

FNB Franchise Think Tank 2009

With millions of South Africans seeking employment, small business is positioned to be one of the ways to reduce unemployment in South Africa and both the private and public sector is looking to developing a culture of small business in the country. While franchising is seen as a key business driver in this sector, the industry is not without challenges.

According to Riaan Fouche, Head of Franchising, “We embarked on a research report in collaboration with consulting firm Franchising Plus, to understand the burning issues in franchising in South Africa. This resulted in the launch of the FNB Franchise Think Tank 2009 – a research report that outlines the challenges and opportunities in the industry.”

Prominent role players in the franchise sector attended a workshop discussing current burning issues in franchising such as the economic downturn, pending changes in legislation and high rentals. This was an interactive event held towards the end of February 2009 and enabled representatives of leading franchisors, franchisees, government and service providers to discuss the current status of the sector, debate potential threats and available opportunities and develop ideas on how to make the best of the existing situation.

The results of this session together with results of a Franchisee Climate Survey were developed into a white paper covering the state of franchising in South Africa and potential solutions to the challenges faced by this sector.

According to press reports, the retail market share of the franchise sector continues to hover around 12% of retail sales, rather modest if compared with the figure for the US, which stands at over 50%, or Australia (about 25%). We can only conclude that we are somewhat lagging behind.

“Participants were asked to complete a questionnaire and analysis of the responses provided fascinating insights into the current thinking of the sector,” says Fouche.

“Some of the interesting statistics include that 37% of franchisees didn’t deem financial training provided by franchisors as sufficient. Also, 40% of franchisees thought that initial assistance provided by franchisors did not meet their expectations,” he adds.

Franchisees were also dubious about the ongoing support provided by franchisors, with 35% not perceiving the value of these visits. On the other hand, 55% of franchisees polled agreed that they would renew their franchise agreements and 35% wanted to establish further units of the same franchise. This is in line with the international phenomenon of multi-unit franchising, where one franchisee owns multiple units of the same or different non-competing franchises.

“From these statistics, one could surmise that franchisees are in general still satisfied with

their franchise systems and even considering opening additional units. However, franchisors could improve their support in some instances and this is becoming increasingly important in the current economic reality where the assistance from a franchisor could make a difference in a make or break scenario for a franchisee who is struggling,” adds Fouce.

In terms of the economy, 42% of franchisees were planning to make significant changes to their businesses in 2009, which could point to their assessment of the impact of the economy on their businesses. Franchisees also raised the impact of the economy as a burning issue of concern, together with inadequate training and lack of transparency on rebates.

One of the critical issues in franchising at present is the high rentals paid to shopping centre landlords. Stephen Walters, GIS Specialist and MD of Fernridge Consulting, pointed out the fact that smaller stores are in fact subsidising large anchor tenants as these anchors can negotiate extremely low rents due to their bargaining power. Hypothetically, if these anchors were to pay just R10 more per square metre, and sub-anchors just R15 more per square metre, smaller tenants could pay up to 30% less rent. However, one cannot expect these changes without some incentives to larger tenants and this is where government could play a role. Part of the intended outcome of the white paper is to develop work groups in the industry to address these burning issues and to attempt to achieve changes by lobbying all stakeholders from government to landlords.

Despite a tough economy and some roadblocks preventing growth, it's not all doom and gloom. The white paper also illustrates some growth scenarios. If franchising can grow by 15% a year in terms of turnover and number of franchises, the sector could double within 5 years. The pre-requisites for exponential growth include:

- Improved standards: This should come about with the introduction of the Consumer Protection Bill, as adequate disclosure will now become a legal requirement. The requirements of this bill also promotes ethical franchising as it promotes transparency and fair treatment of franchisees
- Create additional franchise systems: Growth can be stimulated by government if it makes allowances easing the entry of foreign franchisors and if it becomes easier for small businesses to be compliant with tax and registration requirements
- Grow pool of potential franchisees: Education will play a vital part in this.
- Improved image of franchising: The sector should focus on the good news and work towards generating positive PR to improve the image of franchising

“The ultimate objective of the FNB Franchise Think Tank is to develop task teams to address the various issues raised. By doing so, we are hoping to elevate the industry and to achieve real growth in franchising. The plan is to make the Franchise Think Tank an annual event and to involve all stakeholders in planning for the future of franchising in this country,” concludes Fouche.

