Pros and cons of the growing multi-unit franchising model

Multi-unit franchising is becoming a growing trend globally and in South Africa, meaning a single franchisee owns more than one outlet in different geographies. This ownership model challenges the traditional paradigm of a single-unit franchisee that we are most accustomed to.

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Riaan Fouche, chief operating officer (COO) franchise at FNB Business says, “Multi-unit franchisees are a major trend in South Africa and more franchisors are giving first preferences to existing franchisees due to proven success and understanding of the franchisor's brand. This enables the franchisor to grow their footprint in partnership with a franchisee while mitigating the level of risk associated with opening up a new outlet.”

Fouche shares five advantages and disadvantages of a multi-unit franchisee:

Advantages

1. Diversify income: Having more than one source of revenue as a business improves cash flow and the lifeblood of a business.
2. Knowing the system: There would be no need to start from the beginning to learn the franchisor’s systems because the franchisee already knows the operations.
3. Centralise your support office: Owning multi-unit franchisees allows the business owner to cut costs and centralise offices into one.
4. Bulk discounts: Buying stock in large quantities saves time and money, this means that the franchisee would be decreasing the cost per unit of each of the items they order for each of the outlets.
5. Banks looks favourably at multi-store operators: Established franchisees have experience and track record which puts them in a favourable position when going to a bank for a loan. They have accumulated assets and a proven track record.

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Disadvantages

1. Brand limitations: Some franchisors will not allow a franchisee to own other brands especially if it is a direct competitor.
2. Complexity in running multiple operations: Owning more than one franchisee requires solid skills and tool sets.
3. Overextension: Managing more than one business is very demanding and it could lead to burning out.
4. Ripple effect: One or two non-performing outlets could have a negative effect on the group of outlets.
5. More staff: Leading and managing a lot of people is challenging.

“In this tough economy, franchisees are advised to consider multi-unit franchisee as a viable alternative in diversifying profit margins. However, they need to weigh the pros and cons of taking more outlets,” concludes Fouche.

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