

# Is franchising services the silver lining in a stagnant economy?

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25 Jul 2017

The appeal of franchising is widespread. While other businesses often struggle to keep a positive cash flow in times of stunted economic activity, franchising remains resilient and typically shows positive growth rates. This is particularly true for the franchising services category which comprises 27% of the total franchising industry and has a combined turnover in excess of R133 billion per annum.



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The services sub-sector is made up of a variety of brands ranging from day-to-day necessities in the automotive and telecommunications sectors, to pampering and indulgence in the beauty and cosmetics segment. Each market comes with its own set of obstacles and opportunities that are driven by industry-specific trends:

## Automotive

Following last year's trends, the growth rate for new vehicle sales remain under pressure as cash-strapped consumers are keeping their vehicles for longer periods before they replace. The result is that the fleet of cars on South Africa's roads are getting older and more units are moving out of their maintenance and service plans.

South Africans, therefore, need to service and replace parts at own cost – making the auto services franchise group particularly favourable. Further growth opportunities exist for franchises to effectively market their competitively priced products and services as a viable alternative to dealerships.

Even if the economy shows unexpected recovery and growth, the auto services franchise industry will still thrive as higher disposable income will see a new wave of entry level consumers who will replace those customers who upgrade their vehicles to new ones under maintenance plan.

## Telecommunications

The role players in the telecommunications franchise sector are mainly the three largest mobile networks in the country. Despite being under fire from regulators for high data costs, this industry continues to grow. This upward trend is due to the

growth of customers accessing the internet from their mobile devices: 61% of South Africans access the internet from their mobile phone and 80% of them use [mobile data to do so](#). This industry will continue to enjoy high levels of growth providing the costs of data can be adequately addressed.

Another supporting segment to telecommunications is cellphone and other device repair services. Much like the automotive industry, aftermarket repairs is becoming more favourable - people are repairing rather than replacing their mobile devices. Within the device repair space there is increased competition from independent service providers who are often seen as more accessible and affordable.

However franchise service providers will still stand a cut above these as they have existing relationships of trust with customers because of a wider network of franchisees and thus footprint. This is supported by the fact that purchases from their stores come with product quality guarantees as well as a stamp of approval from the brands themselves.

## Beauty and cosmetics

This industry continues to see positive growth – even acting as a driver of job creation as its entry level requirements are generally lower than that of other industries. The beauty industry presents an interesting paradox: even though consumers tend to cut down on so called “luxuries” when they have less disposable income, people still strive to spoil and pamper themselves. The change is seen in what their hard-earned money is spent on. For instance, rather than going to a spa, a woman will choose to get her nails done. That way, she still feels she is treating herself, but at a fraction of the cost.



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## Building and building supplies

This industry’s performance tends to fluctuate directly correlated with the economic climate. In times of financial constraints, planned renovations and construction work is typically put on hold. Maintaining quality and investigating ways to lower costs is essential for franchises in this sector to remain competitive and attract customers.

Evaluating and adjusting procurement practices can be one way to do this. An important factor to also consider is the location of where the store is being opened. Building franchises specifically, perform much better in areas and suburbs where newly built complexes and houses are rife because home owners are more likely to undertake work on their homes.

Another area of potential growth relates to franchises that contract independent or informal builders and handymen. By upskilling and training these workers, they can be integrated into the service and building industry’s supply chain thus creating more jobs and growing the industry.

## Eye care

Eye care is a necessity and is typically supported by medical aids. Consider though if financial difficulties cause consumers to cancel their medical aid memberships, then franchises in this industry will begin to feel the pressure more keenly. It would become critical for these franchises to revert to more affordable solutions to attract customers.

## Education

Private schools and colleges are mushrooming for the simple reason that South Africans are looking to provide their children with skills that make them more employable. Growth is therefore expected to continue in this field. After-school support, however, is not seeing the same levels of growth (i.e. additional educational classes for maths and science). Although there is currently still demand for these services, there is not as much growth as in the private college space.

## Utility services

The demand for utility services, particularly water purification), is expected to boom thanks to a number of factors that include the increasing challenge around South Africa's quality and supply of water and resulting health awareness. It is going to become important for franchises in this space to look at upstream supply, as well as to position themselves as responsible service providers and drive education around the importance of water.

Historically, the franchising services sector has shown healthy growth despite challenging economic times. All indications are that it will continue to grow and positively contribute to the economy - especially if franchisees focus on providing quality products and top-class customer service.

## ABOUT THE AUTHOR

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