

# Franchising for success in a challenging environment

 By Lauren Hartzenberg

2 Sep 2020

Despite the devastating economic impacts of Covid-19, the franchising sector could remain a viable business investment for aspiring entrepreneurs if they're smart about the brand they buy into and are prepared for the commitment required from a franchisee.



According to a 2019 survey conducted by the Franchise Association of South Africa (Fasa), the sector [contributed R734bn](#) (almost 13,9%) to South Africa's overall gross domestic product through its more than 800 franchise systems, with 48,000 outlets collectively employing close to 1 million people.

"In South Africa we must create jobs. As a franchisee, you'll become an entrepreneur, but you'll also create employment," said Cash Crusaders CEO Sean Stegmann during a recent Franchising for Future Success webinar hosted in partnership with 702.



The job-generating, economy-boosting benefits of franchising

10 Sep 2019



As a non-essential service, Cash Crusaders' 225 stores were closed for 66 days during the hard lockdown, but have bounced back with the company reporting a revenue increase of 16.1% YoY since it resumed trade.

The retailer attributes the positive recovery to its team of dedicated franchisee owners and its **multifaceted franchise model that revolves around three profit centres: used goods sales, loans and new goods sales**. The latter has fared especially well, with sales of Cash Crusaders' private label new goods brands up 50% YoY in June and 42% in July.

## SMEs hardest hit

Cash Crusaders' positive results are in stark contrast to the experience of many other businesses in the country, which have been forced to shed numerous jobs or shut down entirely.

Stegmann was joined in the webinar by business development expert Pavlo Phitidis, who said that the pandemic has shattered lives and businesses, but that South Africa's SME economy has borne the brunt.

"Firstly, leading up to the Covid shock that we all experienced in our economy, the general SA economy has been in regression. Secondly, especially in the retail space and in retail franchises where you rely on reliable, predictable electricity to keep your stores open, there's been inconsistent supply of electricity. And then the final piece is that in the overall general economy, without an economic growth strategy in place, there has been no growth," Phitidis explained.

He added, "What is so sad about Covid is I saw early shoots of the SME economy gaining lost ground from the previous two years, and when [Covid] arrived, most of those businesses in the SME economy had no reserves left - they'd been depleted over the last year or two years - and they really faced their demise in the first three months of what we've been through since lockdown."



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## Fast-tracking innovation

Phitidis did however point out that the changed business environment has disrupted the status quo, which presents opportunity for innovative businesses. **"If you're a small businesses and you've wanted to launch a new product, now is a good time to introduce new ideas,"** he said.

He said that what led to your success prior to Covid-19 must be different to what leads to your success after the pandemic, adding that you need to take your business to your customers digitally – onto their mobile devices and into their homes.

Stegmann said that the pandemic fast-tracked Cash Crusaders' e-commerce strategy, which has become a necessity in the current business environment. The company also launched a [WhatsApp service](#) during lockdown, through which the stores conduct new and used good sales, and negotiate the buying or pawning of an item with a customer before they even enter the store.



## Cash Crusaders introduces WhatsApp service

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Fellow webinar panelist, Fasa chairperson Akhona Qengue, said the association has seen increasing interest in the franchising business model recently. "It's a trusted business model, it's a bankable business model, and funders love our

concept," she said.

She noted that **franchise brands tend to fare better during periods of uncertainty**, especially considering the current heightened awareness around health and safety in social spaces, because consumers gravitate towards brands they know and trust to enforce standards.

According to Qengue, franchise industries that have picked up recently include fast food, which experienced double-digit growth in deliveries once trading resumed due to pent-up demand, and the second-hand car market as the lockdown has made people realise that investing in a new car just for it to be parked in a garage may not be worth it.

## Finding a good franchising fit

Franchising may be a trusted and recession-resistant business model in South Africa, but Qengue urged interested entrepreneurs to do the following groundwork before investing in a franchise brand:

- Consider a franchise within an industry you're passionate about or have some experience in
- Verify that what you're wanting to buy into is a franchise and not just an operating licence. A franchise will typically offer more support and help business owners set up and get operations in order
- Understand the franchise brand's systems and process, and the fees you'll be paying on a monthly basis – like royalty fees and marketing fees – and what they cover
- Speak to existing franchisees about what their experience has been with the brand



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Phitidis echoed the above, saying that prior to investing, **entrepreneurs must ensure that they believe in the business, have an affinity for the product, the customer and the service**. "You can be guaranteed that it will be a lot harder, revenue will be half of what you expect and costs will be double. So if you don't have a passion for it, you won't make it."

He added that the most successful franchisees go beyond the expectations of the franchise model, and that it's crucial for business owners to motivate their teams to bring in business to boost growth.

With Cash Crusaders, Stegmann said when he interviews all aspiring franchisees, he's not looking for an investor but somebody with an owner-operated mentality who is prepared to be heavily involved in the business.

To learn more about how Cash Crusaders is responding to the pandemic and what's required to run a successful franchise business, watch the full webinar below:

**UPDATE: Cash Crusaders no longer offers franchises.**

## ABOUT LAUREN HARTZENBERG

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