The financing and mentoring of emerging franchisees through Tandem Franchising

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Abstract
South Africa, as a developing country facing socio-economic problems of unemployment, crime and poverty, could benefit immensely from growth in entrepreneurship and entrepreneurial activity. However, South Africa lags far behind in its level of entrepreneurship when compared to other countries, as is evident from the Global Entrepreneurship Monitor 2006. This paper addresses a mechanism to enable entrepreneurship by focusing on the major barriers to entry, being a lack of skills and a lack of funding.

"Tandem Franchising" is a funding and mentoring programme for franchisees from [1]previously disadvantaged backgrounds (disadvantaged in the previous political dispensation of South Africa, being the Apartheid era). The programme is focused on creating an alternative funding mechanism that enables transfer of ownership over time, in tandem with achieving skills transfer through a mentoring programme. The paper will explain the antecedents of the low levels of entrepreneurship in South Africa, the rationale behind developing the "Tandem Franchising" mechanism, different options of implementing the programme and a case study on implementation in a South African company.

Keywords
Funding franchises, developing countries, alternative funding

1 Introduction

Franchising has been recognised for a number of years by government as a means to promote entrepreneurship in South Africa. Government agencies are actively promoting franchising and developing programmes to develop franchising. This paper was originally commissioned by NAMAC Trust, a department of the South African Department of Trade and Industry, to explain the concept of Tandem Franchising and the contribution it can make to franchising and entrepreneurship. It explains the need for mentorship and financing programmes, and how Tandem Franchising can benefit the development of entrepreneurs.

1.1 Problem statement – The lack of entrepreneurship in South Africa

South Africa, as a developing country facing socio-economic problems of unemployment, crime and poverty, could benefit immensely from growth in entrepreneurship and entrepreneurial activity. Small to medium sized businesses have the potential to create jobs, stimulate the economy and result in the economic empowerment of a great number of South Africans. However, it has been proven that South Africa lags far behind in its level of entrepreneurship.

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The Global Entrepreneurship Monitor (GEM) of 2006 indicated that South Africa ranked 30th in overall entrepreneurial activity with only 5.29% of the adult population involved in start-up and new business ventures. The average for all countries is 9.43%. In developing countries, the average rate is 14.8%. South Africa therefore lags behind in most instances. Also, South Africa's position in terms of entrepreneurial activity has not improved since 2001. (Maas & Herrington, 2006)

South Africa is weakest in terms of new firm (3 to 42 months) and established firm (older than 42 months) entrepreneurship. Since these types of firms are primary sites of job creation, the economic contribution of the entrepreneurial sector in this country is well below the norm for developing countries (Orford et al, 2003).

The South African Executive Report of GEM 2003 was presented to highlight some of the preliminary findings of that year's research. It presented some insights into the state of entrepreneurship in South Africa (Orford, Wood, Fischer, Herrington & Segal, 2003). Overall, the study proved that low education levels, a perceived lack of skills and a distinct lack of entrepreneurial role models are major contributing factors to the fact that entrepreneurial levels in South Africa are lower than in other developing countries.

What seems to set South Africa apart from other developing countries is the fact that there is a significant difference in the proportion of young men who participate in entrepreneurial ventures. Lower rates of entrepreneurial activity in this gender and age group was shown to account for much of the variation in entrepreneurial levels between South Africa and other developing countries. Two factors that seem to contribute to this fact are self-perception of entrepreneurial ability and the importance of entrepreneurial role models and education. (Orford et al, 2003)

Only 35% of men under 45 professed to believe that they are capable of starting a new business. This may be related to education, as the proportion of young men who complete secondary schooling is low in relation to some of the other developing countries. The content of education may also have an impact. The South African school system has only recently introduced entrepreneurship to its curriculum. On top of that, sub-standard schooling in the previous political dispensation had an impact on the quality of qualifications obtained.

The second influencing factor seems to be that young men in South Africa have lower levels of exposure to entrepreneurs comparative to other developing countries (GEM 2003). GEM examines this aspect by asking respondents whether or not they personally have known an entrepreneur in the past two years (prior to the survey date). The fact that exposure to entrepreneurs is low may be attributed to the low level of entrepreneurship in this country, but may also be indicative of the low profile of entrepreneurs in the media and in the educational system.

The authors of GEM 2003 suggest that raising the proportion of young men who complete matric and who are exposed to entrepreneurs may raise the proportion of people who have the confidence to start a business. This would also have to include an evaluation of the content of education to ensure that our schools promote entrepreneurship as a career path and stimulate entrepreneurial thinking.

The picture was not very different in 2006. Although there was an increase in younger people venturing into entrepreneurship, this could be attributed to the fact that the country has a relatively young population with 42.63% of the population below 20 years of age and 18.83% of the population between the ages of 20 and 29 (mid year population estimates, South Africa 2006 from GEM 2006 report). When it comes to attitudes and culture, 48% of respondents had a negative perception of entrepreneurship. This means that the majority of respondents do not regard themselves as entrepreneurial. (Maas & Herrington, 2006)

While the concept of improved education is fairly obvious, the exposure to entrepreneurial role models as a contributing factor to entrepreneurial behaviour is interesting. The authors alluded to "learning through observation". One may argue that the exposure to entrepreneurs as role models could act as positive examples to emulate. Successful entrepreneurs have a unique set of skills and competencies. These include personality traits such as resilience, as well as trainable skills such as financial and management skills. This article will argue that exposure to entrepreneurs suggested by previous results of the GEM report should in fact focus on exposure to entrepreneurial skills and mentoring as a mechanism to deliver these skills to new business start-ups.

1.2 Objectives of the article

The main objective of this article is to propose Tandem Franchising as a method for developing entrepreneurship in South Africa, to subsequently stimulate job creation and economic growth. The concept of Tandem Franchising will be explained in detail, but the basic premise of the concept is to implement a mentoring and financing programme for new franchisees from previously disadvantaged backgrounds in South Africa. The remainder of the article will focus on the basic principles of mentoring small businesses, financing small business and the proposed model of Tandem Franchising as a means of promoting entrepreneurship within a framework of Black Economic Empowerment (BEE).

2 Mentoring small businesses

2.1 Mentoring and the process of learning

The term “mentor” is derived from the classical Greek mythology, in which the character Mentor was the trusted teacher, advisor, guardian and father figure to the son of Odysseus, King of Ithaca. The term was first adopted in the business context in the late 1970’s, to refer to someone who encourages career and personal development. Since then, academic literature has highlighted the benefits of mentoring and how it is implemented in organisations (Dutton 2003). However, references to mentoring in a small business environment and the mentoring of entrepreneurs seem to be limited. Yet it is obvious to academics and practitioners alike that the benefits of mentoring may also benefit new entrepreneurs.

In order to understand how mentoring may benefit small business owners, it is also important to understand the process of entrepreneurial learning. In surveying small organisations with fewer than 50 employees in north-east England, Penn et al (1998) discovered that informal, on the job training or learning from others dominated training methods in small organisations. Formal and off-the-job training was deemed as significantly less important by respondents in the study. Cope and Watts (2000) explored critical incidents as learning experiences in small businesses. Basically, a critical incident is a change or event in the small business that the entrepreneur would have to react to. In other words, entrepreneurial learning seen as such takes the shape of “learning by doing” and entrepreneurs seem to learn most from their past experiences.

The predominance of informal, on-the-job training and the premise of the critical incident theory or “learning by doing” allude to the nature of learning in small organisations. It would seem that entrepreneurial learning needs to be practical and focused on actual experiences in the small business environment. Therefore, entrepreneurial training needs to be highly contextual and individualised (Cope & Watts, 2000). The fact that mentoring is a one-on-one training method with a strong focus on practical advice seems to match the needs of entrepreneurial training. This supports the case for tailor made mentoring programmes for entrepreneurs.

2.2 The lifecycle of the small business

It is argued that all small businesses go through similar phases in their evolution, facing similar growth challenges and following a predictable evolutionary pattern as the business passes through its lifecycle (Cope & Watts, 2000). The learning process forms a critical part of this evolution (Deakins et al, 1998). Also, the management style appropriate to a small organisation at the early stage of its development may not be effective later in its lifecycle (Penn et al, 1998). This makes sense since growth implies a larger number of employees and a change in business objectives from pure survival and return on investment to a focus on growth. As these changes happen, management has to adapt to focus on the changing needs of the organisation.

Again, the fact that small businesses do not remain static but change over time suggests that training for small businesses needs to adapt to these changing needs. Training has to match the stage of the business lifecycle as well as the unique factors associated with the business such as the industry in which it operates and the quality of management and employees.

Another element unique to small business is the focus on experiential learning, which may cloud the entrepreneur's vision and cause him/her to rely too heavily on past experience when analysing the current situation of the business. This is referred to as a "learning trap" (Cope & Watts, 2000). If it is true that small business owners need practical support of immediate value (Cope & Watts, 2000) as well as an objective view to avoid becoming trapped in past experience, long-term mentoring seems to be a natural choice in developing entrepreneurial learning.

2.3 Making mentoring work for small business – evidence from practice

Mentoring sometimes occurs informally, as entrepreneurs use their contacts and personal networks to gain access to experienced entrepreneurs or professionals to act as mentors or business advisers. However, to rely on informal mentoring would not be sufficient in promoting small business growth as an economic growth strategy. The role of instituting programmes to foster small business development is mostly that of governments or developmental agencies. The role that government plays in stimulating entrepreneurial growth is often criticised and problematic (Bisk, 2002). Identification of ventures worthy of support, development of support programmes and allocation of funds are critical to the effort of promoting entrepreneurship.

Formal entrepreneurial mentoring programmes seem to be an increasingly popular strategy employed by governments and local development agencies. It would seem that such programmes have been in place since the early 1990's and examples include the Small Business Development Centres in the USA, the UK's Business Link – Professional Business Advisor (PBA) programme and Ireland's Mentor Network (Bisk, 2002). In Scotland, Scottish Enterprise encourages start-up support programmes such as the First Business Programme, which entails a mixture of training and support from mentors (Deakins et al, 1997). These programmes seem to be beneficial in terms of benefit to the entrepreneurs and aim to reduce the failure rate of entrepreneurs.

2.4 What makes a mentoring programme successful?

Bisk (2002) researched the efficiency of formal entrepreneurial mentoring in Ireland. He describes the socio-cultural environment of Ireland as a culture that does not encourage entrepreneurship and frowns on failure. For this reason, Irish entrepreneurs do not seem to be inclined to seek out mentors themselves (informal mentoring). South Africa's low rate of entrepreneurial activity may point to the same socio-cultural aspects that inhibit entrepreneurship.

The research was done on the Mentor Network (MN) of Enterprise Ireland (EI). In this specific mentoring programme, mentors are paid a modest fee for ten meetings with mentees. The mentors are recruited from an "old boys" network of corporate managers and some advertising. No formal criteria for matching mentors and mentees are in place. The programme matched over 5000 enterprises with mentors in the preceding decade.

One of the hypotheses proven by the research is that mentors must be generalists as opposed to specialists in the specific industry of the mentee. The advice that entrepreneurs seek seem to be primarily of a general business nature. General business advice includes financial management advice. Also, only 26% of the respondents had entrepreneurs as mentors. The majority of mentors were professionals (such as accountants) or retired managers. The implication of this is that a shortage of entrepreneurs needn't imply a shortage of mentors. Experienced managers or professionals could be employed as mentors. In South Africa, experienced managers could be employed as mentors to promote skills transfer and BEE.

Other factors suggested by the literature to improve the quality and success rate of mentoring programmes include matching of mentors with mentees, managing expectations, selecting the right mentors and constant evaluation and review of the programme (Tabbron et al, 1997). Deakins et al (1998) also allude to reviews and control of the programme. Bisk (2002) also refers to an orientation programme for mentors and mentees to manage expectations. A mentoring relationship may also be seen as learning in a social context, as the learning programme is based on a personal relationship and engaging with the mentor at a personal level (Garvey and Alred, 2000).

2.5 Why mentoring can work in a franchising environment

As reflected by the literature, one of the problems in implementing entrepreneurial support programmes by government agencies is "picking winners", or allocating funds and resources to deserving projects. This is also true in South Africa, where allocation of funds has been slow or misspent in many instances. Business start-ups are volatile by nature, and it is difficult to predict which firms will be successful. The benefit of franchising is that it has been proven over many years that a franchisee has a stronger chance for survival than an independent start-up (Illetschko, 2001).

Business format franchising is about the replication of a proven business system, thereby enhancing the new entrepreneur's likelihood to succeed. Targeting franchises for the implementation of a mentoring programme therefore has a higher potential for reducing failure rates and promoting the success of entrepreneurs than targeting independent business start-up's. Therefore, the allocation of funds can be more effective if allocated to programmes designed to make franchisees succeed, as franchising provides more evidence of success.

The inherent benefits of franchising may also contribute to the effective implementation of mentoring programmes in this sector. Franchising promotes skills transfer through extensive training programmes. The franchisor also provides ongoing support through the implementation of Field Service Consultants. Access to these support programmes and training makes franchise systems more learning orientated and therefore likely to adapt quite easily to a mentoring programme.

While the training and support provided by franchisors may be sufficient to ensure the success of many franchisees, potential franchisees from previously disadvantaged backgrounds may benefit a great deal from additional mentoring programmes. A lack of financial management experience and training, limited exposure to the business environment and difficulty in obtaining financing through conventional channels are all factors that inhibit previously disadvantaged individuals from becoming franchisees. A mentoring programme coupled with access to finance could have a significant impact on the propensity of this group to become franchisees.

3. Financing small businesses

Experts questioned for the GEM 2003 study identified lack of financial support as a major weakness in the national environment for entrepreneurial activity. In 2002, it was ranked as the second biggest problem inhibiting potential entrepreneurs. Franchisors rated lack of funding as the second biggest factor inhibiting growth (Franchise Baseline Census 2002). However, this problem is not unique to South Africa. It was shown that other developing countries also perceive this as a problem, and therefore South Africa's financial system is no worse than that of other developing countries (GEM 2003). In the 2006 study, access to finance was again cited as a problem. Although respondents believe there are funds available, the perception is that start-ups have difficulty accessing these funds (GEM 2006).

What is more surprising is that access to finance is also seen as a problem in developed countries. In Scotland, Scottish Enterprise has also developed programmes to improve access to finance for new entrepreneurs. One of these programmes was the First Business programme, which consisted of a mentoring programme coupled with grant aid known as the First Business Grant. The study done by Deakins et al (1998) on the mentoring programme found that there was a high reliance on internal sources of funding. Only 33% of the sample researched for the study made use of bank finance. While this may not be a reflection of availability, but merely of the use of external finance, it does indicate that other countries also have problems in implementing financing programmes for entrepreneurs.

Lack of finance for new entrepreneurs is most often related to the risk profile of these start-up businesses. Banks are often unwilling to make financing available to unproven business concepts. In fact, the most important source of funding in all GEM countries was the entrepreneurs themselves. These funds included savings, personal income and other personal sources (GEM 2003). While banks are more likely to lend funds to potential franchisees due to the perceived lower risk, individuals from a PDI background may still encounter problems such as lack of collateral. This is in fact a problem in developing countries. De Soto (in GEM 2003) claims that up to 70% of credit for new businesses in the US comes from using formal titles as collateral for mortgages. Therefore, De Soto advocates the growth of assets in developing countries.

Evidence from GEM 2003 also suggests that key personal assets in South African townships are disregarded by banks when evaluating the financial position of an individual. Since the process of formalizing and recognizing these assets will most likely be laborious, South African financial institutions must seek alternative ways of granting credit to potential entrepreneurs from previously disadvantaged backgrounds. The provision of guarantees is most likely to be a mechanism that will give financial institutions the required level of comfort in extending credit to this market. A formal, well monitored mentoring programme may contribute in establishing such a guarantee scheme.

In researching the financing of micro enterprises, Akhtar (1997) proposes that micro enterprises be financed on a group basis. This should reduce appraisal cost and a joint surety system may reduce the default risk. He also postulates that it would be easier for a bank to monitor the account of the group as opposed to dealing with individuals. Although Akhtar refers to micro enterprises, it is interesting that some of the benefits of such a group scheme may be applicable to the financing of franchises. A franchise system can be treated and assessed for risk as a group. The franchisor must be assessed for sound business practices and model stores can be assessed to determine optimum levels of financing and financial gearing. Assessing the individual then becomes the final step in granting finance.

The only element that may be problematic is the provision of guarantees for a joint surety system, as not many franchisors are willing to assume the risk associated with this. This is where the implementation of a recognized mentoring system may be beneficial in providing back-up and support to ensure that the franchisee succeeds and the risk in supporting the franchisee is minimized.

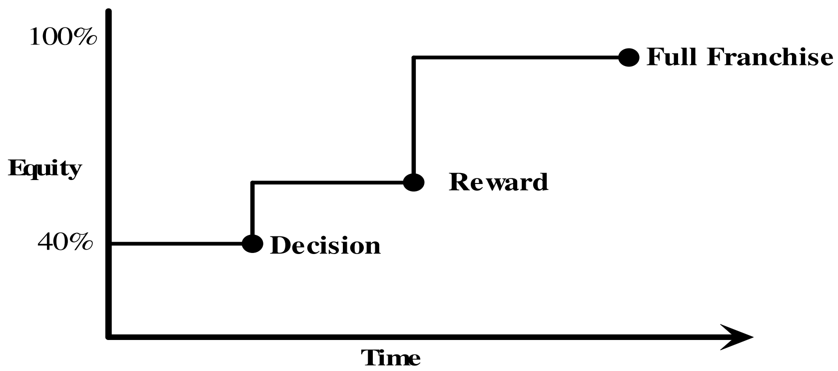
4 What is Tandem Franchising?

The South African government's BEE (Black Economic Empowerment) strategy is based on four underlying principles, namely that BEE is part of the broader economic growth strategy, secondly that BEE should be broad based, thirdly that BEE is an inclusive process, and fourthly that BEE is associated with good governance. Special emphasis must be placed on skills transfer, upgrading and real participation in ownership. Tandem Franchising answers the challenge of implementing BEE through real participation and skills transfer.

Tandem Franchising is an empowerment mechanism with a strong focus on mentoring. It links the mentoring process with participation in equity. The mentoring process can be structured within a joint venture agreement between a franchisor-appointed mentor and the franchisee. The franchisee would purchase a minority stake in the business, and would receive mentoring from an experienced member of the franchisor's management team, until the franchisee has gained the knowledge and experience necessary to run the business on his or her own. The new, inexperienced franchisee is therefore running the business in "tandem" with an experienced manager. Together, they are working towards achieving a successful business. The programme could be structured over a period of one year or more, and has the potential to be effective in ensuring empowerment initiatives are effectively implemented and skills transference takes place.

The basic premise regarding the participation in equity is that the franchisee would increase his shareholding over time, while the mentor is rewarded based on franchisee performance. The franchisee would act as assistant manager for the first year or a predetermined period of time. During this time, the franchisee will earn a salary, and all dividends are accumulated in a fund for the franchisee. This can then be used to purchase more equity over time. Figure 1 illustrates the concept of tandem franchising:

Figure 1: *Tandem Franchising*



Tandem Franchising has the unique advantage of empowering individuals to learn how to operate and manage the business, while being mentored by an experienced person who knows the business and who imparts this knowledge to the franchisee.

4.1 Models of Tandem Franchising

The concept of Tandem Franchising can be implemented in various forms. Figure 2 presents some options for the implementation of Tandem Franchising.

Figure 2: *Options for the implementation of Tandem Franchising*

	Option A	**Option B**	**Option C**	**Option D**
Mentorship programme	Franchisor appointed mentor (experienced manager)	Franchisor appointed mentor (experienced manager)	Existing, experienced franchisee appointed as mentor	3rd party mentor programme (e.g. Government or NGO)
Equity	Franchisee purchases minority stake (e.g. 10%) to be increased over time	Franchisee purchases minority stake (e.g. 10%) to be increased over time	Franchisee purchases minority stake (e.g. 10%) to be increased over time	Franchisee purchases minority stake (e.g. 10%) to be increased over time
Financing/ Joint Venture	Franchisor holds majority share until bought out. Balance of capital requirement financed by financial institution	Majority share held by financial institution until bought out by franchisee	Majority share held by existing franchisee (mentor). Remains a joint venture with majority BEE shares	Majority share held by financial institution until bought out

The advantages and disadvantages associated with the options of implementation will now be discussed. Option A will be attractive to financial institutions, since the franchisor is virtually providing a guarantee for the business by holding the majority share initially. This, together with a minority contribution by the franchisee, should provide sufficient guarantees for financial institutions to finance the balance of the capital requirement. The franchisor will be committed to the success of the business, since it will share in the profit initially. This model may also be attractive to large corporate companies, since it facilitates skills transfer from experienced managers while achieving empowerment goals. Experienced staff may be retained and will be motivated by incentives to achieve franchisee success.

Option B will be attractive to franchisors who are not in a position to invest capital in the new franchisee's business. However, commercial banks are not likely to take equity in a fledgling business. Venture capital companies would be better placed to provide the start-up capital, but these financiers would only be drawn to projects with high returns on investment.

Option C addresses the participation of existing franchisees of the franchise network in the empowerment initiative. The existing franchisee, running a successful business, is offered a second franchise as a joint venture with an empowerment partner. In this instance, the business will remain a joint venture, but will move towards a majority of BEE shareholding over a predetermined time period. The benefit to the franchisor is that such a mentoring programme will be relatively inexpensive, as the franchisee mentoring the newcomer will invest his own time in the mentoring programme. However, the franchisor would have to design the mentoring programme and monitor the progress and results of the mentoring relationship on a regular basis. A case study on this option is provided in this paper.

The fourth option is to implement a 3rd party mentorship programme available to selected franchises and funded by government agencies or NGO's. It would be imperative to select the right franchisors for participation in such a programme. A proven track record of successful franchised outlets, a commitment to empowerment and sufficient training and support mechanisms must be in place for a franchisor to be considered for inclusion in the programme.

4.2 Implementation of tandem franchising – An illustration

In conventional franchising, franchisees receive initial training before commencing with the franchise. After the initial training and store opening, the franchisee receives regular visits from a field service consultant (FSC). The FSC visits about once a month, unless the franchisee is experiencing difficulty and needs more support. The format of the visit entails quality evaluation, in-store training and consultation with the franchisee to ensure profit maximisation. The FSC also acts as a communication link between the franchisee and the franchisor. Visits to the franchisee are conducted in a formal manner with a set agenda and minutes. This conventional support function is funded by the royalty received from franchisees.

The royalty that franchisors receive is limited to a percentage of sales. Even in very successful franchises, this royalty would not be sufficient to fund an intensive mentoring programme. There is a need in South Africa for low cost of entry franchises to promote empowerment and access to finance for entry level franchisees. The problem with low cost of entry franchises is that it is often concepts with lower turnovers and therefore, lower royalty incomes. To implement sufficient franchisee support, let alone a comprehensive mentoring programme, is simply not financially viable for these franchisors.

Consulting experience has shown that these franchisors survive on selling more franchises to collect the upfront fees. As shown in the financial example in Figure 3, the typical royalty of such an outlet is only R7 500 per month (This equates to roughly 750 Euro). This does not even pay for the salary of one FSC. Therefore, the franchisor will not be in a position to implement a mentoring programme unless it participates in profit. To achieve this, a joint venture with the franchisee or a third party funded programme would be more suitable.

Figure 3*: Typical income statement of entry level franchise*

Franchisee CC
INCOME STATEMENT AS AT 31 December 2006

		Franchise store
SALES	**R**	**150,000.00**
Sales	R	150,000.00
COST OF SALES	**R**	**59,000.00**
Cost of sales	R	49,000.00
Stock adjustment	R	4,000.00
Discount Allowed to customers	R	6,000.00
GROSS PROFIT / (LOSS)	**R**	**91,000.00**
Gross Profit %		60.67%
OTHER INCOME	**R**	**33.34**
Interest Received - Bank	R	33.34
EXPENSES	**R**	**34,345.32**
Bank Charges	R	362.48
Cleaning	R	338.87
Computer Expenses	R	2,345.68
Marketing 2%	R	3,000.00
Printing & Stationary	R	516.49
Rent Paid	R	9,241.23
Repairs & Maintenance: Furniture & Fitt	R	20.00
Royalty 5%	***R***	***7,500.00***
Salaries & Wages: Gross	R	8,197.82
Salaries & Wages: Casual wages	R	1,408.00
Telephone & fax	R	1,414.75
Net Profit / (Loss)	**R**	**56,688.02**
Net Profit %		37.79%

The proposed structure of a tandem franchise would therefore be as follows (assumptions based on average monthly turnover of R150 000):

Figure 4: *Equity structure*

Franchisee	Bank/financial institution	Franchisor
20% equity	60% financed	20% equity
R30 000 profit share Pays salary + payment towards loan	Receives payment on loan	R30 000 profit share Pays mentor's salary and incentive programme

As evident from the illustration, a share in profit makes a significant difference to the franchisor's bottom line and what it can afford to spend on supporting the franchisee. The mentor would be a senior employee with extensive experience. The profit share pays for the mentor's salary. This should be tied to an incentive scheme that rewards the mentor on achieving profit targets and other goals.

In devising the mentoring programme, attention must be paid to the following:

- Profile of the mentor. This includes experience as well as personality. The mentor must have the ability to train the franchisee and the necessary people skills required for the position.
- Format of the programme. It is essential that the franchisor is prescriptive about targets, goals and feedback to the franchisor.
- Daily operations. The mentor must act as manager of the business, and the franchisee as assistant manager. This is to ensure that the franchisee is exposed to all aspects of the business and that skills transfer takes place.

- The transition. The transition of the franchisee to full ownership and independence must be planned well in advance. A phased approach would be advisable to make sure that the franchisee is ready to become independent. Milestones and timeframes for the transition to full ownership must be described in the franchise agreement.

5 Case study – The Pick 'n Pay Franchise Academy

Pick 'n Pay is one of South Africa's most successful supermarket chains. Established 40 years ago as a family business, the company is listed on the South African stock exchange and has over 200 stores. In 1993, the company started to franchise a format it called Pick 'n Pay Family Stores. These stores are convenience supermarkets ranging in size from 1500 to 3 500 square metres in size. The stores are mostly located in community shopping centres in suburban areas. Pick 'n Pay implemented business format franchising from the inception of its franchise programme. (Parker & Illetschko, 2007)

The Pick 'n Pay business model is based on four retail principles the company refers to as the "four legs of the table". These four principles must be implemented correctly to "balance the table" and is inherent in business decision made by the company. Firstly, there is a strong focus on administration. This includes not only expense and security control, but also a strong focus on sourcing the best prices for consumers. Secondly, merchandise is a focus area. The company focuses on supplying specific merchandise to suit the needs of clientele in every area it operates in. The company is often seen as an advocate for the consumer, as it will engage in conflict to ensure that consumers are not put at a disadvantage due to supply or regulatory conditions.

The third leg is advertising and social responsibility, which Pick 'n Pay sees as two sides of the same coin. A maxim of "Doing good is good business" permeates the company and they take social responsibility seriously, contributing over 8% of after tax profit to community development programmes. The fourth leg is people, with a strong focus on the wellbeing of all staff members. The company has a strict policy of promoting from within its own ranks, providing opportunities for growth. (Pick 'n Pay Annual Report 2006)

In keeping with these principles, the Pick 'n Pay Franchise Academy was launched in 2005. The objective of the Academy is to train historically disadvantaged individuals to enable them to open their own franchise stores. The learning programme is accredited by the University of Johannesburg and graduates receive a Higher Certificate in Retail Management. Successful graduates get the opportunity to participate in Pick 'n Pay's "twinning" programme, which is essentially a Tandem Franchising Programme. (Parker & Illetschko, 2007)

Existing, successful Pick 'n Pay franchisees get the opportunity to open a second store in tandem with a graduate of the Franchise Academy. Both parties win, as Pick 'n Pay does not endorse multi-unit ownership under normal circumstances. Therefore, the existing franchisee gets the opportunity to expand his horizons while the Academy graduate gets the opportunity to own his own franchise under the mentorship of the existing franchisee.

A recent example involves the opening of a store in Shoshanguve, North of Pretoria. This is a township area with a high density of population, mostly from a previously disadvantaged background. Pick 'n Pay took a very different approach in opening this store, as community involvement was the focus of all pre-opening and opening efforts. The franchisee was from the area and named personally in all marketing efforts. A huge billboard proclaimed the imminent opening of "George's store". Pick 'n Pay investigated community needs in the area and became involved in social relief programmes prior to the opening of the store. The whole community became involved in the store building through a ceremony called a "mokoeti". In this ceremony, the forefathers are asked to bless the site of the store and a feast is held in their honour. Pick 'n Pay sponsored the whole event and fed 10 000 people.

By the time the store opened, the whole community was involved and committed to supporting "George's store". People lined up in their hundreds outside of the store while competitor stores closer to the main area of business were almost empty. George is part of the "twinning" programme and still owned a minority share at inception of the business. The success of the store has enabled him to increase his shareholding. (Quirk, 2007)

With its strong corporate reputation and the fact that the initiative is BEE driven, banks are willing to finance this programme. Another store in the Kuils River area in the Western Cape was financed by Absa Bank (Absa Bank is owned by Barclays) to the tune of R6.3 million. The store owners, Glen Joffe and Craig van der Merwe, are also involved in community programmes including community policing, feeding programmes and assistance to physically disabled individuals. (Absa press release, 2006)

5.1 Another case study – South African Breweries

South African Breweries (SAB) implemented a Distributor Programme in the mid-1980's with the aim of exploiting virgin territory for SAB in more rural areas than its current distributor base. The model was based on the distribution model predominantly used in the USA. To date, 20 distributors were started and 10 are still operational today and trading very successfully. The failures were incorporated into the SAB depot network. Distributors failed mostly due to bad management of cash flow or the absence of a hands-on owner manager.

From the late 1990's, it became evident that a change in the liquor law was imminent. This change could force the establishment of a three tier distribution system. At this time, SAB decided not to expand its distributor programme due to the uncertainty surrounding the change and to avoid failure of distributors.

The new liquor law was promulgated on 13 August 2004. The fact the new law would come into effect became a certainty in 2003 and the details on the requirements of the law became clearer. One of the provisions of the law is a contribution to Black Economic Empowerment. It is at this stage that SAB could consider the acceleration of the distributor programme.

The expansion of the distributor network had to contend with some challenges, being:

- SAB's distribution network is a key competitive advantage and the company could not risk losing the edge in this regard
- Matching the ideal profile of a distributor to a person who had the capital available to fund such an operation was problematic

Subsequently, SAB developed a mechanism to enable empowerment and expansion of the distribution channel while retaining channel advocacy. This mechanism is business format franchising. Further expansion of the distributor network would be done through business format franchising, a mechanism that enables the transfer of skills and know-how to operate the franchised business. To facilitate funding and skills transfer, SAB implemented Tandem Franchising.

The first franchise was opened successfully in Westonaria, Johannesburg and another Tandem franchise followed in Newcastle, Kwazulu-Natal. Due to the extensive investment required, franchisees start with a minority share of 25%. Franchisees are granted the opportunity to purchase additional shares if they achieve performance milestones in terms of sales and customer satisfaction. The aim is for the franchisee to become the majority shareholder with SAB's share reducing to a level of 5% of ownership. (South African Breweries, 2007)

6 Everybody wins – A summary of advantages of Tandem Franchising

Tandem franchising offers advantages to franchisees, franchisors and financial institutions alike. These advantages are summarised in figure 5:

Figure 5: *Advantages of Tandem Franchising*

Franchisor	Franchisee	Financial institution
• Equity participation and profit sharing in the first year of the franchise • Fulfilment of BEE requirements at franchisee level, thereby raising BEE profile of the franchise • Successful franchisees translate into a successful network	• Entry into franchising through access to finance • Skills transfer through ongoing mentoring • Support additional to conventional ongoing support provided by franchisor • Greater opportunity to succeed	• Reduced risk due to extensive franchisor support • Compliance to the Black Economic Empowerment charter in terms of granting loans to previously disadvantaged individuals. One of the empowerment targets of the charter is empowerment financing.*

**Source: The Banking Council of South Africa*

7 Conclusion and recommendations

Successful implementation of Tandem Franchising by prominent South African companies, such as Pick ‘n Pay and South African Breweries, has paved the way for widespread implementation of this mechanism. Of special importance is the fact that this was done by corporate companies fairly new to the franchising arena. Traditionally, corporate companies are uneasy about the implementation of franchising as they perceive it as a loss of operational control. Pick ‘n Pay and SAB franchised critical elements of their core business and did so successfully.

In addition to the structuring of financing for a Tandem Franchising programme, the mentoring programme must be well structured to facilitate ongoing monitoring of progress and the feedback of results. It is imperative that parameters are set to facilitate monitoring of mentors to ensure that programme objectives are met. Timeframes and objectives must be quantified and communicated. Mentoring programmes seem to work well in companies that are well structured with many levels of communication and operational control, such as Pick ‘n Pay and SAB.

The potential franchisees and mentors participating in the programme must be identified. In the case of franchisees, it is beneficial to entrepreneurial development and economic empowerment in South Africa to target previously disadvantaged individuals. Mentors may be qualified managers or existing franchisees. While mentors needn’t be entrepreneurs per se, they must have the skills set required to run the specific business. Incentives must be developed to motivate and encourage mentors.

In terms of future research, it would be interesting to investigate the implementation of similar mechanisms elsewhere in the world. Successful implementation of Tandem Franchising could be emulated in other African and developing countries. Tandem Franchising could be an answer to some of the problems associated with the development of entrepreneurship in South Africa. The combination of skills transfer, positive role models and access to finance could provide a powerful mechanism to create jobs and stimulate economic growth.

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