

***Madam Chairperson,  
Honourable Members of Parliament,  
Ladies and Gentlemen***

Thank you for this opportunity. My presentation revolves around Massmart's intent to set up a R100m fund to be used for supplier development. Although I agree that R100 m is a large sum of money, I also know that in terms of existing needs it is merely a drop in the ocean – UNLESS we find a way to multiply the fund's impact.

I propose to use tried and tested franchising principles to do just that. However, you are obviously a very diverse audience and some of you may not be fully familiar with franchising. For this reason, I will briefly explain how franchising works and why the concept is so attractive in the context of the Walmart/Massmart deal.

Although franchising has been with us for over five decades, we haven't even scratched the surface yet. Over 500 franchised brands are represented in South Africa. This includes some world icons like McDonald's and KFC but most of our franchised brands are home grown. Unfortunately, very few opportunities at realistic entry level are on offer. This means that franchising is underdeveloped at the very level where we need it most and I will show how we can change that. To sum up:

**I will demonstrate that by allocating a relatively small portion of the Supplier Development Fund, perhaps 10%, to the development of a franchised network we will magnify its impact by creating a meaningful number of sustainable small businesses and jobs while addressing several other pressing social issues.**

### ***What is franchising?***

As a courtesy to those of you who are familiar with the concept, I will be brief. Should anyone want to know more about franchising, several excellent books on the topic are available; I can provide additional information on franchising and details on the books and welcome your calls in this regard.

Franchising is practiced in South Africa for over 5 decades. It originates from the US and operates in the same way all over the world, currently at three levels:

- Business format franchising
- Brand name or trademark franchising
- Microfranchising.

My presentation focuses on business format franchising and microfranchising.

**A BUSINESS FORMAT FRANCHISE** involves 2 parties, namely the franchisor – the grantor of the franchise – and franchisees – the recipients of the franchise. Creating and operating a bona fide franchise is a complex undertaking that involves several stages.

## 1. Preliminary considerations

To start with, you need a profitable business that is ready to expand. At that point, the entrepreneur has several options including setting up branches or franchising. Franchising is attractive because franchisees:

- Are responsible for financing the venture.
- Manage the business hands-on and are contractually obliged to follow the franchisor's guidelines to the letter.

Because the franchisees' own money is at risk, their level of commitment is much higher than that of salaried managers.

## 2. Preparing the franchise package

You can not franchise an idea, and you can not franchise a business on a whim. A franchise is seen as a blueprint to business success. The franchisor will not guarantee success but must show the way. Before a franchise can be launched, much preparatory work needs to be done:

- A trademark must be registered
- The product as well as the systems and procedures used to operate the business must be honed to perfection
- Detailed guidelines for the operation of the franchise at franchisor level must be developed.
- The franchise documentation, namely the disclosure document, the operations manual and the franchise agreement, must be created.

South Africa has a solid body of franchise knowledge and most of South Africa's franchisors have tapped into this knowledge to build workable franchises. As a matter of fact, most of South Africa's franchise brands are home-grown.

Unfortunately, because the sector was unregulated, some cowboys infiltrated the sector and took unacceptable risks with other peoples' money. A few fraudulent transactions also took place. This is now largely a thing of the past – the new Consumer Protection Act has put a stop to this. The act deals extensively with franchising and prescribes, among other things,

- Full disclosure
- The granting of two cooling-off periods
- The delivery of value for money throughout the franchise relationship.

### **3. Franchisee selection**

In a properly structured franchise operation, the franchisor makes its money from ongoing fees. The more profitable the franchise the more money the franchisee and the franchisor will make. This encourages franchisors to select franchisees on merit. The ability to support the required investment is important but should never be the overriding consideration.

### **4. Initial support**

Once selected, a new franchisee is trained to operate the business profitably. Depending on need, franchisors also assist with site selection, lease negotiations, sourcing of equipment, loan application, statutory registrations and the selection and training of staff.

Franchisors insist that their franchisees operate under a formal business structure and comply with all legal and statutory requirements. This includes adherence to labour legislation and the payment of taxes and other fees.

### **5. Ongoing support**

Unlike purveyors of business opportunities or distributorships, franchisors provide, in addition to a comprehensive blueprint for the operation of the business, comprehensive ongoing support. This will vary according to industry sector needs but some examples follow.

- Market research and product development
- Brand building and marketing initiatives
- Group buying opportunities
- Quality control
- Regular support visits involving business assessment and problem solving
- Ongoing training initiatives for franchisees and their staff
- Opportunities to interact with Head Office personnel and other franchisees.

It is the provision of a comprehensive business concept and ongoing support that makes business format franchising so successful.

## ***Financial aspects of franchising***

Franchising is a business concept and as such, money plays an important role, both for the franchisor and the franchisees.

### ■ **Franchisor's costs**

- **Initial development costs** include business concept development, intellectual property design and protection, other professional fees and the establishment and operation of the support infrastructure.
- **Ongoing costs** arise from the need to maintain a head office infrastructure that recruits new franchisees, looks after concept development and provides franchisees with extensive ongoing support.

### ■ **Franchisee's costs**

- **Initial costs**
  - Upfront fee
  - Infrastructure investment
  - Working capital.
- **Ongoing costs**
  - Business operating costs
  - Management services fee
  - Contribution to the network's marketing fund.

**OTHER TYPES OF FRANCHISES:** I mentioned two variations to the basic concept namely product franchises and microfranchises.

**A product franchise** provides the franchisee with some corporate identity and a product but only very limited ongoing support. Because business has become very competitive of late, product franchises are becoming less popular, with most existing ones converting to business format franchises.

**Micro franchising** is another story altogether. I believe that it holds the key to economic prosperity for many South Africans. Although "micro" indicates small, for a micro franchise to succeed, the components that have made business format franchising successful must be kept intact. They need to be scaled down rather than watered down.

The surprising thing is that while microfranchising appears to be popular throughout the rest of Africa and in other developing countries around the globe, I have yet to come across a successful local micro franchise concept and we need to change that!

## **How franchising can solve six problems all at once**

After this lengthy but necessary introduction I now come to the central point of my presentation. I believe that giving speeches about what should be done is useless unless the speaker is prepared to actually do something about it. This is why I want to propose a franchise project that has the potential to make an impact in at least six different areas, namely:

1. The creation of sustainable small businesses and capacity building
2. Job creation and skills transfer
3. Improving the quality of life for people living in remote areas
4. Creation of sustainable BEE initiatives
5. Reduction of carbon emissions and deforestation; taking pressure off the Eskom grid
6. Creation of manufacturing capacity linked to the creation of additional jobs, savings in foreign exchange through import replacement and export potential.

### ***Introducing SolarInstall (Pty) Ltd***

**I propose to allocate a small portion of the Supplier Development Fund, probably less than 10%, to the creation of a microfranchise network.**

#### **1. The infrastructure**

Massmart forms a new company, for ease of reference, let's call it SolarInstall. This company can be a wholly-owned subsidiary of Massmart or it could be structured as a BEE venture.

#### **2. The product range**

Massmart sources high quality solar panel kits for installation in homes and small commercial buildings, for distribution through Massmart stores (Builders Warehouse, Makro and Game). As soon as the programme is operating smoothly, solar water heaters and other solar products, for example small solar lanterns and solar powered appliances, can be added to the range.

#### **3. Concept development by SolarInstall**

- 3.1 Setting up of a pilot operation with the necessary capacity to install solar panels in households and small commercial buildings.
- 3.2 Developing a comprehensive microfranchise package.
- 3.3 Recruiting suitable formerly disadvantaged individuals as franchisees and training them in correct installation and maintenance procedures as well as basic business skills. Training could be outsourced to an accredited institution that offers certification. This creates another BEE opportunity.
- 3.4 The programme is rolled out at national level as a microfranchise.

## 4. Ongoing operation

### 4.1 Business concept

- End users purchase their solar panel kits from Massmart stores together with an optional installation voucher and arrange installation through the nearest SolarInstall franchisee.
- Franchisees are paid by SolarInstall against presentation of installation vouchers (which will be signed by the end-users).

### 4.2 Franchisor operation

- SolarInstall recruits and trains franchisees before assisting them with all aspects of setting up and operating a SolarInstall microfranchise according to detailed specifications.
- On an ongoing basis, in addition to fulfilling the standard responsibilities of any franchisor, SolarInstall carries out periodic quality audits at end user installations. This is vital to protect the brand!

### 4.3 Franchisee operation

- Franchisees undertake installations and perform ongoing maintenance services. The latter are direct deals between the franchisee and the end-user but subject to adherence to prescribed performance standards.
- At smaller locations where Massmart does not have a footprint, SolarInstall franchisees will sell, install and maintain solar products sourced from Massmart or a nominated supplier.

## 5. Long-term potential

Over and above its potential to solve many of our local problems, this project has significant long-term potential on several fronts.

- 5.1 Adaptation of the concept:** The concept can be adapted to the requirements of other industry sectors, with the installation of shower cubicles, curtains and blinds only one example.
- 5.2 Export of intellectual property:** The concept, once perfected, can be offered as a master licence in other countries. Depending on appetite for risk, it could also be rolled out as a direct franchise.
- 5.3 Local manufacture:** Massmart's purchasing power would create the economies of scale needed to produce quality solar panels in South Africa. This will save foreign exchange, bring down prices and create export potential for the panels itself.

## ***Financial implications***

I hope that I have given you a lot to think about but one thing is still missing: We need to look at the financial implications of this proposal. I must stress once more that at this point, SolarInstall is a concept that exists only in my head, no costings exist. What I can say with confidence is that the project will work and that the necessary investment is feasible. I have been involved in two similar projects in the past and know what it takes to bring them to fruition.

### ■ **Franchisor investment**

Because the all-important distribution network (Massmart-owned stores) is already in place, start-up costs will be manageable. I propose funding to be drawn from the Supplier Development Fund.

### ■ **Franchisee investment**

At the start-up stage, franchisees will need little more than a toolbox and a mode of transport which could be a sturdy motorbike or a bakkie. In villages they will be able to operate from their homes, initially at least. This keeps working capital requirements low. Given the target population for this concept, candidates are unlikely to be able to access these funds in full.

It will be prudent to insist on a small contribution from own resources, the balance could be financed by commercial banks with the backing of the Supplier Development Fund which acts as surety. As loans are repaid, the money is freed up for re-investment in the same or another project.

## ***Potential of the project***

The potential of the project is immense. According to most recent census figures I could get my hands on, South Africa has close to 9 million dwellings. A breakdown of their energy usage patterns makes interesting reading.

<b>Energy Usage by South African Households*</b>			
Energy source	Used by percentage of households		
	Cooking	Heating	Lighting
Grid electricity	47%	46%	58%
Wood	23%	28%	
Paraffin	22%	15%	13%
Candles			29%

\* based on the latest census figures available to me which are clearly outdated.

**It is clear that all dwellings that use wood, paraffin and candles are potential customers for solar power but there is more.**

- Almost all upmarket homes are targets for emergency lighting installations. We can add to this all those homeowners who want to “go green” (or secure independence from grid supply); they will be interested in a comprehensive solar panel installation.
- At the lower end of the scale, one-panel installations providing basic lighting (which could be subsidised by Eskom) are feasible. Alternatively, these dwellings may want to purchase solar lanterns which, because energy costs are nil, can be amortised over 6-8 months through savings on candles.

A project of this nature is currently being rolled out in Botswana; it enjoys the support of the Botswana Government through the Botswana Power Company and the UNDP.) Another project, albeit at a smaller scale, is presented by a UK-based registered charity with offices in Nairobi in the remote areas of Kenya.

## **The way forward**

The project is entirely feasible. Buy-in by Government and quasi-government institutions is necessary but I do not believe that the project lends itself to implementation by Government or quasi-government institutions. Experience has taught me that private enterprise is better equipped to handle implementation of a project of this nature. This is why I believe that participation of Massmart at an entrepreneurial level would be even more important than a possible financial contribution. I sincerely hope that they do come to the party!

Regarding capacity building, I currently have no mandate from these organisations but I am confident that several bodies including the Franchise Association of South Africa, Franchising Plus and Eskom, would be willing to come on board.

At a personal level, I would like to extend an invitation to anyone who wants to discuss this particular project or discuss how franchising could be utilised in the creation of viable business opportunities and jobs to contact me.

I thank you!