FASA survey measures franchisee success and satisfaction

The Franchise Association of South Africa, in addition to conducting a survey on the franchise sector in relation to its franchisors, also surveys franchisees to find out how they are faring and what their challenges are. High on the list of priorities within the survey, which is sponsored by Sanlam, is their satisfaction levels in a number of areas ranging from satisfaction with their franchisor, their landlord, even their suppliers.

“All this feeds into keeping the relationship between franchisors and franchisees at a healthy level,” says Tony Da Fonseca, FASA’s chairman. “Being able to pick up undercurrents of uncertainty or areas that need improvement allows us as franchisors to step up our game and better service our franchisees. What is encouraging is that franchisees are optimistic about the growth of their businesses which means the potential for growth in our sector remains strong and positive.”

The best litmus test to seeing how successful franchising is as a business model is to ask franchisees whether they would recommend franchising to others. FASA’s survey showed four out of five franchisees surveyed (80%) would not hesitate to recommend their franchise brand to others. According to Vera Valasis, FASA’s executive director, this is the best endorsement that potential franchisees considering going into franchising have when researching a franchise.

Whilst franchisees are currently making an average of 9.5% nett profit, there are, however, some indications in the research that franchisees are not quite as positive about the growth of their businesses as they were a year ago. This is linked primarily to economic and political influences, resulting in new franchisees taking longer than previously suggested to break even.

The survey showed challenges facing the franchisee industry related to finding skilled staff, being able to offer consistently good service and the poor economy. Secondary challenges were growing the business with new customers, running costs and keeping prices competitive. Increased training in marketing the business and its products/services were identified as being of great benefit to the franchisee.

Survey highlights

Time in business

• Two out of five (41%) franchisees have been in business for more than ten years and 69% for more than five years. The average number of years in business has increased from 7,8 in 2016 to 10,3 in 2017 over the whole sample.

Location of business/rentals

• Thirty-eight percent of franchisees have business units/stores in shopping centres/malls and 35% are situated in high streets, where most passing trade occurs. A significant increase is noted in the number of businesses situated on high streets, with a concomitant decline in the number of businesses in shopping centres/malls. This result is supported by a similar finding in the Franchisor survey of 2017. Previous years showed an increase in the number of businesses that were home-based, however, this number has dropped back to 2014/2015 levels.

• Roughly one in four franchisees claimed that they owned the property on which the business is situated and a similar number were unable or refused to give the amount of the deposit paid. Among the balance, the average deposit paid was R45 724 or 1,8 months of rental.

• The average rental paid per square metre is R167 (R164 compared to 2014/2015) and the average number of square metres occupied is 391 (344) square metres. The annual escalation percentage for rental averages out at 8,5% (6,5%).

Initial working capital

• The average initial working capital required is R725,007 (R745,887). By working capital, we mean the franchisee must have enough working capital to cover any cash shortfalls while getting the business off the ground. Things like staff salaries, rent, stock replenishment and running costs need to be provided for in the first few months.

Other businesses owned

• Seventy-nine percent of franchisees claimed to own more than one franchise, the majority being of the same brand. Only 2% of franchisees own an outlet of a different brand. The average number of same brand outlets owned is 1,7.

Main challenges facing a franchisee

• The main challenges facing franchisees are finding the right staff, being able to offer consistently good service, and the poor economy. Secondary challenges are growing the business with new customers, running costs and keeping prices competitive.

Rating of relationship with landlord

• Most franchisees report a good relationship with their landlord (73%) and a further 18% rated it as neutral. A good relationship and prompt attention to queries and fixing things earned the landlord a positive score, as does being supportive and helpful. Other reasons for giving the landlord a positive score related to good maintenance of the property, the fact that there were no problems, availability and good communication.

Rating of relationship with franchisor

• The relationship with the franchisor is rated as very good or good by the large majority of franchisees (72%). Although this is a strong score, there is a decline in these ratings since last year (80%) with a concomitant increase in the neutral ratings. Only 7% rate it poor or very poor, while those who had previously offered a top-box score are now rating their relationship as neutral.

Reasons for good/poor relationship with franchisor

• The overwhelming reason resulting in a positive score being given to the relationship with the franchisor is that he/she is always helpful and supportive. A poor relationship with the franchisor is characterised by a lack of support from the franchisor. Poor communication from the franchisor is also mentioned.

Likelihood of recommending/not buying the franchise brand

• Four out of five franchisees (80%) would be extremely/very likely to recommend the purchase of their brand of franchise to others. Only 8% would not be likely to recommend this purchase.

Reasons for promoting/not promoting the franchise brand

• Most franchisees would highly recommend their franchise brand to others, mainly because it is a trusted, well-established brand with a good reputation and because of the helpfulness and support received from their franchisors. They also consider it a good business, yielding high returns, with good quality products and customer service. Among the 8% who would not recommend buying the brand, the main reasons given are the perceived poor relationship with the franchisor and lack of profit. A further one in five each had a bad experience and/or did not believe that the franchise concept worked for all businesses.

Satisfaction with suppliers

• While the large majority of franchisees are extremely or very satisfied (91%) with the suppliers they use, roughly one in three believe they are benefitting from prices lower than those charged elsewhere. Fifty-four percent feel prices are similar to those charged by other suppliers.

Performance of franchisees

• The median annual turnover claimed is R2,680,000.

• The number of franchisees (79%) who are optimistic about the future of their businesses has remained stable; however, more uncertainty and negativity are shown this year than last year. This optimism, however, is not as strong as expressed by franchisors, nine in ten of whom believed their turnover would increase in the next year.

• The average nett profit claimed is 9,5% in the last financial year.

• Within the first year of operations, 42% of franchisees expect to break even, however, a downward trend is noted for breaking even in the first six months. This is in contrast to the three in four franchisors (60%) that make the same claim.

Training and support

• Training priorities appear to have changed in the last year, with more focus on local store marketing, setting recommended gearing, legal documentation and assistance in the compilation of business plans. Less attention has been given to the remaining types of training.

• The area in which franchisees receive the least amount of support from the franchisor is in training at another franchisee's outlet. Other than this aspect, most franchisees indicate that they receive a high level of support. Despite this, they would like additional support in terms of marketing, new product development and training overall.

• Product knowledge and customer satisfaction are the key aspects in which training is given to franchisee staff by the franchisor, although it seems that more training is given in product knowledge and less in customer satisfaction than a year ago. Other training courses offered include personal motivation and sales. Financial training (general financial management and accounting) is given less frequently.

Employment

• There are an average number of 18 employees per business, including the owner. An average of seventeen are full-time employees and two are part-time employees. The average ratio between management and staff is 1:6.

• As far as ethnicity of the employees is concerned, there are, on average, thirteen black, one coloured, 0,4 Indian and four white employees.

Attitudes towards running a franchised business

• The intention to stay within the franchise network and pride in belonging have the highest top box scores of complete agreement at 73% and 70% respectively. A similar number of franchisees also completely agree that they recommend the use of the brand's products and services to others, that communication from the franchisor is open and honest and they have confidence in the franchisor leadership team.

• Lowest levels of agreement are expressed with regard to opportunities to connect with other franchisees within the group, regular access to senior franchisor executives, involvement with brand initiatives and, to a lesser extent, being respected and appreciated by the franchisor.

• Awareness of FASA is relatively high at 73% among these franchisees, with one in three of their franchisors being members.

Click here to view the full Franchisee Survey.