

Survey analyses the challenges and strategies for the future of franchising

The Franchise Association of South Africa's (FASA) eighth independent survey, sponsored by Absa, undertaken among franchisors, after a hiatus of four years, to assess the contribution by the franchise sector to the South African economy in terms of GDP, business establishment, creation of employment and the identification of key franchise practices, is a valuable tool for the sector to measure its performance, acknowledge its strengths and plans for the future.



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In publishing the survey results for 2023, Margaret Constantaras of Research EQ included a caveat on the difference between the compositions of the franchisor sample from 2019 to the current 2023 one.

“In 2019, 167 franchisors participated in interviews, predominantly consisting of small to medium franchises. In 2023, the number of participating franchisors increased to 304, and the sample included 15% of large franchises with 200+ outlets and a further 22% of medium franchises with 51 to 200 outlets. As a result, the findings in 2023 may differ in some areas from those in the previous four years.”

Maria D’Amico, chair of FASA, who, as an attorney specialising in the franchising space, believes that where, in 2019, there was a reluctance from franchisors to participate in the survey due to the economic challenges they were facing then, this year, after all the inevitable upheavals due to Covid-19 restrictions, the riots, floods and increased load-shedding, brands were keen to be part of the analysis that could give them perspective of the past and strategies for mitigation for the future.

“We appreciate the eagerness and transparency of franchisors that opened up about their challenges but ultimately, as the survey results show, it has proved unequivocally that the franchise sector, through its business system of duplication and support, has all the makings to withstand even the most trying of times.”



Expected growth/decline in turnover in next year

Optimism about business growth continues to strengthen, and the expectation that turnover will grow in the next financial year was almost unanimous (from 81% in 2018, to 89% in 2019 to 98% in 2023). However, despite the optimistic outlook for the future, the number of franchisors that embarked on a rebranding/revamping/upgrading exercise continues to decline.

Adapting to challenges

Looking at descriptions of the current business status compared with that of four years ago (prior to the disruptions of 2020 to 2022), it is evident that franchisors see their businesses in a different light to previously. Franchising globally identifies its growth and success based on the 'life cycle' of both the franchisor and franchisee, where a franchise is rated according to its developmental stages.

The survey showed that businesses during this period were more likely to be at the Ambitious stage (expanding, taking a risk – 19 – 31%), with perceptions of stability dropping significantly (establishing and maintaining (35 – 21%). It seems that businesses are more likely to be in the Turbulent stage (3% – 12%) and less likely to be in the Take-off stage (selling and doing (13 – 5%).

- The costs involved in operating a franchise system were perceived to be the main challenge facing the interviewed franchisors (60%). Breaking down this response, it was noted that inflation was the major aspect mentioned in this regard (32%), followed by high/expensive rentals (20%), and the slow economy (13%).
- The next most frequently mentioned challenge was related to the franchisees within the system, finding the right franchisees with sufficient capital (15%), with sufficient experience (12%) and not operating to standards (12%).
- Load shedding/rolling blackouts and staff/employees posed the next challenges (42% each). Load shedding/rolling blackouts were considered to have an impact on profitability (26%), and productivity (20%), while aspects related to staff/employees were training (21%), staff turnover and attracting the right staff (12% each) and having to retrench staff (5%). The 5th most frequently mentioned challenge was marketing (36%, i.e. marketing the franchise (25%) and the products/services offered (12%).

The retail pendulum is shifting in SA and it's encouraging





Key measures in place to offset disruptions

As franchising is always one step ahead of the curve in mitigating the risks to the health of the brand and with its high responsibility to its franchisees, several measures were implemented to offset disruptions in the marketplace between 2020 and 2022. The research found that the size of the franchise system played an important role in the measures employed to offset the disruptions that occurred between 2020 and 2022.

- The large franchise systems focused on offering extensive support to their franchisees (22%) and investing in renewable energy (20%).
- The medium franchise systems were more likely to install a generator (27%) and to implement digital marketing (24%).
- During this time of rising inflation, load shedding and poor economic growth, retailers in particular recognised the need to be innovative and agile to grow. These strategy measures included but were not limited to: digital marketing (22%), long-term planning (21%), innovation (19%), the installation of generators (18%), offering extensive support to the franchisees (18%) and diversification (15%).
- Social media platforms are used by all franchisors to engage with their customers. Facebook, at 91%, is the most used social media platform followed at a distance by Twitter (74%), LinkedIn (72%) and Instagram (65%). WhatsApp (36%) is used less often, while Pinterest (18%), YouTube (17%), TikTok (13%) and a blog (10%) have the fewest users.

James Noble, Head: Wholesale, Retail & Franchise at Absa, sponsor of the FASA Franchise Survey, believes that by understanding the environment in which franchises operate and responding to their needs, service providers like Absa, which has a dedicated franchise team, can form meaningful partnerships to support franchisors' growth objectives.

"Our deep knowledge enables us to offer best-of-breed solutions in these trying times to meet franchisors' and franchisees' business needs, allowing them to focus on running and growing their businesses."

Strategies for future sustainability

What the survey once again establishes without doubt is that franchising offers proven models, brand recognition and a lower-risk investment. Franchisors that strengthened their business systems and supply chains during the pandemic should be highlighting those strengths, elaborating on steps taken to mitigate the risks, introducing new strategies and publicising how franchisees were supported.

Desk research with franchisors across the board showed that during this period, fraught with load-shedding, inflation and low economic growth, franchisors needed to:

- Capitalise on the brand's stability

Do not be afraid to divulge the steps taken to mitigate the challenges the brand suffered, how franchisees were supported and, by extension, how customers were serviced. A strong brand that conveys resilience, consideration and care will win the day.

- Have a strong base of existing franchisees

The key to future success also lies in having a strong base of existing franchisees that are well-equipped and supported to handle any future challenges, and a head office that has learnt the hard lessons from this trying time and has put in place

'intensive care' contingency plans.

Only then can a franchisor confidently welcome new franchisees into the fold, confident in the knowledge that his/ her organisation has weathered the storm and can look to future growth and success.

- Expand with flexible franchise options

With fewer potential franchisees, a poor economy and rising expenses (including load-shedding), franchisors have to look to offer more flexible investment options in the form of smaller footprint models whose operating costs such as overheads and labour could be somewhat contained.

- Diversity

This trend as a broader cultural consciousness is evolving through all business sectors as lessons were learnt that having all one's eggs in one basket was often a risk and the fact that people finally recognise that multicultural markets are largely untapped.

- New consumer habits

Against the backdrop of incessant load-shedding, the challenge is to track consumers' next moves. Whilst price and quality remain a top priority, consumers still value the experience of their favourite brand, and this should be top of the list for every franchise business. Analyse your business model and see if there is scope to broaden your offerings to include as many options as possible to make life easier for your customers.

- Recognise market disruptors and act accordingly

The pandemic, the riots, floods, load-shedding and general political chaos have been the most negative disruptors South Africa has ever seen. Technological innovations such as the metaverse should not be seen as a passing fad but be investigated as potential ways to expand market share.

- Online retail

According to WorldWide Worx online retail has hit a major milestone in South Africa, eclipsing R50 billion in annual sales during 2022, recording a 40% increase in the total number of South African shopping online since the onset of the pandemic in 2020.

Yet many businesses are struggling to turn this trend to their advantage because of poor online customer experiences. Online and social media presence, whether for deliveries or customer interaction, is a must if franchises are to thrive into the future.

- Technology

It may seem that the world has regressed following the pandemic and its associated value and supply chain challenges and other political and social challenges, but it must be recognised that all that upheaval spurred on new technological breakthroughs that ultimately will benefit businesses through increased efficiencies that will result in reducing costs and margins.

- Consolidating before expansion

It would be wise for a franchisor to step back and attend to existing franchisees rather than embarking on any aggressive expansion plans. The goal should be to create a strong bond with all franchisees and work out a plan that will attend to those struggling to ultimately bring them back in line with consistent growth and profitability.

The lessons learnt and the solutions formulated to counteract the challenges will stand the franchisor and his/ her franchisees in good stead to pre-empt any future curveballs. By getting the buy-in from everyone in the organisation to be part of the recovery and rebooting of the brand, the brand's true potential will be unleashed.

- Put a short term plan in place

In the short term, franchisors must attend to their existing franchisees before expanding. New franchisees will want to know how existing franchisees are doing, and being transparent and honest is key to being an ethical franchisor. Franchising seems to have fared better than independent businesses and there are signs of a strong rebound. If most of a brand's franchisees are in the 'soaring' phase then, go ahead with expansion plans, secure in the knowledge that the worst has been overcome.

- Put a long-term plan in place

For the long term, planning expansion goals must consider challenges such as cash flow, a struggling economy and other pitfalls. If Covid and the past four years have taught us anything, it's to be prepared for any eventuality and always have a strong financial strategy in place.

Almost all respondents, and especially those in the food sector, expressed concern that the country was facing a deepening crisis that is impacting all areas of the economy – due to the ongoing and escalating load shedding which has a snowball effect on everything from food security to logistics to service delivery - with very little done by the government to mitigate this.

FASA's CEO Fred Makgato believes that the only way to avoid an impending disaster in South Africa is for the government to deal with load shedding and to recognize that it is the businesses, both large and especially that are keeping the economy going.

"On the back of such a strong survey of the franchising sector, that is prepared to safeguard its position as a significant contributor to the country's economy and is willing to play its part to keep the wheels of business and entrepreneurship turning, we call on government to now do their part in rectifying the debilitating state of the country for the sake of the economy, its citizens and the future of South Africa."

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