

Franchise sector withstands tough economic climate

According to the latest research from the Franchise Association of South Africa, 90% of franchisors say they are optimistic about future growth in their businesses. The potential for growth in the franchising industry is strong. Franchisors are optimistic and many are intending to expand their franchise system.



Richard Mukheibir

The latest stats show that the franchise sector remains a viable sector, despite testing economic conditions, with over 600 franchised systems in South Africa, just over 31,000 franchise outlets and 17 franchise business sectors. "The fact that three in four franchisors have been in business for more than six years (44% have been in operation for longer than 12 years) is testament to the sustainability of these businesses," said Vera Valais, Executive Director of the Franchise Association of Southern Africa (FASA).

The majority (41%) of these business units are in Gauteng, more than twice as many as in the Western Cape (16%) and more than three-and-a-half times as many as in KwaZulu-Natal (12%).

Which industry?

Richard Mukheibir, CEO of Cash Converters, said that although the fast food and restaurant category remains the largest 25%, retailing is not far behind at 13%. He said that for those wanting to start a franchise, one of the big questions to address is what industry would suit them best.

"Take, for example, the number of hours you are happy to dedicate to your franchise," advises Mukheibir. "For example, fast-food franchises often require dedicated long hours and if you are not prepared to put in the extra time and make a full time commitment this may not be the option for you. On the other hand, many retail franchisees, while happy to commit, want weekends and evenings free, so this is a better option for them."

Mukheibir said it is definitely worth taking the time to research the options carefully. Capital is another key issue. "Many, if not all, start-up businesses face the challenge of insufficient capital. For those looking to open a franchise this challenge is still a reality, but perhaps less of an obstacle as financial institutions base financing decisions on a strong business plan and security.

"Ideally, one should look for a business with an established model and a good track record. A successful brand gives you a far greater chance of securing the finances needed and then of breaking even quite quickly," said Mukheibir. "The research tells us that within the first year of operations, it is expected that 76% of new franchisees will break even," he said.

Prerequisite for success

A prerequisite for success is getting through the hard times, said Mukheibir. "It also helps if the business you started has multiple revenue streams to buffer you from the bad times. All businesses run into problems at times, but if you can think and move quickly, 'fail fast' if you're going to fail at all, and nail your business model, this significantly improves your chances

success."

Franchising is definitely not for everyone and franchisors recognise the importance of selecting the right personality for the franchise system upfront. In fact, Valais said, one of the main challenges facing franchisors relates to finding the right person - in terms of finding the right franchisee with the right skills sets and finding the right staff. "Once the franchisee is in place, he then has to ensure that the right staff is employed. Employees are the first, and sometimes only, contact that customers have with the business and it is essential that they are able to represent the franchise and the brand successfully. Employees need to be friendly, efficient, loyal and honest," she said.

"At Cash Converters we always ask: Does this potential franchisor's character fit with our business model and value set? If not, there's very little chance of success and we won't encourage or back that particular applicant," added Mukheibir.

Drive and motivation

Generally, any new business owner needs drive and motivation. "If you fit the mould and have what it takes to be a franchisee, have chosen the right brand and are prepared to work hard, you've got a great chance of mitigating your risk and building a successful business," he said.

"Other critical issues are finding the right location for the stores and having franchisees maintain standards," he added.

For franchisors and franchisees to be successful and stay ahead of the game in dealing with a changing economic scenario, they should always remember that franchising is about relationships that constantly evolve. "Open communication and information sharing empowers both parties as it highlights any signs of potential challenges," concluded Mukheibir.

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