Franchisors' contribution towards franchisees' business failures

by

B.L. YOZI

20997868

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Supervisor: Prof A.M. Smit

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ABSTRACT

Franchising is emerging as a highly effective strategy for business growth, local employment and regional economic development. It is the most realistic and promising formula to emerge yet for the development of business skills and a thriving entrepreneurial culture in South Africa.

Many prospective franchisees believe that when they pay their franchise fee, they are buying a business. Very frequently, the franchisor has not made the franchise relationship clear to the franchisee, which results inadvertently in deciding to run things their own way, break the franchise rules and ultimately fail in the endeavour.

Thus the aim of this study was to establish whether franchisors have a direct impact towards the success or failure of the franchisee's business. The causes of success and failure are central to entrepreneurial research, thus one need to understand whether franchisors are in any way involved in franchisees' success or failure.

The first chapter of this dissertation is an explanation of the franchise concept. It is in its own a brief summary of what is discussed throughout the study. Objectives of the study, scope of the study and the method of research are all discussed in this chapter.

Chapter 2 discusses many definitions of franchising: the franchise agreement, what the potential franchisees need to familiarise themselves with upon entering this contractual obligation. Advantages and disadvantages for both the franchisor and franchisee are also discussed. The relationship between these two parties is discussed as it serves as a cornerstone towards success or failure of a franchise business. This chapter thus provides a blueprint of what needs to be done in order to make a success of the franchise business.

Chapter 3 entails an empirical study by way of questionnaires, designed to ascertain whether franchisors are in any way responsible for the success or failure of the franchisee's business. Franchisee businesses were selected in the Vaal region and 25 outlets responded to the study. The results of the questionnaire were analysed and discussed in this chapter.

Chapter 4 summarises the research with conclusions and recommendations from the empirical study covered in Chapter 3. The aim was to ascertain whether research objectives were reached by the study, as stated in the literature and empirical studies. Conclusions were reached with regard to the study and one of the most important facets identified was the franchise relationship. The relationship was identified as the glue that holds the franchise partnership together; the existence and maintenance thereof, is what will make or break the franchise business.

List of key terms: franchisee failure, advantages and disadvantages of franchising, franchise relationship, franchisor assistance, franchising

TABLE OF CONTENTS

ACKNOWLEDGEMENTS		**ii**
ABSTRACT		**iii**
LIST OF TABLES		**ix**
LIST OF FIGURES		**ix**
LIST OF ABBREVIATIONS		**x**
CHAPTER 1:	**NATURE AND SCOPE OF STUDY**	**1**
1.1	**INTRODUCTION**	**1**
1.2	**PROBLEM STATEMENT**	**2**
1.3	**RESEARCH OBJECTIVES**	**3**
1.3.1	Primary objective	3
1.3.2	Secondary objectives	3
1.4	**SCOPE OF STUDY**	**4**
1.5	**RESEARCH METHOD**	**4**
1.5.1	**Phase 1: Literature study**	**4**
1.5.2	**Phase 2: Empirical study**	**4**
1.5.2.1	Research design	5
1.5.2.2	Participants	6
1.5.2.3	Measuring instrument	6
1.6	**LIMITATIONS AND PROBLEMS**	**6**
1.7	**SUMMARY**	**6**
CHAPTER 2:	**LITERATURE STUDY OF THE FRANCHISE INDUSTRY**	**7**
2.1	**INTRODUCTION**	**7**
2.2	**BACKGROUND IN GENERAL**	**8**
2.3	**FRANCHISING DEFINED**	**10**
2.4	**INDUSTRIES WHERE FRANCHISE BUSINESSES ARE AVAILABLE IN SOUTH AFRICA**	**11**
2.5	**THE CONTRACTUAL RELATIONSHIP**	**12**

2.5.1	**The agreement**	**12**
2.5.2	**The disclosure document**	**15**
2.5.3	**The operating manual**	**17**
2.5.4	**Fees payable**	**17**
2.5.4.1	The initial or upfront fee	17
2.5.4.2	The minimum owner's contribution	18
2.5.4.3	Advertising fees	18
2.5.4.4	Royalties or management's service fee	18
2.5.4.5	Sales of products	18
2.5.4.6	Rental and lease fees	18
2.6	**ADVANTAGES AND DISADVANTAGES FOR THE FRANCHISEE**	**19**
2.6.1	Advantages for the franchisee	19
2.6.2	Disadvantages for the franchisee	20
2.7	**ADVANTAGES AND DISADVANTAGES FOR THE FRANCHISOR**	**22**
2.7.1	Advantages for the franchisor	22
2.7.2	Disadvantages for the franchisor	23
2.8	**PROVEN STEPS FOR FRANCHISE SUCCESS**	**24**
2.9	**THE ETHICS OF FRANCHISING**	**26**
2.9.1	**The role of FASA**	**27**
2.10	**THE FRANCHISEE-FRANCHISOR RELATIONSHIP**	**28**
2.11	**SUMMARY**	**31**
CHAPTER 3: RESEARCH FINDINGS AND DISCUSSIONS		**33**
3.1	**INTRODUCTION**	**33**
3.2	**METHOD OF RESEARCH**	**33**
3.2.1	**The purpose of the questionnaires**	**34**
3.2.2	**Compilation structure of questionnaire**	**34**
3.2.3	**Target group**	**35**
3.2.4	**Respondents to the research**	**35**
3.3	**RESULTS AND ANALYSIS OF THE EMPIRICAL RESEARCH**	**35**
3.3.1	**Section A: Results and analysis**	**35**
3.3.1.1	Age	36

3.3.1.2	Gender	36
3.3.1.3	Race	37
3.3.1.4	Marital status	37
3.3.1.5	Working experience	38
3.3.1.6	Qualifications	38
3.3.1.7	Reasons for choosing the franchising route	39
3.3.1.8	Industry where the franchise falls under	40
3.3.1.9	Franchisee's current market value	41
3.3.1.10	Number of years in business	41
3.3.1.11	Source of funding	42
3.3.2	**Section B: Results and analysis**	**42**
3.3.2.1	**Purpose and analysis of Group 1**	**43**
3.3.2.1.1	*Purpose*	*43*
3.3.2.1.2	*Graphical analysis*	*43*
3.3.2.1.3	*Discussions*	*44*
3.3.2.2	Purpose and analysis of Group 2	45
3.3.2.2.1	*Purpose*	*45*
3.3.2.2.2	*Graphical analysis*	*45*
3.3.2.2.3	*Discussions*	*46*
3.3.2.3	Purpose and analysis of Group 3	47
3.3.2.3.1	*Purpose*	*47*
3.3.2.3.2	*Graphical analysis*	*47*
3.3.2.3.3	*Discussions*	*48*
3.3.2.4	Purpose and analysis of Group 4	49
3.3.2.4.1	*Purpose*	*49*
3.3.2.4.2	*Graphical analysis*	*49*
3.3.2.4.3	*Discussions*	*50*
3.4	**SUMMARY**	**52**

CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS **52**

4.1 INTRODUCTION **52**

4.2 CONCLUSIONS **52**

4.2.1 Part A of the questionnaire **53**

4.2.2 Part B of the questionnaire **54**

4.2.2.1 Conclusions based on the first group of questions: Initial assistance given by the franchisor 53

4.2.2.2 Conclusions based on the second group of questions: Ongoing assistance given by the franchisor 54

4.2.2.3 Daily running of the franchisor in the franchisee's business 55

4.2.2.4 General involvement of the franchisor in the franchisee's business 55

4.3 RECOMMENDATIONS **56**

4.4 ACHIEVEMENT OF OBJECTIVES **57**

REFERENCES **60**

ADDENDUM 1: THE FASA CODE OF ETHICS AND BUSINESS PRACTICES **63**

ADDENDUM B: QUESTIONNAIRE **67**

LIST OF TABLES

Table 2.1:	Industries where franchise opportunities are available, as registered on the FASA website	12

LIST OF FIGURES

Figure 2.1:	The Franchise Relationship Model	30
Figure 3.1:	Age distribution of sample	36
Figure 3.2:	Gender distribution of sample	36
Figure 3.3:	Race distribution of sample	37
Figure 3.4:	Marital status distribution of sample	37
Figure 3.5:	Length of work experience distribution of sample	38
Figure 3.6:	Education distribution of sample	39
Figure 3.7:	Reasons for choosing the franchise route	39
Figure 3.8:	Industry where the franchisee belongs	40
Figure 3.9:	Franchisee's current market value	41
Figure 3.10:	Number of years in business	42
Figure 3.11:	Source of funding	42
Figure 3.12:	Group 1: Initial assistance given by the franchisor	43
Figure 3.13:	Group 2: Ongoing assistance offered by the franchisor	45
Figure 3.14:	Group 3: Involvement of the franchisor in the daily running of the franchisee business	47
Figure 3.15:	Group 4: General involvement by the franchisor	49

LIST OF ABBREVIATIONS

FASA	Franchising Association of South Africa
SBDC	Small Business Development Corporation
SEDA	Small Enterprise Development Agency

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Franchising is emerging as a highly effective strategy for business growth, local employment and regional economic development. It is the most realistic and promising formula to have emerged yet for the development of business skills and a thriving entrepreneurial culture in South Africa. This form of business represents an alternative to traditional forms of business operations, for example, individually owned supermarkets. Franchise chains now replace the traditional proprietors that used to sit on every street corner.

A franchise is a way of owning a business without having to contend with all the headaches associated with starting a new business. Much of the popularity of franchising arises from its ability to offer those who lack business acumen a chance to own and operate a business with a high probability of success (Vosloo & Von der Ohe, 2005:32). This is why so many people find franchise operations attractive. The franchisor has often had many years of hard-earned experience in the business, and knows from trial and error what works and what does not. The only concerns of the franchisee are to follow instructions, to maintain accurate records and to "keep the royalty cheques in the post" (Petzer, 1999:2). A franchise can give an entrepreneur a good chance to succeed, but the entrepreneur must be aware of the sizeable risk that is often involved. Currently, a lot of "puffing" is the order of the day in the industry, meaning that franchising is marketed as the "alternative option" to gain financial independence and success, as well as seen as the cure for unemployment (Dreyer, 2000:1).

The great advantage of a franchise over opening up a business entirely on one's account is that one can shelter underneath the umbrella of a large organisation, thereby reducing

the inevitable calculated risk that each entrepreneur faces when establishing a business from scratch.

The franchisor/franchisee alliance is pivotal in the success of a franchise relationship "Franchising is sharing an entrepreneurial vision and working together to make it a reality. Franchisees and the franchisor must believe in each other. The power of focused and dedicated partners creates a momentum of personal, business and financial growth that is limitless, and also a lot of fun." (Timmons & Spinelli, 2007:221)

Franchising as a way of owning a business is taking off in South Africa. It is seen as a way of linking big businesses (the franchisor) and small business enterprises (the franchisee).With an increasing number of brands arriving in the country, and with local companies using franchising to expand its business, there are more opportunities to create wealth. Many of the uncertainties associated with starting a new business have already been overcome by people that have perfected the system and shown their ideas to be profitable.

1.2 PROBLEM STATEMENT

There are limitations placed on franchisees by franchisors on the potential growth of the franchised business. These limitations may lead to either rapid growth-slowdown of the franchisee's business or ultimately consummate in the failure of the business venture. Recently, it has been observed in the media that there are many franchisees whose businesses fail, because of misguidance by their franchisors. This problem exists because there are no regulations that govern activities pertaining to franchising in the franchising industry. There is the Franchise Association of South Africa (FASA), a non profit organisation, that attempts to maintain franchisee-franchisor relationships, but franchises are not obliged to belong to this organisation, meaning that this industry is purely self-regulatory. The causes of success and failure are central to entrepreneurial research, thus the need is there to understand whether franchisors are in any way involved in franchisee success or failure. Given that franchisees are an essential ingredient in successful

franchise chains and that franchising is so important in today's economy, the lack of understanding about factors affecting franchise performance represents an area that needs investigation.

1.3 RESEARCH OBJECTIVES

The research objectives are divided into primary and secondary objectives.

1.3.1 Primary objective

The primary objective of this research was to measure whether franchisors have a direct impact on the success or failure of the franchisee' business.

1.3.2 Secondary objectives

The secondary objective of this study is to understand how the relationship between the two parties is structured, if it exists at all.

These are specific to assistance given by the franchisor from inception of the franchise business up to when the contractual obligation is terminated.

At inception, the following should be provided:

- Assistance with regard to site selection and lease negotiations;
- Initial training, both classroom and on-site training;
- Franchisor's project team, to ensure that the store is ready for grand opening; and
- Use of franchisor's proven operating systems.

As part of ongoing assistance, the following should be provided:

- Joint purchasing and marketing initiatives;
- Continuous on-site visits by franchisor representatives;
- Interaction with other franchisees in the chain;

- Crisis intervention;
- Ongoing training for franchisees and staff; and
- Regular communication and motivation from the franchisor.

A study of the above variables is covered in Chapter 2 in the literature study.

1.4 SCOPE OF THE STUDY

The scope of the study involved testing whether franchisors in the food and retail industry situated in the Sedibeng and Emfuleni Municipalities contribute towards the success / failure of franchisees' businesses.

1.5 RESEARCH METHOD

This study consisted of two phases, namely a literature study and an empirical study.

1.5.1 Phase 1: Literature study

A literature study was done to determine to what extent the franchisor's involvement contributes to either success or failure of the franchisee's business. Information was extracted from the following sources:

- Scientific journals and publications in the subject area of the research;
- Theses and dissertations already written on the subject;
- Published books addressing issues pertaining to franchising; and
- Internet sources.

1.5.2 Phase 2: Empirical study

Research included the following activities:

- designing questionnaires;
- piloting these questionnaires; and

- data analysis and interpretation.

1.5.2.1 Research design

The research design provides the glue that holds the research project together. A design is used to structure the research, to show how all of the major parts of the research project, the samples or groups, measures, treatments or programs, and methods of assignment work together to try to address the central research questions.

Descriptive research is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The methods involved range from the survey which describes the status quo, the correlation study which investigates the relationship between variables, to the developmental studies which seek to determine changes over time.

Explorative research design is a method often used when the problem is unclear or the subject is new to researchers. It is best suited for formulating problems, hypotheses and clarifying terms, or to give a better insight and understanding of a given area. Explorative research design forms the basis of subsequent, conclusive research design methodologies – namely descriptive or causal design.

The descriptive research method was used in this research, through compilation of questionnaires that needed to be filled in by the owners of the selected franchises. The aim of the research design was to assist with the necessary tools needed to be able to get an insight as to how franchisors contribute towards success or failure of the franchise business. Questionnaires were designed in such a way that, the questions asked were able to answer the fundamental question: "Are franchisors contributing in any way towards success or failure of the franchisee business?"

1.5.2.2 Participants

Data were collected in the fastfood and retailing outlets situated in the Sedibeng and Emfuleni district Municipalities. Random samples of 50 stores from the respective industries were selected. Owners, together with managers of these outlets, were approached.

1.5.2.3 Measuring instrument

Questionnaires were distributed to the selected sample of stores. Descriptive statistics measures were used to analyse data that were obtained from the said questionnaires.

1.6 LIMITATIONS/PROBLEMS

Problems experienced were:

- The literature review on the study was somewhat limited. Books specific to the research topic were limited and outdated, most of the literature done was from journals, magazines and internet sources; and

- Resistance and reluctance by business owners to participate in the study. In some franchise outlets there was a breakdown in relationship between the franchisor and franchisee. This breakdown made some business owners to be unwilling to participate in the study, which led to a reduction in the planed sample size; and

1.7 SUMMARY

This chapter is the study at a glance. The aim was to ascertain whether franchisors have a 'hand' towards the success or failure of the franchisees' businesses. Given the significant presence of franchising in the economy and the important role franchisees play in

enhancing franchisor success, understanding franchisors' role in the whole equation is an important endeavour. The next chapter provides a theoretical perspective of advantages and disadvantages of franchising in general as well as guidelines of what an ideal franchisor is supposed to do in order to help the franchisee.

CHAPTER 2

LITERATURE STUDY OF THE FRANCHISING INDUSTRY

2.1 INTRODUCTION

Franchising is a very popular business concept, and this unique approach to business has spread throughout the world. The success stories of franchising are very impressive. Franchising offers numerous benefits, and that is why businesses choose to employ this effective and alluring business concept.

A franchisee-franchisor relationship requires an ongoing commitment, with each party expected to uphold its end of the bargain through communication, common goals and mutual respect. Understanding the causes of business owners' success and failure is a cornerstone of entrepreneurial research. Given that franchisees are an essential ingredient in successful franchise chains and that franchising is so important in today's economy, the lack of understanding about factors affecting franchise performance represents an important gap in literature (Michael & Combs, 2008:74).

Chapter 2 is a literature study undertaken. The following aspects are under review:

- Background of franchising in general;
- Franchising defined;
- Industries where franchise businesses are available for sale in South Africa;
- The franchise agreement;
- Advantages and disadvantages for the franchisee;
- Steps for franchise success;
- The ethics of franchising; and
- The franchisor and franchisee relationship.

2.2 BACKGROUND IN GENERAL

Franchising is a modern business organisational method that denotes a special kind of relationship between businesses using the same trade symbols and business methods. It is not a modern concept as one would easily believe; it has originated as far back as the 1800s (Britz, 2005:7).

Although modern day franchising originated in the United States of America (USA), the concept is well established in South Africa. The history of its local pioneers can be traced back to the mid-1960s when George Halamandaris established Steers and a number of other brands (Anon., 2009). During the 1970s, other sectors entered the franchise arena and today, franchising is used as the preferred vehicle for expansion by companies active in field as diverse as automotive products and services, food, entertainment and leisure activities, home maintenance and repairs, business services and retailing.

One of the strengths of franchising is that it provides a wide breadth of options for individuals to customise opportunities to meet financial goals and business visions, however conservative or grandiose. At its most fundamental level, franchising is a large-scale growth opportunity based on a partnership rather than on individual effort (Timmons & Spinelli, 2007:365).

In spite of franchising's popularity, its share of the market in South Africa remains quite small. However, a growing number of people realise its potential for self-employment and job creation. This has prompted government to support franchising. Already, various assistance schemes, aimed mainly at previously disadvantaged individuals are available.

Nieman (1998:5) mentions that there are only two business models that qualify as franchise formats, namely product (trademark) franchise and business format franchising. In a product (trademark) franchise, the franchisee is given the right to distribute a product or service under the manufacturer's branding. Franchisees receive a basic corporate

identity package consisting of the logo, signage and corporate colours, and a limited amount of operational support. Franchisees are, in turn, obliged to use the corporate identity package 'as is' but relatively free to operate the business as they see fit.

Justis and Judd (2002:4) remarked that, this type of franchising evolved from suppliers who were making sales contracts with dealers to buy or sell certain products or product lines. Examples of this kind of franchise would be petrol stations and car dealerships.

Mendelsohn (2002:5) defines business format franchising as, the granting of a licence by the franchisor to the franchisee. This licence permits the franchisee to carry on business under the trade name of the franchisor and in doing so, to make use of an entire package of 'know-how' comprising all elements necessary to establish a person previously inexperienced and untrained in the conduct of business, developed by the franchisor under the brand and after training, to run it on a predetermined basis with continuing assistance from the franchisor, for all of which the franchisee pays fees to the franchisor.

Nieman (1998:3) ascertains that this type of franchising is the most successful franchise format, because:

- The franchisor retains total control over the conduct of the business; and
- It offers the franchisee a comprehensive business package.

The Small Enterprise Development Agency (SEDA) (2009) also defines this form of business as one that involves the granting of rights by a company (the franchisor) to a third party (the franchisee) to operate its business system using a common brand and common format for promoting, managing and administrating the business.

Illetschko (2005:7) also cautions that, for a franchise to deliver on its promise of bringing in money, the franchisor needs to abide by the rules of the game. Sadly, some self-styled franchisors are not willing to do this. Instead of developing their systems properly, they launch under-developed packages and hope for the best. Most franchise failures are the

result of poor implementation of the concept by the franchisor, and this can easily amount to fraud, so potential franchisees need to be extra vigilant when pursuing business through the franchise route.

Timmons and Spinelli (2007:222) conclude by stating the following, "The heart of franchising is entrepreneurship, the pursuit of intent to gain wealth by exploiting the given opportunity. The unique aspect of franchising is that it brings together two parties that both have individual intentions of wealth creation through opportunity exploitation, but who choose to achieve their goals by working together."

2.3 FRANCHISING DEFINED

Dreyer (2000:18) defines the concept of franchising as, a contractual licence granted by one person (the franchisor) to another (the franchisee) which:

- Permits or requires the franchisee to carry on during the periods of the franchise, a particular business or using a specified name belonging to or associated with the franchisor;
- 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;
- 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);
- Requires the franchisee periodically during the period of the franchise to pay to the franchisors sums of money in consideration for the franchise of goods or services provided to the franchisee; and
- Is not a transaction between a holding company and its subsidiaries of the same holding company, or between an individual and a company controlled by the franchisor.

Nieman (1998:4) is also of the opinion that franchising is a franchisor granting a franchisee the right to sue a proven business package, which enables the franchisee to operate a business successfully without any prior knowledge of the industry.

Justis and Judd (2002:3) then summarises this definition by stating that, franchising is a business opportunity by which the owner (producer or distributor) of a service or a trademarked product grants exclusive rights to an individual for the local distribution and/or sale of the service or product, and, in turn, receives a payment or royalty and conformance to quality standards.

2.4 INDUSTRIES WHERE FRANCHISE BUSINESESS ARE AVAILABLE FOR SALE IN SOUTH AFRICA

Several kinds of industries are available where one can buy a franchise business. Table 2.1 sets the most common ones, as registered with FASA.

FASA's primary role is to define the business of franchising and ensure that all parties adhere to the franchise business principles adopted and accepted internationally. With franchising universally accepted as one of the most successful business formats, FASA's role is to continually promote the advantages of franchising both to business entrepreneurs, to prospective franchisees and to the public at large. Therefore, any franchise registered with FASA represents a good buy (FASA, 2009).

Table 2.1: Industries where franchise opportunities are available, as registered on the FASA website

- Agricultural, Mining & Industrial Services
- Automotive Products & Services
- Bakery
- Building, Office & Home Services
- Business-to-Business Services
- Childcare, Education & Training
- Entertainment & Leisure Activities
- Fastfood & Restaurants
- Health & Body Culture
- Italian Style Food
- Pub Concepts
- Real Estate
- Retailing & Direct Marketing
- Social Franchising

2.5 THE COBTRACTUAL RELATIONSHIP

2.5.1 The agreement

The franchise agreement is the founding document in terms of which the franchisee is licensed to operate the franchised business according to a business system that has been determined by the franchisor. The agreement is accompanied by the property rights such as the trademark, copyright, and confidential information on business-specific expertise.

The franchisee agreement and the operations manual give the franchisor control over all aspects of the franchisee's business. This is done to ensure that the franchise adheres to the agreement and operations manual, and to ensure effectiveness in operations. The franchise agreement should protect the interests of both parties. This agreement also governs the ongoing business relationships between franchisee and franchisor for the duration of the agreement and even beyond this (Petzer, 1999:62).

A typical franchise agreement includes the following components:

- **A name and system.** The franchisor licenses the franchisee to ensure the franchise's name and proven operating system (which should be documented in a comprehensive operating manual). Operations that will be controlled by the franchisor should also be clearly stated (KPMG, 1995:83).

- **Setting up the business.** The agreement will also set up guidelines for site selection and occupation.

- **Product and marketing considerations**. It is the obligation of the franchisor to provide ongoing input into the promotion of the business. This also covers product and marketing research (Stride, 1997:8).

- **Franchisor-frauchisee communication**. The agreement should cover communication between the parties, including the cost aspect of this. This communication should be very specific to the extent of initial and ongoing assistance to be offered by the franchisor.

- **Terms of the agreement**. The agreement should stipulate the duration of the contract, and should match the property lease agreement and repayment obligations arising from long-term loans.

- **Territorial protection**. The franchisor should allocate territory to the franchise. This will depend upon the nature of the business, and is a matter of negotiation between the parties.

Illetschko (2005:47) also adds that, the agreement should clearly define the franchisee's trading area. An option to expand the business into neighbouring territories must be clearly stated as well.

- **Financial aspects.** The financial aspects of the agreement should be covered in detail. These may include the initial franchise fee, funds needed to set up and operate the business, and ongoing franchise fees.

- **Group identity.** The franchise must operate in accordance with the guidelines laid down in the operations manual as issued and updated from time to time (Nieman, 1998:45).

- **Change of ownership in the franchise**. The agreement should make provision for all possible change of ownership. Any change of ownership will affect the rights of both parties under the franchise agreement, and could lead to termination of the relationship.

- **Compulsory purchasing arrangements.** A list of approved suppliers from which the franchisee may purchase stock and equipment must be included in the agreement.

- **Rights granted to the franchisee**. A franchise is granted and never sold. The franchise agreement gives the franchisee certain rights, but these are not absolute. Should the franchisee fail to comply with the terms of the agreement the grant can be withdrawn (KPMG, 1995:87).

- **Systems modifications.** The franchisee's right of access to systems improvements implemented by the franchisor and possible conditions attached to the implementation of systems improvements that may be developed by the franchisee are set out here.

- **Quality standards.** The franchisor should determine the quality of products and/or services delivered by the franchisee by setting appropriate quality standards. These should be clearly set out in the agreement.

- **Procedures relating to breach of contract**. The agreement should make provision for what should happen should either party dishonour any aspect of the agreement.

- **Franchisee's ongoing commitments.** Ongoing obligations of the franchisee must be listed. Examples are adherence to prescribed business hours, minimum staffing requirements, range of products, and many more (Petzer, 1999:62).

- **Restraint of trade.** This clause states restrictions on the franchisee's right to operate any other business. This restraint will be divided in two parts, firstly, it should cover the period during which the franchise agreement is in force, and secondly, certain restraints will remain in force for a certain period after termination of the agreement.

- **Termination of the agreement.** Franchise agreements are usually valid for a specified period. At the end of that period, or at the end of the option period, if one is granted, the franchise contract ends. This should be clearly stated in the agreement.

2.5.2 The disclosure document

A disclosure document is a comprehensive prospectus published by the franchisor. It contains confidential information, including detailed financial information (Illetschko, (2005:46).

Nieman (1998:45) also adds to this definition by mentioning that, the disclosure document includes essential information to assist the franchisee in understanding the

business to be purchased, and it provides the franchisor with a mechanism to market and sell the franchise. This document must, among other things, include the following:

- The main particulars and features of the franchise system, including the nature and period of existence of any logos, branding and trademarks, and whether these have been registered or not;
- The rights and obligations of both franchisor and franchisee;
- The legal and trade name of the franchisor;
- Details of the registered office of the business: postal and street addresses, telephone and fax numbers;
- A list of the franchisor's officers, directors and shareholders, or senior and key management as well as any critical third parties, such as suppliers or creditors of the franchisor;
- Details of existing franchisees, which includes their names, telephone numbers, areas, and when they commenced business;
- Details of the financial position of the company, costing of products and services, and franchise fees and royalties. This makes the franchisee-franchisor relationship transparent enough to preclude future disillusionment, resentment and confrontation.

The disclosure document protects both the prospective franchisee and the franchisor. It protects the franchisee, because it enables the franchisee to take a well-informed decision about whether or not to acquire the franchise. The disclosure document also protects the franchisor, because the franchisee can never claim, at some time in the future, to have been misled. The disclosure document supplements the information given in the franchise agreement and does not replace it. Both documents must be read together and carefully evaluated (Nieman, 1998:46).

2.5.3 The operating manual

The operating manual is often defined by the franchisee as the bible of the business. This manual describes in detail each function and sub-function with procedural guidelines and standards for operating the business (Justis & Judd, 2002:3).

Petzer (1999:71) summarises it as follows: "The operating manual contains all the systems, programmes, and operating procedures necessary for the functioning of the franchise business. The manual serves two purposes: firstly, it is used to train franchisees, and secondly, it is used as a reference document once the outlet is in operation".

2.5.4 Fees payable

Franchisor compensation involves one fee or a combination of fees, payable by the franchisee.

2.5.4.1 The initial, or upfront fee

This represents the costs incurred by the franchisor in setting up the infrastructure of the business. It includes the provision of all services provided by the franchisor to the franchisee, and, in some cases, an amount for joining an established network and from benefiting from the associated goodwill. The initial, or upfront fee, often includes all the start-up accessories and extras required in the business. This fee is usually payable upon signing the franchise agreement.

The franchise directory, published by FASA, lists the fees charged by some of the most reputable franchisors. Should a franchisor belonging to this organization, charge more than the average fee listed, then the franchisee is more than welcome to demand a explanation for the difference.

2.5.4.2 The minimum owner's contribution

This is an amount of money required by the franchisor in cash, upfront, and paid without any form or a certain percentage of financing. The franchise must be in possession of a specified amount of money upon signing of the agreement. This helps to ensure the franchisee's commitment to the operation (Petzer, 1999:65).

2.5.4.3 Advertising fees

This is the fee that is contributed by the franchisee on an ongoing basis to an advertising fund in order to promote the entire franchise network. This amount is also determined as a percentage of sales, and is usually in the region of 2% to 3% of sales.

2.5.4.4 Royalties or management's service fee

The franchisee pays this fee to the franchisor usually on a weekly or monthly basis. This is usually calculated as a percentage of sales in the regions of 5% to 7% (Illetschko, 2005:38).

2.5.4.5 Sales of products

The franchisor makes profits from selling franchisees' raw material and finished products, operating supplies, furnishings and equipment.

2.5.4.6 Rental and lease fees

Rental and lease fees are the fees that the franchisor charges the franchisee for the use of facilities and equipment.

Depending on how the franchise is set up, certain additional costs may be incurred by the franchisee. A franchisor may furnish the franchisee with initial fixtures, fittings, and stock – and these may be accounted for in the total franchise fee. An element of profit may be added on to the basic costs of the services and expertise provided in opening the outlet.

2.6 ADVANTAGES AND DISADVANTAGES FOR THE FRANCHISEE

There are a few advantages to the franchisee when buying a franchise. The franchisee starts his own business using someone else's tried and tested business concepts. The franchisee becomes an independent business person with a proven distribution system (Nienaber, 2003:31).

2.6.1 Advantages for the franchisee

Justis and Judd (2002:30) list the most important advantages for the franchisee as the following:

- **Established product or service.** Often consumers are already aware of the names and reputation of products or services the franchise system offers. This is a significant advantage for the prospective franchisee.

- **Technical and managerial assistance.** The franchisee has the advantage of technical and managerial assistance provided by the franchisor.

- **Quality control standards.** Another advantage to the franchisee concerns the quality control standards imposed by the franchisor upon the franchisee. Properly administered and controlled, such standards help the franchisee to achieve constructive and positive results.

- **Less operating capital.** An entrepreneur can open a franchised business with less cash than if he or she were to open a business independently.

- **Opportunities for growth.** A potential advantage concerns growth opportunities for operating a territorial franchise. A territorial franchise guarantees no competition from the same franchisor within a specified geographic boundary.

Nieman (1998:9) is also of similar opinion and adds the following:

- The franchisee can start a business with the use of a comprehensive business package consisting of an established trade name and corporate image, a proven product or service and the benefit of the goodwill built up by the franchisor.

- The franchisor provides initial training, and supplements it with subsequent training and guidance.

The franchisee enters into a business that already has an accepted name, product, or service. Credibility already exists based on the years the franchise has existed. This helps to facilitate franchise sales. The franchisor provides standardised employee uniforms, quality training for franchisees, standardised operating procedures, and management expertise (Hisrich & Peters, 2002:542).

The franchisee does not have to incur all the risks alone, because of the franchising relationship with the franchisor (Britz, 2005:26).

2.6.2 Disadvantages for the franchisee

Most franchising agreements work well for both the franchisor and the franchisee. The franchising agreement is meant to develop a healthy and prosperous business life. However, there are some potential disadvantages to the franchisee associated with the franchising relationship.

Justis and Judd (2002:5) also mention these disadvantages as the following:

- **Failed expectations.** Misleading or fraudulent sales practices can actually victimise some potential franchisees.

- **Service costs.** Another consideration that can be an enduring disadvantage to a franchisee is that, services provided by the franchisor have costs which must be borne by the franchisee.

- **Overdependence.** A franchisee can become too dependent on the advice of the franchisor to address operations, crises, changing market conditions, pricing strategies, or promotions that they might fail to apply common sense and knowledge of local customers and market conditions.

- **Restrictions of freedom of ownership.** The franchising contract may contain restrictions or requirements that an independent business person would not have to satisfy.

- **Termination of the agreement.** The next major disadvantage concerns a franchisee's decision to terminate the franchising relationship as a result of perceived or real differences with the franchisor. Lack of cooperation from the franchisor can make it difficult to sell the business to a prospective buyer or to simply dissolve the business entirely.

- **Performance of other franchisees.** Poor performance of some franchise outlets in the network can affect the sales of the others. Coupled to this is also any form of bad publicity by the franchisor or any outlet in the franchise chain.

Nieman (1998:10) also adds the following:

- Although franchisees are legally independent, the franchisor will still exert a high degree of control over the franchisee and the franchise operations in terms of the franchise agreement and operational manual.

- The franchisee may wish to be innovative and introduce some changes to the franchise, but may not be allowed to do so in terms of the agreement.

- The risk that the franchisor may go insolvent. This can, in turn, result in the collapse of the franchise support structure (KPMG, 1995:23)

To overcome these obstacles, the franchisee needs to fully understand what he or she is getting into before signing any contract, as this is vital to the success of the business. If the franchisee is a too strong-willed or independent person, he or she needs to consider if franchising is the right route to go. It is also advisable to request from the franchisor, a full list of franchisees and permission to contact some of them to get their opinion on the franchise operation (Nienaber, 2003:32).

2.7 ADVANTAGES AND DISADVANTAGES FOR THE FRANCHISOR

2.7.1 Advantages for the franchisor

Justis and Judd (2002:7) believe that for a franchisor, franchising allows the business to expand with limited capital, risk and equity investment.

Hall and Dixon (1991:38) summarise and expand the list with the following:

- **Rapid expansion.** The franchisor can achieve rapid expansion of his distribution network without having to borrow substantial funds or raise additional finance.

There will be capital needed to prepare for franchising, but, in general, the franchisees will supply the capital, as they will fund their own outlets.

- **Motivation of franchisees**. Franchisees are much more motivated than hired managers are, because they own their outlets and are at risk.

- **Delegation of authority**. The franchisor is freed from having to deal with many day-to-day management problems of individual outlets.

- **Increased competitiveness**. The franchisor is better able to compete on equal terms with larger rival companies. He will also be able to benefit by gaining greater negotiating strength because of bulk buying on behalf of many franchisees.

In agreement with the above, Hisrich and Peters (2002:545) describe the most important advantages for the franchisor as expansion risk advantages, capital requirement advantages, as well as cost advantages. Franchising allows the venture to expand quickly, using little capital and saving on advertising costs and achieving economies of scale, because of bulk purchasing power.

2.7.2 Disadvantages for the franchisor

Hall and Dixon (1991:10) express the following drawbacks:

- **Franchisees, not employees.** The franchisee is not an employee and therefore cannot simply be ordered to follow instructions.

- **Differing objectives.** The objectives of the franchisee regarding profit may not coincide with those of the franchisor.

- **Unsuitable franchisees.** In view of the franchise agreement the franchisor will only be able to terminate the agreement under certain circumstances which might make it difficult to dispose of an unsuitable franchisee.

- **Profitability.** In some cases, the franchisor may find that the franchised outlets are less profitable than company-owned outlets and may dent the image of the franchisor.

Coinciding with the above, Britz (2005:31) indicates that the franchisor might incur certain risks and disadvantages in choosing the franchise expansion alternative. Sometimes, the franchisor might find it difficult to find quality franchisees; franchisees might be managed poorly despite training and controls in place. As the number of franchisees increase, it might also become difficult to maintain tight control.

2.8 PROVEN STEPS TO FRANCHISE SUCCCESS

According to Eric Parker, Senior Partner at Franchising Plus (2009:62), there are 21 proven steps that all prospective franchisees should go through in order to ensure that they can make the transition to being a happy franchisee.

- **Franchisees need to be well informed**. Franchisees need to learn all there is to know about franchising and must be certain that this is the path they want to take before moving into this kind of business.

- **They must be team players.** As a franchisee, they become part of a family, and need to keep with the franchising motto: "To be in business for you but not by yourself."

- **Accept majority rule.** In a franchise, the majority rules and at times, one may be outvoted. This means that one does not always get what they want. This should be accepted with "a smile and carry on".

- **Embrace networks rules.** A franchise is granted, never sold. By joining the network, it means that one has agreed to operate the business according to the set rules and guidelines.

- **Proactive.** The franchisee needs to allow the franchisor to lead the way, but also take an active interest in site selection and setup.

- **Stay positive.** A positive attitude and a "can do" approach to life are more likely to deliver positive responses all around than a negative outlook.

- **Uphold ethics.** One needs to be honest and transparent in all the dealings.

- **Strive for win-win outcomes.** Franchisees need not be greedy. Win-win outcomes are always at the root of every successful franchise.

- **Fees need not be resented.** Initial and ongoing fees need to be paid willingly. The business success is the result of being part of the franchise. The fee income motivates the franchisor to offer a widening range of support services, and this is a direct benefit to the franchisee.

- **Represent the brand with pride.** The franchisor is the custodian of the brand, and the role of the franchisee is to be an ambassador of the brand.

- **Focusing on your "desk".** The franchisor sets strategic direction, and the job of the franchisee is to look after the customers and make the business profitable.

- **Participate in training activities.** Franchisees need to realise the importance of training. They need to participate enthusiastically in these training initiatives and other network-wide activities that the franchisor offers.

- **Work with the franchisor.** The franchisor's role needs to be appreciated, and co-operation with the network's representatives is essential, as all this is to the benefit of the franchisee.

- **Undertake local marketing.** Franchisees need to support the franchisor's brand building efforts by becoming the centre of the local community – local marketing efforts should never be neglected.

- **Embrace your customers.** One should always remember that the customers help in the payment of the bills, and without them the business would not exist; therefore, they need to be treated as such.

- **Be a good sport.** One needs to be proactive in interactions with other franchisees. By helping one another can only help in growing the business.

- **Aim for perfection.** One should strive to build the brand into the best in its sector within the territory and become the best franchisee in the network.

- **Strive for service excellence.** It needs to be remembered that if one franchisee is performing badly, the team is will be let down automatically. Through brand affiliation, the other franchisees active in territories far removed from the one, may suffer the consequences.

- **Gain allies.** Suppliers need to be treated with respect, and their accounts need to be paid timely.

- **Ardent communicator.** Communication needs to be done upwards, as one is the eyes and ears of the brand.

- **Staff need to be kept motivated.** This is achieved by training the staff as well as, rewarding performance and keeping an open door policy (Parker, 2009:64).

2.9 THE ETHICS OF FRANCHISING

There is no South African legislation directed specifically at franchises. FASA takes up this legislative role by acting as a body that governs the industry. FASA was incorporated in 1979 as a non-profitable organisation, due to the increasing interest and growth of the concept (Dreyer, 2000:20).

The value and need of such a body was first identified by the Johannesburg Chamber of Commerce. FASA was therefore established under the auspices of the Chamber. Income is generated from membership fees, events, such as seminars and annual franchise exhibitions, as well as the selling of publications. Profits are used for the advancement of the franchise concept.

FASA has been the guiding force of franchising in South Africa and the growth and stability of the sector is largely owing to the work that FASA has done over the years to promote ethical franchising. Those who are members of FASA have voluntarily made a commitment to abide by the ethical standards laid down by FASA and the international franchise community. That in itself is an indication of their commitment to operating a sound and ethical business.

2.9.1 The role of FASA

FASA is a trade association for franchisors, but it also assists prospective franchisees and all others with an interest in franchising. In particular, FASA acts as:

- **Educator**. They publish literature on the major franchise disciplines; maintain a database and up-to-date library facilities on franchising. They also initiate and provide education in franchising through workshops, seminars and a diploma in franchising.

- **Regulator.** They issue guidelines according to which sound franchise schemes should operate. They provide a code of ethics (Addendum 1) and act against those who transgress it.

- **Spokesman.** They represent the industry to the press, the government and the general public.

- **Mediator**. They mediate disputes that may arise between franchisors, their franchisees and their consumers.

- **Promoter.** They are involved in the promotion of franchising as an ethical, successful way of doing business.

2.10 THE FRANCHISOR-FRANCHISEE RELATIONSHIP

The most critical facet of the franchised business is the relationship between the franchisor and the franchisee.

The introduction of the relationship between the franchisor and the franchisee should be one of trust, mutual interdependence, and a shared desire for success and profitability (Justis & Judd, 2002:19).

The franchisor-franchisee relationship is a special type of partnership which can be of benefit to both parties if there is co-operation. The franchisor depends on the franchisee to be successful and vice versa. The concept of franchising hinges on the establishment and maintenance of a relationship over a period of time, at least five years. This is in itself a complex process. A major complicating factor is the fact that the relationship between the franchisor and franchisee has been found to change over time. The basis of the franchisor-franchisee relationship must be based on the principles of respect for one another. The franchisor needs to respect the achievements of the franchisee and the

contributions he makes to the franchise system. The franchisee needs to respect the franchisor for his achievements and the guidance provided.

Corresponding with the above, Mendelsohn (2002:57) summarise and expand as follows: "It takes both the franchisor and the franchisee to properly guide and direct the franchise system. The franchisor and the franchisee need to learn to work together to bring about the optimal success for each other and for themselves."

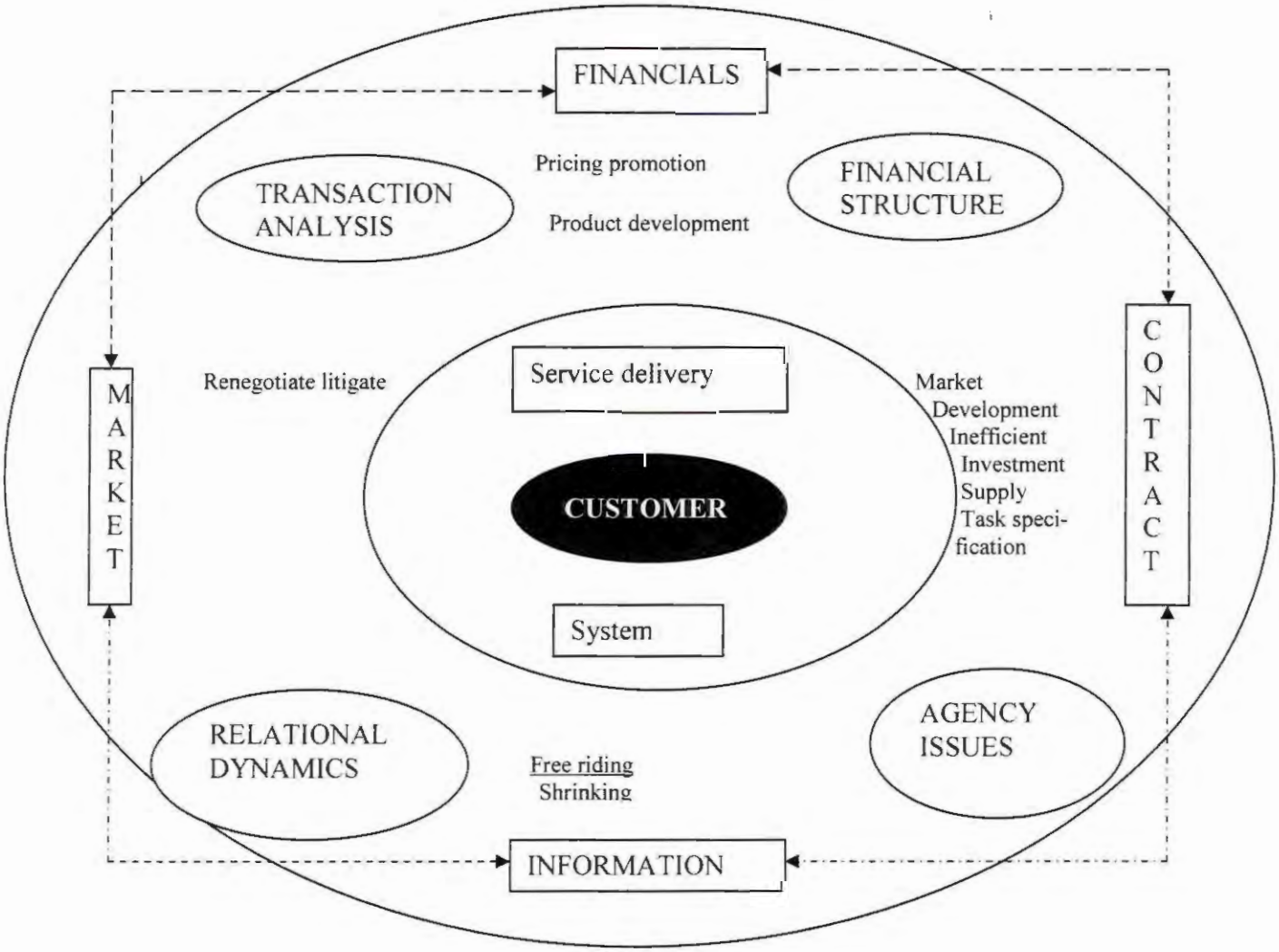
Dreyer (2000:24) advises that for this relationship to fully thrive the following need to be adhered to:

- Total acceptance by both of a common vision, mission and values;
- Good communication at all levels;
- Desire and dedication to succeed;
- Maintaining and upholding clearly defined operating procedures and quality standards; and
- Contribution to the growth through feedback, research and development, and promotion.

Timmons and Spinelli (2007:372) developed a Franchise Relationship Model (FRM) that describes the franchise relationship in great detail, as shown in Figure 2.1. This model illustrates both how a concept innovator (franchisor) can most efficiently construct a franchising company and how a concept implementer (franchisee) can determine which company to join. It further helps to distinguish between tasks that are best executed under a corporate umbrella and those best done by the individual franchisee. Just as franchising is a risk ameliorating tool for the entrepreneur, the FRM is also a tool that both franchisors and franchisees can use to judge the efficiency or success potential of a franchise opportunity.

The FRM illustrates how a concept innovator can contract a franchising company and the pathway for implementing it in the most entrepreneurial way.

Figure 2.1: The Franchise Relationship Model



(Source: Timmons & Spinelli, 2007:372)

Webb (1999:34) also states that the foundation of the relationship between the franchisee and the franchisor is one that is based on shared values and expectations. These are designed to encourage a two-way communication and ultimately lead to a strong relationship between the parties.

The following values should be shared between the two parties:

- **Integrity.** Uncompromising adherence to honesty and other ethical and moral values.
- **Dedication**. Commitment to achieving goals in spite of obstacles.
- **Teamwork.** Working together towards common goals as mutually dependent team players.
- **Diversity.** Leveraging the system to achieve goals by respecting differences in ideas, opinions, beliefs and cultures.
- **Community.** Belonging and contributing to a larger group with shared interest, including franchisees and employees.
- **Continuous improvement.** Never be satisfied.

The following expectations should also be shared between the two parties. They represent what the franchisor and the franchisee expect from each other to do, in order to optimise the potential of the franchised business.

- **Leadership.** Leadership should be demonstrated in a way as to maximise customer satisfaction, market share and profitability.
- **Continuous improvement**. Franchisees should follow the franchisor's ways and operating philosophies, while the franchisor must develop and manage the business, commit and support the system.
- **Communication.** The franchisor must communicate openly, honestly and effectively with the franchisee. He must be fair and consistent with the decisions undertaken. This is also the case on the franchisee's side.
- **Fulfilling obligations.** The franchisor should consistently maintain and enforce standards. This refers to the franchise agreement. The franchisee must operate the business at the highest level of quality, service, cleanliness and safety.

Vosloo and Von der Ohe (2005:33) also add that, the franchisor/franchisee relationship is a dynamic one in which the success of each party, for the most part, is determined by the

success of the other. They believe that franchise relationships are based on trust, mutual respect and the desire to promote the common good.

There are many problems that may arise between the franchisor and the franchisee as they build their relationship. Both parties need to be aware of such factors, and must be prepared to go an extra mile to ensure that this relationship is properly managed and maintained as it may make or break the franchise business.

2.11 CONCLUSION

Franchising is a very popular concept worldwide, as proven by the fact that so many businesses are making use of the franchise concept globally. It not only allows a franchisee to run his own business, but it also allows him to benefit from a 'safety net' in the form of the support of the franchisor.

The purchase of a franchised outlet is an investment option competing with fixed deposits, equities, or unit trusts. The success of an investment in a franchise is largely dependent on the strength of the particular brand and associated franchisor support. That is why it is of the utmost importance to scrutinise a franchise opportunity, as one would if it was an investment to be able to differentiate between a good business decision and a scam. The detailed literature study done above should somewhat assist in that scrutiny.

Chapter 3 is an empirical study designed to ascertain whether franchisors are in any way responsible for the success or failure of the franchise business.

CHAPTER 3

RESEARCH FINDINGS AND DISCUSSIONS

3.1 INTRODUCTION

The aim of this dissertation as mentioned was firstly to determine whether franchisors have a direct impact towards the success or failure of the franchisee business. Secondly, to understand how the relationship between the two parties is structured, if it exists. This understanding is specific to the assistance given by the franchisor from inception of the franchise business up to when the contractual obligation is terminated.

Chapter 3 sets out the empirical research of the study. Aspects covered include:

- Method of research;
- The purpose of the questionnaire;
- The compilation and structure of the questionnaire;
- Types of questions used;
- Target group;
- Respondents; and
- Results.

3.2 METHOD OF RESEARCH

The data were gathered through the compilation and distribution of questionnaires. The questionnaire was compiled based on the literature study in Chapter 2. The questionnaires were delivered to franchisees in the Emfuleni and Sedibeng Municipal districts of the Vaal geographic area. According to Levine *et al.* (2008:8), this method is simple, saves time and ensures a better response rate.

The purpose, constructing and structuring of the questionnaire can be summarised as follows:

3.2.1 The purpose of the questionnaire

The purpose of the questionnaire is firstly to determine whether franchisors in the selected regions as mentioned above have a direct impact towards the success or failure of the franchisee business. Secondly, to understand how the relationship between the two parties is structured, if it exists. This understanding is specific to the assistance given by the franchisor from inception of the franchise business up to when the contractual obligation is terminated.

3.2.2 Compilation and structure of questionnaire

The questionnaire used for this research is presented in Appendix B. The questionnaire is divided into two sections, section A and section B. Section A comprises 12 statements, while Section B has 31 statements. All questions are close-ended questions.

Section A gathered biographical information of the respondents.

Section B gathered information relating to the relationship between the two parties. The questions were put in the following groups:

- Initial assistance given by the franchisor at inception of the franchise relationship;
- Ongoing assistance offered by the franchisor;
- Daily running of the franchise business; and
- General involvement of the franchisor in the franchisee business to ensure that the business is successful.

3.2.3 Target group

The identified target group that participated in the empirical study were 50 franchisees located in the Sedibeng and Emfuleni Municipal districts.

3.2.4 Respondents to research

Fifty questionnaires were handed out to franchisees in the Emfuleni and Sedibeng Municipal districts of the Vaal region. Twenty five franchisees responded and all questionnaires that were received were used, which resulted in a response rate of 50%. While some franchisees filled in the questionnaires immediately with enthusiasm, others returned them after several weeks of numerous reminders. Some took the questionnaires and never filled in them or returned them, while others just simply refused to participate in the study.

Several reasons were forwarded by franchisees for non-response or delayed responses. The most common ones were the following:

- They do not have the time to fill in the questionnaire.
- There is no benefit for them in filing the questionnaire.
- They are overloaded with work; and that filling in the questionnaires will not change their personal circumstances.
- The store owners are away and seldom come into the shops, and managers are not willing to fill questionnaires on their behalf.

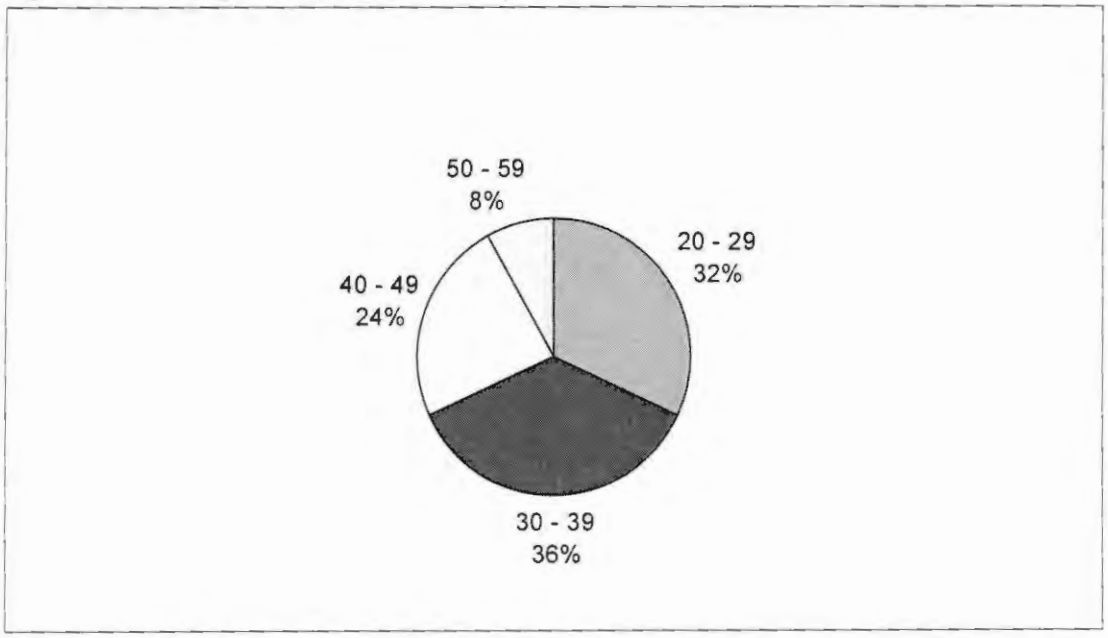
3.3 RESULTS AND ANALYSIS OF EMPIRICAL RESEARCH

3.3.1 Section A results and analyses

The following results and analyses are based on the biographical information of the respondents as indicated by Section A of the questionnaire:

3.3.1.1 Age

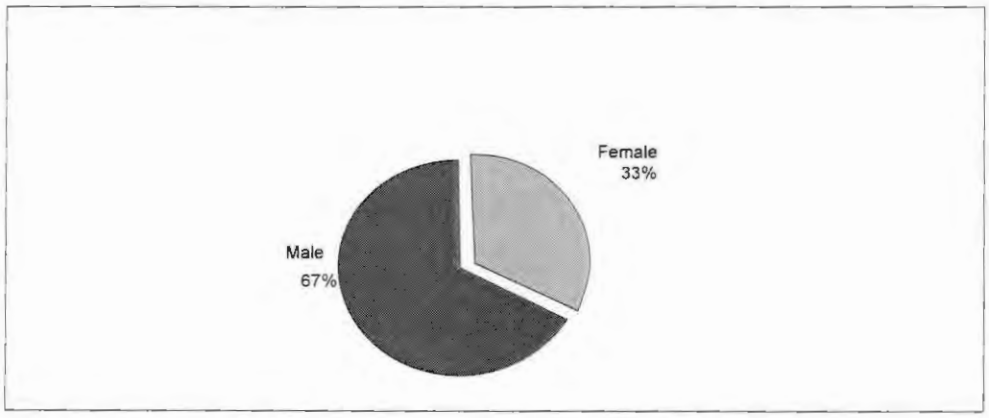
Figure 3.1: Age distribution of sample



A bigger percentage (36%) of respondents were between the age group of 30 to 39 years, followed by 32% between the ages of 20 and 29 years; 24% of respondents fell between the ages 40 to 49 while 8% were between the ages 50 and 59 years.

3.3.1.2 Gender

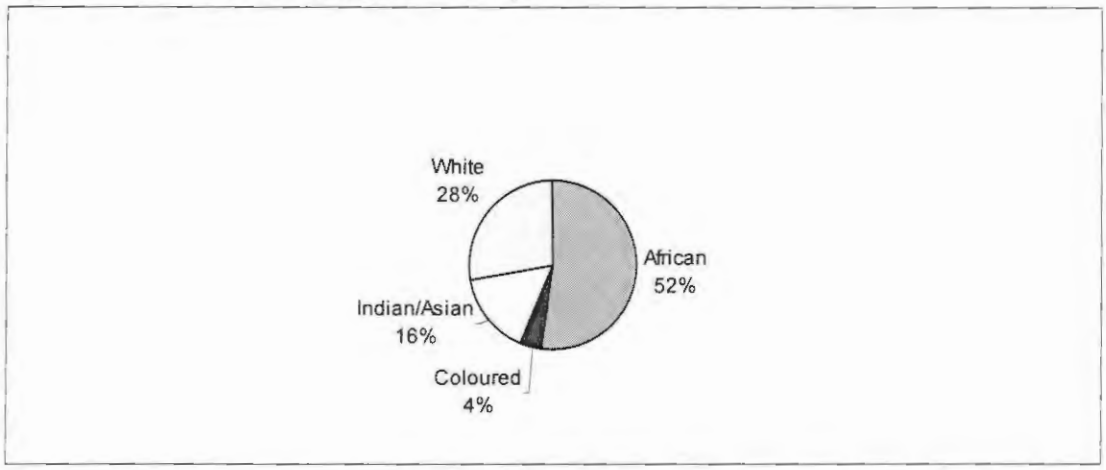
Figure 3.2: Gender distribution of sample



Of the 25 respondents, 33% were female and 67% were males.

3.3.1.3 Race

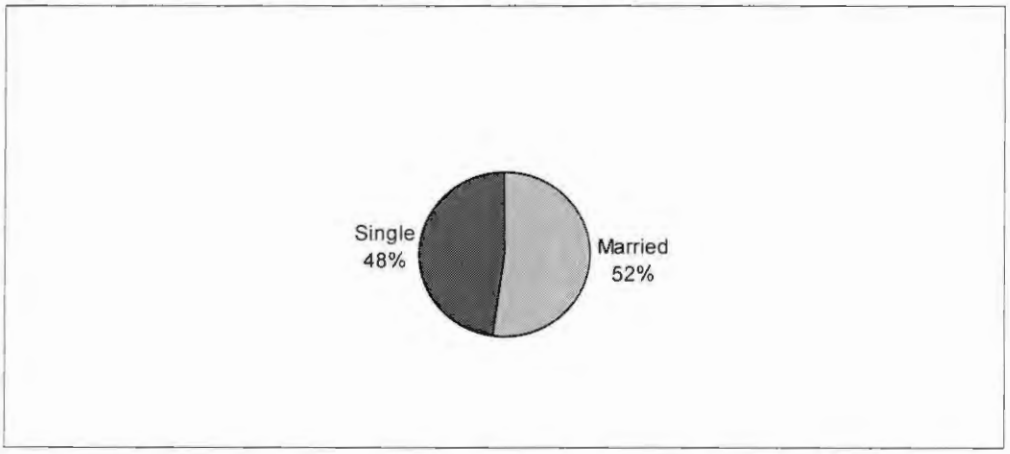
Figure 3.3: Race distribution of sample



The sample represented a diverse workforce with the majority being Africans (52%), followed by Whites at 28% and Indians or Asians at 11%. Only 4% were Coloureds.

3.3.1.4 Marital status

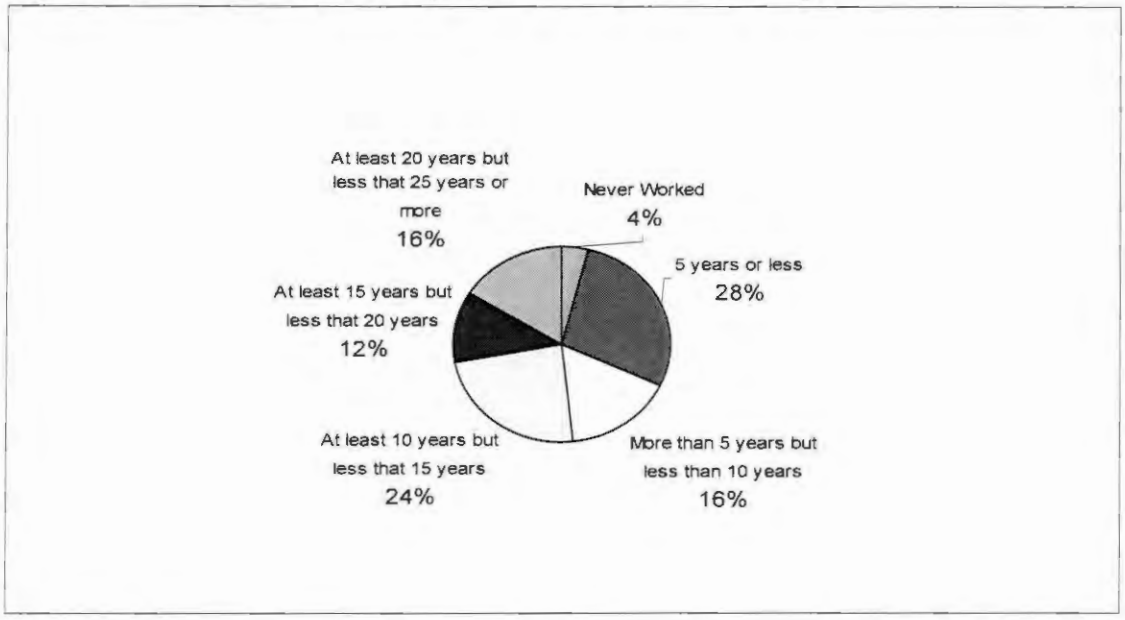
Figure 3.4: Marital status distribution of sample



The majority of respondents were married (52%), whilst 48% were single.

3.3.1.5 Working experience

Figure 3.5: Length of work experience distribution of sample

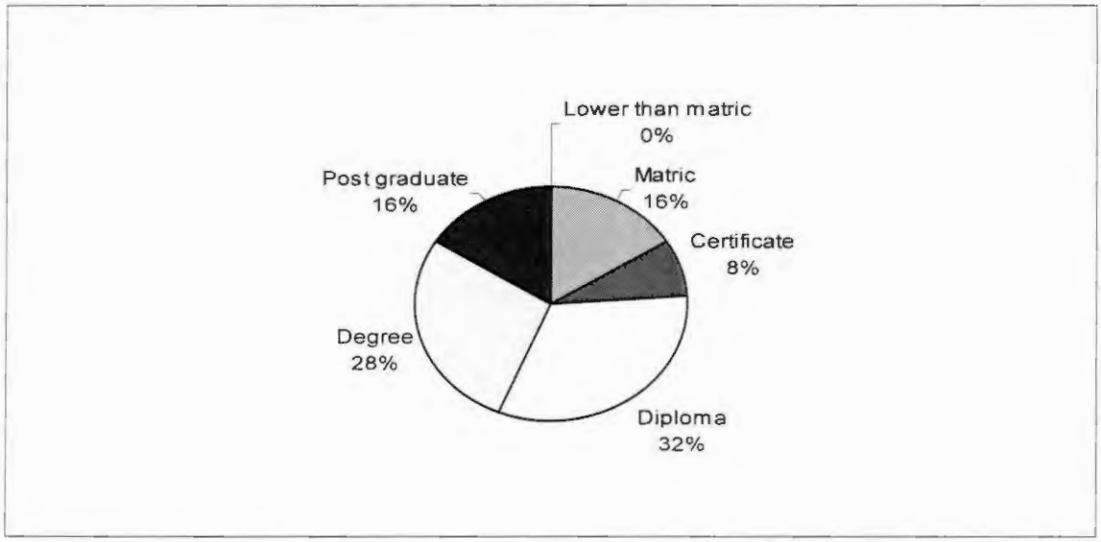


The majority of the respondents (28%) in the sample had 5 years or less work experience before entering the franchise business. Some 24% had 10 years but less than 15 years of work experience. Another 16% were shared between the groups 20 years but less than 25

years and 5 years but less than 10 years. Fifteen years but less than 20 years took a share of 12%, while those who have never worked before were only 4% of this distribution.

3.3.1.6 Highest Academic Qualifications

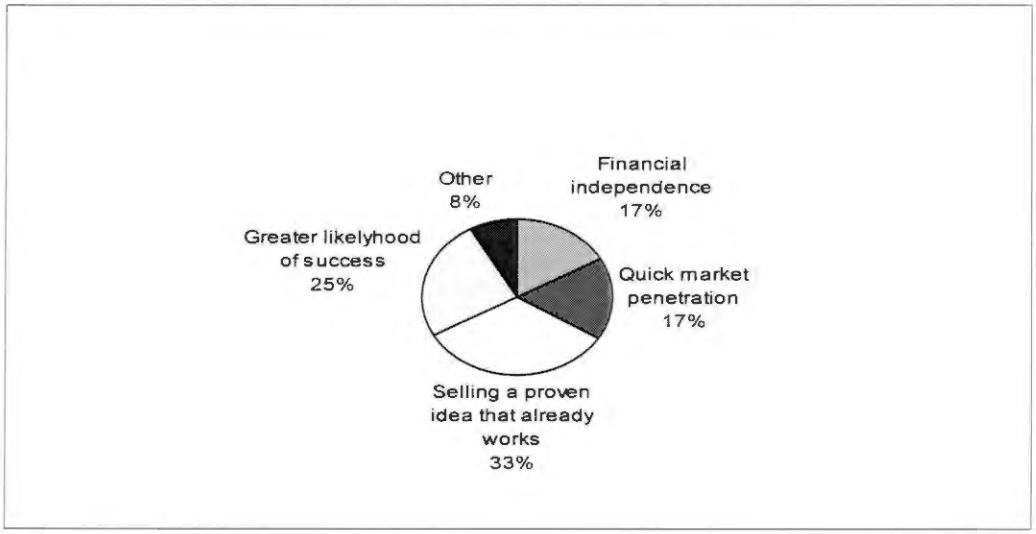
Figure 3.6: Education distribution of sample



The majority of respondents (32%) had a diploma from a technical college or technicon; 28% had a university degree; 16% had a postgraduate degree; another 16% had matric; 8% had a post matric certificate; while none had a qualification less than grade 12.

3.3.1.7 Reasons for choosing the franchising route

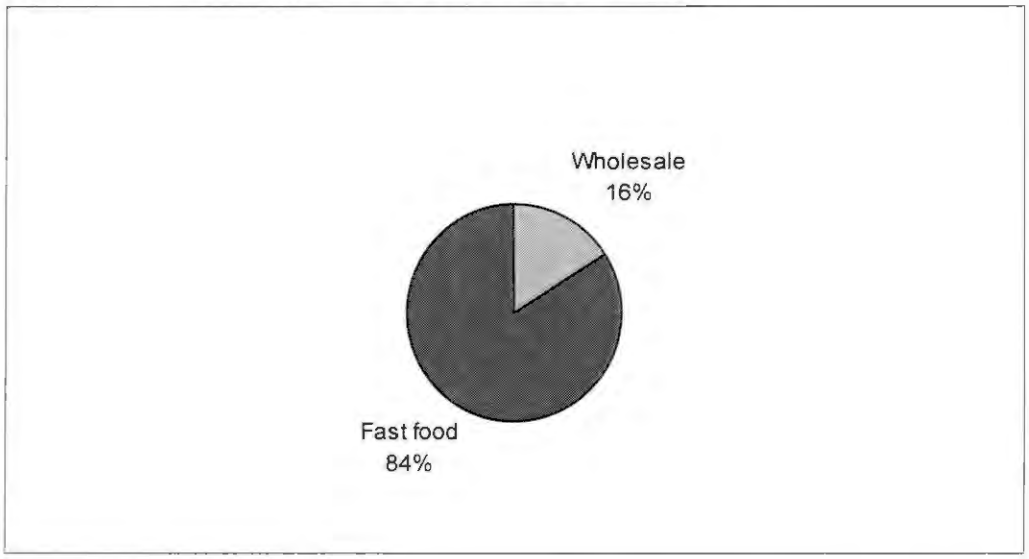
Figure 3.7: Reasons for choosing the franchise route sample



The majority of respondents (33%) chose the franchise route because they believed in selling a proven business idea that already works; 25% chose it because of the greater likelihood of business success; 17% chose it for the belief of quick market penetration and financial impendence; while only 8% chose this industry for other reasons not mentioned.

3.3.1.8 Industry where the franchise fall

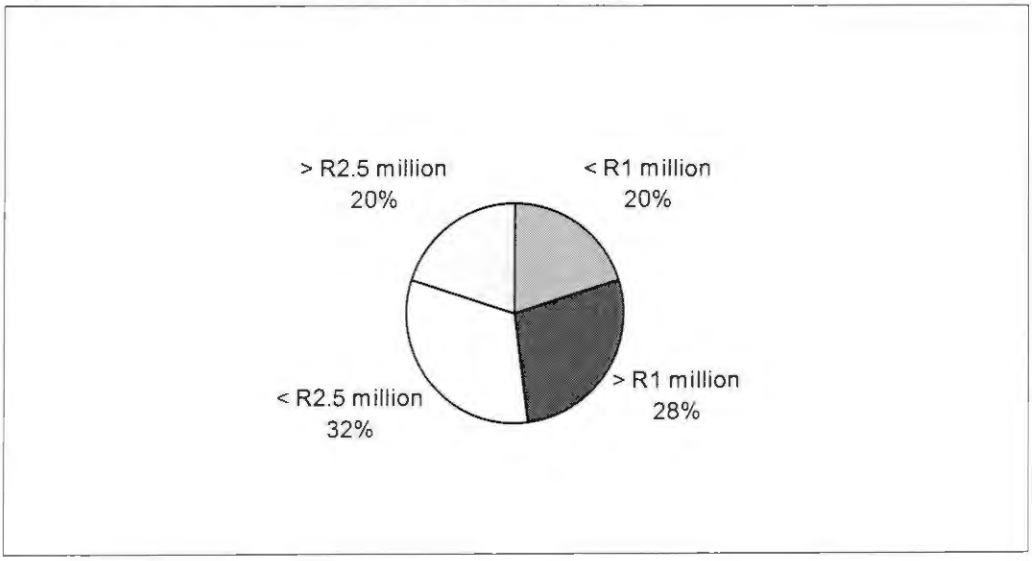
Figure 3.8: Industry where the franchisee belongs



The majority, 84% of the selected stores, fell under the fastfood industry, while 16% were in the wholesale industry.

3.3.1.9 Franchisee's current market value

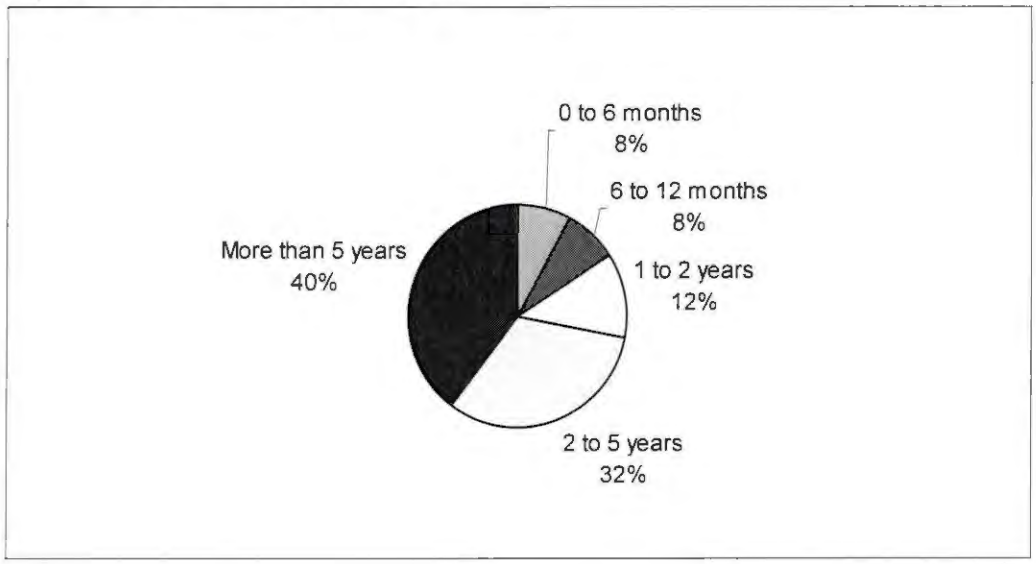
Figure 3.9: Franchisees' current market value



The majority of the franchisees (32%) in the sample fell in the bracket of less than R2.5 million. Another 28% were in the less than a million bracket. The bracket of those with a market value of less than R1 million and those greater than R2.5 million shared a 20% representation respectively.

3.3.1.10 Number of years in business

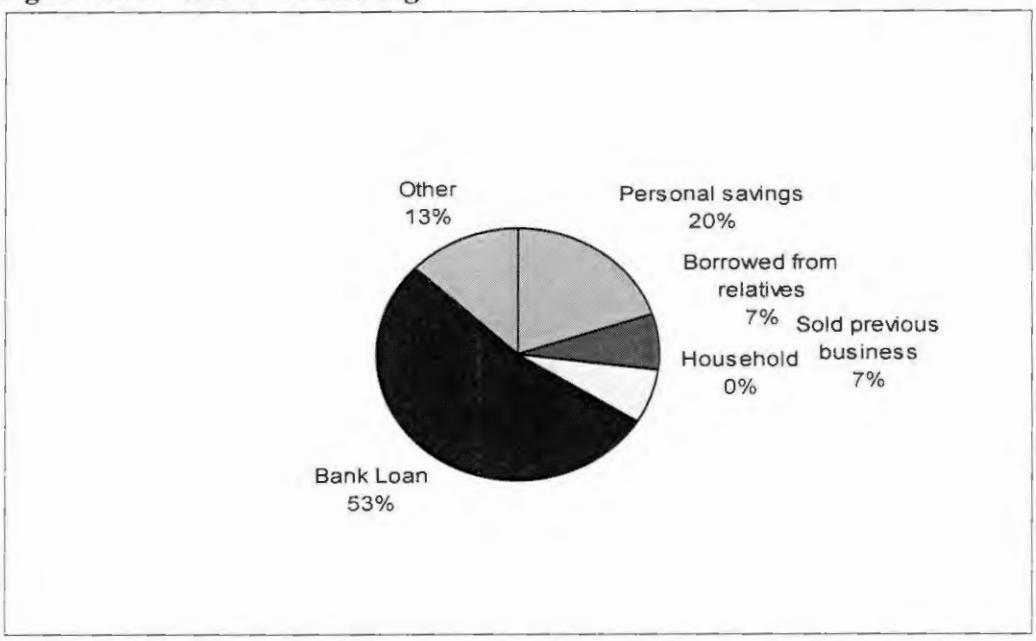
Figure 3.10: Number of years in business



The majority of the respondents (40%) in the sample had more than 5 years in the franchise business; 32% had between 2 to 5 years, 12% had between 1 to 2 years in business, while 8% were shared between 0 to 6 months and 6 to 12 months respectively.

3.3.1.11 Source of funding

Figure 3.11: Source of funding



The majority of the respondents (53%) borrowed funds from a bank. Some 20% used personal savings while 13% had other means of obtaining finance, and 7 % were shared between selling a previous business and borrowing from relatives.

3.3.2 Section B results and analysis

Section B was put into four groups of questions, namely:

- Initial assistance given by the franchisor at inception of the franchise relationship (Group 1);
- Ongoing assistance offered by the franchisor (Group 2);
- Daily running of the franchise business (Group 3); and
- General involvement of the franchisor in the franchisee business to ensure that the business is successful (Group 4).

The following key was used in the analysis of the questions in these groups, 1 being Strongly agree, 2 = Agree, 3 = Neutral view, 4 = Disagree and 5 = Strongly disagree.

3.3.2.1 Purpose and analysis of Group 1

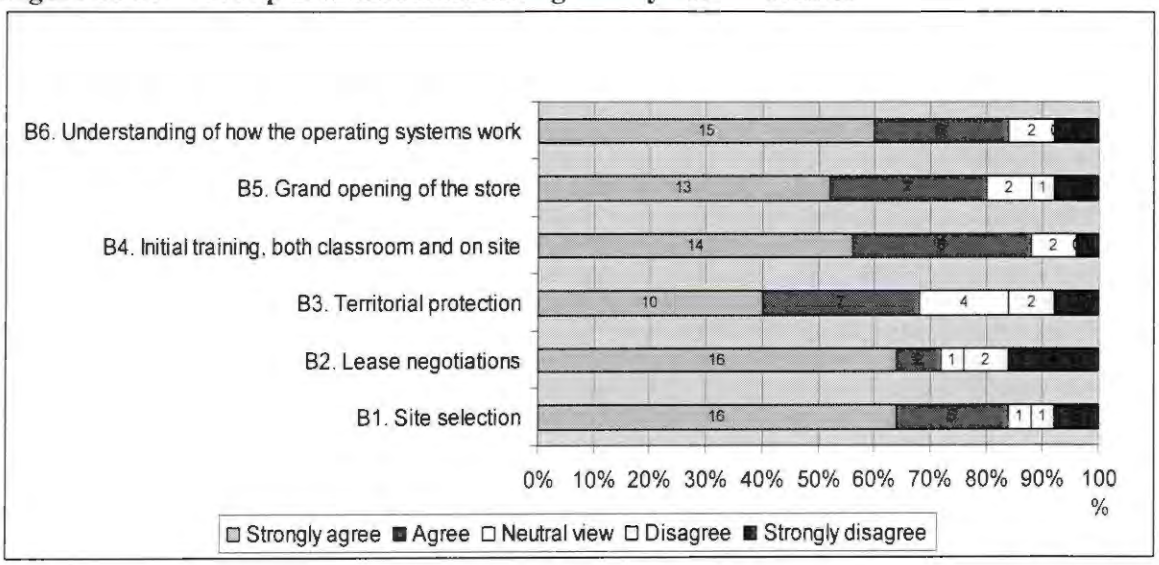
3.3.2.1.1 Purpose

The purpose of this group of questions was to establish whether the franchisor gave the franchisee initial assistance, as required at the inception of the franchise agreement as identified in the literature study.

3.3.2.1.2 Graphical analysis

The following graphical analysis is a representation of how the respondents answered in this group.

Figure 3.12: Group 1: Initial assistance given by the franchisor



3.3.2.1.3 Discussions

In question B1, site selection, 64% of the respondents strongly agreed that they were assisted by the franchisor in the site selection process, leaving those who strongly disagreed at 8%. Cumulatively, the positive response (strongly agree to agree) was at 87.5% while the negative response (disagree to strongly disagree) was at 12.5%. This is the question that had a higher cumulative value with regard to the positive response.

In question B3, territorial protection, 45% of the respondents strongly agreed that they received territorial protection from the franchisor, leaving those who strongly disagreed at 5%. Cumulatively, the positive response (strongly agree to agree) was at 77% while the negative response (disagree to strongly disagree) was at 9%. This is the question that had the lowest value with regard to the positive response of strongly agreed. However, as much as this was a question with the lowest strongly agree response; the one that had the highest cumulative negative response at 25% was question B2, lease negotiations.

Looking at the above results, it can be clearly seen that the order of positive response (strongly agree to agree) ranks as follows:

- Site selection (88%);
- Assistance with initial training, both classroom and on site (88%);
- Understanding of how the operating systems work (84%);
- Grand opening of the store (80%);
- Territorial protection (77%); and
- Assistance with lease negotiations (71%).

Alternatively, the order of negative response (Strongly disagree to disagree) ranked as follows:

- Lease negotiations (25%)
- Site selection (13%)

- Grand opening of the store (12%)

3.3.2.2 Purpose and analysis of Group 2

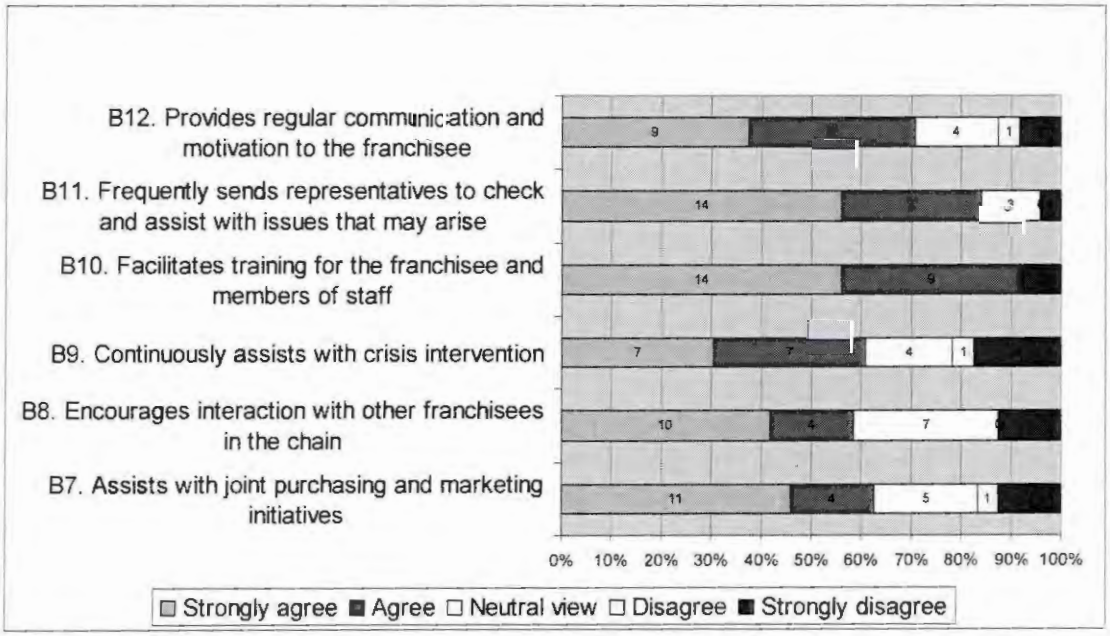
3.3.2.2.1 Purpose

The purpose of this group of questions was to establish whether the franchisor gave the franchisee ongoing assistance, with the running of the business as identified in the literature study.

3.3.2.2.2 Graphical analysis

The following graphical analysis is a representation of how the respondents answered in this group.

Figure 3.13: Group 2: Ongoing assistance offered by the franchisor



3.3.2.2.3 Discussions

In question B10, training facilitation, 56% of the respondents strongly agreed that they received continuous training from the franchisor. This training was for both owner and staff members, leaving those who strongly disagreed to this statement at 8%. Cumulatively, the positive response (strongly agree to agree) was at 92% while the negative response (disagree to strongly disagree) was at 8%.

In question B9, assistance with crisis intervention, 30% of the respondents strongly agreed that they received assistance from the franchisor in times of crisis, leaving those who strongly disagreed at 17%. Cumulatively, the positive response (strongly agree to agree) was at 61% while the negative response (disagree to strongly disagree) was at 22%. This is the question that had a lower value with regard to the positive response of strongly agreed.

Looking at the above results, it can be clearly seen that the order of positive response in this group ranks as follows:

- Facilitation of training for both owners and members of staff (92%);
- Sending of representatives to check and assist with issues that may arise (84%);
- Provision of regular communication and motivation to the franchisee (71%);
- Assistance with joint purchasing and marketing initiatives (63%);
- Assistance with crisis intervention (61%); and
- Encouragement of interaction with other franchisees in the chain (58.3).

Alternatively, the order of negative response (Strongly disagree to disagree) ranked as follows:

- Continuous assistance with crisis intervention (22%);
- Assistance with joint purchasing and marketing initiatives (17%); and
- Encourages interaction with other franchisees in the chain (13%).

3.3.2.3 Purpose and analysis of Group 3

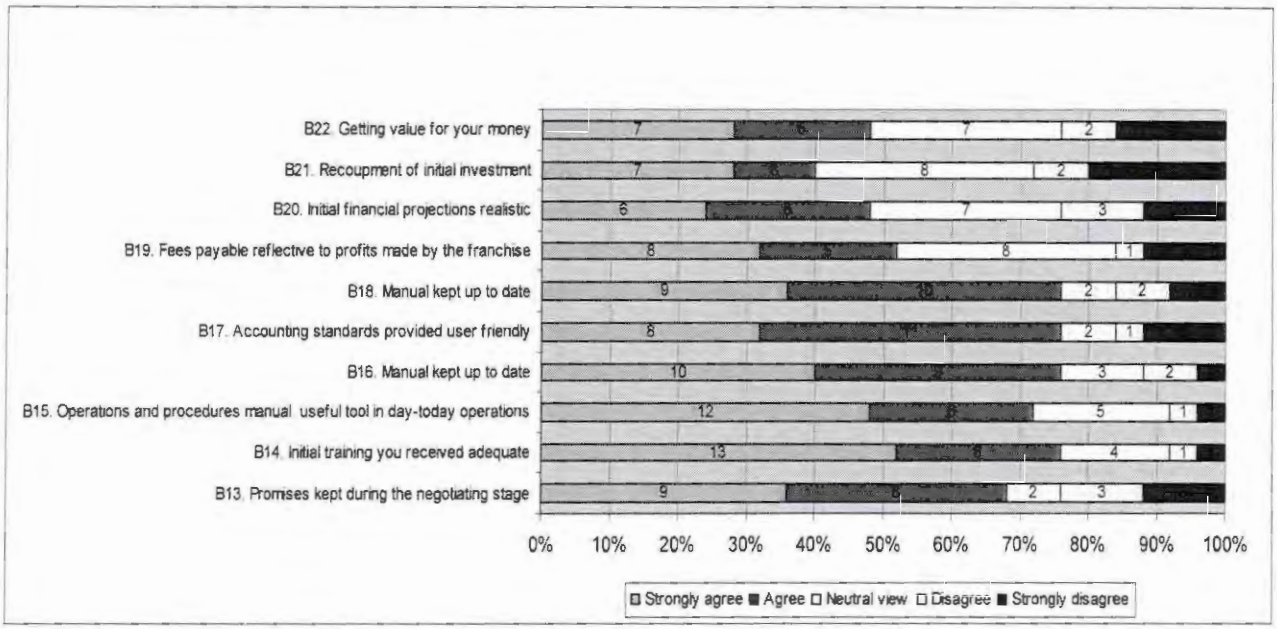
3.3.2.3.1 Purpose

The purpose of this group of questions is to establish whether the franchisor was involved in the daily running of the franchise business as identified in the literature study.

3.3.2.3.2 Graphical analysis

The following graphical analysis is a representation of how the respondents answered in this group:

Figure 3.14: Group 3: Involvement of the franchisor in the daily running of the franchisee's business



3.3.2.3.3 Discussions

In question B14, adequacy of training received, 50% of the respondents strongly agreed that the manuals and the training they received from the franchisor was adequate leaving those who strongly disagreed to this statement at 4%. Cumulatively, the positive response (strongly agree to agree) was at 75% while the negative response (disagree to strongly disagree) was at 8%.

In question B20, initial financial projections realistic, 24% of the respondents strongly agreed that the initial financial projections they received were realistic, while 12% of the respondents strongly disagreed to this statement. Cumulatively, the positive response of (strongly agree to agree) of this question was at 48% while the negative response (disagree to strongly disagree) was at 22%.

Looking at the above results, it can be clearly seen that the order of positive response in this group ranks as follows:

- Manual kept up to date (82%);
- Accounting standards provided user friendly (79%);
- Initial training received adequate (75%);
- Operations and procedures manual a useful tool in day-to-day operations (72%);
- Promises made during the negotiating stage (71%);
- Fees payable reflective to profits made (52%);
- Initial financial projections the franchisor presented realistic (48%);
- Getting value for your money (48%); and
- Recoupment of initial investment (40%).

Alternatively, the order of negative response (Strongly disagree to disagree) ranked as follows:

- Recoupment of initial investment (28%);

- Getting value for your money (24%); and
- Initial financial projections realistic (22%).

3.3.2.4 Purpose and analysis of Group 4

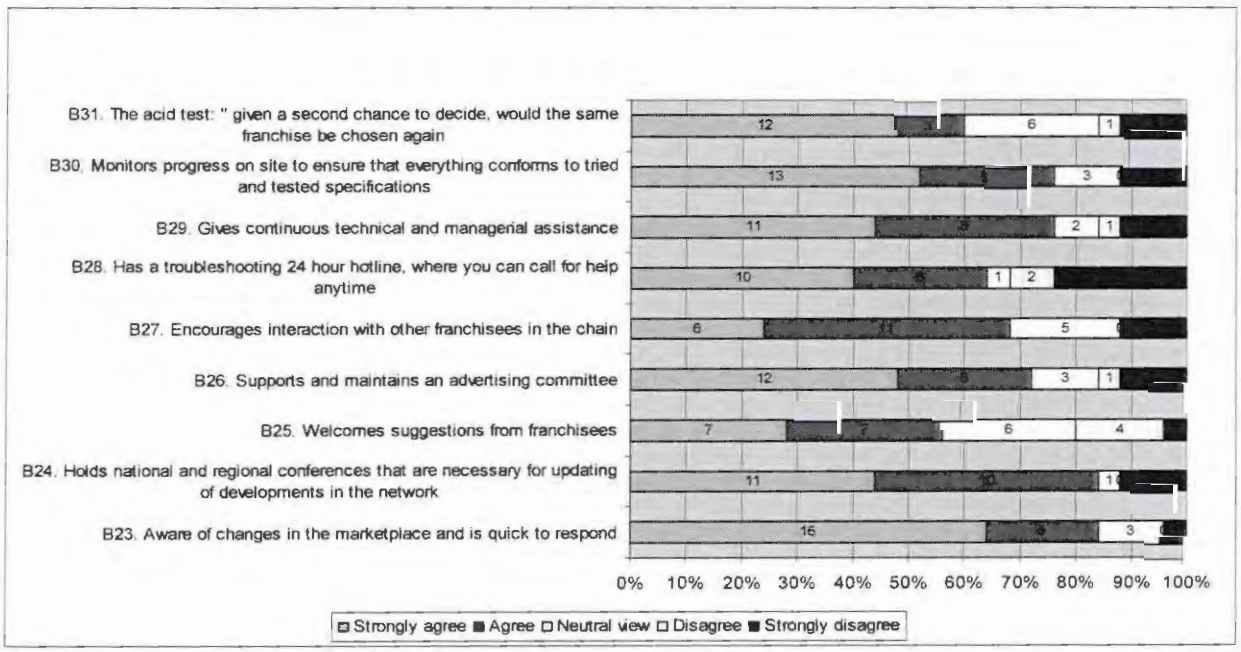
3.3.2.4.1 Purpose

The purpose of this group of questions was to understand general involvement by the franchisor in the daily running of the franchise business as identified in the literature study.

3.3.2.4.2 Graphical analysis

The following graphical analysis is a representation of how the respondents answered in this group:

Figure 3.15: Group 4: General involvement by the franchisor



3.3.2.4.3 Discussions

In question B23, awareness of changes in the marketplace and quick response thereto, 64% of the respondents strongly agreed that the franchisor is aware of changes in the marketplace and is quick to respond to such changes, while only 4% strongly disagreed to this statement. Cumulatively, the positive response (strongly agree to agree) was at 84% while the negative response (disagree to strongly disagree) was at 4%.

In question B27, encouragement of interaction with other franchisees in the chain, 24% of the respondents strongly agreed that such interaction was encouraged, leaving those who felt the opposite of this statement (strongly disagree) at 12%. Cumulatively, the positive response (strongly agree to agree) of this question was at 68% while the negative response (disagree to strongly disagree) was at 12%.

Looking at the above results, it can be clearly seen that the order of positive response in this group ranks as follows:

- is aware of changes in the marketplace and is quick to respond (84%);
- holds national and regional conferences that are necessary for updating of developments in the network (84%);
- gives continuous technical and managerial assistance (76%);
- monitors progress on site to ensure that everything conforms to tried and tested specifications (76%);
- supports and maintains an advertising committee (72%);
- encourages interaction with other franchisees in the chain (68%);
- has a troubleshooting 24 hour hotline, where you can call for help anytime (64%);
- lastly, the acid test: "if given a second chance to decide, would you choose this franchise again (60%); and
- welcomes suggestions from franchisees (56%).

Alternatively, the order of negative response (Strongly disagree to disagree) ranked as follows:

- has a troubleshooting hotline, where one can call for help at any time (32%);
- welcomes suggestions from franchisees (20%); and
- monitors progress on site to ensure that everything conforms to tried and tested standards (16%).

3.4 SUMMARY

The purpose and results of the questionnaire from the literature study completed in Chapter 2 were discussed in this chapter. From the perceptions of the participants involved in this study, it is evident that franchisors are somewhat involved in the business success of the franchise business.

Based on the responses interpreted in this chapter, conclusions and recommendations are discussed in Chapter 4.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION

Franchising has been around for more years than one can remember, which is a definite sign that this business concept really works. It is a method of expanding a business that allows the franchisor who has developed a successful product or service to increase his distribution network through the investment of others (franchisees) who want to own their own businesses.

Throughout the study, it has thus become evident that for the franchisee's business to succeed, the relationship between the two parties has to be structured in a way that must benefit both parties. After all, both parties more or less have the same goal. The franchisor must have an established, well run franchise network that will enable him to make as much profit as possible. The franchisee must run the business in such a way that the established brand that is already created by the franchisor continues to thrive, thus also profiting the franchisee. It is clear that both parties have to work hand in hand for the success of the franchise concept.

The study indicated that, for the franchisee's business to succeed, the franchisor needs to offer his/her assistance with regard to the running of the business. This entails giving assistance at the onset of the franchise agreement and ongoing assistance up to when the franchise agreement is terminated. These are the factors that were covered in the empirical research and which the conclusions and recommendations are based on.

Based on the responses, which were interpreted in the preceding chapter, the conclusions and recommendations are considered in this chapter.

4.2 CONCLUSIONS

4.2.1 Part A of the questionnaire

All of the 25 respondents to the study were from an already recognisable franchise outlet. This in itself is an indication that the businesses are already well established and have a recognisable success rate. The intention was thus to validate that the franchisees' success was also attributed to the assistance rendered by the franchisors.

More than 40% of the respondents had more than 5 years in the business industry; 28% had work experience before they ventured into the business, while more than 32% had a post matric qualification. Because a franchise system has already been developed and tested by the franchisor, operation of the business is greatly simplified; it then follows that starting out as a franchisee increases the chances of business success. Potential franchisees do not need much business acumen, but simply assistance by the franchisor to help them thrive in their ventures.

4.2.2 Part B of the questionnaire

4.2.2.1 Conclusions based on the first group of questions; Initial assistance given by the franchisor

This is assistance given at the onset of the franchise agreement. Some elements of what this assistance entail, will be included in the franchise agreement. This is seen as the start of the franchise relationship. Most franchisees are usually first-time business owners, so this assistance to them is equivalent to assisting a baby walk: it is of dire importance that it materialises. It is thus very important that franchisees receive this assistance as this can make or break their business.

More than 80% of the respondents positively agreed that assistance was given by the franchisor. This can only mean that the franchisor did help by way of initial assistance to

get the franchisee's business off the ground. It thus fulfils the requirements of the secondary objectives identified in Chapter 1.

4.2.2.2 Conclusions based on the second group of questions: Ongoing assistance given by the franchisor

This is assistance given by the franchisor once the franchisee's business is up and running. The following elements were covered in the empirical study as identified in the literature study:

- Joint purchasing and marketing initiatives;
- Continuous on-site visits by franchisor representatives;
- Interaction with other franchisees in the chain;
- Crisis intervention;
- Ongoing training for franchisees and staff; and
- Regular communication and motivation from the franchisor.

The cumulative positive response of all the questions in this group was 71%. There was a decline of 10% from answers in the above group (initial assistance). The assistance was there, but not as strong as identified in the above group. One can thus conclude that as much as the franchisor is the "parent" in this mode of business, the franchisor still needed to allow the franchisee to grow the business independently without having the franchisor continuously looking over the shoulder.

4.2.2.3 Daily running of the franchisor in the franchisee's business

In maintaining the franchise relationship, the franchisor also needs to be somewhat involved in the daily running of the franchise business. This was also identified in the literature study of this research. Maintaining this relationship has a direct link to helping the franchise business grow and also attracting more potential franchisees. It is therefore a win-win situation for both parties concerned.

The positive cumulative response of this group was at 64%, much declined from the previous group. Franchisors do not seem very keen in being involved in the running of the franchisee business. The only time they seem to be keen is when they need to get the franchisee to sign up into their brand; after that, it seems like the franchisee is on his own. This is also understandable as stated above; the franchisee needs to learn to run his business.

4.2.2.4 General involvement of the franchisor in the franchisee's business

As mentioned above, what the franchisor is selling to the franchisee is proven methods of how the business has worked in the past, and likely to thrive going forward. These are the necessary elements needed to operate the business in order to help the franchisee recoup his initial investment, thus the crux of this venture. The franchisor needs to maintain this in order to help the business grow and be profitable.

Respondents cumulatively agreed at 71% to the general involvement by the franchisor in their businesses. This can only mean that the franchisor contributed to the business successes of the selected franchisees. Some 61% of the respondents positively agreed that should they be given a chance, they would gladly choose the same franchise again.

4.3 RECOMMENDATIONS

- Franchising does not simply imply guaranteed success and everything on a silver platter. It may increase chances of success compared to starting a business from scratch, but there are no guarantees. To guarantee the success of a business would be very unrealistic and potential franchisees need to be wary of such promises.

- Initial assistance to be given by the franchisor is very important in ensuring that the business gets off the ground. As mentioned above, this usually forms part of the franchise agreement. It thus entails that franchisees need to scrutinise these agreements carefully. They need to be well aware of what they are getting themselves into. Franchisors also need to be aware that, in helping franchisees in the start of their business they are also helping themselves grow their franchise networks.

- More assistance should be offered as part of ongoing assistance. Ongoing assistance means that the franchisor is aware of how the business is performing. A successful franchise outlet can only attract more potential franchisees who would want to be associated with the brand.

- It is essential that the franchisor gives and maintains proven standards and methods that have helped the business grow and will help it in the future. These are essential ingredients to the franchise network. Deviation from these standards will definitely harm the business; they should be uniform across the board.

- The franchise relationship is like the oil in the engine of a franchise system. If the goodwill in the franchise relationship runs dry, the franchise system will start to seize up. It is thus very important that both parties establish and maintain good relations as the success of a franchise model depends on a sound and productive relationship between franchisor and franchisee.

- Royalty fees are usually the point of departure for a sour franchise relationship. These fees should be structured in a way that benefits both parties. Royalty is paid by the franchisee for the use of the franchisor's proven operating system, support system and brand recognition. These fees should be seen as an investment towards the success of the franchise business as in so doing, the franchise business is sure to thrive. The franchisor should enjoy continuous assistance and support from the franchisor, such as ongoing training to the staff, assistance in advertising and marketing of the brand at local level and many more, equivalent to the royalty fees payable.

- Communication channels need to be opened, well maintained, and not only between the franchisor and franchisee, but also with other franchisees in the network. The franchisee needs to know and understand that they are not alone and the challenges faced are not unique. The franchisor thus needs to re-assure this, by also opening up an effective communication channel with the franchisee.

4.4 ACHIEVEMENT OF OBJECTIVES

The objectives of this study were:

- Firstly, to measure whether franchisors have a direct impact towards the success or failure of the franchisee`s business; and

- Secondly, to understanding how the relationship between the two parties is structured, if it exists at all. These were specific to assistance given by the franchisor from inception of the franchise business up to when the contractual obligation is terminated.

A literature study of franchises in general was therefore required to compile a questionnaire that would assist in establishing the relationship between the two parties.

Based on the outcomes of the results, certain conclusions were made in this chapter, confirming that a franchisor can contribute towards the success or failure of the franchisee business, based on the assistance offered, whether initial, ongoing or general involvement in the franchisee business. Franchisees bought into this idea by seeing it in the market, it is thus up to the franchisor to prove that the franchise business does indeed work and that the franchisor will do his level best to ensure that the business grows. The franchisor can do this by offering the best service that money can buy to the franchisee.

However way, one might want to consider the outcome, be it franchisor or franchisee, franchising, well run and maintained, is the ideal route to business success.

4.5 FUTURE RESEARCH EMANATING FROM THE STUDY

In doing this study, the researcher received exposure to many facets in the franchise industry. One facet that would make interesting research is to understand how franchising has helped in enhancing small business development in South Africa, thus promoting entrepreneurship, specifically to the previously disadvantaged individuals.

4.6 SUMMARY

Conclusions and recommendations that emanate from the study were discussed in this chapter. Conclusions were based upon findings that transpired from the results of the questionnaires that were discussed in the preceding chapter. Based on these conclusions, recommendations of what the franchisor will need to do to ensure optimal franchisee success was also discussed.

This was also the chapter where one needed to ascertain whether the objectives identified in the first chapter were reached. The reaching of these objectives was also tested using the knowledge that emanated from the results of the questionnaires. Seeing that the

franchisor is the parent in the franchise relationship, involvement thereto in the franchisee' business is what will make the business succeed or fail.

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ADDENDUM 1

The FASA Code of ethics and business practices

Below is an extract from the FASA code of ethics, specific to franchisor franchisee relations.

1. All matters material to and governing the relationship between the franchisor and franchisee shall be set out in one or more written agreements, which must be clearly set out the terms and conditions of such relationship and each party's respective obligations and rights.

2. No franchise agreement shall be entered into prior to the fifteenth (15th) day after receipt of the disclosure document and the franchise agreement by the prospective franchisee. All franchise agreements must contain a clause referring to the disclosure document and record that "the information contained in such disclosure document is to the best of the franchisor's knowledge and belief, true and accurate and that no material information has been withheld".

3. The provisions of paragraph 2 above shall not preclude a franchisor member from requiring a franchisee to sign an undertaking to preserve the confidentiality of any information of a confidential nature belonging to the franchisor member, before furnishing the prospective franchisee with a disclosure document. Should any prospective franchisee refuse to sign such agreement, the franchisor may refuse access to any information, whether or not it is obliged in terms of any other provision of this Code to provide it.

4. A franchisor member is not obliged to deliver its operations manual or any other document containing information relating to the methods, know-how or other trade secrets of the franchisor member prior to the signature of a franchise agreement: however such documents must be shown to the prospective franchisee.

5. A franchisor member shall at its discretion select and accept those franchisees that upon reasonable investigation possess the basic skills, education, personal qualities and financial resources adequate to perform and fulfil the needs and requirement of the franchise business. The franchisor shall not discriminate in the selection process on the basis of race, colour, religion, age, gender or disability of the franchisee. Notwithstanding the afore-going contents of this paragraph, a franchisor may grant franchises to certain persons on more favourable terms than those on which similar franchises may be granted to other franchisees as part of a program to make franchises available to persons, or categories of persons, previously disadvantaged by unfair discrimination.

6. Every franchisor member shall encourage and provide training designed to assist the Franchisees in improving their abilities to conduct their franchised businesses. Similarly, every franchisee member shall encourage and provide training to its employees to improve their skills and abilities to conduct the franchised business in which they are employed.

7. Every franchisor member shall provide reasonable guidance and supervision to its franchisees in regard to the business activities relating to the conduct of the franchise business. Similarly, every franchisee member shall do the same in respect of its employees.

8. To the extent that is reasonably appropriate, every franchisor member shall give notice to any of its franchisees who are in breach of the relevant franchise agreement, granting the franchisee a reasonable time within which to remedy such breach.

9. All franchisor members and the franchisees of such members should be conveniently accessible and responsive to communications between them for the purpose of improving mutual understanding and reaffirming mutuality of interest.

10. Franchisor and franchisee members shall make every effort to resolve complaints, grievances and disputes between them in good faith and through direct communication and negotiation. Failing such amicable resolution, all complaints, grievances and or disputes may be referred to FASA for mediation, subject to paragraph 11 below. In the event that notice of any complaint, grievance of dispute received by FASA is referred to any franchisor or franchisee member for a response, such member is obliged to furnish FASA with a response within seven days of receipt thereof.

11. Every franchisor member is obliged to advise its franchisees in the event that it obtains the benefit of any incentives, and is encouraged, but shall not be obliged, to advise them of the amounts of any incentives or the conditions attaching thereto.

12. In all cases where a franchisor member requires any or all of its franchisees to acquire or purchase any products or services from an approved supplier, the franchisor shall use its best endeavours to ensure that the price at which such products or services are supplied to such franchisee is not greater than a market-related price, having regard to the nature, quality and quantity of the specific products and/or services concerned.

13. No franchisor member shall be obliged to consent to any of its franchisee's acquiring or purchasing any products or services from a supplier other than an approved supplier, unless the franchisee concerned is able to prove, to the reasonable satisfaction of the franchisor member, that such products or services offered by such other supplier are of the same specifications, and of no less quality, than the equivalent products or services offered by the approved supplier.

14. Every franchisor member shall ensure that all moneys which such franchisor member may receive from any other person ("the prospective franchisee") in contemplation of the conclusion of a franchise agreement are deposited in an attorneys trust account or a separate bank account maintained by the franchisor member for that purpose. In the latter event, the franchisor member shall advise the prospective franchisee in writing

that the moneys deposited therein do not constitute trust moneys and shall not be protected against claims by the franchisor member's creditors in the event of its insolvency.

Studying the FASA code of ethics will give a potential franchisee a good idea of how a franchise should function. However one need to keep in mind that the code is only binding on FASA members only, as there are many potential franchisors who are not members of FASA and hence are not bound to act by the code.

ADDENDUM B

QUESTIONNAIRE

OCTOBER 2009

POTCHEFSTROOM
BUSINESS SCHOOL

Private Bag X6001
Potchefstroom Campus
North-West University
Potchefstroom
2520

Code number:

QUESTIONNAIRE:

Franchisor's contribution towards franchisee's business success/failure

CONTACT DETAILS:

Bongiwe Yozi
Cell: 083 567 0065
E-mail: bongi.yozi@arcelormittal.com
Fax: 086 633 0196

Purpose: Dissertation towards the partial completion of the MBA programme at the North-West University

Title: Franchisor's contribution towards franchisee's business success/failure

All information will be treated as **STRICTLY CONFIDENTIAL** and will only be used for academic purposes.

Instruction for completion:

1. Please answer the questions as objectively and honestly as possible.
2. Place a cross (x) in the space provided at each question which reflects your answer the most accurately. Use the following key: 1 = strongly agree; 2 = Agree; 3 = Neutral view; 4 = Disagree; 5 = Strongly disagree.

It is essential that you indicate your choice clearly with a **pen.**

Please answer all the questions, as this will provide more information to the researcher so that an accurate analysis and interpretation of data can be made.

Thank you for your co-operation. We hope that you will find the questionnaire interesting and stimulating.

SECTION A: GENERAL INFORMATION

The following information is needed to help us with the statistical analysis of the data for comparison of the franchises in the different industries. We appreciate your help in providing this information.

1.

1.1	Name of franchise
1.1.2	Name of participant
1.1.3	Position
1.1.4	Contact numbers

Please indicate your selection or preference with an "x" in the appropriate cell; leave all other cells blank.

2. Your Age (in years):

<19	20-29	30-39	40-49	50-59	60+
(01)	(02)	(03)	(04)	(05)	(06)

3. Gender:

Male	Female
(01)	(02)

4. Race:

African	Coloured	Indian or Asian	White
(01)	(02)	(03)	(04)

5. Marital status:

Single	Married	Divorced	Widowed
(01)	(02)	(03)	(04)

6. Working experience prior owning the franchise:

Never worked	5 years or less	More than 5 years but less than 10 years	At least 10 years but less that 15 years	At least 15 years but less that 20 years	At least 20 years but less that 25 years or

					more
(01)	(02)	(03)	(04)	(05)	(06)

7. Highest academic qualification:

Lower than matric	Matric	Certificate	Diploma (Technical college or technicon)	University degree	Post graduate degree
(01)	(02)	(03)	(04)	(05)	(06)

8. Reasons for choosing the franchising route:

Financial independence	Quick market penetration	Selling a proven brand that already works	Greater likelihood of business success	Other: Specify
(01)	(02)	(03)	(04)	(05)

9. Please indicate the industry which the franchise falls under:

Wholesale and retail trade	Automotive Products & Services	Building, Office & Home Services	Childcare, Education & Training	Health & Body Culture	Real Estate	Entertain-ment & leisure Activities
(01)	(02)	(03)	(04)	(05)	(06)	(07)
Bakery	Fastfood & Restaurant					
(08)	(09)					

10. Franchise's current market value:

< R1 million	> R1 million	< R2.5 million	> R2.5 million
(01)	(02)	(03)	(05)

11. Number of years in business

0 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
(01)	(02)	(03)	(04)	(05)

12. Source of start-up funding:

Personal savings	Borrowed or gifted (donated) from relative or friend	Household/spouse	Sold previous business	Bank loan	Other: Specify
(01)	(02)	(03)	(04)	(05)	(06)

SECTION B: ASSISTANCE GIVEN BY FRANCHISORS

This section consists of 31 statements. Please indicate to what extent you agree or disagree with each statement.

		Strongly agree	Agree	Neutral view	Disagree	Strongly disagree
With regard to initial assistance, did the franchisor help with the following						
		1	2	3	4	5
B1	site selection	1	2	3	4	5
B2	lease negotiations	1	2	3	4	5
B3	territorial protection	1	2	3	4	5
B4	initial training, both classroom and on-site	1	2	3	4	5
B5	grand opening of the store	1	2	3	4	5
B6	understanding of how the operating systems work	1	2	3	4	5
As part of ongoing assistance, the franchisor						
B7	assists with joint purchasing and marketing initiatives	1	2	3	4	5
B8	encourages interaction with other franchisees in the chain	1	2	3	4	5
B9	continuously assists with crisis intervention	1	2	3	4	5
B10	facilitates training for the franchisee and members of staff	1	2	3	4	5
B11	frequently sends representatives to check and assist with issues that may arise	1	2	3	4	5
B12	provides regular communication and motivation to the franchisee	1	2	3	4	5

With regard to the daily running of your business						
B13	by aand large, did the franchisor keep promises made during the negotiating stage					
B14	was the initial training you received adequate	1	2	3	4	5
B15	would you consider the operations and procedures manual a useful tool in day-to-day operations	1	2	3	4	5
B16	is this manual kept up to date	1	2	3	4	5
B17	are the accounting standards provided user-friendly					
B18	is this manual kept up to date	1	2	3	4	5
B19	are the fees payable reflective to the profits made by the franchise	1	2	3	4	5
B20	were the initial financial projections the franchisor presented to you realistic	1	2	3	4	5
B21	have you recouped your initial investment	1	2	3	4	5
B22	are you getting value for your money	1	2	3	4	5
The franchisor						
B23	is aware of changes in the marketplace and is quick to respond	1	2	3	4	5
B24	holds national and regional conferences that are necessary for updating of developments in the network	1	2	3	4	5
B25	welcomes suggestions from franchisees	1	2	3	4	5
B26	supports and maintains an advertising committee	1	2	3	4	5
B27	encourages interaction with other franchisees in the chain	1	2	3	4	5
B28	has a troubleshooting 24 hour hotline, where you can call for help anytime	1	2	3	4	5
B29	gives continuous technical and managerial assistance	1	2	3	4	5
B30	monitors progress on site to ensure that everything conforms to tried and tested specifications	1	2	3	4	5
B31	lastly, the acid test: "if given a second chance to decide, would you choose this franchise again	1	2	3	4	5

THANK YOU FOR YOUR TIME