

FRANCHISING PARTNERSHIPS
FOR **ROADS** ENGINEERING
INFRASTRUCTURE OPERATION
AND MAINTENANCE?

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*Presentation to
SATC 2008*





1. A partnership model

- A partnership model ...
- To assist the owners of water services infrastructure ...
- To operate and maintain ...
- The infrastructure that they continue to own.

Can franchising principles be applied - where appropriate - to water services operation and maintenance?

Challenge:

You are road experts - over to you
if and how you can apply this
franchising partnership concept to
roads infrastructure operation
and/or maintenance

2. WS franchising partnerships could ...

Both ...

- Build CBOs and small entrepreneurs, and create local economic development; and
- Assist municipalities by providing the higher-level expertise in WS operations and maintenance that those outside the metropolises and larger urban areas would not have.

- Jay Bhagwan (Water Research Commission)
- Kevin Wall (CSIR)



Two happy Singaporean customers
of a SMME franchisee



3. Introduction

- Capacity of many South African municipalities to adequately provide all with even basic water services is in question
- Inadequate operation and maintenance
- Inadequate competencies
- Need for new alternative provider options - ESPECIALLY FOR OPERATION AND MAINTENANCE
- Investigation by WRC and CSIR

Continued ..

However - even if all the existing institutions were coping with operation and maintenance, there would be good reason to investigate alternatives - to see if they could offer:

- More cost-effective?
- Allow existing institutions to focus on other responsibilities (share the load)?
- Greater community participation?
- SMME opportunities?
- BEE opportunities?

4. First study

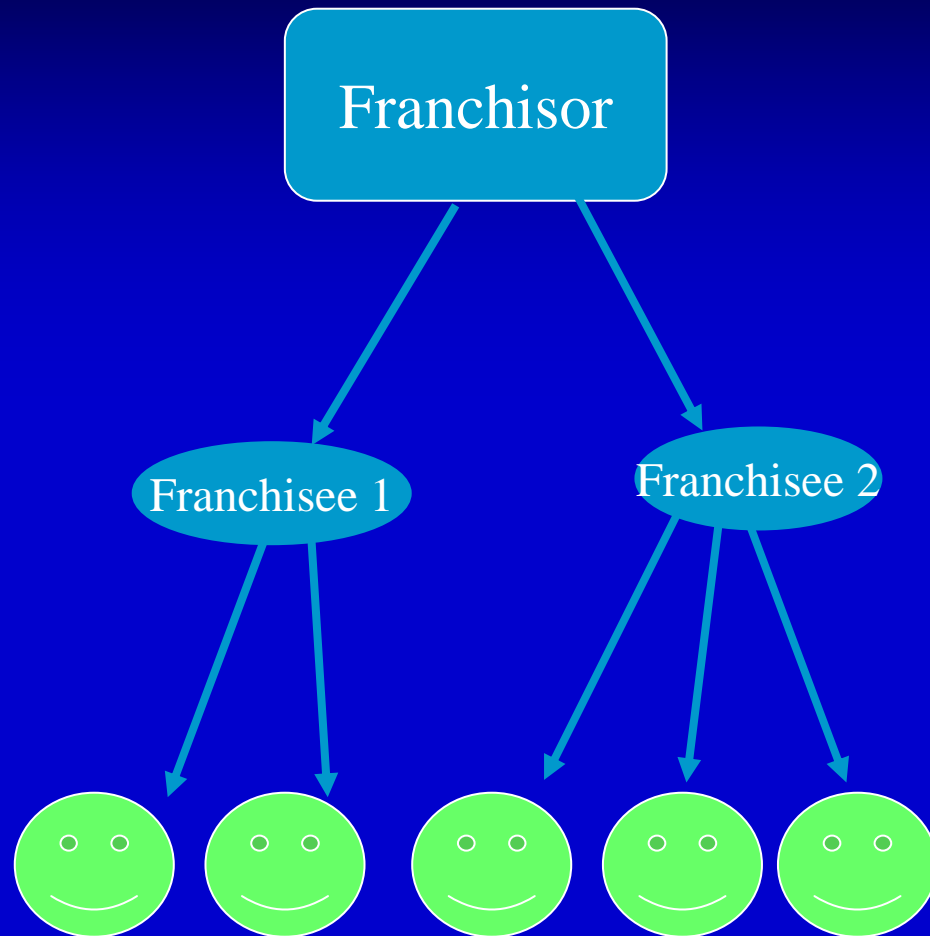
- Understand franchising generically
- Literature survey - to discover franchising (if any) in water sector
- Scope the (non-water services) franchising industry in South Africa
- Assess appropriateness of franchising to water services sector in South Africa

5. Franchising

- *(Generic -- but background question: Is there scope for small WS business enterprises?)*
- Barriers to entry of startup businesses are substantial
- Driving forces of franchise concept:
 - Incentive: profits/dividends/surplus *(for water services, this requires mindshift that it need not be wrong for profits to be made), and*
 - A successful business model that can be copied *(Note: very few elements of water services have been modelled)*

Levels of skill - and obligations

- Each person correctly skilled, and contractually bound
- On most days, nothing extraordinary happens. Low-level skilled staff able to cope.
- When major maintenance, or upgrading, or breakdown - those staff know who to call, who will bring the higher level of skill
- And they know that the people they call **WILL** help, because there is a binding contract
- Cost of the higher-skilled, who are needed only intermittently, is spread among many sites - thus cost per site is low



- Franchisee receives business 'know-how' from franchisor; and provides services or products to customers
- Franchisor monitors quality of product/service to customers
- Customers pay franchisee for products and services, and a % is passed back to the franchisor

Cardinal elements of “business format franchising”:

- Discovering good practice
- Identifying component of value chain that is simple enough to systematise
- Systematising the business
- Quantifiable and rewardable outcomes
- Training
- Operations manuals
- Continuing support, control and discipline of the on-going business
- Research and development

6. Franchising in South Africa

- 400 franchise systems
- 300 000 employed
- More than 26 000 franchised outlets - many first-time entrepreneurs
- 6.5% of national retail turnover (excl petroleum)
- Everything else being equal, franchised businesses have a far lower failure rate than do independent businesses



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"Quick As A Wink"



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Computer Training

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BERCITY

MASTER MATHS



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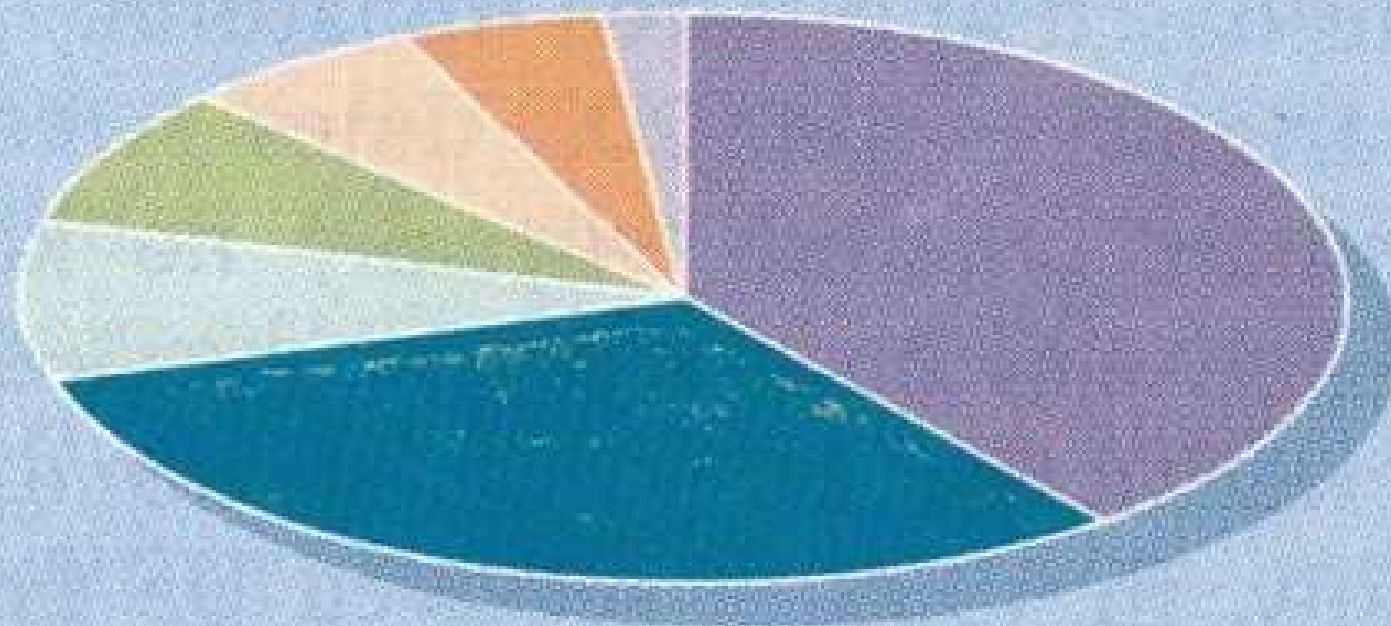
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


Martin's

FRANCHISE SECTOR

Pieces of the pie



 Petroleum – 39%	 Automotive – 6%
 Retail – 31%	 Building – 5%
 Food – 9%	 Health &
 Other – 8%	 Beauty – 2%

Once synonymous with food outlets, franchising is expanding rapidly into almost every corner of the business world.

Based on business models licensed by franchisors to suitable franchisees, it is widely viewed as a basically secure means of piloting large numbers of previously disadvantaged individuals (PDIs) into the economic mainstream.

New opportunities in franchising are already creating numerous new skills and thousands of jobs.

“Business Day”
”Real Business”
May 2006

7. Overseas literature survey

- Some franchising features found in other forms of water services contract, but without all the elements (e.g. with quality control, but without ongoing support)
- World Bank (van Ginneken, Roche, et al) concluded that water services franchising shows great promise - especially small towns and rural areas



A very successful South African franchise (established 1980), with mostly private sector customers

8. Current SA water services institutional arrangements

- Customers
- Regulator (i.e. national Dept of Water Affairs)
- Funding partner (e.g. government, donor)
- Municipality (i.e. "water services authority" (= WSA))
- Water services provider (WSP) - which could be:
 - WSA itself
 - Another municipality
 - NGO
 - CBO
 - Water board
 - SMME
 - Other (or NGO, CBO, SMME, etc could be subcontractors to WSPs)

9. Water services franchising in South Africa – findings

- Great need for alternative water service operation and maintenance provider systems
- Potential through water services franchising to simultaneously:
 - Improve water services delivery, and
 - Promote local economic development, SMME development and BEE
- Thus “franchisee” must be added to the list of possible WSP types
- *Unsuitable for e.g. constructn new infrastructure*

Thus WSP could now be:

- Municipality (WSA) itself
- Another municipality
- NGO
- CBO
- Water board
- SMME
- Other (or NGO, CBO, SMME, etc could be subcontractors to WSPs)
- SMME franchisee

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

Franchisees are SMMEs, but with the support of the franchisor:

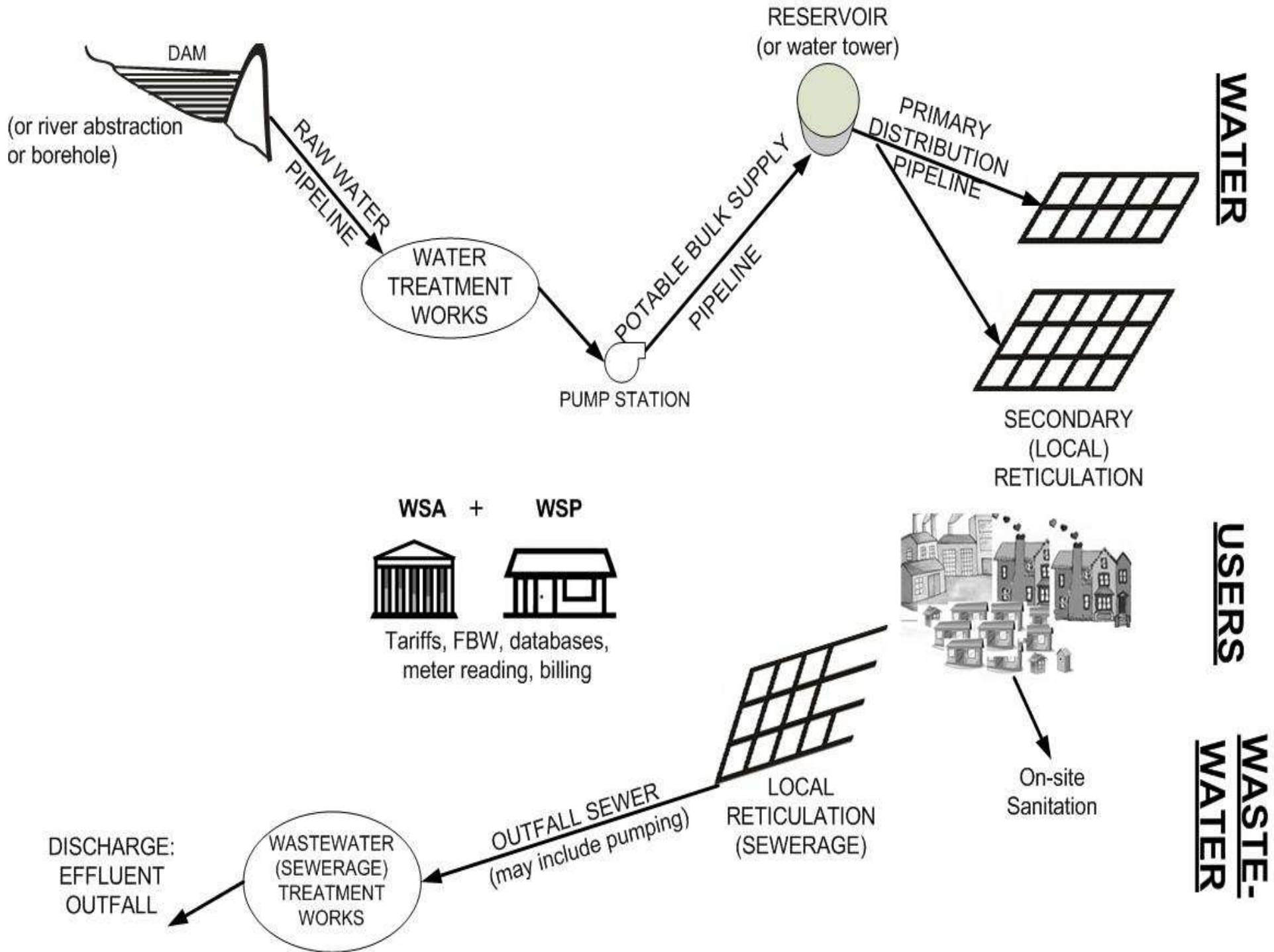
What is good or bad for SMMEs is good or bad for franchising. But the converse doesn't necessarily apply - or, putting it differently, a franchisee SMME, given the support it would receive from the franchisor, would in all likelihood find it easier to meet some regulatory and other requirements than would a standalone SMME, everything else being equal.



10. Second WRC study

Completed, in course of publication

- Review statutory, procurement and other issues which could impact
- Identify elements in water services delivery chain which offer greatest scope for franchising
- Develop franchising models
- Develop guidelines for setting up water services franchising
- Set out the way forward to pilot implementation



WATER

USERS

WASTE-WATER

Water services delivery chain



- We looked at all elements, asking where value can be added
- Selected long list, then shortlist
- We have modelled elements on paper, but based on non-franchise experience of same elements
- FASA good advice - don't model, for franchising, an element you don't already know well



Whereas a business based on a single element of the water services delivery value chain might not be viable, a franchisee might be able to make a viable business by offering several water-related services, thereby achieving dual objectives, viz:

- economy of scale; and
- lessening its dependence on one or a limited number of clients.

Pilot projects will be two types



- Franchisee water services partners offering a full range of water services (more appropriate to the small town or rural situation)
- Franchisees partners who offer selected services under contract to (full) water services providers or retail to the private sector (*for example water quality testing, meter reading, training, customer relations and water demand management*)

Of course, with franchisors

What a franchisee of municipal infrastructure could typically look after



Franchise better than a municipality that isn't coping?



Can we get all of our municipalities to this quality?



- It is hoped that potential franchisors will seize the opportunity, and do the detailed modelling to suit their abilities and the circumstances.
- Amanz'abantu and Biwater are "seizing the opportunity"



What a schools sanitation franchisee could typically look after



Three significant "issues":

These are primarily issues facing outsourcing (irrespective whether NGO, large PO, SMME, or SMME franchisee)

- Municipality's operation and maintenance budget too small
- Unreliable payment
- Municipal (and union) resistance to outsourcing, even of O&M



“Principles” document covers:

- What is franchising
- When are franchising partnerships an option
- Environment and roleplayers
- Structuring WS franchising
- Policy, statutory and financial implications
- Critical success factors for franchised WS partnerships
- Resources available

11. To conclude: the essentials are:

- Service to customers meets the specification in the franchise contract with the municipality
- Suitable franchisors are willing
- Local entrepreneurs are willing to take up water services franchise opportunities
- Franchising proves a viable business for franchisor and franchisee
- The funding partners finance WS franchising just as they support WS provision anywhere else



First picture from Phoenix
spacecraft touchdown on Mars:
25 May 2008

*You will be amazed at what
franchising can achieve!*



EVERYTHING IS POSSIBLE....

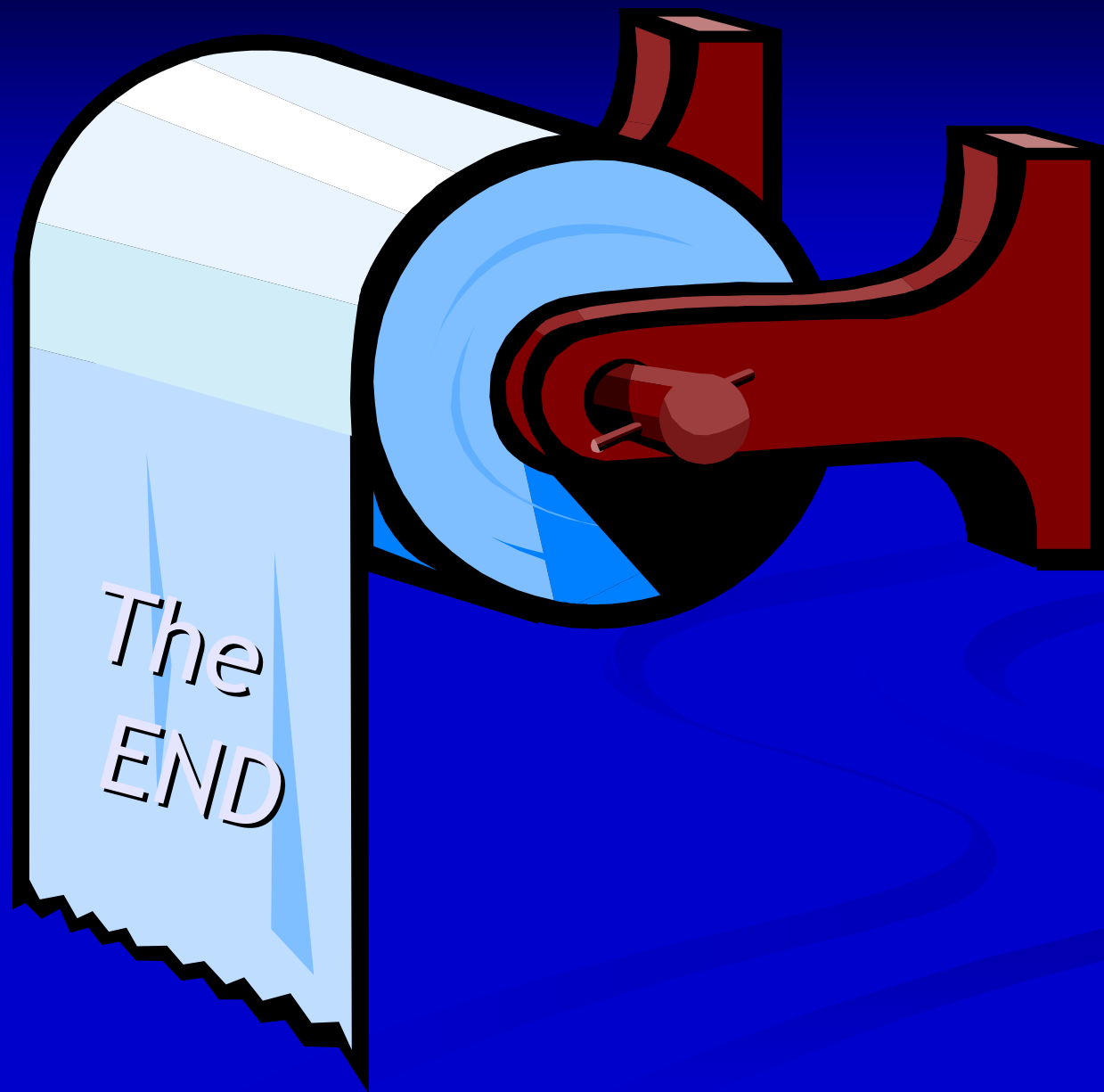
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WRC Report No. KV 161/05

Water Research Commission,
South Africa





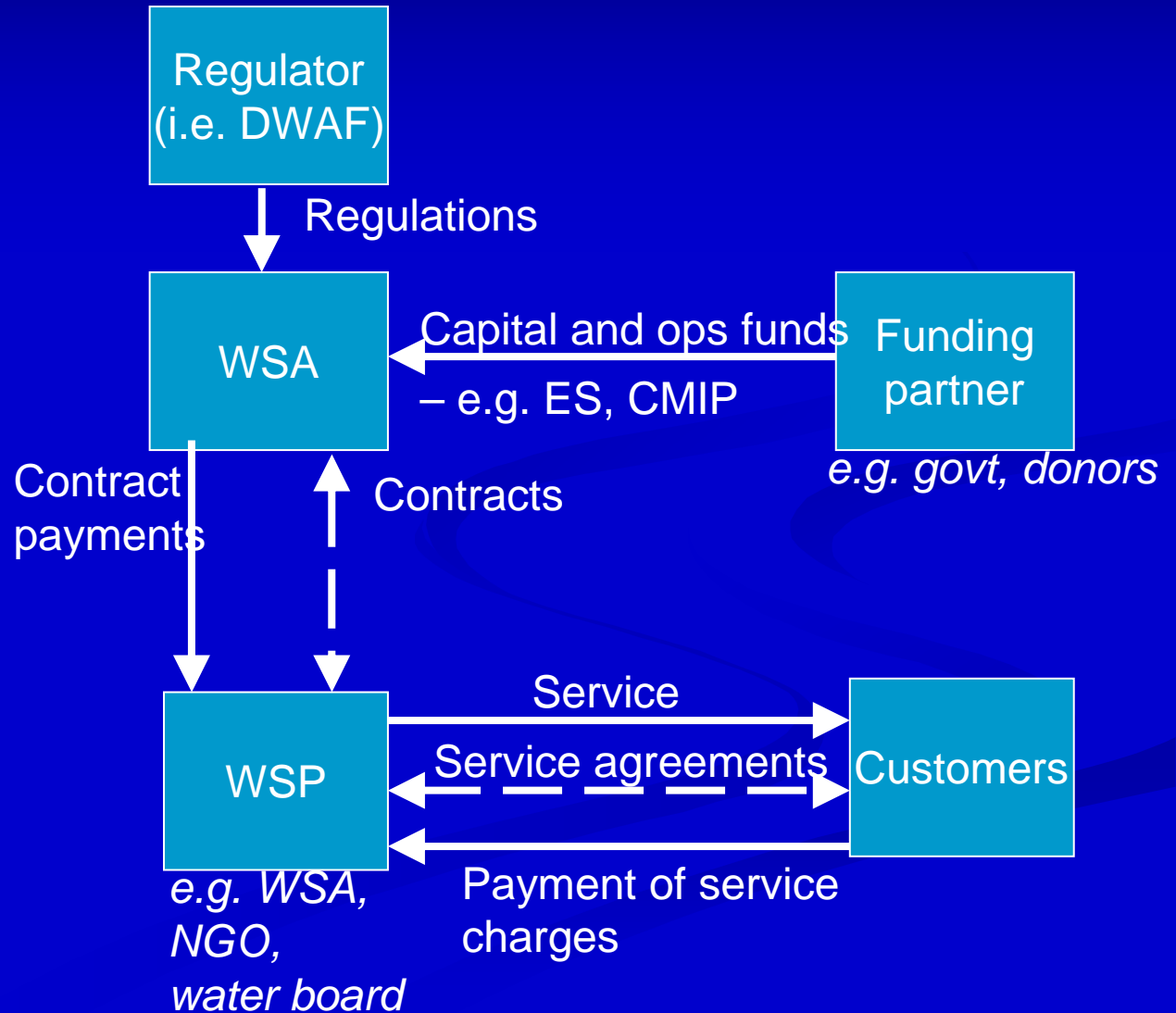
*The
END*

Challenge:

You are road experts - over to you if
and how you can apply this franchising
partnership concept to roads
infrastructure operation and/or
maintenance



Present relationships



Present relationships - with franchising alternative added

