

An investigation of the franchising option for water services operation in South Africa

Kevin Wall

CSIR Knowledge Services, PO Box 395, Pretoria 0001, South Africa

Abstract

There is a need in South Africa for institutional innovations aimed at increasing the coverage of water services, and sustaining those services. The paper describes an investigation of an alternative service delivery institutional concept, viz. the franchising of the operation of water services, and outlines the need to formulate a franchise model that could be developed and made available to emerging entrepreneurs as the basis of a viable business. The franchising would be in respect of components of the water services value chain that are suitable for small businesses in that they can be readily systematized.

Introduction

The capacity of many municipalities in South Africa to adequately provide even basic levels of water services to all their citizens is in question. The need for new alternative service provider institutions is apparent.

Both the parastatal regional bulk water supplier Rand Water and the national Department of Water Affairs and Forestry (DWA) have for a number of years considered that the potential for franchising in the water services industry water ought to be investigated. For various reasons this has never been done.

The CSIR report

This paper summarises the findings of an investigation undertaken by the CSIR, and funded by the Water Research Commission (WRC) and the CSIR, into the concept of franchising in the water services sector in South Africa. This investigation comprised:

- Background investigation of franchising generically (i.e. not in the water services sector) and of South African experience and best practice
- Background investigation of water services delivery in South Africa
- Background investigation of research into and experience in franchising in the water services sector worldwide
- Assessment of appropriateness of franchising to the water services sector in South Africa.

This paper follows the sequence of the CSIR investigation (Wall, 2005), and also reports the latest developments.

Franchising

Many goods and services are supplied by small-, medium- and micro-enterprises (SMMEs). However, starting a small business is never an easy task; difficulties to be resolved include those of understanding the business method, establishing the

need for the product and an image for the product, setting up the business (with attendant capital costs), finding out which regulations apply and then complying with them, and recruiting and training staff.

The barriers to entry for the start-up SMME in any field of enterprise are substantial. If these could be overcome, then many more business opportunities will be enabled and the probability of business failure will be reduced.

Franchising (more correctly 'business format franchising') is a way of using tried and tested methodology to accelerate the development of a business. The right is granted by a business entity ('the franchisor'), to a smaller entity ('the franchisee'), to use a business method or system. In return, the smaller entity pays fees to the larger. The assistance that the franchisor gives with setting up the franchisee's business, and ongoing training of the franchisee and quality control of the goods or services, are usually also part of the business deal.

Thus the franchise system firstly correlates and systematises the business, and then the franchisor facilitates the setting up of the business, and supports and disciplines it thereafter. For good reason, franchising can be summed up in the slogan: 'Being in business for yourself but not by yourself'.

There is no direct contractual relationship between the franchisor and the customer/end user of the goods or services.

Whereas the incentive to start up a small business is the prospect of a quantifiable financial outcome (profits, dividends

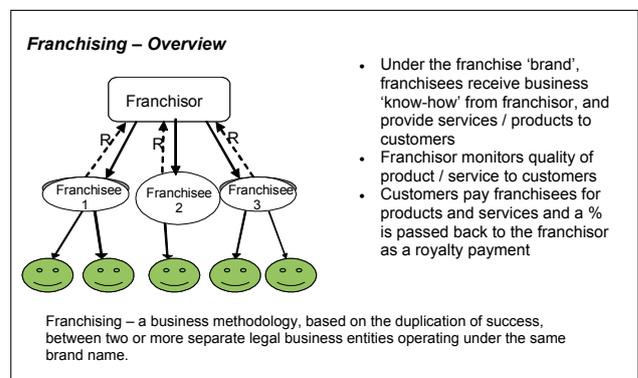


Figure 1
Franchising overview

+2782 459 3618; fax: +2712 841 2319;

e-mail: kwall@csir.co.za

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