




Tackling Access to Finance: The Potential of Franchising in Nigeria

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Executive Summary



Franchising has proved, over the years, to be one of the most successful ways of conducting business. In both developed countries and emerging markets, franchising has been effective in ensuring business growth with private ownership and skills transfer. It has generated new incomes and standards of living for its population.

More specifically, for new businesses/ start-ups and SMEs, franchising can be viewed as a means of nurturing and developing entrepreneurial talent, promoting good corporate governance and transparency and attracting the informal sector business to the formal sector, using certain contractual terms used in franchise agreements.

The analyses and point of view presented in the report have been validated through extensive discussions with industry players. We take this opportunity to thank the industry players for making this endeavour possible.



Franchising market potential

Nigeria is a country with a great entrepreneurial spirit, as evidenced by the presence of 37 million enterprises, with approximately 64,000 businesses being registered annually. An estimated 80% of these new businesses, however, fail within the first five years, due to lack of business planning, enterprise management capacity issues and other environmentally related factors. According to research carried out by the African Development Bank, only fifteen percent of franchised small and medium enterprises fail, compared to the 80 percent failure rate among other independent businesses.

The consumer-class in Nigeria is growing at a rapid rate. By 2030, it is estimated that some 160 million Nigerians (out of a projected population of 273 million) could live in households with sufficient income for discretionary spending. Sales of consumer goods are, therefore, estimated to more than triple by then, to USD365, 548.4 million¹.

A number of countries, both developed and emerging, have embraced the franchise concept as a method of creating job opportunities. A comparable economy like South Africa generates over 12% of its GDP from franchising.

As the Nigerian government explores mass opportunities for its unemployed citizenry, and seeks other non-oil revenues, the time is right for reputable foreign franchisors with solid brands to start expanding their operations in Nigeria, as well as for local established businesses to embark on the franchise journey.

Nigeria is deemed to be fertile ground in which the franchising industry could grow and flourish. Currently though, franchising, as a business concept, is relatively under-developed and awareness is low. According to the USA Commercial Service 2013 report – Doing Business in Nigeria, analysts consider Nigeria to be a potential market of over USD100 billion, in annual revenue from products and services. Current market size, judging by active industry sectors such as quick service restaurants, ICT training

and consulting services, production and distribution of beverages, personal and business services is estimated at about USD25 billion.

Franchising opportunities – sector overview

There are some interesting segments within the franchising industry that are attractive to both local and international franchisors. Food and food related segments continue to command significant attention. Following closely are retail, health and beauty, consumer services and agriculture (cultivation, processing, distribution and storage). Of particular import is the emergence of sports betting with widespread appeal among the young football-loving population. The agricultural franchise, Babban Gona, is extremely successful with widespread coverage in the core Northern states of Nigeria. Network marketing/ multi-level marketing (MLM) also has a considerable appeal among young professionals as a first step towards franchising.

1. Euromonitor 2015 (<http://www.euromonitor.com/nigeria/country-factfile>)

Capacity building, access to suitable finance, trust issues due to frustration in getting judgements and general awareness of the industry were mentioned as key challenges to franchising.

Attractiveness of Nigeria in global franchising

According to the Managing Director of FDS, a UK based franchise consultancy and publishing group, which had studied the opportunities in Nigeria Franchise industry, Nigeria's economy is ready for benefitting from franchise intensification, especially as many UK based franchise brands have already confirmed their interest in granting master franchise rights to operators in Nigeria. One example of such brands is Boots, operating beauty and health based retail and service outlets in several countries.

from respondents supported this. It appeared that franchisees in retail had the best understanding of the franchise system. Examples of these models are presented in page 17.

- There are many, hitherto, unknown franchisor brands in Nigeria, both local and foreign. These brands cut across all sectors and include some pseudo-franchises, such as Habib Yoghurt® and agricultural value chain franchises, such as Hybrid Feeds, which operate across four value chains. Approximately one in three of these companies understand the franchise business model.

Franchise industry survey – key highlights

The survey, carried out by Franchise Business Development Services (FBDS) in Nigeria, corroborated the above key reasons for growth in franchising and operating models; it also revealed certain key findings as shown below:

- Capacity building, access to suitable finance, trust issues due to frustration in getting judgements and general awareness of the industry were mentioned as key challenges to franchising. Possible solutions were, however, suggested in the shape of setting up franchise specific training and certification institutions that would provide guarantees to lenders. It was also anticipated that the government introduce franchise-based empowerment initiatives.
 - Franchisors required that the government launch enabling laws to protect intellectual property, to deal with the infrastructure deficit especially with regard to the provision of electricity and to facilitate access to finance for potential franchisees. Government policy somersaults, tedious sourcing of forex, high rentals and taxation were recurring challenges faced by most franchisors, with calls for more stable policies from government.
 - Licences, distributorships and agencies are variations of the franchise business model and responses
- The majority of franchises currently owned were self-funded with fifteen percent being able to secure commercial bank funding, albeit with high interest rates. Notably, the funds for the self-funded franchises were often sourced from personal savings; from other businesses by entrepreneurs seeking diversification of investment; and from savings from salaries, especially among white-collar salary earners. According to recent EFINA statistics, about five percent of the Nigerian working adult population earn more than N100, 000 per month and it is estimated that there could be as many as 460, 000 salary earners, who have savings of N1 million or more to invest. Other sources of self-funded franchises were funds raised from family members and friends; funds from pension claims; funds from retirement and retrenchment benefits and a few others.
 - Some retailer franchises, mostly of international brands, have had to suspend expansion plans due to the harsh economic realities resulting from Nigeria's peculiar fiscal and importation policies. Among the international franchisees interviewed, CityDia, Kilimanjaro, Ebano Supermarkets and Best Choice were examples of such brands that seem to be thriving despite the economic challenges. The main thing they had in common was management with long and sound industry experience, and they were willing to continue to

brave the odds by finding strategic and innovative solutions to keep the business profitable. They also invested in research, exposure to global business trends and best practices, and, professional consultation services.

- Training and continuing support from franchisors is widely available. Worth noting is the fact that a good number franchisee outlets were bought by corporate entities rather than individuals, thereby ensuring continuity of the business. Franchisors such as Lagbus deal only with incorporated companies, individuals are not accepted as franchisees. Re/Max, a real estate franchise is an international brand bought by one of the largest real estate companies in Nigeria. For businesses like SmartMark and Persianas who hold multiple franchises, or CBO Capital which intends to be a Franchise Holding Company owning multiple franchises in different sectors, there could be an individual (key man) but the business of the franchise is run through an incorporated company. For franchisors such as Mr Biggs, the nature of the business demands individual commitment of the franchisee, so it is understandable that individuals operate such businesses. Ditto for Best Buy Supermarkets and Pagatech, the personal touch of the franchisee is necessary for the nature of business.
- There was a complete lack of awareness of the existence, role or functions of the Nigerian Franchise Association (NIFA). There were mixed feelings about an organisation such as NIFA, in that some felt NIFA should be pressured to live up to its undertakings, while others believed there should not be more regulations in the industry but called for more business-friendly policies from government to aid commerce and develop the economy.
- From a franchisee perspective, in line with franchisor experiences, capacity building, finance, failed franchisor support obligations, exclusion from contributing to innovations and

challenges and absolute supervision were mentioned as key challenges. Despite these challenges, solutions were suggested in terms of setting up organised private sector operated training and certification institutes, centres or academies.

- Although there is a great deal of interest in franchising, the dearth of information about what is required to make it work successfully is major deterrent for many local businesses.
- Common threads running through the research findings were the limited knowledge of the franchising business model, the do-it-yourself mind-set of the Nigerian entrepreneur, as well as the economic challenges faced in running a business in Nigeria.
- The first points of call for start-up entrepreneurs are the Corporate Affairs Commission, financial institutions, business and market associations and government tax registration authorities. These organisations would be targeted to play collaborative roles with the key private and government stakeholders anchoring different development programmes.
- Among potential franchisors, the research revealed that the main problems these businesses encounter include lack of a proper business plan and research, lack of credit facilities, lack of information about institutions or government agencies offering education, and training on business development, to name but a few. Solutions were, however, proffered in terms of setting up private sector owned franchise development institutes or academies. Respondents also felt strongly that the government needed to get actively involved with empowerment initiatives.
- There are several aspiring entrepreneurs in Nigeria who currently work in the public and private sectors of the Nigerian economy. Most Nigerians with potential investment capacity are out looking for opportunities to make more money in a sus-

tainable manner and would rather buy a franchise than take the risk of venturing into an unknown business terrain, with significant interest in local proven brands rather than the foreign ones.

Regulatory scenario

While Nigeria does not currently have any franchising specific laws, there are multiple laws that have an impact on the franchising business. Any future consolidation with formulation of franchise-specific regulations in this area should allow conducive growth of franchise systems along with protection of franchisee rights. Success of franchising is also dependent on the roles financial institutions can play in promoting franchising. It is interesting to note that while there is a franchise bill pending with the Nigeria

House of Assembly, a legal firm, Jackson, Etti & Edu, has contributed to an international franchise law review. This is a sound articulation of franchise laws suitable to the Nigerian business environment, which could be considered to feature in the bill. This is, in addition to the compilation of relevant contributions from industry actors and legal experts in this report, what should make Nigerian franchise law. Comments on a few areas of regulations have been highlighted in the table below.

Parameter	Comments
Specific franchising law	Franchising focused rules and regulations are expected to send a positive message to both the Nigerian and global franchising community about the seriousness of the Nigerian government in promoting franchising as a mainstream sector that can contribute to overall GDP growth and employment generation.
Pre-contractual disclosure norms	This will not only protect franchisee rights but also ensures that only serious players consider franchising as a business model. This is expected to reduce overall risk to business continuity.
Control on royalty payments and franchisee fees	Free market pricing should be encouraged while making sure that royalty and fee payments lie within industry standards.
Keeping standards and conflict resolution	It is critical to have a transparent dispute resolution mechanism and an independent body to address conflicts that may arise between a franchisor and franchisee. This should include a collaboration of the Nigeria franchise regulatory agency and the franchise development academy/institute, in training and certifying all franchise industry actors. The certification of a participant who does not keep to rules will be withdrawn as a punitive measure.
Intellectual property protection	It is important to protect intellectual property rights of all the franchisors to discourage counterfeiting brands.

Financing the franchise business

Funding is critical for any start-up and access to finance is a key enabler of business expansion. The franchise business model, which is targeted at scaling businesses, must go hand-in-hand with the appropriate funding. Most franchisors look for the financial capability of a prospective franchisee before awarding them the franchise and this fact, on its own, is an indicator of how difficult it is for a potential franchisee to obtain a loan. Banks/ financial institutions do not tend to treat franchisees as a separate customer segment but include them in the broader MSME segment.

Some banks/ financial institutions have come up with innovative financial solutions to these issues and further innovation is required in regard. It is also important that there is adequate support from the franchising environment, including franchisors and industry associations, to make this industry a success. Based on the understanding and appreciation that a franchise business is pre-tested and proven with limited chances of failure, most financial institutions agree that franchise businesses are a better risk to lend

money to start or expand their businesses. The private equity and angel investor firms are more accommodating with less funding eligibility criteria, due to their more participatory and supportive funding model. While the commercial and microfinance banks require some form of security to guarantee their lending, they are more disposed to partnerships with intervention funds they can on-lend.

For example, an opportunity was secured for a leading commercial bank in Nigeria to use the GEMS4 matching fund to develop a franchise-lending proposition in 2013. The bank was not able to take advantage of the fund due to the limited franchise concept knowledge within the bank. However, in today's climate of available industry information, this donor fund could be repackaged and reintroduced to a wider scope of financial institutions beyond the commercial banks.

There are attractive opportunities for banks and other financial institutions to support franchises with funding.



01

What is franchising?



While there is no legislation specific to franchising in Nigeria², One of the franchisors interviewed offered the opinion that franchising was “a lazy man’s approach to profitable business leveraging on the brand name, intellectual properties, processes, products and goodwill of another (the franchisor) to undertake business with payment of a fee either as a one-off or on a continuing basis”.

It is instructive, however, to draw inference from the proposed Franchise Bill 2016 pending before the National Assembly, which defines franchising as follows: “Franchise means the rights granted by a party (the franchisor) authorising and requiring another party (the franchisee), in exchange for direct or indirect financial compensation, to engage in the business of selling goods or services on its own behalf under a system designated by the franchisor which includes know-how and assistance, prescribes in substantial part the manner in which the franchised business is to be operated, includes significant and continuing operational control by the franchisor, and is substantially associated with a trademark, service mark, trade name or logotype designated by the franchisor and includes:

- a. The rights granted by a franchisor to a sub-franchisor under a master franchise agreement,
- b. The rights granted by a sub-franchisor to a sub-franchisee under a sub-franchise agreement, and
- c. The rights granted by a franchisor to a party under a development agreement and for the purposes of this definition”.³

Three predominant models of franchising

Trade name franchising

A model where the franchisee uses the brand name or trade name of the franchisor to sell its own products.

Product format franchising

A model which involves cooperation between parties for the distribution of goods especially in retail business.

Business format franchising

A combination of the first two models involving using the franchisor’s brand name, trade mark and operating standards to offer the franchisor’s goods or services.

The major advantage of a franchise is the freedom of self-employment. This freedom is tempered by the knowledge that the owner has invested in a proven system and has the training, support and encouragement of the franchisor and other franchisees. Owning a franchise provides a semi-monopoly environment in which to conduct business in a particular area.

Typically, there is an informed readymade customer base. There will be competitors but the franchisee will be granted a sole franchise for a particular brand for a given area. Most importantly, being part of a franchise ensures that the franchisee is part of an instantly recognisable brand, the product or service expectations that a brand brings, and the reputation gained by the brand over time.

A franchise offers the franchisee the ability to capitalise on the know-how and systems that have proven to be successful. Some of the other important advantages a franchise offers are the:

- Shared marketing, advertising, business launch campaign costs
- Industry know-how
- Reduced risk of failure
- Access to proprietary products or services
- Bulk buying advantages
- Ongoing research and development

2. Managing Partner, Coastal Hire Master Franchise, Nigeria

3. Section 18 Franchise Bill 2016

02

Current Landscape of Franchising in Nigeria

Nigeria, with a population of an estimated 182.3 million in 2015⁴, is the most populous country in Africa and has the potential to become the gateway for franchising in West Africa and a platform for franchise development in Africa, second only to the Republic of South Africa.

Nigeria is the destination for over 40% of imports to West Africa and ranks third after Egypt and South Africa as Africa's biggest consumer market. According to the 2012 World Investment Report by the United Nations Conference on Trade and Development (UNCTAD), Nigeria is Africa's most important destination for Foreign Direct Investment with USD8.92 billion and, until recently, recorded over 20% of the total foreign direct investment into Africa.

According to the recent statistics, Micro, Small and Medium Enterprises (MSMEs) in the country have employed 60 million people from a total number of 37 million

MSMEs according to the former Minister of Trade, Industry and Trade, Dr Olusegun Aganga. He said the MSMEs currently accounts for 48 percent of the nation's Gross Domestic Products (GDP).

The majority of these businesses are not properly structured, with little or no understanding of corporate governance. Moreover, the absence of a comprehensive or basic business plan and requisite discipline to separate business funds and assets from personal funds and assets further complicates a dire situation. Concerted efforts at capacity development and empowerment schemes facilitated and promoted by private, government and international MSME support stakeholders have yielded less than expected results, thus requiring a further probe into socio-cultural elements which could be responsible for this magnitude of failure in the MSME sectors of the Nigerian economy.

Micro, Small and Medium Enterprises (MSMEs) in Nigeria have employed 60 million people from a total number of 37 million MSMEs.



4. <http://www.worldometers.info/world-population/nigeria-population/>

In a bid to change tactics and explore workable solutions to the perennial challenge of business failures, the franchising business model has been mooted as a model capable of addressing and solving the hydra-headed challenges of inadequate capacity, managerial competence, proficient management of resources and informal business structures.

It is imperative to point out the very youthful population in Nigeria with an average of 20,000 university graduates being churned out of educational institutions year-on-year. Available statistics indicate that the average age in Nigeria is 18 years⁵, thus making Nigeria a suitable destination for franchising as a means of creating massive employment for its teeming young population. In recent years, the Nigerian franchising landscape has grown significantly, leveraging the aforementioned growing and youthful population, making it a desirable destination for global and local

franchisors with ready markets for its import-dependent economy⁶.

Ideally suited to small and medium-sized enterprises (SMEs), franchising encourages small business development in every imaginable business sector and is a great catalyst for job creation, skills transfer and wealth creation⁷. The small business sector, franchising in particular, is without doubt the answer to the considerable unemployment challenge being experienced by the young population of Nigeria. Unemployment has been further exacerbated by recent job cuts occasioned by shrinking Government revenue from the slump in the price of crude oil in the global market.

In the United States of America, every franchise unit creates and maintains, on average, thirty-three jobs (thirteen direct jobs and up to twenty or more indirect jobs in the form of suppliers, etc.). Australia has created one hundred

thousand new jobs each year for the past four years through franchising which they claim to be two and one-half times more successful than independent small businesses⁸. Given that franchising has a strong spin-off for employment, with one franchisor nursing the lofty dream of creating at least 1,000,000 franchisees through its agricultural chain by 2025. Franchising in Nigeria has the potential to have 5,000,000 people employed by 2025 through concerted efforts from all stakeholders.

The product-franchising model has been in use in Nigeria since the 1960s, with predominance in the beverages, automobile and petroleum distribution chains. Product-franchises such as Coca Cola®, Peugeot®, Toyota®, Total® and Mobil® have been an almost permanent fixture on the franchising landscape in Nigeria.

Demand	Supply
Growing western culture and willingness to adopt same	Increasing interest and awareness of franchising as a means of bringing the "West" to Nigeria
Significant preference for branded and quality goods	Relative ease of starting up retail businesses
Increased global exposure through massive internet penetration	Growing education and awareness creating more partnership accommodating potential investors
Increased earning power of the growing middle class	Opportunity driven entrepreneurs who have mostly studied and lived in foreign climes and returned to invest in Nigeria

5. www.worldometers.info

6. The Franchise Law Review, 3rd Edition, pg. 461

7. www.africa-ata.org/franchising.htm

8. Collaborating for Growth: KPMG Report on Franchising Industry in India 2013

Food, retail, health and beauty, consumer services and agriculture (cultivation, processing, distribution and storage) are attractive segments to local and international franchisors in Nigeria.

In more recent times, starting in the late 1990s, there has been an emergence of international franchises in business-format franchising leading to an increase in quick service restaurants (QSRs), hospitality, fashion, health and beauty. The landscape, especially in urban areas, is dotted with franchises such as Domino's Pizza®, Cold Stone®, Pizza Hut®, Kentucky Fried Chicken®, T.M. Lewin®, Swatch®, Radisson Blu, Protea® and Hertz® to name but a few.

Furthermore, a sizeable number of local businesses have emerged, jostling for a portion of the franchising landscape. This has occurred despite discouraging perceptions created by the failure of Mr Biggs®, a foremost brand of UAC, (one of Nigeria's biggest conglomerates) that held sway in the QSR sector from the mid-1990s until the late 2000's. The development of the franchise market has been significantly aided by the massive real estate developments of modern shopping malls in many urban centres such as Lagos, Ibadan, Port Harcourt, Owerri and Abuja.

As expected, there is a preponderance of players in the food business sector. Other areas with significant activities include FMCG retail, fashion, health and beauty, sports betting, agriculture and mobile money.

What has come to the fore, however, is that a significant majority of local franchisors went into franchising as a means of quick expansion but without getting adequate advice about the appropriate structures to put in place. This has given rise to several pseudo-franchise businesses that have taken certain aspects of the various franchise models but usually without standard operating procedures, resulting in the disillusionment on the part of the franchisees that then veer off course before the expiration of the franchise period.

In respect of international franchises, a recurring theme was the need for the localisation of the business processes and procedures. In fact, international franchises like Nandos® and Chicken Licken® eventually had to exit Nigeria because of inability to adjust recipes to suit local dietary and taste demands. Local quick

service restaurants like Mama Cass®, Sweet Sensation® and Tastee Fried Chicken® were more nimble and introduced traditional meals into their outlets, thereby easing out foreign competition that was unwilling or unable to adjust quickly enough to meet demands.

There are socio-cultural factors that have impaired the growth of franchising in Nigeria and the most crucial recurrent factor, reiterated by an overwhelming majority of respondents, is the general lack of trust in business dealings. Other critical factors hampering the rapid adoption and expansion of franchising in Nigeria mentioned by interviewees are: a dearth of a concise and cohesive body of information about franchising; very limited access to finance especially for young people who are unable to provide collateral or security for facilities from commercial banks; lack of awareness of capacity development support; socio-cultural mind-set bias against "building another man's business"; and protracted litigation in the event of dispute.

Some interesting emerging segments within the franchising industry are notably quite attractive to both local and international franchisors. Food and food related segments continue to command significant attention. Following closely are retail, health and beauty, consumer services and agriculture (cultivation, processing, distribution and storage). Of particular importance is the emergence of sports betting with widespread appeal among the young football-loving population. There are minimal entry requirements and it is an easy-to-run business model. One of the foremost companies operating in the sports betting industry, Nairabet®, boasts at least 1,000 outlets spread across Nigeria with more agents being recruited on a daily basis. The agricultural franchise, Babban Gona Agricultural Farmer Services Nigeria Limited®, is extremely successful with widespread coverage in the core Northern states of Nigeria. Starting with a modest 16 farmer associations in 2012, it has experienced rapid growth to a 2,000-farmer-associations capacity. There are currently over 100,000 individual members and it is projected that a membership of 1,000,000 underprivileged farmers will be reached by 2025.

Network marketing/ multi-level marketing (MLM) has considerable appeal among young professionals as a first step towards franchising. Some of this business form is however considered as pure Ponzi schemes with no business basis. It involves recruiting a sales force that is referred to as the participant's "down-line", and can provide multiple levels of compensation. These young people are excited at the prospect of being part of a big international company. The brand owners or franchisors are happy leveraging the huge population in Nigeria to grow brand appeal particularly in health and beauty sub-sectors.

Due to recent regulatory policies on importation and availability (or lack) of foreign exchange and the operation of an open market to stem the free fall of the Nigerian naira, franchisees of international franchises have been experiencing challenges in sourcing foreign currency to remit their royalty fees or to purchase new products. In fact, many, especially those representing multiple franchise brands, have put a halt on further expansion plans in the immediate future.

In one instance, a master franchisee who had projected opening an additional 65 stores to bring its total number of stores to 150, has shelved the plans due to the unprecedented high cost of sourcing foreign exchange and the consequent effect of rise in prices of goods and services locally.

Unexpected government policies such as hike in the price of fuel, electricity, the deficient infrastructure, high rental costs, the absence of skilled efficient labour and multiple taxation are some of the foremost challenges being experienced by nearly all local franchisees of international brands, thereby putting their relationship with franchisors under strain.

At present, the downturn in the Nigeria's crude oil dependent economy has led to the loss of businesses and jobs but, at the same time, offers perfect conditions for local franchises to thrive and amplify their reach and spread. While there are limited funds available for franchise businesses, commercial banks have indicated their willingness to craft franchise-specific products to franchisors and franchisees

as the need and demand for franchise funding increases.

Microfinance banks have been pivotal in the operation of micro-franchise schemes being promoted by international development agencies like Growth and Employment in States (GEMS4). Innovative concepts such as private lending, utilising the 24-hour cash cycle have been deployed with success in tackling the access to finance challenges for the poor. It is envisaged that innovative financial models, such as private lending will be utilised on a greater scale to jumpstart and grow the ailing economy in Nigeria, especially for MSMEs.

There is no awareness of the existence of Nigerian International Franchise Association (NIFA) among about 98% of all respondents, with many questioning the rationale for the existence of such a body in the first instance whose impact and activities are not as widespread as would have been expected, and in comparison with what similar associations do in other climes.

It has however come to the fore that internal structural challenges have hampered the activities of NIFA in the first few years of its existence and its performance pales in comparison to its contemporary associations in other climes. It will be imperative perhaps to separate the operations and location of NIFA from NOTAP as both organisations share an office building within the same premises. As learned from other countries as well, officials of NIFA should be elected from the organised business sector, operating independent, but hands-in-glove with the government.

However, with the appointment of a new president of NIFA, one of Nigeria's foremost intellectual property lawyers and a Professor of Law, it is anticipated that with the passage of the Franchise Bill 2016 and a revamped NIFA executive, interesting times characterised by rapid growth in the Nigerian franchising space is not too far in the distance. This is especially as the Franchise Bill proposes a law to regulate both local and international franchises in Nigeria¹⁰.

Franchising in Nigeria has the potential to have 5,000,000 people employed by 2025 through concerted efforts from all stakeholders.

Variations of the Franchise Business Models Operating in Nigeria

An agency model: Nairabet, a football betting centre franchise, operates agency models. It has over 800 outlets across the country, directly employing at least three people. An initial N100,000 is paid by franchisee as the upfront franchise fee, which earns him betting software, installation and training to commence the betting business.

A licence model: Smart Mark Limited obtained licences for international brands such as T.M. Lewin, Nike and Swatch. The company currently operates 65 outlets nationwide, employing over 500 staff. Smart Mark franchisees enjoy full franchisor support on these brands through constant communication channels such as phone calls, mails, faxes and periodic visits across both parties' locations.

A distributorship model: Vitafoam, a company that manufactures and supplies foam products, operates a distributorship and sub-dealership chain model. The company has hundreds of distributors and thousands of dealers across the country. Vitafoam operates three models:

Experience Centres targeted at high net worth individuals. Many unique and innovative Vitafoam products and household accessories are sold at these outlets.

Entrepreneur-partner outlets are a 100% investment of Vitafoam and are managed by passionate and job-hungry graduates. These graduates, rather than waiting for employment, partner with Vitafoam and determinedly sell their products. They operate the outlets, not as other dealers typically do by waiting for buyers, but by hitting the road and aggressively marketing the products and earning an agreed percentage of the profit as commission.

Distributors/dealers, other than the above-mentioned, are regular operators in the Vitafoam distributorship chain. They typically enjoy branding and inventory delivery from the company or distributor as the case may be. These outlets are operated mostly by older generation entrepreneurs. These operators in their majority are widely perceived to be out of touch with modern business practices and are more suited to the simpler distributorship/dealership model.



03

Model Case Studies in the Nigerian Franchising Space

Despite the limited awareness about the correct and appropriate style of franchising, several local businesses have taken up the gauntlet to offer franchising opportunities to franchises and there are a few thousand franchised businesses employing a handful of people each and growing the economy.

In fact, sports-betting alone has about 100 operators, with almost 80% offering some form of franchising. Each of these outlets employs an average of two people per outlet.

The next pages provide a synopsis of some of the current players in the franchising industry spanning various industries such as food and restaurants, agriculture, pharmaceuticals, petroleum products among others.

3.1 Chicken Republic

Food Concepts, the parent brand of Chicken Republic, commenced operations in 2001. From its inception, the aim was clear-cut and focused, i.e., to transform the food sector in West Africa and to deliver excellent results to their stakeholders. Food Concepts pioneered the food court concept in Nigeria. At the same time, they imported established QSR (Quick Service Restaurant) brands from South Africa.

Since its launch in 2004, Chicken Republic has opened 65 stores in Nigeria and Ghana. The brand has a hard-earned reputation as the fastest growing chicken QSR in West Africa and the number one chicken QSR in Nigeria (both in terms of revenue and number of outlets). In addition, Chicken Republic was ranked as one of Nigeria's top 20 brands across all categories (Financial Standards Awards 2009).

As part of the company's backward integration strategy, 2009 saw the launch of Free Range Farms. The aim of this business was to develop a fully integrated poultry farm and state-of-the-art processing plant, with the aim of, not only meeting the demands of their own restaurants, but also to supply other third parties, such as supermarkets, hotels and other restaurants. Other brands in the Food Concepts' remit include:

- Butterfield Bakery – In 2003, Food Concepts acquired a Master Franchise Licence for West Africa that included the flexibility to evolve the brand from a retail bakery to a wholesale bakery concept. Currently, seven plant bakeries are operated in seven Nigerian states, which supply the mass market with millions of loaves of bread each month.
- Pizza Republic - This is the latest addition to the Food Concept portfolio and is fast becoming a popular favourite among upscale and aspirational Lagos residents.

Franchisee selections are based on:

- Professional qualities emulating business values, including integrity, good faith and fair conduct, dedication, teamwork, diversity and a passion for continuous improvement
- A demonstrable record of success in a previous business or career, ideally with good interpersonal skills, operational experience and financial management skills
- Responsiveness, responsibility and accountability
- A strong desire to succeed and the will to ensure all-round business success including financial, operational and compliance with quality and delivery standards
- Personal funds to commit to the

business and/or the ability to raise the investment amounts required

- Personal discipline to ensure successful completion of training, induction and ongoing evaluation programmes

Favourable trade and personal references

- A preparedness to commit to a long-term relationship that entails ensuring that each aspect of the business is run seamlessly, each day, for the full franchise term
- Passion and commitment to delivering exceptional customer service at all times
- Willingness to continuously invest in the training and development of staff entrusted to deliver products and service to customers
- Devotion of full-time efforts to the day-to-day operations of the business, which implies agreement to divest of all other business activities that are likely to detract from the time required to run and manage a Chicken Republic store. Chicken Republic uses an owner-operator model where the franchisee is 'hands-on' in the running of the store.
- A vested interest and ongoing participation in the protection and enhancement of the Chicken Republic brand.

Challenges occasioning failure:

- Failure to conduct background checks before entering into contractual obligations.
- Franchisee selection error owing to a failure to conduct an eligibility profiling according to pre-determined criteria.
- General absence of trust and goodwill.



Remedies

- Introduction of capacity building especially in the areas of comprehensive orientation/on-boarding for new franchisees; consistent and continuous training and monitoring of how the franchisee operates the business; management training; customer care and service for franchisee and its workers; business expansion trainings so that existing franchisees can open additional outlets
- Franchise training academy or institutes should be set up for nationwide support. Details on the approaches to implementing this initiative are on page 56.
- Banks should lower rates and develop franchise specific products. However, It is possible that some franchises, especially most of the boutique-type franchises of international brands, who are reported to have been making roughly 200% in turnover from the respective brands they franchise, can comfortably cover the typical high interest rate of Nigeria commercial banks. Such case is a particular self-funded franchise investor holding master franchise of multiple brands which had at some point sourced funding from a commercial bank to fund the acquisition of some of their franchises. A possible low investment fund friendly model that could be adopted is the Babban Gona model, where the franchisor negotiates the terms of the facility based on its own business acumen and experience, and then provides the fund to the franchisee. Another alternative is the 24-hour cash cycle model or private lenders being used by GEMS4 for the sale of fast moving consumer goods. Seminars and awareness should be introduced and carried out frequently
- NIFA needs to be functional and to perform a networking role; to be the Nigerian franchise resource centre for solutions; to organise seminars, training and exhibitions for franchise stakeholders.

3.2 Mr Biggs

The United African Company (UAC) Plc. is an indigenous conglomerate that pioneered local franchising and launched its Mr Biggs brand in 1985.

This company marked 30 years of operations in July 2016. Mr Biggs was modelled after McDonalds; the restaurants were well decorated with ample seating and car parking facilities; and it was known for their famous meat pies, jollof rice and chicken. The franchise grew quickly and branches sprang up in Nigeria's other major cities.

Currently there are about 130 Mr Biggs restaurants all over Nigeria and the planned African expansion has also seen Mr Biggs opening in Ghana, where there are now two franchises in the country, with plans for more.

Mr Biggs is a strong brand, representing what many perceive to be the foremost incursion of Nigerians into franchising. For a long time, Mr Biggs held sway as the foremost food brand in Nigeria. However, numerous closures of outlets across the country have aroused curiosity. Mr Biggs however remains the poster child for local franchising in Nigeria. Subsequent operators in the fast food restaurant have gleaned important lessons from the operation and model of the Mr Biggs franchise.

Important lessons from Mr Biggs experience with franchising in Nigeria.

- There is a need for the franchisor to remain focused on the franchise business, especially when pursuing aggressive expansion.
- Research and development are major responsibilities of the franchisor as these influence the marketing and advertising efforts used to promote the business.
- Consistent monitoring to ensure the compliance of franchisees with standards.
- Adopting creative ways to motivate franchisees to run the business.
- Proper definition of the franchisor's role and its target market (demographics, locations, franchisee profiling).
- The necessity of refreshing the look and feel of the franchise in tandem with current realities in the targeted markets. This might mean overhauling the product offering as well as the physical look and feel of the business.

Support offered to new and existing franchisees

1

- Buddy system – linking a potential franchisee with an existing franchisee to understudy operations and to learn how the business model works. This provides quick integration and coaching for success for a potential franchisee to start the business.
 - Understudy at model outlets that were company- or franchisee-owned.
 - There is a preference for an owner-operator who is involved in the business. Where the franchisee is not available, he is required to engage a Franchise Operations Representative who attends mandatory training with the franchisor.
 - Franchisor-trained managers to handhold new franchisees.
 - Marketing and advertising the brand.
 - Training and re-training on stock management, production, accounts, customer service monitor in franchisee monthly reports to ascertain that the business remained viable.
 - Monthly reports enable the franchisor to know areas where franchisee could be bleeding financially and to present appropriate interventions.
 - Global funding line from the Bank of Industry to franchisees of Mr Biggs.
- Challenges
- The process and requirements for selecting a franchisee must be strictly adhered to.
 - Integrity of franchisee is a key issue.
 - High rental costs of location – one of the highest grossing outlets had to be abandoned because there was an approximate 1000% rental increment by the landlord. The outlet shut down, the franchisee lost his investment and the franchisor could



not do anything about it. However, the corollary to the shutting down of locations without removing the signage is that it gives the perception of failure of the franchise, without knowledge of what had transpired to lead to closure. High rentals are a common complaint in South Africa. Research conducted on behalf of the Franchise Association of South Africa, shows many franchisees complaining about high rentals. Two in five franchisees have business outlets in shopping centres/malls and one in three have them situated in high streets, where most passing trade occurs. Business premises are largely rented from private concerns. 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 devel-

- opments 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. High operating costs could lead to the cutting of corners to increase margins; hence the need for the franchisee to understand that it is a long-term investment. Bringing in foreign managers to oversee local brands without an appropriate understanding of the local terrain and limited knowledge of local preferences.

Eligibility criteria

- Professional background and record of success or achievements
- At least N50m as start-up costs to set up restaurant, acquire equipment and franchise fees
- Background checks to reveal integ-

rity issues

Recommendations

- Awareness drive about franchising as a successful business model
- Trust, integrity, adherence to terms of contract
- Need for a small claims court or mediation to resolve disputes so that businesses are not tied up in regular courts for so long.

3.3 Pagatech

Paga Merchant Services allows businesses to collect payment from all spectrums of the population - whether banked or not.

By leveraging the Paga e-wallet, businesses can integrate a world-class online checkout process on their own websites. Businesses can also leverage the agent network to collect payment for goods and services or to provide customers with the convenience of paying via SMS or online at Paga's customer portal. There are currently 8,000 franchise units.



The business approach of Pagatech towards its franchisees is to ensure constant ongoing support and training from foreign experts, who conduct field assessments and translate feedback to actionable steps. Having received funding from venture capital, Pagatech is embarking on aggressive growth and expansion plans.

Support offered to franchisees/agents

- Branding of outlets.
- Marketing and promotional signage.
- Check –in visits by field representatives.
- Technological support.
- Training and operational manual.
- Performance incentives by way of bonuses and rewards.

Eligibility for franchisee recruitment

- Availability to be trained – preference for owner-operators
- Payment of N25, 000 for start-up pack and branding fee.
- Working capital.

Major challenges

- Cultural factors – while a large percentage of Nigeria's youthful population are comfortable using

technology for pleasure and entertainment, the adoption of technology to drive business operations or owning and operating a technology-dependent business still needs further development. This makes a sizable percentage of potential franchisees averse to investing in such ventures. However, as more successes are recorded, it is anticipated that more Nigerians will set up and run businesses leveraging extensively on technology.

The challenge with electricity fuels the considerable “not as rapid as expected” setting up of technology-dependent business as providing electricity increases the cost of running outlets.

Notably, a similar technology driven financial solution fit for micro businesses is the Agency banking solution of Heritage Bank. Heritage Bank's Agency Banking model locates technology driven micro banking services at remote areas with little or no access to formal banking services, with the goal of serving the under-banked, and for people with limited exposure to the modern banking system.

3.4 Lagbus Assets Management Company

There are currently ten franchisees operating a total of 238 buses on seventeen routes under the Route Franchise scheme in Lagos state and 23 newly approved franchisees by the Lagos State Executive Council. Three hundred and thirty-seven buses are planned for deployment within the next nine months across 44 routes within Lagos metropolis.

Why franchising for a Government-owned entity?

- Expand the number of bus routes as demanded by members of the public
- Leveraging on the Lagbus brand to create employment and a model of modern transportation
- To take advantage of the shift from traditional to modern trade
- The biggest challenge is maintaining the requisite standard of operations among franchisees.

Services to franchisees

- Ascertain commercial viability of proposed route
- Consistent training/certification of fleet drivers
- Savings on bulk purchase – printing of bus tickets in large quantities
- Periodic monitoring using mystery shoppers and compliance officers
- Marketing and promotion of Lagbus brand on various media platforms
- Public complaints handling and resolution
- Daily communication via emails and phone calls.

Eligibility criteria

- Registered corporate entities, no individual franchisees to ensure continuity of business
- Previous knowledge of fleet management
- N5 million upfront fees but which later becomes deductible to service ticket purchases.

Success in franchising

- Better brand appreciation
- Ability to replicate the Lagbus transportation model without internal funds
- Increased bus routes from 20 to 44 (20 company operated, 24 franchisee operated).



3.5 Babban Gona

Babban Gona (“Great Farm” in Hausa) is an agricultural franchise, developed by Doreo Partners, an impact investing firm with a proven track record of exclusively investing in profitable, high growth, early stage businesses that improve the livelihoods of Nigerian smallholder farmers.

Babban Gona inspires and enables hardworking smallholder farmers reach their full potential by providing a private sector channel for cost effective delivery of enhanced agricultural technologies and end-to-end services that optimise yields and labour productivity, while simultaneously improving market access.

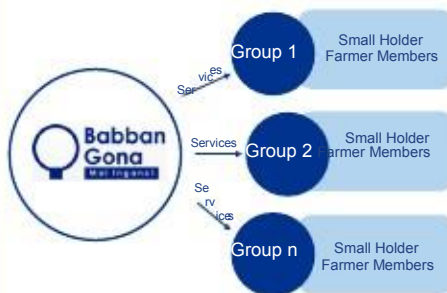
Starting with a modest sixteen farms at inception, there are currently 2,000 famer groups under the Babban Gona brand with an average of five farmers in each group. No franchise fee is paid but a margin is paid back on the working facility given at inception to a franchisee. Babban Gona envisages having 1,000, 000 farmers under its brand by 2025.

Babban Gona uses a direct, hands-on approach with its franchisees, focusing on their success (results have shown that the average farmer’s output and income have tripled since becoming a Babban Gona franchisee). Being a pro-poor initiative focused on the starting point in the agricultural value chain, it is a testimonial of how franchisors can help franchisees to succeed by understanding the peculiarities of their business and problems. Results of research from donor agency

partners are shared with the farmers. Periodic scheduled visits foster cordial relationship between parties.

The eligibility criterion is simply having a farm in the Northern part of Nigeria. There are no plans to extend the scheme beyond Northern Nigeria at present.

Offerings to franchisees

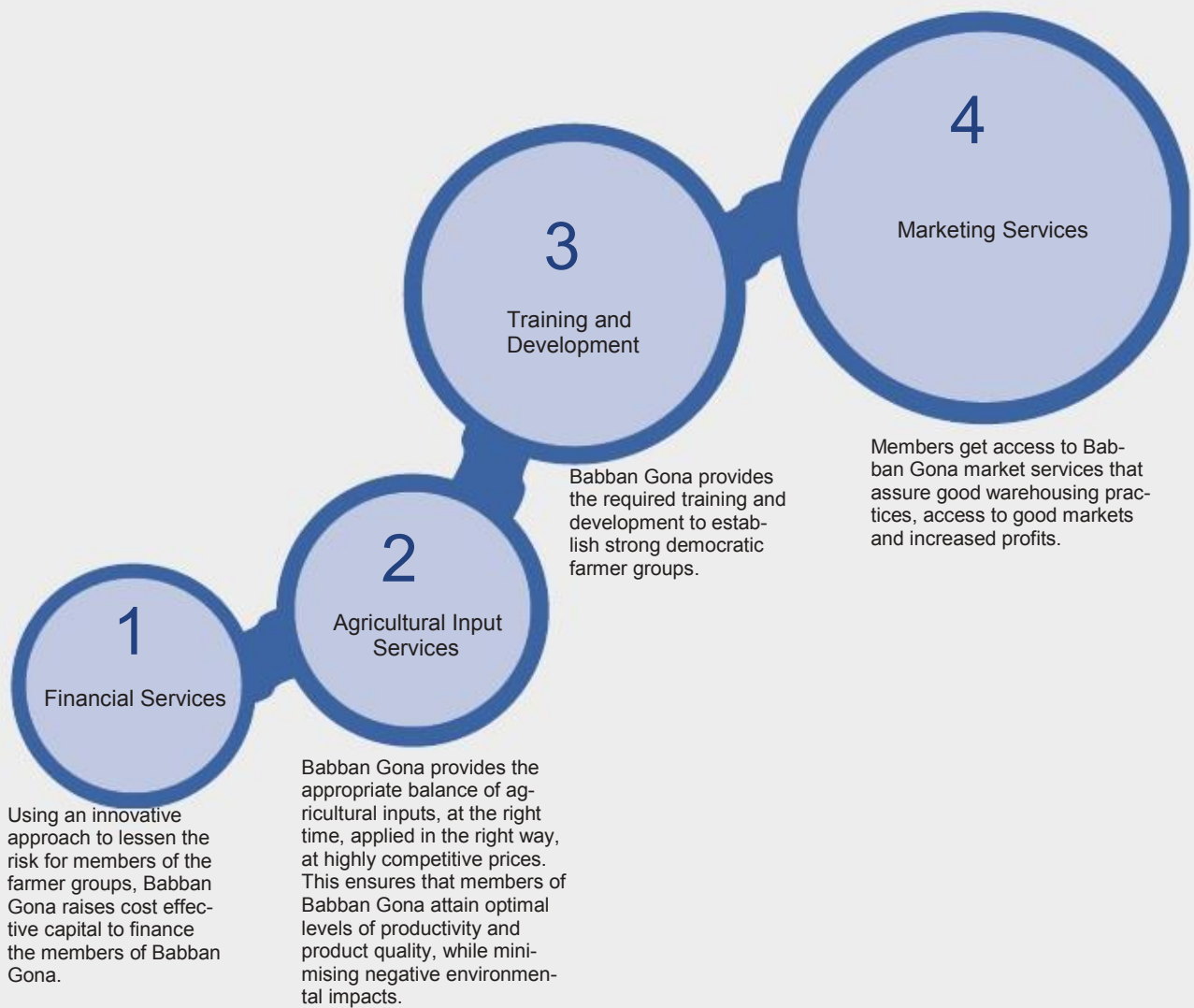


- Working capital facility of USD 5,000
- Technical support about crop selection, pesticides, fertilisers, harvesting techniques
- Hand-in-hand relationship with farmers to ensure productivity and efficiency
- Marketing of farm produce (provides warehousing in between harvest and sale)



Babban Gona's service delivery model

Provides four key services required for smallholder farmers to be successful.



04

Nigeria Franchise Industry Study – Key Findings



There are many hitherto unknown franchisor brands in Nigeria, both local and foreign. It emerged that these brands cut across all sectors. Prevalent are pseudo-franchises and micro-franchises, such as Best Choice and Habib. The franchises encountered included the dominant segment, food and quick service restaurants and extended to agriculture value chain franchisees such as Hybrid Foods.

A key finding from the research is that only an estimated 30% of these companies understand the actual franchise business model.

Capacity building, access to suitable finance, trust issues, protracted dispute resolution due to frustration in getting judgment and lack of public awareness were all mentioned as key challenges to franchising.

Solutions proffered by respondents included setting up franchise-specific training and certification institutions that would provide guarantees to lenders.

The government is also expected to introduce empowerment initiatives and schemes for micro franchising to young professionals and school leavers. The industry survey will be considered under the following headings:

- Key growth drivers
- Opportunities and value creation between franchisees and franchisors
- Challenges to growth

Although franchising is still a relatively unknown concept in Nigeria, the survey established that the main reasons why many considered franchising as a viable and sustainable business model that could succeed in Nigeria include, but were not limited to:

- A large youthful population
- Entrepreneurial drive and energy among the populace
- An increased success rate because of extensive training and capacity development provided by franchisor.

In order to facilitate quick growth, the following factors were enumerated as the drivers requisite for a robust franchise industry in Nigeria namely:

- Strong IT support and infrastructure – increased telephony and broadband Internet penetration.
- Access to finance for potential franchisees to embark on fully-fledged franchising. In sourcing funds from commercial banks, there is advocacy for a single-digit interest rate to ease the cost of doing business.
- Sufficient incentive to keep a franchisee in the relationship, such

as referral opportunities, access to finance guaranteed and facilitated by the franchisor, a guaranteed profit margin, a seamless set up, staff training and general brand goodwill. Clearly defined obligations of the franchisor. Franchisors must be held responsible for facilitating and ensuring the success of the franchises through monitoring by regulatory bodies, such as NIFA or franchise endorsing institute established in the private sector, which could withdraw certificates of defaulting members, as is done in other countries. Deliberate institutionalisation of franchising as a growth model for MSMEs. Sufficient thought and expertise should be put in place by both franchisors and franchisees before entering into any franchise business. The existence of an Academy or Franchise Institute where people could be tutored on the demands of the franchising model was canvassed.

From the survey, it is evident that the relationship and dealings between franchisors and franchisees is critical to a successful business. Of equal importance are financial matters around the profitability of franchisees and access to funds.

4.1 Observations and learning points

Franchisors and franchisees face many challenges when setting up agreements and during operations. From the survey, it is evident that the relationship and dealings between these two parties is critical to a successful business. Of equal importance are financial matters around the profitability of franchisees and access to funds. Franchisees are concerned about having to pay royalties and other fees due to the franchisor when the business viability is being threatened.

4.1.1 Franchisor/franchisee dealings

In the course of business dealings, certain critical indices were obvious as contributing to the disillusionment experienced by many franchisees, whether local or international franchises. Some of the areas of concern that are important to be enumerated by this report are:

- The failure to deliver expected incentives, forces franchisees to opt out of the relationship.
- Where franchisor insists on the prices of goods sold within a designated or assigned territory but this eventually hampers and limits opportunities for franchisees.
- The absence of well-established and open communication channels between the franchisee and franchisor, which often leads to disputes and strained relationships, with one party eager to exit the relationship, even before the expiration of the assigned period.

There are lopsided financial relations where the franchisor is only interested in receiving royalties and advertising fees without the corresponding financial oversight and monitoring, which should be provided to ensure the success of the franchisee. Many franchisors corroborated this fact stating that they did not demand detailed financial reports usually because of the nature of their franchise business or because of the educational capacity and background of the franchisees.

Equally, franchisors complained that many franchisees were unwilling to fully

engage the services and assistance of the franchisor and were often reluctant or hesitant to fully disclose how well or poorly the business was doing. In some instances, franchisees have been known to under-declare sales or engage in underhand tactics in an attempt to pull the wool over the eye of the franchisor. This fuels the mutual distrust between the parties, often leading to a collapse or failure of the business.

For franchisees in the fashion retail industry, the distinctiveness of the weight and size of the average Nigerian led to sometimes having to cope with "dead-weight" products. For one franchisee, the clothes are pre-packaged into selected sizes ranging from small to very large sizes based on European or Middle East demographics. The result of this was that the franchisee had to absorb costs of not being able to find a suitable market in Nigeria for some of the sizes. This matter is still under discussion with the franchisor.

The following solutions were arrived at from the responses:

- The necessity of full disclosure at the inception of the business so as to limit and forestall assumptions and inflated expectations, which when not met by either party could lead to dispute or disillusionment. In this regard, the proposed Franchise Bill sets out the extent of disclosure to be made by the franchisor to the franchisee at inception.
- The necessity of frequent meetings for better integration of ideas between the franchisee and franchisor. Such meetings could also provide an opportunity for the franchisor to come up with innovative incentives to reward high-performing franchisees.
- The majority of the franchisees believed that they were buying into a verified system of doing business, had been tried, tested and re-engineered over several years. Thus it is incumbent upon the franchisor to seek expert support to formulate 5-10 years projections and based on such projections to provide the requisite support and handholding to franchisees. The survey revealed that this is a critical issue for many local

business franchises. International franchisees interviewed already had such structures in place with their franchisor. This is notably one of the roles that an organised private sector set up academy or institute would play if established in Nigeria.

Availability or otherwise of finance is a fundamental success factor in any business and more so in the franchise business. While the franchise fee is non-negotiable, having sufficient working capital or accessing facilities that make access to working capital easier is an area where many franchisees have difficulties. The survey revealed the following:

- Most, if not all, international franchises require the submission of accounts and budgets with close monitoring done on all operations. Many international franchises provide the accounting or bookkeeping software being used by franchisees, so monitoring the account is easier and seamless with minimal reconciliation of accounts.
- A significant number of franchisees interviewed opined that franchisors ought to allow phased payments of franchise fees rather than one lump sum payment. For many of the franchisees operating a product format franchise, the franchisor provided shop branding along with merchandise assistance and once the payment of the franchise fee had been paid no further support was provided.
- Considering the youthful population of Nigeria, several franchisees suggested that a) the franchisor could provide credit facilities to the franchisee or at least guarantee such facility to a third party lender; b) provide a system of forecasting profits accruable to franchisee after payment of franchisee fee.
- However, from the franchisor's perspective, the rationale for selling franchise opportunities is to raise additional funds for expansion of its brand name to other territories and locations. It is, therefore, imperative that potential franchisees have some financial capacity before buying into the franchise relationship. A handful of commercial banks are also willing to provide funding to potential fran-

chisees, however, these franchisees need to contribute some equity as well.

- In the Northern parts of Nigeria, a peculiarity was observed in that funds do not flow through market channels like banks; rather they are kept in local safes and homes, thereby leading to scarcity of liquidity and minimal funds for lending in the formal system. The reason for this unwillingness to make use of banks is twofold: fear of losing their money (limited understanding of the workings of the banking system) or being in possession of illegally acquired wealth. Some respondents in this region suggested a strategic proposition of the franchising scheme to targeted potential franchise sector actors in the region. Such strategic approach would include reaching out to the people with marketing schemes via channels such as pamphlets in Hausa and Arabic languages. This would not only engender interest and involvement of the people, but also encourage them to invest in franchise businesses, and create liquidity for franchise funding in the system.

A significant number of franchisees interviewed opined that franchisors ought to allow phased payments of franchise fees rather than one lump sum payment. For many of the franchisees operating a product format franchise, the franchisor provided shop branding along with merchandise assistance and once the payment of the franchise fee had been paid no further support was provided.

4.1.2 Lack of formal business structures/ Dispute management

Franchise jurisprudence is at its infancy in Nigeria and this is evident in the length of time it takes to either register with the necessary government agencies and/or in resolving disputes through the formal court system. There were numerous complaints about the multiplicity of agencies, departments and agencies that franchisors/franchisees need to register with, in order to properly run their businesses. This bureaucracy significantly increases the cost of doing business, occasioned by tedious and diverse registration requirements from government agencies.

Some of the agencies are at federal level, e.g., Corporate Affairs Commission (CAC), National Agency for Food and Drug Administration and Control (NAFDAC), National Tourism Development Corporation (NTDC), Standards Organisation of Nigeria (SON), National Environmental Standards and Regulations Enforcement Agency (NESREA), National

Respondents recognised the need for the brand to be well known with excellent product reliability and acceptance. The necessity of periodic and structured visits to franchisee outlets was equally deemed an important factor to the long-term success of the franchise business.

Office for Technology Acquisition and Promotion (NOTAP) while some are at State levels such as Lagos State Signage and Advertisement Agency (LASAA) and Lagos State Environmental Protection Agency (LASEPA) among others.

The loose intellectual property protection and enforcement mechanism was mooted as an area of significant concern. A seemingly weak and slow judicial process, where cases stay on the court's list for several months before a final resolution is reached, further complicates the situation. Such a situation is definitely injurious to business. Respondents, especially franchisors related numerous occasions of infringement of intellectual property without swift legal consequence being meted out upon such infringers. These infringements were noted with regard to clothing designs and signature crests of foreign brands being used indiscriminately on local goods without any or delayed consequences. There was a general understanding that the franchisor's intellectual property is a fundamental contribution to the franchise model and it is, therefore, necessary to have a legal system that is swift and quick to adjudicate on instances of breach of intellectual property rights.

Franchisees expressed a need for some sort of certification of franchisors so that, should a franchisor materially breach the terms of the franchise agreement, such an infringement could be reported and the franchisor appropriately sanctioned by probably a withdrawal of the certificate. It is anticipated that, before the passage of the Franchise Bill 2016, the recommendation of setting up a Franchise Institute that would award such certificates, would have received some positive consideration so as to warrant the inclusion of such a provision therein.

4.1.3 Awareness and knowledge of franchise industry

There is minimal understanding of the franchise business intricacies with many franchisors having a very poor understanding of the operation of a proper franchise business. The majority of respondents were hearing about franchising for the first time or had no operational knowledge of it. Potential franchisors,

franchisors and franchisees would require serious exposure, education and capacity building to be able to operate franchises. The limited or minimal knowledge about franchising has also been a restrictive factor in the adoption of franchising, especially in Northern Nigeria where there are many local businesses that are quite ripe for franchising. However, gauging the interests from the respondents, a good number of this category of potential franchisors and potential franchisees, perhaps as much as 10% of them, had asked to be told where they could get more information on franchising in Nigeria, or requested consultation services to get involved in one franchise related interest or the other. This is a clear indication of interest that could develop into a more knowledgeable and quick growing franchise industry in the near future.

Other key findings from the Nigerian franchising industry were:

4.1.3.1 Product and brand quality
Respondents recognised the need for the brand to be well known with excellent product reliability and acceptance. With particular emphasis on the food business, respondents were of the opinion that there should be continuous reviews of product quality and operations to bring them in accordance with market demand and best practice. The necessity of periodic and structured visits to franchisee outlets was equally deemed an important factor to the long-term success of the franchise business.

4.1.3.2 Correct procedures when setting up/running a franchise operation
About 85% of the respondents from the potential franchisee interviews pointed out the need for franchisors to have proper structures, systems and processes in place before selling franchises. The tendency to build the brand around an individual, usually the founder, was frowned upon.

4.1.3.3 Lack of trust
A worrisome tendency in the Nigerian populace, raised by many respondents, was a general distrust of each other. Of equal concern are the egoistic tendencies observed among some of the respondents, who opined that it was preferable to build a business in their

own name, rather than adopting the name or brand of another. Thus, there are many similar businesses around but no coherence or mutual cooperation.

4.1.3.4 Training

All respondents agreed on the need for extensive training if adopting the franchise business model in Nigeria is to be successful. The appropriate implementation of technology to enhance operations and uniformity is a necessity. Many of the international franchises in Nigeria have successfully leveraged technology to provide oversight and support to their local franchisees.

4.1.3.5 Use of professional advice

Due to the limited knowledge about franchising, the use of professional services at inception and during the operation of a franchise business would have a positive effect on the future of franchising in Nigeria. Many franchisees and franchisors expressed regret at not having sought for and obtained the services of qualified professionals before embarking on the franchising journey. There are two of such professional services:

- Consulting services. The average consulting firms can provide this, in helping the business to have the right structures and proven business

system qualifying the business as ripe for franchising.

- Franchise development specific consulting services. More capacity could be created here by setting up a franchise academy or institute for a large scale offering.
- #### 4.1.3.6 Miscellaneous
- Staff welfare should be an important franchisee performance indicator, which the franchisor should monitor.
 - Uninterrupted affordable power supply is required to boost the MSMEs. There is a renewable and efficient energy project undertaken by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbHGIZ called 'RE'.¹¹ This could be explored in partnership with more business clusters, associations and government. There are a number of existing Renewable Energy solution operators in Nigeria, however such operators as expected, would need to pass the franchise-worthiness test, to prove that their businesses can be franchised, to scale up their services to more MSMEs.
 - Reduction in operational costs should be investigated by enabling shared services and cluster or network groups.

Due to the limited knowledge about franchising, the use of professional services at inception and during the operation of a franchise business would have a positive effect on the future of franchising in Nigeria.



11. <https://www.giz.de/en/worldwide/1902.html>

Excerpts of opportunities and value creation between franchisors and franchisees



Training

- Adequate training of franchisees is received from franchisors with the average training period lasting at least a week and usually on-site support. The training encompasses sales and product knowledge with in-house consultants engaged to set up the business and to provide ongoing technical support. Central resource persons assist all outlets with preparation of annual budgets and KPIs.



Financial matters

- Facility and credit line opened for franchisees.
- Waiving of franchise fee and management fees because of distribution license with five percent of monthly sales being paid as contribution towards marketing and advertising.
- Patronage rebate offered to franchisees that meet targets with free exchange of old stock with new designs.



Support from franchisor

- Regular inspection visits conducted to maintain standards and ensure franchisee replication of success.
- Widespread technical support for franchisee's initiatives within territory.



Materials and supplies

- For most operating in food retail/quick service restaurant, the franchisor usually provides most of the raw materials, with the exception of perishables or specified equipment, that are solely within franchisee's purview.



Marketing and promotions

- The franchisor provides marketing and promotional materials, including hi-tech marketing support, especially on social media, celebrity styling and celebrity endorsements that give better brand visibility.
- Free product promotions globally with local demands from Africa/Nigeria being directed to the franchisee.
- An easily recognisable brand name with a good reputation facilitates the growth of the business.



More flexibility from franchisor

- New research results and product lines are communicated to franchisee with attendant training. The franchisees are allowed, within reason, to develop new uses for the product, different from those of the franchisor.

4.2 Challenges of franchising in Nigeria

While there are success stories from existing franchisees and franchisors, there are, nevertheless, serious challenges hampering the growth of franchising as a sustainable business model for MSMEs in Nigeria.

Some of the challenges are general and applicable across board while others are peculiar to specific sectors. The general challenges applicable across all franchise types and models are enumerated below in details.

4.2.1 List of challenges

Sourcing Capital

- Working capital is hard to source. Low margins from the business are not sufficient to sustain the high interest rate charged
- Franchise fees demanded by foreign franchise brands are usually too high, especially due to the high Foreign Exchange rate.
- The rigorous criteria towards securing loans from commercial banks can be met by very few businesses especially the start-ups.
- Most fund providers would need better understanding of the franchise business model, to develop bespoke propositions for franchisors and franchisees.

Government enabling support

- Erratic power supply is a chief cause for concern, providing alternative power is expensive, contributing 20% of overhead costs at the minimum
- Multiplicity of regulatory regimes, with obligations to all three tiers of government in many cases
- Security challenges and social vices, e.g., kidnapping frustrate business growth.
- Incessantly high cost of doing business in Nigeria owing to some government policies.
- Unstable government policies. Compounding this challenge is the difficulty being experienced in sourcing for foreign exchange to effect payments.
- Constant imposition of taxes, levies and dues on small businesses by State and local governments especially if franchise is a popular brand.
- The success of franchise businesses

depend a lot on a seamless logistics system. Bad road infrastructure increases cost, loss of time and waste.

- Lack of existing franchise specific laws and regulatory structure.
- #### Franchisor/Franchisee relationships
- Failure, refusal or neglect of franchisor to revitalise the image of the business when due.
 - There is no option of instalment payment.
 - Failure of franchisor to provide proper oversight functions to the franchisees.
 - Loss of trade secrets to franchisee/refusal of franchisor to reveal trade secrets, thus holding franchisee in perpetual servitude.
 - Again, the recipe is stereotyped and cannot be adjusted to suit the customer's taste and quality.
 - Dichotomy in franchise relationship leading to fragmented pricing regimes being applied to various categories of franchisees.
 - High franchise fees, especially for international franchises and food/QSRs.
 - Lack of autonomy for franchisee to make business decisions.
 - Non-adherence to terms of franchise agreement by both parties.

Quality Control

- Deadweight products being foisted on franchisee.
 - Presence of counterfeit products competing with franchised products in the market.
 - Lack of logistic efficiency of franchisor
 - Desire for excessive profit, which in turn makes franchisee and franchisor to cut corners
- #### Lack of Trust & lop-sided dealings
- Lack of trust. The prevalent mind-set that a franchisee would be "building another man's business"
 - Fear of "watering down" the brand built up by the franchisor
 - The franchisor drafts the agreement without considering the franchisee. Some details are ignored in the agreement but afterwards they cause business friction.
 - The royalty is paid on the gross turnover instead of on the net turnover. Many franchisees allude that the franchisors favour the franchisor owned outlets over the franchisee outlets in

providing support.

Lack of franchise specific awareness, capacity and enabling structures

- Absence of efficient and skilled labour
 - Absence of business fairs to promote franchisee's business
 - Inadequate training provided by franchisors.
 - Limited knowledge of roles as most franchisors and franchisees had no clear understanding of expectations about their roles under the franchise arrangement
 - Existence of few successful local franchises that could be franchised to sell franchises
 - Almost no knowledge of the existence of Nigerian International Franchise Association (NIFA)
 - Inefficient local courier services
 - Failure of franchisor to understand peculiarities of different markets depending on location of franchisee
 - Lack of knowledge about the existence of Franchise experts and consultants
 - Absence of regulations regarding franchising in Nigeria
 - The notion that franchising is alien to Third World countries
 - Weak intellectual property rights protection and enforcement mechanisms.
 - The limited education and exposure of some franchisees
- #### General challenges with doing business in Nigeria
- Absence of market research and statistics to make business decisions.
 - Inefficient local courier services
 - Limited availability of technology to ease communication between franchisee and franchisor
 - Exorbitant rental costs: Ideally, rental costs ought not to exceed 10% of overhead costs of running any business. As it emerged from interviews, even when rent is low at inception of the business, there is a tendency for the landlord to increase the rent disproportionately thereafter. In both the Indian and South African reports, high rental was observed as a challenge faced by franchisees.

4.2.2 Possible solutions to challenges

Challenges	Proposed Solutions
Working capital is hard to source. Low margins from the business are not sufficient to sustain high interest rates charged	<ul style="list-style-type: none"> • Franchise specific facilities/funds such as those set up in Dubai and the US • Innovative funding solutions such as using private lenders for less-capital intensive franchise businesses
Failure, refusal or neglect of franchisor to revitalise the image of the business when due	<ul style="list-style-type: none"> • Continuous investment in research and development by franchisor to ensure it keeps its finger on pulse of the market • Deliberately engaging franchisees/franchisee's employees for feedback as they interface directly with end-users or consumers • Mystery shopper programmes to observe actual operations and reaction of consumers to the brand, image and service of the franchise
Inadequate training provided by franchisors	<ul style="list-style-type: none"> • Engagement of franchise consultants to provide comprehensive and periodic trainings for franchisors and franchisees • Setting up the Franchise Academy to provide certification or accreditation to intending franchisees.
Non-adherence to terms of franchise agreement by both parties	<ul style="list-style-type: none"> • Use of trained consultants by all parties prior to and during negotiations to ensure that most, if not all, contentious terms are resolved amicably. • Ongoing education through NIFA and Franchise Academy about importance of adhering to terms of the franchise agreement • Use of Franchise Disclosure Agreement so that the franchisee understands all spectrums of the business before making a commitment to buy a franchise.
Erratic power supply is a chief cause for concern, providing alternative power is expensive, contributing a minimum of 20% of the overhead costs	<ul style="list-style-type: none"> • This is an area of intervention for government. However, private sector initiatives for alternative power supply, e.g., solar or affordable power solutions will go a long way to ameliorate this challenge.
Loss of trade secrets Fear of "watering down" the brand built up by the franchisor	<ul style="list-style-type: none"> • Through consultation with expert legal services, franchise associations and exposure to industry knowledge, franchise agreements are drafted correctly from the start. Also the parties learn to respect and enforce contracts.



Challenges	Proposed Solutions
Failure of franchisor to provide proper oversight of franchisees.	<ul style="list-style-type: none"> Franchise education and awareness would correct this anomaly. Franchisors would learn that it is a wiser choice to ensure the franchisee succeeds.
Security challenges	<ul style="list-style-type: none"> In other countries with mature franchise industries, security services and solutions form a significant size of the franchise industry sub-sector. This can be replicated in Nigeria.
Exorbitant rental costs	<ul style="list-style-type: none"> Re/Max is an international real estate franchise, offering corporate services to franchisors operating multiple outlets. A type of this franchise firm can provide affordable outlet rentals for other franchise operators as the industry gets more organised. This way, franchises will become tools of solving some of the challenges to the growth of the franchise industry.
Lack of logistic efficiency of franchisor Inefficient local courier services	<ul style="list-style-type: none"> DHL operates a logistics franchise, supporting a number of businesses with logistics services within Nigeria and other countries. There are other local logistics brands, which could be franchised to ease this situation.
Inadequate training provided by franchisors. Absence of efficient and skilled labour The limited education and exposure of some franchisees	<ul style="list-style-type: none"> Franchisors can choose to outsource their training and recruitment services to franchise consulting firms.
Absence of business fairs to promote franchisee's business Lack of knowledge about the existence of franchise experts and consultants	<ul style="list-style-type: none"> The increased activities of franchise development consulting firms and NIFA would primarily resolve this with time.
Limited availability of technology to ease communication between franchisee and franchisor	<ul style="list-style-type: none"> Technology solutions for businesses are being developed on daily basis. There are many franchise and non-franchise solution providers in Nigeria either currently meeting this need or likely to take advantage of this opportunity.



There are no specific laws governing the franchise industry in Nigeria. The basic principles of contract law, and intellectual property law are applied to franchises in Nigeria, especially in the event of a dispute.

4.3 Franchising law in Nigeria

There are no specific laws governing the franchise industry in Nigeria. The basic principles of contract law, and intellectual property law are applied to franchises in Nigeria, especially in the event of a dispute. However, there is a Franchise Bill 2016 pending before the National Assembly to which bodies like NOTAP and NIFA have made representations. In view of the findings of this survey, it was pertinent to delve into the details to be addressed by the Franchise Bill 2016.

The operation of the Bill applies to Product Franchising; Trade Name Franchising; Business Format Franchising; Unit Franchising; Multiple Franchising; Area Franchising; Pilot Franchising; Fractional Franchising; Conversion Franchising; and any other type or form of franchising granted or renewed for operation within Nigeria.¹²

Section 2 of the Franchise Bill 2016 stipulates NOTAP as the body responsible for the operation of the Bill when it becomes law. This presupposes the need for a specific franchising department within NOTAP. It is unclear whether one exists at the moment.

Section 4 of the proposed bill mandates all franchises in Nigeria to be registered. However, bearing in mind that the law does not contain procedures or guidelines for this, but stipulates that the Governing Council of NOTAP will be responsible for enumerating the operation of the law, it is advised that NOTAP be a major stakeholder in all intended interventions being proposed or planned for the franchising industry in Nigeria lest bureaucratic loopholes become a stumbling block to the growth of the fledgling sector.

The Bill, as presently drafted, dwells extensively on the furnishing of disclosure documents to the franchisee by the franchisor. It describes, in detail, the nature and type of information to be contained in the Disclosure document and when

it should be provided to a prospective franchisee by a franchisor.¹³

The Bill mandatorily requires all intellectual property rights relating to a franchise business to be registered with the appropriate regulatory body (Trademarks, Patents and Design Registry), so a one-stop shop for registration of agreements and intellectual property rights would be an efficient means of ensuring compliance.¹⁴

In consideration of the enormous power to be conferred on NOTAP by the operation of this bill, significant capacity building is imperative for NOTAP officials to ensure that the agency satisfactorily performs its functions as directed by law. Thus well-equipped state, regional or district offices of NOTAP need to be created to minimise pressure on the team in Abuja. This will also expedite action on all registrations, so as not to frustrate or unnecessarily delay operations of franchises in Nigeria.

An important provision of the Franchise Bill 2016 is the requirement of 20% local content in any franchise operating in Nigeria after the passage of the Bill.¹⁵ According to a respondent from Jackson, Etti & Edu legal firm, there has been much legal research concluded in the past but there is no coordination between the necessary stakeholders. There is no one responsible connecting the dots in the work already done in the areas of franchising.

NOTAP compounds the problem of franchising as its policies, forming the bill proposed to the House of Representatives have hitches and incongruences that would require proper overhauling and alignment.

12. Section 1 Franchise Bill 2016

13. Sections 5-8 Franchise Bill 2016

14. Section 12 Franchise Bill 2016

15. Section 14 Franchise Bill 2016

4.4 Regulatory authority

There is no authority or agency directly responsible for regulating or overseeing the operations of franchises in Nigeria. NOTAP is merely tasked with the responsibility of registering all contracts or agreements having effect in Nigeria for the transfer of foreign technology to Nigerian parties. Every such contract or agreement shall be registered if its purpose or intent is, in the opinion of the National Office, wholly or partially, for or in connection with any of the following purposes:

- The use of trademarks;
- The right to use patented inventions;
- The supply of technical expertise in the form of the preparation of plans, diagrams, operating manuals or any other form of technical assistance of any description whatsoever, the supply of basic or detailed engineering;
- The supply of machinery and plant, and the provision of operating staff or managerial assistance and the training of personnel.¹⁶

In recent times, there has been an upsurge in the number of applications for registration of agreements being made to NOTAP due to the decision of the Court in the case of Stanbic IBTC Holdings Plc. v Financial Reporting Council of Nigeria & Anor (FHC 2016), which held that it is unlawful to fail to register

a agreement with NOTAP and failure to register makes the Agreement void and of no effect.¹⁷

Consequently, the unanticipated surge has increased the delay experienced in processing agreements for registration or getting advice on NOTAP's guidelines before execution of the agreement. The upsurge has also led to an increase in refusals to register responses from NOTAP when the agreement does not comply substantively with the format prescribed by NOTAP.¹⁸ To date, NOTAP has only been concerned with registering agreements between a foreign and a Nigerian entity; however, the Franchise Bill 2016 empowers NOTAP to also make regulations regarding the licensing of indigenous business franchises.¹⁹

4.5 Trade association

The Nigerian International Franchise Association (NIFA) is a trade association committed to the development and promotion of franchising in Nigeria.²⁰ The envisaged objectives of NIFA are as follows:

- To educate potential investors and entrepreneurs in Nigeria on fundamentals of franchising
- To create an atmosphere in Nigeria that is conducive in attracting foreign franchise companies.
- To become a central clearinghouse

There is no authority or agency directly responsible for regulating or overseeing the operations of franchises in Nigeria. NOTAP is merely tasked with the responsibility of registering all contracts or agreements having effect in Nigeria for the transfer of foreign technology to Nigerian parties.



16. NOTAP Act CapN62, Laws of the Federation of Nigeria 2004

17. Stanbic IBTC has appealed against the decision of the Court. Until the decision of the Federal High Court is overturned on appeal, it remains the Law to be complied with.

18. Interviews with Banwo and Ighodalo; Ikeyi and Arifayan. Both law firms recounted clients who had lost out on service franchises because of NOTAP's refusal to register the agreements on the grounds that the agreements do not conform to familiar franchise agreements. The spate of refusals has denied many service-related franchises from coming into operation in Nigeria.

19. Section 13 Franchise Bill 2016

20. <http://www.nigerianfranchise.org/aboutnifa.html>

There is room for NIFA to play a more significant role in the industry.

- for franchise companies interested in expansion into the Nigerian market.
- To pioneer Cooperative Franchising, providing opportunities for small investors to jointly acquire franchises and operate successfully.
- To cooperate with government regulatory agencies to encourage conducive policies and
- To network with other international franchise organisations to share ideas and information.
- To develop and promote indigenous franchise concepts and brands in Nigeria.
- To advocate ethical conduct in all transactions and to educate franchise actors and the public.
- To create a database of all existing franchise operations in Nigeria.²¹
-

It appears that NIFA has not been able to accomplish its objectives, the large majority of respondents across the spectrum of stakeholders in franchising in Nigeria were not aware of its existence. In comparison to the roles played by similar associations, such as the Franchise Association of South Africa (FASA) and Franchising Association of India (FAI), it is apparent that NIFA is performing below expectations.

Based on assurances by the new President of NIFA²², much internal restructuring is intended, to properly position NIFA to deliver on its mandate to the Nigerian franchising community, especially in view of a new Franchise Law likely to be promulgated in the near future.

4.6 Availability of local competence to prepare and advise on franchising in Nigeria

Six law firms in Lagos, Port Harcourt and Abuja were interviewed, each firm with expertise in representing local and international franchisees and franchisors at different stages in the development of their relationships.²³

There is a preponderance of lawyers who practice corporate/commercial law with an exceptional understanding of business requirements and regulations. They and many other identified professional services firms are, therefore, competent to provide the entire gamut of services required in the franchise life cycle. This qualification however, would require a blend of franchise concept specific knowledge to serve the budding franchise industry. A significant number of local law firms also have arrangements with the foreign law firms retained by international franchisors, resulting in significant exposure to various types of franchise agreements.

4.7 Conflict management

Disputes and conflicts are likely to occur, as is wont in any relationship involving more than one person. With the limited practice of formal franchising in Nigeria, many of the local businesses have no processes in place for conflict resolution. It emerged that there was an enormous amount of unwarranted optimism about



21. <http://www.nigerianfranchise.org/aboutnifa.html>

22. Interview with Professor Kole Sodipo, Professor of Intellectual Property Law, Babcock University, Ilishan Remo, Ogun State; Principal Partner, G.O. Sodipo & Co.

23. Interviews with G.O. Sodipo & Co, Banwo & Ighodalo, Ikeyi & Arifayan, Jackson, Etti & Edu, Awomolo SAN & Co.

conflicts not arising. This highlights the rather peculiar confidence that usually underlies an absence of intention to create a legal agreement, i.e., a franchise arrangement.

It was observed, however, that nearly all the holders of international franchises had provisions for conflict resolution in the franchise agreement. There are many alternative dispute resolution mechanisms available such as dialogue, mediation or conciliation to resolve disputes related to or arising from the operation of the franchise agreement. Many franchisees would rather re-negotiate terms with their franchisors than resort to litigation to resolve such disputes.

In developing a robust conflict resolution mechanism for the Nigerian franchising industry, interviewed respondents recommended the following:

- Clear and well-articulated obligations of franchisor to franchisee. Franchisors must have a dedicated commitment to the long term and sustainable success of the franchisee. Such dedication should be evidenced and monitored to ensure compliance.
- Standardisation of agreements and operational templates to eliminate or reduce possibility of incomplete or unsuitable documentation. This is a responsibility NIFA can take up as

a service rendered to its members. As in other countries and recommended under the regulation section of this report, jointly appointed arbitrators by the franchisor and franchisees and a NIFA restructured to guide association members are possible coordinated approaches to a better regulated franchise industry. Creation of a Small Claims Court to speedily dispose of commercial cases at minimal cost and time as well as to encourage dialogue, mediation and conciliation. Litigation should be the last resort. Decisions from mediation or conciliation should be final and binding on parties.

Well articulated and standardised agreements as well as the creation of a Small Claims Court are some recommendations from interviewees on developing a robust conflict resolution mechanism for the Nigerian franchising industry.

4.8 Franchise development programmes

A fundamental challenge or cultural practice of not adhering to standards in the short and long term exists in this country. This is easily traceable to a lack of personal discipline, limited understanding and weak enforcement mechanisms. Attendance at a Franchise Academy or certification is not sufficient to ensure the long-term growth and sustainability of the franchising sector in Nigeria. The view was that access to finance at low interest rate should be predicated on adherence to a systematic, coherent and concise body of directives given to franchisees and franchisors alike.

Other franchise development programmes that can be introduced and adopted are:



Creation and promotion of franchise education and forums for awareness about franchising.



Extensive investment in technology as modern business-format franchising is significantly dependent on technology.



Acceleration of plans to create and introduce a financing eco-system that would make funds easily accessible using the M-PESA available in six African countries as a case study and guide.²⁴



Amplification of the strategic development approach to ensure that MSMEs have complete access to the funds with a programme to continue recycling of funds to the next phase of borrowers.

24. The Federal Ministry of Investment and Trade is the anchor agency for implementing the development programmes highlighted in the first three points above.

A recommended solution to this challenge would be for the government and organised private sector to come together and develop a structured framework for franchising, where single digit lending schemes such as MSME Development Fund and YouWin initiative would be driven through franchising.

A recommended solution to this challenge would be for the government and organised private sector to come together and develop a structured framework for franchising, where single digit lending schemes such as MSME Development Fund and YouWin initiative would be driven through franchising. In this case, a borrower can access funds for start-up or business expansion only if he is willing to become a franchisee of one of a list of prequalified local or foreign franchise brands.

There should be an ecosystem of collaborations among the organised private sector, targeting business clusters, business and franchise member associations etc., with aggregated enabling solutions by franchise service providers. This would create a win-win situation for all the stakeholders. A good example is a case study identified during the research, where a network of six big pharmaceutical store brands will come together to operate approximately 100 of their outlets under one new brand name. This new umbrella brand would be promoted and supported through the services of expert business service providers, making it an eventual household name in the region. It is expected that this franchise-like initiative would deliver immense value to the respective brand owners, who would now operate more structured businesses, enjoy the bigger brand goodwill and the scale bargains with manufacturers, fund providers, regulators, the service providers, etc.

There is also a plan by one of the consulting companies to partner with a financial institution to establish a Franchise Development Academy, which would have a capacity to cater for over two hundred thousand potential franchisor/franchisee clients of the bank and other similar large-scale schemes.

In line with the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN/ National Bureau of Statistics (NBS) statistics, 97% of the 37 million businesses in Nigeria are micro-enterprises, while only three percent are small, medium and large scale businesses.²⁵ These businesses should be encouraged to franchise and become anchor franchisors providing systems and

knowledge transfer to the franchisees that would mainly be found among the micro-enterprises.

4.9 Franchise consultation services

Franchise consulting in Nigeria is in its inception phase. From the findings, it is evident that foreign franchise brands operating in Nigeria sourced their consultants from their countries of origin, while local fully-fledged franchises such as The Promise, either sourced the expertise from abroad or struggled with a badly developed model. Other locally sourced services were the retail value chains (product-format franchises) that made use of management consultancy services. The exception was the MTN franchise, which is a re-engineered Trade Partnership structure with dealers, emerging a nearly complete business-format franchising, which was executed by a consulting company in Nigeria.

Concerning expertise and capacity in the country to handle demand, it is believed, from the field engagement during the interviews, that a number of consulting companies are working towards setting up franchise consulting services. The capacity is there, among the host of local and foreign professional service providers in Nigeria, however, the franchising industry had not been a core market of interest.

In order to develop adequate capacity to support the franchise industry, there would be the need to employ the support and services of foreign technical experts to help the local consulting services firms through knowledge transfer and building adequate technical structures.

While most respondents wholly accepted franchising as the preferred choice, there were strong indications that most entrepreneurs still did not value professional services or were averse to paying for such intangible values. This was observed among nearly all local franchise brands interviewed. Most of these same entrepreneurs clamour for access to finance, believing this to be their only challenge.

25. http://nigerianstat.gov.ng/pdfuploads/SMEDAN%202013_Selected%20Tables.pdf

4.10 Employment potential and impact of franchising on the economy

For Nigeria's burgeoning population, the franchise model is akin to job creation and continued sustainability as is evident in the number of large and most widespread brands operating some form of franchising. Examples abound in the Oil and Gas downstream where the major players like Mobil, Total and Oando operate franchises and employ thousands of people. Stories related to the interviewers, include:

- A young school leaver bought into a franchise model business because he was unable to get a suitable white-collar job. Using a grant from a family member, he is gradually building his business towards profitability. By operating a franchise, a higher than average return on his investment was noted, compared to his closest competitor. This happened because using the franchisor's name guaranteed steady flow of demand for services.
- Vitafoam creates jobs by having a franchise model that recruits graduates that market and manage the outlets as CEOs. These employees are paid a percentage of the profit. Today, this particular model generates aggressive expansion and growth results for the company and pays the graduates an increasing share of profits, which could be as much as N1 million monthly.
- One of the foremost companies operating in the sports betting industry, Nairabet, boasts over 800 outlets spread across Nigeria with more agents being recruited on a daily basis.

- Starting with a modest sixteen farms at inception, there are currently 2,000 farmer groups under the Babban Gona brand with an average of five farmers in each group. Babban Gona envisages having 1,000, 000 farmers under its brand by 2025

Other employment opportunities and the impact of franchising are felt in the achievements of a fast growing brand with three self-owned outlets in four years; establishment of express stores and smaller outlets and expanding to 15 outlets in two years.

International Development Agencies and Implementation teams have also found micro-franchising a most useful model to rapidly achieving the goal of creating pro-poor initiatives and jobs. For example, DFID-funded GEMS4 is on track to achieve the creation of 10,000 new jobs in any part of wholesale or retail. The goal is not to formalise the informal sector, but rather the programme seeks to introduce efficiency into the informal sector. Micro franchising is one of the models adopted for the creation of those jobs.

Notwithstanding the growing capacity development investment by professional services firms, government agencies and international development agencies, the introduction of the franchising business model, guaranteeing knowledge and system transfer, would take less effort and cost to achieve business survival, growth and sustainability.

Franchising presents a strong opportunity for job creation in Nigeria.

There is need for creativity in solving the challenge of access to finance by MSMEs.

4.11 Financing franchising business

Funding is critical for any start up and there is no contest that access to finance is a key enabler of business expansion. The franchise business model, which is targeted at scaling businesses, must go hand in hand with the appropriate funding. Most franchisors look for the financial capability of the prospective franchisee before awarding them the franchise. Nearly all franchisees surveyed for this report were self-funded, with several leveraging on loans, gifts and grants from family and friends.

- Based on the understanding and appreciation that a franchise business is pre-tested and proven with limited chances of failure, it should be easier and cheaper for franchisees to obtain loans or facilities to start or expand their businesses.
- During this survey, available information from the Bank of Industry, Diamond Bank, Africa Capital Alliance, Venture Garden Group, Heritage Bank, Fidelity Bank, Skye Bank, GTBANK and GroFIN yielded insights into the issue of access to finance for the franchise industry segment. While franchises have been funded by these organisations with considerable success, there is limited understanding of the business model and the need for specialised desks for franchise businesses is downplayed, without being given due consideration.
- Some of the pertinent problems which banks have enumerated as being responsible for limited access to finance for franchises are absence of collateral/securitisation of the facility to be advanced, limited knowledge and experience in the proposed business, lack of business acumen and ability to manage resources.
- To give a measure of comfort to commercial banks and to elicit a positive response to a facility request, the banks looked for expertise, equity and length of time in business. This usually occurs when the mother brand (franchisor) can demonstrate the above qualities. A considerable number of banks have, where these three criteria are

present, gone ahead to fund such ventures with successful returns on investment.

- A peculiar situation was observed in the Northern part of Nigeria where funds are hoarded in homes and local safes rather than deposited in the bank. It is expected that through targeted campaigns, such practices would give way to enable funds to circulate and be available for borrowing from banks or direct investment in small business opportunities such as franchising. Many banks have devised other channels for making funds accessible to MSMEs and one of such interventions is the use of Business Development Specialists/Consultants to address gaps in loan applications. After such engagement, the failure rate is lower at a ratio of 1:10 and the banks feel confident enough to release funds. It also emerged that a handful of banks in Nigeria have successfully perfected arrangements with distributors of FMCGs to fund the distributor's stock further on recommendation by the Conglomerate. GEMS4 has also used this approach in its micro-retailing schemes where micro-finance banks or private lenders provide funds to acquire stock to re-sell and make a profit. According to GIZ, there is a serious plan to develop sustainable financial services through microfinance to provide funding for MSMEs with preference for agriculture and agricultural value chain. One of the foremost franchises in the agricultural value chain, Babban Gona, has successfully completed arrangements with Jaiz Bank to give the facility of N150, 000 to Babban Gona franchisees using the crops as collateral.
-

These solutions underscore the need for creativity in solving the challenge of access to finance by MSMEs. One such creative solution is being deployed by GEMS4 using "wallet handlers" who give small loans within a 24-hour cycle. It has proven a successful approach towards providing capital for trade to the poor in various communities where the scheme is in operation.

4.11.1 The private equity firms

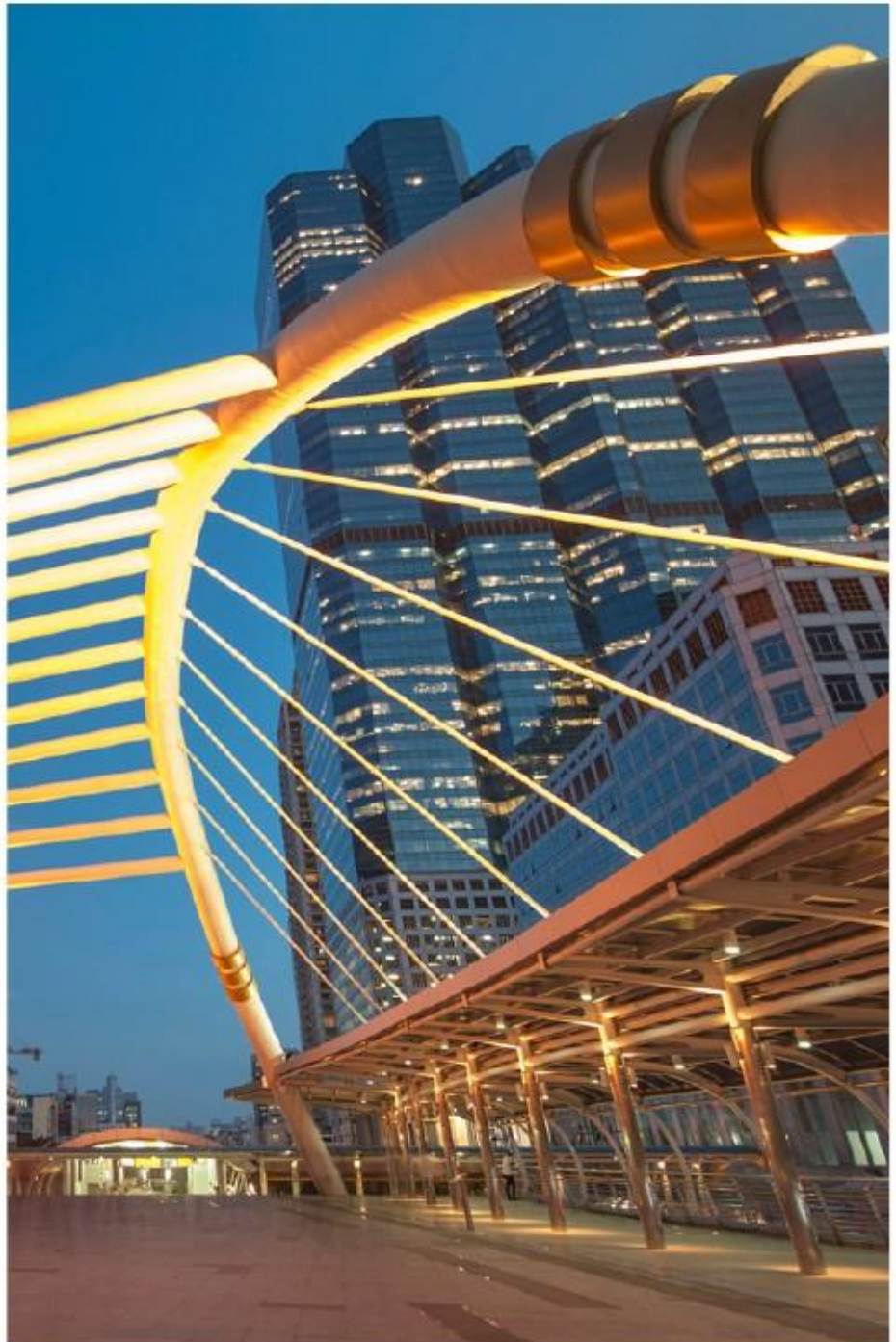
From the portfolio of the Private Equity (PE) firm interviewed, which had financed a Protea Hotel and a mall among other franchise type investments, it was evident that both in level of structure and funding size, the average franchise business may not fall within the radar of the investment interests of such financiers. However, the respondent was of the view that some of the means of addressing the challenges with an investment in the average franchise type of business would be:

1. Increasing value-add - Fund managers can choose to increase the amount of value-add in the business. This is done by creating the right type of structure - finance, governance and operations. Fund managers can also decide to recruit people for areas where the franchisee business seems to be weak or lacking.
2. Valuation and control - Fund managers can also decide to own a majority share in the franchise business. This would help control operations.

These factors would be combined with the investment thesis of the fund manager. Overall, to be able to fund a franchise business, the following scenarios would be required:

- The business must have a strong management team.
- There must be proven opportunity in the market.
- The team PE firm and franchise team must complement each other.

Using the investment principles of PE funding, the PE firm gets involved in managing the business and making it profitably rewarding for the invested penny, and does not shy away from assuming the management of a business as long as the prospects of the business meet the investment appetite.



There are several opportunities for the Government at Federal, State and Local tiers to take giant strides, directly and through its agencies, towards creating an environment that enables franchising to thrive in Nigeria.

4.12 Enabling franchising in Nigeria - Roles of key stakeholders

The role-play of key stakeholders identified in this study would be presented broadly under three groupings.



4.12.1 The Government and its agencies

From the survey conducted, as the basis of this report, there are several opportunities for the Government at Federal, State and Local tiers to take giant strides, directly and through its agencies, towards creating an environment that enables franchising to thrive in Nigeria. The most critical recommendations have been compiled with the objective of supporting ease of implementation and clarity of the initiatives or policies required.

4.12.1.1 Federal, State and Local Governments

- Support massive capacity building platforms and technical partners such as International Development partners to cater for all capacity based issues on a nationwide scale. More information on typical capacity building and roles of implementation partners can be found between pages 54-57.
- Create schemes that enable structured access to affordable finance, e.g., a Lagos State Employment Trust Fund or a YouWin scheme version for franchisees, where potential franchisees access funds to take up franchise with proven local or foreign brands, and where the selected franchisor is obliged to handhold the franchisee to grow.
- Resolve the challenges of multiple

- taxation and replication of levies from across all tiers of government.
- Facilitate a transparent, technology-driven regulatory framework, devoid of bureaucracy, thereby, stemming bribery and corruption.
- Proffer a lasting solution to perennial unstable power and energy supply.
- Engender the institutionalisation of franchising by promoting the creation of Franchise Academies or the Franchise Institute of Nigeria to serve as a robust enlightenment and research centre. More information on this is provided in page 56.
- Encourage local businesses and brands to start franchising by formulating policies that give incentive to participants.
- Consider setting up Federal and State Small Claims Court with minimal legal formalities focused on resolving commercial disputes promptly.
- Leverage existing solutions earlier proffered through the shared services policy developed by a steering committee set up in the past by the government, which would come quite handy.
- Invite the organised private sector in conjunction with the development agencies to chart a sustainable course on franchising in Nigeria.
- DFID, the government, and probably FBDS can commence such immedi-

ate engagements. The Ministry of Industry, Trade and Investment can convene the agencies and organisations under it, as well as selected relevant stakeholders within the organised for presentation of outcomes and a round table discussion on collaborations and next steps. Re-license franchises operating in the country on the basis of their meeting up with such key criteria as training, capacity to provide support to franchisees, product quality standards, etc. This could be carried out via NIFA using self-regulation.

4.12.1.2 The Governmental Agencies

There is no consensus about the need for a specific franchising law for Nigeria, however all respondents are in agreement about the need for clearly defined standards and templates for the operation of successful franchises in Nigeria. As earlier stated, there is a Franchise Bill 2016 pending before the National Assembly. It is anticipated that industry insights from this report will be communicated to the National Assembly before this Bill is passed into Law.

In view of the Franchise Bill's provisions appointing NOTAP as the regulatory body for franchises in Nigeria, extensive capacity building is required to adequately prepare and ensure that NOTAP is ready and competent to provide necessary services to the franchising industry in Nigeria.

One of the areas where NOTAP's oversight under the proposed Franchise Bill 2016 is critical is in the nature and standards of disclosure to be made by a franchisor to his franchisee. NOTAP needs to consult more developed franchise regulatory frameworks in putting together guidelines for the franchising industry in Nigeria.

NOTAP would do well to formulate policies that protect the investment of the franchisee while safeguarding and upholding the franchisor's intellectual property such as mandating the use of professionals and experts such as legal professionals, accountants, financial planners and franchise consultants during negotiations of franchise agreements.

The Intellectual Property rights of the franchisor form the bedrock of the franchise relationship and thus must be protected and preserved. Collaboration between NOTAP and Intellectual Property Regulatory bodies such as the Trademarks Registry would augur well for the entire franchising industry and avenues for streamlining the operations of related agencies would be a welcome development.

Other agencies of the government, such as Corporate Affairs Commission (CAC), Federal Inland Revenue Services (FIRS), Standard Organisation of Nigeria (SON), Small & Medium Enterprises Development Agency of Nigeria (SMEDAN), Nigeria Investment Promotion Commission (NIPC), Bank Of Industry (BOI) etc.; are expected to assume full responsibilities, as it falls into their respective functions, to make necessary adjustments and implement the outcomes of this study.

Findings from respondent's feedback and success stories from other countries have reinforced the need for the government, through its agencies to:

- Create franchise specific lending programmes;
- Address excessive taxation and levies, which are often replicated and collected across all tiers of government;
- Ease the difficulty in registering and doing business, due to stringent and elongated processes of fulfilling government regulatory procedures;
- Promote and support the provision of franchise awareness among MSMEs in Nigeria; and
- Collaborate with, and support the organized private sector in growing the Nigeria franchise industry.

There is general consensus on the need for clearly defined standards and templates for the operation of successful franchises in Nigeria.





Anambra State: A Case Study of The Government's Role

Anambra State Government has been in the news for the creation of employment for 30,000 farmers, exporting agricultural products and significantly increasing its GDP through agriculture. These results were achieved within two years as a result of the strategic approach adopted by the government. Findings from an interview with the Anambra State Hon. Commissioner of Agriculture were as follows.

- The government developed an agricultural blue print by embarking on a thorough research and consultation process. This secured the best expertise and enabled them to come up with the value chain of interest.
- An enabling environment creation exercise commenced with the setup of the Land Acquisition Committee to help cut the bottlenecks of acquiring land for agriculture.
- Fragmented farmers in the state were made to trust the government by closely engaging with them, buying up all their rice produce for an end-of-year gift for government workers and by also providing them improved seedlings and equipment.
- These farmers underwent some relevant technical and management skills training, with the Agricultural Training Centre set up at the College of Agric Mgbakwu.
- In order to enable state of the art farming technology, an IT database of the farmers, now numbering up to 30,000 and operating in structured 1,025 co-operatives, was linked to a farm management application system, which made logistics, information, supervision etc. quite easy.
- Off-taker arrangements were made, with eventual exportation of the farm produce from the farmers, who get support in packaging and barcoding their products with less waste and high market value.
- There are sustained agricultural shows to showcase agricultural produce from the state.
- It is notable that the Anambra State farmers have benefited immensely by a government driven knowledge transfer and support process, and is in turn reaping its resulting benefits.

4.12.1.3 Practical next steps for the government roles

- Invite the organised private sector in conjunction with the development agencies to chart a sustainable course on franchising in Nigeria. There were a number of very knowledgeable industry leaders and experts who were interviewed during the study, who could be invited to a round table discussion with the Federal Ministry of Industry, Trade and Investment to discuss a coordinated public and private sector strategy.
- To adopt the relevant information and recommendations from this study in reviewing the Franchise Bill pending at the House of Assembly before it is implemented.
- To support immediate overhauling of NIFA, which as recommended from experience of other countries studied, must include separating NIFA from NOTAP, allowing and supporting the leadership and management of NIFA by experienced private sector experts or, possibly, challenging the franchise industry to set up a completely new and independent association if it is not possible or feasible to separate NIFA from the Government.
- To create relevant policies and direct its agencies to begin to provide immediate awareness and support, such that would facilitate convenience, speed and information to start-ups and franchise operators, in taking due advantage of franchise opportunities in Nigeria. Such agencies are Corporate Affairs Commission (CAC), Federal Inland Revenue Services (FIRS), Standard Organisation of Nigeria (SON), Small & Medium Enterprises Development Agency of Nigeria (SMEDAN), Nigeria Investment Promotion Commission (NIPC), and Bank of Industry (BOI).



There are several International Development Agencies working on various projects in diverse sectors in Nigeria in a bid to develop the non-oil sectors of the economy.

4.12.2 Development and Donor Agencies

A number of local and international development and donor agencies, including their relevant projects, were interviewed during this study. Some of these agencies were DFID, USAID, GIZ, and The British Department for International Trade, and SMEDAN. Some of the most useful information was provided by these agencies and their studied projects, especially when it came to technical insights on international best practices that could be adopted to actualise an organic and self-sustaining franchise industry in Nigeria

4.12.2.1 Roles of the Developmental and Donor Agencies

There are several International Development Agencies working on various projects in diverse sectors in Nigeria in a bid to develop the non-oil sectors of the economy. Brief profiles of some of the interventions currently taking place are enumerated below:

1. Enhancing Nigerian Advocacy for a Better Business Environment (EN-ABLE) is a DFID sponsored initiative that seeks to improve the quality and quantity of business advocacy and Public-Private Dialogue (PPD) in Nigeria, resulting in an improved legislative, policy and regulatory environment for business. There is a rigorous review of all commercial laws in Nigeria with the outcome of monitoring pending Bills at the National Assembly that have a commercial flavour and able to affect the business environment in Nigeria.
2. Growth and Employment in States (GEMS 1-7) is a joint Initiative of DFID and the World Bank aimed at strengthening the non-oil sectors of the Nigerian economy. GEMS 1 and 2 have been completed while GEMS 3 and 4 are currently running till Sep-

tember 2017. GEMS 3 is concerned with investments, investment opportunities and business/economic environment with a special focus on Northern Nigeria while GEMS4 is focusing on wholesale and retail, with a target to create 10,000 jobs in the wholesale and retail chain. GEMS4 is concentrating on three key sectors namely: Agribusiness, FMCG and Solid Waste Management. Franchising is one of the components under the FMCG subset with others being micro-retailing, women economic empowerment and e-commerce. Several pilot projects are running Lagos, Kano, Kaduna and Cross River States.

3. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is a German Government Initiative, which has, since 2002, remained focused mainly on sustainable economic development and energy. The 'Pro-poor Growth and Employment Promotion in Nigeria' (SEDIN) programme aims to increase employment and income generation for Micro, Small and Medium-sized Enterprises and to improve access to financial services. The programme is currently being implemented in Abuja and in the Niger, Ogun and Plateau states. GIZ has developed serious plans to provide sustainable financial services through microfinance, for funding of MSMEs, with preference to the agricultural value chain.

GEMS Interventions for MSMEs has the following goals that can be taken advantage of by the governments and other developmental stakeholders.

- Harmonisation of taxes for the state and Federal Government to avoid over payment by the SMEs.
- Registrations of land titles to enable



micro-franchisors have valid collateral to access funds.

- A platform that registers other types of collateral to make them valid for accessing fund from financial institutions.
- There is capacity to facilitate investments in Nigeria by promotions already in motion to achieve the targets.
- Work simultaneously with the Nigerian Investment Promotion Commission to set up events like trade fairs and other commercial activities.
- Facilitates training for NIPC staff, government officials and other stakeholders.

4.12.2.2 Practical next steps for the Development and Donor Agencies

It is obvious from the findings of this study that, despite the widely acknowledged opportunities franchising would create in Nigeria, limited awareness of franchising made the business model widely unpopular, while the stakeholders who are very knowledgeable of the concept either make contributions towards developing the industry, which are too low scale to be felt, or are discouraged from even making any contributions at all. This is a compelling reason why developmental interventions in the areas of technical support, donor funding, advocacy, etc., remain key to stirring interest, encouraging commitment and ensuring industry development results begin to trickle in, until the industry growth takes off on self-sustained capacity. Some of the recommended steps are:

1. To create and support programmes that would encourage the key stakeholders to commit to franchising. As identified during the study, most financial institutions stated that they would require some form of guarantee before lending to franchise operators. Such guaran-

tees are described as: the ability of the borrower to operate a franchise business successfully through appropriate knowledge and best practice; the guarantee that the loan would be repaid with or without collateral provided; the capacity of the bank itself to set up franchise lending products and propositions, train and hire qualified hands and to manage the rather unfamiliar business unit. Other identified stakeholders who could benefit from such support programmes are the law firms, the consulting companies, business associations and clusters.

2. Intensify advocacy interventions with the government, especially in the areas of encouraging the government to implement relevant policies and to actively participate in the industry developmental programmes, especially through moral support and publicity. All the agencies interviewed had indicated interest in knowing the outcome of the study, and to participate in the implementation phase, hence a joint stake holder engagement and collaboration among the organised private sector and the development agencies is expected to commence immediately for quick actualisation of recommended outcomes.
- 3.

Development and Donor Agencies should continue to create and support programmes that would encourage the key stakeholders to commit to franchising.



The organized private sector needs to increase its awareness of franchising and build necessary capacity to drive and support the industry.



4.12.3 The Organized Private Sector

The organized private sector, consisting of business member associations, business clusters, financial institutions, franchise associations, consulting firms, law firms, the franchisors and their franchisees etc. are currently in a state of disarray, with limited franchise industry awareness and capacity gap. In other territories where the franchising business model has reached advanced growth stages, there are recurring records of initial government enabling support, and eventual take-off of the industry driven by experienced and committed private sector stakeholders.

A number of very experienced and knowledgeable personalities were interviewed during the study, who are hoping to join the bandwagon, as soon as they see momentum in the progress of the industry in Nigeria. It is also interesting to observe that the capacity to stir this momentum being anticipated, resides mainly among the Nigeria private sector stakeholders.

The question then is, what are the expected role-play of each of these stakeholders, and what are the immediate next steps towards stirring this "docile hornet" to action with or without immediate government support? From findings, we recommend the following roles and actions as captured in the subsequent sections.

4.12.3.1 The Financial Institutions

Funding is an important ingredient necessary for the success of franchising. Concerted efforts must be made by all financial institutions, especially commercial banks and micro-finance banks, to get acquainted with the huge potential of franchising and to work in concert with franchise consultants in crafting suitable banking products targeted at franchisees. It would be an advantage to consider similar banking products from other jurisdictions such as South Africa and Dubai.

Consequently, it is advised that banks and other financial institutions should:

- Offer franchise-specific banking products for various models of franchising.

- Eliminate the current bottleneck and bureaucratic hindrances associated with seeking to obtain facilities from banks.
- Seek to offer lower interest rates to ease doing franchise business
- Include capacity building value added services such as insurance, tax and finance consultancy.
- Creatively ensure availability of funds for potential franchisees to facilitate working capital, inventory and asset acquisition.

4.12.3.2 The Franchising Association and other Business Member Associations

NIFA, as the franchise association, needs to be promptly re-engineered or restructured to effectively take up the role of providing guidance and support to franchise operators as in other jurisdictions. Such support includes comprehensive information about franchising and franchising opportunities in Nigeria; provision of training, seminars, conference and franchise exhibitions to disseminate information about the Nigerian franchising industry; actively seek collaborative opportunities with other national and international franchising associations. In addition, NIFA should:

- Actively advocate for and provide requisite support to the Franchise Academy to promote international best practices in the operations of franchisees in Nigeria
- Embark on extensive and massive awareness campaigns about its activities and opportunities
- Collaborate with NOTAP to formulate and establish standards for the franchising industry in Nigeria.
- Periodically commission surveys, research and fact-finding missions about the Nigerian franchising industry.
- Encourage, support and canvass for indigenous brands to offer franchisees both within and outside Nigeria.
- Collaborate with other foreign franchise associations and development programmes, to replicate programmes, create awareness and support for association members.
- Form the fundamental 'trust broker' between franchisors and potential or exiting franchisees.
- Help franchisees to recognize their obligations, and enlighten fran-

chisees on ways of identifying credible franchisors.

- Promotes ethical franchising practice in the Nigeria, and help the industry develop credibility, influence and favourable circumstance for growth.
- Inform and influence the legislative, regulatory and public policy decisions that affect franchising in Nigeria.
- Create content to help franchisees grow and protect their businesses, through targeted communications vehicles and educational events.
- Promote and increase current and future franchise buyer/ investor education about franchising
- Conduct integrated public affairs and education campaigns using both earned and paid media about the franchise model.
- Educate the public and diverse audiences about franchising, the entrepreneurial opportunities it provides, and its impact on the national, state, and local economies.
- Deliver programmes and services that provide increased value to members - franchisees, franchisors, and suppliers.
- Act as the repository of franchise related data, and be a reference point of access for industry operators in the country, including: franchisors, franchisees and service providers.
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4.12.3.3 The Franchise Consulting Companies

There was general consensus among respondents about the dire need for franchise consultants to avail the franchising industry of their expertise. There were also concerted calls for a Franchise Academy/Institute that would provide requisite training and continuing professional development to franchisees and franchisors. Some of the areas where the expertise of franchise consultants would be required include:

- Assistance in developing franchise programmes.
- A process of profiling both the franchisor and franchisee and further assisting to pair them would be a critical measure to limiting the dependency on eventual legal resolutions.
- In collaboration with appropriate as-
-

sociations and agencies, to embark on a massive awareness building campaign about franchising in Nigeria and the opportunities for growth of the industry.

- Capacity building would reduce the use of franchise laws. If a brand is well structured, there would be fewer disputes and resorting to litigation.
- Providing services to assist indigenous franchisors to put efficient systems and processes in place that guarantee success of the franchisee.
- Operate a full bouquet of consultancy services such as branding, financial, management, legal, tax consulting, etc.

4.12.3.4 The Law Firms

Franchising is probably the most regulated form of business. Franchise regulation introduces the needed discipline and controls required to help MSMEs wherever they exist globally and to replicate and sustain business standards, resulting in increased chances of business success. However, in countries where the law firms do not have a sound knowledge of the franchise industry, such as Nigeria, badly written franchise agreements have resulted in litigation that could not be resolved. From the success of other countries, as well as from interviews with legal practitioners from prominent law firms like Banwo and Ighodalo; Jackson, Etti, and Edu; Ikeyi and Arifayan; Primelaw Partners and G.O Sodipo & Co, the following key roles of the law firms were identified:

- Preparation of the Franchise Disclosure Document (FDD). This document provides all the information about the franchise opportunity that the prospective franchisee and his professional advisors would need to make an informed decision. This legal document is outsourced to a law firm by franchisors and, in some cases an experienced lawyer is hired to draft one.
- Preparation of franchise agreements. Franchise agreements are complex, in that, whereas most normal business agreements deal with single transactions, the franchise agreement deals with many complex issues ranging from intellectual property, standards, procedures,

There was general consensus among respondents about the dire need for franchise consultants to avail the franchising industry of their expertise.



Smart franchisors invest in building the brand, by ensuring that the standards are sustained and that the franchisees succeed in all locations, thereby improving the chances of the brand to grow and deliver lasting rewards to the investors.

- rights, etc. Such agreements clearly set out the rights and obligations of the franchisor and franchisee.
- Development of the operations manual, which acts as the franchise model blue print and deals with many more non-legal issues. This document details much policy related information and operating procedures, which require the skills and experience of legal practitioners to articulate. Facilitating the development of alternative measures to settle cases out of court, such as arbitration, mediation and dialogue, saving time and resources for franchisors and franchisees.

4.12.3.5 The franchisors

The franchisors are the key holders of standards; the responsibility primarily falls on them to ensure that best practices are maintained. Some franchisors ignorantly operate the business mainly for the monetary gains. Smart franchisors invest in building the brand, by ensuring that the standards are sustained and that the franchisees succeed in all locations, thereby improving the chances of the brand to grow and deliver lasting rewards to the investors.

Some key roles of franchisors

- 1 Offer comprehensive and regular franchisee training on processes, systems and strategies to all the staff of the brand, within both franchisor/franchisee outlets.
- 2 Offer incentives, bonuses and rewards to keep the franchisee motivated within the relationship. Such incentives could include access to finance, a guaranteed margin, a free set up, etc.
- 3 Provide necessary guidance, mentorship and handholding to the franchisee especially during the first 6-12 months.
- 4 Provide regular inspection visits and mystery shopping to all outlets, to maintain standards.
- 5 Promote Franchisee's business through participation at relevant industry events such as franchise shows, exhibitions, seminars and workshops.
- 6 Assists to recommend and register franchisee with support organizations such as NIFA, WFA, and IFA.
- 7 The franchise fee paid by the franchisee over a period of time, for easy settlement.
- 8 It is best for the franchisor to create global contract business opportunities that will create a level playing ground for the franchisees and to refrain from favouring company-owned outlets or competing with the franchisee-owned outlet.
- 9 The franchisor must have policies and structure that will protect franchisee cost vs. profit margin.
- 10 Embark on global brand promotion on diverse media platforms, which could be funded through fair cost allocation to all outlets.

4.12.3.6 Franchise Development Academy and Institute

As widely recommended, Franchise Institutes and Academies, typically have an interplay of roles with franchise consulting companies, especially in the areas of capacity building service offering to franchise stakeholders. These types of organisations are usually able to offer large-scale services, much needed in Nigeria, where a massive training and awareness campaign is necessary. Again, while Franchise Academies basically provide training programmes, Franchise Institutes act as a professional membership certifying institution, having the power to exert some level of control and discipline on certificate holding members, whose certificates could be recalled if they act against set industry standards. Typically, these types of institutions are set up and operated by professionals within the private sector, however with usual support and collaboration with local and international franchise associations. The costs of the services are borne by industry actors who require the certification to meet regulatory requirements of local franchise laws and the franchise association. Examples are The Australia Franchise Academy; The Singapore Training School; The School of Franchising – USA; and The Institute of Certified Franchise Executives – UK.

a networking platform where organisations and industry leaders network to actualize such goals as these.

Typical roles of franchise institutes



From findings obtained from the study of successful franchise institutes, key steps towards developing any of these institutions are:

- Approaching key reputable global organisations operating such institutions, and engaging them with a proposal to certify the institute and provide relevant knowledge transfer in replicating the model in Nigeria. Such institutions are World Franchise Associates and International Franchise Association. NIFA or a practicing franchise consulting company can drive this.
- Embarking on further wide consultations and study tours of other such similar institutions. There is a window of opportunity to have lead stakeholders/industry delegates participate in the largest and most important annual franchise industry gathering, anchored in the US every January by IFA. This event is usually

4.12.3.7 Practical Next Steps for the Organised Private Sector

Financial institutions should embark on further studies to come up with franchise-specific banking products for various models of franchising. Benchmarking the South Africa experience, there are South African Banks offering franchise products and value added services such as Standard Bank, First National Bank, and ABSA which their progress could be studied to guide the Nigerian Banks. However, it is still very difficult to get financing.

There are also a couple of long term insurance companies in South Africa, that offer training and products propositions to the franchise market which can be emulated. In line with the observations during the engagement of the financial institutions, most of the banks had already funded both business format and pseudo-franchises.

Cue can be taken from South Africa success, where the private sector managed FASA regulates accreditation to those franchisors that are members, bringing structure and order in the industry.

The first action then, would be to study the characteristics of these franchises in comparison with other business types, seek expert support and donor support where available and proceed to pilot franchise specific propositions for proof of concept. NIFA, the primary franchise industry member association, should be promptly re-engineered or restructured to effectively take up the role of providing guidance and support to franchise operators as in other jurisdictions. This restructuring should ideally evolve the organisation into a private sector independently lead and managed association.

Cue can be taken from South Africa success, where the private sector managed FASA regulates accreditation to those franchisors that are members, bringing structure and order in the industry.

1. The next step for the law firms wishing to participate as service providers to franchise businesses would be their becoming familiar with the franchise concept, by thoroughly studying the business model. This exposure added to the adequate legal expertise and capacity among interviewed law firms, would guarantee sufficient franchise legal best practice in Nigeria.
2. The existing and potential franchisors in Nigeria would first need to ensure that the business is ready to be franchised before taking the time to set up an adequate franchise programme. Being ready to franchise, a business would need consulting services to ensure that it operates a proven structure and sound business system that is scalable. Once this is determined, the business should invite franchise development experts to help with re-engineering the business to operate as a franchise in line with the franchise business model.
3. Relevant stakeholders should set up a Franchise Training Academy and Institute to embark on the organisation of frequent and large scale seminars and awareness campaigns, in order to galvanise support for the fledgling franchise industry. This set up should further operate training programmes of the highest standard

to educate and certify all industry players including franchise product managers of financial institutions, franchisors, franchisees, law firms offering franchise services, franchise consulting companies, government officials playing regulatory roles for franchises, etc.

4.13 Spill over and transfer opportunities

In the PropCom fertiliser scheme in the agricultural value chain, there is an application of the franchise principle of supporting the farmers in the fertiliser production and distributorship chain as they have rights to re-bag into smaller bags, sell and distribute.

Product-format franchising businesses such as Mouka Foam and Dangote Cement have enormous operations in the country and can plug into the opportunity of the enabled franchise environment. Hybrid Feeds operates a model that helps small and micro-scale operators in logistics, feed mill production, fish and poultry farming, to start and grow their businesses through knowledge transfer.

The business-association franchise model is being set up by a group of pharmaceutical firms in Eastern Nigeria. These firms have agreed to operate under a group name and uniform structure, which would be projected to the public, while they maintain their individuality. They expect to operate more like a franchise enjoying shared services and economy of scale benefits.



05

Benchmarking the Nigerian Franchise Industry Against Four Other Countries





S/N	Benchmark	Nigeria	South Africa	India	United States	UAE
1	Growth patterns and evolution of the franchise industry	<ul style="list-style-type: none"> • Earliest franchise activities were the product-format franchises like Elf, Coca Cola and Mobil. • Thereafter, both local and foreign franchise brands, mostly food, were introduced. • Currently, most franchisees are international franchises. There are a number of local brands, however, there is no significant structured support for them. 	<ul style="list-style-type: none"> • In 1965, a Greek immigrant in South Africa set up the first franchise brand. • The success of this franchise inspired new local and foreign competition. • As a result of the economic sanctions imposed on South Africa due to the apartheid regime, South African entrepreneurs were forced to develop their own franchises. Today, close to 90% of the franchised brands remain home-grown concepts. Some local brands have become 'super' brands of international status. • More recently, some strong foreign brands have entered South Africa and this trend is expected to accelerate over time. 	<ul style="list-style-type: none"> • Franchising has been in existence in India for a long time. However, a large population and increase in household income fuelling consumerism have caused a rapid adoption and growth of franchising in India over the past two decades. • Global exposure and preference for branded products have given rise to expected growth that would quadruple between 2012-2017 with creation of additional 11 million jobs (direct and indirect). • Area and Regional Master Franchisee are the preferred franchising models adopted for growth in India due to diversity of population and complexity of the Indian market 	<ul style="list-style-type: none"> • Started in the 1950s, ebbed with franchisors focusing more on selling franchisees than providing support to franchisees. • More than 750,000 franchise businesses, employing more than 18m directly and 25m indirectly. Contributes 40% of all retail sales. • Multi-unit franchising, where franchisees operate more than one unit with a franchisor, is more popular than single-unit franchisees. 	<ul style="list-style-type: none"> • Evolving from a largely undeveloped franchise industry, Dubai, dominating in the UAE, has developed its franchise industry more from a blueprint than an organic growth in significantly fewer years than other countries. • Infrastructural development and responsiveness of the government attracted foreign brands and the size of the market were primarily the foundations of the rapid advancement of the franchise industry.
2	Current market landscape	<ul style="list-style-type: none"> • Foreign brand dominance resulting from a greater popularity of foreign brands and the fact that local brands are not entering the franchise industry. • Food brands dominate and thereafter there is a mix of retail, service and hospitality. • Foreign brands operate well-developed franchise programmes having access to development support, while most local brands struggle amidst errors. 	<ul style="list-style-type: none"> • Local brand dominance, where foreign brands are reluctant to venture due to the competitiveness of local brands. • Well-developed market structure of 17 broad industry segments, 700 plus franchisors and more than 35 000 franchise units nationally. • Many local brands have gone international with 37% having representation overseas. 	<ul style="list-style-type: none"> • There are 3,000 brands operating out of India. • These franchises contribute 1.4% of GDP and were worth USD13.4 billion in 2012. 	<ul style="list-style-type: none"> • There are an estimated 6,000 franchise companies in the US. • Seventy-five industries use franchisees to distribute goods and services. • There are more than 750,000 franchisee businesses employing 19m people directly and 25m people indirectly. • These businesses generate annual sales of USD1 trillion per annum and contribute 3% to GDP in nominal dollars (unadjusted for inflation). 	<ul style="list-style-type: none"> • Being one of the world's key tourism locations, food and hospitality franchises grow at rapid rates year-on-year. • There are numerous large malls hosting most global franchised brands with sizable local brands being developed. • With intensive franchise development programmes, Dubai seems to operate the world's fastest growing franchise supermarket.
3	Finance for franchisees	<ul style="list-style-type: none"> • There is no franchise-specific funding except for IDA initiatives that fund franchise interventions. • The majority of financial institutions are largely uninformed about the franchise industry and have very limited support for this industry. There was, however, keen interest shown in this market by interviewed bankers. • Some financial models have been developed that have not, as yet, been adopted among the banks. • There are good government initiated funding schemes that could be adopted if extended to franchisees. 	<ul style="list-style-type: none"> • The four biggest banks in the country have franchise-specific financial and non-financial support services. • There are a number of proven SME and franchise-specific government funding interventions working in partnership with the banks and funding agencies. • Some very large franchisors provide funding to exceptional individuals wishing to become franchisees. This is not a general trend, however. • Most franchisors assist by arranging introductions and assisting with the business plan but ultimately expect franchisees to obtain funding. 	<ul style="list-style-type: none"> • Self-financing is the usual route followed in India. • Historically, most financial institutions do not distinguish between franchisees and non-franchisees SMEs. • Banks, such as State Bank of India and HDFC Bank, have only recently started treating franchisees as a separate segment. 	<ul style="list-style-type: none"> • It is difficult for entrepreneurs in underserved communities to access external loans. • The US Small Business Administration (SBA) offers several long- and short-term financing loans that are partially backed by the federal government. • Several franchisors have started offering more innovative financing strategies for potential entrepreneurs and employees who may not have the traditional capital or assets to qualify for a franchise (Chase McDonald's Finance Program; Dominos Deliver the Dream Program) 	<ul style="list-style-type: none"> • The Dubai Islamic Bank funds franchise investment. The rest of the banks are however yet to develop industry specific funding. • The government has extensive funding programmes for franchisees and SMEs. These are however targeted at only UAE nationals. • The financial institutions participate in the franchise events indicating their readiness and interest.
4	Support roles of Government	<ul style="list-style-type: none"> • No significant franchise specific support. 	<ul style="list-style-type: none"> • Government offers preferential access to government-sponsored programmes to previously disadvantaged individuals. • Other support available from the government includes public demonstrations of support such as: <ul style="list-style-type: none"> • Opening franchising events. • Organising workshops. • Creating an enabling environment through franchise legislation. 	<ul style="list-style-type: none"> • Laws are required regarding disclosure, operations and relationships between franchisees and franchisors. 	<ul style="list-style-type: none"> • Several laws at federal and local levels are already in existence to create an enabling environment for franchisees to thrive. 	<ul style="list-style-type: none"> • The UAE government, especially Dubai, has the most investment friendly policies, encouraging the entry of foreign franchisees. • The government established the UAE Franchise Association. • The franchise sector is extremely well state-promoted.

S/N	Benchmark	Nigeria	South Africa	India	United States	UAE
5	Support roles of franchise associations	<ul style="list-style-type: none"> NIFA is barely known in the franchising community of Nigeria. NIFA has been playing the role of registering franchisees, franchisors and service vendors. Informa Life Sciences, a Dubai based event-hosting firm, supported NIFA in the organisation of an SME and Franchise Expo in 2015. NIFA has played other roles like periodically notifying its registered members of international franchise events. Overall, very few respondents knew about or had received any support from NIFA. 	<ul style="list-style-type: none"> The Franchise Association of South Africa is instrumental in promoting ethical franchising in South Africa. One of the first activities of FASA was the drafting of a Code of Ethics and Business Practices that would become binding on all members. In the early stages of its creation, lacking funds to sustain operations, FASA convinced expert members to speak at franchise workshops and used associates' business premises as venues. FASA registers and certifies the service vendors to the franchise industry, including legal and accounting firms, banks etc. A full member of the World Franchise Council, with its representatives participating regularly in international events that deal with the orderly development of franchising. Managed by a full-time executive director with the necessary staff complement. In addition to collecting membership fees, FASA derives income from exhibitions, book sales and sponsorships. FASA's aim is to develop and safeguard the business environment for ethical franchising in South Africa. FASA is able to withdraw membership certification should a franchisor be found to behaving in an unethical manner. FASA plays an active role in making franchising more accessible to all through far-reaching initiatives. These include promoting the creation of affordable franchise concepts, the introduction of alternative funding initiatives and promoting mentoring as a crucial element to nurturing new franchisees. Operates a comprehensive range of networking events, exhibitions, seminars and social events designed to bring franchise members together under one roof and to provide them with opportunities to present their products and services to their respective target markets. 	<ul style="list-style-type: none"> Franchise Association India (FAI) is a recognised member of the World Franchise Council, whose purpose is to encourage international understanding and cooperation in the protection and promotion of franchising worldwide. Franchise Association India (FAI) entered a MOU with the Small Industries Development Bank of India (SIDBI). FAI provides mentoring to franchisees that have taken advantage of loan facilities from SIDBI. 	<ul style="list-style-type: none"> American Association of Franchisees Dealers (AAFD): The AAFD acts to educate the public regarding fair franchise practices, quality franchise opportunities, and to expose the unethical practices that have too long existed in the franchising community. The American Franchise Association (AFA) works to improve the franchising industry while protecting its members' economic investments in their businesses. International Franchise Association (IFA) works through its government relations and public policy, media relations and educational programs to protect, enhance and promote franchising and the more than 800,000 franchise establishments. 	<ul style="list-style-type: none"> MENAFSA is a one-stop shop for anyone considering new business opportunities in the franchise sector. It offers: <ul style="list-style-type: none"> State-of-the-art promotion of the franchising industry as a tool for economic and human development Comprehensive advice and support to franchise operators. Bringing together the best practices of franchising through government relations, public relations and educational programs, thereby protecting, enhancing and promoting franchising. The World Franchise Association (WFA) organises World Franchise Forums and Exhibitions to promote franchisees overseas. <ul style="list-style-type: none"> Publishes the World Franchise Review, an international franchise magazine, printed twice a year. Organises FranSpeak International – a monthly email newsletter covering all international franchise news. Provides specialist Franchise Advisory Services to investors and groups considering acquiring one or more franchise brands. Assists qualified candidates to acquire area-development, multi-unit, master and multi-country agreements with global brands.

S/N	Benchmark	Nigeria	South Africa	India	United States	UAE
6	Enabling legal framework and processes	<ul style="list-style-type: none"> There is no specific franchising law in Nigeria. The basic principles of contract law and intellectual property law are applied to franchisees in Nigeria, especially in the event of a dispute. However, there is a Franchise Bill 2016 pending before the National Assembly to which bodies like NOTAP and NIFA have made representations. According to a respondent from Jackson, Etti & Edu legal firm, much legal research has already been concluded in the area of franchising but there has been no coordination between the necessary stakeholders to align the work already carried out. Jackson, Etti & Edu legal firm has developed a very robust franchise law peculiar to Nigeria and has contributed to a compilation of an international franchise law publication. Until now, this law remains a property of the firm, but sharing it would benefit the industry. NOTAP's existing franchise policies compound the problem of franchising as their policies have hitches and incongruences and would require proper overhauling and alignment. Foreign franchise brands have relied on the legal expertise and laws of their countries of origin, whereas local brands that have ventured into franchising have had to rely on basic contract and intellectual property law. 	<ul style="list-style-type: none"> South Africa does not have specific franchise legislation. Before the Consumer Protection Act (CPA) was introduced, the only protection franchisees enjoyed was FASA's Code of Ethics and Business Practices. FASA has influenced the inclusion of franchise specific regulations in the Consumer Protection Act. The CPA prescribes that franchisors provide franchisees with two legal documents, namely the disclosure document and the franchise agreement. The Act also stipulates the minimum information these documents must contain. The Competition Act, No. 89 of 1998, came into effect on 1 September 1999. It has impacted on the CPA to a certain extent in that it regulates agreements between typical franchise parties. The CPA portion that addresses franchising has pages of well-detailed sections, sub-sections and clauses that address many critical areas of contractual terms between parties drawing up a franchise agreement. These details are mandatorily required to be included in respective franchise agreements, ensuring that typical sensitive contractual terms are well addressed to protect all parties. 	<ul style="list-style-type: none"> India has no specific franchise legislation however, the following Laws have direct impact on the operations of franchisees in India: <ul style="list-style-type: none"> The Indian Contract Act 1872 (governs fundamental aspects of the franchise contract such as offer, acceptance, breach and termination); Monopolies and Restrictive Trade Practices 1969 (restricts monopoly in franchising); The Competition Act 2002 (promotes healthy competition in the franchising industry); Intellectual Property Law (Trademarks Act 1999, the Designs Act 2000, the Patent Act 1970 and the Copyright Act 1957); Consumer Protection Act 1986 (allows consumers to file complaints about defects in products or services); Foreign Exchange Management Act 1999 (FEMA); Labour laws; Income Tax Act 1961; The Provincial Insolvency Act 1920; and Rules issued by the Reserve Bank of India (RBI). 	<ul style="list-style-type: none"> In the US, there is a highly developed legal framework for franchisees with laws regulating franchisees: disclosure laws, registration laws, and relationship laws. There are federal and state laws regulating franchising in the US. 	<ul style="list-style-type: none"> There are no specific franchising laws in the UAE, however, a range of civil and commercial laws apply depending on the terms of the contract such as: <ul style="list-style-type: none"> Federal Law No. 18 of 1981 on the Organisation of Commercial Agencies (as amended by Law No. 14 of 1998) which was further amended by Law No. 13 of 2006. Federal Law No. 5 of 1985 on Civil Transactions. Federal Law No. 18 of 1993 on Commercial Transactions. UAE intellectual property laws for trademarks, copyright and patents. Labour laws, especially, where a franchisor may second staff to the franchisee. Local Municipality rules in relation to business names and signage UAE general principles dealing with restraint of trade and assignment of the franchise back to the franchisor in the event of default.

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7	Franchise development programmes	<ul style="list-style-type: none"> There have only been individual efforts of franchise operators to develop their franchise brands, and limited to their lack of exposure and inadequate knowledge. The Department for International Development (UK) (DFID), an international development agency, has initiated a number of interventions regarding franchise development in Nigeria, such as: <ul style="list-style-type: none"> The GEMS4 Increasing Access to Finance for Wholesale and Retail Market actors - a matched funding intervention proposal to banks to develop franchise-specific lending in Nigeria. Diamond Bank had an opportunity to get this grant but eventually suspended their plans. The GEMS4 franchise study, a smaller scale franchise study of Nigeria commissioned by DFID. This particular PDFII Nigeria Franchise Study, also commissioned by DFID. Two organisations, Africa Development Bank and Informa Life Sciences held major franchise development workshops and an exposition in Nigeria, which brought together a large assembly of public and private sector franchise stakeholders and had a significant impact on awareness and education. NOTAP, a parastatal saddled with the responsibility of developing franchising in Nigeria, has developed a body of policies to regulate the industry. These regulations, however, focus on foreign franchise brands and have not been as effective as expected. Franchise Business Development Services (FBDS), a pioneer franchise development consulting company, which also represents World Franchise Associates in Nigeria, offers a wide range of services to both local and foreign franchise brands, as well as individuals and organisations with potential franchise interest. 	<ul style="list-style-type: none"> Franchise Lending Solutions (Pty) Ltd, trading as Franchise Warehouse, was awarded a 5-year contract by the Department of Trade and Industry (DTI) to identify, research and package successful small businesses into entities ready to offer micro franchises. Micro-franchising is a developmental tool that adapts the proven operational principles of traditional franchising to the needs of very small businesses located in developing markets. There are micro-franchise opportunities on offer in a number of sectors that offer unemployed women a roadmap to social and financial independence without needing to be naturally entrepreneurial. Examples of these include: <ul style="list-style-type: none"> The sewing and cobbler micro franchisees that use lightly damaged and un-sellable garments/shoes and handbags to empower selected potential franchisees. Bargain boxes of items are sold for a minimal price to the franchisees, who then mend and sell them. The current franchisees have generated a collective profit of between R270, 000 and R300 000 for 2013. The Nail Salon micro franchise is an attractive beauty micro franchise where women start running a small nail salon from their own home or premises. This model appeals largely to the low-income ladies who are either already running an informal beauty salon or are very interested in running such a business but do not have enough certification or knowledge. The Micro Bakery franchise is a model currently being developed with partners specialising in low-cost bread baking through a special oven technology. The micro franchise model requires the running of a small bread and pastry shop, while buying the supply from a central service provider and focusing on making healthy and affordable bread for the community. 	<ul style="list-style-type: none"> Government initiatives such as the liberalisation of Foreign Direct Investment (FDI) in retail, which has allowed foreign brands to enter India. Local franchisees have developed innovative solutions to gain a share of the franchising market. A huge population and high consumerism coupled with non-risk averse entrepreneurs remain the biggest drivers of franchising in India. 	<ul style="list-style-type: none"> Franchise Essentials Development Program developed by Fransource International, a coalition of franchisee development specialists. The Essentials Program is specifically designed for companies that desire the support of knowledgeable franchise consultants and attorneys to oversee the entire franchise development process and to provide assistance with the initial franchise sales process. 	<ul style="list-style-type: none"> Dubai government consciously built a pro-business environment, whose investor friendly policies led to the gigantic infrastructures, friendly corporate taxes, transfer of profits to home countries, entity ownership and availability of large pool of human resources. The franchise sector in Dubai gets generous support and promotion from the government. The government established the UAE Franchise Association in 2004. The Dubai Islamic Bank (DIB) has a programme for aiding young UAE citizens to buy a franchise business. Sheikh W.Mohammad Bin Rashid encourages Emirati nationals in their quest for franchise businesses by granting them loans under the Department of Economic Development. The establishment of the Khalifa Fund, which has succeeded in developing a series of both financial and non-financial services for its pool of entrepreneurs, including franchise business owners.

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7	Franchise development programmes (cont'd)	<ul style="list-style-type: none"> In summary, whereas it was gathered from the survey that there are some developmental steps being taken by different stakeholders, including the introduction of a franchise academy with strong foreign affiliations, the above-mentioned efforts have not made a significant impact on the Nigeria franchise industry. 	<ul style="list-style-type: none"> The Buffalo City Metropolitan Municipality (BCM) recognises the important role of franchising and conducts an annual two-day franchise expo. Last year's event attracted 47 exhibitors, drawn from all parts of the country, and over 3,000 visitors. FASA in collaboration with other franchise development stakeholders, in their resolve to keep pursuing development initiatives in the country has this to say "To achieve the ultimate desired outcomes, we will have to regroup as a team to ensure that the newly established micro-franchisors' future networks of micro-franchisees is properly recruited, funded and supported, not just initially but on an ongoing basis. A number of franchise development consultancy services companies, with a mix of local and foreign origin companies, operate different franchise development services such as legal, accounting, consulting, research, etc. The government, in collaboration with FASA, embarks on a number of projects such as franchise workshops and expos, franchise funding schemes, franchise enabling legal framework, franchise promotion and awareness etc. 			
8	Impacts of franchising (employment, GDP, pro-poor)	<ul style="list-style-type: none"> Whereas there are no currently known statistics, product-format franchising such as Flour Mill, Mouka Foam, Dangote Cement and Guinness product distribution all have enormous operations in the country and have had a considerable impact on the Nigerian economy through taxation and job creation. The more structured business-format franchises such as Domino's Pizza, Slot, Elitaiat Experience Centres and Kilimanjaro brands have contributed very little to the country's GDP but have experienced the lowest level of business failures. They employ an average of eight employees per outlet. 	<ul style="list-style-type: none"> The franchise sector has created jobs for more than 329 000 people. This figure does not include fuel retailers and excludes the number of indirect jobs that franchises have created at supplier level. In 2015, the industry contributed as much as R465 billion to the country's GDP, (excluding a number of product-format franchises that do not consider themselves as franchises). This amounts to approximately 12.5 percent of the GDP. 	<ul style="list-style-type: none"> By 2017, the franchising industry in India would have employed 1.4 million people directly, which is an estimated 10% of the workforce for that year. It is estimated that an additional 1.8 million indirect jobs will have been created by 2017 with the food sector generating the maximum expected indirect employment. 	<ul style="list-style-type: none"> One in twelve businesses in the US is a franchise. Over 300 franchises are sold every week. In 2005, franchising with its spill over effect created about 21 million jobs representing 15.3% of all private employment and USD60.9bn in payroll. Today, franchisees employ more than 18 million people in the U.S. directly and over 25 million indirectly. 	<ul style="list-style-type: none"> The UAE represents USD30 billion (Dh110bn) of the global USD4 trillion franchise business and the sector is expected to grow steadily in the region. Fifty percent of business conducted in the UAE and the region are expected to be franchise businesses in a few years, with the food sector taking up a share of an estimated 60 per cent. According to Gulf News, many executives and corporate employees who have lost their jobs, found opportunities in the franchising business. The Franchise UAE Expo, the region's leading franchise, retail and SME trade event, generates deals worth over USD100 million (Dh367 million). Southern Fried Chicken opened in Dubai, and employs over 2,500 staff; Seven Eleven plans 800 outlets and 10,000 jobs in UAE in 10 years.

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9	Franchise format and development case studies	<ul style="list-style-type: none"> The SLOT Systems franchise format that allows the franchisee to pay for only space rentals, and provides guarantees to the banks to take over a franchisee outlet and assume its loans to the bank. The Vita Foam format creates employment by setting up turnkey operations and recruiting graduates who market and manage the outlet as CEOs. These employees are paid some certain percentage of the profit. The Best Choice model sets up neighbourhood retail outlets and hands them over to franchisees at the cost of N1,500,000 inclusive of a franchise fee of N100,000. The model then offers continuous support from outlet launch through to its establishment as a growing business. The Habb Yoghurt model, representing the product-franchise models, provides packaging materials for free, brands and promotes the outlets at no cost. No franchise fee is charged; the dealers (franchisees) only pay for prompt product supplies and also enjoy credit lines. 	<ul style="list-style-type: none"> The Hot Dog Café model operated initially in shopping malls but the "exorbitant rentals" hampered the outlets' commercial attractiveness. They shifted their businesses to kiosks and carts and have not looked back since. Since 2004, Hot Dog Café has been systematically entering into arrangements with government funding groups and large corporates to create realistic franchise opportunities for unemployed members of the previously disadvantaged population group. By doing so, they set new standards for the empowerment of those who had been previously disadvantaged. The company also employs and trains suitable candidates in the basics of operating the business. Those who make the grade are then trained further and, subject to performance, are offered the opportunity to acquire their own businesses with funding provided by government and various large corporations, which benefit by fulfilling their BEE obligations. Over the years, Hot Dog Café has been the winner of numerous awards in the FASA Awards for Excellence in Franchising, especially but not only, in the category of Leading Developer of Emerging Entrepreneurs. 	<ul style="list-style-type: none"> Lakme owns 175 salons, 135 of which are franchisee operated. Thirty percent of the franchisee operations are fully owned by franchisees. Lakme grooms franchisees for success, through its relationship with industry experts. This relationship helps them to stay abreast of current trends and, in so doing, is able to train stylists and to introduce global trends across all franchisees. Lakme realises that the success of a salon depends largely on the staff's skill; therefore, Lakme has launched a beauty academy. Lakme has also teamed up with the beauty training company, Pivot Point. Initiation training is conducted before a franchisee starts operations. Refresher training is carried out throughout the year. Lakme also extends managerial support to franchisees, helping to select sites, negotiate rents, understand standard operating procedures and design salons. 	<ul style="list-style-type: none"> There are more than 32,000 McDonald's restaurants serving 64 million people in 117 countries each day. More than 80% of the restaurants are independently owned. Hamburger University is the training facility designated to train McDonald's personnel. More than 250,000 employees, suppliers and franchisees have graduated from Hamburger University, which started in 1961 with fifteen graduates. Forty percent of senior management are graduates of Hamburger University. Annual intake into the University presently is 5,000. Restaurant employees receive at least 32 hours of training in their first month with the business. There are 64 full-time Hamburger University Professors on staff. 	<ul style="list-style-type: none"> International chain of retail convenience stores, 7-Eleven, plans to open 800 stores across the UAE and recruit 10,000 employees within 10 years. On average, roughly 15-18 staffers will be required to operate each store, which will be operational twenty four hours a day, seven days a week. The new recruits will have two months of training and then join the company. These employees would be graduates with good grades sourced from universities in the Philippines and India. Seven Emirates Investments plans 40 outlets in Dubai by end -2016, requiring over 600 staff to operate outlets. The company intends converting regular grocery shops into modern convenience stores. Globally, there are more than 57,200 7-Eleven stores in 16 countries.
10	Franchisee selection criteria	<ul style="list-style-type: none"> On average, the required criteria mentioned by franchisor respondents are: <ul style="list-style-type: none"> A minimum required investment capital. Compatibility to the franchisor's business values and vision, and willingness to stick to standards. In few cases, technical experience, for businesses of professional nature. Being agreeable to trading exclusively on franchisor's product. 	<ul style="list-style-type: none"> South African franchises mostly operate with full disclosure of the business by the franchisor to the franchisee, using the mandatory FASA template to develop a Franchise Disclosure Document. The contents of this template are included in the appendix. 	<ul style="list-style-type: none"> Franchisors usually look out for franchisees that are: <ul style="list-style-type: none"> – Able to pay the minimum investment capital – Have a good understanding of local tastes and preferences – Interested in the business. – Have a proven business track record – Committed to local marketing. 	<ul style="list-style-type: none"> American franchisors select franchisee on the following basis: <ul style="list-style-type: none"> – Payment of requisite capital investment – Willingness to use and accept franchisor's trademark(s) – Willingness to accept control of the franchisor over certain aspects of the business. This usually encourages franchisors to give preference to team members or employees who wish to purchase a franchise. 	<ul style="list-style-type: none"> In the UAE, especially in Dubai where franchising is most advanced among the Emirates, franchise associations such as WFA, help franchisors in marketing, recruiting and prequalifying potential franchisees. This professional consultancy service involves developing a profile of the franchisor brand in a simple way, such that it is easy for the potential franchisee to appraise the criteria among other critical information for feasibility assessment of the brand.

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11	Roles of franchisor to franchisee	<ul style="list-style-type: none"> The industry, being largely unregulated, franchisors of most locally developed brands are alleged to be more interested in collecting franchise fees and expanding their brands, than providing franchisees with needed support. On average, franchisors claim to provide support to the franchisee outlet in terms of location, set-up, branding, recruitment and, usually, three months of handholding. The areas lacking critical support are: <ul style="list-style-type: none"> Regular meetings between franchisor/ franchisees to discuss the progress of the brand; Ongoing training for staff in outlets; Upgrading and/or re-vamping of the business (both product taste and physical outlook); Referrals/support in creating business opportunities (some franchisors would rather "snatch" a franchisee's) customers; Inviting franchise consultants to offer support and advice to the outlets; Guarantee support to enable access to finance etc. 	<ul style="list-style-type: none"> Again, South African franchisors are mandated by law, to include in the franchise agreement, the full disclosure of the obligations it owes the franchisee and to keep to them. FASA goes further by withdrawing a franchisor member's certificate should they violate their obligations to the franchisees. 	<ul style="list-style-type: none"> Training and assessment to impart skills to franchisees Lease negotiation for franchise location Providing soft loans. 	<ul style="list-style-type: none"> Operational support Technology Marketing Field support and handholding Providing funding or guarantees to third party lenders. 	<ul style="list-style-type: none"> In Dubai, the franchisors operate in such a manner that preference is given to the sustenance of the brand value. The franchisors hence apply diligence in recruiting franchisees and accord them the expected obligation for the sake of sustaining the brand value. The typical franchise disclosure document communicates the obligations of the franchisor to franchisees in detail.
12	Listed benefits of franchising	<p>For the franchisor, it is generally agreed to be:</p> <ul style="list-style-type: none"> An important strategy for rapid expansion strategy; A means of using other people's funds to expand; A way of limiting the key man and equity risk; A means of gaining an economy of scale advantage; A way of increasing profit and market share. <p>Franchisees see franchising as a way of making a guaranteed investment by leveraging a proven business system, knowledge transfer and support.</p> <p>Furthermore, potential franchisees see the opportunity of taking advantage of an established brand's goodwill.</p>	<ul style="list-style-type: none"> In South Africa, well known advantages of franchising include skills transfer, initial and ongoing support, access to group purchasing and marketing initiatives. 	<ul style="list-style-type: none"> Rapid expansion locally and internationally Job creation and access to necessary goods and services. Expansion of a country's tax base. 	<ul style="list-style-type: none"> Provides a formula for running a successful business by delivering a uniform product and service to customers. It provides franchisors with the capital they need. It creates distribution channels It gives consumers a recognised standard of what to expect and a higher perceived value. 	<ul style="list-style-type: none"> The major advantage is the benefit of being self-employed. This benefit is tempered with the knowledge that the owner has invested in a proven system and has the training, support and encouragement of the franchisor and other franchisees. Owning a franchise provides an environment in which to conduct business in a particular area, with an informed ready-made customer base. Proven product or service outcomes Shared marketing, advertising, business launch campaign costs Industry know-how Reduced risk of failure Access to proprietary products or services Bulk buying advantages Ongoing research and development.

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13	Factors that have led to growth and advancement of franchising	<ul style="list-style-type: none"> The franchise brand owners who have, largely by their own efforts, built their brands, have advanced franchising to the extent that it has in Nigeria, in terms of the values and opportunities listed above. 	<ul style="list-style-type: none"> The establishment of FASA and support it provided to franchisors. The government role in supporting, promoting and creating an enabling environment for the franchise industry. The legislation of the Black Economic Empowerment (BEE) scheme. This scheme enforced the local content and indigenisation of every franchise investment in the country, leading to the eventual local ownership of about 90% of the franchises in the country. 	<ul style="list-style-type: none"> Consumerism, on account of a growing young population High disposable income Growing urbanisation Availability of investments. 	<ul style="list-style-type: none"> Well established federal and state legal frameworks Highly developed franchise operations and systems Wide acceptability of the concept of franchising. 	<ul style="list-style-type: none"> There is a law in Dubai that every franchise investment in the country must be either partly or fully owned by an Emirati. The government's role in supporting, promoting and creating an enabling environment for the franchise industry. Infrastructural development and responsiveness of the government that attracted foreign brands and the huge market were primarily the foundations of the rapidly advanced franchise industry.
14	Features of franchise banking or funding products and schemes	<ul style="list-style-type: none"> No operational franchise specific funding among micro-finance and commercial banks. No known angel investor firm having a franchise focused investment model, however the typical model does not have any franchise excluding criteria No known private equity (PE) firm having a franchise focused investment model, however typical model does not have any franchise excluding criteria as long as a particular brand seeking funding meets conditions, which wets the investment appetite of the PE firm. 	<p>Features of a typical franchise funding scheme:</p> <ul style="list-style-type: none"> A pool of 50 established small entrepreneurs identified and assessed for their potential as future micro-franchisors. At the end of the initial evaluation process, fifteen candidates are identified as participants in a one-year development programme. During each of the three years, five of the approved candidates receive training, mentoring and support Training is broken down into five boot camps, held in the regions in which the candidates reside. During these boot camps, every aspect of setting up/operating a professional micro-franchise explained and implemented. At the end of each one-year programme, qualifying candidates assisted with the recruitment and initial training of their growing network of micro-franchisees. 	<ul style="list-style-type: none"> No franchise-specific banking products. The Reserve Bank of India gives facilities to SMEs for plant and machinery/equipment for manufacturing or service enterprises. There are caps on borrowable amounts. FAIS/DBI funding available. Borrowers qualify after going through FAI (Franchise Association of India) screening process. 	<ul style="list-style-type: none"> US Small Business Administration (SBA) Loans The franchisee will apply for these loans through the bank or other types of lending institutions, with the SBA serving as a guarantor for a significant portion of the loan. DOMINO'S 'DELIVER THE DREAM' programme with American Equipment Finance LLC. <ul style="list-style-type: none"> Allows internal members to start a franchise for as little as USD5, 000. Be an entrepreneur in underserved and undercapitalised communities. (SBA COMMUNITY ADVANTAGE LOAN GUARANTEE PROGRAMME Be involved in home-based franchise (SBA MICRO- LOAN LENDING PROGRAMMES). 	<ul style="list-style-type: none"> There are no known franchise-specific banking products. However, there is a number of franchise funding schemes introduced by the government. These schemes partner with SME support agencies and the franchise associations to determine the lending eligibility criteria and to lend to franchise owners or investors who qualify.

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15	Other similar franchising models or spill over applications of franchise principles for MSME benefit	<ul style="list-style-type: none"> Product-format franchising businesses such as Flour Mill, Mouka Foam, Dangote Cement and Guinness product distribution have enormous operations in the country. The agricultural value chain franchising operated by Anambra State Government Ministry of Agriculture, DFID's project Babban Gona and Hybrid Feeds in Kaduna, all operate by transferring knowledge to rural farmers. The Anambra State government operates a technology-driven and thoroughly developed system, providing support through the entire agricultural value chain in cassava, rice and maize production. Hybrid Feeds operates a model that helps small and micro-scale operators in logistics, feed mill production, fish and poultry farming, to start and grow their businesses through thorough knowledge transfer. The business-association franchise model is being set up by a group of pharmaceutical firms in Eastern Nigeria. These firms have agreed to operate under a group name and uniform structure, which would be projected to the public, while they maintain their individuality. They expect to operate more like a franchise enjoying shared services and economy of scale benefits. 	<ul style="list-style-type: none"> None reported. 	<ul style="list-style-type: none"> None reported. 	<ul style="list-style-type: none"> None reported. 	<ul style="list-style-type: none"> None reported.
16	Factors that have hampered franchise growth most	<ul style="list-style-type: none"> Lack of franchise knowledge resulting from lack of promotion and awareness. The culture of independence of the average Nigerian, not wanting to submit to or build someone else's brand. Lack of legal framework and industry support structures. Lack of infrastructure, especially power supply and good roads to enable distribution logistics. Unstable government policies and foreign exchange. Exorbitant rental costs. Lack of trust among most Nigerians fearing they may be cheated in a typical partnership. 	<ul style="list-style-type: none"> The government was too hasty in implementing enabling projects without observing due process. Finding the right franchisee or franchisor. Being able to deliver on customer expectations in a competitive industry. Most banks are reluctant to fund very small transactions. They generally prefer to grant medium term loans ranging from R500, 000 upwards and repayable over five years. They also insist on the borrower making a contribution of at least 50% with full collateral provided. The industry is getting very competitive, thereby discouraging foreign brands from venturing into the country. 	<ul style="list-style-type: none"> Inadequate operational support from franchisor Very high rentals Absence of specific franchising Law is a major concern for international franchises. 	<ul style="list-style-type: none"> Not reported. 	<ul style="list-style-type: none"> The market has become very competitive with every prominent brand flocking to find a spot in the UAE region, especially in Dubai. This leaves little or no room for growing and struggling brands to remain in business for long.

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17	Key principles in regulatory framework	<ul style="list-style-type: none"> No comprehensive legal framework 	<ul style="list-style-type: none"> Franchise disclosure before recruitment of franchisee Provisional template delineating expected roles of the franchisor to franchisee for franchise agreements. The expected contents of an operational manual The rights of the potential franchisee to "cool off" time, allowing him to properly consider the franchisor's proposals before buying a franchise. 	<ul style="list-style-type: none"> No comprehensive legal framework. 	<ul style="list-style-type: none"> Pre-contractual disclosure and in-term relationship Consumer protection. 	<ul style="list-style-type: none"> Principles dealing with restraint of trade and assignment of the franchise back to the franchisor in the event of default. Intellectual property protection and valuation Consumer protection laws.
18	Rate of franchise awareness among MSMEs	<ul style="list-style-type: none"> Very limited awareness. Many interviewees have wrong idea about franchising or have never heard about it. This lack of awareness widens from the cities to the rural locations. 	<ul style="list-style-type: none"> High awareness, with the concentrated support of government and associations promoting and developing franchises. 	<ul style="list-style-type: none"> Developing with rapid adoption. 	<ul style="list-style-type: none"> Very high. One new franchise business is started every eight minutes of a working day. 	<ul style="list-style-type: none"> High awareness, in UAE especially with nearly 50% of food, hospitality and retail businesses being franchises.
19	Roles of franchise consulting companies	<ul style="list-style-type: none"> Franchise development; Franchise brokerage and match making; Franchise investment advisory services; Franchise training and networking and expo services. 	<ul style="list-style-type: none"> Franchise development; Franchise brokerage and match making; Franchise investment advisory services; Franchise training and networking and expo services. 	<ul style="list-style-type: none"> Not considered significant yet. 	<ul style="list-style-type: none"> Recognised as a critical stakeholder and fully developed. 	<ul style="list-style-type: none"> Franchise development; Franchise brokerage and match making; Franchise investment advisory services; Franchise training and networking and expo services.
20	Factors that encourage Foreign Direct Investment or entry of foreign brands	<ul style="list-style-type: none"> From the respondents, the following factors were listed: <ul style="list-style-type: none"> Availability of regulatory framework. Non-stringent policies. Well-developed market with support structures. Less competitive market. Enabling infrastructure. 	<ul style="list-style-type: none"> Less competitive market. Enabling infrastructures. Non-stringent policies. 	<ul style="list-style-type: none"> Consumerism Youthful population 	<ul style="list-style-type: none"> Not reported 	<ul style="list-style-type: none"> Enabling infrastructures. Non-stringent policies. Consumerism
21	Factors that discourage Foreign Direct Investment or entry of foreign brands	<ul style="list-style-type: none"> Lack of availability of regulatory framework. Stifling policies. Undeveloped market, lacking support structures. Lack of enabling infrastructure. 	<ul style="list-style-type: none"> Competitive and saturated market. 	<ul style="list-style-type: none"> Absence of transparent legal framework Absence of anti-corruption and bribery laws Complicated market 	<ul style="list-style-type: none"> Not reported 	<ul style="list-style-type: none"> Competitive and saturated market.
22	Roles of legal firms	<ul style="list-style-type: none"> Currently, a number of capable legal firms in Nigeria have offered legal services to the local and foreign franchise brands in Nigeria in line with available commercial laws. Some of these services had shortcomings, as there were no franchise specific guidelines available for them to utilise in creating adequate value for the franchisors and their franchisees. A well-developed franchise framework with proper regulatory guidelines would help define the roles of the legal firms. 	<ul style="list-style-type: none"> The legal firms that offer franchise services are registered with FASA and work within the provisions of the CPA and other regulations to develop franchise legal documentations, advisory and other services. 	<ul style="list-style-type: none"> Key role to play in supporting government and potential franchise before executing agreements. 	<ul style="list-style-type: none"> Specialist law firms work within a consortium of other specialists to provide franchise consulting services. 	<ul style="list-style-type: none"> The legal firms that offer franchise services work within the provisions of regulations to develop franchise legal documentations, advisory and other services. Further, franchise development consulting firms and WFA have legal teams and partners that offer legal services to franchisees.

Conclusion

In conclusion, this study provides information on the current state of franchising in Nigeria, with such details as the popularity of the model and how the local/international franchise brands operating in the country have progressed. It also points out the limiting factors, state of enabling laws and possible solutions to identified lapses.

Data was provided on the existing franchise regulatory and support association, NIFA and how it operates compared to its contemporaries in the USA, UAE, India, and South Africa. NIFA's shortfalls, along with solutions on how it could be re-engineered to measure up, were provided. Further, the available expertise in the country for developing franchise agreements was articulated, with suggestions provided on how to structure and scale them up for access to franchise actors.

Currently there is only one credible consulting firm offering business development support services to the franchising sector in Nigeria. There are other organisations with some capacity in this regard; however, they would have to undergo significant preparation and inclusion to their core business focus.

Key enabling factors, especially in terms of market data requirements for model development were identified for developing the Nigeria franchising industry. Based on comparison to results from other more advanced countries, some of the models that are currently thriving in Nigeria such as Best Choice, Lagbus, Babban Gona and Vita Foam were also recommended for replication.

From information gathered, franchising was indeed identified as a potential model for tackling access to finance and growing businesses in Nigeria, including the non-conventional franchised industries. The findings included insights into how financial institutions view franchise businesses, their potential and current offerings to franchise businesses in Nigeria.

Importantly, a number of opportunities were identified for spill overs and transfers from franchising and how such could be scaled up.

About the study

Survey locations

Abuja
Ibadan
Kano
Kaduna
Lagos
Onitsha
Port Harcourt

The survey was carried out in July and August 2016.

Survey participants by category



Abbreviations

AAFD	American Association of Franchise Dealers
AFA	American Franchisee Association
CAC	Corporate Affairs Commission
DAI	Development Alternatives Incorporated
DFID	UK Department for International Department
DIB	Dubai Islamic Bank
FAI	Franchise Association of India
FASA	Franchise Association of South Africa
FMCG	Fast Moving Consumer Goods
GEMS	Growth and Employment in States
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
IFA	International Franchise Association
MENEFA	Middle East and North Africa Franchise Association
MSME	Micro, Small and Medium Enterprises
M-PESA	Mobile Money (Swahili)
NAFDAC	National Agency for Food and Drug Administration and Control
NESREA	National Environmental Standards and Regulations Enforcement Agency
NIFA	Nigerian International Franchise Association
NOTAP	National Office for Technology Acquisition and Promotion
NTDC	National Tourism Development Corporation
PDF II	Policy Development Facility Phase II
RBI	Reserve Bank of India
SBA	US Small Business Administration
SIDBI	Small Industries Development Bank of India
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SON	Standards Organisation of Nigeria
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
WFA	World Franchise Association

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This report was prepared by Chiagozie Nwizu, of Franchise Business Development Services International Limited, Nigeria, supported by a team of local and international consultants.

For enquiries, please contact:

Policy Development Facility Phase II Nigeria

E: AbujaTeam@pdfnigeria.org

W: www.pdfnigeria.org

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