

Is franchising future-proof?

 By [Tony Da Fonseca](#)

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Modern-day franchising has been with us since the mid-1950s when it made its presence felt in the USA. Subsequently, expansion was swift and within a few short years, the concept had conquered the world.



Tony Da Fonseca

Franchising is now widely seen as the most successful business expansion model ever developed but what about the future? Given that the world changes at an ever-increasing pace, will franchising escape the general trend towards built-in obsolescence?

Recession-resistant

“ I believe that franchising will continue its victory march for many years into the future. ”

What prompts me to say this is not wishful thinking but the interpretation of facts. Since 2013, FASA tracks franchising's development in South Africa on an annual basis. The 2017 results reveal that franchising's performance curve remains on a pleasing upward trend. They also tell us that the franchise sector continues to make an important contribution towards the establishment of sustainable small businesses and creates jobs. Remember: this was achieved against the backdrop of an ailing economy.

Some problems exist

Although franchising has weathered the economic downturn well, problems do exist. Fortunately, these are largely the result of irresponsible practices by self-styled rogue franchisors and can be managed. This requires a mix of education and the enforcement of consequences for misbehaviour. To a certain extent, the CPA has helped to reign in irresponsible behaviour. Moreover, FASA is working hard to guide franchisors towards adopting sound franchise practices. It also assists prospective franchisees to make sound choices.

Granted, some isolated instances are on record where large brands fell into the trap of “becoming bigger than the game”. My view on this is clear.

“ If they want to continue to grow and prosper as franchisors, they need to constantly re-examine the way they interact with their franchisees. ”

This will ensure that franchising's credo of creating win-win business relationships doesn't choke on corporate red tape.



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External factors

Political uncertainty impacts negatively on all sectors of the economy. An example is the likelihood of further downgrades of our credit rating. It will lead to further devaluation of the rand, drive up interest rates and result in a higher tax burden. The franchise sector cannot escape such realities but is better equipped than other sectors to deal with the resulting fall-out.

Solid opportunities abound

Whilst franchising's market share in South Africa stands at around 13%, comparable numbers for the USA, Australia and the EU countries range between 20 and 50%. This indicates the vast untapped potential of franchising in our country. For example:

- Large consumer goods brands have found that to grow market share by expanding through branch operations presents problems of its own. That's where franchising comes on its own. Because franchisees have "skin in the game" they are customer-focused and committed to operational excellence.
- In keeping with international trends, solid franchise brands attract a good mix of highly skilled and entrepreneurially-minded young people and mature individuals who are ready to invest their life savings into an entrepreneurial opportunity with a safety net.
- The vast potential of social franchising and micro-franchising, concepts that are uniquely suited to South Africa's needs, remain largely untapped.
- An increasing number of African countries have a rapidly growing middle class. Its members have money and are prepared to spend it. This offers huge opportunities for well-established South African brands that have saturated their home market. Offering master licences to carefully selected entrepreneurs in other parts of Africa affords them a bite at the cherry without incurring undue risk. Already, over 50% of the participants in the franchise survey signalled their intent to

expand outside our borders.

Summing up, I can only conclude that franchising is indeed future-proof. I would even go as far as to say, “watch this space, you ain't seen nothing yet!” And if you have any interest in the franchise sector, remember that the Franchise Association of South Africa (FASA) that represents ethical franchising is here to help.

ABOUT TONY DA FONSECA

Tony Da Fonseca is the MD of the OBC Group and chairman of the Franchise Association of South Africa (FASA).

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