SA's franchise industry begins long road to recovery

From negotiating rental relief with landlords and royalty fees with franchisors to asking for relaxed loan repayments with banks, franchise operators continue their battle to survive the Covid-19 lockdown as trade starts under Level 3 for some franchise sectors but crippling restrictions remain for others.

Franchising is often seen as a safe business model, as operators buy into an established brand with support from franchisors. About 26% of franchise operators, which make up the largest portion of the industry, are in fast foods and restaurants, followed by direct marketing at 18%. Leisure and entertainment, construction, personal services, and telecommunications make the smallest segment at 5% and lower, according to research by the Franchise Association of South Africa (Fasa).

“The longer the lockdown measures are applied across the board, the deeper the loss will be,” says Vera Valasis, executive director of Fasa. “With 80% of respondents to a survey conducted by the association believed that they will not be able to continue to maintain their business beyond July, unless they can be allowed to trade normally, the future of the franchise sector which contributes almost 14% to the country’s GDP is in the balance.”

“Some sectors have weathered the Covid-19 storm much better than others but more importantly it seems business owners who managed to re-open their doors at the first opportunity stand a better chance at long-term survival, even while trading with only limited lines or products and a limited staff complement.”

Spur suspends fees to help soften Covid-19 blow to franchisees
3 Apr 2020

According to Valasis, it is important that assistance is given to franchisees so that they in turn can keep employees on the payroll and ride the storm in order to grow when the pandemic passes.

“Having a franchisor whose franchisees can rely on becomes even more critical during these times of crisis. Thankfully most franchisors have taken strong leadership steps and have kept their franchised systems informed as and when developments and information is published by the government about the lock-down regulations, financial aid and other funds that can be accessed for financial assistance. They are also the ones that will institute whatever measures are necessary to ensure the safety of their staff and customers.”

Whilst most franchise sectors can now open for business under Level 3 – including retail; auto services; building, office and home services; and business-to-business – other sectors such as childcare, education and training grapple with how to boost their online services whilst planning to return to physical teaching with social distancing.

Restaurants fight back

Whilst fast food outlets have stepped up their delivery services and can now offer on-site take-out, many are still not generating large enough turnovers to cover costs. Sit-down restaurants remain the hardest hit as they remain closed under Level 3. Government’s judgement that restaurants have the highest potential for the risk of transmission is misplaced, argue lobby groups, especially when compared to allowing groups to gather for other reasons – such as for church services under Level 3.

According to Valasis, who participates in a weekly zoom exchange with her counterparts at the World Franchise Association, restaurant protocols and best practices are being implemented very successfully internationally and would be done locally to include physical distancing, masks and screening that address these risks.

“There is the very real risk that large casual dining restaurants may disappear as many owners, if they survive the crisis, would go forward on a much smaller and nimbler basis which is easier to scale down and control according to demand and developing trends. Decisions are also being made about running a so-called ‘dark kitchen’ operation permanently which would seem to be more profitable with less frustration, difficulties and possibly less costs.”

KFC pilots kerbside collection in SA
1 Jun 2020

Hair, beauty and body culture hardest hit

The continued closure of the beauty, hair and body culture industry is having a devastating impact on the industry, the salon owners, their employees and dependants, according to Linda Sinclair, chief executive-designate for the Sorbet Group. In their appeal proposal to government, their initial estimate shows that as much as 40% of salons could face closure if not allowed to open under Level 3 and any further extension beyond this date could see the entire industry face potential bankruptcy.

The formal hair and beauty industry prides itself on already applying strict hygiene standards and would be in a position to support the social distancing requirements for trade by managing and restricting the number of customers that are in store at any given time.

With so many trained technicians and therapists in the health and grooming sector laid off, many have resorted to offering their services to their regular clients privately (and against the Covid-19 guidelines) to perform procedures and provide services – in many instances earning more than just the commission or basic salary/commission they were used to. This would mean that established salon owners would have to re-train new technicians when they do re-open – another cost that the industry can ill afford.

Hair and beauty technicians petition to start working
Mary-Anne Gontsana 7 May 2020

Survival challenges

“So many business owners have come to the realisation that they can run a large part of the business online or virtually, says Valasis, “from advertising for potential franchisees, for example, to interviewing potential new franchisees via a digital platform. Site selection could be done on the same basis and those large training facilities may become obsolete as training would most certainly be taken online fully, with the end result being a need for much smaller offices.”

“Commercial landlords may find it tough going when existing office lease renewals come up for renewal. Large regional malls have seen a large drop off of shoppers as there appears to be a developing trend where consumers prefer to frequent their smaller neighbourhood or suburban strip malls. Some customers remain Covid-19 paranoid and feel safer in a smaller local shopping environment where shopping could be done in a short space of time - that is even if they still do shop in person rather than shopping online.”

Interventions such as the R1bn Sukuma Relief Programme, backed by the Rupert family, and a government-funded SMME relief fund, have reported an overwhelming response from business owners impacted by the pandemic.

Consumer markets under pressure in 2020
Camilla Butler 5 Jun 2020

Valasis said one of the reasons some of the members of the association did not qualify for emergency funding was non-compliance with Broad-Based Black Economic Empowerment (B-BBEE) requirements. The issue of empowerment criteria in the distribution of Covid-19 relief funds has ended up in the courts, with Solidarity and AfriForum launching a legal challenge specifically against the department of tourism.

Using B-BBEE scores as a qualifying criterion for relief funding for companies impacted by the lockdown is both unfair and unconstitutional, says Fasa.

“It is also sad to see that even the top commercial banks, who, over the last fifty years that franchising has been a driver of economic growth have benefitted from this business sector, have become even more risk-averse when in fact they should be playing their part in assisting struggling businesses get back on their feet.”

Franchising’s tenacity

"While there are so many uncertainties about the survival of loved ones, job losses, financial survival of businesses, duration of the lockdown, the impact of an economy on its knees and many other issues, there is no doubt that the franchise industry will survive this crisis and also, would have learnt from it as well but trading conditions as we know it will change perhaps unrecognisably in the future," Valasis said.