



2016 Top Markets Report **Franchising** Country Case Study

South Africa

Franchising has become more popular in recent years, as it is perceived to be an effective way to conduct and grow successful businesses across a range of industries. Franchising also plays an important role in furthering the development of small and medium businesses. Job creation, poverty alleviation, economic growth and black empowerment rank high on the South African government's agenda, and there appears to be a growing recognition by the South African government (SAG) that franchising can be an effective business model to address these needs.

Overall
Rank

5

There are over 550 franchised systems and over 30,000 franchised outlets in South Africa today. Franchising contributes approximately 9.7 percent of South Africa's GDP and is an important job-creator and driver in the country's economy, in addition to having one of the highest business success rates. According to the latest data, total turnover for the sector was approximately R 302 billion in 2013.

Approximately 40 percent of franchises are located in the Gauteng province, particularly Johannesburg and Pretoria, which is the economic powerhouse of both the country and the African continent. Food franchises make up about 25 percent of total franchises, with some segments that are considered saturated, such as pizza and burgers. Other franchise concepts, such as B2B services, automotive, elder-care and education, are also making inroads into the market.

Patterns within existing franchises are changing due to economic belt-tightening by the population and changing consumer behavior. Some franchise owners are starting to develop smaller, more cost-effective models with reduced fees, lower start-up costs, fewer employees and less expensive rentals. Franchise owners are exploring new, less expensive locations beyond shopping and strip malls and are developing models such as stand-alone kiosks, corporate catering, campuses and sporting events.

Other developments include incorporating a brand within a convenience store or a service station. Some franchises have found success by operating in tandem with non-competing brands.

Almost 90 percent of franchises are locally developed, and around 12 percent of master licenses are international. Some of the bigger South African franchisors, such as Famous Brands and Nando's, have expanded to other regions in Africa. Notable challenges include limited access to finance, as banks tend to be more cautious in the financing of franchises. This translates into a relatively small pool of entrepreneurs and companies with the ability to finance master licenses of popular international brands. U.S. iconic brands, like Pizza Hut and Krispy Kreme, are the most recent entrants into this market.

Several business laws apply to franchising and copyrights, such as the Consumer Protection Act, Copyright Law, Common Law, Contract Law and Intellectual Property Law, all of which are vigorously enforced.

Service-based franchises, such as automotive, home improvement, and health and fitness, have experienced the fastest growth in South Africa for the past number of years, but fast-food still remains

a strong opportunity, as consumers look for good value meals and convenience.

South Africa has a strong eat-out culture. Certain segments are looking for a good value for money meal with well-sized portions. South Africa also has a comparatively good infrastructure from a logistical perspective. New entrants, however, meet strong competition from home-grown brands. U.S. brands interested in entering the market must do their homework thoroughly, as the market is very fragmented. Understanding the target market and effective brand communication will determine the success or failure of the product.

World Economic Forum’s Global Competitiveness Index (GCI):¹

South Africa rose in the competitiveness index in large part due to improvements in its internet, practices in combating corruption, innovation in business and efficient transport infrastructure.

South Africa	
Competitiveness Index	Score (1-7)
Government/Regulatory	4.3
Labor Force	2.9
Infrastructure	4.8
Demand/Business Factors	4.7
Industry Interest*	6.5
4.64 Total	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	54.0 million
GDP	350.1 billion
GNI, per capita (PPP)	\$12,700
Income Level	Upper Middle
Unemployment	25.1%
Inflation	6.4%
World Bank	

Government/Regulatory

South Africa has been able to reduce corruption and regulatory burdens to help open up its economy to foreign investors. Although still a major issue, South Africa has improved the security situation, which has been identified as a concern for investors. South Africa boasts a robust and independent legal system.

Labor Force

South Africa’s inadequate healthcare system and low quality of its education system are major worries for businesses that want to invest in South Africa.

Infrastructure

South Africa has the continent’s most efficient financial market, which is important for franchise concepts. South Africa possesses an efficient transportation infrastructure to move goods within its borders. Internet bandwidth and reliability has also improved. An inefficient electricity supply is a major concern for businesses interested in expanding into South Africa.

Demand/Business Factors

In the African region, South Africa’s 54 million people are intriguing for franchise concepts to enter the region and can serve as a spring board to other markets.

Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, South Africa was ranked fourth.

Resources

South Africa - U.S. Commercial Service
<http://www.export.gov/southafrica/>

South Africa - Country Commercial Guide (CCG)
<http://export.gov/ccg/southafrica090960.asp>

Franchising – South Africa
<http://apps.export.gov/article?id=South-Africa-franchising-best>

South Africa - Protecting Intellectual Property
<http://apps.export.gov/article?id=South-Africa-protecting-intellectual-property>

South Africa - Corruption
<http://aaps.export.gov/article?id=South-Africa-corruption>

Industry Expert's Take:

South Africa is beginning to open up to foreign franchise brands. Food and beverage is the leading sector. The current franchise market is mostly old local brands. Hard currency export challenges exist. Established franchise companies are tough to convince to take on a new foreign brand.

William Edwards, Edwards Global Services, Inc., December 15, 2015.

¹ World Economic Forum, The Global Competitiveness Report 2015-2016