

DEVELOPMENT OF EMERGING CONTRACTORS THROUGH FRANCHISING

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ABSTRACT

Franchising is being used as the medium to develop emerging road surfacing contractors. It is a proven business practice with a low risk of failure attached. It is also suited to other forms of road and general construction beyond surfacing. The franchising programme is aimed at the emerging entrepreneur who has some skills in the marketplace, and wants to develop their own contracting business. The goal is to turn them into road surfacing contractors who can deliver work to high quality standards. These franchisee contractors would be expected to operate in both developing areas and major road networks.

Franchise training consists of technical, operational and business skills training, and continuous mentoring. Each franchisee is fully equipped with the machines, tools, and vehicles to operate his particular franchise. Ongoing assistance with technology, tendering, and accounting is provided by the franchisor.

The following aspects of the surfacing industry are being franchised:

- surface treatment (chip and spray)
- bitumen spraying
- slurry sealing
- asphalt paving
- repair and maintenance (patching, crack repairs, hand paving and surface treatment)

The paper discusses the background to the franchise programme, and its application to the roads industry in South Africa. The applicability to other Africa countries is discussed in the light of recent World Bank Studies.

1 INTRODUCTION

The construction of bitumen surfacings is typically done by established contractors. These established contractors possess all the resources required to execute such projects, i.e. labour, materials, machines and money. They have the finances required for salaries and wages and the purchase of materials; the credibility in commercial circles to obtain sureties, to open accounts with suppliers and to hire plant; and the managerial, commercial, technical and administrative skills required to secure and execute contracts (Watermeyer, 1).

If emerging contractors are to be developed, both the methods of construction and the construction

process must be changed to accommodate them. This must be done within a framework of practical and commercial reality, such that all the parties to the construction process - from financier to supplier, from client to community - support and sustain the process.

This paper addresses one business process - franchising - which is intended to address the issues of business, operational, and technical skills. It provides a framework such that the emerging contractor can be given a start with a much reduced risk of failure.

2 BUSINESS MODELS FOR EMERGING CONTRACTORS

2.1 Single unit business

Emerging contractors in the construction industry have historically adopted the model of the single unit business. The owner is also the executive, and operates independently of any other business. The entry barriers for the single-unit businesses can be reduced by the adoption of appropriate technology (Watermeyer, 1). However there are a number of problems that have to be addressed:

- (i) the lack of financial resources to purchase materials, hire plant and tools, and pay wages,
- (ii) the lack of commercial, contractual, managerial and administrative skills, and
- (iii) the lack of technical skills.

These problems are not unique to South Africa. A recent World Bank project undertaken by the CSIR studied the development of local (emerging) contractors in the construction industry in ten southern African countries (Ministry of Works, 2) and the countries involved all identified these problems as hindering the development of local contractors.

Various financial solutions have been developed, such as improved payment systems by the client, purchase of materials by the client, and/or weekly payments for labour to the contractor by the consultant/managing contractor. However it should be recognised that these may not be adequate in civil contracting because of the high turnover and the nature of the material. If the emerging contractor has not met quality standards, roads are difficult to tear up and re-use (unlike say electrical fittings). The practical limits to the amount of contract supervision which can take place mean that several days work could be rejected. This would result in a loss of tens of thousands of rand, and the need to purchase the same amount of new material. While the profit and contingencies built into the contract pricing can probably accommodate some setbacks, the cashflow or credit reserves most likely cannot.

2.2 Franchise operation

The franchise model overcomes some of the problems of the single unit business model. The key components of franchise schemes such as economies of scale, access to technology and specialised equipment, and a working business plan (Kotler, 3) are all applicable to the success of an emerging contractor. The differences between franchising and other forms of using emerging contractors are:

- (i) the ongoing support given by the franchisor to the franchisee to tackle the every day problems of tendering, continuity of work, building client relationships, etc.
- (ii) the non-adversarial relationship between the franchisor and franchisee enables superior transfer of knowledge, particularly in an industry which is built on adversarial relationships,
- (iii) the economies of scale allows the franchisee to fit logically into an industry which is necessarily based on large scale operations at the manufacturing end,

- (iv) access is given to technology and specialised equipment such as new bitumen products, and
- (v) a working business plan ensures that the complexities of a bitumen contractor such as marketing support, supply and storage systems, credit facilities and quality control, are all provided for with proven solutions.

The franchising concept is applicable to all areas of civil engineering construction, and not just bitumen surfacings. It can be equally applied to other sectors such as water or sewerage. At the same time, franchising fits in well to the evolving South African business and socio-political scene. In an environment where there is substantial external funding looking to support viable affirmative action projects, franchising is a very attractive lower risk investment option to support emerging entrepreneurs. As a sophisticated form of capital raising, it can overcome some of the problems of access to working capital discussed above.

In practical terms, the franchisees are often well known in their own community and under those local conditions they invariably get their business off the ground more easily (Meredith, 4) which is a particular advantage in South Africa's politicised developing communities.

3 BACKGROUND TO COLAS FRANCHISING PROJECT

In 1993, when South Africa was experiencing major political and labour unrest, the roads industry was finding it increasingly difficult to carry out road contracts in what was then referred to as the "townships". No new contracts were being let and routine road maintenance by the authorities in those areas became non-existent. It became evident that when political stability returned to the country the backlog in road repair and surfacing would have to be addressed by the authorities. The traditional way of doing business would not be accepted ie. awarding contracts to "white" owned construction companies with the work being carried out by the "black" workers.

As a dominant participant in road surfacing, Colas Southern Africa Pty Ltd (a member of Murray & Roberts Group; not associated with Colas France) looked at alternative ways of doing business. Options such as joint ventures, agency agreements and sub-contracts were rejected because they could be construed to be patronising and manipulative. The franchise model however incorporated both labour based construction and sustainable black entrepreneurial development in the road surfacing industry.

Thus it met the criteria of the Reconstruction and Development Programme (RDP) without losing sight of Colas's core business, which was to manufacture and market bituminous products. By franchising road surfacing operations, Colas would be transferring technical, operational and business skills to the previously disadvantaged sector of the community. In so doing, it would provide local and provincial authorities the means with which to address their road repair and maintenance requirements without having to compromise standards. The types of road surfacing franchises offered are shown in Table 1.

Franchisees are not seen as replacements for existing contractors. The structural and economic nature of the civil engineering industry is such that it will continue to be dominated by large contractors. These in turn play an important role in the development of emerging contractors. They provide the training ground for the emerging contractor and his staff. They also provide the infrastructure which can accommodate a number of emerging contractors in an overall framework of delivery of results on the large scale. The main area of deployment for the franchisees is to open up geographical areas which have been closed to civil contractors generally. The franchisee also is expected to supplant some

of the functions of the road authorities and municipalities in a privatisation sense.

Table 1 Types of road surfacing franchise

| FRANCHISE | SCOPE |
|------------------------|--|
| Repair and maintenance | All aspects of road repairs and maintenance (patching) to existing roads; labour based road maintenance |
| Asphalt paving | Premixed asphalt paving of existing and newly constructed roads using conventional equipment and construction methods. |
| Surface treatment | All variations of "chip and spray" applications to existing and newly constructed roads using conventional equipment and construction methods. |
| Slurry sealing | Applying slurry seals, using conventional equipment and construction methods, to existing and newly constructed roads. |
| Bitumen spraying | Distribution and spraying of bituminous products with conventional equipment. |

4 FRANCHISEE SELECTION, TRAINING AND ORGANISATION

4.1 Selection

The most important criteria for the selection of a franchise owner was found to be that he/she was accepted in the community in which they wished to operate and that all their employees would be recruited from within that community.

Recruiting suitable candidates for a road surfacing franchise proved more difficult than initially anticipated. The high cost of capital equipment in the road surfacing industry meant that it had rarely been conducive to involve emerging entrepreneurs. No existing road surfacing contractors that could be developed into franchisees were found amongst the previous disadvantaged communities. Instead the franchisees tended to be existing non-engineering businessmen from the community.

4.2 Training

The provision of a well planned and coordinated training programme for franchisees is a requirement for a successful and sustained business. Its objectives are to overcome:

- (i) lack of business skills,
- (ii) lack of technical skills and industry knowledge, and
- (iii) entry barriers such as tendering procedures and qualifications.

General business and operational skills related training as applied to all aspects of the construction industry is being provided by central training institutions such as those belonging to South African Federation of Civil Engineering Contractors (SAFCEC) and/or Small Business Development Corporation (SBDC). Specific business and operational skills training is provided by Colas as the franchisor using in-house trainers and franchise controllers at project level.

Technical skills training specific to the bituminous surfacing industry is provided by the franchisor using in-house trainers who have been accredited by the Civil Engineering Industry Training Scheme (CEITS) and the Department of Labour (DoL). All training manuals used for this purpose are accredited by both CEITS and DoL and form part of a series produced for use in the civil engineering industry (SABITA, 5).

Notwithstanding the importance of formalised training, the continuous mentoring provided by the franchisor is the primary mechanism which can ensure that a franchised road maintenance and surfacing business is successful and sustainable in the long term.

4.3 Organisation

Organisation in a franchised operation will necessarily tend to be less formal than with traditional contractors, and tend to be more focused on the organisation of labour. This is particularly true for the Repair and Maintenance franchises which permits a labour based approach to be used.

When allocating jobs in labour based construction, it is logical to break the tasks down to the very simplest level (such as 'asphalt raker') to facilitate the use of hitherto unskilled labour. Unfortunately, such jobs are often so narrow and meaningless that the contractor is sucked into control and co-ordination of details. This will in itself cause frustration rather than participation and there will be little time for constructive long term improvement.

To avoid this, the repair and maintenance franchisee would organise his workforce into 'semi-autonomous work teams'. Such teams comprise of say 7-12 workers who collectively have the simple skills necessary to complete a more complex task (SABITA, 6). An example would be, the repairing of deep subsidence across an existing surfaced road. The semi-autonomous work team would themselves manage the tasks of traffic control, excavating, compaction of base course, cutting edges, priming, placing and compaction of premixed asphalt to achieve their set quality standard. The team would move its multi-skilled members amongst the various tasks to adjust for difficult sections, individual problems, or individual quality deficiencies. The team are collectively responsible for the quality of the total product.

The size of the semi-autonomous work team is well suited to act as a building block for the emerging repair and maintenance franchisee to develop more teams and engage in larger contracts as the capabilities grow.

5 APPLICATION TO OTHER AFRICAN COUNTRIES

In many African countries, the use of local contractors is being actively encouraged. The view of the World Bank is that reliance should be placed on contractors rather than force account (direct labour) work. However implementation of this policy has been difficult and the majority of projects still rely on force account.

In terms of rural road programmes, the small scale and scattered locations of the work raises serious problems of management and supervision for force account work. Contract work can ease, but not wholly eliminate these problems, since the contractor is less constrained and better motivated. However the supervision of contractors raises special problems of control, deployment and training, which have generally not yet been fully recognised (Riverson et al, 7). In other African countries, franchising would overcome some of the institutional capacity problems with the use of local contractors.

A number of initiatives have recently been taken to develop the capacity of local contractors in various

sub-Saharan African countries (Ministry of Works, 2). They have concentrated on: (i) providing preparatory training, (ii) providing hands-on training, (iii) providing access to plant and equipment, (iv) assisting road agencies to acquire the skills to supervise contracts, and (v) simplifying government procurement procedures (Heggie, 8).

Franchising would fit into this framework well, covering the first three elements of the process. It does however require that there be a sustainable institutional capacity in place in terms of the franchisor. This approach would therefore demand that countries had resident large contractor/supplier(s) who could act as franchisors. In countries where this did not apply, a programme could be established whereby the Government entered into a long term partnership with a contractor/supplier to provide services/goods on a multi-year basis, in return for which a franchise programme would be run.

6 CONCLUSIONS

The conclusions are that:

- (i) the franchising concept overcomes some of the problems that apply to the single unit business model for the emerging contractor.
- (ii) franchising requires continuous mentoring, and business, operational and technical training,
- (iii) franchisees are not intended to replace existing contractors, but rather to complement large contractors and open up new areas of business including privatisation of existing government functions,
- (iv) franchising can be applied to all areas of civil contracting, not just road surfacings,
- (v) franchising can be applied to other African countries outside South Africa provided arrangements are made to ensure the provision of a large contractor/supplier as the franchisor.

7 REFERENCES

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