

# The power of franchising in de-risking South Africa's tourism businesses

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22 Feb 2024

Franchising has emerged as a widely embraced business model on a global scale, providing entrepreneurs the chance to independently own and manage businesses while benefiting from the backing of a well-established brand. South Africa is experiencing an increasing attraction to franchising within the tourism sector.



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## De-risking tourism business ventures

The franchise model provides a structured and proven business framework and often offers a more reliable path to sustainability. Established franchisors bring with them a track record of resilience and a blueprint for navigating economic ups and downs. Approximately 20% of new businesses fail during the first two years of business, while generally, franchises have a higher success rate than independent businesses.

Franchisees get the benefit of brand recognition which becomes a crucial caveat when it comes to customer loyalty. Having access to ongoing support and training programmes, site selection and development support, operating manuals, training, brand standards, quality control, a marketing strategy and business advisory support from the franchisors, as well as access to economies of scale are all important factors that become attractive for tourism entrepreneurs. Essentially franchising offers a proven formula for building a sustainable business.

## A burgeoning opportunity

Franchised tourism products and services have been gaining popularity globally for some time. In the Middle East, 20% of hotels operate under franchise agreements, with 40% in Europe and close to 70% in the US. In comparison, only 25% of hotels operate under franchise agreements in Africa.

While the country is waiting with open arms to welcome more tourists, it's important to remember that many travellers are more aware of what they are spending, where they are spending it, and what value they are getting for their buck. Operators in the sector could shift their strategy and consider franchising opportunities to reap the benefits that come with the model – and meet the needs of a reimagined and more conscious market. Some of these benefits include:

**Established brand recognition:** One of the primary advantages of franchising in the tourism sector is access to a well-established brand. This greatly reduces the time and effort required to build brand awareness and attract customers. Travellers often rely on familiar and reputable brands when making their choices, and often the brands that are spoken about are the most well-known and well-loved ones. Being associated with an experiential brand that people are talking about, makes it easier for franchisees to tap into an already primed customer base.

**Economies of scale:** Franchising allows businesses to achieve economies of scale by centralising certain functions such as marketing, purchasing, and technology. This can result in cost savings for individual franchisees, making it more financially feasible to enter the competitive travel market.

**Training and support:** Franchisees benefit from the training and support provided by the franchisor. In the tourism sector, where industry knowledge and customer service are crucial, this support can be invaluable. Franchising usually also offers a centralised training facility which means that no matter where their business is situated, travellers know exactly what to expect in terms of service levels, and quality can always be controlled. Franchisees receive guidance on everything from operations and marketing to customer service, ensuring a higher likelihood of success.

**Access to exclusive deals and partnerships:** Established tourism franchises often have access to exclusive deals, partnerships, and discounts with airlines, hotels, and other service providers. In a country like South Africa, where so many tourists are coming for the array of experiences on offer, having access to more options enhances the value proposition for customers but also provides franchisees with a competitive edge in offering attractive packages and pricing.

## Harnessing the potential of franchising

As a prime tourism destination, the country has the potential for massive growth now that the industry is taking off again. To take advantage of this growth it is time for tourism businesses to think bigger – and franchising gives them the space for this. For example, a small-scale adventure operator can exponentially expand and grow their business if they use a franchise model. This kind of growth is good for the provider, good for attracting visitors, and good for a viable economic shift for the sector.

However, as with any opportunity, it is important to remember that there are some disadvantages to consider. Operators must factor in the start-up fees, as well as the ongoing licensing fees required to remain within the franchise. There is also the downside of a lack of flexibility to make changes and deviate from the brand, as well as a lack of authenticity in the market.

While franchisees benefit from the established brand and support system, they must adhere to the franchisor's rules and guidelines. This lack of autonomy can be restrictive for those who prefer to make independent business decisions. Before embarking on a franchising journey, thorough due diligence that takes into account both the advantages and disadvantages must be conducted.

In 2019 the sector's direct contribution to South Africa's GDP was 3.7%, or R209bn. With South Africa recently being honoured by the UK's Telegraph Travel publication with the title of "Best Country" and the city of Cape Town claiming the coveted title of "Best City in the World", it is possible to reach and even exceed that number. Finding the nexus between franchising and the development of the tourism sector could be the start of that trajectory.

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