FRANCHISING IN NIGERIA;
OPPORTUNITIES AND CHALLENGES.

Presentation by Olumide Ale
Executive Director (New Business / Franchise),
Tantalizers Limited, Nigeria.

CONTENTS

Introduction

Current Franchising Situation in Nigeria

Nigerian Economy Overview

Opportunities/Challenges for franchising in Nigeria -- General

The Tantalizers Franchise - Overview

Opportunities/Challenges for franchising in Nigeria –The Tantalizers Experience

Recommendations for Franchise Development in Africa
Franchising is a continuous relationship in which the franchisor provides a licensed privilege to a franchisee to do business, plus assistance in organising training and management in return for a consideration from the franchisee (IFA definition).

Franchising has until recently been an uncommon word in business lexicon in Nigeria. But the situation is rapidly changing.

International Franchisors have not responded into Nigeria (compare their response into Asia) largely because of ignorance of immense market opportunities in Nigeria and absence of Franchise-specific legal and regulatory framework.
2.1 Introduction

- The earliest form of Franchising in Nigeria had been products marketing, mainly of Petroleum Products (Texaco, Mobil, Total, Agip, Elf, Esso, etc) and Automobile (Toyota, Peugeot, Ford, etc); and Beverages (Coca Cola, etc).

- In the last few years however business format Franchising has grown significantly, especially in the fast food sector, many of which are small indigenous Franchisors.

- Thanks to the sensitizing efforts of the National Office for Technology Acquisition and Promotion (NOTAP) and the Nigerian International Franchise Association (NiFA), Franchising is steadily becoming understood and accepted as attractive business model by Nigerian entrepreneurs.
Franchise in the **food sector** came into the national picture after 2000:-

-Mr. Biggs [of United African Company (UAC)], Tantalizer, Chicken Republic, etc.

There is enormous interests in Franchising among Nigerian entrepreneurs. Table 1 gives list of some Franchise outfits in Nigeria today.
Nigeria **Economy Overview (Brief)**

Country Statistics:
- Population: 140m
- Land area 923,166 km²
- A Federation of 36 States with a Federal Capital Territory, and almost 800 Local Governments
- Major cities: Lagos, Abuja, Kano, Kaduna, Port Harcourt, Ibadan, Onitsha
- The largest single market in West Africa
- World’s 6th largest crude oil exporter
- Oil provides 30% of GDP, some 90% of foreign exchange
- Economic programmes of Government aim at an active market oriented, private sector-led, technology-driven, highly competitive national economy
- Economic liberalization; privatization of all public enterprises in final stages
- Strong emphasis on the support, growth and development of SMEs through promotion of technology transfer and inflow of foreign investment.
OPPORTUNITIES (WHERE & WHY)

- Population: 140m & growing
- High unemployment rate
- Slow economic growth/development
- Great dependence of paid employment with increasing yearning for financial independence
- Limited almost non-existence deployment of the franchise concept as a business outlet
- A great businesses can be franchised especially service oriented industries
- The shared risk concept of franchising
Franchise Opportunities in Nigeria

- Most popular and fastest growing sector for Business Format Franchising remains the Fast Foods.

The following areas are likely to prove strategic in the future:
- Construction Materials/Real Estate
- Automotive Products/Services
- Educational Services (e.g., Pre-school, Information Technology)
- Health/Beauty/Nutrition/Fitness
- Purified Water
- Internet Services
- Cleaning/Janitorial Services
- Social and Spiritual Clubs
- Catering/Entertainment outfits
Challenges

Individual

- Funding
- Knowledge
- Fear of the unknown

Institutional

- Franchise framework as it covers other stakeholders, financial institutions, legal institution (framework)
- Institutional and Effective umbrella body
Challenges of Franchising in Nigeria

Violation of IP rights is on the high

Procedural bottlenecks

The courts need to be expeditious and judgments need to be sound

Better enforcement mechanisms must be put in place
Challenges of Franchising in Nigeria Contd

Lack of an enabling environment

Poor infrastructure

Port delays, strikes, short term funds, erratic electricity and water supply, bad drainage and roads, insufficient support structure

Lack of satisfactory transportation, communication and basic utilities

Short term returns

Capacity building and Human Resource is yet another major challenge

Sourcing funds
The Tantalizers franchise approach has the following fundamental features:

**PHYSICAL STRUCTURE**

Tantalizers will

- Identify location
- Acquire property
- Lease or sublease as the case may be to the prospective Franchisee
- If prospective Franchisee has found a location, Tantalizers will assess/vet and approve
- Provide the Designs/Drawings
THE TANTALIZERS FRANCHISE

- Process building approval
- Provide the Bill Of Quantities (BOQ) and would assist in the tendering process.
- Undertake the construction
- Specify and approve at franchisee’s cost, all necessary equipment and will also undertake equipment installation

MANAGEMENT

- Tantalizers will run the outlet for the first twelve (12) calendar months
- During this period, the franchisee will undergo intensive training
- He will acquire the necessary skills to identify and manage the possible pitfalls encountered in running a fast food business.
THE TANTALIZERS FRANCHISE

FRANCHISE DURATION

- The franchise agreement is for 5 years, renewable for another 5 years

FORMAT

- The Tantalizers Franchise will sell products prepared by Tantalizers and delivered to the Franchisee in semi-finished or finished forms.
<table>
<thead>
<tr>
<th>S/NO</th>
<th>FEES</th>
<th>TIMING</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Application/processing Fee</td>
<td>On submission of application forms/documents</td>
<td>Upfront Once</td>
</tr>
<tr>
<td>2</td>
<td>Franchise Fee</td>
<td>On signing the Franchise Agreement</td>
<td>Upfront Once</td>
</tr>
<tr>
<td>3</td>
<td>Technical Fee</td>
<td>On agreement of construction cost</td>
<td>Upfront Once</td>
</tr>
<tr>
<td>4</td>
<td>Management fee</td>
<td>First week of subsequent month</td>
<td>Monthly in arrears. Applicable only during the first year</td>
</tr>
<tr>
<td>5</td>
<td>Royalty</td>
<td>First week of subsequent month</td>
<td>Monthly in arrears. For as long as Franchise agreement is effective</td>
</tr>
<tr>
<td>S/NO</td>
<td>FEES</td>
<td>TIMING</td>
<td>REMARKS</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>6</td>
<td>Advertising/Promotions fee</td>
<td>First week of the first month of the quarter</td>
<td>Quarterly in advance For as long as Franchise agreement is effective</td>
</tr>
<tr>
<td>7</td>
<td>Training fees</td>
<td>To be advised</td>
<td>To be advised</td>
</tr>
</tbody>
</table>
TANTALIZERS CHALLENGES

1. Difficult to get owner / manager
2. Average prospective franchisee does not carry out due diligence on the franchisor
3. Data / Database to support site selection in either non existence or obsolete
4. Integrity / Trust as regards Hub & Spoke (Recipe discretion)
5. Capacity building among stakeholders
6. Governmental bottlenecks
RECOMMENDATIONS FOR FRANCHISE DEVELOPMENT IN NIGERIA

Massive funds mobilization through AfDB, Nigerian Government and Banks for the development of Franchising in Nigeria. (Government, AfDB)

Banks need to establish Franchising (unit/dept) for Franchise specific financing program – promotion of indigenous Franchisors. (Banks)

Creation of awareness on Franchising among entrepreneurs, prospective investors, general public: through seminars, workshops, franchise trade fairs, exhibitions and other Franchise-related international events. (NiFA, NOTAP, AfDB).

Active linkage between NiFA and other International Franchise organizations in order to benefit from their experience. (NiFA).
RECOMMENDATIONS – Contd

Stronger IP protection for Patents, Trademarks, Service marks, Know-How, etc in order to attract potential international Franchisors. (Government).

Nigeria Franchisors and Franchisees should imbibe the concept of Best Practices, which is the bedrock upon which Franchising system is founded. “Strategic Partners”, “Win-Win” objectives, etc (All Parties)
QUESTIONS
THANK YOU