



Franchise Conference Report

Location: Lagos, Nigeria

Date: November 29, 2018

Event Overview

Franchising is increasingly becoming a trusted business model for growth, expansion and improved service delivery across the world. This business model has been embraced both in developed and many fast developing countries including Nigeria. In the last four years, Nigeria has witnessed growth of the industry with the penetration of several franchising brands. Despite this growth, the potentials in the industry are still enormous and remain largely untapped, and so are the challenges that limit the expansion of the industry.

Following this consideration and the need to build on the successes of the first and second forums, PDF II, in partnership with FBDS organized a one-day forum in Lagos themed: Franchise Conference and Round Table. The forum brought together different actors in the Franchise Industry and deliberated on leveraging the potentials of the industry in Nigeria. The forum began with a welcome address and the introduction of the Nigerian Association of Franchise Business Members (NAFBM). It proceeded with presentations on Tapping into Global Franchise Opportunities and Retail Franchising Development. This was followed by the introduction of the Franchise Institute and a presentation on Food, Hospitality and Services Franchise Development. Following this was the brief remark by the Honourable Minister of State, Federal Ministry of Industry, Trade and Investment (who was represented) and a question and comments session. At different intervals during the forum, franchise CEOs were invited to pitch their businesses to the audience.

The forum presented the immense opportunities that are present in the Franchise industry. From a global standpoint, evolving global demand patterns and the rise of the millenials were key factors that will create opportunities for businesses, particularly those in the food and beverage industry. The key success factor for businesses therefore, is to effectively “position” to tap into these opportunities. On the local front, Nigeria’s huge market in terms of GDP and population makes the country an attractive destination for foreign investments. Nigeria is also an attractive market for franchising, which holds the key to addressing pertinent challenges of unemployment and low productivity. However, several bottlenecks that limit the realisation of the country’s potentials were identified. Some of these include the absence of intellectual property rights/laws, skills shortage, poor infrastructure, limited access to finance by small businesses and the lack of political will to implement crucial business enabling reforms.

To address some of these challenges, stakeholders must work together in putting in place and ensuring enforcement of an intellectual property right/law, which is crucial in protecting the franchisor, his/her technical knowhow among other things. In addition, the franchising bill, which will provide a legislative and regulatory framework for the industry, needs to be supported, and stakeholders must ensure its implementation, when passed into law.

Businesses were encouraged to spend more time and resources in growing their brands and delivering maximum value to their clients/customers. When such brands become successful, business owner can consider expansion through franchising. Potential

franchisees were advised to identify smaller brands with high sales volume for franchising, as there are numerous opportunities in this area.

One of the highpoints of the forum was the launch of the Nigerian Association of Franchise Business Members (NAFBM) and the African Franchising Institute. On the one hand, the Association will amplify the voices of its members, ensure collaboration and solidify the relationship between the franchisor and the franchisee. On the other hand, the Institute will provide technical support and training, which are crucial in delivering relevant skills needed to improve service delivery, maintain standards, and ensure brand preservation and business sustainability. The Association and Institute were challenged to nurture selected small businesses for a number of years, with the goal of turning them into successful brands. These businesses can therefore be referred to as case studies of success stories for franchising in Nigeria.

To ensure Nigerians embrace franchising, particularly in relation to small-scale businesses, specific efforts are required to change citizens' perceptions of franchising. The franchisor and the franchisee should be viewed as partners as opposed to the general perception of master-servant relationship. Changing this perception is crucial in attracting individuals and investors into the franchising industry.

Opening Remarks

The forum commenced at 10:17am with the National Anthem. The moderator of the forum, Mr Zuberu Kadiri welcomed the audience, stating that this is the third forum organised by Franchise Business Development Service (FBDS).

Mr Chiagozie Nwizu, Managing Director of Franchise Business Development Service (FBDS)

The purpose of this forum is to bring together different actors in the Franchise Industry. These actors include investors, policy makers, potential franchisees, support service providers- brand and legal services providers- among others. The forum provides a platform for these stakeholders to leverage on the potentials in Nigeria's Franchise industry.

Nigeria's Franchise industry has made tremendous growth in the past four years. Franchising as a business model has proven to be the best model for expansion, as local Nigerian businesses have increasingly adopted the model. Despite the growth of the industry, several businesses/deals in the industry also failed within the last few years. Going forward, it is expected that players will learn from their past mistakes and reposition for a better future.

The journey in developing the Franchise industry began with a research funded by Department for International Development's (DFID) Policy Development Facility Phase II (PDF II), which understudied franchising in the United States, India, South Africa, United Arab Emirates and the United Kingdom. The study examined progress in these countries, lessons to be learnt, solutions and opportunities that exist in the franchise industry in Nigeria. Two years down the line, implementation of the recommendations of the study has begun and there has been support from various stakeholders to develop the industry.

In Nigeria, there are several challenges in the industry that needs to be addressed. Some of these include:

- Ease of doing business
- Sustainability of businesses- about 80% of Nigerian businesses fail within their first five years
- Maintaining intellectual property
- Maintaining value and quality delivery, among others.

Some of these issues will be examined at today's forum. Furthermore, the Nigerian Franchise Association and the Franchise institute will be launched. The institute will support the industry and work towards reducing business failure rate in Nigeria.

Introduction of the Nigerian Association of Franchise Business Members (NAFBM)

Mr Peter Bamkole, Director, EDC and Chair, NAFBM

Mr Bamkole began by thanking members of the board of the Association as well as DFID, and other consultants. Mr Bamkole noted that sixteen years ago, he pioneered the establishment of the Enterprise Development Centre (EDC), which has nurtured and supported many micro and small businesses, many of which have become successful. The

success and growth of these businesses imply that new skill-sets are required to manage their expansion and therefore franchising offers a huge opportunity for these businesses to transit to the next level.

Franchising also offers investment opportunity for individuals looking to invest some funds but do not know areas to invest in.

The future of work is such that businesses can no longer succeed on their own. Businesses will have to succeed alongside their competitors. It is on this premise that the NAFBM was formed. The association will assist members deliver maximum value to their customers. With the new constitution and Board members, the Association will amplify the voices of its members, ensure collaboration where necessary and solidify the relationship between the franchisor and the franchisee, which is crucial for success. These goals are crucial for the Association in the coming years.

Nigeria's franchising industry has immense potential and in recent years, a couple of franchise businesses have emerged- with Novare's Fun World being part of such businesses. However, the industry is less developed when compared with that of South Africa. One major challenge facing the industry is protecting intellectual capital. The Association can mobilise specialists to propose solutions in addressing this challenge.

Lastly, there are several funding opportunities that could be accessed by members of the Association. The Agri-Business Small and Medium Enterprises Investment Scheme (AGSMEIS) for instance, offers loans at 5% interest rate. With such facility, businesses can breakeven within a short period of time. It is crucial to note that franchising is an important model that holds the key to developing the Nigerian economy.

Tapping into Global Franchise Opportunities

Mr Murad Alnasur, Founder of Restonalysis, United Arab Emirates (UAE)

Franchising involves two parties, the franchisor and the franchisee. The franchisor is the owner of a business and gives a licence to the franchisee that allows the use of a business idea. In franchising, intellectual property rights and laws are crucial because there is need to protect the franchisor, the technical knowhow, among other things. The absence or non-enforcement of such rights/laws would prevent investors from entering into the franchising industry in Nigeria. In developed and fast developing countries, the franchising industry was very crucial in moving millions of individuals from lower income status to the middle class. Nigeria can start to build the middle class through franchising.

Nigeria's huge population and high unemployment/underemployment rates, which implies that labour exist in abundance, present massive opportunities that need to be explored. Many foreign companies are well aware of the potentials that exist in the Nigerian market. If tapped, Nigeria could become the next UAE in terms of economic development.

The franchise model works like a chain effect, where connected businesses succeed together. To succeed in franchising, individuals and businesses must be willing to go outside their comfort zones. Some key success factors in franchising include passion, drive and experience to run businesses, particularly on the part of the franchisee. The high failure

rate of businesses in Nigeria suggests the lack adequate technical experience among other challenges and this will deter commercial banks from providing loans to businesses. This issue needs to be addressed in order to improve the industry. Furthermore, businesses must be willing to take small steps and exercise patience, bearing in mind that building a successful businesses require time and effort. Business owners also need to combat the temptation of living extravagantly but should rather constantly invest in their business, either directly or through third party investors. Potential franchisees need to look out for smaller brands with high sales volume as opposed to the large global brands, which might entail stringent requirements.

Lastly, businesses must be willing to take the first step. Political leaders must also exert the willpower to develop the industry. All stakeholders must play their specific role and “act” urgently to improve the sector. The Franchising Association needs to constantly explore ways to make franchising an attractive business model in Nigeria. The risks in the franchising business model are relatively lower than other business models.

Mr Eniibukun Adebayo, Founder & Country Manager, CleanAce Drycleaners

Clean Ace Drycleaners is a drycleaning and laundry company with a history dating as far back as three generations. Clean Ace was founded in 2005 and is the first in Africa to obtain the ISO 9001 2015 certification. The company has over 35,000 customers and 15 stores across Nigeria. It also has the first Drycleaner Academy in Africa. Clean Ace is currently looking to expand its business and build a world-class brand through franchising. Potential franchisees can own both small and big stores and also invest money and equity in the business. The franchise costs N7.5 million.

Retail Franchising Development

Mr Prakash Panham

Nigeria has a gross domestic product (GDP) of around US\$400 billion and crude oil accounts for just 10% of the country’s GDP. Nigeria also has the largest economy in Africa. These figures show that Nigeria is a country with lots of potentials and opportunities and has many sectors that are untapped. Many investors across the world need Africa and Nigeria and the government must be aware of this and work towards changing the negative perception about Nigeria.

As a country, Nigeria needs to urgently address the challenge of unemployment and underemployment. One of sector that could address this critical challenge is the retail sector, given its strong link with job creation, education, skills, health and other aspects of the economy.

Nigeria needs to develop systems that support the growth and development of local brands. These businesses need to be mentored, nurtured and given the right skills to become global brands. Nigeria can therefore learn from this experience and scale-up such interventions. In addition, the broad issues of security, infrastructure and power are crucial and needs to be addressed. The absence of adequate skills is also a major challenge.

There needs to be a system that validates certifications in Nigeria. The government working with the private sector must work to build the right skills set in the economy and tackle the issue of underemployment, which is productivity loss on the economy.

Nigerian businesses also need to understand the concept of seasons, which will be crucial in inventory management and businesses sustainability.

The high interest rate environment makes it difficult for businesses to access finance from the commercial banks. Funds of development finance institutions need to be made more accessible for businesses. In addition, the franchising bill needs to be supported, however, stakeholders must ensure its implementation, when passed into law.

Mr Maurice Kolawole Diya, Partner, Diya Fatimilehin and Company

Due to technological advancement and globalisation, successful global brands are increasingly seeking to spread their brand, product and services through franchising. RE/MAX is one of such brands. RE/MAX is a largest global real estate company that operates in 109 countries. It runs the 7th largest franchise in the world and is listed on the New York Stock Exchange.

Diya Fatimilehin & Co acquired the franchise right for RE/MAX Nigeria after facing fierce competition from competitors. The company plans to offer 250 franchises in Nigeria to ensure local customers are satisfied. Referrals can obtain 25% profit. The franchising will also be useful in meeting the demands of Nigerians in the diaspora. Due to the weak judicial system in Nigeria, many diasporans are looking for better and credible options to purchase real estate in Nigeria and RE/MAX Nigeria provides a solution in this area. To protect clients, the licence of the franchisee can be withdrawn and the franchisee could face disciplinary action by RE/MAX global. Members of the audience were urged to take part in the franchising of Re/MAX Nigeria.

Introduction of the Franchise Institute

Mr Sam Ohuabunwa, Chair of the African Franchise Institute

Franchising is a business model that will lead to exponential growth in Nigerian businesses, productivity and efficiency of businesses and overall growth in Nigeria's gross domestic product (GDP). It is a business model that provides the opportunity to connect with successful businesses and link potential investors to the business.

To get the best from franchising, it is crucial to ensure quality assurance and effective service delivery. Training, therefore, is necessary to deliver the relevant skills needed to improve service delivery, maintain standards, and ensure brand preservation and business sustainability. It is for these reasons that the African Franchise Institute was established. The institute will provide technical ideas and certifications. The Institute will also work to ensure the relationship between the franchisor and franchisee is mutually rewarding and sustainable. Modelled after the International Franchise Institute, the Institute will partner with reputable institutions that support MSMEs such as the EDC. Entrepreneurs and stakeholders in the franchise industry are encouraged to utilise the services of the Institute.

Food, Hospitality and Services Franchise Development

Mr Murad Alnasur, Founder of Restonalysis, UAE

Franchising is popular in the Food and Beverage (F&B) industry and this has ensured growth in F&B businesses overtime. Franchising must take into consideration the demographics and future trends. The growing share of Millennials in world population suggests that demand trends and patterns are evolving, thus creating a new opportunity for businesses to cater for this population. For instance, several studies have revealed that casual dining will phase out in the next five years. Similarly, the millennials are easily attracted to images/pictures. Businesses in the food and beverage industry therefore must constantly innovate to meet the demands of this age group that will control a significant share of the global economy in a few decades. The demand for food in different varieties is constant and players in the F&B industry must focus on positioning, which is a crucial factor for success in the industry. Positioning is also important for a franchisor or franchisee.

Entrepreneurs need to take advantage of the opportunities in the F&B industry. They must focus on building brands or products that meet the needs of consumers, who must also be willing to purchase the product. Mr Murad promised to offer free consulting to potential investors interested in the F&B industry in the course of the forum.

Remarks from Hajija Aisha Abubakar, Honourable Minister of State, Federal Ministry of Industry, Trade and Investment (represented by Mrs Awerikihi Mamuzo Blessing)

The Federal Government is committed to creating an enabling environment for businesses in Nigeria to thrive. The ministry is interested in supporting the Franchise industry and will continue advocating for the passage of the Franchising Bill. The minister notes the attainment of the goals set for 2018 and will also support the 2019 Franchising Agenda.

Mr Chukwuka Monye,

Managing Partner, Ciucci Consulting & Chairman of Board of FBDS

There are a lot of opportunities in the franchising industry in Nigeria. However, there is need for enlightenment of stakeholders on what franchising is about. In the informal sector in Nigeria, franchising is viewed as a master-servant relationship as opposed to a partnership relationship. Efforts are required to change this perception. Mr Monye further facilitated the question and comment session.

Comments/Questions from Audience

How can an entrepreneur penetrate the global market and attract franchisees? When should a business start focusing on franchising?

Responses

- To offer a franchise right, the business in question must be successful. There must be business structures, proper bookkeeping, supply chain and operations management, etc. Franchising also requires that the franchisor conducts training for the franchisee on his procedures, implements checks and balances and conducts

frequent audits and inspections. Entrepreneurs must focus on growing their business and establishing their brand before seeking to franchise.

- A franchise agreement has legal aspects, which is often part of the franchise contract. Businesses can obtain a single unit franchise, which means the franchisee has the right to open only one business. There is also the area development franchise that ensures the franchisee commits to producing a certain unit in certain timeframe. The third form of contract is the Master agreement.

What measures can be adopted to monitor one's investment in an informal business managed by an acquaintance?

Response

- When making investments in an informal business, the investor should audit the purchases of the business not just the sales.

What is the best approach to adopt to franchise a food and beverage business that has several business units and each unit produces or renders different products and services? Should the franchisor franchise the business as a whole or franchise each business unit?

Response

- If the business units are interdependent i.e. sales in one business unit leads to sales in the other, the best option is to franchise the whole business. The other option is to grow each business unit independently as a separate business and franchise that unit.

What options are available for investors that are willing to invest in a business but do not have the time to be part of the day-to-day running of the business?

Responses

- Such investor can employ the service of a consulting firm to manage the investment for a fee
- The nature of the business matters in such case. Some businesses require the investor to be part of the running of the business. The Franchising Association and Institute can provide advice in this area.

How do potential franchisees with limited experience scale through the requirement of having a proven track record? How can such franchisees raise funds from the banks or from investors?

Responses

- Businesses can leverage on the strength of the franchisor in raising funds. Also, franchisees should be willing to invest their personal funds into the businesses as this sends a signal of commitment.
- In franchising, franchisors are extremely careful about the partners they engage. Because of the need to preserve the brand, quality and standards, franchisors want

to ensure they get the best franchisee. They therefore have a list of requirements to be met by potential franchisees. It is expected that franchisees may only meet some but not all of the requirements. Franchisees could therefore conveniently meet 60 or 80 per cent of the requirements. Selection of the franchisee rests on the franchisor.

I currently own Jewellery brand and seeking franchisees. One major hurdle is accessing finance. How can this issue be addressed?

Response

- The government will only be willing to provide loans to businesses that engage in local value addition in Nigeria. Since the jewellery business deals with imported products, it may not be easy to access government loans.

Mr Sam Ohuabunwa

It is important for business owners to make their business attractive to investors. The following points should be considered:

- Develop a good product
- Build your product into a brand
- Market your brand/product
- Seek the services/advice of experts.

DFID representative – Andy Gartside

Diversification is a burning issue in Nigeria and there are still lots of untapped opportunities in agriculture in Nigeria. There are numerous opportunities and solutions that can be deployed in the sector, which will lead to both business growth and have developmental impact. Some entrepreneurs are already engaged in delivering these solutions, using both personal capital and other forms of financing. Franchising is a business model that could open up opportunities across the agriculture value chain.

No doubt, developing the franchise industry will require a number of years. The Association and Institute have key roles to play in the process. DFID will also provide support, where necessary in the development of the industry. PDF II plans to conduct a study on Nigeria's middle class. The study will also enable businesses position and tap into the potential of this consumer group.

Ms Ada Iwugo, Commercial Director House of Tara International

House of Tara was founded 20 years ago. The company revolutionised the beauty and makeup industry in Nigeria, breaking through cultural barriers and creating a niche in the industry- makeup for dark skin women. The company engages in makeup services in Nigeria and currently has over 20 studios across Nigeria. The company wants to engage in franchising, with focus on the international market. The company has developed into a successful brand and has clear processes and compliance rules. The company's products are sold in other African countries.

Closing

The conference ended at 13:21 with the singing of the National Anthem.