Franchisees should hedge against future rate changes

Though the SARB Monetary Policy Committee left the repo rate unchanged at 5.75%, leaving the prime lending rate at 9.25%, franchise owners should still exercise caution, as other economic factors still persist.

Morne Cronje, FNB Head of Franchising

"Unchanged interest rates will give franchisees an opportunity to manage their cash flow for their loan repayments and plan more effectively for the future. Consumers are under much pressure due to the petrol price increases, rising electricity and inflation in general. The unchanged interest rate gives South Africans a platform to manage their expenses and expendable income," says Morne Cronje, FNB Head of Franchising.

He advises that the franchise market is growing at a good rate but potential and existing franchisees should take note of the following, especially in today's volatile economic climate:

- Franchisees should do careful financial planning that includes scenarios of increased interest rates and plan accordingly;
- Potential franchisees that are now in the process of buying a franchise should factor in interest rate increases in cash flow projections;
- In sectors relying heavily on consumer spending in the middle income market, it would be wise to increase the working capital requirement for potential franchisees as it may take longer to break even;
- Another economic factor is the decline of the Rand. Franchisors should review set-up costs frequently as this may have an impact on the price of imported equipment;
- Franchisees could discover that the set-up cost anticipated becomes much higher and this may put additional pressure on a new franchisee.

"The decision to keep rates on hold was in line with our expectations and is a minor reprieve for both franchisees and consumers. Latest data from the SARB shows that South Africans remain highly indebted and this is putting pressure on their ability to spend, particularly on discretionary items," explains Jason Muscat, Senior Industry Analyst, FNB Economics.

"Positively, however, we believe that the inflation peak is behind us, which should give consumers a little more breathing room. Food inflation is also moderating and should help cap rising input costs for franchisees."

"Franchisors should watch the broad economic environment and tweak their business models where needed. Site selection in retail is more important than ever, mediocre locations in a difficult economic environment will not bode well for franchise success," concludes Cronje.

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