AFREXIMBANK

Africa Franchise Report: A Study of Franchising in Africa

African Export-Import Bank
Banque Africaine d'Import-Export

Transforming Africa's Trade

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Executive Summary

Introduction

The African Export-Import Bank (Afreximbank), a pan African multilateral financial institution established in 1993, commissioned a market study on the franchising sector in Africa, of which this report is the product. Afreximbank, under the Create and Connect pillars of its Intra-African Trade Strategy, has prioritised franchising as a critical instrument to unlock opportunities for entrepreneurs, especially small and medium enterprises (SMEs), that are seeking new business ventures on the African continent.

This report presents findings of market research on the franchising sector in Africa. It is made up of eight chapters, which cover the scope of the study and research methodology, key research findings and outputs concerning the development and current state of franchising on the African continent, untapped and emerging opportunities for transforming the franchising industry in Africa, and recommendations of possible roles for Afreximbank and other partners to facilitate the development of franchising on the continent.

Scope and Methodology

To achieve the study's overall objective, an in-depth analysis of 18 countries was conducted, representing all five regions of the continent (Southern Africa, East Africa, West Africa, Central Africa, and North Africa). The research study was undertaken in three phases that mapped and identified the roles of important stakeholders and market holders, examined the policy and regulatory environment (including identifying the roles and impact of institutions and other authorities facilitating the growth of the franchising industry in Africa), and uncovered market potential, opportunities, and gaps. The study made use of both primary and secondary data through interviews, an online survey, and desk research.

Several limitations were identified both at the onset and during the study. The COVID-19 pandemic and the need for social distancing and travel restrictions made it difficult to effectively gather information and engage with stakeholders. As a result, engagements were mainly conducted online using Zoom, Microsoft Teams, or Google Meet. Survey responses from stakeholders, generally low even under normal circumstances, were also negatively affected, further impacting the response rate. Given the scope of the study and time limitations, instead of reviewing the entire continent, a decision was made to limit the study to a representative 18 countries.

Franchising and Franchise Systems

Business Format Franchising and Product Distribution Franchising were identified as the most popular methods of operation. The continent also has a high prevalence of micro franchising, and, to some extent, social franchising. In Business Format Franchising, the franchisor provides the franchisee with its trade name, products and services, training, brand standards and marketing support, and the entire business operating system. With Product Distribution Franchising, the franchisor gives the franchisee licenced rights to sell a product or perform a service as a dealer.

Mapping Africa's Franchising Sector

The study revealed that, apart from South Africa, Nigeria, and the examples within the Northern Africa region of Arabic/French and Arabic/English-speaking sub-regions, the franchising sector on the continent is not well-developed. The study also noted the prevalence of major South African and Zimbabwean franchise brands, which have expanded beyond their borders (outbound) within the Southern Africa Development Community region and beyond.

Common challenges from a franchising perspective across the continent include:

- A weak ecosystem which serves as a constraint to the franchising business model. The countries examined in the report have a variety of constraints at both the macro and micro levels. Key aspects of the ecosystem in the countries were found to be weak for franchising, including the lack of access to capital/financing, limited skills, and policy vacuum.
- General bias towards in-bound franchising, which tends to require the importation of some goods.
- Limited and costly access to finance.
- Unavailability of competent and financially qualified franchisees to oversee franchise operations.

Conversely, opportunities exist in the region. Shifting consumer patterns offer potential for a strong franchise market and the respective governments have expressed willingness to support franchise development. These opportunities include:

- Growing a relatively untapped market for a broad range of franchise concepts across sectors supported by infrastructure development, creating markets opportunities beyond the commercial capitals.
- Using technology and leveraging diaspora communities as crucial sources of foreign direct investment.
- Emerging business arenas such as e-commerce, renewable energy, green initiatives/recycling, convenience, and technology.

The African Diaspora

The study identified the African diaspora as a potent financial and non-financial force for franchise development for countries of origin through remittances, promotion of trade, investments, research, innovation, and knowledge. The diaspora can play three distinct roles in the development of the African franchising sector:

- Africans living in the diaspora can take African-developed franchise concepts to other parts of the world where they live.
- Africans in the diaspora can develop and run businesses which may or may not have an African theme.
- Africans returning home from the diaspora stand a good chance of successfully settling back on the continent if they are able to bring foreign franchises that can resonate with the African market people.

Notably, surveys and interviews with various respondents in the diaspora revealed the following concerns related to investing in Africa:

- Political and social instability.
- Lack of legislative frameworks and policies.
- Lack of support from the financial sector.

Creative Sector in Africa as an Avenue for Franchising

Unlike traditional franchised industries, the creative sector typically requires lower capital investments and minimal retail space. Whether health and beauty, film, music, fashion, or art, the creative economy is a key and thriving part of the African economy. Nigeria's booming film and music industry contributed US$1.8 billion to the nation's GDP in 2020 and continues to grow at the rate of over one percent per year. Africa is also producing talented music artists recognised internationally with Grammy and other awards. The Atlantic Council in 2018 estimated that the creative and cultural industries have generated about US$4.2 billion continent-wide.

Africa Continental Free Trade Area

The African Continental Free Trade Area (AfCFTA) creates cross border expansion opportunities that can benefit the development of franchising through its Trade in Goods regime and the Protocol on Services. However, as franchising is not well established across Africa, appropriate interventions are required to ensure the Services Protocol promotes franchising as an expansion mechanism to boost continental trade. It is also possible to include franchising in the negotiations on the AfCFTA Investment Protocol and AfCFTA Intellectual Property Protocol.

Financing and Franchise Development

The study explored the link between finance and franchising development and analysed the role of finance in facilitating franchise operations. Evidence obtained during the study led to the following findings:

- The extrapolated market size for franchising finance in Africa was estimated at US$93.9 billion, with the total supply of franchise finance estimated at US$37.6 billion. In addition, the current size of the franchise financing funding gap is estimated at US$7.51 billion.
- The unencumbered cash contribution required from franchisees, (a franchisee must have access to cash in liquid form, not from a bond or other loan), is restrictive. There is need to both fund new franchise developments and assist the growth of existing franchises.
- The financing required by franchisees is used to fund activities including the cost of property, furniture and shopfitting, inventory, machinery, and operational and expansion costs.
- Most commercial banks and other financial institutions on the continent do not offer specific financial solutions for the franchise sector.
- Commercial banks are unwilling to fund the establishment of franchises.

Limited awareness and understanding of franchising in general have significantly constrained development of franchising on the African continent.

Institutional Landscape – Legal and Regulatory Frameworks

Franchises on the continent are regulated in four different ways. The first includes countries that have specifically provided for franchising in their legislation. The second is countries that have referred to franchising in other legislation. The third category covers those countries with no specific mention of franchising in their legislation but with laws bearing on the industry. The fourth category comprises countries that have left franchising to self-regulation. Among the key findings of this report was that only two African countries, Tunisia and South Africa, have directly regulated franchising.

African countries seeking to stimulate their economies through franchising need to comply with international data protection standards because of the information shared between franchisors and franchisees, and to consider intellectual property protection implications related to inbound franchising.

Global Experiences and Lessons

Case study reviews conducted in the United States, Brazil, and South Korea found these countries to have advanced franchising sectors, notably the US, where franchising as a business concept and model originated. The case studies offer insights that may inform the development of franchising on the African continent. These include where franchising has seen the highest growth and in general technical and institutional requirements needed for franchising to flourish.

The US case study provided important insights including:

- The high employment potential of a well-developed franchise sector;
- its general resilience in the face of economic uncertainty;
- the country's well-defined, structured regulatory scheme, which creates an enabling environment for franchise development;
- the diversity and flexibility of financing options and products; and
- education and training on franchising.

As part of the case study, examples of successful franchises were canvassed, utilising the evolution and development of South Africa's Nando's franchise as a comprehensive thematic case study to identify critical success factors and key lessons learned, and as an example of successful outbound franchising.

The lessons noted from the success of Nando's include:

- Its effective use of the Master Franchising model, enabling expansion both continentally and internationally.
- The extensive market viability assessments and due diligence it undertakes in every country in which it seeks to expand.
- Use of both commercial banks and private savings by the franchisee to meet financial set up cost requirements.
- The critical benefit of developing solid partnerships between the franchisor, the franchisee, and local suppliers, and recognition of the pitfalls of an aggressive expansion strategy.

Transforming the Franchising Landscape

Franchising has the potential to drive the next phase of growth for the African continent. Undoubtedly, the franchising sector is a critical yet often overlooked potential path to economic growth. With 55 countries in the African market, many and fragmented, scaling a business on the continent presents many challenges.
All stakeholders must take active charge in the development of franchising on the continent.

To transform the franchising landscape, this investigation finds it necessary to:

- Enable comprehensive operational systems for franchising:
  The legal and regulatory environment is inconsistent across different countries on the African continent. It is crucial to harmonise the legal and regulatory environment as part of a strategic effort to grow and transform franchising.
- Foster awareness of the franchising model for SME development:
  Access to information of the benefits of franchising as a robust option for business growth and development are lacking in many parts of the African continent.
- Bridge financing gaps:
  The failure to introduce tailored financing solutions by the commercial banking sector is a barrier to African entrepreneurs and SMEs overcoming the challenges of the high start-up costs for franchising.
- Build skills and capacity:
  Building skills and capacity within the franchising sector (both inbound and outbound) requires partnerships and collective actions among stakeholders including academic institutions, governments, and industry groups/trade associations.
- Foster engagement between franchisors and potential franchisees:
  Trust is an essential asset in business development and significantly so in an environment where franchisors and franchisees must form a business relationship.
- Enact stable, forward-thinking policies:
  This is country specific. Putting in place policies that promote an enabling environment for franchising and franchise agreements is critical and must include targeted policies. Franchising will benefit from significant government support and policy assistance.
- Protect intellectual property:
  Franchise agreements authorise the franchisee to use the trademark, patent, or other intellectual property related to the franchise. This right of use forms a basis of the underlying value of the franchise. Intellectual property protection laws revolve around several key elements. Intellectual property must be registered to enhance the rights of the franchisor, to enhance enforceability, and to better transfer technology key for African countries.

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