THE PROS AND CONS OF FRANCHISING FOR CHAIN STORES AND FRANCHISEES

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ACRONYMS

Acronym	Name
BFA	British Franchise Association
CVS	Convenience Stores
DRC	Democratic Republic of Congo
DUT	Durban University of Technology
FASA	Franchise Association of South Africa
FANZ	Franchise Association of New Zealand
IFA	International Franchise Association
JSE	Johannesburg Stock Exchange
PTA	Primary Target Audience
RSA	Republic of South Africa
UK	United Kingdom
USA	United States of America
VSDA	Video Software Dealers Association of America
W&RSETA	Wholesale and Retail Sector

Executive Summary

Franchising as a business format has attracted lots of attention because of its lower risk of market entry and failure rate and it has developed for over 200 years. Today, many businesses adopt franchising as a growth strategy because of its basic characteristics such as the high motivation of franchisees, resource constraint and so on. Therefore, franchising has become a world trend, not only in well developed in industrialised countries like the United States of America (USA) and the United Kingdom (UK) but also in the developing countries like South Africa. In South Africa, with the progress of internationalisation and its strong purchasing power, many foreign franchisors and local franchisors have discerned this opportunity and entered this market. Hence, one can see many franchised outlets in the South African retail market such as Shoprite and McDonald's.

It is believed that franchising comes from the mid-1800s. Modern-day franchising has been with us since the mid-1950s when it made its presence felt in the USA. Subsequently, expansion was swift and within a few short years, the concept had conquered the world and is becoming a growing trend globally and in South Africa. However, there are many pros and cons in franchising.

This report presents an independent research survey on the pros and cons of franchising for Chain Stores and Franchisees in order to determine what has worked, what has not and what are the international and local lessons and trends. The report is divided into six sections. Section one is the introductory section which highlights the background to the research project. It hence seeks to establish the rationale for undertaking the research study. It also consists of the research objectives, expected outcomes and deliverables.

Section two begins with setting the research context by examining literature related to franchising. Most of the existing theories are examined from the perspective of Chain Stores and Franchisees It includes the definition of franchising, examining the origins of franchising, highlighting the pros and cons of franchising and presenting the SWOT analysis. Section three presents the business profile of the Case Study (Shoprite Holdings Limited). Section four presents the research design and methodology for the research which includes the research instruments, data collection methods, data and analysis. Section five present the research findings and discussions for the study and integrates this with literature. Finally, section six makes concluding remarks.

SECTION ONE: INTRODUCTION AND BACKGROUND

1.1 Introduction

Nowadays, business models are increasing. One of the most common business model is franchising. When there is an owner of national or regional chain company and a person who wants to operate one of their companies, they make a contract. This contract enables person to operate one of their outlets. These outlets must be same with the original company; using same furniture, equipment, having same service and taste. These contracts show differences according to the owners, it can be based on initial payment or a percentage of gross sales. To sign a contract in order to be a part of a known business is called as franchising (Bohi, 2010).

Franchising has been providing business opportunities for over 200 years. "According to the International Franchise Association (IFA), the industry's largest trade groups, almost 4% of all small businesses are franchises and the industry accounts for 40% of all retail sales in the US". It is believed that franchising comes from the mid-1800s. The earliest franchising was done by Singer Sewing Machine in the United States in 1851. Coca-Cola started to franchise in 1899, then, oil refineries and auto manufacturers began to franchise to distribute their products in different parts of the country. After that, America wants to improve their restaurant chains and Kentucky Fried Chicken started in 1930, Dunkin Donuts started in 1950 and McDonalds which is the most successful franchise in the world started to franchise in 1955.

This research study has been written to determine the pros and cons of franchising for Chain stores and Franchisees in order to determine what has worked, what has not and what are the international and local lessons and trends. The study is divided into six.

1.2 Background

The Wholesale and Retail Sector Education and Training Authority (W&RSETA) is one of the statutory bodies that have been re-established by the Minister of Higher Education and Training in terms of the Skills Development Act of 1998 to enable its stakeholders to advance the national and global position of the Wholesale and Retail sector. Pursuant to this, the Durban University of Technology has been awarded a Retail Chair. The W&RSETA has commissioned DUT to do the research on a number of topics. This research report responds to the topic of "The pros and cons of franchising for Chain Stores and Franchisees".

Franchising as a business format has attracted lots of attention because of its lower risk of market entry and failure rate and it has developed for over 200 years. Today, many businesses adopt franchising as a growth strategy because of its basic characteristics such as the high motivation of franchisees, resource constraint and so on. Therefore, franchising has become a world trend, not only well developed in industrialised countries like the US and the UK but also in developing countries like South Africa.

In South Africa, with the progress of internationalisation and its strong purchasing power, many foreign franchisors and local franchisors have discerned this opportunity and entered this market. Hence, one can see many franchised outlets in the South African retail market such as 7-Eleven, Body Shop, 21st Century Estate Agency, and McDonald's. However, like any business model, franchising has its benefits and drawbacks. Therefore, this research study will examine the pros and cons of franchising for Chain Stores and Franchisees in order to determine what has worked, what has not worked and what are the international and local lessons and trends.

1.3 Research Objectives

The main objective of the study is to determine the pros and cons of franchising for Chain stores and Franchisees. The ultimate aim of the research is to determine what has worked, what has not worked and what are the international and local lessons and trends.

1.4 Expected Outcomes and Deliverables

The research is expected to yield the following outcomes and deliverables as determined by DUT:

- Data Collection
    - Literature Review/Document Analysis
    - Case Study Analysis
- Data Analysis
- Report Writing

1.5 Report Outline

This research study has been written to determine the pros and cons of franchising for Chain Stores and Franchisees in order to determine what has worked, what has not worked and what are the international and local lessons and trends.

The report is divided into six sections. Section one is the introductory section which highlights the background to the research project. It hence seeks to establish the rationale for undertaking the research study. It also consists of the research objectives, expected outcomes and deliverables. Section two begins with setting the research context by examining literature related to franchising. Most of the existing theories are examined from the perspective of Chain Stores and Franchisees It includes the definition of franchising, examining the origins of franchising, highlighting the pros and cons of franchising and presenting the SWOT analysis. Section three presents the business profile of the Case Study (Shoprite Holdings Limited). Section four presents the research design and methodology for the research which includes the research instruments, data collection methods, data and analysis. Section five present the research findings and discussions for the study and integrates this with literature. Finally, section six makes concluding remarks.

SECTION TWO: LITERATURE REVIEW/DOCUMENT ANALYSIS

2.1 Introduction

The concept of franchising was started in the mid-1800. There is still a debate amongst people regarding the origin of franchising although the concept was first invented by the Americans. The earliest franchising was done by Singer Sewing Machine in the United States in 1851.

According to Webber (2012), "Owning a franchise allows you to go into business for yourself, but not by yourself." A franchise provides franchisees (an individual owner/operator) with a certain level of independence where they can operate their business. It also provides an established product or service which may already enjoy widespread brand-name recognition. This gives the franchisee the benefits of a pre-sold customer base which would ordinarily takes years to establish. A franchise increases your chances of business success because you are associating with proven products and methods. Franchises may offer consumers the attraction of a certain level of quality and consistency because it is mandated by the franchise agreement.

Like any business model, franchising has its benefits and drawbacks. Franchises offer important pre-opening support: site selection, design, construction, financing, training, and a grand-opening program. Franchises offer ongoing support: training, national and regional advertising, operating procedures, operational assistance, ongoing supervision and management support, increased spending power, and access to bulk purchasing.

Bennett and Babcock (2008) indicates that the franchisee is not completely independent. Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchise agreement. These restrictions usually include the products or services which can be offered, pricing and geographic territory. For some people, this is the most serious disadvantage to becoming a franchisee. In addition to the initial franchise fee, franchisees must pay ongoing royalties and advertising fees. Franchisees must be careful to balance restrictions and support provided by the franchisor with their own ability to manage their business. A damaged, system-wide image can result if other franchisees are performing poorly or the franchisor runs into an unforeseen problem. The term (duration) of a franchise agreement is usually limited and the franchisee may have little or no say about the terms of a termination.

2.2 Franchising Defined

The term "franchise" is used to describe a variety of contractual and structural relationships between organisations. A survey of the literature reveals that there is no uniform definition provided. The principal reason for this is due to the diversity of organisations which are loosely described as franchises (Mendelsohn, 1982).

Perhaps the most useful definitions are provided by franchise associations. These are organisations which represent and promote the industry. Franchise associations are trade associations of franchisors. They exist to achieve the economic objectives of their members through political means and by resolving channel conflict (Assael, 1968). The franchise format is similar across geographies. The general definition adopted by the International Franchise Association (IFA), founded in 1960, is:

> *"A franchise operation is a contractual relationship between the franchisor and the franchisee in which the franchisor offers, or is obliged to maintain, a continuing interest in the business of the franchisee in such areas as know-how and training: wherein the franchisees operate under a common trade name, format and procedure owned or controlled by the franchisor, and in which the franchisee has or will make a substantial capital investment in his business from his own resources".*

From this definition, we can see that the franchise relationship is based on a contractual relationship between franchisors and franchisees and something is exchanged between both parties.

The UK's franchise association is the British Franchise Association (BFA), the BFA defines franchising as: "A contractual licence granted by one person (the franchisor) to another (the franchisee) which:

a) permits or requires the franchisee to carry on during the franchise, a particular business under or using a specific name belonging to or associated with the franchisor; and
b) entitles the franchisor to exercise continuing control during the period of the franchise over the manner in which the franchisee carries on the business which is the subject of the franchise; and
c) obliges the franchisor to provide the franchisee with assistance in carrying on the business which is the subject of the franchise (in relation to the organisation of the franchisee's business, the training of staff, merchandising, management or otherwise); and
d) requires the franchisee periodically, during the period of the franchise, to pay the franchisor sums of money in consideration for the franchise, or for goods or services provided by the franchisor to the franchisee; and
e) which is not a transaction between a holding company and its subsidiary (as defined in section [736] of the Companies Act [1985) or between subsidiaries of the same holding company, or between individual and a company controlled by him.

This definition has two key elements which describe franchising in its broadest terms. First, there is a licensed contractual arrangement between two separate businesses. To this end, franchising is a form of vertically integrated partnership between two organisations, the franchisor and the franchisee. Second, the license will involve the right of the franchisee to use a trade name or trade mark. This will usually have some commercial value or economic rent. This is because it will be recognised by consumers, who have some goodwill associated with the trade name or mark. Franchises are sold to franchisees in a standard format and consumers are usually not able to distinguish between franchised and franchisor operations.

The BFA definition is by comparison to other franchise associations specific with regard to business format franchises. The franchisee is buying 'an off the peg business where the systems and processes have already been established and proven out by the franchisor. The standardised nature of the franchise package sold to franchisees enables the franchisor to build up distribution for the trademark and more consumer goodwill towards it, and through this process, franchising can develop large and apparently corporate chains. The process of selling licences and building up a chain through franchising has led to the development of some of the world most successful organisations in their markets, for example, McDonalds.

This BFA definition has two key factors in common with the IFA definition. First, that franchising involves the marriage of two separate business entities through a legal and binding contractual relationship. The contract is offered on a take it or leave it basis, much like an insurance policy and is usually non-negotiable in terms of the obligations on the franchisee. However, at all times the franchisee is a risk taker with his own or loan capital. Second, the franchisor has control over the way the franchisee runs the business and at the same time provides support to the franchisee in running the business.

The US model does however have a deliberately more general definition and more easily applies to different types of franchises. More specifically, the IFA definition includes basic contractual marketing systems such as distributorships as well as sophisticated business format franchises. The BFA's definition is more targeted towards the business format type of franchise but is broad enough to allow the inclusion of the more basic franchise systems, presumably for the purpose of leveraging membership.

The Franchise Association of Southern Africa (FASA) defines franchising as, “a grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package containing all the elements necessary to establish a previously untrained person in the franchised business and enable him or her to run it on an ongoing basis, according to guidelines supplied, efficiently and profitably”.

Aside from the above definitions, there are many different definitions of franchising. For example, Curran and Stanworth (1983) defined franchising as:

> *"A business form essentially consisting of an organization (the franchisor) with a market-tested business package centered on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms, operating under the franchisor’s trade name to produce and/or market goods or services according to a format specified by the franchisor".*

Additionally, in different periods, different individuals and experts have described franchising in different ways. Therefore, the definition of franchising differs from time to time. According to Bygrave, 1977, “Franchising is seen as an entrepreneurial option towards creating and developing ventures. Michael (2003) in agreement herewith, mentions franchising as a technique for entrepreneurs in service industries to assemble resources in order to rapidly create large chains and gain first mover advantage. Nieman, *et al* (2004) view franchising as a method of entrepreneurial expansion. He argues that franchising is an arrangement between two parties whereby the franchisor grants the franchisee certain rights to sell a firm’s products or services, as per guidelines set down by the franchisor.

Mendelsohn (2003) indicates that a franchise relationship is not self-sustaining because the franchise cannot succeed without successful franchisees, franchisors to devote resources to enhance franchisor/franchisee relations, franchisor duty to establish and sustain a viable business, franchisors code of ethics and that the franchisor must promote the basic principles upon which franchising is based. Commonly, a franchisor is an individual or the company that has invented a commercial business and wishes to allow other persons or a company to run a business under their brand. Currently, the major types of franchising include retailing, property services, personal services, business and communication services, hotel and catering, transport and vehicle services.

According to Scarborough (2009) “Franchising is an agreement between two parties i.e. franchisor and franchisee”. The franchisor provides right to the franchisee to use its trade mark and the franchisee carry the business using the trademark provided by the franchisor under the terms and conditions agreed on a contract. The franchisee obtains the experience from the franchisor in operating the business and the guidance from the experience who has already running the franchising successfully under the same brand. Franchising is a business for yourself instead of business by yourself because it requires to follow the structure of franchisor.

In short, the distinguishing feature of franchising is that franchisees follow the recipe, the rules; the consistency between franchisees and franchisers are maintained. Webber (2012) describes Franchisee Skill Acronym in his book called introduction to Franchising as follows:

- F = Flexibility
- R = Responsible and Positive attitude
- A = Ability to manage multiple priorities
- N = Need to Succeed
- C = Creative problem solving
- H = High energy levels
- I = in no doubt about personal abilities
- S = Strong people skills
- E = Eager to learn

2.3 The Origin of Franchising

Franchising dates back to 200BC when a Chinese businessman Los Kas created a franchised chain-store concept for the distribution of branded food items throughout China. However, the concept of franchising as we know it today originated in the United States in the mid-1800 where in the 1860's, the Singer Sewing Machine Company established a franchised network of dealers (Mendelsohn, 1982). It is, therefore, an American concept which was introduced to support the American businesses to expand their operation in different countries. Therefore, the USA is regarded as being the full accreditors of developing the franchise system internationally. They are undoubted leaders in the exporting of franchise systems.

From a pure historical point of view, the extensive 'pub' network in the UK may be the oldest franchise system in the world. This dates back to 740-750, during the Roman occupation of Britain. By 957 King Edgar decided there were too many alehouses and decreed a limit of one per village. Standards were instituted, monitoring systems established with fines levied against violators and franchising was born (Monckton, 1969). After the 1840's, two types of franchising evolved in the US. Product franchising involved durable goods manufacturers integrating vertically, developing their own distribution channels. Business format franchising, created in the 1950's, results from evidence that the outlet itself could be a vehicle for entrepreneurial activity (Spinelli, 1997).

Coca-Cola started to franchise in 1899, then, oil refineries and auto manufacturers began to franchise to distribute their products in different parts of the country. After that, America wanted to improve their restaurant chains and Kentucky Fried Chicken started in 1930, Dunkin Donuts started in 1950 and McDonalds which is the most successful franchise in the world started to franchise in 1955. Franchising in some form exists in over one hundred countries around the world and is continuously growing. According to IFA, franchising businesses continue to grow faster than rest of the economy of the world.

While franchise businesses in the US have origins that trace back to the 1800s, the model did not begin to truly flourish until the 1950s. The 1950s and 60s saw franchise models expand beyond the traditional restaurant to several non-food applications including hotels, business services and convenience stores. Historians and franchise experts point to several factors that led to this rapid expansion, including the shift to a service-based national economy, the construction of the federal interstate highway system and the growth of suburbia (Kaufman and Kaufman, 2009).

By the 21st century, franchise businesses had become a vital component of local economies. The business model could be found in almost every corridor, from rural highway off-ramp, transient service clusters to densely populated central business districts. This realization led the Washington D.C. based IFA and the United Census Bureau to begin measuring the growing economic impact of franchise businesses within the 2007 Economic Census. (US Census Bureau, 2010).

Three categories of a franchise system are identified; franchisor-operated outlets; franchisee-operated outlets or a combination thereof. Types of businesses generally included in business format franchising include food and non-food retailing, business services, restaurants and business services. Petrol stations and soft drink bottlers are excluded from business format franchising as they incorporate other forms of licensing and development arrangements. In 1993, the IFA predicted that close to 43% of USA retail sales will be attributable to franchise sales.

2.4 Franchise vs. Chain and Independent Businesses

Franchise businesses and chain stores, although often considered similar business models, have distinct differences in their organizational structure and operations. Chain stores, for example, are owned, operated and managed by one main partner entity. They hire managers to run the day-to-day operations of the business (e.g. Walmart). The parent company undertakes all of the risks involved in operating the individual businesses, and in turn, realizes all of the profits at each location. Franchising, in contrast is when the franchisor sells the trademarked rights to the businesses name, provides individual training and support to franchisee-owners and takes a contracted portion of the profits in the form of on-going royalties. The risk is shared by both the franchisor and the franchisee as partners, albeit within an uneven power structure (i.e. where the parent company has the authority and power to control many aspects of the franchisee operations).

In addition, the franchisee can enjoy many of the benefits that are enjoyed by chain location businesses such as combined purchasing power and marketing). On the other end of the spectrum is an independent business, where the owner undertakes all of the risk and sees all of the profit as the sole owner and operator (Clements, 2010).

Civic Economics (2012) provided a key metric of trends from the different business models to measure their impact, including payroll, goods/services purchased from area businesses, retail employment, poverty rates, profits spent by local owners, and donations to area charities. These are summarised in Table 1 below:

Key Trends	Chain Store Business	Franchise Business	Independent Business
Local owner profits	• Profits flow from local chain stores to the parent corporation.	• Profits are split with the franchisor per the franchise royalty fee. • Owner may not be local.	• Profits stay with the business owner. • Owner may not be local.
Wages paid to employees	• Wages depend on local minimum wage laws. • Current movement (e.g. Walmart) to begin increasing wages to a more living wage.	• Wages depend on minimum wage laws. • Current issue is whether franchises should be treated as individual businesses or a network of	• Wages depend on minimum wage laws. • Also, subject to minimum wage laws, however, they have the greatest flexibility as to

	• Usually sets a certain price for goods and services across local and regional markets to keep consistency, ultimately impacting the ability to raise employee wages.	businesses for minimum wage laws. • Like chain stores, franchisees usually must adhere to franchisor uniform pricing for goods and services across local markets.	employee wage determination and are not tied down by the franchisor's priority for uniform costs across local markets.
Locally sourced goods and services	• While there has been a bigger push for "locally grown" products, very few chain stores have the capability to offer truly local community sourced products and utilize local services. • Smaller chain store networks are beginning to see the value and utilize locally sourced goods.	• Larger franchise networks are similar to chain stores in their inability to provide local community-sourced products and utilize local services, a few smaller regional franchises have been able to offer in-season sourced goods from local communities.	• Independent businesses often have the flexibility in their business model to truly offer local farm-to-table products and other purchasing opportunities to provide locally-sourced goods and utilize local services.
Charitable Giving	• Most chain store networks provide charitable giving on the national level. • Some chain stores have been given greater latitude in directing charitable	• Franchisees, as local community owners, often have the same connection and ability to give to local communities as independent owners.	• Independent businesses often have the greatest flexibility in their business model to determine their local charitable

	giving within the individual location's community.	• Franchisors have begun to think more locally and to allow for individual franchisees to determine location-specific community charities and organizations for donations and fund-raising campaigns.	recipients and campaigns.

Table 1: Key Metric of Trends for the Different Business Models

2.5 Franchise Rationale

Prior to looking into the merits and demerits of a franchise system, becoming a franchisee versus starting a stand-alone business requires evaluation. Spinelli (1997) points out that this evaluation hinges on the mitigation of risk by the trademark value, operating system, economies of scale, support process of the franchise and the personality/management style to sharing decision-making responsibilities within the system. To quantify the evaluation, Spinelli derived the following:

Franchise Fee + PV of royalty = PV of the increased net income from the value of the franchise trademark. PV is the present value of a sum of money. An analysis of services provided by the franchisor requires review.

a) Real estate development

Many business format-franchising systems include a real estate ingredient; therefore, sight selection and development are an integral part of franchising. This predominantly surfaced during second generation franchising in the 1950's, when Harlan Sanders (Kentucky Fried Chicken) and Ray Kroc (McDonalds) built national chains along the developing interstate networks. Ray Kroc is generally recognised as the founder of business format franchising and based his initial model on real estate development (Williams, 2000).

Market research into the primary target audience (PTA) includes viability studies including the market that will patronize the franchise outlet. Real estate development includes:

- Cost, location standards for successful expansion
- Population, how wide a market area, PTA members, pro forma market share
- Traffic volume, pedestrians, traffic flow, shoppers
- Traffic patterns, timing, bottlenecks, peaks and troughs, seasonality
- Visibility, impulse, signage, building, entrance
- Zoning and permits, local councils, governing bodies, landlords
- Ingress and Egress, entrance to and from the site
- Location success factors, link to business format, rental relationship.

b) Construction specifications and supervision

The franchisor usually has a standard set of blueprints, despite modifications per site. Those strong on brand reputation and consumer sovereignty will include building contracts, specifications, and usually supply their own, or accredited outsourced partners to do the construction and layout.

c) Training

The licence agreement should stipulate the time and cost of trading, pre-opening and ongoing training, and specifying the form in which the franchisors responsibilities span (Spinelli, 1997). The trademark and name are the most important assets in a franchise system and franchisees should be adequately trained to uphold the desired value. A poor training regime will inevitably dilute the standardized and consistent delivery and reduce or tarnish trade name value. Mendelsohn (2003) indicates that franchisees must be trained in the system and business methods which the franchisor has developed, including any special methods of production/value added, processes to be applied to goods, methods of preparation and manner of providing services. Training is also to be provided in methods of marketing and merchandising.

d) Pre-opening support

Preopening support is a concentrated, multifunctional program to launch the new franchise (Spinelli, 1997). The franchisor has the expertise in place to provide sophisticated start-up assistance, and is leveraged in a partnership association, to the benefit of franchisee and franchisor alike. After training, assistance will be given in getting the business ready to open for trading (Mendelsohn, 1992). To develop the local target market in the area of the new franchise, the franchisor is obliged to assist the franchisee in localised marketing communications. The new franchisee is unlikely to have the competence to implement this task, thus necessitating franchisor assistance (Nieman, 1998).

e) Continuing support

Not only must the franchisor create a market for the brand/service, but also all participants in the system must be sustained and nurtured (Spinelli, 1997). As such, the actions of each franchisee have bearing on overall franchise performance. Unfortunately, the degree of franchisor support is usually inversely proportionate; in that struggling franchisees receive more attention and support. A key ingredient for success is a balance of franchisor resources. Apart from the proper level of support in the business operation, the franchisor should be creating good franchisor-franchisee relations on an ongoing basis.

Mendelsohn (2003) suggests a range of ongoing services to include:

- Monitoring and support
- Training
- 'Head office' organisation
- Market research
- Advertising and promotion
- Communications

f) Performance standards and monitoring

By developing and implementing a variety of financial and operational information systems, the franchisor may identify exceptional and sub-par performance. The franchisor has to support and maintain the business format, image and quality of services provided in the franchise system (Nieman, 1998). The entire franchise system should deliver the same quality to the customer. This is also facilitated by monitoring relationships and performance management. Sophisticated computer interface management information systems not only provide a channel of franchise communications, but that of management interaction. This is a distinct advantage of network communication not available to individual or stand-alone outlets.

g) Field support

Franchisor staff to regularly interact with franchisees in relation to trade, activities including operating procedures, business and performance reviews, field training, relationship management, supplier compliance, local marketing and overall operations audit. Field visits go a long way towards franchisees justifying royalty payments. Advantages include corrective action when franchisees are not following the system correctly. Mendelsohn (1992) recommends that the franchisee should contact his field support representative from time to time if he has not been visited, even if just to catch up on other successes within the franchise operation.

h) Operational research and development

Although standards and operational management maintenance across operating units must be adhered to, it must not be seen as a hindrance to change and innovation. A benefit regarding research and development centres on economies of scale in a franchised system, being optimally achieved through centralized and monitored inputs. The franchiser should constantly be seeking innovative methods for improving the business of the franchised network (Mendelsohn, 2003). Important research and development activities can include the exploitation of new sources of supply, good quality materials and products for the franchise system, facilitating both quality and cost.

i) Marketing, advertising and promotions

Varying amongst franchisors, the standard format is a group-advertising fund, resultant from franchisee royalty payments (Nieman, 1998). Management thereof is usually contractual, either at the discretion of the franchisor, or most often in the control of a franchise council or franchisee representation of sorts. Mendelsohn (2003) advises that there are three alternative methods of dealing with the expense when the franchisor undertakes the obligation to advertise and promote:

- The franchisee is charged a sum calculated as a per cent of the franchisee’s gross income (similar to franchise fees)
- The advertising expense is included within the continuing franchise fee and undertakes to spend not less than a minimum per centage of such fees

- The franchisor undertakes all marketing communications activity without collecting a contribution for this purpose.

j) Product purchase provision

Economies of scale take effect, particularly regarding quantity discounts, group buying and related discounts and trading terms. Rebates and confidential allowances are usually paid to the franchisor, and depending upon contractual obligations, may be shared between the franchisees. Confidential allowances have been an issue of contention in the industry, being the reason for ethical evaluation into franchise business practices. Included may be contractual provision for approved suppliers and distributors, and method of procurement. According to Nieman (1998), franchise system purchasing usually covers three areas; namely:

- Purchases of the franchisor/franchisee
- Group purchase programmes
- Product and supply restrictions.

k) The operations manual

Often the heart of the franchise asset, as it delineates the manner in which the trade name and mark are to be delivered to the customer (Spinelli, 1997). Failure to operate within the confines of the manual often leads to dispute within the franchise system. To this end, an operations manual should include a dispute resolution process. Williams (2000) advises that the operations manual should be supplemented with administration/reporting manuals; corporate identity manuals; speciality manuals, training manuals; troubleshooting guide; Franchisor manuals and ongoing development and upgrading of system. Nieman (1998) informs that as the franchise system develops, the operations manual usually becomes the backbone of the system. Together with the trade name, the knowhow detailed in the manual is the most important asset of the franchise.

Mendelsohn (2003) lists an overview of suggested operating instructions, to be included in the manual; namely:

- Hours of operation
- Trading patterns, peaks and troughs
- Franchisee involvement and staff schedules
- Standard forms and procedures (including invoicing and brand-name communication)
- Staff appearance (such as uniforms)
- Staff training procedures
- Employment of staff (statutory requirements included)
- Disciplining staff
- Product, pricing and promotional policies
- Customer service policies
- In-store appearance and ambiance
- Purchasing policies
- Product standards
- Customer complaint procedures, such as listening posts
- Service standards
- Staff duties, including job descriptions, methods of performing responsibilities
- Payment of franchise fees, calculation and timing thereof
- Accounting, generally accepted accounting practices
- Marketing communications, local marketing, group cohesion and offering, selling techniques, customer retention
- Use of trade-name, trademark usage in course of business
- Operational policies and procedures
- Communication channels within the franchise system.

l) Specialist support

Depending on the nature of the business, the franchisor should provide the necessary professional support. Not only related to business activity or discipline, this also includes participation in industry initiatives and proactive market environment activities. Such examples involve membership and participation in FASA, Video Software Dealers Association of America (VSDA), representative bodies in training, financial institutions and governance.

m) Territorial rights

Robinson (2004) indicates that the setting and operation of territories is one of the more complicated components within franchise systems. Second only to fees, territories are potentially the most contentious issue for franchise networks. Demographics are a constantly evolving factor; hence the true market area will inevitably change. A relocation clause is most often associated to territorial issues, contained within an exclusive territory clause or operations clause.

Robinson (2004) identifies different basic structures and applications in territory allocation such as:

- No territory, with no territorial or geographic restrictions, but may be limited to specific location only
- Regional territories, possibly limiting the number of franchisees per region
- Non-exclusive territories, nominal territories in which the franchisee operates, normally restrictions of sort
- Exclusive territories, no other franchise of the same system can be established or operate in a given territory. Issues involve the right to establish further territories, right to expand trading operations, right to subdivide territories and sub franchising.

When developing territories, Robinson (2004) highlights the inclusion of:

- Population size
- Number of dwellings
- Growth of an area (normally via population or dwellings)
- Number of businesses/commercial premises
- Number of businesses within certain industry types
- Level of income/economic strata
- Other demographic data such as racial mix, age, psychographics
- Price of housing
- Road traffic, foot traffic

- Amount of competition in the area
- Proximity to other key influencers or sources of business, such as shopping malls
- Planned roading changes or shopping complexes
- Market media used to attract/secure business, such as direct mail areas, television regions.

A territory may be defined in a number of ways. The most common way of dividing physical territories is via a detailed map, which is often appended to the franchise agreement. Some franchisors set their territories to a toll-free number areas and then use that toll-free number for all promotions, secure in the knowledge that responses can be directed to the correct territory. The key to success with territories and the internet is to take a fair and long-term approach, either directing the business from the internet to the relevant franchisee or involve a specialist internet franchisee. Another possible option is that franchisees should each own a share of the internet marketing channel so that they can all profit from internet sales (Robinson, 2004).

n) Terms of the agreement

At the heart of almost every franchise relationship is a lengthy legal document, the franchise agreement. Agmen-Smith (2003) explains the franchise agreement as setting out the rules by which the franchisor (who owns the franchise network) and the franchisee will have to live by for the period of the franchise. It is by far the most important of the franchise legal documents. He refers to the franchise agreement as the moment of truth, where the franchisee and franchisor formally agree to their relationship. It should be read alongside the franchise operations manual, which every full format franchise will have. The franchise agreement usually refers to the operations manual and disclosure document, binding the franchisee (and franchisor) to certain obligations within the manual. The operations manual usually forms an integral part of the franchise relationship and requires that the franchisee operate the business according to the systems and methods set out in the manual.

Franchise agreements start by identifying the parties, a background to the agreement itself, then a rendition of the main terms. At the end, there are schedules including specific duties such as dates, values, territory boundaries and renewal rights. Other documents may include non-disclosure agreements; together with a disclosure statement, providing financial and other information about the franchisor.

Successful franchised systems should include a full presale disclosure in a document that provides information about aspects of a franchise offering (Hisrich and Peters, 1998).

Kauffmann and Robbins (1991) summarize a twenty-point disclosure document:

- Identification of the franchisor, affiliates and business experience
- Business experience of each of the franchisor's officers, directors, management and personnel responsible for services, training and other aspects of the franchise
- Lawsuits in which the franchisor and its officers have been involved
- Previous bankruptcies of franchisor officers
- Initial franchise fee and other initial fees to obtain the franchise
- The continuing payments that franchisees are required to make after the franchise opens
- Any restrictions on the quality of goods and services used in the franchise and where they may be purchased, including restrictions requiring purchases from the franchisor or its affiliates
- Any assistance available from the franchisor or its affiliates in financing the purchase of the franchise
- Restrictions on the goods or services franchisees are permitted to sell
- Any restrictions on the customers with whom franchisees may deal
- Any territorial protection that will be granted to the franchisee
- The conditions under which the franchise may be repurchased or refused renewal by the franchisor, transferred to a third party by the franchisee, and terminated or modified by either party
- The training programs provided to the franchisee
- The involvement of any celebrities or public figures in the franchise
- Any assistance in selecting a site for the franchise that will be provided by the franchisor
- Statistical information about the present number of franchises; the number of franchises projected for the future; and the number of franchises terminated, the number the franchisor has decided not to renew, and the number repurchased in the past
- The financial statement of the franchisor
- The extent to which the franchisees must personally participate in the operation of the franchise

- A complete statement of the basis of any earnings claims made to the franchisee, including the per centage of existing franchises that have actually achieved the results that are claimed
- A list of the names and addresses of other franchises.

Should a franchise have a consolidated and accurate disclosure document, the franchise contract will be understood more easily. The Federal Trade Commission (USA) requires all franchisors to supply prospective franchisees with the disclosure document at least ten days before entering a purchase contract (Halloran, 1994). The franchise agreement between the franchisor and franchisee is the legal document that details the franchise relationship. It also shows how the information in the disclosure document applies to the franchisee.

The franchise agreement is often an exhaustive, lengthy and sometimes complex legal document, the most important contents being:

- Period of grant of rights

The franchise agreement is usually established on a long-term basis, with a 15-20-year period being the norm (Spinelli, 1997). The key is however in the renewal rights and absence thereof is indicative that the franchisor is predisposed not to grant renewals. Renewal provision includes required notice periods; payment of a renewal fee; allowing the franchisor to change the wording of the franchise agreement upon renewal and allowing the franchisor to change the size of the territory of the franchisee. The franchise may be likened to a lease, allowing the franchisee to 'rent' the right to the franchise system for a set number of years (Agmen-Smith, 2003).

- Payments and fees

A large initial up-front payment is usually required, most often consisting of a registration or acceptance fee. The identification hereof will depend on the franchise package. The sale of the franchise package may be that of turnkey methodology, whereby the franchisor is involved in acquiring the premises, shopfitting and equipping so that it is ready for the franchisee at the commencement of business. This also includes set-up and other initial fees, all dependent on the type of franchise. This follows ongoing payments during the franchise term. These are primarily made up of royalty payments on a regular basis (usually monthly), based upon gross turnover, a set amount (flat fee), or combination thereof. Other fees include levies for advertising and training; with obligations for brand renewals, relaunches, conferences and meetings. Marketing (includes advertising and promotions) costs are usually provided for from contributions of the franchisee, by the way of a levy. There are often agreements on what the funds may be spent on, with the franchisor usually having full discretion. This is an avenue of conflict within the system, hence the formation of franchise councils, acting as a communication conduit between franchisor and franchisees. Franchisees are usually required to co-operate with major promotions, such as recommended price discounts and 'specials' (Mendelsohn, 2003).

- Opening

Most often there are requirements for the franchisee to spend a specified minimum amount on store launch promotions. Store layouts and fitment is usually a prerequisite of the franchisor, together with working capital requirements. This includes, but is not limited to signage, décor, shopfitting, landlord requirements and municipal costs.

- Premises, leases and mobiles

Since location plays a vital role in the success of the franchise, the franchisor is most often actively involved in site selection. The franchise agreement will usually contain various provisions relating to leases (Agmen-Smith, 2003). The leaseholder may be the franchisee or franchisor, dependent on the objectives of the franchisor. Regarding mobile franchises, the franchisee may be required to implement vehicle sign writing, and the franchisee may be required to purchase the fully set-up vehicle from the franchisor. Mendelsohn (2003) regards leasing as "a complex aspect of franchising, with problems which arise not only from the legal implications but also the attitudes, practices and balances of negotiation power which are prevalent in the property market at the relevant time". This notion is predominant in the South African context, where Franchisors have standing relationships with landlords, often negotiating prime sites at competitive rates.

- The franchise business

Both the term ‘business’ and the term ‘system’ (which refers to the method of operating the business) will be formally defined and regularly referred to in the contract. The operations manual usually defines and explains many of the franchise business terms.

- The manual

Most often initial training programmes review a ‘how to do it’ manual, a blueprint for franchise operations. The agreement normally provides that a manual will be supplied, normally remaining the property of the franchisor; to be returned at the end of the term. The agreement will allow for the manual to be updated from time to time.

- Obligations

These include clauses setting out initial and ongoing obligations of both franchisor and franchisee. There will invariably be strict obligations on the franchisee to keep accurate and up-to-date accounting records (Agmen-Smith, 2003), with requirements of electronic linking of point of sale systems to the franchisor

- Intellectual property rights

These are legal rights, which have developed to protect ownership of inventions and creations of various types. These include copyright, trademarks, designs, layout designs and patents

- Sale or termination

Totally dependent on the terms of agreement, and the type of business. Most agreements will allow for the sale of the business during term, with the franchisor usually having first option to repurchase. Spinelli (1997) refers to this as right of first refusal, whereby the price should be equal to or a premium of the bona fide third-party offer. Upon sale of an existing franchise, the incoming franchisee must be approved by the franchisor, and undertake the required training. A new transfer or approval fee may be applicable. The franchise agreement may run its original term, or a new contract drawn up. The agreement may also be terminated prematurely. Events such as death or incapacity of the franchisee bankruptcy, liquidation, criminal convictions, termination of lease of franchise premises, and failure to pay money due to the franchisor, as well as breaches of party obligations may also qualify for termination.

- Disputes

Most agreements now provide for mediation or arbitration should disputes not be resolved by discussion. The objective is minimising disturbances to franchise operations, whilst maintaining harmonious franchise relationships.

- Cooling-off periods

Many Franchise Associations, such as FASA and Franchise Association of New Zealand (FANZ) requires its members to provide an option for franchisees to withdraw from the agreements. This is currently within a 7-day period after signing the agreement. Inclusions of such clauses are usually a favourable indication of the franchiser's intentions and approach (Agmen-Smith, 2003).

Parties are not always limited to franchisor and franchisee, but may include master franchisors, sub-franchisors or area franchisees. A franchisee may also elect to open up a franchise in the name of a limited liability company or partnership.

2.6 The Development of Chain Stores in South Africa

According to the South African Chain Store Association, the origin of the chain store can be traced back to 1960s. A history of franchising in South Africa is perhaps best told through its iconic franchises on a decade-by-decade timeline. The 1960s saw the birth of Steers, the first South African franchise. Steers is a flame-grilled burger chain that is famous throughout South Africa. The story begins with George Halamandaris. The Steers idea came to George while he was on holiday in the US in 1960. Halamandaris decided that he would bring the concept and updated method of restaurant and fast food catering to South Africa, which resulted in the first "real" steakhouse in the country. The first Steers steakhouse restaurant was opened in Bellevue, Johannesburg. In 1983 Steers launched a new franchise program and in 1994 the company listed on the Johannesburg Stock Exchange (JSE) under the name Steers Holdings Limited. Today Steers has 522 stores around the world.

The 1970s were an important time for franchising as they saw the birth of a truly iconic South African retail franchise that has become part of the cultural landscape. This franchise is Shoprite. The first Shoprite was founded in 1979 in Cape Town when a number of small supermarkets were purchased for a price of

R1 million. The first branch outside the Western Cape was opened in 1983. In 1990, Shoprite opened its first store outside South Africa in Namibia.

Chicken Licken, a popular fast-food fried chicken chain was opened in Johannesburg in 1982. It has over 200 stores in four African countries. Another well-known chicken franchise chain is Nando's which was also established in the 1980s. In 1987 Fernando Duarte, a Portuguese man who had immigrated to South Africa with his family, took his friend Robert Brozin to a chicken restaurant in Johannesburg. Brozin, so impressed by the tasty flame-grilled chicken proposed that they buy the restaurant and they did it! The business grew from there and the rest is history. Nando's opened its first store in the UK in 1992.

Debonairs pizza was established in 1991 by two university students. One of those students was Craig McKenzie who operated from a family bakery in Pietermaritzburg. Another franchise that was established in the 1990s was Mugg and Bean. The first store was opened in 1996 on Cape Town's Waterfront. Ben Filmalter got the idea when he was on a trip to Chicago with his wife Judi in the early 1990s. Today Mugg and Bean operates in five countries around the world including the United Arab Emirates and Saudi Arabia.

Franchising continues to grow apace in South Africa and many franchises expand throughout Africa and even to Europe or the US. What is unique about the South African franchise landscape is that around 90% of franchises in South Africa are locally developed ones. Table 2: below illustrates four stages in the development of chain stores in South Africa.

Stage	Time Period	Development Stage	Stage Characteristics	Typical Chain
1	1960s	Local learning stage	• Chain store appears • Most of the chain stores are company owned outlets • Low expansion speed • Localisation	Steers (1960)
2	1970s	Inward internalisation stage	• Rapid growth of chain stores • President company imports KFC from the US	Kentucky Fried Chicken (1971) Makro (1971)

			• Start to import the know-how of international chain store The establishment of South African Chain Store Association • Chain Stores were regulated by the law of Fair-transaction • Domestic Chain Stores started to do outward internalisation	Shoprite (1979) South African Chain Store Association (1979)
3	1980s	High-degree development of business type stage	• 7-Eleven started to make profit and brought about the prevalence of CVS • Different kinds of operational types appear	7-Eleven (1985) Chicken Licken (1982)
4	1990s	Integration and outward internalisation stage	• McDonald's is imported to SA and causes a wave of inward internalisation of chain store	Debonairs Pizza (1991) McDonalds (1995) Mugg and Bean (1996)

Table 2: Stages of Chain Store Development in South Africa

2.7 The Pros and Cons of franchising

Zeidman (2003) argues that franchising is a low-risk method of developing a business. According to him the pros of franchising include reduced capital outlay with increased profits, ongoing advice, research, training and development, increased success rates, brand awareness from consumers, existing infrastructure services and an exit strategy. However, franchising has its cons.

2.7.1 The pros of franchising

Franchising helps to flow the talent, knowledge and skills from one person to another. The franchisee get support from franchisor in site selection, training and managing the business. It encourages people to work hard. The hard working and talented people are preferred to invest in business in return for profits. By franchising, you get people who work hard to build the business instead of hiring people for work.

Shane, 2017 states that a franchisee pay to use the brand name and for the outlets under the chain of franchisor. The franchising business give chances for franchisor to grow the number of locations without using own capital or taking a credit from financial institutions. The relationship with suppliers has already been established and can get benefit from the experience of franchisees in the network.

Franchising helps to compete with big business due to the support of franchisor and network of the franchisees. The franchisee can effectively run the business because the franchisor won’t sell franchise business in the same area. Banks also likely to lend money for the franchise with a high reputation. Franchising gives high return for relatively negligible risk. Franchising give chance to increase the number of outlets at a low cost in comparison to own business. The return from the franchising is significantly high than the outlets run by own self. The risk of failure is low due to the established brand and proven idea.

The support from the franchisor and the sharing of the ideas, knowledge and experience with the franchisees network minimize the business risk and helps to run the franchise effectively. The franchisor often provides training and the structure of the business is based on the experience of franchisor which make the risk of failure low (Scarborough, 2009). Therefore, Owning a franchise allows you to go into business for yourself, but not by yourself.

The pros of franchising are summarised as follows:

- A franchise provides franchisees with a certain level of independence where they can operate their business.
- A franchise provides an established product or service which already enjoys widespread brand name recognition. This gives the franchisee the benefits of customer awareness which would ordinarily take years to establish.
- A franchise increases your chances of business success because you are associating with proven products and methods.

- Franchises may offer consumers the attraction of a certain level of quality and consistency because it is mandated by the franchise agreement.
- Franchises offer important pre-opening support:
  - site selection
  - design and construction
  - financing (in some cases)
  - training
  - grand-opening program
- Franchises offer ongoing support such as:
  - training
  - national and regional advertising
  - operating procedures and operational assistance
  - ongoing supervision and management support
  - increased spending power and access to bulk purchasing (in some cases)

2.7.2 Cons of franchising

It is quite hard to tell the franchisees how to deal with the employees and the customers as the franchises are self-regulating businesses. The franchisees have different goals although they follow the same structure which sometimes cause a legal issue. For example, a franchisor gets a percentage of sales as a royalty and franchisees get money from the profit of outlet. The franchisor policy to boost the sales instead of increasing profit can cause a conflict between two parties. Promotional coupons boost the sales but not always profits for which franchisees may not agree (Scarborough, 2009).

According to (Shane, 2017) franchisees make a profit from the effort of each other. There need to be an equal effort from all the side. If they depend upon each other and unable to try from an individual side it may cause a huge problem. For instance, if franchisees depend upon other for advertisement to attract the customers and all of them think some others will do the advertisement and at the end no one does so then there will be no promotion which means decrease in the customers. There are ways to settle the franchising conflicts, but it costs money and require solving it legally through the court.

Furthermore, (Shane, 2017) argues that it is very hard to be innovative with the franchising business in comparison to the own business. If there is new idea and products the franchisor and franchisee must negotiate and agree on that or any new things that any of the party want to introduce. It is very tough to implement the new ideas without the consent of each other.

The franchisee is not completely independent. Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchise agreement. These restrictions usually include the products or services which can be offered, pricing and geographic territory. For some people, this is the most serious disadvantage to becoming a franchisee.

The cons of franchising are summarised as follows:

- In addition to the initial franchise fee, franchisees must pay ongoing royalties and advertising fees.
- Franchisees must be careful to balance restrictions and support provided by the franchisor with their own ability to manage their business.
- A damaged, system-wide image can result if other franchisees are performing poorly or the franchisor runs into an unforeseen problem.
- The term (duration) of a franchise agreement is usually limited and the franchisee may have little or no say about the terms of a termination.

2.8 Advantages and Disadvantages of Franchising for the Franchisee

Nowadays, franchising is the most favourite business model because of its satisfactory circumstances to the franchisees. According to Bohi (2010), "Franchising include benefits such as advertising, training, networking, technical support, and other business support services that many one-man operations cannot afford, or simply do not have the expertise in". Even though franchising has some advantages, buying a franchise has some major drawbacks faced by a franchisee.

2.8.1 Advantages of franchising

Franchising offers the franchisee major advantages compared with setting up a conventionally independent small business. The key advantages for the franchisee include the following:

a) The principal advantage to the franchisee is that he is usually purchasing a proven business formula. With an established franchise the cost of entry to the franchisee is usually higher, the franchisee's paying for a lower level of risk on his capital (Gunz, *et al,* 1981). Franchises have a much lower level of failure than other small businesses, only 10% of franchisees fail compared to 90% for other independent small businesses after the first five years (Hall and Dixon, 1987). This is supported by Stanworth and Curran (1987), who put the franchisee failure rate "in the region of 5 to 7%". The National Westminster Bank's Franchise Department revealed that it had only six franchisee failures in the period 1981 to 1988. More recently, the recorded franchisee failure rates for 2013 and 2014 were 7.2% and 6.3%, respectively. The franchisee is therefore able to obtain access to the market place via a more reliable in the long term, compared to a small independent operator. This is due to the fact that the franchise chain has an established trade name, livery, and product and service which have consumer goodwill and confidence associated with it.

b) In many cases, the franchisor will be able to help the franchisee obtain finance to establish the business through dedicated packages already agreed with lending institutions. For example, the National Westminster Bank has a franchise department which will often lend at better interest rates to franchisees than to conventional small businesses due to the lower risk associated with franchising. According to Stern and Stanworth (1988) "many franchisees are in an advantageous position with regard to access to initial funding because they have taken a franchise as compared to totally independent business". The main advantage here lies in the transference of the successful record of previous franchisees to the new business. The franchisor is able not only to provide introductions to sources of funding, but, especially if well established, to have funds made available at lower cost. For clearing banks, the development of franchisee finance schemes provides an important marketing tool with which to attract an increased share of franchised borrowing, while facilitating increased administrative efficiency at branch level. However, there is some evidence that although banks have franchise departments, their support for franchising does not necessarily get reflected in branch lending decisions (Fulop, 1996).

c) The franchisee is supported by the franchisor in key marketing activities which the small-scale operator would not be able to afford financially, or in management time. For example, franchisors may use television advertising and national direct mail promotions as part of their brand marketing plans. The franchisor may also have dedicated departments to undertake continuous market research and product and service development. The franchisee would find it difficult and time consuming to do these activities on his own (Stanworth and Curran, 1987).

d) The franchisor provides the franchisee with a safety net by providing initial and then ongoing training on business management. The franchisor and other franchisees within the franchise are available as an ongoing resource for advice on management of the business. Many of the issues and questions faced by the new franchisee will have, already been encountered and resolved by the franchisor or other franchisees. Diaz and Gurnick (1969) note that 'perhaps the most difficult business ingredients for an individual business to develop are the very components of the franchise package which often includes all or most of the following:

- established name and reputation,
- widely advertised brands,
- popular store design,
- carefully chosen location,
- standardised procedures and operations, and
- initial and continuing assistance.

This can provide the franchisee with reassurance and take away much of the anxiety and uncertainty about managing a business. To underline the importance of the support aspect of franchising, Varah (1983) asserts that "psychologically it is comforting to know that he (the franchisee) is part of a larger organisation having a proven track record."

e) Franchising offers the franchisee the chance to establish relatively secure self-employment and economic independence under the shelter of the franchise umbrella. Hunt (1972) found that 52% of franchisees would not be self-employed if franchising did not exist. In a survey of franchisees in the UK conducted by the National Westminster Bank and BFA in 1994, it was found that 81% of franchisees reported that "to be their own boss" was a reason for joining a franchise. There is an ongoing debate among academics and practitioners about the level of franchisee independence including Stanworth, *et al,* 1987 which is outside the focus of this study to review in any detail. In our view, the different sides of this debate are a function of which benchmark of independence is applied. Specifically, the evaluation of franchisee independence is different when compared to the small business person and the employee. On the one hand, it can be argued that the franchisee is not independent because of the franchise contract, a contract of adhesion which significantly circumscribes the franchisee's discretion compared to an independent operator. While on the other hand, the argument runs that the franchisee does have independence. His status compares more with the independent operator than the employee or manager. For example, the franchisee risks capital to buy, own and operate the business. For additional perspective, most franchising advertisements and promotional materials compare the freedom offered by franchising to the employee rather than assert that the freedom is the same as that of a conventional small trader.

Franchising has a proven record of delivering more viable businesses than conventional small trading operations.

2.8.2 Disadvantages of franchising

a) By design, a franchise system works on a standard formula across outlets. To ensure that this happens the franchise contract sets out legally binding obligations and controls on how the franchisee runs the business. This can be a cause of frustration to established franchisees who may feel they no longer need or want the level of control exercised by the franchisor. For example, the franchisee may want to diverge from the formula in opening hours and product range etc, to meet local conditions, but is unable to do so and may miss out on what he perceives to be genuine business building opportunities.

b) The franchisee is legally tied to the franchisor and the success of the franchisee is very much dependent on the performance of the franchisor. For example, any adverse publicity associated with the franchisor affects all the franchisees who trade under the franchisor's trade name, since consumers do not distinguish between franchised and non-franchised outlets. Additionally, the franchisee's business performance can suffer if the franchisor is not committed to developing the franchisee by the provision of training and ongoing assistance.

c) The payment of franchisor fees of approximately ten percent of turnover represents an ongoing additional cost to the franchisee which may in fact be a high cost relative to the benefit the franchisee receives from the franchisor in return. The turnover from the franchised outlet has to cover the business's operating expenses, provide the franchisee with a satisfactory standard of living and has to pay for two additional franchisor costs; the franchisor's royalty payment or franchise fees and contributions to a central advertising fund managed by the franchisor. If the franchisor has been over optimistic in profit projections while selling the franchise (either to mislead or simply through poor forecasting), the franchisee may find himself in a situation where having paid the franchisors fees, the business is delivering poor levels of profitability. For example, Power (1987), in a survey of UK franchisees, found that 39% reported their profit position as between "definitely loss making" to "only marginally profitable". Those franchisees who reported making a loss, identified "payments to franchisor" as the key reason for their position.

d) In seeking to terminate the franchise, the franchisee may face significant constraints on his business options. The franchise contract may stipulate for example, that the franchisee cannot establish a similar business to the franchise in the same area for several years after termination. Often, the franchisor may also have a final veto on who the franchisee can sell his franchised business to.

2.9 What Has Worked?

Franchising is a relatively low-cost means of setting up a new-venture and has grown rapidly in recent years (Kirby, 2003), both in South Africa and internationally. Franchising is a means of expansion using limited equity finance (Nieman, *et al*, 2004). Franchisees join franchise systems because of the advantages offered. These include affiliation with a trademark or trade name, franchisor support, proven business format, established name, lower development costs and training. Mendelsohn (2003) indicates that the failure rate of new franchise businesses is one-tenth than that of non-franchised new businesses. The risk inherent of a new business is reduced, but by no means totally marginalized.

According to 2017 FASA research, South Africa has 845 franchise systems which together contributed R587 billion or 13.3% to the country's overall GDP. That is a staggering amount, the largest part of which came from the fast food and restaurant sector. Franchising in South Africa covers just about every single sector including fast food and restaurants which contributed 25% to that R587bn. Education and learning, automotive products and services, health and fitness, retail and direct marketing are amongst the other significant sectors. Surprisingly, only one in eight franchises is an international brand – perhaps surprisingly because of the high visibility and popularity of outlets such as Burger King, Krispy Kreme Donuts, Starbucks and others, but our own local brands including Food Lover's Market, Kauai, and Chicken Licken are also popular – and a good investment.

Franchises employ some 343 000 people, of which 20 000 work for the franchisors and the balance in the individual branches. Something to bear in mind is that whilst there is an element of entrepreneurship in the establishment of a franchise, prescribed fixtures, fittings, processes and procedures might stymie some people's business spirit, but the 2017 research mentioned earlier shows that two out of every five franchisees has been in business for over 10 years and that 79% own more than one franchise, the majority within the same brand. This longevity suggests a relative lack of risk, compared to brand new business start-ups, provided a franchise is well located and well run. And don't underestimate the hard work required, either.

One of the key elements that has worked for is that the franchisee does not have to incur all the risks often associated with starting a business from scratch. Entrepreneurs typically have problems with starting new ventures in the areas of product acceptance; management expertise; meeting capital requirements; knowledge of the market and operating and structural controls. Franchising minimizes the risk associated with these factors through the franchise relationship. Deakins and Freel (2003) conclude that despite the loss of control in a franchise; the reduction of risk while still retaining elements of entrepreneurship, has been a powerful motivating factor and the growth of franchising appears likely to continue unabated in the new millennium.

Lord, 2003 summarises what has worked for franchising as follows:

- Many managers/workers are specialists and do not have the knowledge to successfully operate a new venture. Franchising provides the training and 'knowhow' to overcome this weakness
- Franchising offers a freedom of lifestyle, a choice between indoors/outdoors; an office or shop; premises/home; alone or with spouse; the opportunities are virtually endless

- The opportunity to use existing skills in another context
- Transformation from employment to self-employment made easier in that you are part of a group, in business for yourself, but not by yourself
- Large variety of opportunities, with the initial investment most often proportional to the possible return
- Part-time or full-time, with many start-ups being run by one person, with a second only entering the system once the start-up has grown
- Regional franchises offer opportunity for the more experienced individuals, when a higher risk-reward is sought. This may be more applicable to entrepreneurs
- Master franchises are usually a longer-term investment, with high financial outlays.

2.10 What Has Not Worked?

For laid-off executives with a severance package, buying a franchise was once an obvious next step. Rather than trying to figure out a business idea, you could buy into a big chain with a proven system and established brand name, rake in profits and never have to report to a boss again. Unfortunately, it's not so easy anymore.

Although most people agree that franchising is a relatively low-cost means of creating new ventures which has grown rapidly internationally, it can also be agreed that the franchise systems has not always worked as anticipated. The franchisees join the life cycle of the franchise system, keen to get started. Some stay keen and succeed, others do not achieve such levels of success and most often demand a disproportionate share of the system (franchisor) resources. The major elements that have not worked for the franchise system are summarised below:

a) Increased competition

Over the years, competition in many franchise sectors - particularly fast food has intensified.

b) Survival

Franchisors also discovered that taking anyone who could put up the franchise fee did not always work so well. In downturns, many of these one-unit, newbie franchisees went belly-up, leaving franchisors the difficult choice to either close units or operate more company stores.

c) The ever-changing product and market

The challenge for the franchise system is in appreciating that the product offering has a life-cycle, and that strategic initiatives are in place to anticipate market demands; prior to being forced to making changes. Proactivity and not reactivity are the key. Market research, market testing, innovation and opportunity spotting should receive priority from the franchisor.

d) Disagreements

With growth in franchisees, there will come a time when franchisor and franchisee disagree. It is the duty of the franchisor to ensure principles of relationship management are maintained, resulting in strong and well-founded relationships. Franchisees should in turn feel proud to belong to the system, and that the value they receive is greater than the price they pay for it (Mendelsohn, 2003). It is however difficult to analyse why a franchisee is failing or has failed. It may be location, but since much of a franchisee's success is in his own hands, the franchisee that faces up to his responsibilities will do best.

e) Economic downturns

Cyclical trends should be analysed, and the franchisor must ensure that they have capacity during peaks, together with market stimulation activity during troughs. The problem is often that of motivating franchisees during times of uncertainty.

f) Regulatory and legal issues

The unfortunate intervention of regulatory and legal issues in many cases is the product of a lack of information and not founded on any market behaviour, which needs correction (Mendelsohn, 2003). This is not an issue of dominance in the South African context, as the franchise system is relatively well developed. Mendelsohn (2003) relates that the lesson to be learned from the USA is that legislation, regulation and contention should be avoided. He believes such measures stifle franchise opportunities.

After a visit to South Africa, Mendelsohn (2003) assumed that according to indication that the government will continue to take a keen interest in franchising, making entry prospects good.

g) Availability of franchisees

Real estate availability is the biggest threat in most South African franchised systems. As such, there are not always sufficient prospective franchisees available to meet the requirements of franchise systems.

h) Market forces

The franchise environment is very competitive, with many franchise systems not effectively differentiating. The result is many new systems opening, which are not significantly different from existing systems. Notwithstanding this, competitors still eat into the systems market share. Due to the lack of differentiation, many of these systems compete on price alone. This in turn places stress on the franchisor to negotiate better terms with suppliers. Other alternatives are to achieve competitive advantage by being the cost leader or differentiation). Another response is the expansion of current offerings, replacing that which has become unpopular (Porter, 1995).

Mendelsohn (2003) concludes by stating that the basic principles of franchising have not changed since 1964. He identifies these basics as:

- Only franchisors with successful franchisees succeed
- The franchisor must establish a viable and successful business
- The franchisor’s support role must provide value in excess of the cost thereof to the franchisee
- The franchisor must recognize and promote the basic principles upon which franchising is based
- The franchisor must initiate relationship marketing, enhancing networks and ensuring franchisor/franchisee relationships are at a high level of mutual cooperation.

2.11 International and Local Lessons

With its long history of success, franchising is a global success story where economies from all over the world have benefitted from the franchise model. The system of franchising is made up mostly of small and medium-sized concepts, which creates jobs and provides an avenue to entrepreneurship to millions of people.

Franchising has always been associated with the entrepreneurial spirit. The idea of taking an idea and making something with it financially has been a major selling point of the franchise sector. The allure of starting your own business, self-employment and making your own work hours has drawn people to franchising. There are numerous success stories of people with a vision or an idea that have made fortunes in the franchise sector, either by creating their own idea or purchasing a franchise that has already been established.

As a major job creator, franchising has been able to provide opportunities for workers and franchise owners in both developed and developing markets. Successful concepts are able to tailor their goods or services to meet the needs of each market. Franchising offers products and services in over 300 business categories, including food and beverage, lodging, health and educational services, professional.
When discussing with franchisor representatives, several of the same issues are noted as challenges to exporting franchising, such as onerous regulatory requirements, restrictions on market entry requiring the establishment of joint ventures, local sourcing requirements, currency transfer issues and lack of qualified investors in foreign markets.

- **Regulation**

Licensing and registration requirements pertaining to franchising are relatively common. Some governments, however, have made it difficult to do business by imposing onerous licensing and registration requirements that take months, even years, to complete.

- **Joint venture requirements**

In certain countries, foreign companies are required to establish businesses as joint venture partnerships with local firms. In some cases, U.S. franchise firms encourage entering joint venture agreements to take advantage of the local expertise of a company or an individual. On the other hand, being forced into these relationships can be counterproductive. In some markets the synergies created by a joint venture are not realized, and the partnership is not conducive to a successful arrangement.

- **Local sourcing**

Although many franchises would welcome sourcing locally when possible, the quality of goods and services may not meet the high standards required by U.S. franchise concepts. Local sourcing requirements can be deal breakers.

- **Currency issues**

When discussing currency, two issues come to mind that franchise firms must be aware of: the strength and stability of a country's currency and the ability to move money into and out of the country. If a country's currency devalues, it causes profits to erode when it is converted back into U.S. Dollars. Unrestricted movement of currency to and from a country is important to allow for ease of investment and to take profits out of a country.

- **Lack of qualified investors**

Franchise fees range from several thousand dollars to several million dollars. Finding qualified investors is especially difficult in foreign markets where a company or a person's ability to purchase a franchise is hard to evaluate.

With more than 900 brands, including some of the best-known names on the high street, and a £15.1-billion contribution to the UK economy, franchising is a sector of prosperity. According to BFA, those who have invested in a franchised business are likely to agree; among franchisee-owned businesses 97% are profitable. Underpinning its success – the industry has grown by 10% in the last four years – is the proven, replicable business model on which the fundamental principle of good franchising is based.

2.12 Trends

The vibrancy of franchising can be seen through trends such as the following:

- **Socially responsible franchising**

One trend that has become influential in shaping the sector's future is a growing focus on socially responsible franchising. Whether it is supporting the local community, championing good causes or donating profits to charity, social responsibility is now part and parcel of the core business strategy of many franchises, at both corporate and local level. Socially responsible franchising is a growing trend which can benefit business and the community. Major global brands, such as McDonald's and Subway, have committed to responsible sourcing of suppliers, environmental initiatives to reduce carbon emissions and packaging, and sustainability of their operations. At a local level, by engaging with social responsibility initiatives, McDonald's franchisees have effectively become brand ambassadors within their local communities by supporting young people through sponsoring grassroots football and helping the environment by organising local litter pick-ups.

Other franchisors are now recognising the benefits of putting social responsibility at the heart of their business operations and promoting it at a local level. "Nowadays, prospective franchisees are looking for more than just money and the ability to help something bigger than just their business is always attractive," says Carl Reader, non-executive director at the BFA and author of The Franchising Handbook. Social responsibility in franchising creates a win-win situation; greater brand awareness for the franchise and greater exposure for the local community cause or charity they support. It also creates a positive opinion of the franchise in the eyes of customers.

- **Recruiting franchisee talent**

Responsible franchising has become crucial in recruiting franchisee talent, especially among the highly sought-after millennial generation. Research has shown that millennials are interested in business ownership, active in their community outside work and view changing the world for the better as a serious goal. Franchisors hoping to attract this next generation of franchise owners will need more than just a strong business concept with sound financial prospects. One important factor in franchisee recruitment is finding people who fit the franchise culture. As Steve Bolton, founder and executive chairman of property franchise business Platinum Property Partners, points out, a franchise with social responsibility at its core will attract like-minded franchisees.

- **Consolidation**

Another notable trend in franchising that has helped with cost management is consolidation. "This has been happening in the last few years in the UK, where franchisees, particularly within some of the larger systems, are building a portfolio of franchise brands and making the best possible use of their territory.

They can leverage their head-office costs and their knowledge of the local environment, properties and staff and boost cost management efficiencies," adds Mr Francis. "At HSBC, we've seen demand for events where growing franchisors are able to present to such franchisees."

- **Helping the world's poor by stimulating local economies**

The franchise model is ideal training for poor and unskilled would be entrepreneurs in hard-to-reach communities. Nearly three billion people live on $2.50 a day. Excluded from the larger economy and lacking access to organised finance, education and basic goods and services, in the language of socio-economics they sit at the "bottom of the pyramid". For them, work means a miscellany of micro-enterprises in informal sectors. Street trading, odd jobs, selling vegetables grown on a shared plot, minding children – the tasks vary, but they are united by a lack of coherence and security, an absence of training and advancement, and legal protection in the event of malpractice.

Tried and tested, the franchise model is ideal training for poor and unskilled would-be entrepreneurs in hard-to-reach communities. As a shortcut to self-employment, in its most enterprising forms it can provide a business school education on the cheap. Self-starters can become business owners without the risks associated with entrepreneurship, such as securing funding, distribution and brand recognition. Following proven marketing and operational concepts, the franchisee can replicate a proven model, while receiving support and targets from central office.

As Ella Gudwin, president of VisionSpring, puts it: "You can take the practices associated with franchising, learnt in the land of Dunkin' Donuts and McDonald's and apply them globally against a social problem." The solution is win-win. Jobs are created, businesses are driven by local demand and community members sell to each other, thereby spurring economic development.

2.13 SWOT Analysis

One of the main decisions an entrepreneur must decide is whether to start an entirely new business or whether to utilize a pre-existing business format franchise. This decision may depend on several factors including whether the entrepreneur has pre-existing experience in this field, the current economic forecast for this field, the amount of capital the entrepreneur has access to and ultimately the timing of entry into the field. Both options have significant strengths as well as important weaknesses that will need to be individually analyzed before going forward. SWOT analysis is an important decision-making support tool and is commonly used to systematically analyze the strategic situations and identify the level of organizations from their internal and external environments. Having identified these factors strategies are developed which may build on the strengths, eliminate the weaknesses, exploit the opportunities or counter the threats.

SWOT stands for strengths, weaknesses, opportunities and threats. It can be divided into positive and negative factors, strengths and opportunities being positive and weaknesses and threats negative.
Kotler (2009) summarises the four letters as follows:

- Strengths are internal capabilities that may help a business to reach its objectives.
- Weaknesses refer to internal limitations that may interfere with the ability to achieve its objectives.
- Opportunities are external factors that the business may be able to exploit to its advantage.
- Threats means the current or emerging external factors that may test the performance of the business are threats.

The following SWOT analysis will help economic developers and entrepreneurs evaluate potential and existing risks and rewards concerning the franchise business model.

Strengths	**Weaknesses**

• Established business market
• Brand recognition
• Lower risk for failure
• Easy setup
• Ready customer portfolio
• Easy to find financial support
• Established networks
	• High cost
	  - start-up fees/initial costs
	  - Royalties/ongoing costs
	• Lack of autonomy
	• Strict guidelines/rules
	• Lack of innovation/dependency
	• No control over corporate banding
	• Possibility of harm by other franchisees

Opportunities	Threats
• Entrepreneurs have a chance to become their own boss • Growing market • Low level of competency • “Purchasing cooperatives” group benefits • Economies of scale	• Continuing growth of existing franchised competitors • Other competitors entering the market place/ new entrants • The decline of branding in market • False expectations • Laws and regulations • Legal barriers • The publication of new business models

Table 3: SWOT Analysis

2.14 Conclusion

Some 200 years on from its inception, little has changed and the popular perception is that franchisors invariably reap rich rewards. Some franchise systems have grown into enormous organisations and franchising permeation of countries and business sectors has been extraordinary. Modern franchising emerged from the US. Franchised business has been adapted to and thrived in almost every culture on earth. Even the least developed parts of the world are encountering a form of franchising, as many non-profits are adopting franchise models to distribute health products and services.

Based on a wide research, franchising offers brand recognition, lower risk rate for failure, easy to find financial support and easy set up in a business. On the other hand, franchising has also some difficulties which are high costs, strict rules and dependency. When these are taken into consideration, franchising becomes more advantageous.

SECTION THREE: CASE STUDY ANALYSIS – SHOPRITE HOLDINGS LIMITED

3.1 Introduction

The Shoprite Holdings Ltd is one of Africa's largest food retailers, with a market share of 30% in MGR. The company operates 2,689 outlets in 15 countries across Africa and the Indian Ocean Islands. It employs 147 478 people (more than 120,000 in SA and approximately 23,500 are outside the country). Its customers live in various countries and come from all income brackets. Shoprite caters mainly to the middle to lower-end of the consumer market. Shoprite's focus is on food, but the company also sell household products, furniture and pharmaceuticals and offer a range of financial services. Shoprite's home Office is in Cape Town. While most of their stores are in South Africa, their footprint extends across the continent, with outlets under various brands in Angola, Botswana, the Democratic Republic of the Congo, Ghana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Swaziland, Uganda and Zambia. The company recently opened in Kenya in December 2018.

The Shoprite Group of companies was established in 1979. In 1990 Shoprite opened in Namibia. In 1991, it acquired the national Checkers chain. In 1995 the first store in Lusaka, Zambia was opened. That same year the company acquired distributor Sentra, allowing the company to expand into franchising.

In 1997 struggling "OK Bazaars" was acquired by the company from South African Breweries for one rand adding 157 supermarkets and 146 furniture stores to the company. In 2000, the group opened its first supermarkets in Zimbabwe and Uganda. Two years later the company acquired the Madagascar stores of French chain Champion. The same year the company bought three Tanzanian supermarkets from Score Supermarket and opened its first Hypermarket outside of South Africa in Mauritius. In 2005 the Group acquired Foodworld as well as South African ticket seller Computicket and opened the first Shoprite LiquorShop. The company also opened its first Nigerian store in the Victoria Island area of Lagos.

In 2008 the Shoprite Group was added to the JSE Top-40 Index of blue-chips. For the third year in a row, the Shoprite brand was voted South Africa's number 1 supermarket in the 2010 Sunday Times Top Brand

Survey. Deloitte's Global Powers of Retailing 2014 ranked The Shoprite Group as the 94th largest retailer in the world. In 2011, it was announced that the Shoprite Group entered into an agreement with Metcash Trading Africa (Pty) Limited. Under the terms of that agreement, the franchise division of Metcash was to be sold to Shoprite Checkers, including franchise arrangements with franchisees operating retail stores under registered trademark names such as Friendly, Seven Eleven and Price Club Discount Supermarket.

On 19 April 2012, Shoprite became the first South African retailer to enter the Democratic Republic of Congo (DRC) as it opened the doors of a new supermarket in Gombe, Kinshasa. Shoprite Holdings announced at the company's Annual General Meeting held on 31 October 2017 that the company's Chief Executive Officer, Whitey Basson, decided to retire at the end of December 2016. The board appointed Pieter Engelbrecht, the former Chief Operating Officer, as the incoming CEO as of 1 January 2017. He has been with the company for over 20 years and played a leading role in the company's growth under Basson's leadership.

Some of its store formats and retail brands include Shoprite Supermarkets, Checkers Supermarkets, U-Save Stores, MediRite Pharmacy, Computicket, Computicket Travel, Freshmark, Money Market, House & Home and the OK Franchise Division. The company's combined subsidiaries constitute the largest fastmoving consumer goods retail operation in Africa. Shoprite's Home Office is in Cape Town. Shoprite is the 94th biggest retail group in the world with a market share of 31.7%. The groups net sales are distributed geographically as follows: South Africa (82.3%) and Africa (17.7%).

The company's business profile is summarised below:

3.2 Business Profile

<table>
<tr><td>Trading Name</td><td>SHOPRITE HOLDINGS LTD</td></tr>
<tr><td>Turnover (year ended 30 June 2018)</td><td>R 92.7 billion (€8.8 billion)</td></tr>
<tr><td>Employees</td><td>147, 478 (23, 500 of which are outside South Africa)</td></tr>
<tr><td>Market Share</td><td>36%</td></tr>
<tr><td>Store Type and Ownership</td><td>It operates 2,689 outlets in 15 countries across Africa and the Indian Ocean Islands. See table below for distribution of current operations.</td></tr>
<tr><td>Product Range</td><td>Food and beverage products, general household merchandise, wines and liquors, health and beauty, furniture.</td></tr>
<tr><td>Brands</td><td>Shoprite: Shoprite is the original business of the group and remains the flagship brand, serving the mass middle market. It’s the brand with the most stores in RSA as well as the brand used to spearhead growth into Africa. The brand’s core focus is to provide the masses with the lowest possible prices on a range of groceries and some durable items.


Checkers: Checkers focuses on time-pressed, higher income consumers and differentiates on its speciality ranges of meats, cheeses and wines. The stores are located in shopping malls and other premises conveniently accessible to more affluent residential areas.

</td></tr>
</table>

Checkers Hyper: Checkers Hyper offers the same selections as Checkers, but within large-format stores that encourage bulk rather than convenience shopping. The general merchandise ranges are wider covering small appliances, pet accessories, garden and pool care, outdoor gear, home improvement, home ware, baby products, toys and stationery.

U-Save: U-Save is a no-frills discounter focusing on lower income consumers.

OK Furniture: OK Furniture offers a wide range of furniture, electrical appliances and home entertainment products at discounted prices. House & Home: House and Home offers a wide selection of affordable, exclusive and well-known ranges of furniture, appliances, home entertainment and floor coverings.

	MediRite Pharmacy: MediRite pharmacies are located inside Shoprite and Checkers stores.  **Liquor Shop:** Liquor Shop offers an upmarket, convenient shopping experience to Shoprite and Checkers shoppers. It offers a full range of wine, beer and spirits.  **TransPharm:** Transpharm Pharmaceutical Wholesalers distributes a wide range of pharmaceutical products and surgical equipment to our MediRite pharmacies as well as other pharmacies, hospitals, clinics, dispensing doctors and veterinary surgeons across South Africa. TRANS PHARM PHARMACEUTICAL WHOLESALERS & DISTRIBUTORS **Hungry Lion:** Hungry is Quick Service Restaurant specializing in fried chicken. 

	OK Franchise: The OK Franchise division operates smaller, convenience-oriented stores that offer a range of fresh and non-perishable food items, as well as general merchandise.
Buying Practices	Procurement of imported food and beverages is centralised through a procurement unit at head office in Cape Town. There is also a centralised unit for procurement for stores across Africa.

4.3 Distribution of Shoprite Operations

4.3.1 Corporate outlets

	Shoprite	Checkers	Checkers Hyper	U-Save	OK Furniture	OK Express	House & Home	Hungry Lion
South Africa	361	168	29	243	233	18	46	129
Angola	5			12	4			5
Botswana	5	1		3	7		1	9
DRC	1							1
Ghana	2			1				
Lesotho	5			5	6	1		3
Madagascar	8							
Malawi	2			3				
Mauritius	3							
Mozambique	5			4	3			
Namibia	15	4		22	11		2	9
Nigeria	7							
Swaziland	8			5	3			1
Tanzania	3							
Uganda	3							

Zambia	19			1	1			9
Zimbabwe	1							
Total	**453**	**173**	**29**	**299**	**268**	**19**	**49**	**166**

4.3.2 Franchise stores

	OK Foods	OK Grocer	OK Mini Mark	OK Value	Mega Save	Sentra	Enjoy	Friendly Stores	Friendly Liquor
South Africa	12	73	35	27	21	50	26	85	11
Namibia	2	9	2	5	10	12			
Total	**14**	**82**	**37**	**32**	**31**	**62**	**26**	**85**	**11**

4.3.3 Ancillary Services

	Shoprite Liquor	Checkers Liquor	Shoprite MediRite	Checker MediRite
South Africa	108	82	50	92
Angola				
Namibia	3	1		
Swaziland			2	
Lesotho	1			
Total	**112**	**83**	**54**	**92**

4.4 Conclusion

The Shoprite Group is the largest supermarket retailer in Africa because of its steadfast commitment to providing affordable food to the communities in which it operates. The company employs 147 478 people across 15 countries. The core focus for the company is on food, but it also sells household products, furniture and pharmaceuticals and offer a range of financial services. Its customers live in various countries and come from all income brackets.

SECTION FOUR: RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

In section one an orientation of the research was provided. This chapter strives to operationalise the theme of the research design and methodology for the study, as well as to substantiate the choices made in conducting the study. The research design is applied so that suitable research methods are used to ensure the attainment of the goals and objectives set out in section one.

4.2 Research Design and Methodology

Leedy (1997) defines research design as a plan for a study, providing the overall framework for collecting data. MacMillan and Schumacher (2001) define it as a plan for selecting subjects, research sites, and data collection procedures to answer the research question(s). They further indicate that the goal of a sound research design is to provide results that are judged to be credible. For Durrheim (2004), research design is a strategic framework for action that serves as a bridge between research questions and the execution, or implementation of the research strategy.

For collecting data, qualitative methods were used, mainly document (literature) review. Data from different sources of the internet were reviewed and observations made. This entailed literature review and document analysis. Through studying the various documents, the research study was contextualised and research questions answered. The pros and cons of franchising were pointed out, what has worked and what has not worked was identified and the international and local lessons and trends pertaining to franchising were observed. Finally, the findings from the analysis of documents and case study analysis was performed and the research questions were answered.

Additionally, a case study analysis was carried out. We used a single case study method for this investigation. We chose Shoprite Holdings Ltd, a South African franchise chain store operating in 17 countries across Africa with more than 427 franchise outlets. Some researcher may regard case study methods as relatively less important however that is merely a misunderstanding or an underestimation of this research strategy (Eisenhardt and Graebner, 2007). Single cases can be valuable and a suitable research strategy for theory testing (Yin, 2003) and they can extract rich and in-depth data regarding a particular phenomenon (Siggelkow, 2007).

4.3 Case Study Selection

The selection of a case study is very important, and it should be taken into consideration while selecting the case that which case could be the best informant for a particular study being under taken (Halinen and Törnroos, 2005). The study focuses on the pros and cons of franchising for Chain stores and Franchisees in order to determine what has worked, what has not worked and what are the international and local lessons and trends. The authors conducted a desk research to select an appropriate case analysis for the study from a population of chain stores in South Africa. We selected Shoprite Holdings Ltd keeping in our minds that it could provide us with some best insights about the phenomenon being investigated.

4.4 Research Instruments

A mixed research methodology was used to collect data. These included:

- Literature review (desktop research), and
- Case study analysis for Shoprite/Checkers.

4.4.1 Literature review/Document analysis

Literature review justifies the research and provides context for conducting a research study. It is a summary and synopsis of a particular area of research, allowing anybody reading the study to establish why a particular research study is being pursued. A good literature review expands upon the reasons behind conducting a particular survey. In summary the purpose of writing a literature review is to:

- Justify the research study
- Ensure you have a thorough understanding of the topic
- Demonstrate the researchers’ understanding of the research topic
- Place the research in context
- Give an overview of controversies in past research

4.4.2 Case study analysis

The researchers selected a case study as an in-depth research strategy to explore the problem. The case study selected to be carried out was Shoprite Holdings Limited (Shoprite). According to Saunders (2009), a case study uses various sources of evidence to perform an empirical research of a subject within its real life and helps to collect information. In other words, a case study is a method of collecting systematic information about any subject like person, companies or a group that assists researchers to know the operations and function of a subject.

The use of case study is done in explaining and exploring the research. According to (Saunders, 2009) case study helps to answer the “how”, “what” and “why” questions of the research. The problem in the research can be answered through case study by taking into consideration valid information and data related to the subject matter. Findings of experiences and advices from Shoprite were beneficial for the study.

4.5 Data Collection and Analysis

The data were collected from interviews, documents, and online resources. Multiple resources of data strengthen the positive point of qualitative data and contribute towards validity and reliability of the findings (Yin, 1989). The researchers conducted three in depth personal interviews with director marketing and communications and director franchising of the company in January 2019. The interviews were loosely structured and lasted for 30-120 minutes. The questions entailed the general franchising strategy, the pros and cons of franchising and finally some of the unanswered propositions were presented for comments and discussion.

The interviewer took notes and subsequently translated and transcribed these interviews. The interview with director franchising was very informative, he has gathered rich experience in franchising operations while working at McDonald’s, Spar and finally at Shoprite Holdings. The documents included articles and information about the company available on its own website and third-party websites. The data were transcribed and codified for analysis and then the observed patterns were compared to the theoretical predictions.

4.6 Shoprite Holdings Ltd

The Shoprite Group of companies was established in 1979. It is head quartered in Cape Town, South Africa. In 1990 Shoprite opened in Namibia. In 1991, it acquired the national Checkers chain. In 1995 the first store in Lusaka, Zambia was opened. That same year the company acquired distributor Sentra, allowing the company to expand into franchising.

One of the executives mentioned during the interview: *"As the largest retailer in Africa, our responsibilities extend beyond our immediate stakeholders – that is, our shareholders, suppliers, employees and customers – to include the communities in which we operate"*.

4.7 Conclusion

The research approach was of a qualitative nature. When a research study has the objective to build understanding and explore certain phenomena and trends, it is considered as qualitative research. The phenomenon identified are the pros and cons of franchising for Franchisees and Chain Stores. The aim of the research study was to build an understanding of the franchising and to determine what has worked, what has not and what are the international and local lessons and trends.

SECTION FIVE: FINDINGS AND DISCUSSIONS

5.1 Introduction

Generally, there are a number of major pros for franchisees compared to the cons in franchising. Perhaps the most difficult business ingredients for an individual business to develop are the very components of the franchise package which often includes all or most of the following: established name and reputation, widely advertised brands, popular store design, carefully chosen location, standardised procedures and operations and initial and continuing assistance. This can provide the franchisee with reassurance and take away much of the anxiety and uncertainty about managing a business.

5.2 Discussions

Now we analyze our propositions one by one in the light of our findings.

Proposition 1: Franchising offers well established business market and brand recognition

The principal con for franchising to the franchisee is that he is usually purchasing a proven business formula. The franchisee is therefore able to obtain access to the market place via a more reliable system in the long term. This is due to the fact that the franchise chain has an established trade name and product and service which have consumer goodwill and confidence associated with it.

Proposition 2: Franchising offers easy setup and lower risk for failure

With an established franchise the cost of entry to the franchisee is usually higher, the franchisee's paying for a lower level of risk on his capital. Franchises have a much lower level of failure than other small businesses, only 10% of franchisees fail compared to 90% for other independent small businesses after the first five years.

Proposition 3: Ready customer portfolio and established networks

The franchisee is supported by the franchisor in key marketing activities which the small-scale operator would not be able to afford financially or in management time. For example, franchisors may use television advertising and national direct mail promotions as part of their brand marketing plans. The franchisor may also have dedicated departments to undertake continuous market research and product and service development. The franchisee would find it difficult and time consuming to do these activities on his own.

Proposition 4: Easy to find financial support

In many cases, the franchisor will be able to help the franchisee obtain finance to establish the business through dedicated packages already agreed with lending institutions. For example, the National Westminster Bank has a franchise department which will often lend at better interest rates to franchisees than to conventional small businesses due to the lower risk associated with franchising. Many franchisees are in an advantageous position with regard to access to initial funding because they have taken a franchise as compared to totally independent business. The main advantage here lies in the transference of the successful record of previous franchisees to the new business. The franchisor is able not only to provide introductions to sources of funding, but, especially if well established, to have funds made available at lower cost. For clearing banks, the development of franchisee finance schemes provides an important marketing tool with which to attract an increased share of franchised borrowing, while facilitating increased administrative efficiency at branch level.

Proposition 5: Training and support

The franchisor provides the franchisee with a safety net. By providing initial and then ongoing training on business management. The franchisor and other franchisees within the franchise are available as an ongoing resource for advice on management of the business. Many of the issues and questions faced by the new franchisee will have, already been encountered and resolved by the franchisor or other franchisees. To underline the importance of the support aspect of franchising, studies indicates that psychologically it is comforting to know that he [the franchisee] is part of a larger organisation having a proven track record.

Proposition6: Economic independence

Franchising offers the franchisee the chance to establish relatively secure self-employment and economic independence under the shelter of the franchise umbrella. Several studies points out that 52% of franchisees would not be self-employed if franchising did not exist. In a survey of franchisees in the UK conducted by the National Westminster Bank and BFA in 2004, it was found that 81% of franchisees reported that "to be their own boss" was a reason for joining a franchise.

Our findings support all the above propositions. Shoprite’s combined subsidiaries constitute the largest fastmoving consumer goods retail operation in Africa. Their focus is on food, but they also sell household products, furniture and pharmaceuticals and offer a range of financial services. Their customers live in various countries and come from all income brackets. While most of their stores are in South Africa, their footprint extends across the continent, with outlets under various brands in Angola, Botswana, the Democratic Republic of the Congo, Ghana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Swaziland, Uganda and Zambia. They also opened in Kenya in December 2018.

However, our research established that franchising has its cons. The cons of franchising for franchisees and Chain Stores are summarised below:

Proposition 1: Lack of autonomy, strict guidelines/rules and lack of innovation/dependency

By design, a franchise system works on a standard formula across outlets. To ensure that this happens the franchise contract sets out legally binding obligations and controls on how the franchisee runs the business. This can be a cause of frustration to established franchisees who may feel they no longer need or want the level of control exercised by the franchisor. For example, the franchisee may want to diverge from the formula in opening hours and product range etc, to meet local conditions, but is unable to do so and may miss out on what he perceives to be genuine business building opportunities.

The franchisee is legally tied to the franchisor and the success of the franchisee is very much dependent on the performance of the franchisor. For example, any adverse publicity associated with the franchisor affects all the franchisees who trade under the franchisor's trade name, since consumers do not distinguish between franchised and non-franchised outlets. Additionally, the franchisee's business performance can suffer if the franchisor is not committed to developing the franchisee by the provision of training and ongoing assistance.

Proposition 2: High cost (start-up fees/initial costs/royalties/ongoing costs)

The payment of franchisor fees of approximately ten% of turnover represents an ongoing additional cost to the franchisee which may in fact be a high cost relative to the benefit the franchisee receives from the franchisor in return. The turnover from the franchised outlet has to cover the business's operating expenses, provide the franchisee with a satisfactory standard of living and has to pay for two additional franchisor costs; the franchisor's royalty payment or franchise fees and contributions to a central advertising fund managed by the franchisor. If the franchisor has been over optimistic in profit projections while selling the franchise (either to mislead or simply through poor forecasting), the franchisee may find himself in a situation where having paid the franchisors fees, the business is delivering poor levels of profitability. For example, in a survey of UK franchisees, it was found that 39% reported their profit position as between "definitely loss making" to "only marginally profitable". Those franchisees who reported making a loss, identified "payments to franchisor" as the key reason for their position.

Proposition 3: Contract and legal barriers

In seeking to terminate the franchise, the franchisee may face significant constraints on his business options. The franchise contract may stipulate for example, that the franchisee cannot establish a similar business to the franchise in the same area for several years after termination. Often, the franchisor may also have a final veto on who the franchisee can sell his franchised business to.

These propositions were supported by data and talking to Shoprite executives. “Our chain stores are bound by accountability including adherence to legislative and regulatory frameworks”.

5.3 Conclusion

According to IFA, franchising businesses continue to grow faster than the rest of the economy of the world and third world countries. The study provides a detailed insight into franchising by looking at the pros and cons of franchising. Like any business model, franchising has its benefits and drawbacks. Franchises offer important pre-opening support: site selection, design, construction, financing, training, and a grand-opening program. Franchises offer ongoing support: training, national and regional advertising, operating procedures, operational assistance, ongoing supervision and management support, increased spending power and access to bulk purchasing. However, the high initial costs associated with franchising including royalties and lack of autonomy, strict guidelines and rules and perceived lack of innovation are viewed as cons of franchising. The findings of the study determined that pros of franchising outweigh the cons, hence the popularity of franchising as a business model.

SECTION 6: CONCLUDING REMARKS

This study examines the pros and cons of franchising for Franchisees and Chain Stores. It also determines what has worked, what has not and what are the international and local lessons and trends. The study found out that franchising is a low-risk method of developing a business. Instead gives high return for relatively negligible risk. The risk of failure is low due to the established brand and proven idea. Franchising also has established networks with suppliers and ensures that franchisees benefit from the established networks. The support from the franchisor and the sharing of the ideas, knowledge and experience with the franchisees network minimize the business risk and helps to run the franchise effectively. Banks also likely to lend money for the franchise because of an established brand name with a high reputation. The franchisor often provides training and the structure of the business is based on the experience of franchisor which make the risk of failure low. This is because franchisees get support from franchisor in site selection, training, store selection, etc.

In terms of the cons of franchising, the study found out that the franchisees have different goals although they follow the same structure which sometimes cause legal issues. Also, franchisees have to pay a percentage of sales as royalties which minimises profits from outlets. If franchisees depend upon franchisors for advertisement to attract customers at the end this is not done then there will be no promotion which means decrease in the customers. Furthermore, it is very hard to be innovate with the franchising business. If there is new idea and products the franchisor and franchisee must negotiate and agree on that or any new things that any of the party want to introduce. It is very tough to implement the new ideas without the consent of each other.

One of the key elements that has worked for franchising is that the franchisee does not have to incur all the risks often associated with starting a business from scratch. Entrepreneurs typically have problems with starting new ventures in the areas of product acceptance; management expertise; meeting capital requirements; knowledge of the market and operating and structural controls. Franchising minimizes the risk associated with these factors through the franchise relationship. The study concludes that despite the loss of control in a franchise; the reduction of risk while still retaining elements of entrepreneurship, has been a powerful motivating factor and the growth of franchising appears likely to continue unabated in the new millennium.

Although most people agree that franchising is a relatively low-cost means of creating new ventures which has grown rapidly internationally, it can also be agreed that the franchise systems has not always worked as anticipated. The franchisees join the life cycle of the franchise system, keen to get started. Some stay keen and succeed, others do not achieve such levels of success and most often demand a disproportionate share of the system (franchisor) resources. The major elements that have not worked for the franchise system include increasing competition, the everchanging product and market, disagreements, economic downturns, regulation and legal issues and market forces.

Finally, the study established that the vibrancy of franchising can be seen through trends such as socially responsible franchising, consolidation and stimulating economies.

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