

# Franchising and the need for agility during a pandemic

By [Morne Cronje](#)

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We know that our economy is challenging, and that the world is changing rapidly. The novel coronavirus has brought more challenges for our economies, in South Africa and around the world. The ability to "quickly reconfigure strategy, structure, processes, people, and technology toward value-creating and value-protecting opportunities" - McKinsey's useful definition of agility - is key to survival in this environment, especially with the challenges that we are currently faced with.



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You can imagine a company that is perfectly set up for agility. It's got a healthy balance sheet, so it can afford to take risks. Perhaps it's in fintech or cloud computing: something that's technologically advanced and light on manufactured capital. It's small enough that it's not beholden to shareholders, large enough that it's got the expertise to innovate. It's got a dedicated "skunkworks" – a division purely devoted to advanced R&D, with the flexibility to fail forward.

You'll notice that this epitome of agility doesn't occur in the real world very often. For a better real-world example of businesses, let's look at franchises – in many ways the opposite of the company described above. How are franchises positioned to react with agility? My answer is: "Better than you might think, within certain constraints. And a lot of it is up to the franchisee."

Franchising is an area in which you're in business for yourself but not by yourself. This gives franchisees a more effective safety net than entrepreneurs with no support network, and thus greater flexibility to try new things (within the parameters of their core business).

Misplays aren't necessarily punished as harshly. You can test ideas with people in your network and share best practices to adapt to the needs of the consumer – through councils, or direct communication with the franchisor.



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In our interaction with clients, we have seen that franchisees and franchisors have proven to share a common goal during the nationwide lockdown by working together on ensuring health and safety standards on retail stores and most importantly, supporting each other during this challenging time of our country.

Franchisors are there to help you run your business effectively, and they want to keep up to date with the needs of their customers as much as you do. But as a franchisor, you clearly can't have 1,000 stores each doing their own thing. That's a recipe for reputational disaster, and the breakdown of health, quality, training and other standards.

Therefore, the first rule of agility in a franchise is: stick to your core business, but be alert for innovation within that core business, and of the channels you can make use of to communicate that innovation.

Franchisors will run advisory councils, usually on a quarterly basis, to which they invite franchisees to discuss marketing, products, and other aspects of the business. This is your chance to give input, to hear from other franchisees, and to set the course of the franchise.

## Three-way alliance

A successful franchise is an alliance between franchisee, franchisor and the bank. This alliance is more effective, the greater the degree of clarity and transparency around the state of the business. There are innovative ways in which all three parties can benefit, but only if they're prepared to work together in an environment of mutual trust and support.

Having a franchisor sign a head lease agreement, for example, gives a bank a lot of comfort, frees up access to capital for the franchisee, and means the franchisor will encourage performance on the part of the franchisee. Banks can also play a big role not just from a funding perspective, but through mentoring and training.



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## People as a resource

People are the most critical resources to building a flexible franchise. Human capital, if its skilled and empowered, can adapt quickly and be proactive in suggesting change. Moreover, develop your people and have a clear succession plan in place at every level of the business.

Grow and develop your staff - encourage them to innovate, come up with solutions and take ownership. Motivate your staff, cultivating a culture of recognition and training. And celebrate people doing things right, giving recognition and paying good bonuses.

## Clear structure

Another enabler of agility in the franchising context is, paradoxically, a clear structure. This is particularly applicable once you decide to own more than one or two stores. At that point, having robust operations, training, finance, IT, maintenance, development and marketing structures allows you to quickly scale up as you add more stores, and gives you better line of sight of the business.

Too often we come across franchises who are distant, removed from the operation of their stores and business. If you're not in control of your finances or your operations, then often by the time a problem emerges it's too late to respond effectively. Leaving everything in the hands of a manager or accountant means that when the time comes to make decisions for your business you're not prepared to do so.



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## Solid business plan

It's all well and good talking about agility and adaptability, but if you don't know exactly what's happening in your business today, you can't possibly come up with a change strategy to meet your customers' needs tomorrow.

This is reflected in the business plans I see from prospective franchisees. Good business plans reflect knowledge and understanding of the business, not how much you paid for them. It is important that the business plan demonstrate that the prospective owner understands the business inside out than ask someone to compile the plan for you.

The theme that emerges is that agility isn't possible without knowledge. If you're educated on your business and your market, and attentive to day-to-day operational and financial activity, then you know to what extent you can deploy resources to change direction. And by sharing your experience with your franchisor, franchisee network and bank, you're leveraging powerful knowledge and support networks.

In a fast-changing world and challenging economy, knowledge is the differentiator.

## ABOUT MORNE CRONJE

Morne Cronje is Head of Franchising at FNB.

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