach could obtain a way of best results. Moreover, NBFCs are to re-tune incentive models in order to juggle the volume of disbursement and portfolio quality and client satisfaction, and thus ensure responsible lending ways. Transparency, as well as Compatibility may be promoted through clearer instructions to intermediaries regarding their behaviour in order to preserve the interests of borrowers when it comes to intermediary-disbursed loan marketing.

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