

Water services franchising partnerships: Establishing criteria for the selection of water service franchisors, partnerships and franchisees

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This report forms part of a series of seven reports. The reports in the series are:

- Going with the franchise flow: An exploration of franchising partnerships for the operation and maintenance of water services infrastructure. **(Report TT 432/1/10)**
- Water services franchising partnerships: Overview of the concept of franchising and its relevance to water services. **(Report TT 432/2/10)**
- Water services franchising partnerships: Review of policy, regulation and legal aspects. **(Report TT 432/3/10)**
- Water services franchising partnerships: Modelling of selected water services operational elements. **(Report TT 432/4/10)**
- Water services franchising partnerships: Institutional review for the application of franchising. **(Report TT 432/5/10)**
- Water services franchising partnerships: Establishing criteria for the selection of water service franchisors, partnerships and franchisees. **(Report TT 432/6/10)**
- Water services franchising partnerships: Business analysis case study: schools sanitation O&M. **(Report TT 432/7/10)**

Report TT 432/1/10 (*Going with the franchise flow: An exploration of franchising partnerships for the operation and maintenance of water services infrastructure*) is the only one in the series that has been printed. The rest are available on the WRC web site (www.wrc.org.za) from where they can be downloaded.

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Executive summary

Background to the project

The rapid rate of construction and commissioning of new water services infrastructure is severely challenging the institutions responsible for operating and managing this infrastructure. Innovative approaches to water service delivery are required. But even if all the existing institutions were coping with the water services delivery responsibility, there would be good reason to investigate alternative institutional models, on the grounds that it needs to be found out if alternatives:

- could be more cost-effective, and/or
- could allow existing role-players to focus on their other responsibilities, and/or
- could offer a range of other advantages (including greater local economic development).

There is an alternative service delivery institutional model that is suited more for the ongoing operation and maintenance of water services systems than for investment in new infrastructure – and, importantly, that is friendly to small business and local economic development. This alternative is the franchising of water services. However there is little experience of this approach anywhere in the world, and no experience in South Africa – although some existing partnerships have some of the characteristics of the franchise partnerships approach.

The barriers to entry for the smaller or start-up company are substantial. But if these could be overcome – and franchising partnerships are a way to mitigate them – then there will be many opportunities for improved water services and for local economic development. The twin driving forces of the franchising concept are the existence of a successful business model that can be copied widely (there are currently no such models for the water sector) and the profit motive.

Franchising is a way of accelerating the development of a business, based on tried and tested methodology. The franchise system firstly correlates and systematises the business, and then facilitates the setting up of the business, and supports and disciplines it thereafter.

The key is the incentive, to the water services authority, franchisor and franchisee alike, to improve efficiency, and to provide improved service reliability and quality.

To investigate this approach, the Water Research Commission (WRC) initiated a study (completed in 2005) that explored the concept of franchising partnerships, its relevance to the water services sector, and its prospects as an institutional option for water services operations and management. The study found that the franchising partnership concept, if applied to water services delivery, could in favourable circumstances both alleviate problems encountered in, and raise the efficiency of, water services delivery. At the same time, franchising would have the added advantage of stimulating small business activities. (Wall, 2005).

The study described at a conceptual level how a water services franchise model could be made available to emerging entrepreneurs, and concluded that franchising water services could be the basis of a viable business. The franchise would be in respect of a component of the value chain that is suitable for small business because it can be readily systematised.

The study found an indisputable need for alternative water services provider systems, and for local economic development, and that there is potential through water services franchising partnerships to simultaneously:

- more consistently deliver water services to specification;

- improve water services efficiency; and
- promote local economic development, small-, medium- and micro-enterprise (SMME) development and black economic empowerment (BEE).

Objectives of the project

The objectives of the current, follow-up project, were:

- To further explore the concept of franchising and its relevance to the water services delivery chain.
- To identify and determine those elements in the water services delivery chain which offer the greatest scope for franchising partnerships.
- To review the legal, technical, financial, regulatory etc. aspects which would impact on franchising partnerships.
- To develop franchising partnership models for a selection of the areas identified by the research, with consideration for the legal, regulatory etc. aspects.
- To conduct a case study of an element in a hypothetical situation, to see how the model will work.
- To set out the way forward to eventual pilot implementation of franchising partnerships, and inter alia recommend areas for further research.

In summary, the ultimate objective of the project was to identify the scope for franchising partnerships for the operation and maintenance of selected water services infrastructure, to establish the viability of franchising partnerships, and to make a case for outsourcing to franchises to be considered by water services authorities and water services providers.

The context in all instances is South Africa.

Focus of this report

This report tackles criteria for the selection, for water services franchising partnerships, of franchisors, franchisees, and areas and sites. Particular attention is given to the needs of the initial piloting of water services franchising partnerships.

Reference is at many points made to documented advice from the conventional (i.e. non-water services) franchising sector, but the different circumstances and needs of water services franchising are pointed out.

The needs of an initial guideline document on water services franchising partnerships are also discussed.

Selection criteria and processes – introduction

Given that in the context of the current project the "business" is the operation of an element or elements of the water services value chain, the choices available in respect of each of element/business, franchisor, franchisee and area/site, are likely to be limited initially, for reasons noted below.

Report TT 432/4/10 explored the water services value chain, and shortlisted elements that might be suitable for franchising partnerships. The context of the current report is that the selection of franchisor, franchisee and pilot area is shaped by the probable requirements of this shortlist of elements – which shortlist incidentally embraces considerable variety.

The current researchers envisage that, at least in the early days of water services franchising, it is most likely to be franchisors that will initiate a process, selecting water

services elements most suited to them, and will formulate the business model to go with each selected element. They will then look for areas or sites where this expertise is needed, and will negotiate with the WSAs and other role-players. Next they will offer the model to potential franchisees, or will attempt to nurture potential franchisees and offer it to them. All the while, the usual procurement practices (by WSA and others) will apply.

As water services franchising in South Africa grows however, the initiative to take the franchise route may come from others – e.g. from the WSA. But to begin with it is highly probable that it will only be franchisors that initiate water services franchising partnership proposals.

Selection criteria – sites, franchisors and franchisees

Selection of the initial pilot sites is principally constrained by the need to match all of the following:

- water services infrastructure and
- sites, and their environment, that are not fraught by for example ongoing political unrest or dire poverty, and
- willing WSAs and
- willing and competent franchisors – best of all if with local experience and local credibility (i.e. credibility built from a track record of delivery and of successful working with local authorities, communities and local small contractors).

Many potential sites for water services franchising already exist, in the sense that much water services infrastructure is already in place but is not being operated properly at the present time. While these sites fall under the jurisdiction of or are owned by WSAs – and the reluctance of, or opposition of, what appears to be the majority of WSAs was noted in an earlier report – a sufficient number of WSAs appear to be willing to consider undertaking, or permitting, water services franchising partnership pilots.

It should not be a problem to find sufficient sites from which to select in order to undertake an initial small number of water services franchising operation pilots. Each of the institutions polled in Report TT 432/5/10 would undoubtedly be able to identify several potential pilots in its area of operation.

Organisations can of their own accord elect to set up as water services franchisors. How much success they will have will depend on their expertise, resources and track record – both before entering water services franchising and once they are in it – and their acceptability and that of the franchising partnership proposals they put together. This acceptability will be judged by key stakeholders, principally WSAs and financial institutions, but also by DWAF and by affected communities.

"Selection of franchisors", if by WSAs or potential franchisees or others, implies that there will be franchisors to choose from. However there is unlikely to be much choice in respect of water services, simply because way into the foreseeable future there will be few franchisors in this sector – water services franchising is unknown to all but a few potential franchisors.

A franchisor's proposal rests on the soundness of the business model offered. The franchise industry literature time and time again advises potential franchisors:

- do not franchise a business without having a business model that has been thoroughly worked through on paper; AND
- do not start franchising without testing the business model "in the field" over a period of time.

In order to as thoroughly as possible prepare for a potential water services franchising opportunity, a strong case can be made for testing the non-franchised business model in the

same area that, if the test result is positive, the first franchised pilot will be rolled out. This is the most direct way to establish:

- local expertise (local management and staff) and
- local familiarity with and confidence in the product (which in the case of water services should not just be the confidence of customers/end users, but of other stakeholders, especially of the municipality/WSA and of other WSPs).

The constituency from which many franchisees will be drawn will probably be not much dissimilar to the population from which small water services operators and franchisees are presently drawn. That is, the constituency will generally be either:

- emergent independent operators already in the technology sector, or
- franchisor's own employees, or
- community-based groups or individuals.

Many (but by no means all) of these franchisees will probably need initial support from the franchisors or other external service providers or SSAs over and above the support usually, in conventional franchising, expected of a franchisor.

Selection of water services franchisees on the basis of the view held generally in the conventional franchising sector, that franchisees must be hungry to succeed and make money, would be at variance with suggestions that franchises be allocated on any other basis whatsoever – e.g. if that basis were representivity of a community. However there will probably not be a need to confront the differences between the kind of hardheaded commercial measures that conventional franchising emphasises, and a softer approach. No doubt for each potential franchising partnership circumstance a specific approach will be clearly enough evident at the time, and a pragmatic "horses for courses" attitude to franchisee selection will prove appropriate. Time will demonstrate this one way or the other.

Finally, some caveats:

- If the WSP were a franchisee, this franchise alternative should not disturb present relationships between the WSA, other WSPs and others, but would simply add one more alternative to the array of possible WSP types.
- Whereas a WSA may require contractual recourse not only to the franchisee, but also to the franchisor, the franchisor could be a co-signatory to the contract or a guarantor of the performance of the franchisee.
- The franchising of water services needs to exercise discretion when considering lessons from the established franchising industry.
- The circumstances of contemplated franchising pilots are all-important. For example, a franchising partnership alternative might from the point of view of service delivery be far preferable to the water services operation model then being implemented at a site, if that model is consistently not complying with laid-down water quality standards. Even if the franchising alternative for the particular operation has not yet been fully formulated, and bearing in mind the usual imperative not to launch franchising partnerships until a model has been thoroughly tested, it might be that other needs override – it might be that there is a need to replace the current model at almost all costs. Great caution must however be exercised – water services franchising partnerships cannot afford to fail, especially in the early years, while the concept is being promoted – reputational damage will ensue.

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- all the members of this project's Reference Group that are not among those listed above.

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Notes

Words or passages enclosed by square brackets [], within quotations from other texts, are the current researchers' interpolations.

All references to or quotations from policy, statutes, regulations and so forth are to the best understanding of the researchers up to date to August 2007. Developments (if any) since that time have not been captured.

Throughout the text "the researchers" or "the current researchers" or "the team" refers to the team appointed by WRC to undertake the current project.

Throughout the text "the project" or "the current project" refers to WRC Research Project K5/1610, the "Water Services Franchising Partnerships" project.

Throughout the text "the report" or "the current report" refers to "Report TT 432/6/10: Report on selection criteria: franchisors, franchisees, pilot areas and sites".

Abbreviations and acronyms

Amanz' abantu	Amanz' abantu Services (Pty) Ltd
BBE	broad-based empowerment
BBBEE	Broad-Based Black Economic Empowerment
BEE	Black economic empowerment
BOT	Build-Operate-Transfer
BOTT	Build-Operate-Train-Transfer
CBO	community-based organisation
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DWAF	national Department of Water Affairs and Forestry
EPWP	Extended Public Works Programme
FRAIN	Franchise and Advice and Information Network (of NAMAC)
IMESA	Institution of Municipal Engineering of Southern Africa
MSA	Municipal Systems Act
PWMSA	Professional Water Management South Africa
SAICE	South African Institution of Civil Engineering
SALGA	South African Local Government Association
SEDA	Small Enterprise Development Agency
SMME	small, medium and micro enterprise
SSA	support services agent
WRC	Water Research Commission
WSA	water services authority
WSP	water services provider
WSSA	Water & Sanitation Services SA (Pty) Ltd

Definitions used in this report

Frequent reference is made in literature to “**community-based**” or organisations that are “based in the community”. It is often not clear if it is intended that these terms exclusively refer to non-profit organisations, or could include profit-seeking organisations. Is the intention of referring to an organisation as “based in the community”, to indicate that it is geographically located in the community that it serves, and draws most if not all of its personnel (whether they be volunteers or paid) from that same community? South African Local Government Association SALGA has in a recent document made its interpretation clear. A “community-based organisation (CBO)” is “a not-for-profit organisation within a specific community, with community representatives, that provides a service to that community with the community's mandate or is representing the overall interests of the community.” (SALGA 2005, page 3)

For the purposes of this report, the term “small, medium and micro enterprise”, or SMME, indicates a profit-seeking organisation – that might or might not be based in a community, drawing personnel from that community, and serving that community. Usage by the researchers in this report of “community-based organisation”, abbreviated CBO, is less rigid, but is generally intended to indicate a non-profit organisation. If however the reference to CBOs is a quotation or a paraphrasing from another document, then the meaning intended by the authors of that document is that which rules.

“**Delivery**” embraces not just the placing in service of infrastructure, but the appropriate operation, including maintenance, of that infrastructure for the whole of its designed life.

“**Maintenance**” is in this report used as a generic term to include repair of infrastructure, refurbishment and renewal, and provision for replacement of that infrastructure.

The following definitions are direct quotations from the Water Services Act (South Africa 1997:10).

- “**Water services**” means water supply services and sanitation services.
- “**Water services authority**” means any municipality, including a district or rural council as defined in the Local Government Transition Act (South Africa 1993), responsible for ensuring access to water services.
- “**Water services institution**” means a water services authority, a water services provider, a water board and a water services committee. This institution can be a statutory authority, private company, group of individuals, or an individual, or any combination of these.
- “**Water services provider**” means any person who provides water services to consumers or to another water services institution, but does not include any person who is obliged to provide water services to another in terms of a contract where the obligation to provide water services is incidental to the main object of that contract.”

Note that whereas all WSAs are municipalities or groups of municipalities, not all municipalities are WSAs. Nonetheless, in this report the terms “WSA” and “municipality” are used interchangeably unless only one of “WSA” or “municipality” is intended and these specific instances are clearly indicated.

Similarly, in this report the terms “customer” and “end user” are used interchangeably unless only one or the other is particularly intended – which specific instances are clearly indicated.

1. Introduction

1.1 The purpose of Chapter 1

The purpose of Chapter 1 is:

- to briefly motivate the research project;
- to state the objectives and phasing of the project, and introduce the project team; and
- to outline the objectives and structure of this report.

1.2 Background to and objective of the project

1.2.1 Rationale and motivation for the project

In the past decade local government, assisted by DWAF and other players, has been remarkably successful in answering the challenge of services provision. Large numbers of households are now supplied with water services of a wide variety as a result of massive investments in infrastructure and institutional development. Although there are many who are still not able to access services, this achievement is exemplary.

However, this very success provides the seedbed for future problems. As the number and complexity of water services systems increases, so does the operations and maintenance workload escalate. The rising challenge now is to ensure that local government WSP organisations can manage all the new systems sustainably.

Conventional wisdom, supported by research, indicates that the capacity of many local governments in South Africa to adequately provide even basic levels of water services to all their citizens on a sustainable basis is in question. The challenge of exploring a range of options to support these organisations also represents an opportunity to selectively incubate innovations on an experimental basis, following a tradition of South African leadership in public sector-driven partnerships with the private sector, for optimum development impact.

Both Rand Water and DWAF 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 barriers to entry for the smaller or start-up company are substantial. But if these could be overcome, perhaps through franchising partnerships, then there will be many opportunities for local economic development. The twin driving forces of the franchising concept are the profit motive and the existence of a successful business model that can be copied widely – neither of these is currently in evidence in the water services sector.

Franchising is a way of accelerating the development of a business, based on tried and tested methodology. The franchise system firstly correlates and systematises the business, and then facilitates the setting up of the business, and supports and disciplines it thereafter.

The WRC and CSIR during the course of the 2003/2004 and 2004/2005 financial years undertook pioneering research into the concept of water services franchising partnerships in South Africa. (Wall, 2005.) The study explored the concepts of franchising and its relevance to the water services delivery process. The outcome indicated opportunities in the water services delivery chain, and recommended that these be further explored.

1.2.2 Objectives of the project

- To further explore the concept of franchising and its relevance to the water services delivery chain.
- To identify and determine those elements in the water services delivery chain which offer the greatest scope for franchising partnerships.
- To review the legal, technical, financial, regulatory etc. aspects which would impact on franchising partnerships.
- To develop franchising partnership models for a selection of the areas identified by the research, with consideration for the legal, regulatory etc. aspects.
- To conduct a case study of an element in a hypothetical situation, to see how the model will work.
- To set out the way forward to eventual pilot implementation of franchising partnerships, and inter alia recommend areas for further research.

In summary, **the ultimate objective of the project was to identify the scope for franchising partnerships for the operation and maintenance of selected water services infrastructure, to establish the viability of franchising partnerships, and to make a case for outsourcing to franchises to be considered by water services authorities (WSAs) and water services providers (WSPs).**

In this report, WRC Research Project K5/1610, the “Water Services Franchising” project, is referred to as “the current project” or “this project”.

1.2.3 Methodology

The project was divided into two phases, in order to facilitate the achievement of the objectives of the research project in an ordered and logical way over the contract period. (Also see Figure 1.1 "Project schematic")

The first phase consisted inter alia of:

- survey of water services provision that has like-franchising elements;
- determination of relevance of franchising to water services delivery, and determination of the magnitude of that potential;
- review of service delivery mechanisms, and identification of generic funding streams;
- review of policy, legal, regulatory and other aspects which impact on water services;
- identification of those elements in the water services delivery chain which offer the greatest scope for franchising partnerships for the operation and maintenance of their infrastructure, and setting out the results of the business analysis (i.e. modelling) of possible franchising of selected elements.

The second phase included:

- identification of potential franchisors and WSAs in principle;
- identification of generic criteria for selection of franchisees and franchisors, and for selection of pilot areas; and
- case study of an element in a hypothetical situation.

Note that a further two phases, not part of this WRC project, would be needed in order to take the work into pilot implementation. These phases comprise pilot project preparation, and then pilot project implementation.

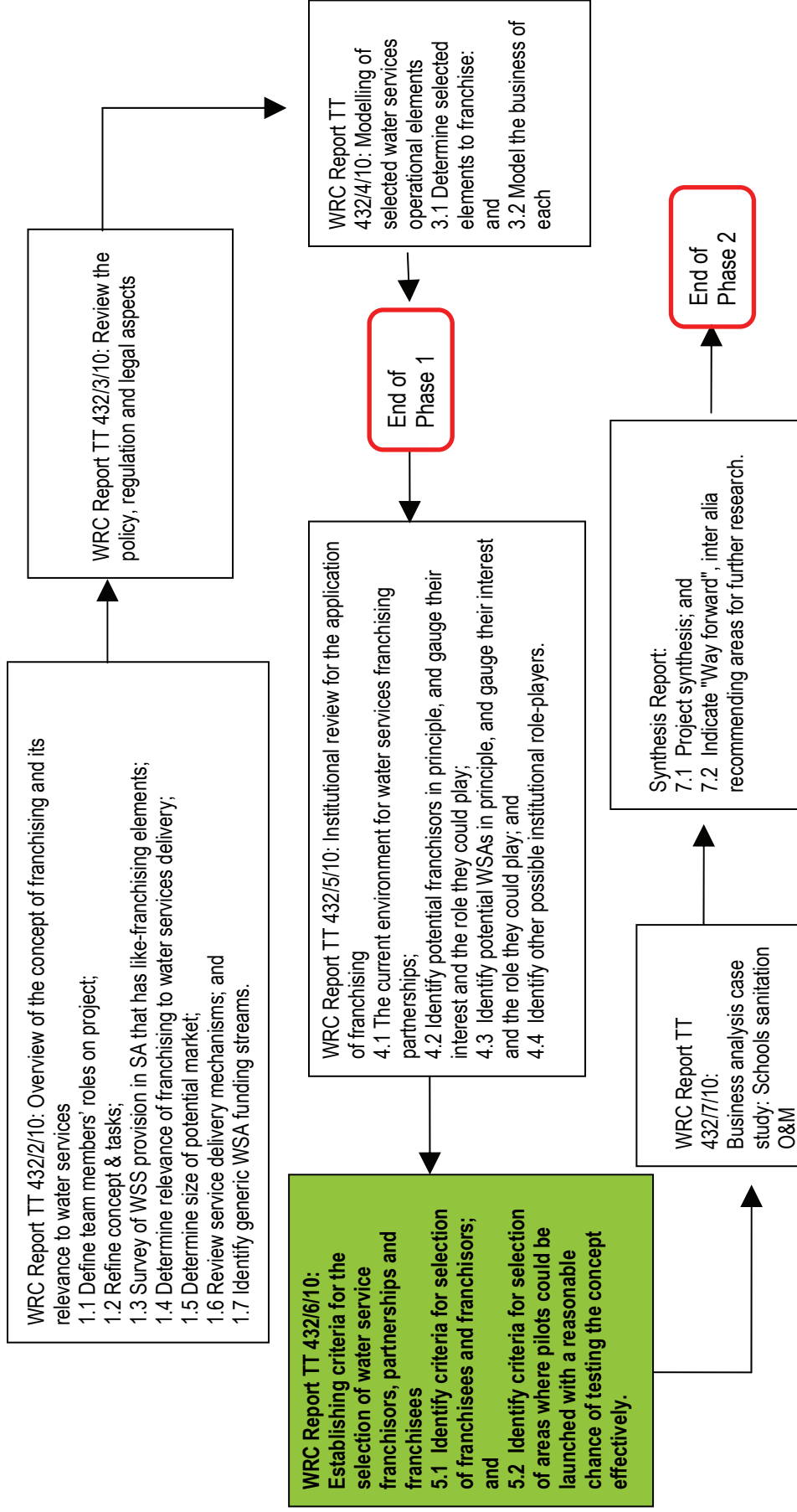


Figure 1.1 Water services franchising partnerships: project schematic

1.3 About this report

1.3.1 Specification

This report is to identify generic criteria for selection of franchisees, franchisors, and areas for pilots.

More specifically:

- The participants in pilot implementation of water services franchising, and the areas where this piloting could be attempted, need to be carefully selected. For example, an area where all other institutions for water services delivery have been tried, and have failed, would clearly be unsuitable – if franchising fails there, nothing about franchising will have been learned. Water services franchising is new in concept, and has not been tried out in practice, so it needs to be given a fair chance in favourable circumstances and with adequate support – what this entails needs to be identified.

This "Report TT 432/6/10: Selection criteria: franchisors, franchisees, pilot areas and sites" is hereinafter referred to as "the report" or "this report" or "the current report".

1.3.2 Purpose of this report

The purpose of this report is:

- to identify the parameters of selection;
- to identify criteria for the selection of pilot areas for the franchising of water services;
- to identify criteria for the selection of franchisors for the franchising of water services; and
- to identify criteria for the selection of franchisees for the franchising of water services.

1.4 Structure of this report

The structure of this report reflects its purpose (described in Section 1.3.2 above). Thus the report consists of an introduction (Chapter 1), a contextualisation of franchising partnerships, and then of franchising and water services (Chapter 2), and a discussion of the parameters of selection (Chapter 3). These are followed by three chapters that deal with the objectives of the report. Chapter 7 draws conclusions.

- Chapter 1: Describes the project and this report.
- Chapter 2: Summarises the roles and relationship of the franchisor and franchisee in the situation aside of water services, and then summarises the roles and relationships of principal role-players in the water services sector; also summarises key success factors.
- Chapter 3: Identifies and discusses the parameters of selection.
- Chapter 4: Identifies and discusses criteria for the selection of pilot areas.
- Chapter 5: Identifies and discusses criteria for the selection of franchisors.
- Chapter 6: Identifies and discusses criteria for the selection of franchisees.
- Chapter 7: Draws conclusions and makes recommendations.

An important section of Chapter 7 is a discussion of possible content for future guidelines for embarking on and regulating franchising partnerships.

2. Roles and relationships

2.1 The purpose and structure of Chapter 2

The purpose of Chapter 2 is to summarise the roles and relationship of the franchisor and franchisee in the situation aside of water services, to summarise the roles and relationships of principal role-players in the water services sector, and to summarise key success factors in franchising.

Thus this chapter paves the way for the discussions on franchisor, franchisee and pilot areas, in the context of water services, in the chapters to come.

The sequence of Chapter 2 is:

- A generic description of franchisor and franchisee, and of some relationships. (Section 2.2)
- A summary of generic key success factors in franchising (Section 2.3)
- A description of franchising in the water services sector, summarising the description in the 2005 report. (Section 2.4)
- Draw conclusions of the chapter. (Section 2.5).

With reference to the discussion in Section 1.3.1 – the use of "generic" is appropriate in this chapter, as much of the discussion in this chapter relates to franchising more broadly, and not just in the water services sector.

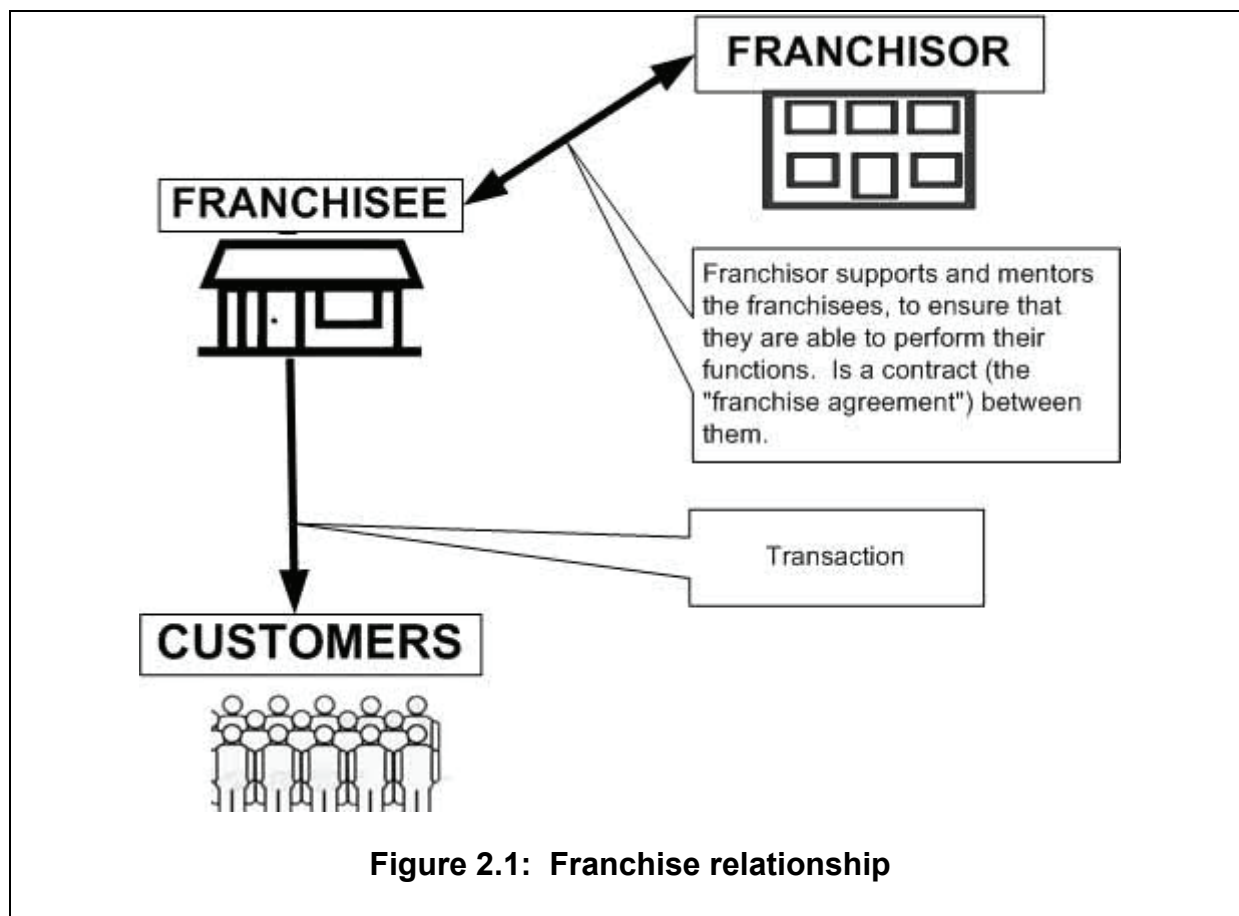
2.2 Roles and relationships: franchisor and franchisee

The context of the discussion in Section 2.2 is franchising in general terms, aside of its application to the water services sector.

Section 3.3 of the 2005 report (Wall, 2005, pages 17 and 18) commenced with the statement that "business format franchising (to use its full name) is a business arrangement between a franchisor (the grantor of the franchise) and a franchisee (the recipient of the franchise). The two parties enter into an agreement with the intention to exploit the franchisor's **tried and tested blueprint of a successful business** for mutual benefit. ... Franchising can be summed up in the slogan: "Being in business for yourself but not by yourself.'" (ibid, page 17)

Thus the franchisor grants to the franchisee the right to use a business method or system, for which the franchisee pays fees. The assistance that the franchisor gives with setting up the franchisee's business, and the ongoing training and support of the franchisee and quality control of the goods or services, are usually also part of the agreement between them. There is in true business format franchising no direct contractual relationship between the franchisor and the customer/end user of the goods or services. Figure 2.1 refers.

Whereas the incentive to start up a small business is the prospect of a quantifiable financial outcome (profits, dividends or surplus), the presence of a successful business model that can be copied is the incentive to follow a franchise route as opposed to following a route without the support of franchising. These, the prospect of profits/dividends/surplus on the one hand, and on the other hand the model that can be copied and the reduced risk to the franchisee thanks to the support of the franchisor, are the twin driving forces of the franchise concept.



The following generic (and thus not specific to water services or to delivery of any other goods or services) description of the characteristics and roles of franchisor and of franchisee, and of some relationships, is a useful introduction to any discussion of selection of franchisors, franchisees and pilot areas.

"A franchisor is an entrepreneur who has:

- Established a business in a clearly defined and growing market.
- Developed some unique product features or methods of delivery.
- Fine-tuned the systems and procedures necessary to facilitate ongoing customer satisfaction as well as the profitability of the business.
- Created a brand that enjoys some level of recognition and is well respected by suppliers and customers alike.

This entrepreneur is now ready to expand the business into a regional, national or even international network, but he or she knows that personalised service is the main reason for his success to date. As a result, he is somewhat reluctant to establish branches and entrust operational responsibility to employees. He wants to ensure that self-motivated individuals with a financial stake in the business take control of each new site.

He can select to become a franchisor in addition to, or in substitution for, any outlets that he personally runs [i.e. directly runs, as branches].

If he chooses to become a franchisor, he must make sure that his business is of a type that can be franchised. It might be that it is not suitable.

Following an in-depth review of all business processes, written guidelines for the optimal operation of the business must be drawn up and the necessary support infrastructure put in place, whereupon the process of franchising the business can commence.

A franchisee can best be described as an individual who wants to be in business but is reluctant to [or chooses in this instance not to] proceed on his or her own. The ideal franchisee:

- Should be a self-motivated individual who possesses the necessary drive to implement a proven system without requiring ongoing constant supervision, but also without questioning its merits at every turn;
- Must be a team player and prepared to co-operate in an enthusiastic, honest and proactive manner with franchisor representatives and the other franchisees in the network; and
- Should literally “live the brand” and identify with the network’s values.

People with a very high need to express their own individuality will generally not be happy as franchisees. Nor will franchising appeal to people who are expecting the franchisor to make all the decisions, do everything for them, and accept responsibility if things don’t turn out the way they had hoped.” (Ibid, pages 17 and 18. Adapted from Parker, 2003, Chapter 9; and FASA 2003, Chapter 2.)

The relationship between franchisor and franchisee is governed by the franchise agreement. This should, with a minimum of legalese, clearly set out the rights and obligations of the franchisee and the franchisor.

2.3 Generic key success factors and causes of failure

The context of the discussion in Section 2.3 is, like the preceding section, again franchising in general terms, aside of its application to the water services sector.

The following summaries of key success factors and of principal causes of failure are of value in further defining the characteristics and roles of franchisor and franchisee, and the relationships between them. All are highly pertinent to selection of franchisor, franchisee and area/place of the franchising venture.

These key success factors include, principally:

- Franchisor has an existing successful business to study, model and systematize.
- Clear definition and understanding of the product, the customers and the market.
- Simplicity and replicability through systems (i.e. personality cannot be replicated, but systems can).
- Local applicability of the concept. (Some concepts cannot be exported for one or more of a variety of reasons, including cultural reasons.)
- Training (and retraining) schemes.
- Franchisee understands franchising and his roles and functions, and can manage his expectations.
- Franchisee has some commercial background or a culture of trading.
- Franchisee puts some equity into the business.
- Franchisor invests in the franchisee.
- The franchisor/franchisee relationship is sustained for the planned franchise period.
- The local community accepts the franchise concept and this particular franchise.
- The local community accepts the franchisee, as a person.

- Continuous franchisor support of the franchisee: including redesign, market research and quality and performance audits. (From Section 3.4.2 of the 2005 report (Wall, 2005, page 22))

“Principal [generic] causes of failure are usually one or more of the following:

- Wrong business:
Not all businesses are automatically sound and attractive to investors and entrepreneurs. There must be sufficient income for the franchisee and franchisor, not only to live on, but also to justify the risk and extra hard work needed to get established in the first place. There will in any community be competition between business opportunities for entrepreneurs and investment. If the duration of the lease is to be short, there will be even greater pressure to make money while the lease is current.
- Unfranchisable business:
Not all business types can be copied and systematised simply. The systems are the key to replication. In some instances the personality of the founder is a key. In others there may be an indefinable aspect of the business that makes a difference to the customers or investors.
- Unsuitable site or location:
In property, “location, location, location” are the three key determinants of value. Many franchised businesses are no different.
- Wrong people:
Entrepreneurs must have tenacity, commitment and zeal. Education alone is not a sufficient indicator of suitability. This applies equally to the franchisor and franchisee.
- Lack of understanding of the product and the market:
Both franchisor and franchisee must fully understand the franchise systems, and these systems must be reflective of the business needs. (Section 3.4.3 of the 2005 report (Wall, 2005, pages 22 and 23).)

The scope for exploitation within franchise agreements is considerable, and exploitation may lead to franchise contract instability, which in turn may lead to a falling off of service quality and reliability. (See discussion in Section 3.4.3 of the 2005 report (Wall, 2005, page 23).) Franchisee may exploit franchisor, and vice versa. At the heart of the problem lies the question of monitoring. However:

“Obviously, franchisors as well as franchisees have a vested interest in avoiding this quality-reducing spiral. Their interest lies in the development of a monitoring mechanism which not only measures each franchisee's net revenue contribution, but also maintains a quality floor.” (McMaster and Sawkins, 1993, page 6, which also see for a more detailed discussion of contract instability and free-riding.)

To sum up: the lists of success and failure factors comprise issues covering both:

- on the one hand, the selection of businesses, and
- the selection of franchisors, franchisees and geographic areas on the other.

2.4 Franchising partnerships in the water services sector

2.4.1 Introduction

In Sections 2.2 and 2.3 the context is the well-known franchising of commercial goods and services, and not of the application of franchising to the water services sector. In contrast, in Section 2.4 and in the remainder of this report (unless otherwise stated) the context is the water services sector.

Broadly, a franchise is the granting of a right, together with obligations, for a specific purpose. Thus, in respect of water services, who might be the franchisee, who the franchisor, and what is being granted?

Consider first the roles of and the relationships between the WSA and the WSP irrespective of franchising of water services even being contemplated. The context, as repeatedly stated in the current series of reports, is invariably limited to operation (including maintenance) of water services. (Bearing in mind the legal prohibition placed on private sector ownership of existing water assets, the WSA must retain ownership, at least of existing assets. If new assets are required for a part of the area, there remain complications and limitations in mobilising private sector investment, including lengthy selection processes, commercial unattractiveness and low financial returns in small or peri-urban communities. So it is assumed, for the purposes of all discussion in this report, that the WSA must provide these infrastructure investments.)

2.4.2 The WSA and the WSP

There is in the water legislation a clear difference and separation between the roles and functions of the WSA and WSP. This concept of separate roles, initially codified in the Water Services Act, was an important step forward in the industry for many reasons. An important role of the WSA is one of contracting a WSP to operate a water system in its area, subject to the authority and policies of the WSA.

Thus the WSA is responsible for providing water services to all in its area of jurisdiction. A WSA may contract with one or more WSPs. The WSPs may be the WSA's in-house WSP, or a utility, or a NGO, or a private sector operator retained under contract, or another option. Figure 2.2 refers.

Note that in practice it is unlikely that a SMME would be a WSP directly contracted to a WSA. The small size of SMMEs counts against them. In nearly all conceivable circumstances, the WSA will contract with one or a small number of "prime" WSPs in its area, and they will in turn contract with smaller "sub-WSP" WSPs – including the likes of CBOs and SMMEs.

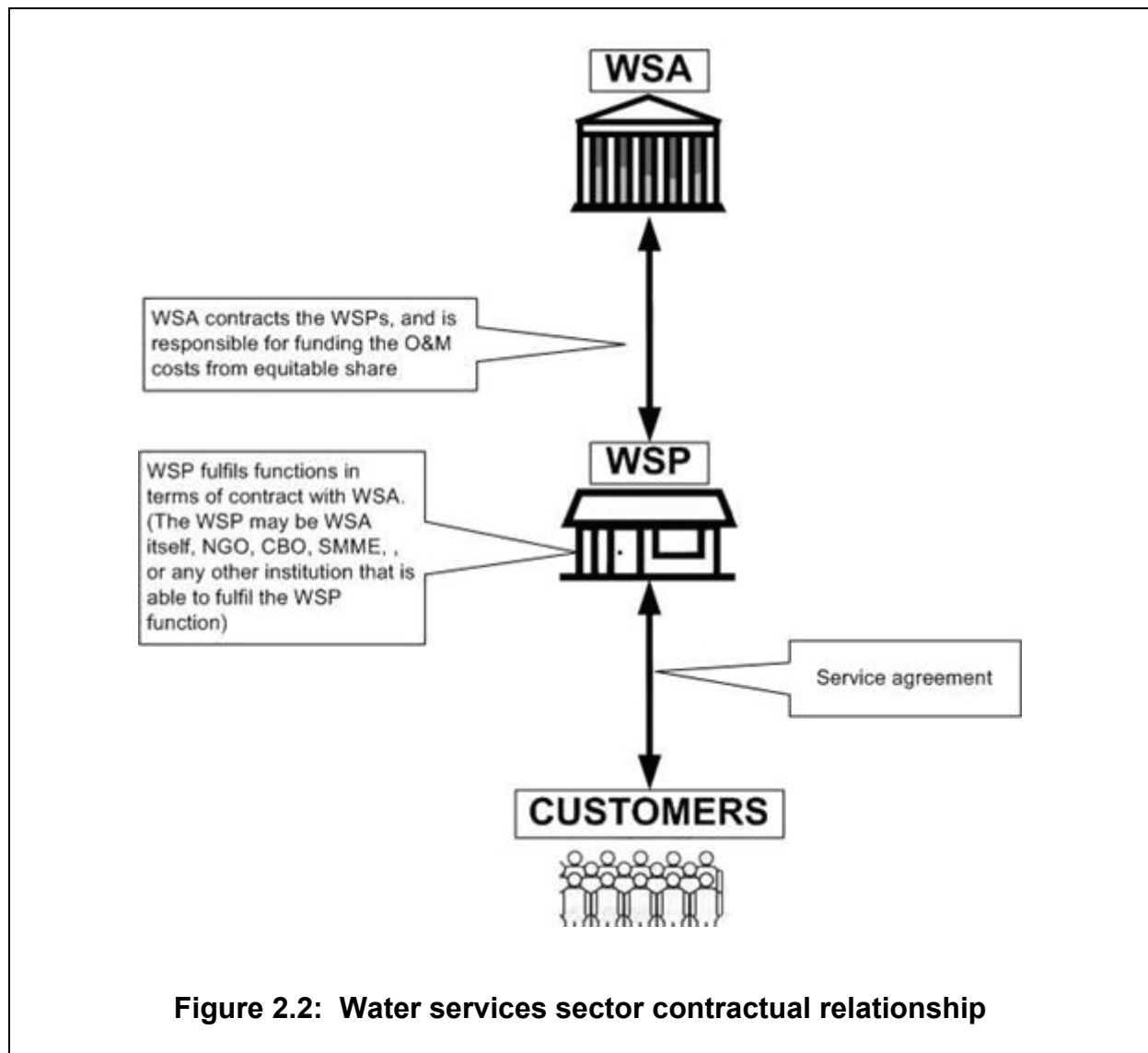
2.4.3 Water services franchising partnerships

The “central recommendation” of the 2005 study was that “franchisee” must be added to any list of possible WSP types. (Wall, 2005, page 73.)

The franchisee would be an entity that would be contracted, either directly by the WSA or by a WSP, to provide a component of the service delivery function.

Bear in mind that (as far as the current researchers are able to find out) there is no such company or franchise structure currently available in this sector.

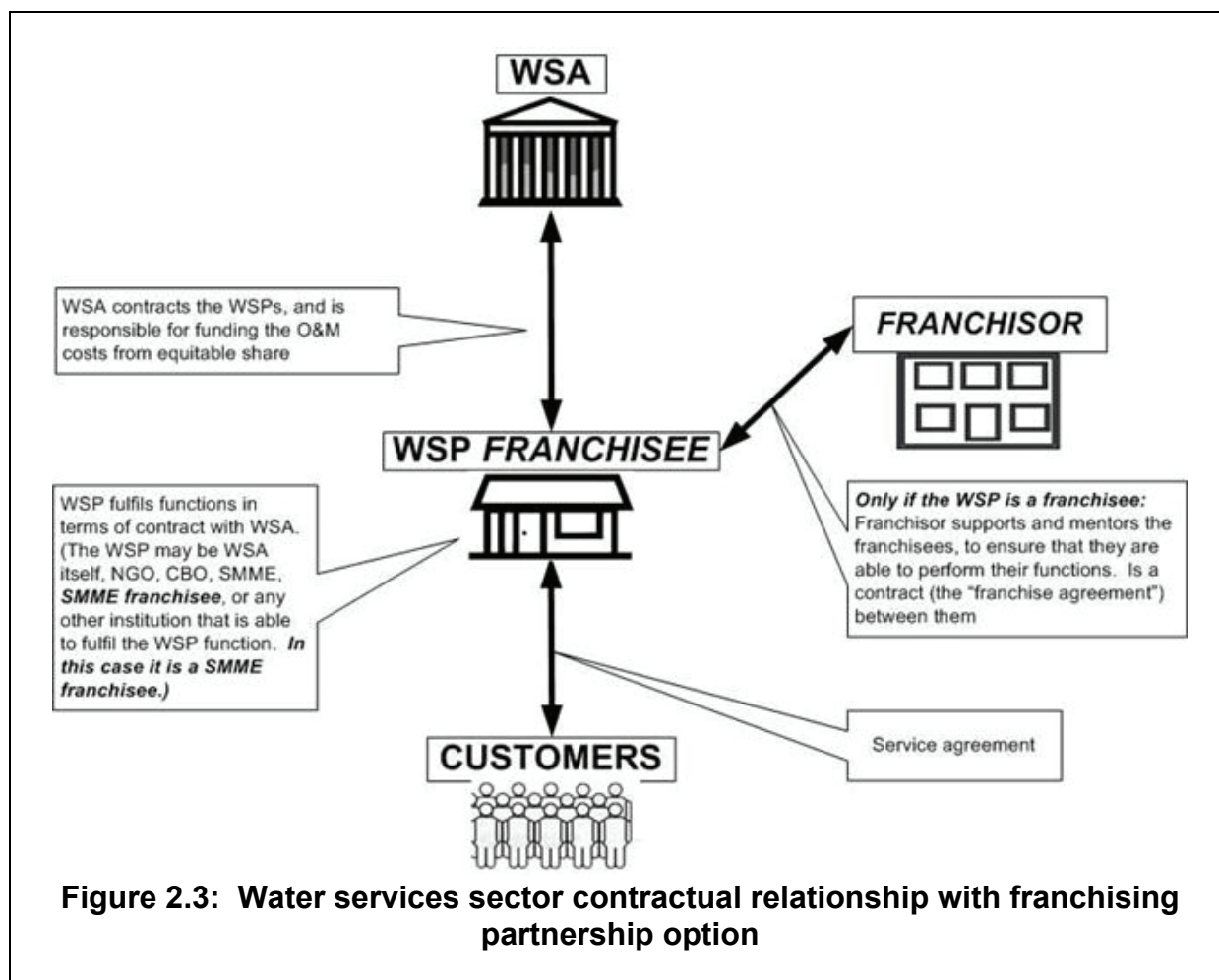
The 2005 report showed (ibid, Figure 7.2, page 75) how, if the WSP were a franchisee, the franchise alternative would not disturb the present relationship structure. It would simply supplement it, adding one more alternative to the array of possible WSP types. Figure 2.3 illustrates.



It is clear from a comparison of Figures 2.1 and 2.2 with Figure 2.3 how franchising (figure 2.1) adds to the water services sector non-franchising contractual relationships (Figure 2.2) without removing any of the non-franchising contractual relationships, the result being the water services sector contractual relationship with franchising option. (The franchising partnership elements are highlighted in bold italic in Figure 2.3.)

Whereas a WSA may require contractual recourse not only to the franchisee, but also to the franchisor, the franchisor could be a co-signatory to the contract or a guarantor of the performance of the franchisee. This is the "closing of the contractual loop" referred to in Report TT 432/3/10. As follows:

"An additional contract, one that closes the loop between the franchisor and the WSA, will also need to be considered, as the WSA may require contractual assurance that the franchisee will be supported by strong management, and that the franchisor is able to make alternative arrangements that will ensure continuity of service should the franchisee fail to meet its contractual obligations to the WSA." (Report TT 432/3/10, Section 2.6.6.)



Especially this could be necessary if the franchisor's expertise or track record is a significant reason for contracting with the franchisee, and the franchisee is very much an unknown quantity.

Figure 2.4 illustrates. (The elements added to Figure 2.3, to make Figure 2.4, are highlighted in bold italic.)

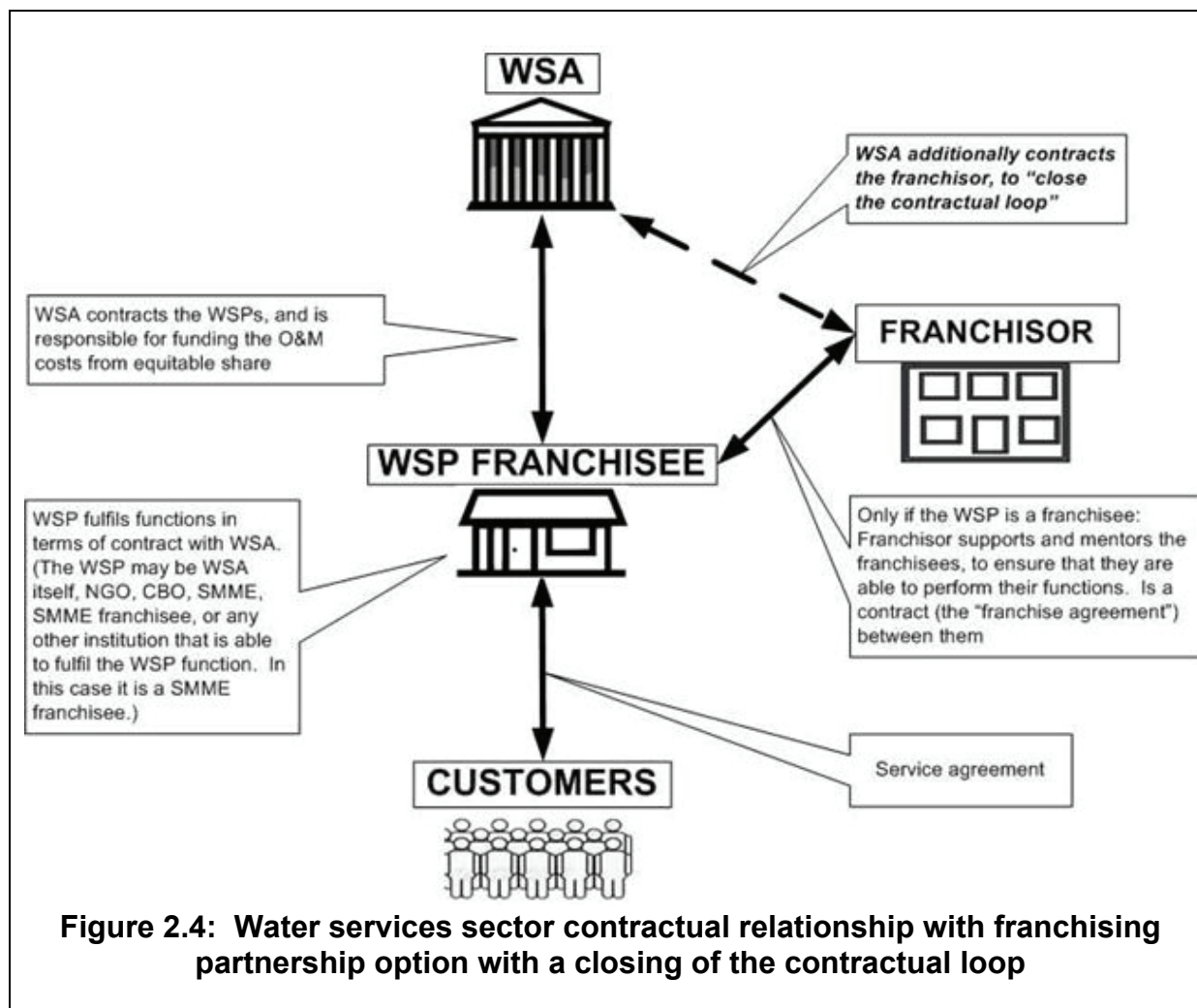
2.5 The client, the regulator and the contract

Briefly, if it isn't already clear, to consider who would be the client, and also to consider would be the regulator.

The client of the primary WSP would under most circumstances envisaged be the WSA. As always, this would be the owner of the water services infrastructure. SMME franchisees however would under almost all conceivable circumstances be subcontractors to the primary WSP.

The regulator, i.e. regulator of the performance of the SMME, would be the same as the regulator for all water services, that is, DWAF. There is no need for a regulator as such of the SMMEs – the WSA or other infrastructure owner is regulated by DWAF, and it is up to the WSA to ensure that its WSPs and their subcontractors perform adequately, so that it, the

WSA, does not fall foul of the regulator. Given that, a SMME would not be regulated as such – how well it performs would be governed by its contract with its client.



Issues such as the determination of tariffs do not come into the picture at all. These are matters that the WSA or other infrastructure owner is solely responsible for. There is a firewall, i.e. the contract, between the WSA and the WSP, and the WSP is not in any way involved in tariff-setting.

2.6 Chapter 2 conclusions

Given that in the context of the current project the "business" is the operation of an element or elements of the water services value chain, the choices available in respect of each of the four variables (element/business, franchisor, franchisee and area) are likely to be limited initially.

It is probable that in any programme for water services franchising partnerships, "area" would need to be addressed first, before any selection of franchisor or franchisees can be entered upon. And not all areas would be suitable, even with the best franchisor/franchisee team, for water services franchising.

Selection of pilot areas is therefore addressed in this report (in Chapter 4) before the selections of franchisor and franchisee are each addressed.

And pilot areas for what elements of water services? Report TT 432/2/10 explored the water services value chain, and it shortlisted elements that might be suitable for franchising partnerships (Report TT 432/4/10, Section 3.5). Thus further determining the context of the current report is that the selection of franchisor, franchisee and pilot area has this shortlist of elements in mind.

However the shortlist contains a considerable degree of variety, such that a franchisor/franchisee/area combination suitable for one element would very possibly not be suitable for another. Even within the three elements selected for modelling (Chapters 4, 5 and 6 of Report TT 432/4/10), there are considerable characteristic differences. For example, pressure control management requires a higher level of technical expertise than is required for the community-level caretaker management. For another example, "area" in the context of a schools sanitation business is clearly larger and in other ways very different to an area for the community-level caretaker management, even though the characteristics of the franchisors and franchisees for both might not be much different.

The discussion in the next three chapters but one of the current report tries to be not element-specific, and rather to stay at a general level within, as stated here, the water services value chain. But, first, the parameters of selection must be discussed (Chapter 3).

3. The parameters of selection

3.1 The order of selection

The purpose of Chapter 3 is to identify and discuss the parameters of selection.

"Selection" cannot be discussed without asking who is doing the selecting. And each of the potential franchisors and potential franchisees, never mind other possible role-players including the WSA, the WSP and representatives of an area where franchising might or should be contemplated, would be asking different questions, and have different points of view.

The selection of franchisees has in this report deliberately been placed last. (Chapter 6 has more.) Remembering of course that, unlike in other sectors where franchising has proved itself and the viability of the business opportunity for SMMEs is apparent for all to see, with the consequence that many franchisors tell of having waiting lists of aspirant franchisees, there has been no such demonstration of water services franchising. Hence there are no known waiting lists of franchisees.

It does not matter for the purposes of this report whether the selection of elements of the water services value chain or the selection of pilot areas or the selection of franchisors should be considered first. In a sense, it is likely that few areas will not have opportunities for water services franchising partnerships – crucial however are the stance of the WSA and also the willingness of potential franchisors and franchisees. For the piloting of water services franchising partnerships that must surely be commenced within the next few years, it makes obvious sense to select pilot areas (and the WSAs that go with each) that represent the "easiest of circumstances" referred to in Section 4.1 below. As Report TT 432/5/10 makes clear, obtaining the cooperation of more than a small minority of WSAs is not likely to be obtained with ease – but when a few pilots are up and running and it can be shown that they are successful both in terms of delivering a service and in terms of their own viability and financial success, it is very likely that much more interest will be shown by WSAs.

Again as Report TT 432/5/10 makes clear, franchisors are going to be hard to come by in the initial stages, until the first pilot projects begin to demonstrate the effectiveness of the concept.

Clearly, not all elements of the water services value chain can be franchised, and some can only be franchised in particular circumstances.

It is evident that pilot projects must coalesce around specific combinations of elements, areas (with WSAs) and franchisors. Only then should franchisees be sought.

The order of discussion adopted in the current report could therefore have been different, but that chosen is:

- potential element (Report TT 432/4/10 has taken this issue as far as it can be taken at the present time, and there is little that can now be added);
- potential area, with its WSA (see Chapter 4);
- potential franchisor (see Chapter 5); and
- potential franchisee (see Chapter 6).

3.2 Introduction to selection

This section takes stock of the parameters of selection – i.e. what is to be selected from? Consider this in the order identified above. The context throughout is water services franchising.

Selection of elements – with business models

Report TT 432/4/10 identified possible elements that could be modelled as the basis of viable franchise businesses. However there are not likely to be water services business models unless franchisors create them – no other type of institution is likely to formulate business models beyond initial concept (i.e. beyond the stage that a number of business models were taken in Report TT 432/4/10).

Thus selecting an element is likely to bring with it a business model and a franchisor coupled to the model – or no business model at all. Unless, that is, more than one franchisor has formulated a business model for the same element.

And, even into the medium future, any particular franchisor is likely to offer only a limited number of elements/business model combinations.

All of this is hypothetical at the present time, in the sense that water services franchising partnership business models beyond initial concept stage have yet to be formulated.

Selection of areas

There are plenty of areas in South Africa where water services infrastructure operation and maintenance leaves a lot to be desired, but there is in the opinion of the current researchers little prospect of improvement without institutional change. This topic was thoroughly covered in Section 4.2 of Report TT 432/2/10.

The question then arises in respect of each of these areas – what institutional change is required? The balance of Chapter 4 of Report TT 432/2/10 broadly described the generic circumstances under which franchising partnerships could assist, and how, and where water services franchising might appear to offer improvement (without necessarily being the only path to improvement).

Selecting an area obviously brings a WSA or another public sector institution (e.g. provincial education department) with it. (The limitations on choice were well covered in Report TT 432/5/10)

Selection of franchisors

As things stand, the number of potential franchisors is very small. (Report TT 432/5/10 covered this ground.) Furthermore, and emphasising again that, even into the medium future, any particular franchisor is likely to offer only a limited number of business models, there will be only a limited number of elements/business model/franchisor combinations to select from.

Selection of franchisees

Franchisees could be selected from existing (to use a neutral word) "practitioners" in appropriate activities, or from persons or entities that are not current practitioners.

"Current practitioners" would comprise those with appropriate technical, managerial, financial or entrepreneurial skills who are already in some water- or infrastructure-related field. These could include:

- i) Employees of a potential franchisor, or of a WSA or WSP, who are already involved in water services operations. (For example Rand Water and local WSA staff who are part of the teams presently managing a wastewater treatment works. Some of these could become the nucleus of a "branch" of the franchisor, which branch is subsequently converted into a franchisee.)
- ii) Small independent contractors, currently being managed for construction and/or operational tasks. (For example, in Mbombela, the small contractors being employed by the Greater Nelspruit Utility Company (GNUC) – as described in Section 4.3 of Report TT 432/5/10)
- iii) Independent SMMEs which might be willing to consider becoming franchisees or starting up a second business which is a franchise. (For example, the firm that currently has the contract for operation and maintenance of a number of wastewater treatment works owned by national Department of Public Works. For another example, the small businesses that have become franchisees or have started up second businesses as franchisees to PWMSA.)

On the other hand, franchisees could be selected from individuals or groups who might like to consider water services franchising partnerships, even if they are not presently aware of the franchising concept, and/or are not currently involved in water services or even in infrastructure. Some will have what it takes, some will not. Other franchisees could be selected from individuals or groups who are already involved in franchising, but not in the water services or infrastructure sector.

On the last point – one of the current researchers recalls success and failure some years ago in the setting up of small enterprises (not franchisees) for road maintenance. These were created from elements of a provincial roads department, and were offered as business opportunities, initially to employees of the department. However the opportunities were most successfully taken up by small businesspeople in the area – and not by the (former) employees at whom the programme had been aimed.

It was deduced that it was generally easier to teach the rudiments of technology to business people than it was to teach the rudiments of business to technologists. It was also deduced by the client and consultant involved that business people who were the owners of SMMEs were likely to hire technologists, while technologists who were the owners of businesses were far less likely to hire business skills, tending rather to want to fulfil the business function themselves – but many of them were not as competent at this as they needed to be.

Extending the discussion

There is no point in the current project in extending the discussion to outside this "stock" that is taken. For example into finding ways to develop business models beyond initial concept stages, without that a potential franchisor sees the opportunity and is prepared to invest effort into developing it. If this is agreed to, the number of variables can be held at a level that is manageable in terms of the current project.

As an illustration, the current researchers envisage that, in the early days of water services franchising partnerships at least, it will be franchisors that will most likely initiate processes. The franchisors will typically select the water services elements most suited to them, and will formulate the business model to go with each element. They will then look for areas, or sites, where this expertise is needed, and will negotiate with the WSAs and other role-players. Next they will offer this to potential franchisees, or will attempt to nurture potential franchisees and offer it to them, on a "here is our model – take it or leave it" basis. (This is

normal practice in conventional franchising, by the way – variation on a model is very seldom permitted.) Thus, having one by one selected each of the other parameters prior to that, the franchisor's last selection process is of the franchisees. All while, the usual procurement (by WSA and others) practices will apply.

As water services franchising partnerships in South Africa grow, however, the initiative may come from others. But to begin with it is highly probable that it will only be franchisors that initiate water services franchising proposals.

In Chapters 4, 5 and 6 each of the above "what do we have" is addressed in turn.

4. Selection of pilot areas and sites

4.1 The purpose of Chapter 4

The purpose of Chapter 4 is to identify and discuss generic criteria for the selection of pilot areas and, within these areas, pilot "sites". (Both "area" and "site" are used in this report, depending on which is more appropriate, but "site" conforms better to conventional franchising terminology.)

Under "methodology" in "Annexure A" of the contract agreement for the current project, this issue is explained as follows:

"The participants in pilot implementation of water services franchising, and the areas where this piloting could be attempted, need to be carefully selected. For example, an area where all other institutions for water services delivery have been tried, and have failed, would clearly be unsuitable – if franchising fails there, nothing about franchising will have been learned."

Obviously, with each area and site comes a WSA, and a combination of existing WSP or WSPs and other institutional role-players.

4.2 Selection

The franchise industry's literature, for a number of reasons spelled out below, is not of as much use in giving pointers for the selection of pilot sites for water services franchising partnerships as it is in informing the topics of water services franchisor and franchisee selection.

Some franchise handbooks, on the assumption that most franchisees have an open mind on "business" and "site", write rather of franchisee "securing the right opportunity". However these handbooks are often written from the point of view of potential franchisees, wanting to invest, who have no particular preference with respect to business type. (For example Chapter 6 of Illetschko, 2005 – which is as much about a potential franchisee choosing a franchisor as choosing a business or site. Nor is discussion in the literature of "site selection" of value – for example pages 67-69 of FASA 2005.)

The current project, in contrast, is very much focused around a particular type of "opportunity" (to use the words of the franchise manuals). Thus the first reason why this and similar discussion in other franchising literature is not of that much use is that the business type being considered by the current project is preselected. That is, it is water services operation, even though a great variety of opportunities can be found within that.

The second reason is that many potential sites for water services franchising partnerships already exist, in the sense that much water services infrastructure is not being operated properly at the present time, and a strong argument can be made on a case-by-case basis for a change to the institutional model currently responsible for that infrastructure. In short, there is in South Africa hundreds of millions of Rand worth of water services "outlets" (deliberately drawing parallels with franchising terminology) already there, built and operating (although much needs repair and refurbishment). However their operation leaves much to be desired.

The third reason is that these infrastructure sites fall under the jurisdiction of or are owned by WSAs, and the reluctance of, or opposition of) what appears to be the majority of WSAs has already been noted (Report TT 432/5/10 – Chapter 5).

All of the above reasons can however be turned into pointers to pilot site selection. The first is not an issue. And in respect of the second and third:

- that the infrastructure already exists and is in the state that it is in, and that any necessary refurbishment can in terms of existing mechanisms be funded at no cost to the franchising undertaking, means that there is any number of sites where, if all parties are willing, franchising partnerships can be piloted; and
- there is evidence of a sufficient number of WSAs being willing to consider undertaking, or permitting, water services franchising partnership pilots – sufficient to enable a variety of pilots to be embarked upon.

The following principles of selection of pilot sites, set out in the 2005 report, remain valid:

“Finally, a comment about the piloting of a newly established franchising concept or enterprise: This piloting must without question be done in the easiest of circumstances, where there is the greatest chance of success. If it is tried initially in circumstances where, for whatever reasons, any similar enterprise or alternative means of providing the same or similar service might have had some difficulty in achieving success, and the pilot struggles or even fails, then very little will have been learned from the piloting. That the pilot failed because the franchising concept was badly conceived, inappropriate to the product or service, or was poorly implemented or that it failed for reasons that were in no ways the "fault" of the franchising, will not have been learned from the piloting.” ((From Section 3.4.2 of the 2005 report (Wall, 2005, page 22)

To which it should be added that the local experience and local credibility of the potential franchisor and potential franchisees can only be of inestimable value.

Thus the selection of the initial pilot sites is principally constrained by the need to match:

- water services infrastructure and
- site, and its environment, that is not fraught by for example ongoing political unrest or dire poverty and
- willing WSA and
- willing and competent franchisor – best of all if with local experience and local credibility (i.e. credibility built from a track record of delivery and of working with local authorities, communities and local small contractors).

And, once the above have been brought together, willing and competent franchisees drawn from the local communities, and comprising local entrepreneurs and local small contractors with good track records, will surely be found.

It should be noted that two of the most interested potential franchisors state that they possess this local experience and local credibility. Biwater points to its experience in the Nelspruit area (Report TT 432/5/10, Section 4.3.2), while Amanz'abantu points to its experience in the Eastern Cape small towns and rural areas ((Report TT 432/4/10, Chapter 6, and Report TT 432/5/10, Section 4.3.1). For example, the General Manager of Biwater South Africa told the current researchers that he considers Biwater has in its Mbombela concession a 6-year track record of developing a good relationship with the municipality and the communities. Also, in developing and utilising small water services contractors, it has built the basis for potential franchisees. (Nel personal communication 2007).

The greatest opportunities for demonstrating the value of water services franchising are in respect of infrastructure that is already in existence but is not being operated or maintained satisfactorily at present. Here the need for change is greatest. Unfortunately it might be that apparent need (in terms of consistent non-compliance) would not necessarily be coupled to ready acceptance by the WSAs concerned. The WSAs least coping may well be those most

reluctant to be shown up by an initiative that improves water services operation when they were unable to do this themselves.

The institutions polled in Report TT 432/5/10, Chapter 4, would undoubtedly each be able to identify several potential pilots in their areas of operation.

4.3 Chapter 4 conclusions

Selection of the initial pilot sites is principally constrained by the need to match:

- water services infrastructure and
- site, and its environment, that is not fraught by for example ongoing political unrest or dire poverty and
- willing WSA and
- willing and competent franchisor – best of all if with local experience and local credibility (i.e. credibility built from a track record of delivery and of working with local authorities, communities and local small contractors).

It should not be a problem to find sufficient sites from which to select in order to undertake an initially small number of water services franchising partnership operation pilots.

5. Selection of franchisors

5.1 The purpose of Chapter 5

The purpose of Chapter 5 is to identify and discuss generic criteria for the selection of franchisors.

5.2 Selection

5.2.1 Literature survey – franchising sector

It would appear literature generated by the conventional franchising sector and that is in the public domain does not pay much attention to selection of franchisors – no doubt leaving that topic to the experience and acumen of franchisors. For example, a scan of the literature, particularly of "How to Franchise Your Business", the definitive manual from FASA (FASA 2005), nothing can be found on choosing franchisors. The focus of such texts is on the mechanics of franchising and business (e.g. the contract agreements, training, marketing, support, raising finance) and also on important topics as:

- if you have a business, is it franchisable? (I.e. examining what kinds of business are franchisable, and why)
- what makes a good franchisee
- site selection for the franchise outlet.

Pretty much everything on these topics is written from the point of view of the franchisor (e.g. "this book focuses squarely on the needs of franchisors" (FASA 2005 pg 30). Who, it is generally assumed, are organisations already running businesses in a particular line of activity of goods or services provision, which are thinking of expanding this activity, and indeed of expanding by franchising as opposed to by other means.

The only significant exception is the book by Illetschko (Illetschko, 2005) that was quoted from extensively in Report TT 432/2/10. This deals with the entrepreneur who is in a position to start a business (has some capital and some business or managerial experience), and is trying to choose between starting it as a standalone business or becoming a franchisee. He/she also is not sure what type of product or service to offer. So he/she is advised to check out the population of "around 400 different franchise concepts". The water services sector, with, even being optimistic into the medium term, a number of franchisors that might just make it to double figures, just doesn't compare.

5.2.2 Water services franchisors

"Selection of franchisors", if by WSAs or potential franchisees or others, implies that there will be franchisors to choose from – or at least a choice of franchisors specialised in an element that for example the WSA would want covered, or that the potential franchisee would want to get into. However this is most unlikely to be the case for water services, simply because way into the foreseeable future there will be too few franchisors in this sector.

This chapter will however best add value by highlighting what it may be that qualifies an institution to consider that it could become a franchisor. While the argument is drawn from the literature on conventional franchising, the context is water services franchising.

Organisations will of their own accord elect to set up as water services franchisors. How much success they will have will depend on their expertise, resources and track record

before entering water services franchising and once they are in it – and their acceptability and that of the franchising partnership proposals they put together. This acceptability will be judged by key stakeholders, principally WSAs and financial institutions, but also by DWAF and by affected communities.

It needs again to be emphasised that a franchisor's proposal rests on the business model offered – and that this model has to be sound. The next section refers.

5.2.3 The need to have tested the business in a non-franchise form

The franchise industry literature time and time again advises:

- do not franchise a business without having a business model that has been thoroughly worked through on paper; AND
- do not start franchising without testing the business model "in the field" over a period of time.

Assuming for the purposes of this chapter that the first piece of advice would have been thoroughly heeded, and that the business model is sound, this Section 5.2.3 discusses the second piece of advice – the advice against embarking on franchising a small business without having tested in practice that the model for this small business is viable and effective as a small business directly owned by the franchisor-to-be – OR – that it is viable and effective as a standalone small business.

Saying the same thing in a different way, industry experience is that it is far preferable for a potential franchisor to run the business that is to be franchised in every possible way the same as it will be when franchised, but still owned by the franchisor-to-be. That is, as a "prototype" of the franchisee business without it actually being franchised. And to be running it successfully for a sufficiently long time to "prove" that it can be run as a franchise if the right franchisee is in place, together with franchisor support etc. OR – that pretty much the same thing has been done by a standalone entrepreneur that could become a franchisee.

The FASA franchising manual states bluntly:

"It is not possible to franchise an idea, not even an idea that is based on an established concept [if it] has not been tested yet. Actually operating the business is the only reliable way of adapting the business model to the needs of the market until every facet has been optimised." (FASA 2005, p 60)

And further:

"A pre-requisite for becoming a franchisor is having operated at least one, preferably a number of units of the business to be franchised. Ideally, these units are located in a range of environments and were operational for a reasonable period, including different seasons if the business is seasonal." (Ibid page 60)

Thus the franchisor must gain experience in running a directly-owned outlet that lacks only a franchisee and a franchise agreement, but has in place many of the other aspects of franchising – for example, there would need to be an operating manual, training, quality control, etc.

In more detail:

Under the heading of "before franchising should be contemplated, the existing business must be well established in its market, generate sound profits and show sustained signs that it is ready to expand", the FASA manual asks the following questions:

- **"Has the original business been in operation for a reasonable period?"** Unless the prospective franchisor has operated the business for at least one year, it is unlikely that systems and procedures are sufficiently developed to form the basis for a franchise. ... Not only would franchisees be asked to act as guinea pigs, they would in effect be expected to build their own businesses from scratch whilst paying the franchisor for the privilege; this would clearly be unacceptable.
- **Is the original business profitable?** [Also] even if the business has been operating for a long time and is highly profitable, the period it will take for franchisees to reach break-even needs to be taken into account. ...
- **Has at least one unit been operated "at arm's length" over a reasonable period?** The acid test for any new franchise concept is the autonomous and profitable operation of at least one company-owned unit for a reasonable period. ... This affords the prospective franchisor an opportunity to observe how the pilot operation(s) perform outside the cocoon of the original business. ... (... the franchisor should always retain direct ownership of one unit. However, additional units set up during the piloting phase can eventually be sold off to franchisees as going concerns.)
- **Have comprehensive systems and procedures for the operation and control of the business been developed and honed to perfection?** ... whatever the franchisee will need to operate the business at peak efficiency must be in place, tried, tested and ready to be applied. It is equally important to ensure that the franchisor's control systems are in place as well. If franchising commences without them, early franchisees will resent their introduction at a later stage and this can lead to problems that would better be avoided.
- **Does the business [i.e. the franchisor-to-be] have sufficient surplus resources to support franchise development?** ... Developing a franchise package and supporting the network as soon as it is up and running requires [of the franchisor] a significant investment up-front, not only in financial terms but also in management time and manpower." (Ibid pages 21-23)

It is of course also a possibility that a standalone entrepreneur might have all the qualities required of a franchisee except that he or she might not be willing to compromise on the loss of independence required of a franchisee (e.g. Illetschko, 2005 page 28). And that they might have "preconceived ideas" that may inhibit their adoption of the franchisee role and the need to follow specific operating methods. (FASA 2005 page 26) The franchising route nevertheless remains a promising one.

The other obvious route to franchising is for the franchisor-to-be to set up branches that can readily be converted into franchised businesses. A possibility here is that the staff appointed to manage these branches are those that have the ability to become franchisees and have also expressed interest in becoming franchisees. As the manual states, referring to the "prospective franchisor" transferring ownership "of the original business" to one of its own managers, "this would generally be the preferred option and has proven to be the most successful". (Ibid page 23)

Amanz'abantu, for example, might be well advised, before it starts a schools sanitation franchising partnership venture, as it proposes to do, to consider setting up a unit, a separate cost centre, that will be a prototype of a franchise, and putting one of its own employees in charge. Then running that for a while, and monitoring the results. (It would not necessarily be so that this becomes a franchise once its initial purpose is served.)

Note also as an important aside the FASA manual's comment that:

"Unless potential exists to establish a reasonable number of outlets, franchising as an option for expansion is usually too expensive. To provide a blanket definition of "a reasonable number of outlets" is virtually impossible because network-specific factors must be taken into account." (ibid page 25)

Bear in mind however, in respect of all of the above, that the franchising of water services needs to exercise discretion in considering lessons from the established franchising industry. Also that the circumstances of contemplated franchising pilots are all-important. For example, there is unquestionably a need to turn to alternatives to current water services operation models where these are consistently not complying. While the franchising partnership model might in these same situations not be perfect from the purist franchising point of view, from the point of view of service delivery it could be far preferable to the current model. Allowances need to be made for that.

In a radio interview some years ago, an executive of McDonald's South Africa explained why such a low percentage of the outlets they opened in the first couple of years were initially franchises. He said that, once the decision had been taken to open in South Africa, it was felt that they needed to have a lot of outlets open as soon as possible. The quickest way to have these up and running was to open them as branches. Finding suitable franchisees would have taken longer. (Some of the early outlets were franchisees from the start – but these reflected situations where the potential franchisee, often someone who had approached McDonald's rather than McDonald's having looked for them, was able to come on board quickly.)

The executive explained that they would subsequently both –

- when opening new outlets, given that there would be less of a rush, prefer franchising – there would be the time to find potential franchisees, and get them up and running; and
- find franchisees to take over existing outlets.

5.3 Chapter 5 conclusions

Organisations will of their own accord elect to set up as water services franchisors. How much success they will have will depend on their expertise, resources and track record before entering water services franchising and once they are in it – and their acceptability and that of the franchising partnership proposals they put together. This acceptability will be judged by key stakeholders, principally WSAs and financial institutions, but also by DWAF and by affected communities.

"Selection of franchisors", if by WSAs or potential franchisees or others, implies that there will be franchisors to choose from. However there is unlikely to be much choice for water services, simply because way into the foreseeable future there will be too few franchisors in this sector.

A franchisor's proposal rests on the business model offered – and that this model has to be sound. The franchise industry literature time and time again advises potential franchisors:

- do not franchise a business without having a business model that has been thoroughly worked through on paper; AND
- do not start franchising without testing the business model "in the field" over a period of time.

6. Selection of franchisees

6.1 The purpose and structure of Chapter 6

The purpose of Chapter 6 is to identify and discuss generic criteria for the selection of franchisees.

The chapter is structured as follows:

- Section 6.2 surveys franchising literature and also a selection of the most relevant ways in which small water services operators are selected in South Africa;
- Section 6.3 discusses these, abstracts from them; and
- Section 6.4 draws conclusions.

6.2 Survey

6.2.1 Literature survey – franchising sector

The franchising literature (i.e. the literature published to serve knowledge needs of conventional franchising in South Africa) gives prominence to issues such as determining the profile of the ideal franchisee. Principally:

- These profiles deal with characteristics such as being practical, willingness to conform, high energy level, and – very important – hunger to succeed and make money.
- Education level is also important, but it is recognised that this is not a question of the more education the better, but a question of the franchisee having education that is appropriate to the type of business.
- The potential franchisee must have some capital already, because he/she is going to have to pay the initial franchise fee to buy into the network, and is then going to have to pay for (perhaps by taking out loans) the fixed investment portion of the business and also initial working capital. Like education, it is recognised that this is not a question of the more capital he has the better, but a question of having the capital that is appropriate to the type of business.
- Finally, it seems to vary as to whether it is important that the potential franchisee knows the technicalities of the business. Reading between the lines, it seems that the literature consensus is that it depends on issues such as whether the potential franchisee sees himself as one of his own front-line operators, so to speak, or he sees himself as the manager of others who deal with these front-line issues. For example, say the business is plumbing – if the potential franchisee is not a qualified plumber, does he think he will make sufficient profit from employing a plumber that he will have enough left over to cover his own salary as manager?

The publications write this up from one or other of the two alternative viewpoints as follows:

- that of the franchisor who is looking for a franchisee. OR
- that of the potential franchisee who is looking for an opportunity.

The latter then cover the following:

- I'm the person who is thinking of becoming a franchisee – will franchising suit me? Will a standalone business suit me better? Or will neither suit me?
- If I've concluded that franchising will suit me, then which type of business?
- Having made a preliminary selection of the business type, what should I look for in a franchisor?

The FASA manual gives advice to franchisors wishing to select franchisees (FASA 2005, pages 63-66), including:

- Focus on attributes that are likely to impact on the franchisee's success.
- "Although you and your franchisees are expected to pull the same cart in the same direction, your personalities need to be different. Whilst you are expected to set strategy, your franchisees' role is to implement the concepts." (Ibid page 64)
- "Even the most forward-thinking banker is unlikely to approve a loan that is not matched by an investment made by the entrepreneur him/herself from own resources, as the mere fact that he/she has managed to accumulate some capital indicates an ability to deal responsibly with financial matters. ... And unless the entrepreneur has a tangible investment in the business, his/her commitment to it will be suspect." (ibid page 64.)

From the point of view of the potential franchisee, Parker has provided a handy list headed "selecting the franchise that's right for you". Some of this advice, not covered elsewhere in this Chapter 6, includes:

- use professional consultants, including a franchise attorney and an accountant; and
- select a reasonable number of franchisees from the list in the disclosure document provided by the franchisor, and interview them, asking inter alia whether the franchisor's projections were realistic and whether promises are being met. (Parker, 2003 page 180)

Illetschko lists the personality traits that franchisees need to have. Prominent among them are:

- "a high degree of self-motivation;
- a burning desire to excel in whatever you do;
- good health, coupled with a willingness to work extremely hard, often for long hours;
- a willingness to take calculated risks;
- a willingness to wait a reasonable period for your rewards." (Illetschko, 2005 pages 23 and 24)

"It requires a high level of commitment over a long period." (Ibid page 25)

Parker, in the context of standalone small businesses, raises a number of points that equally apply to franchisees. As follows:

- Certain activities require the employment of licenced or registered persons with specific qualifications. For example "plumbers, electricians, auto mechanics and other trades the practising of which by unskilled individuals could expose me to unnecessary danger." (Parker, 2003, page 22) the.
- Potential franchisees that have worked in the activity area before are more likely to know what to expect, and therefore "have a head start". (Ibid, page 27)
- Essential personality traits "to cope with the demands of running a small business" include –
 - ▣ "self-motivation
 - ▣ action bias
 - ▣ multi-tasking ability
 - ▣ financial acumen
 - ▣ personal credibility
 - ▣ people skills
 - ▣ ability to delegate
 - ▣ willingness to learn
 - ▣ adaptability." (Parker, 2003 pages 28-32)

The publications all make the point that there are generally more people looking for franchisee opportunities than there are opportunities offered by franchisors. So franchisors are generally able to pick and choose. The more popular franchisors have "waiting lists" of people who have approached them and said something to the effect of "please remember me when you are next thinking of opening an outlet".

6.2.2 Survey of selection processes of water services franchisees and small operators – South Africa

The ways in which (as described in Report WRC TT 432/2/10) water services sector franchisees are selected (by PWMSA and The Drain Surgeon) and would have been selected by eThekweni, and how the small operators were selected in Alfred Nzo and Chris Hani, are very different. There is a range between a strongly commercial attitude at the one end, and at the other end "trying to get a service in place but also trying to help guys who are from the community who need a job and have shown some aptitude". Given the small size of the universe of water services franchisees and small operators in South Africa, the width of the range is remarkable.

It is of value to abstract the main points.

The Drain Surgeon – franchisees (Report TT 432/2/10, Section 3.3):

- Formal qualification as a plumber was not a precondition – if necessary, this was taught.
- "I'd rather hire a guy with a 65% skills level and a good attitude than an individual with perfect skills who has a bad attitude. It's far easier to teach skills than attitude."
- As far as the franchisor's initiatives in low-income areas are concerned, he prefers to have someone in the area pre-screen possible candidates. However he has also had to accept, and train, people selected by local elected representatives, without any vetting for their aptitude. Either way, he finds that they "self-select" – if they feel they are not making it, they drop out of their own accord.

Alfred Nzo District Municipality – CBO WSPs (Report TT 432/2/10, Section 3.6.2):

Villagers were invited to form groups and submit expressions of interest – these were then adjudicated by a committee on which the municipality, community and the SSA were represented. The municipality then made the appointment. With the support of the SSA, these small WSPs generally delivered the expected service.

Chris Hani District Municipality – CBO WSPs (Report TT 432/2/10, Section 3.6.3):

Community-based operators were selected on the basis of nomination by the village water committees for training and appointment as community service providers. With the support of the external service providers, these small WSPs have generally delivered the expected service.

Mbombela Local Municipality – approved contractors (Report TT 432/2/10, Section 3.6.4):

The concession company has trained local contractors, and put them on a list of "approved contractors".

eThekweni Metropolitan Municipality – franchisees (Report TT 432/2/10, Section 3.6.5):

As originally envisaged, potential franchisees would have been selected from eThekweni's database for learnerships under the Expanded Public Works Programme, and that, with the support of the managing contractor, they would have delivered the expected service.

Professional Water Management SA (PWMSA) – various existing franchisees (Report TT 432/2/10, Section 3.6.8):

- Franchisees must be "hungry to get business" – this is "fundamental". One way PWMSA keeps its franchisees hungry, is by "throwing them bait" – for example, offering a new or additional technology to the franchisee, but the franchisee has to strongly motivate why they should be licensed to use this technology.
- Franchising won't succeed if it is straightforward outsourcing – "it is impossible to manage a guy who is virtually guaranteed an income".
- Franchisees have to be already "very competent" in the appropriate technological field.

The support of external service providers or support services agents (SSAs) is clearly very material to the adequacy of service provided by the community-based small WSPs.

6.3 Selection

It might have been hoped that pointers for selection of water services franchisees could readily have been found from the way in which small operators are currently selected, or have been or are proposed to be selected. However these are extremely varied, which is not surprising. The circumstances of each are so different, and each selection process has been tailored by a unique combination of, principally:

- the needs of the business;
- the needs (as perceived by the franchisor or contractor or WSA – or combination) of operation of the infrastructure;
- the franchisors or contractors, and especially the relative importance in their goals of water services operation good practice, profitability, turnover, enterprise creation and growth, job creation and community participation (by the way, it must not be implied that these cannot coexist);
- the attitude of and the cooperation obtained from the WSA, financial institutions and the community;
- various characteristics of the potential small operators – including their skills, their resources, their acceptance by the community, and their goals – and incentives that the franchisor or contractor can offer them.

The message "horses for courses" also comes through strongly in the FASA manual (FASA 2005, pages 63-66). Some of the advice to franchisors:

- Focus on attributes that are likely to impact on the franchisee's success.
- After testing a cross-section of existing franchisees, it will be possible to create an accurate profile of the ideal franchisee for the particular business (but see note immediately below).
- A test akin to "survival of the fittest" might be useful in the right circumstances (ibid page 63). (see second note immediately below)

The FASA manual adds: "Of course, at the start-up stage, no franchisees will be available for testing – the profile will have to be built around the traits of your best employees. This is less effective, but you have to start somewhere." (Ibid page 63)

The possible suitability of selected own staff to become franchisees is noted above (Section 5.2.3). Also, a franchisor could employ a potential franchisee as a trainee manager, so that the franchisor and franchisee can readily assess each other and the business. (FASA 2005 page 26.)

Note: A "survival of the fittest" test of aspirant franchisees may under certain circumstances be appropriate. (Refer FASA 2005 page 63, and also The Drain Surgeon's comment, referring to people that the community has shortlisted for him, that candidates from this list "self-select" in time.)

It should not be assumed that in all of the preceding, "franchisee" implies a business that is owned by only one person. There is no reason why the franchise cannot be owned by a group of people with entrepreneurial spirit and/or a combination and balance of characteristics that is appropriate to the business. And the forms of ownership could vary within limits – for example, the franchisee could be a Section 21 (of the Companies Act) "incorporated association not for gain".

6.4 Chapter 6 conclusions

The current researchers have a nagging fear that when water services franchising is rolled out, it will be a struggle to find suitable franchisee candidates. People with the right characteristics, and who have been looking for franchisee opportunities, are likely to prefer franchising opportunities involving goods and services more familiar to franchising, on the grounds that these business models have proved themselves time and time again, while water services franchising is unproven. This situation that can only be resolved by getting going with some pilot projects, and demonstrating their success.

The FASA manual reinforces that fear. In the context of entrepreneurial aspirant franchisees, "prospective franchisees with the right credentials can choose from a large number of opportunities, some more solid than others. Not surprisingly, most prospects will opt for the opportunity which they believe offers them the best overall chance of becoming successful." (FASA 2005 page 14) Water services franchising partnership opportunities will probably be in competition with other franchising opportunities for the attention of aspirant franchisees. Water services franchising will in the initial years be hampered in that there will be no successful pilot projects to point to.

On the other hand, the constituency from which many franchisees will be drawn will probably be not much dissimilar to that exemplified by those described in the South African survey of selection processes of water services franchisees and small operators, summarised above. That is, the constituency will generally be either:

- emergent independent operators already in the technology sector, or
- franchisor's own employees, or
- community-based individuals or groups.

Many (but by no means all) of these will probably need initial support from the franchisors or other external service providers or SSAs over and above the support usually expected of a franchisor.

There will probably not be a need to confront the differences between the kind of hardheaded commercial measures that conventional franchising emphasises, and a maybe softer approach. Selection of water services franchisees on the basis of the view held generally in the conventional franchising sector, that franchisees must be hungry to succeed and make money, would be at variance with suggestions that franchises be allocated on any other basis whatsoever – whether that basis be "they must be representative of the community", friendships with councillors, need (e.g. "these guys are first in the queue (or are unemployed), so they must get the franchises), or any similar basis.

For each potential franchisee circumstance, a specific approach will probably be clearly enough evident at the time, and a pragmatic "horses for courses" attitude to franchisee selection will prove appropriate. Only time will demonstrate this one way or the other.

7. Conclusions and recommendations

7.1 On the objective of this report

Chapters 2-6 of this report:

- summarise the roles and relationship of the franchisor and franchisee in the situation aside of water services, and the roles and relationships of principal role-players in the water services sector;
- identify and discuss the parameters of selection and criteria for the selection of water services franchising partnership pilot sites, water services franchisors and water services franchisees.

Key points that emerge are:

- If the WSP were a franchisee, this franchise alternative should not disturb present relationships between the WSA, other WSPs and others, but would simply add one more alternative to the array of possible WSP types.
- Whereas a WSA may require contractual recourse not only to the franchisee, but also to the franchisor, the franchisor could be a co-signatory to the contract or a guarantor of the performance of the franchisee.
- Selection of a pilot site brings with it a WSA or another public sector institution that is the responsible authority for water services. In the initial stages of water services franchising partnership development, selection of an element of the water services value chain is likely to bring with it only a limited choice (or no choice at all) of a business model and a franchisor coupled to that model.
- The sequence of events will probably be that franchisors will select water services elements and will formulate the business models to go with each. They will then look for sites to apply the models, and will seek the cooperation of the WSAs responsible. Finally they will offer the business to potential franchisees, or will attempt to nurture potential franchisees. As water services franchising partnership in South Africa grows, however, the initiative may come from others – e.g. from the WSA, but to begin with it is highly probable that it will only be franchisors that initiate water services franchising proposals.
- Many potential sites for water services franchising partnerships already exist in South Africa, in the sense that much water services infrastructure is already in place but is not being operated properly at the present time. While these sites fall under the jurisdiction of or are owned by WSAs, and the reluctance of, or opposition of, what appears to be the majority of WSAs was noted in an earlier report, a sufficient number of WSAs appear to be willing to consider undertaking, or permitting, water services franchising pilots.
- The participants in pilot implementation, and the sites where this piloting could be attempted, need to be carefully selected. If the pilot were to fail because of for example political or economic problems in the area, nothing about the merits of franchising partnerships would have been learned.
- Thus the selection of the initial pilot sites is principally constrained by the need to match –

- ▣ water services infrastructure and
 - ▣ site, and its environment, and
 - ▣ willing WSA and
 - ▣ willing and competent franchisor, preferably with local experience and local credibility (i.e. credibility built from a track record of delivery and of working with local authorities, communities and local small contractors); and
 - ▣ (once the above have been brought together) willing and competent potential franchisees.
- Organisations will of their own accord elect to set up as water services franchisors. How much success they will have will depend on their expertise, resources and track record before entering water services franchising and once they are in it – and their acceptability and that of the franchising proposals they put together. This acceptability will be judged by key stakeholders, principally WSAs and financial institutions, but also by DWAF and by affected communities.
- The franchise industry literature over and over again advises against franchising a business without a business model that has been thoroughly worked through on paper and that has not been tested "in the field" over a period of time. As the FASA manual emphasises, by far the best way to test the model is by "actually operating the business ... [this] is the only reliable way" (FASA 2005 pg 60). This the franchisor should preferably do by for example running a directly-owned outlet that lacks only a franchisee and a franchise agreement, but has in place many of the other aspects of franchising – e.g. there would need to be an operating manual, training, quality control, etc.
- Further to that, a strong case needs to be made for doing the initial testing of the non-franchised business model in an area where, if the test result is positive, the first franchised pilot will be rolled out. This is the most direct way to establish –
 - ▣ local expertise (local management and staff) and
 - ▣ local familiarity with and confidence in the product (which in the case of water services should not just be confidence of the customers/end users, but of other stakeholders, especially of the municipality/WSA and of other WSPs).
- However the franchising of water services needs to exercise discretion in considering lessons from the established franchising industry. For example, a franchising alternative might in some instances be far preferable from the point of view of service delivery to the water services operation model being implemented at a site that is consistently not complying with laid-down water quality standards – even if the franchising alternative has not yet been fully formulated.
- A scan of South African franchising (not water services) literature found that franchisees need to have entrepreneurial attributes such as being highly motivated, hard-working, and willing to wait for reward. Specialist technical knowledge and/or operating licences are needed in some sectors. A scan of water services franchisee and small operator selection in South Africa found a wide range of selection methods and characteristics of those selected.
- Future water services franchisees will probably be drawn from the among emergent independent operators already in the technology sector, or a franchisor's own employees, or community-based individuals or groups. Many (but by no means all) of these will probably need initial support from the franchisors or other external service providers or SSAs.

- For each potential franchising partnership circumstance, a specific approach will probably be clearly enough evident at the time, and a pragmatic "horses for courses" attitude to franchisee selection will prove appropriate.

7.2 On guidelines – recommendations

7.2.1 Introduction

It is of value to make some notes as to what should covered be in future guidelines for embarking on franchising partnerships for operation and maintenance of water services infrastructure.

The limitations of what a guideline could contain, given the very early stage of development of the water services franchising partnership concept, need to be made very clear. Development of the concept, although soundly based on logic and reasoning, and on considerable hands-on experience in water services provision (some of it with direct lessons for water services franchising):

- has been done only on paper, has not been rigorously done, and has not been independently examined, i.e. other than by the WRC and members of the project team; and
- has not been tested in practice.

To produce such guidelines at this stage would be premature. It would be unwise for WRC to publish a document that could be interpreted as advising a water services practitioner, even a very experienced practitioner, how to go about planning and setting up a franchise partnership.

The best that can be done, therefore, would be to suggest that the reports from the current project could provide a basis for experienced water services practitioners to at their own risk plan for and implement pilot projects. These experienced practitioners could also make use of these reports for assistance in motivating for the co-operation of WSAs, when selecting franchisees, and for other related tasks.

The hazards of attempting to produce a more ambitious document need to be understood. The commercial franchising literature, which has decades of experience to draw on, clearly indicates where the line must be drawn. For example the FASA franchising manual (FASA 2005) states categorically that before any franchising system is implemented it must have been proven by hands-on experience as close as possible to franchising – for example, a franchisor runs "branches", learns all he possibly can from them, and only then completes his modelling of franchising of the same service. Only after that does the franchisor start looking for franchisees.

Over and over again, the manual expresses, sometimes in bold type, sentiments such as "we cannot stress enough that the drafting of a franchise agreement does not lend itself to a do-it-yourself approach" (FASA 2005 page 50). Granted, the manual lists issues that must be covered in the franchise agreement, but then states that the agreement must be drafted by an attorney with proven experience in the field of franchising – and with full knowledge of the system/model that he/she is drafting the agreement around. The same goes with financing – the manual talks of "types of finance", but makes it clear that the finance package must be designed with the system/model in mind.

It would be risky indeed to ignore this advice.

To summarise then what the FASA manual has to say about the sequence of pilots, testing of these pilots, and embarking on franchising outside of the pilots:

- "The foundation for a workable franchise is a product or service that is distributed by a business with good systems.
- A lot of work needs to be done before even an already well-established business is ready to be franchised.
- It follows that to draft the franchise agreement before the system it is supposed to protect even exists would be akin to "putting the cart before the horse". It must be developed after the basic components of the franchise package have been developed, tested and documented." (FASA 2005 pages 13 and 14)

7.2.2 The broad parameters of guideline content

With the cautions expressed in the preceding section in mind, the current report examines appropriate documents from the conventional franchising sector, with a view to suggesting what the contents of a guidelines document on water services franchising partnerships in South Africa could be – whenever it is decided that the document should be drawn up.

It is logical to commence this discussion by examining guideline documents for as close as possible parallel situations. Three documents come to mind:

- the document prepared by for DWAF in 2001, entitled "Community-Based Organisations as Water Services Providers guideline" (De la Harpe, 2001 – 32 pages total);
- the FASA manual "How to franchise your business" (FASA 2005 – 124 pages total); and
- Illetschko's "pocket book" "Become a franchisee" (Illetschko, 2005 – 79 pages total).

None of these is a perfect model. The first is a guideline for community-based organisations, and most certainly does not have franchising in mind. The other two are about franchising, and have many of the characteristics of guidelines, but by no means all. Furthermore, the one is written for franchisors and the other for franchisees, as their titles imply, whereas the current task is to prepare a guideline that is of value to franchisors, franchisees and other parties. Finally, neither document has water services franchising or any other form of social franchising in mind.

Nonetheless it is of value to set out here what each of them covers.

The contents list of the first is set out below, adapted and amended to reflect the current need for a contents list suitable for franchising partnerships rather than CBO-based situation. The chapter sequence could be:

- introduction and purpose
- definition of franchisees (and of others, e.g. franchisor)
- pertinent national policy and national legislation
- legal status of WSP franchisee
- different options of legal status
- when a franchisee is an appropriate WSP option
- how WSP franchisees are established
- what WSP functions a franchisee can fulfil, what support it requires, and what type of contract should be entered into with it
- different types of WSP franchisee institutional arrangements
- structure of a WSP franchisee
- WSP institutional arrangements that are not franchisees

- advantages of WSP franchisees
- potential risks associated with WSP franchisees
- critical success factors for WSP franchisee options
- (not applicable) case studies upon which this guideline is based.

Looking for an example to follow among the franchising literature, the choice, as already noted, is Illetschko (2005) and FASA (2005). The latter is the better parallel to follow. Chapter headings of both are however listed below.

Chapter headings of Illetschko (2005) are:

1. What is franchising?
2. Will I make a good franchisee?
3. Pros and cons of franchising.
4. Financial aspects of franchising.
5. Legal aspects of franchising.
6. Securing the right opportunity.
7. What will happen next?

A short final in Illetschko section lists recommended reading and web sites.

Chapter headings of FASA (2005) are:

1. Introduction to franchising.
2. Is franchising the optimal vehicle for expansion? (This chapter includes a section on "examining the feasibility of franchising".)
3. Financial implications of franchising.
4. The legal implications of franchising. (This chapter includes a section on the franchise agreement and another section on the disclosure document.)
5. Planning expansion through franchising. (This chapter includes sections on "suitable franchise models", "the profile of the ideal franchisee", "creating the site profile" and "the franchise development plan".)
6. Creating the franchise package.
7. Marketing the franchise.
8. The franchisee support infrastructure. (This chapter includes sections on the support that the franchisor should provide, and on the control that the franchisor should exercise.)
9. Pointers for mature franchisors.

The water services franchising guideline document would need to be not just a guideline, but a primer ("Water Services Franchising 101") and an advocacy document.

Taking the best from a number of manuals and guideline documents selected for the contribution that they offer, even if that contribution is limited (none of them are even close to what is needed for water services franchising), and taking into account also the findings of the current project and the experience of the researchers, the following contents list of what could be a "principles of setting up water services franchising partnerships" document of the future is provisionally suggested:

- introduction, and purpose of the document;
- background: the WRC work;
- about water services, water services providers, and the like;
- what is franchising, and who is franchisor, franchisee, and so on (the guidelines would have to both "explain" and "sell" water services franchising partnerships);
- when is franchising an appropriate WSP option – advantages and disadvantages;
- what WSP options franchisees and franchisors can fulfil;

- different types of franchisee WSP institutional arrangements (and which WSP institutional arrangements are not franchising);
- environment, role-players and potential role-players (draw on inter alia Report TT 432/5/10);
- structuring water services franchising partnerships (draw on inter alia the current report – also structure of a WSP franchisee and of a WSP franchisor);
- pertinent national legislation;
- financial implications;
- legal implications (including outline of required documentation, and outline of what needs to be in the documentation – no detail);
- support that franchisee WSPs require;
- critical success factors for franchised water services provision;
- regulating water services franchising partnerships;
- resources.

The guideline should be a "living document" which would be built upon and refined as thinking on water services franchising partnerships develops, as more models are built on paper, and as pilot projects are (the current researchers trust) commenced.

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Wall (2005). "Development of a framework for franchising in the water services sector in South Africa." WRC Report No. KV 161/05. Water Research Commission, Pretoria.

Website addresses

Amanz'abantu Services:

Biwater:

Department of Provincial and Local Government:

Department of Water Affairs and Forestry:

Department of National Treasury:

Drain Surgeon, The:

Franchise Association of Southern Africa (FASA):

Group Five:

Mvula Trust:

PWMSA:

Rand Water:

Small Enterprise Development Agency (SEDA):

Water Research Commission:

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www.treasury.gov.za

www.drainsurgeon.co.za

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www.g5.co.za

www.mvula.co.za

www.pwmsa.com

www.randwater.co.za

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www.wrc.org.za

Umgeni Water:
WISA:

www.umgeni.co.za
www.wisa.org.za

The website of FRAIN (www.frain.org.za) has been closed, but searching for it opens up the SEDA website.