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Expanding into Africa through a franchise model: The experience of Soda King

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Franchising can be an effective route for Asian companies to grow their businesses into various African countries. Franchising mitigates many of the financial risks of expanding to a new territory, and the franchisor also benefits from the franchisee's local knowledge and networks needed to make the business a success.

South African beverage company Soda King Franchising has managed to expand beyond the country's borders, and is now active in a number of African countries, most of which differ dramatically from its home market. This case study unpacks Soda King's experiences of building a pan-African franchise business.

Soda King Franchising is a South African-based beverage franchisor that grants its franchisees the rights to produce the company's range of non-alcoholic drinks. In 2003, the company was acquired by its current chief executive, Gian Mani.

For an initial fee of about US$500,000 (depending on the size of the operation), franchisees receive all the equipment needed to start a bottling plant, the rights to produce Soda King's trademarked products, and initial stock and labels. Soda King generates revenue from the franchise fee, a margin on the bottling plant, and the continuous sales of concentrates and labels to franchisees.

Through this franchise model, Soda King has expanded to a number of African countries. In addition to a couple of franchisees in South Africa, it has a presence in Namibia, Swaziland, Zambia, Nigeria, Madagascar and Somalia. Negotiations to establish operations in Ghana, Cameroon, Sierra Leone, Liberia and Ethiopia are at advanced stages; it is also mulling opportunities in Somaliland and the Democratic Republic of Congo.

Soda King's product range includes carbonated soft drinks, malt drinks, fruit juice and still water. However, not all products are sold in each territory. When first starting operations in a new country, franchisees typically offer flavours already available in the market, while gradually testing and introducing new ones.

SELECTING FRANCHISEES

One of the hard lessons Soda King has learned over the years is the importance of ensuring new franchisees have what it takes to run an operation successfully – both in terms of capital and business prowess. Mani concedes that in the past, the company has been "a little too keen" to accept new franchisees who weren't able to keep their businesses afloat.

In addition to the initial set-up cost of around $500,000, franchisees need about another $500,000 for infrastructure, delivery vehicles, staff, security and working capital.

"You are in for a million bucks, and that's not small change in anyone's language. The start-up phase is always difficult, and people must be prepared to suffer initial losses," explains Mani, adding the company typically doesn't accept franchisees reliant on too much debt.

The process of approving a new franchisee is therefore now a rigorous and time-consuming exercise – it can easily take a year from the initial enquiry to signing a fully-fledged agreement.

Whenever Soda King receives an enquiry, the interested party is provided with basic information. If there is still interest once they know what the franchise is all about, they are requested to submit an application form and sign a confidentiality agreement. They are also provided with generic projections – not yet tailored to a particular market. The potential franchisee is then asked to collect data on competitors, price points, and the type of beverages that do well in the market, in order for Soda King to run a projection model. Other considerations factored into the projection are excise duties, import duties and staff costs.

"We generally look for franchisees who are already in business – with distribution networks in place, a client base, that have a warehouse, and don't have to start from scratch. It is either that or they need to have deep pockets. So for me the biggest challenge is to identify the correct people," explains Mani.

It is also vitally important that the franchisees have suitable sales capacity and resources. "If they are unable to drive sales, then they are going to have an uphill battle to get to breakeven. And then of course, competitors become aware and they try to counter, and some of them counter successfully, clean or dirty. So those challenges are real."

Because it is in Soda King's interest that the franchisees are successful – the better they do, the more concentrate and labels Soda King sells – the company offers continual support to its international operations. Mani says Soda King's value proposition is that it assists new franchisees with full technical, financial, marketing and business systems training. It also provides on-going guidance in all areas of production methodology, market penetration and marketing material development.

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ADAPTING TO LOCAL REALITIES – THE SOMALI EXAMPLE

Each African country has its own set of unique challenges and market realities, which Soda King has to adapt to.

For example, in Somalia, where Mani says consumers are very particular, the company had to adjust the colour of its guava juice to conform to local expectations. Guava juice in Somalia is generally yellow, very different from the reddish colour found in South Africa. In Somalia there was a similar issue with the company's orange-flavoured carbonated soft drink. "They look at our orange and say your orange is too dark, it's not like Fanta. They don't want to buy it. Now I've got to get the colour tweaked to the point where it looks like Fanta."

Local purchasing power also needs to be taken into account when entering a new country. For instance, in South Africa the company has introduced a popular 100% fruit juice concentrate brand. But the same product proved to be too expensive in Somalia.

Security is another challenge that Soda King had to deal with when it first entered Somalia. Although the conditions have improved, security remains a risk, especially outside the capital Mogadishu. However, in Somaliland, the self-proclaimed state within Somalia's borders, it is a completely different situation, with hardly any security danger.

SUPPLY CHAIN

A key advantage of establishing local bottling operations, is that it dramatically reduces transport costs. Soda King only has to supply its franchisees with the concentrates – which it manufactures at its factory in Cape Town – instead of exporting the finished product.

"The concentrates are so highly concentrated that if you fill a container, you can produce for about three years. The ratio is so high that out of a litre of concentrate, you can make 110 litres of finished product. You compare that to if you need to send 110 litres of finished drink, which is impossibly expensive," explains Mani.

In general, logistics is currently not much of a challenge, he says. There are regular ships to countries such as Nigeria, and even Somalia is no longer a problem, though there used to be security issues with pirates.

But there have been difficulties in terms of sourcing some of the other inputs required in the production process. For example, when the local franchisee first set up shop in Somalia, it encountered challenges related to the availability of electricity, water and CO_2.

COMPETING WITH ESTABLISHED PLAYERS

Soda King's products are typically aimed at lower-income consumers, and priced below those of international brands such as Coca-Cola. However, it does have to compete with other low-cost beverage producers. Mani says in Nigeria, for example, there are about three strong direct competitors.

To date Soda King hasn't spent much on marketing activities, generally due to the high costs involved.

But despite a lack of large advertising campaigns, the Nigerian franchisee has been able to generate positive sales. Armed with little more than a few posters, pull-up banners and gazebos, the Nigerian team regularly conducts tastings which have been well received by consumers, so much so that the Nigerian franchisee is now considering to increase production capacity and expand to the eastern part of the country.

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Looking back, Mani says one of the things he would have done differently to grow the franchise network faster is: to partner with a strong investor and establish local bottling operations in new territories, run them successfully for six months to a year, and then sell them off to franchisees. He explains it is easier to sell a franchise that is a proven success, and Soda King would also be able to demand a higher price for the business.

This initiative is still on the cards, which is why Mani is often meeting with potential partners and investors.

He also stresses the importance of regularly spending time with the franchisees and adding value to their businesses – to ensure that sales remain satisfactory and that they don't get tempted to start their own brands. "We should be visiting every franchisee every month, which we are not doing enough of."

Despite the challenges, after almost 15 year of running the business, Soda King is making steady progress. If all the agreements in the pipeline come through, it would have almost doubled its current number of franchisees.

KEY TAKE-AWAYS FOR RUNNING A SUCCESSFUL PAN-AFRICAN FRANCHISE BUSINESS

- Franchisees need to have the resources and skills to run their operations successfully over the long-term – not just the initial franchise fee. Those who already have an existing related business, stand a better chance of succeeding.
- It is important to regularly spend time with franchisees to strengthen relationships and assist with improving their respective businesses.
- The franchisor must be prepared to tweak its products to conform to local tastes and preferences.
- Despite rapid economic growth in many African countries, average incomes remain low. Therefore, some products might be unaffordable to the majority of people.
- In some countries, production inputs might not be readily available.
- There is a case to be made for establishing the business first, proving it is viable, and then selling the operation to a local franchisee. However, this strategy does add some additional risk.

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