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Franchising post-Covid - 5 trends to watch

By Morne Cronje 8 Jan 2021

Nearly nine months after South Africa's lockdown was first declared, there remains a great deal uncertainty about the effect that the coronavirus pandemic will continue to have on our society and economy in 2021.

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Nevertheless, it is worth considering how one particularly hard-hit industry is expected to evolve in the context of the continued pandemic and difficult economic outlook.

According to research by the Franchise Association of South Africa, the franchise industry in South Africa contributed just under 14% of GDP in 2019.

No part of the industry was spared this year, while some sectors – notably beauty salons and sit-down restaurants – have been some of the hardest hit of any in the country.

The industry has proven itself to be resilient, innovative and collaborative, which is why it still survives. But will need all these qualities, and more, to weather and adapt to what will certainly continue to be a testing time.

Between the worst-case scenario of another hard lockdown, and the best-case scenario of a quick resumption to normal levels of trade, it is likely that franchisees will face not only weakened consumer sentiment and dampened demand, but also some fundamental shifts in the way they will be expected to d business.

Here are five trends that we anticipate having a significant effect on the franchise industry in 2021.

1. Consolidation

It's important to remember that the industry was under pressure by the economic climate prior to the coronavirus pandemic. Years of sluggish growth meant that going into lockdown many smaller franchisees were overextended. This made the effects of the national lockdown that much more acute.

While small franchisees are managing cash as best as they can, larger players with access to capital reserves might identify opportunities for acquisitions. And the small franchisees, exhausted and buffeted b a year unlike any other, might be all too keen to sell. The result is likely to be consolidation across the sect

This tendency will be reinforced by the fact that it is easier for multi-store operators to remain viable in testing economic circumstances. They are able to realise efficiencies and economies of scale that are jus not available to one or two-store operators.

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2. Efficiency

In an era of constraint, every rand counts. It is going to be up to franchisees to realise every possible operational efficiency in order to preserve cash and profits. One of these efficiencies will be the use of space. Every square metre in a restaurant or store will need to earn its way and contribute to turnover.

We mentioned the efficiencies that multi-store operators can take advantage of – these include admin, logistics and other back-office functions. But those without the option to become multi-store operators car still look at sharing resources in order to reduce costs. Consider the "dark-kitchen" trend, which sees multiple restaurants or fast-food vendors sharing centralised production areas.

It is a difficult conversation to have in the context of spiralling employment figures, but a lot of franchisees are also looking to increase in-store efficiencies by running with fewer staff and asking staff to multi-task tc higher degree.

3. E-commerce

We are seeing the rise of the housebound economy. Consumers have retreated indoors, and that is a trer that is likely to endure. As a result, the big winners of the post-Covid-19 economy will be those who have been able to capitalise on their e-commerce offerings and focus on customer convenience. It's not enoug to have an e-commerce platform; you need to differentiate yourself through better orders, processing and deliveries.

Those who went into 2020 with an existing platform, and those who quickly saw the writing on the wall and scrambled to build online capacity, found themselves in a much better position than others this year. Thos left behind are going to struggle to catch up. But there are areas that are ripe for innovation and offer opportunities.

For example, parts of South Africa struggle with data costs and lack of access to feature phones. Businesses that fill these gaps – through, for example, the use of USSD technology to allow orders via SI – might be able to grow market share even though the top end of the market is saturated.

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4. Innovation

Many South Africans tried a new shopping behaviour this year, and this will likely continue. Where there is change there is opportunity, and 2020 has seen plenty of change. Franchises that are willing and able to innovate will be able to find gaps to expand, even in the midst of economic turmoil. The increasing trend o self-employment and work-from-home are also opportunities for service-related franchises that cater to these markets.

Some retailers have begun offering meal kits for people to cook or braai at home to offset the decline in numbers of consumers willing to eat at a sit-down restaurant. Other businesses have taken advantage of tl vigorous demand for at-home schooling and have managed to thrive in an online environment.

5. Collaboration

Finally, the franchises that were best able to weather 2020’s challenges were those with strong relationshi – with their banks, landlords and franchisors. The importance of these networks of support will continue in 2021, whatever the economic outlook.

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