

New franchise strategies and growing earnings drive SA franchisors into Africa

Times may be tough locally, but that has only encouraged South African franchisors to look beyond the country's borders and take a long-term view on introducing integrated strategies for the growth of their brands across the continent...



Philip Myburgh, Head of Franchising Africa at Standard Bank.

"The stage for expansion of franchise operations in Southern African Development Community (SADC) countries and beyond has shifted as franchisors have gained experience in African markets," said Philip Myburgh, Head of Franchising Africa at Standard Bank.

"Interestingly, we are seeing progressively more food retailers and quick-service restaurants eagerly trying to form business partnerships with the fuel service industry. While the concept has already taken off in South Africa, with limited maturity in neighbouring countries like Namibia, it is still at infancy stage in the rest of the continent, which presents an opportunity for more partnerships. Examples include finding KFCs at Total service stations in Nairobi and Maputo, and Food Lovers Market with its 'Food Lovers Local' brand at Puma in Tanzania."

The benefits of these partnerships include well-placed operational footprints, increased ease and speed of establishing a franchise, and access to existing management skills.

"Quick-service food brands often take the lead from established food retailers when it comes to selecting a location for new stores, as they already have a good understanding of the market and naturally attract a lot of customers," said Myburgh.

Increasingly, franchisees have started acquiring their own logistics and supply chain businesses to give them better control over the supply chain. This ensures a more consistent customer experience. For example, they now have control over the temperature of the goods while in transit from the supplier to the outlet.

The attractive growth of African economies

The main driver for expansion of franchise operations remains the attractive growth of African economies and the linked increase in levels of disposable income. In countries like Namibia, Zambia and Botswana, the food services sector has shown very strong growth during the last few years.

"Botswana, as reflected in a recent announcement by a major South African franchise group, has seen a big increase in franchised food service outlets industry wide in the past five years," said Myburgh.

Other attractions in African markets include positive political changes, the rate of foreign direct investment, lower tax and sales tax rates, and increasing political and economic stability in the fastest growing territories.

This is not to say that there are no challenges, Myburgh stressed. Unwary franchisors entering the African market can fall prey to a number of issues. These include:

- Lack of infrastructure in some markets and difficulties with logistics outside major urban areas;
- Lack of retail skills amongst staff;
- The cost of training. In many cases training for franchisees has to take place in South Africa, adding substantially to establishment costs;
- The quality and availability of suitable goods and suppliers;
- Regulatory issues that may prohibit the import of certain categories of goods and foodstuffs in certain markets;
- Local tastes and the profile of customers. 'Economically priced' quick-service restaurants in South Africa find that their product sales are constrained as they are not as affordable in other African countries due to an expensive supply chain. The target market is therefore reduced; and
- Changing behaviour patterns. In many countries where there is no entrenched 'fast food culture' locals buy from pavement vendors. To expand market share means changing this behaviour and encouraging people to adopt more formal shopping habits.

For financial institutions operating from South Africa, the new realities of franchising in Africa have also required a change in strategy.

"South Africa has long been regarded as a logical launch pad for franchisors eyeing opportunities in Africa," Myburgh said. "Reality dictates, however, that we operate on a continent that has scores of countries all with different cultures, business customs and legislation. It is essential that you have a local presence and local skills, and combine these with the advantages of a well-established retail banking presence."

"We have realised this and have concentrated on establishing country operations that have the best of both worlds: local knowledge and the ability to source particular skills from South Africa.

"Franchising in Africa remains a challenge. Nonetheless, the sheer size of the opportunities on the continent will see progressively more franchise operations looking for opportunities. There is no doubt that, for those taking cognisance of local requirements and establishing the correct partnerships, the rewards can be worthwhile."

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