# Franchising sector shows resilience despite challenging conditions

The Franchise Association of South Africa's latest franchise survey, shows that of all the business formats and across all sectors, franchising, through its unique business format, continues to show growth and resilience despite challenging conditions - with an estimated turnover of R721 billion equivalent to 15,7% of the total South African GDP.

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The number of franchise systems has risen to 865 from 843 in the last year continuing the growth trajectory with a total of 45,011 outlets, most of which are owned by the franchisees (80%). The nett number of outlets that were signed up in the last year is 2,602, which is the sum of 3,181 stores opened, less 579 closed.

## A testament to entrepreneurial strength

According to Vera Valasis, Fasa's executive director, the survey, whilst still showing positive growth and a high level of franchisee satisfaction, shows the sector is carefully and cautiously navigating the economic storms to safeguard their businesses, supporting their franchisees whilst trying to grow their brand and contribute to the country's GDP.

"It is testament to the entrepreneurial strength of the franchising sector that – in the face of increased unemployment to 27.2% in the second quarter of 2018 and with job losses of -35,000 in the formal sector and -73,000 in the informal sector – there has been an increase in the total number of people employed in the franchise system, from 343,319 to 369,573. Of those employed in the franchising systems, 292,480 are black staff, 13,563 are coloured staff, 13,822 are Indian staff and 49,708 are white staff.

On average, each franchisee employs 18 staff members in the business, including him/herself. There are 12 full time and 6 part-time employees and in franchisee businesses, the average ratio between management and staff is 1: 8 (2 management staff vs 16 non-management staff).

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10 May 2018

In line with concerted efforts to transform the sector the average percentage of ownership by previously disadvantaged individuals has improved significantly from 17 to 27%. Likewise, the average percentage of ownership by women has increased significantly from 25 to 39%.

## Challenges facing franchisors

One of the main challenges facing franchisors is finding the right franchisees followed by the difficulty in getting finance to start a business. Reflecting the difficult trading conditions, there is a significant increase in the number of franchisors that expect a new franchisee to take longer than a year to break even within the first year of operations, with a corresponding decrease in those who believe they will break even within the first year of operations.

According to Fasa chairman and MD of the OBC Group, Tony Da Fonseca, “it’s been a tough trading season for most if not all industries so it is reassuring to see that our sector is weathering this tough economy better than most. The increase in GDP contribution is encouraging but has to be viewed against the contraction of our economy. Despite this, franchised business concepts remain a viable option due to its “strength in numbers” benefits. I remain (cautiously) optimistic and encourage franchisors to stay focused on building their brands and do everything possible to guide and support their franchisees.”

Jannie Rossouw from Sanlam, the sponsor of the Fasa Franchise Surveys, says successful business ownership is critical to the South African economy and franchising is a massive contributor.

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11 Jun 2018

## Franchisor survey highlights

• The main challenges facing franchisors are related to finding the right franchisees (an increasing need) and staff with the necessary skills sets. Other key challenges include finance for franchisees, finding the right location for outlets, finding franchisees with sufficient capital and high rentals.

• Other lesser issues are aspects such as franchisees not meeting the standards of the business, staff training, lack of business/industry experience and the marketing of both the business and its products and services.

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• Roughly one in five franchises have rebranded or changed the image of their franchise within the last year, which is twice as many as the year before.

• One in three franchisors claimed that their annual turnover exceeded R20 million.

• The estimated turnover generated for the previous financial year was R721 billion.

• An estimated turnover of R721 billion for the franchising industry is equivalent to 15,7% of the total South African GDP, which is an increase on last year's figure of 13,3%.

• The number of franchise owners claiming to have some form of continuity planning remains consistent with 2017 findings at 28%, with surety protection, the financing of buy and sell agreements and financing for the replacement of key people.

• Selling intentions within the next 12 months are negligible.

• The number of international brands in South Africa has more than doubled in the last year – from 12% to 27%.

• 39% of franchisors claimed to have businesses in Africa, outside South African borders. This is equivalent of 1,775 stores in the franchise population. Most of these business units are found in the neighbouring countries of Namibia and Botswana, with growth noted in Mozambique, Kenya and Zambia.

• 12% of franchisors claim to have business outside African borders. This is equivalent to 1 036 stores in the franchise population.

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18 Jul 2018

## Franchisee satisfaction survey results

• With most independent businesses having a 90% failure rate in the first two years of being in business, the average number of years franchisees are in business has remained consistent at 10 years – with 36% in business for more than 10 years and 67% for more than 5 years.

• Franchisees experience five main challenges; i.e. the poor economy, creating good customer relationships, offering consistent good service, finding the right staff and growing the customer base.

• Eighty-four percent (84%) of franchisees rated their relationship with the franchisor as very good or good which is a significant improvement in ratings in the last year.

• Reasons for a good working relationship include the franchisor being helpful and supportive. A poor relationship with the franchisor is characterised by a lack of support from the franchisor and the need for better advertising/marketing.

• With the litmus test being whether an existing franchisee would recommend buying a franchise of the same brand to prospective franchisees, this has significantly increased from 45% to 54%, seemingly moving up from those who were previously lukewarm about recommending such a purchase.

• Reasons for recommending their franchise brand to others include the helpfulness and support received from their franchisors to it being a trusted, well-established brand with a good reputation. They also thought it a good business, yielding high returns.

• Interestingly, seventy-two percent (72%) of the franchisees interviewed were very or extremely likely to consider the purchase of another store in the same network, a significant drop from last year's percentage of 80%, while the number who would be unlikely to buy another store in the same network has doubled from 9 to 19%. This is probably due to the unfavourable and trying trading environment.

• Franchisees remain optimistic about the future of their businesses, with 78% expecting to see growth in the coming year.

• The median nett profit for the last financial year was given as 10,4% (9,5%).

• Within the first year of operations, it is expected that 47% (46%) of new franchises will break even.

"There is no question, concludes Vera Valasis, "that franchising as a business format not only offers viable business opportunities but ensures that the network of franchisees has the necessary support to weather the many economic onslaughts that are so prevalent today. The longevity of franchisees in business and their good working relationship with their franchisor proves that 'being in business for yourself but not by yourself' is what makes for a successful partnership."