

Franchising industry shows resilience amid economic challenges

By [Dumisani Bengu](#)

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With South Africa's economy seeing consecutive negative growth that has placed it in the grips of a technical - but very real - recession, it will come as no surprise that there are adverse implications for business growth as customers keep on cutting their spending and tightening that much-written-about belt.



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One industry that has successfully fought these headwinds is franchising. It has proven in many countries, to be resilient even in the face of extensive macroeconomic difficulties. This is borne out by the fact that the sector - which grew by 10% even at the height of the global financial crisis in 2008 and 2009 - has continued to grow every year.

Year-to-date, Absa's franchise book has shown 15% growth on loans over the same period last year. This illustrates a remarkably healthy appetite for franchising and pursuing opportunities in the various industries that comprise the overall sector.

What typically safeguards these types of businesses from broader economic challenges is the established trust they have with consumers. This stands franchises in good stead when consumers are watching their spending more carefully. It is a natural shift as they look for absolute certainty from the brands and companies they support – and franchises, with their well-known and trustworthy brands, offer that security.

There are 17 business sectors that fall under the franchising umbrella in South Africa. The four largest contributors to the growth of the franchising – and, by association, the where the greatest opportunities lie – are the services sector, which encompasses health and beauty, auto and funeral services, among others. This burgeoning sector makes up 27% of the franchising market. Restaurants and Quick Service Restaurants (QSRs) account for 24%, while Retail out-muscles Fuel with 16% versus Fuel's 11%.



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Interested in franchising? Consider this.

The services sector remains the fastest growing within the larger ecosystem and is set to continue to offer promising business prospects. However, even with a positive forecast, the industry is at the mercy of an increasingly competitive business landscape and there are certain tips that prospective franchisees should heed if they are hoping to make the move into franchising:

- **Look for mergers and acquisitions (M&A) opportunities to find the balance between value and good quality:** With substantial pressure being exerted on the country's economy and a challenging operating environment leading to many of the bigger, more secure players buying out the smaller companies, those looking to enter the franchising sector need to find the sweet spot between value, quality and price – particularly in the cost-sensitive retail and QSR spaces.
- **Take into account the entire franchising value chain:** A franchise with a robust brand reputation, integrity and equity that is able to excite customers is a must. But so is an agreement between franchisors and franchisees that is fair, sustainable and protects the rights of both parties. Franchising is a codified business, so potential franchisees need to ensure that there is a comprehensive and elaborate franchising manual in place.
- **Consider the operations process:** Interested parties should look at the quality and consistency of training programmes in order to ensure that they are able to stay at the forefront of their chosen industry.
- **Don't forget the importance of sales and marketing:** A strong sales and marketing strategy is priceless, so it is critical to make sure upfront that the sales and marketing strategy is strong.
- **Look to implement a service model that is robust and places customers at its heart:** High-intensity strategies that enhance service delivery are the markers of successful franchises. Anyone looking to make the move into any sphere of the franchising world needs to make sure that they place efficient service delivery on top of their list of priorities.
- **Prioritise a streamlined supply chain:** A well-run franchise relies on bulk buying, centralised distribution and well-organised logistics systems. If a franchisee is able to tick those boxes, they will benefit from an efficient supply chain and it will be that much easier to focus on guaranteeing customer satisfaction.
- **Make sure that you are following a passion:** Even with the extra layer of protection that comes from buying into a trusted brand, opening a franchise takes a lot of hard work, time and commitment. So it makes sense to choose a field that there is some connection with and passion for in order to make the inevitable sacrifices that come with starting a business worthwhile.



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Franchising ultimately comes with multiple benefits - not least of which is the safety blanket of the business owner knowing that there is a partner to hold their hand and guide them through the pitfalls and challenges of opening their own business. Banks tend to look at funding applications more favourably because of the added security of a franchise's established customer base in the market.

Undoubtedly, however bleak the economic outlook may seem, there are always those who find the gap in the market. Typically, franchising offers more gaps than other industries.

ABOUT DUMISANI BENGU

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