FRANCHISING A FULL SERVICE RESTAURANT CONCEPT
A CASE STUDY

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DECLARATION:

In accordance with Rule G4.6.3, I hereby declare that the above-mentioned treatise is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

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ABSTRACT

This treatise investigates the restaurant industry, entrepreneurship, franchising and restaurant franchising in order to develop a model that will enable a full service restaurant concept to be converted into a successful franchise system.

Restaurants play a significant role in our lifestyle, and dining out is a favoured social activity. The industry plays an important role in the transfer of skills as many people start working in the restaurant industry before moving onto more formal careers. The restaurant industry offers many opportunities for entrepreneurial activity as a result of the relatively low barriers to entry.

Entrepreneurship is the pursuit of opportunity regardless of the resources at hand and it requires a willingness to take calculated risks in order to build something of value from virtually nothing. The success of emerging economies such as China and India has proven that the only growth sectors in these economies are small and medium enterprises, which are driven by entrepreneurs.

Franchising is considered to be a viable growth strategy for small business as it provides a means of raising capital and a method of expanding the business in a relatively low risk manner. There are many well established restaurant franchise brands that originated in South Africa, starting out as successful single outlets and then by means of the business format franchise model, developed into multi unit franchise systems.

There are certain basic generic steps that must be followed when developing a franchise system. This was verified by the empirical study of this treatise which was conducted as a single unit case study on the Dulce Franchise Group.

Finally, as a result of the analysis of the literature study and the findings of the case study, a restaurant franchise conversion model was developed.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION AND PROBLEM STATEMENT

Restaurants play a significant role in our lifestyle, and dining out is a favoured social activity. “Every one has to eat – so to enjoy good food and, perhaps, wine in the company of friends and in pleasant surroundings is one of life’s pleasures. Eating out has become a way of life for families. Today, more meals than ever are being eaten away from home” (Walker and Lundberg, 2005:2).

The *restaurant industry* plays an important role in the transfer of skills as many people start their careers in the hospitality industry before moving onto formal careers.

According to the National Restaurant Association of America (NRA) in the United States…”nearly half of all adults have worked in the restaurant industry at some point during their lives, and 32 percent of adults got their first job experience in a restaurant” (http://www.restaurant.org/research/ind_glance.cfm , 15 May 2008).

The restaurant industry offers many opportunities for *entrepreneurial activity* as a result of the relatively low barriers to entry.

The successful restaurant …”offers a high return on investment, one restaurant, then two, perhaps a small chain”. However the competition is fierce and in the long run very few restaurants are able to make the transition from a single restaurant to a chain of outlets (Walker and Lundberg, 2005:2).

In South Africa there are a number of examples where restaurant entrepreneurs have created a restaurant concept and developed it into a chain of successful restaurants.

Franchising provides the restaurant entrepreneur with a method to expand a single restaurant concept into a restaurant chain.

This forms the basis of the main problem statement which is;

To develop a model that will enable a full service restaurant concept to be converted into a successful franchise system.

1.2 SUB-PROBLEMS

A research study to address and solve the main problem was developed and the following sub problems have been identified:

i. What growth and development strategies are available to the restaurant entrepreneur?

ii. Can the franchise model be used to develop a successful single unit restaurant concept into a multiple unit franchise system?

iii. What are the requirements and characteristics of a successful restaurant franchise system?

1.3 OBJECTIVES OF THE STUDY

The objectives of this study are to:

- Ascertain which market growth and development strategies are available to the restaurant entrepreneur;

- Determine the requirements of a successful franchise system;

- Develop a model to assist with the conversion of a full service restaurant concept into a franchise operation.

1.4 DELIMITATION OF THE RESEARCH

In order to ensure that the research project is of a manageable size, the research has been demarcated to areas listed below:

1.4.1 Full service restaurant and coffee shop

The research will focus predominantly on the full service restaurant and coffee shop category.

1.4.2 Geographic demarcation

The research is limited to a single unit case study on the Dulce Franchise Group based in Port Elizabeth.

1.5 RESEARCH METHODOLOGY

The following procedure was followed to complete this study:

1.5.1 Literature study

A literature study was undertaken to identify key aspects and factors that impact on the restaurant industry, entrepreneurship, franchising and restaurant franchising. The data acquired for the literature survey came from a number of sources such as textbooks, articles, journals and the Internet.

1.5.2 Empirical study

A single unit case study constituted the empirical part of the research and was conducted with the Director of International Design and Projects and the Managing Director, co founders of the Dulce Franchise Group.

The results of the empirical survey were analysed and integrated with the theoretical findings.

1.6 DEFINITION OF CONCEPTS

The following terms have been interpreted for the purpose of this study.

1.6.1 Full service restaurants

A full service restaurant is defined as a restaurant that offers table service as opposed to the counter service offered by fast food restaurants. In general, full service restaurants offer a wider range of food and beverage choices than their fast food counterparts (http:// www.businessdictionary.com/definition/full-service-restaurant.html, 23 November 2008).

According to Statistics South Africa (2008), full service restaurants and coffee shops are enterprises involved in the sale and provision of meals and drinks, ordered from a menu, prepared on the premises for immediate consumption and with provided seating.

In comparison, take-away outlets are involved in the sale and provision of meals and drinks, ordered from a menu at a counter, prepared on the premises for take-away purposes in a packaged format (not on plates), at a stand or in a location, with or without provided seating. Take-away outlets are also referred to as quick service restaurants or QSR'S (Statistics South Africa, 2008).

This study will focus specifically on the full service restaurant category of the restaurant industry.

1.6.2 Entrepreneurship

Rwigema and Venter (2004:6) define entrepreneurship as "…the process of conceptualising, organising, launching and through innovation; nurturing a business opportunity into a potential high growth venture in a complex, unstable environment.

Entrepreneurship can also be defined as the practice of starting new organisations or revitalising mature organisations, particularly new businesses generally in response to identified opportunities. Entrepreneurship is often a difficult undertaking, as a vast majority of new businesses fail. Entrepreneurship ranges in scale from solo projects, involving the entrepreneur only part-time, to major undertakings which create many job opportunities (http://en.wikipedia.org/wiki/Entrepreneurship, 23 November 2008).

According to Timmons as cited by Lambing and Kuehl (1997:10) "Entrepreneurship is a human creative act that builds something of value from practically nothing. It is the pursuit of opportunity regardless of the resources, or lack of resources, at hand. It requires a vision and the passion and commitment to lead others in the pursuit of that vision. It also takes a willingness to take calculated risks".

1.6.3 Franchising

The International Franchising Association's (IFA) legal definition of franchising is "…a contract or agreement, express or implied, oral or written, between two or more persons by which:

- A franchisee is granted the right to engage in the business of offering, selling or distributing goods or services under a marketing plan prescribed in substantial part by a franchisor;

- The operation of the franchisee's business pursuant to that plan or system as substantially associated with the franchisor's trademark, service mark, trade name, logo type, advertising, or other commercial symbols designating the franchisor or its affiliates" (Khan , 1999: 4).

1.7 SIGNIFICANCE OF THE RESEARCH

There are a number of growth strategies that the entrepreneurs can utilise to develop their businesses. According to the International Franchise Association (2008), franchising provides entrepreneurs with an affordable means of accelerating expansion and achieving development goals more quickly than might otherwise be the case, and with far less risk (http://www.franchise.org/industrysecondary.aspx?id=10008, 27 November 2008).

This research, which aims to identify a growth and development strategy for a full service restaurant concept is important, as it explores strategies that can provide entrepreneurs with a strategic blue print and road map for future growth and development of their business concepts.

It also provides entrepreneurs that are considering franchising their businesses with a general implementation plan for converting their existing concept into a successful franchise system.

1.8 ASSUMPTIONS

The following assumptions were made:

- That there would be sufficient literature to conduct a comprehensive literature study on the restaurant industry, entrepreneurship, franchising and restaurant franchising;

- That the Dulce franchise was representative of a full service restaurant franchise system;

- That the Dulce directors that were chosen to be interviewed would co-operate in the collection of empirical data required for the study;

- That the above mentioned interview would provide sufficient empirical data to do a comparative analysis with the literary study and enable the author to reach meaningful conclusions regarding all the data collected.

1.9 CHAPTER OUTLINE

The study is divided into the following chapters:

1.9.1 Chapter 1: Planning and Introduction of the study

1.9.2 Chapter 2: The Restaurant Industry

1.9.3 Chapter 3: Entrepreneurship

1.9.4 Chapter 4: Franchising

1.9.5 Chapter 5: Restaurant franchising

1.9.6 Chapter 6: Research methodology and questionnaire

1.9.7 Chapter 7: Case study results

1.9.8 Chapter 8: Conclusion and recommendations

1.10 CONCLUSION

The purpose of this chapter was to align the development of this study with the main problem of the research as well as the sub problems.

To add perspective to the main and sub problems, the literature survey will focus on all the aspects that impact on this study, specifically the restaurant industry, entrepreneurship, franchising and restaurant franchising.

CHAPTER 2

THE RESTAURANT INDUSTRY

2.1 INTRODUCTION

This chapter covers a literature review on the origins, development and growth of restaurant industry internationally and in South Africa.

The *foodservice, catering or food and beverage industry* encompasses those places, institutions, and companies responsible for any meal eaten away from home. This industry includes restaurants, school and hospital cafeterias, catering operations, and other catering formats (http://en.wikipedia.org/wiki/Foodservice, 15 May 2008).

According to Mill (1998:2) the foodservice industry is made up of two major segments: commercial and non commercial or social catering. This study focuses on the commercial sector of the foodservice industry generally and on the restaurant industry specifically.

2.2 THE RESTAURANT INDUSTRY

2.2.1 Definitions

Statistics South Africa (2008) in a Food and Beverages study defined the industry in the following manner:

Caterers are enterprises involved in the sale and supply of meals and drinks prepared on the premises on a contract basis and brought to other premises chosen by the person ordering it, to be served for immediate consumption to guests or customers.

Restaurants and coffee shops are enterprises involved in the sale and provision of meals and drinks, ordered from a menu, prepared on the premises for immediate consumption and with provided seating.

Take-away outlets are enterprises involved in the sale and provision of meals and drinks, ordered from a menu, prepared on the premises for take-away purposes in a packaged format (not on plates), at a stand or in a location, with or without provided seating. Take-away outlets are also referred to as *quick service restaurants or QSR'S* (Statistics South Africa, 2008).

2.2.2 Size of the global industry

According to a study on foodservice trends worldwide conducted by Weinberger (2004) , "Global foodservice sales increased at a compound annual growth rate of three point two percent between 1999 and 2003 to reach USD1, 543 billion and growth is expected to resume in the upcoming years". The foodservice industry remains a boom industry and continued growth will be driven by increased outsourcing efforts, more mobile lifestyles and more but smaller households increasing restaurant visits" (http://www.planetretail.net/ Home/ PressReleases/PressRelease.aspx?Archive=True&PressReleaseID=19087, 15 May 2008).

2.3 RESTAURANT ORIGINS AND HISTORY

2.3.1 Pompeii

According to Viegas (2007) citing Allison (2007) an archaeologist of the University of Leicester who discovered evidence of restaurants in Pompeii. Allison (2007) excavated a neighbourhood block in Pompeii preserved under ash and pumice after the eruption of volcano Mount Vesuvius in 79 A.D. and discovered a lack of formal dining and kitchen areas within the Pompeii homes as most Romans lived in apartments or confined spaces.

There was no evidence of cooking equipment in their homes and it was speculated that Romans ate food from fast-food restaurants which were open to the street, with a large counter with a receptacle in the middle, from which food or drink would have been served (http://dsc.discovery.com/news/2007/06/18/pompeiifood_arc_02. html? category=archaeology&guid=20070618153030, 21 August 2008).

2.3.2 China

In the thirteenth century China was a country with an economy driven by merchants and entrepreneurs (Kiefer, 2002:63). It had a monetary system with a widely accepted paper currency. Hangchow (Hangzhou) was the largest city in the world with an estimated one million citizens. It was sophisticated and prosperous, had a transport infrastructure with roads and canals. Boats were used to transport freight and passengers. The economic environment was ideal for the development of restaurants. Taverns sold a limited range of food and beverages. Menus listed dishes such as shrimp and silk worm pies, bean-curd soup and beverages.

According to Gernet cited by Kiefer (2002:63) Hangchow had many restaurants devoted to specific kinds of food or regional cooking. [The Book of Ser Marco Polo Concerning the Kingdoms and Marvels of the East, cited by: Gernet, p. 55] "The big restaurants had doors in the form of archways decorated with flowers". Quoting from an account dated 1275, Gernet continued: "'As soon as the customers have chosen where they will sit, they are asked what they want to have. The people of Hangchow are very difficult to please. Hundreds of orders are given on all sides: this person wants something hot, another something cold, a third something tepid, a fourth something chilled; one wants cooked food, another raw, another chooses roast, another grill.…" (Keifer, 2002:63).

2.3.3 France

The French Revolution which reduced the power of the aristocracy was a catalyst which led to the further development of the modern restaurant concept. The many skilled cooks employed in aristocratic households were left unemployed after the revolution. These skilled cooks established alternative places to work and served meals to the bourgeoisie who were now in a position to pay for them. These places were called restaurants as the patrons could rest their bodies from hunger and fatigue (Finkelstein, 1989).

Walker and Lundberg (2005:5) contradict Finkelstein (1989) on the origin of the term restaurant. They contend that M. Boulanger, the father of the modern restaurant sold soups called *restorantes* (restoratives). They claim that this is origin of the term restaurant.

2.3.4 England

Mennell (1985) argues that too much emphasis has been placed on the connection between the modern restaurant concept and the French Revolution as there were already Taverns in England serving meals to the travelling upper classes.

In 1786 the London Tavern opened as a public house and was used by members of parliament, merchants and businessmen, who needed a place where they could meet, eat, have discussions and socialise.

2.3.5 America

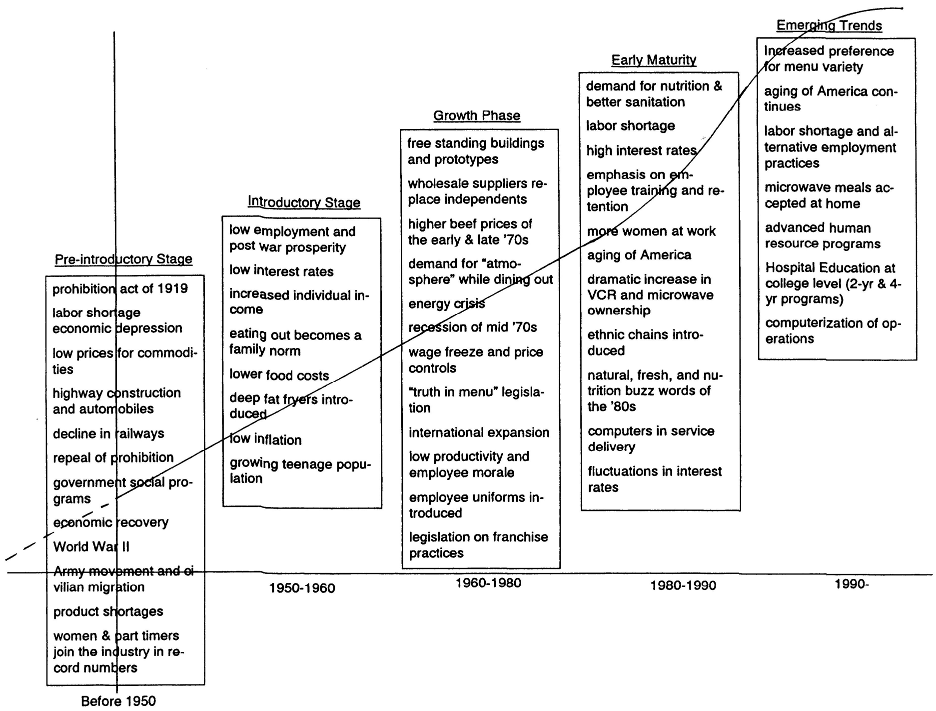
According to Walker and Lundberg (2005:5) restaurants arrived in America in 1794 when Jean-Baptiste Gilbert Paypalt a refugee from France settled in Boston. Paypalt opened what is considered to be the first restaurant in Boston called Julien's Restaurator serving truffles, cheese fondues and soups.

Delmonico’s which opened in New York City in 1827, claimed to be the first restaurant opened in America; however this claim is disputed by many (Walker and Lundberg, 2005:6).

Prior to the American Revolution, venues selling food, beverages and a place to sleep existed and were called ordinaries, taverns or inns (Walker and Lundberg, 2005:6).

Contributing factors for restaurant menu trends in America for the twentieth century are illustrated below and follow an industry cycle from the pre-introductory stage, introductory stage, growth phase early maturity and finally emerging trends (Khan, 1998:348).

Figure: 2.1 Contributing factors for menu trends in America



Source: Khan (1998: 348)

Many restaurants concepts were exported from America, the above trends would have been evident in some form or other in the rest of the world.

2.4 THE RESTAURANT INDUSTRY TODAY

Restaurants today are built for *utility or pleasure* (Mill, 1998:8) Utility restaurants are “filling stations” whilst restaurants that are for pleasure satisfy more than just the need for refuelling. They offer an eating experience that encompasses good food, wine and service in a comfortable environment. It has been suggested that only 25 percent of meals in the United States are for pleasure while 75 percent are eaten for utility purposes

The progression of foodservice operations can be viewed as follows:

Figure: 2.2 Progressions of foodservice operations

HIGH UTILITY/ LOW PLEASURE
VENDING MACHINES
FAST- FOOD OPERATIONS
CAFETERIAS
COFFEE SHOPS
FAMILY RESTAURANTS
LUXURY RESTAURANTS
LOW UTILITY/ HIGH PLEASURE

Source: Mill (1998:9)

The pleasure component increases as the utility concept decreases moving from vending machines to luxury restaurants. Service levels and menu pricing impact on utility or pleasure; as service levels increase prices rise.

Luxury restaurants have higher service levels and operating costs than a vending machine and will therefore charge a premium for the service and menu offered.

Food preparation methods also impact on *utility versus pleasure,* with luxury restaurants preparing most menu items from scratch using skilled chefs, whereas fast food operations will often use unskilled labour and products outsourced or made in a central kitchen (Mill, 1998: 9).

Preston-Whyte (1999: 452) defines a restaurant as…"an establishment that catered to the needs of its clientele by providing food, seating and service". He adds that restaurants are classified into five types:

Designer restaurants identified as up-market establishments in elegant surroundings with an ambience directed towards the aspirations of the trendy, the upwardly mobile and the gastronomically adventurous.

Speciality restaurants that offer ethnic cuisine from all European, Middle-Eastern, Eastern and South American countries. Included in this category are seafood restaurants.

Family restaurants that include franchised steakhouses and are characterised by the predictability of the menu, an informal environment and the perception of reasonable prices.

Coffee shops that provide inexpensive and usually smaller meals from a limited menu and remain open throughout the day, but are usually closed at night.

Pub restaurants that offer lunches, usually with a limited menu, to a range of sociable consumers, including upwardly mobile executives.

The Quantified Marketing Group (2007) believes that the restaurant industry has for the past 50 years been made up of three distinct segments; fast food, casual dining and fine dining. However in recent years the industry has started to segment into more categories such as quick-casual and home-meal replacement (http://www.quantifiedmarketing.com/learning_center/ 2007-restaurant-trends-forcast.php , 12 June 2008).

2.5 THE RESTAURANT INDUSTRY IN SOUTH AFRICA

2.5.1 History

After an extensive literature investigation, it would appear that no formal study has been conducted on origins of the restaurant industry in South Africa. Anecdotal evidence provided in a personal interview with Mr. Hugh von Zahn (2008) a veteran of the restaurant industry and past chairman of the South African Restaurant Association suggests that the restaurant industry in South Africa most likely began with the arrival of the first Europeans in the 17^{th} century. The growth and importance of Cape Town as a way station and stopping point for ships on their way to and from the East automatically led to the growth of the hospitality industry.

Von Zahn quoting from Green (no date available) stated that Cape Town was nick-named the Tavern of the Seas and boasted many a watering hole and dockside dive where a meal and a glass of ale could be enjoyed.

The industry would have evolved further with the arrival of Dutch and British Settlers much like the trends in England and Europe during the 18^{th} and 19^{th} centuries. Preston - Whyte (1999:449) believes that seaside villages in Britain developed as a result of the rise of a prosperous middle class following the industrial revolution and the establishment of rail links to the coast.

The Durban beachfront evolved in a similar manner with its leisure activities developing as a result of the growth of the white South African urban-based middle and working class; this is evident in the Victorian and Edwardian ambience of many of the early hotels and apartments that graced the beachfront housed hotel restaurants.

Von Zahn (2008) maintains that during the late 19th century, coastal towns of Cape Town, Port Elizabeth, East London and Durban and the interior towns Johannesburg, Kimberly, Bloemfontein and Pretoria would have had hotels and a few bars or taverns.

As the diamond and gold rush in the Free State and the Transvaal republics developed and miners from all over the world arrived in South Africa, a hospitality industry would have evolved to provide food, alcohol and accommodation to the miners. This would have initially been primitive but by the beginning of the 20th century there would have been sufficient wealth to set up more elaborate establishments. By the beginning of World War One the Carlton Hotel, the Rand Club and other venues with formal dining facilities were available.

According to Von Zahn (2008) the next phase in restaurant evolution would have been the tea rooms that served light meals. These cafes were really the forerunners of our modern take-away restaurants and were spread right across South Africa. In time they evolved into corner cafes operated by ex-patriot Greek and Portuguese emigrants. A number of small hotels were owned by the various breweries such as Castle, Lion and Ohlsson's Cape Brewery. These were low priced accommodation establishments, often meant for commercial travellers who hawked their wares all over the country. The hotels were there to support a bar or tavern with food served in the dining room. For many people in the years from the turn of the century until the 1960's dining out meant eating in such a hotel dining room.

Von Zahn (2008) is of the opinion that with the advent of cars and increasing affluence after World War Two another phenomenon sprang up, the road house. At one time in the 1950's and 1960's there were literally hundreds of them in South Africa with one or two in every town.

Von Zahn (2008) grew up in Alberton in the south of Johannesburg in the 1950's and states that along the main road there where at least seven road houses with names like Langermans, Tampico, Casbah, Dairy Den, and Henry's. The roadhouses had Western (American) themes, art deco architecture and neon signs.

These roadhouses are long gone but their influence is still felt today as they served food such as southern fried chicken, toasted cheese and tomato sandwiches, milkshakes and the ubiquitous hamburger and chips which are still perennial favourites (Von Zahn, 2008).

2.5.2 Size of the industry in South Africa

According to Business Market Intelligence (BMI) as at 2004 there were 22,827 commercial establishments in South Africa. The table below outlines the number of establishments in the commercial and catering sector that provide regular meals as at 2004.

The commercial sector represents 83, 5 percent of the total of all catering establishments.

Table 2.1: Number of Foodservice Establishments

Sector	Establishment	2004 Units	% of Total
Commercial	Accommodation	6 054	22.50%
	Event Venues	580	2.16%
	Franchised Restaurants	1 654	6.15%
	Franchised QSR's	3 406	12.66%
	QSR's	4 055	15.07%
	Independent Restaurants	6 628	24.64%
Commercial Total		**22 377**	**83.18%**
Social Catering	Correctional Services	235	0.87%
	Education	899	3.34%
	Healthcare	739	2.75%
	Mining	197	0.73%
	SANDF	179	0.67%
	Staff Canteens	1 370	5.09%
	Transport	7	0.03%
	Welfare	899	3.34%
Social Catering Total		**4 525**	**16.82%**
Grand Total		**26 902**	**100.00%**

Source: BMI Foodpack (2005)

2.5.3 Sales

In 2005, the total South African food market was estimated at 20 million tons of food worth approximately R175 billion. This volume estimate includes products used for processing and exports as well as local product consumption.

The foodservice industry consumed approximately R 16, 8 billion or 9.6 percent (BMI Foodpack 2005).

In a food and beverage survey conducted by Stats SA during March 2008 the total food and beverage sector generated sales of R 31, 6 billion for the period March 2007 to February 2008.

The restaurant and coffee shop category represented 49.87 percent of this total, producing sales of R 15, 8 billion. When compared with the BMI sales statistics from 2005 with the latest 2008 Stat SA statistics the food and beverage market has grown by 88 percent or R14.8, billion.

Table 2.2 Food and Beverage Sales for the period March 2007 to February 2008

Enterprise type	Sales	% of sales
Restaurants and coffee shops	R 15 804	49.87%
Take-away/Fast-food outlets	R 8 503	26.83%
Caterers	R 5 247	16.56%
Other catering services	R 2 137	6.74%
Total	R 31 691	100.00%

In R millions

Source: Stats SA March (2008)

2.5.4 Development of the chains

The rapid commercialisation of the restaurant industry began with the introduction of franchising.

The pioneers of the restaurant industry in South Africa were chains such as;

Steers**:** South Africa's longest established restaurant brand with the first store opening in 1962. According to the Steers South Africa website (2008) Greek entrepreneur George Halamandres introduced the steakhouse concept and franchising to South Africa during the 1960's (http://www.steers.co.za/index.php?q=con,9,Highlights , 20 June 2008).

Spur was founded in 1967 by Alan Ambor. The first Spur opened in Newlands in Cape Town. The Spur Group has 226 restaurants in South Africa and has also expanded internationally (http://www.spur.co.za/Site_Content.aspx?cid=61&pid = 9, 22 August 2008).

Wimpy had its origins in the United Kingdom. The first Wimpy opened in Murchies Passage in Durban in September 1967 and has grown into a chain of some 400 restaurants. The company is now owned by Famous Brands who also own Steers (Parker and Illetschko, 2007:34).

Kentucky Fried Chicken now called ***KFC*** was the first American food concept to open in South Africa with the first outlet opening in 1971. KFC and has grown into a major brand in South Africa with over 350 stores and is the dominant chicken brand (Parker and Illetschko, 2007:31).

After the demise of apartheid other international brands arrived in South Africa such as Mc Donald’s with their first outlet opening in Blackheath Johannesburg in 1998.

2.5.5 The South African Restaurant Industry today

During 2007, Ms. J Bird from JB Consulting conducted research on the South African restaurant industry to ascertain the store growth of the various sectors within the restaurant industry. Eighty Five companies took part in the survey amounting to 4, 470 outlets as at 1 March 2007. Bird (2007) compared the financial year periods of 2005/2006 to 2006/2007.

The respondents were grouped as in the following restaurant categories:

- All day dining;
- Steakhouses;
- Drinking venues;
- Coffee shops;
- Ethnic & other;
- Fish;
- Pizza & pasta.

Take Away and Quick Service Restaurants were grouped as follows:

- Burgers;
- Chicken;
- Pizza;
- Other;
- Fish;
- Sandwiches & Health.

According to Bird (2007), total South African restaurant and take away store unit growth in 2007 was up on the previous year increasing by 15, 6 percent in the 2007 financial year versus 13, 8 percent in 2006. Take Away store growth was higher at 17, 3 percent compared to 13, 4 percent in the restaurant sector during 2006/2007 period.

Bird (2007) states that restaurant categories whose store growth remained fairly static over the two years were fish and all day dining restaurant. Coffee shops, steakhouses and ethnic and other restaurant store growth slowed down in 2006/07 and drinking venue and pizza/pasta restaurant numbers grew.

2.5.6 Employment

In the United States the commercial and social catering industry is responsible for employing an estimated 13.1 million people [National Restaurant Association of America (NRA) 2008]. The NRA (2008) states that the restaurant industry in the United States employees nine percent of the workforce. This makes the restaurant industry the second-largest employer outside of the United States government (http://www.restaurant.org/research/ind_ _glance.cfm , 15 May 2008).

In South Africa, no specific data are available on the size of the work force as the restaurant category falls within the the *wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods; hotels and restaurants industry* category (Statistics South Africa, 2008).

2.6 FUTURE RESTAURANT TRENDS

According to Von Zahn (2008), South African restaurant trends tend to follow food trends in the United States and Europe.

Leong (2008) the author of Restaurant Food Trends for 2008 is of the opinion that the following restaurant food trends will affect dining habits in the United States in 2008.

Smaller portions and snack sizes: the average consumer seems to be eating more frequent, smaller meals. In the United States consumers are becoming a nation of snackers. To respond to this demand, restaurants are offering smaller portioned meals with lower prices Leong (2008).

On a more sophisticated level, tapas-style dishes are growing in popularity as consumers look for smaller dishes with enough taste to satisfy a discerning palate (Leong, 2008).

Latin cuisine**:** particularly cuisine from the Caribbean is growing in popularity. As the population ages, their ability to taste diminishes slightly which increases the desire for more flavourful, spicy foods. Latin cuisine fulfils this demand with its tempting melding of spices and fresh ingredients to create unique food preparations that are both healthy and satisfying (Leong 2008).

Healthy fare**:** as the American population continues to age, healthy food choices become more important. Although Americans have been accused of "talking the talk" and then returning to their less healthy alternatives, the tide seems to be shifting as consumers embrace healthier restaurant choices (Leong, 2008).

Emphasis on spices**:** restaurant chefs are using spices such as cumin, turmeric, ginger and a host of others are being lauded for their antioxidant capabilities and their ability to potentially prevent certain chronic diseases. They give food flavour and personality (Leong, 2008).

Grocery stores with restaurants**:** more grocery stores are catering to customer's demands for chef inspired food that's fast and convenient. Grocery stores are hiring chefs and serving higher quality, hot food that can be eaten on site with some sites even offering full service restaurants. Consumers are embracing the idea of having a quick and delicious meal at the same time as they do their grocery shopping (Leong, 2008).

These grocery store inspired chef stations and restaurants are expected to grow in demand and popularity due to their accessibility and convenience (Leong, 2008).

Redefining casual**:** restaurant consumers want good food but they want it in a more relaxing setting. Diners crave five star food in a setting where they can relax and unwind. Along with this trend comes the expansion and upgrades of bar and lounge menus to allow diners to enjoy a wide range of chef inspired dishes in a laid back environment (Leong, 2008).

(http://www.associatedcontent.com/article/542771/2008_restaurant_food_trends.html?cat=22, 12 June 2008)

Allen (2007) predicts that one of the top trends poised to influence the restaurant industry in 2008 is modified-casual dining. According to Allen…" modified-casual dining offers the same service and amenities of a large casual dining chain or mega-independent casual operation, but in a much smaller footprint". Modified-casual restaurants are more sophisticated than fast-casual operations because they offer table service instead of counter service and spend per head is higher than fast-casual operations (http://www.runningrestaurants.com/articles/20071207_5, 12 June 2008).

2.7 CONCLUSION

This chapter has briefly outlined the development of the restaurant industry internationally and in South Africa.

The industry has been driven by economic growth and the availability of skilled cooks who became entrepreneurs and started new restaurants.

The following chapter explores the role of entrepreneurship in the development of small businesses and the growth strategies that are available to the entrepreneur.

CHAPTER 3

ENTREPRENEURSHIP

3.1 INTRODUCTION

This chapter explores entrepreneurship by undertaking a literature study of the enterprise, entrepreneurship and the entrepreneur.

The chapter will also address the first sub problem of this treatise, that is:

What growth and development strategies are available to the restaurant entrepreneur?

In 1377, the Arabian economic philosopher Ibn Khaldun (http://en.wikipedia.org/wiki/Economic_growth ,22 September 2008) provided one of the earliest descriptions of economic growth which is as follows:

"When civilization [population] increases, the available labour again increases. In turn, luxury again increases in correspondence with the increasing profit, and the customs and needs of luxury increase. Crafts are created to obtain luxury products. The value realized from them increases, and, as a result, profits are again multiplied in the town. Production there is thriving even more than before. And so it goes with the second and third increase. All the additional labour serves luxury and wealth, in contrast to the original labour that served the necessity of life".

3.2 THE ENTERPRISE

According to Answers.com (2008) the term enterprise is defined as:

- An undertaking, especially one of some scope, complication, and risk;
- A business organisation;

- Industrious, systematic activity, especially when directed toward profit: *Private enterprise is basic to capitalism;*
- Willingness to undertake new ventures; initiative: *"Through want of enterprise and faith men are where they are, buying and selling, and spending their lives like serfs"* (Henry David Thoreau) (http://www.answers.com/topic/enterprise, 25 August 2008).

Bridge, O'Neill, & Cromie (1998:22) state that the enterprise is primarily connected with the promotion of business, small business and or business starts ups.

According to Bridge et al (2008:22) two schools of theory or practise are evident when defining enterprise, each based on different although not contradictory approaches. The two approaches are termed the economy school and the education school.

The economy school believe that "enterprise is what entrepreneurs do to create business jobs and wealth and those things all contribute, indeed they comprise the economy" (Bridge et al*,* 2008).

The education school argue that enterprise has a broader meaning and application than the economy school. "It says that many types of initiatives need to be taken and many types of responsibility which need to be discharged and many types of problems which need to be resolved require the individual to act in an 'enterprising' manner" (Bridge et al*,* 2008).

The education school sees business entrepreneurialism as just one context in which people act in enterprising ways in order to succeed in a more complex society where individuals have to be more and more enterprising. Enterprise is therefore about values, attitudes and skills at work and in life.

Using a definition based on the economy school, an enterprise can be defined as “a legal unit or a combination of legal units that includes and directly controls all functions necessary to carry out its activities” (Statistics South Africa, 2008).

In an economic context an enterprise could also be called a firm which according to (Salvatore, 2001:10) “… is an organisation that combines and organises resources for the purpose of producing goods and/or services for sale” Firms exist because it would be inefficient and costly for the entrepreneur to enter into and enforce contracts with workers and owners of capital, land and other resources for each separate step of the production and distribution process. The firm exists to save on such transactions costs. The modern *theory of the firm* is that the primary goal or objective of the firm; is to maximise the wealth or value of the firm (Salvatore, 2001:11).

3.3 ENTREPRENEURSHIP

3.3.1 What is entrepreneurship?

According to Timmons as cited by Lambing and Kuehl (1997:10) “Entrepreneurship is a human creative act that builds something of value from practically nothing. It is the pursuit of opportunity regardless of the resources, or lack of resources, at hand. It requires a vision and the passion and commitment to lead others in the pursuit of that vision. It also takes a willingness to take calculated risks”.

Rwigema and Venter (2004:6) define entrepreneurship as “…the process of conceptualising, organising, launching and – through innovation – nurturing a business opportunity into a potential high growth venture in a complex, unstable environment”.

3.3.2 The economic impetus of entrepreneurship

From historical perspective; from the fall of Rome (circa 476 CE) to the eighteenth century, there was virtually no increase in per capita wealth generation in the western world. With the advent of entrepreneurship, per capita wealth generation and income in the West grew exponentially by 20 percent in the 1700s, 200 percent in the 1800s, and 740 percent in the 1900s, according to Drayton as cited by (Murphy, Liao and Welsch, 2006).

Nieman, Hough and Niewenhuizen (2003:4) state that the combination of all businesses, that is small medium and micro enterprises (SMME) as well as national and multi national businesses determine the state of the economy. Employment is closely linked to the state of the economy and when there is no growth in the economy, there are fewer employment opportunities available. The success of leading countries in the world such as America, Japan and England as well as emerging economies such has China and India has proven that the only growth sector in these economies is the SMME sector; which is driven by entrepreneurs.

In these countries SMME's are being established, grow and create jobs whilst in contrast employees in large businesses are often retrenched due to changing economic conditions and then become self employed or employed by SMME's (Nieman et al, 2003:4).

In South Africa the role of small business is very important as they make a significant economic contribution. Rwigema and Venter (2004:8) state that 2, 3 million people operated at least one small or micro enterprise in 2001 and generated turnover of R30 billion for the year.

3.4 THE ENTREPRENEUR

Lambing and Kuehl (1997:10) believe that the word entrepreneur is derived from the French word *entreprendre* meaning “between” and “to take”.

An entrepreneur is the one who takes a position between a supplier and a customer and is therefore the one who takes the risk.

According to Deakins (1996:8) citing Kirzner (1979), Schumpeter (1928) and Knight (1967) states that there are various opinions on the role of the entrepreneur. Kirzner (1979) is of the opinion that an entrepreneur is *alert* to profitable opportunities for exchange and that anyone has the potential to be an entrepreneur and operate within set production constraints.

In contrast Schumpeter (1928) believes that only *extraordinary* individuals have the ability to become entrepreneurs and they bring about extraordinary events by changing technological possibilities and through *innovative* activity they move production constraints. Knight (1967) is of the view that the entrepreneur is a *risk taker* who is prepared to undertake risk and the return - profit - is the reward for bearing uncertainty and uninsured risk. A consensus has emerged that in conditions of uncertainty and change, the entrepreneur is a key actor in the economy (Deakins, 1996:14).

3.4.1 The entrepreneurial personality

Identifying what makes some individuals more enterprising than others has been the question of numerous studies. The primary theories explored in the study of this question are:

- Personality theories;
- Behaviourist theories;
- Economic approaches ;
- Sociological approaches.

Other approaches include values, beliefs and goals and a number of integrated approaches. Bridge et al (1998:42) are of the opinion that whilst all of the above approaches offer some insight in to what makes individuals act in an enterprising way. The integrated approaches offer the most useful model for understanding what makes individuals act in an enterprising manner.

Deakins (1996:17) questions whether an ‘entrepreneurial personality’ actuality exists as many of the characteristics that are said to be particular to successful entrepreneurs are the same attributes and characteristics that could also be applied to successful managers.

McClelland cited by Deakins (1996:17) gives the following key competencies of successful entrepreneurs:

- Proactively: intuitiveness and assertiveness;
- Achievement orientation: ability to see and act on opportunities;
- Commitment to others.

Deakins (1996:17) states that much has been made of the “need for achievement trait” as a characteristic that sets potential entrepreneurs apart from others.

Lambing and Kuehl (1997:12) argue that whether entrepreneurial tendencies exist at birth or are developed as an individual matures; certain traits are evident in successful entrepreneurs.

The traits which have been identified in the literature as being important abilities for any entrepreneur are according to Lambing and Kuehl (1997:12) as follows:
***A passion for the business*:** the entrepreneur must have more than a casual interest in the business as there will be many obstacles and challenges to overcome.

***Tenacity despite failure*:** the entrepreneur must be persistent and not give up easily. Many entrepreneurs have failed several times before they succeeded.

Confidence**:** entrepreneurs are confident in their abilities and business concept and believe that they have the skills and capacity to accomplish what they set out to do.

Self-determination**:** is a crucial trait as successful entrepreneurs believe that their success or failure is dependant on their own actions and not fate.

Management of risk**:** successful entrepreneurs do not put all their resources and time into a venture until it appears to be viable and in doing so they minimise the risks.

Changes are opportunities**:** entrepreneurs do not view change as something negative, rather they see it as normal and necessary. Change is an opportunity to be exploited and becomes a driver of innovation.

A tolerance for ambiguity**:** an entrepreneurs life has been described as a professional life riddled with ambiguity, a consistent lack of clarity. There is no guarantee of success.

Initiative**:** successful entrepreneurs take the initiative in situations were others may not. This willingness to act on their ideas is what distinguishes them from those who are not entrepreneurs. Many people have good ideas but these ideas are not converted into action.

Need for achievement**:** entrepreneurs act on their ideas because they have a higher need for achievement than the general population. The achievement motive is converted in to drive and initiative that results in accomplishments.

Detail-orientation and perfectionism**:** entrepreneurs are often perfectionists and strive for excellence and perfection. Their attention to detail and the need for perfection results in a quality product or service.

***Perception of passing time*:** entrepreneurs have a sense of urgency based on the fact that "time *waits* for no man". They are often impatient and nothing is done soon enough.

***Creativity*:** entrepreneurs are successful because they have imagination that can visualise alternative scenarios. The have the ability to recognise opportunities that others do not see.

***The big picture*:** entrepreneurs see things in a holistic sense; they have the ability to see the big picture when other people see only parts (Lambing and Kuehl, 1997:15).

3.4.2 The rewards of entrepreneurship

It is generally believed that entrepreneurs are motivated by money however other factors are more important according to (Lambing and Kuehl, 1997:15). The need for achievement and the desire for independence are more important than money.

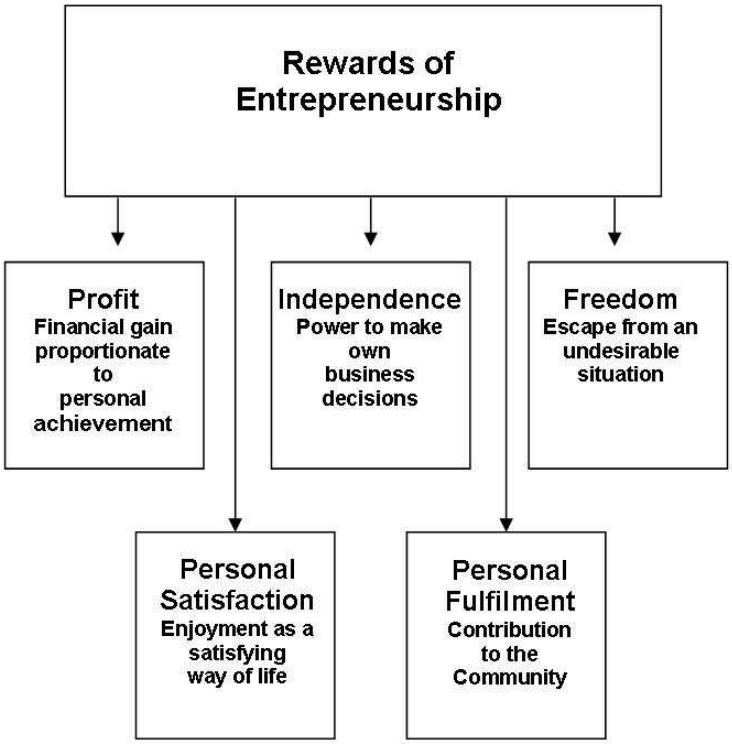
In a study of approximately 3,000 entrepreneurs by Oneal (1991) cited by (Lambing and Kuehl, 1997:15), the following factors were identified as "very important" reasons for being self employed."

- To use personal skills and abilities ;
- To gain control over one's life;
- To build something for the family;
- Because of the challenge;
- To live how and where one chooses.

Other studies have identified other motivating factors such as the need for recognition and a need for meaningful rewards (Lambing and Kuehl, 1997:15).

The primary rewards of entrepreneurship according to (Longenecker, Moore, and Petty, 2006:8) are illustrated below:

Figure: 3.1 The rewards of entrepreneurship



Source: Adapted Longenecker, Moore, and Petty (2006:8)

Longenecker et al (2006:8) believe that some individuals use entrepreneurship to escape a bad situation, they state that a *reluctant entrepreneur* is an individual who becomes an entrepreneur as a result of severe hardship for example being retrenched or fired. Unable to find employment the person then starts a small business in order to survive.

3.5 THE PROCESS OF ENTREPRENEURSHIP

According to (Naudé, 2008: 4) the process of entrepreneurship can be described as going through at least four phases:

***The conception*:** when the would-be entrepreneur perceives an opportunity;
***The gestation phase*:** when the opportunity is evaluated;
***The infancy phase*:** when the enterprise is created;
***The adolescence*:** phase where after the firm matures.

Bridge et al (1998:105) state that additional phases exist such as the enterprise's closure or demise.

The entrepreneurial process involves founding or reinventing a business or a business venture and developing it into a successful enterprise (Rwigema and Venter, 2004:28).

The specific steps are:

- Identifying, measuring and refining an opportunity from multiple ideas;
- Formulating a business plan;
- Marshalling the resources;
- Organising and mobilising the entrepreneurial team;
- Overseeing new venture creation and growth.

3.5.1 Identifying an opportunity

A business opportunity is defined by Wickham cited by (Rwigema and Venter, 2004:29) as the "gap left in the market by those who currently serve it. It represents the potential to serve customers better than they are been served at present."

Nieman et al (2003:83) refer to a 'window of opportunity' and state that the window of opportunity refers to the time period available to the entrepreneur to create a new opportunity. "As the market grows more and more opportunities are revealed… the windows opens" Over time the market matures and the window begins to close and the opportunities available to the entrepreneur begin to decline. The window must therefore remain open for long enough for the entrepreneur to be able to take advantage of the window of opportunity.

According to Timmons (1999:38) opportunities are more than just good ideas, to qualify as an opportunity an idea should fulfil three criteria:

- The market must be large, growing and have low barriers to entry;
- Profit margins should be wide, breakeven low;
- The project should generate a large cashflow.

3.5.2 Formulating a business plan

Lambing and Kuehl (1997:37) state that a business plan is a detailed, structured and comprehensive document that assists the entrepreneur to analyse the market and plan the business strategy. As the business plan follows a particular process and format the plan forces the entrepreneur to reflect on and provide solutions to strategic and operational challenges. The plan is often ambitious but hopefully realistic and becomes a communalisation tool for investors, employees and other relevant stakeholders (Rwigema and Venter, 2004: 32).

The business plan helps the entrepreneur to avoid making costly mistakes and becomes a roadmap for the enterprise. " Knowing where you are headed and how you plan to get there is essential to the day-in, day-out management of any successful enterprise" (Bartholomew, 1992:10).

The business plan follows a specific structure and format with the following major headings according to (Lambing and Kuehl, 1997: 136)

- Executive summary;
- Mission statement;
- Business environment;
- Marketing plan;
- Management team;
- Financial data;
- Legal considerations;
- Insurance requirements;
- Other key factors;
- Suppliers;
- Risks;
- Assumptions;
- Conclusion.

Lambing and Kuehl (1997: 136) argue that although the business plans for an existing business and start up business follow the same process and examine the same factors the focus will vary according to the business type.

3.5.3 Marshalling the resources

Dollenger as cited by (Rwigema and Venter, 2004:33) states that “a resource *is* anything of quality that is useful”.

Resources refer to inputs such as:

- Physical assets such as buildings, equipment, machinery, vehicles and raw materials;
- Finance including equity, cash, working capital, overdrafts and long term finance;
- Human resources with specific skills and know how.

Resources can also be intangible assets such as protected patients, brands, reputation and goodwill. Resources are the platform for creating new ventures and value. By combining them creatively they can produce more competitive goods and services. Rwigema and Venter (2004:33) state that it is therefore the entrepreneur’s responsibility to attract sufficient ‘quality’ resources to convince financial backers, suppliers and prospective employees to invest in the venture.

3.5.4 Organising and mobilising the entrepreneurial team

Most new businesses are started by one person however entrepreneurs cannot achieve their objectives without assistance from qualified and motivated employees (Lambing and Kuehl, 1997:82).

Ventures are often started by family members, friends or dissatisfied employees. They should bring specific skills to the enterprise and play a distinct and complementary role in the creation of the venture. Entrepreneurs tend to be charismatic leaders and lead by example; they work hard and inspire their teams.

Timmons (1999:40) states that ” the founder who becomes the leader does so by building hero’s in the team; by a philosophy that rewards success and supports honest failure, that shares the wealth with those that help to create it: and by setting high standards for both performance and conduct”

It is the entrepreneur’s responsibility to organise the employees into a logical, organic and evolving structure. According to Wickham as cited by (Rwigema and Venter, 2004:35) over time, enterprises evolve in various ways and depending on their size, rate of growth and the industry they operate in.

3.5.5 Overseeing new venture creation and growth

The entrepreneurial process begins when an enterprising individual identifies an opportunity, organizes the appropriate resources and puts together a team to achieve the vision.

How the elements are integrated in relation to the market and competitors in a constantly changing environment ultimately determines how successful the enterprise becomes. Starting a venture is only the first step in the entrepreneurial career (Rwigema and Venter, 2004:36).

All enterprises evolve according to stages however the development process is not divided by natural boundaries as each phase evolves according to the development level of the business. Bridge et al (1998:104) state that there is no single generally accepted development model and many different methods have been suggested for the development of business.

One of the most frequently used models is the *five stages of small business growth* developed by (Churchill and Lewis, 1983)**.**

The table below summarises the five stages.

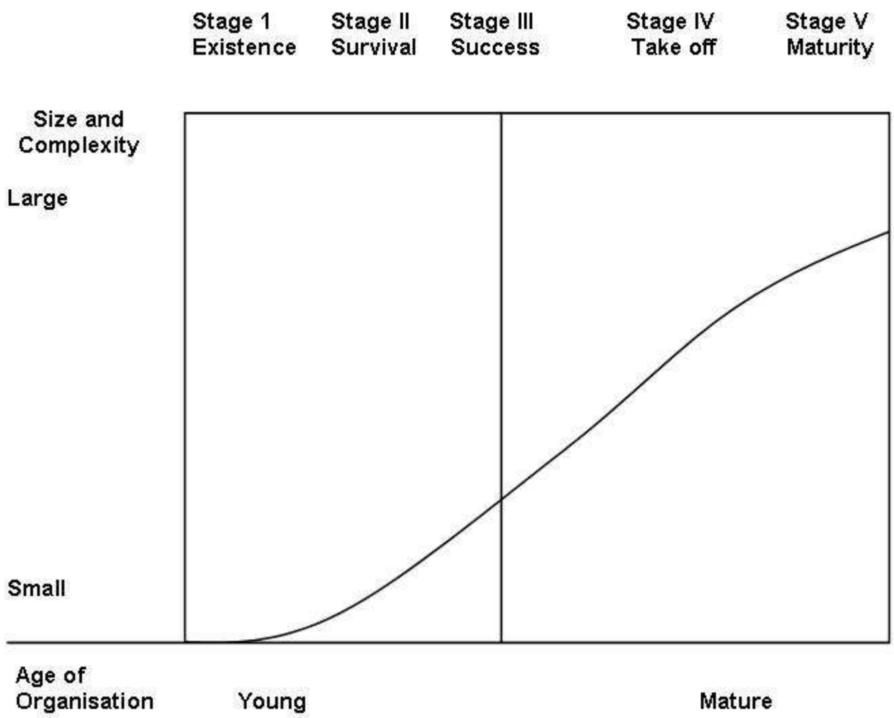
Table: 3.1 Five stages of small business growth

Stage	**Attributes**
Existence	Staying alive by finding products or services and customers.
Survival	Establishing a customer base and demonstrating viability.
Success	Confidence in market position with options for further growth.
Take-off	Going for growth.
Maturity	Exhibits the characteristics of a larger, stable company.

Source: Adapted from Churchill and Lewis (1983)

Churchill and Lewis (1983) state that each stage is characterised by an index of size, diversity and complexity as illustrated in the figure below.

Figure 3.2: Growth Stages of a small business



Source: Churchill and Lewis (1983)

According to the (Churchill and Lewis, 1983) model, the firm's development stage determines how the stage should be managed. Knowing the firms development stage and future growth strategy enables managers, consultants and investors to make informed choices to prepare themselves and their companies for future challenges.

3.6 STRATEGIES FOR GROWTH

Growth and the desire to grow should be embedded in the mindset of the entrepreneur as an entrepreneurial mindset constantly seeks growth and innovation. Nieman et al (2003:232) believe that growth is critical to entrepreneurial success and is one of the factors that differentiate an entrepreneurial venture from a small business venture.

Whilst growth is the defining feature of the entrepreneurial venture it does not mean that the entrepreneurial business has the right to grow. However if managed the right way, a business has the potential to grow.

Sabharwal (2008:138) states that the term ‘business growth’ is used to refer to various things such as an increase in the total sales volume per annum, an increase in the production capacity, increase in employment, an increase in production volume or an increase in the use of raw material. These factors indicate growth but do not provide a specific meaning of growth. Simply stated business growth means an…” increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output” (http://www.du.ac.in/coursematerial/ba/esb/Lesson_10.pdf , 9 September 2008).

Rwigema and Venter (2004:208) are of the opinion that a growth strategy is only worthwhile if it boosts profitable sales or market share. A growth strategy refers to a strategic plan formulated and implemented for expanding the firms business. For smaller enterprises growth plans are especially important because these businesses are easily affected by small changes in the marketplace.

According to Nieman et al (2003:246) enterprise growth can be divided into two broad categories; internal or external growth.

3.6.1 Internal growth

Internal growth, also called organic growth, is achieved by expanding the business from within by increasing market share. This can be achieved through growth in turnover, volume or profit of the business. Internal growth can be slow as the resources of the business will determine the pace of growth.

The internal growth strategy options can be achieved through the following approaches which are according (Perreault and McCarthy, 1999:67) as follows:

Market penetration aims to increase the sale of the present product in the current market through aggressive promotion.

Market development is achieved by increasing sales through selling existing products in new markets.

Product development involves growth through product development for existing markets.

Diversification involves developing new products for new markets and is used as a strategy if a business cannot achieve its growth and profit targets through expanding existing products and markets.

Modernisation involves upgrading equipment and technology in order to increase production, improve quality and reduce quality and costs. Modernisation can only be used as a strategy if the firm has adequate financial resources or access to capital to achieve the modernisation strategy (Sabharwal, 2008:150).

3.6.2 External growth

External growth or inorganic growth focuses on growing the business beyond the boundaries of the existing business by acquiring another business or two firms merging to combine their competitive strength.

External growth is faster and allows immediate utilisation of the acquired resources or assets. External growth strategies that are available to the entrepreneur are:

The Merger entails a voluntary union of two separate firms often of a similar size. The combined businesses pool their resources to for greater competitive advantage and the synergies which result from the combined firms exceeding the size of the separate business entities (Rwigema and Venter, 2004:451).

Joint Ventures or strategic alliances are separate business entities they decide to establish a new enterprise by participating in the financing and operation of the new venture. A joint venture is a specific business partnership between two or more firms for a specific business operation. Joint ventures allow firms to share risks, knowledge, managerial skills and technology (Nieman et al, 2003:250).

Franchising is an effective means of growing a business by leveraging the investment potential of third parties to…" establish improved geographic concentration, economies of scale, and expansion with out the financial risk accompanying direct investment". The franchisor 'licences' to selected franchisees the use of the business trademarks, systems, operating procedures and marketing methods in return for a licence fee or royalty (Rwigema and Venter, 2004: 453).

3.7 CONCLUSION

This chapter investigated *entrepreneurship* and discussed the various aspects that make up entrepreneurship.
One of its primary findings was that was the level of entrepreneurship in a country, defines its growth prospects and economic successes. Entrepreneurship is therefore the practice of starting new enterprises, creating wealth and in the process creating employment opportunities.

In order for small businesses to grow beyond the constraints of internal or organic growth in a planned strategic manner, various growth strategies are available to the entrepreneur.

Franchising is considered to be a viable growth strategy for small business as it provides a means of raising capital and a method of expanding the distribution channel of the business in a relatively low risk manner.

Franchising has become an accepted strategy for business growth, job creation and economic development and is considered by some (Justis et al, 1994) as cited by (Kirby and Watson, 1999) as the worlds fastest growing method of conducting business.

The following chapter will focus on *franchising* as a business growth strategy.

CHAPTER 4

FRANCHISING

4.1 INTRODUCTION

This chapter explores franchising through a literature study of the origins, development and growth of the franchising industry internationally and in South Africa.

The chapter will also address the second sub problem of this study, namely;

Can the franchise model be used to develop a successful single unit restaurant concept into a multiple unit franchise system?

There are various definitions of franchising in the literature. The International Franchising Association's (IFA) legal definition of franchising is "…a contract or agreement, expressed or implied, oral or written, between two or more persons by which:

- A franchisee is granted the right to engage in the business of offering, selling or distributing goods or services under a marketing plan prescribed in substantial part by a franchisor;

- The operation of the franchisee's business pursuant to that plan or system as substantially associated with the franchisor's trademark, service mark, trade name, logo type, advertising, or other commercial symbols designating the franchisor or its affiliates" (Khan , 1999: 4).

Parker and Illetschko (2007: 15) state that the Franchise Association of South Africa (FASA) defines a franchise as '… a grant by the franchisor to the franchisee, entitling the latter to use the complete business package containing all the elements necessary to establish a previously untrained person in the franchised business and enable him or her to operate it on an ongoing basis, according to the guidelines supplied, efficiently and profitably".

4.2 FRANCHISE TERMS

The following franchise terms have been defined for the sake of the clarity of this chapter.

4.2.1 Franchisor

Nieman et al (2003:197) define a franchisor as the firm that owns the business concept.

The franchisor is the person or company that grants the franchisee the right to do business under their trademark or trade name (International Franchise Association, 2001:4).

4.2.2 Franchisee

A franchisee is an independent business person or novice entrepreneur who has been granted by the franchisor the right to duplicate its entire business format at a particular location and for a specified period, under terms and conditions set forth in the franchise agreement (www.franlinkasia.com , 24 September 2008).

4.2.3 Franchise system

According to the Franchise Advice and Information Network (FRAIN, 2004), a franchise system has the following properties and circumstances:

- The franchisor owns the brand name;
- The franchisor operates a multi-unit network where the single units are presented to customers under a common brand name;
- A percentage of the units of operation are owned or partly owned by third parties, i.e. franchisees or joint venture partners;

- The franchisor has concluded legal agreements with the franchisees and joint venture partners (FRAIN, 2004).

4.2.4 Franchise fee

A franchise fee is the initial fee paid by the franchisee to the franchisor. The franchise fee usually includes training, site selection and evaluation assistance, and the rights to use the franchisor's trademark and business system (www.franlinkasia.com, 24 September 2008).

4.2.5 Royalties

Royalties are fees paid to the franchisor for continuing use of the trademark and in exchange for the franchisor's ongoing support services (www.franlinkasia.com , 24 September 2008).

In South Africa, royalties are also referred to as management service fees (Nieman et al, 2003:196) and can either be a monthly percentage of net sales or a fixed monthly payment.

4.2.6 Advertising Fee

An advertising fee is a fee paid to the franchisor as the franchisee's contribution to the marketing effort. This is usually a percentage of the franchisee's sales and is often paid on a monthly basis (www.franlinkasia.com , 24 September 2008).

Nieman et al (2003:196) state that the advertising fee can also be a fixed amount and is used to finance the advertising campaigns of the franchise company. This allows the franchise to fund television and radio campaigns which an individual business would find difficult to do.

4.2.7 Trade Marks

According to South Africa's Companies and Intellectual Property Registration Office (CIPRO, 2008), a Trade Mark is defined as a "brand name, a slogan or a logo. It identifies the services or goods of one person and distinguishes it from the goods and services of another". The Trade Mark provides a distinctive identity in the marketplace and applies to both products and services.

Examples are as follows:

- A brand name is a word or combination of words for example Kentucky Fried Chicken, Aquafresh or Coca Cola;
- A slogan is a short phrase or a sentence "Everything keeps going right Toyota" or "It's finger lickin' good";
- A logo is a distinctive picture or symbol such as the Nike tick, or the McDonalds "M";
- Specific shapes can also be registered for example the Coca Cola bottle.

When a Trade Mark has been registered, no other party may use this Trade Mark, or one that is confusingly similar.

"A Trade Mark can only be protected as such and defended under the Trade Marks Act number 194 of 1993, if it is registered. Un-registered Trade Marks may be defended in terms of common law.

The registration procedure results in a registration certificate which has legal status, allowing the owner of the registered Trade Mark to have the exclusive right to use that mark.

CIPRO administers the Register of Trade Marks that is a record of all the trade marks that have been formally registered. A registered Trade Mark can be protected forever, provided it is renewed every ten years upon payment of a renewal fee" (http://www.cipro.co.za/products_services/trademarks.asp, 2 October 2008).

4.3 THE HISTORY AND DEVELOPMENT OF FRANCHISING

Franchising is often referred to as a North American phenomenon; however Khan (1999: 2) states that the term franchise originated from the French word *franche* meaning free or exempt.

According to Khan (1999:10) franchising has existed for many centuries, although in different formats. In the Roman republic, officials who were responsible for collecting taxes were entitled to keep a portion of the taxes for themselves as compensation.

In the medieval period, the king, church or local government granted certain individuals privileges to conduct business within their jurisdiction. Sovereigns granted franchises for various activities such as building roads, holding fairs or establishing markets. In return the grantee was expected to make a payment to the sovereign power for these rights or privileges usually in the form of a share of the product or profit. This payment was called a royalty, a term that is still used today (Blair and Lafontaine, 2005:3).

The rapid development of franchising occurred in the late 1800's and coincided with the Industrial Revolution as businesses adapted to a changing commercial environment and sought new and innovative methods of distribution their products (Khan, 1999: 10).

The first formal form of franchising took place in the United States in 1851, when Isaac Singer accepted fees from independent salesman to acquire territorial rights to sell his recently invented sewing machine, the Singer sewing machine. This enabled Mr Singer to expand his distribution network without employing a large sales force (Khan, 1999: 10).

In 1886, a druggist named John S. Pemberton created a beverage comprising of sugar, molasses, spices, and cocaine. Pemberton licensed selected people to bottle and sell the drink, which is now known as Coca-Cola.

This was one of the earliest and most successful product franchising operations in the United States. Through franchising, Coca Cola was able to produce the patented beverage syrup at a central unit then distribute it to a local bottling plant owned and operated by a franchisee. The bottler would then manage the sales and distribution of the Coca Cola product in their territory (http://www.referenceforbusiness.com/encyclopedia/For- Gol/Franchising.html#HISTORY_OF_FRANCHISING, 24 September 2008).

In 1898, General Motors became involved in franchising, laying the foundations for the franchised motor dealership network, this system still operates in motor vehicle retailing today. Henry Ford followed General Motors the early 1900's, when he sold his Model T Ford through a franchise dealership network (http://www.franchise-law.com/PracticeAreas/Brief-History-of-Franchising.asp , 9 October 2008).

In 1902, Louis Liggett invited a group of pharmacists to join a cooperative as he believed that they could increase profits by paying less for their purchases. Liggett founded the United Drug Company. His idea was to market private label products. Approximately forty pharmacists pooled $4,000 of their own money and adopted the name Rexall. Sales grew rapidly and Rexall became a franchisor. The chain's success set a business model for other franchisors to follow (http://www.referenceforbusiness.com/encyclopedia/For-Gol/Franchising.html#HISTORY_OF_FRANCHISING , 24 September 2008).

The 1950’s was a boom period for franchising in the United States. Amongst the primary reasons for this growth was the expanding post war economy and the rapid development of the American Interstate highway network. This encouraged the growth of restaurants, petrol stations and other franchises (http://www.franchise-law.com/PracticeAreas/Brief-History-of-Franchising.asp, 9 October 2008).

Many well known restaurants chains were started in the 1950’s.

In 1952, Colonel Harlan Saunders sold his first Kentucky Fried Chicken (KFC) Franchise to a Mr Pete Harman of Salt Lake City, Utah. A handshake agreement stipulated a payment of five cents to Colonel Sanders for each chicken sold. By 1960, KFC had grown to a chain of 190 franchisees with 400 franchise units in the United States and Canada (http://www.kfc.com/about/history.asp , 26 September 2008).

Franchising was introduced to the real estate and hotel industries during 1955 and began spreading to service industries such as dry cleaning, employment and accounting services (Khan, 1999: 11).

Khan (1999: 11) is of the opinion that the greatest success story in franchising is credited to Ray Croc who sold milkshake mixers to the Mc Donald's brothers, owners of a busy hamburger restaurant in San Bernardino, California. Croc was so impressed with how quickly customers were served at the restaurant; he volunteered to open more restaurants for the brothers in the belief that he could sell more of his milkshake mixers.

In 1955, Croc opened the first Mc Donald's restaurant in Des Plaines, Illinois and founded the Mc Donald's corporation.
Mc Donald's has grown to a chain of over 31,000 restaurants in 119 countries employing more than 1.5 million people (http://www.mcdonalds.ca/en/aboutus/faq.aspx , 26 September 2008).

The extent of franchising as a model for increasing business growth can be summarised by the fact that in the United States "…in 1950 fewer than 100 companies used franchising … by the end of the decade more than 900 companies had franchise operations with an estimated 20,000 franchised outlets" (Khan, 1999: 12).

4.4 FRANCHISING IN SOUTH AFRICA

According to (Parker and Illetschko, 2007: 29) there are close similarities in the manner in which franchising was exported from America to the rest of the world. In South Africa early franchisors were drawn mainly from the ranks of fast-food operators. The first Steers restaurant was based on the steak house concepts in the United States. In 1965 the first franchised Steers restaurant was opened with Spur and Wimpy following in 1967 with their first franchised outlets.

Donner (1978) cited by (Parker and Illetschko, 2007: 35) states that in 1978 the majority of franchises in South Africa were in the restaurant sector and one-third of the concepts originated in the United States.

Table 4.1: Franchise companies active in South Africa in 1978

Name	Country of origin	Year started In South Africa	Industry Sector
Putt-Putt	USA	1965	Entertainment
Steers Steakhouse*	RSA	1965	Restaurant
Wimpy*	USA	1967	Restaurant
Manpower	USA	1968	B & B Service
Holiday Inn*	USA	1969	Hotels
Spur Steak Ranch*	RSA	1971	Restaurant
Kentucky Fried Chicken*	USA	1971	Restaurant
Captain Dorego*	RSA	1972	Restaurant
Juicy Lucy*	RSA	1973	Restaurant
Yankee Kitchens	RSA	1973	Restaurant
Econowash	RSA	1975	Laundrette
Mike’s Kitchen*	RSA	1976	Restaurant
Hillrand Business Brokers	RSA	1976	B & B Service
Pizza Inn	USA	1977	Restaurant
Videorent	RSA	1977	Entertainment
Swiss Miss	RSA	1977	Retail
Exhaust Shoppe	RSA	1978	Automotive
Purple Cow	RSA	1978	Ice cream

Source: Adapted from (Parker and Illetschko, 2007: 36)

Only eight of the above franchise networks as indicated with an asterisk are in operation today, seven of them are restaurant chains.

In a Franchise Census conducted in 2004 by (FRAIN, 2004) the total number of franchise systems verified to be operational in South Africa as at 29 February 2004 were 391 systems.

The franchise categories are as follows:

Table 4.2: Franchise systems active in South Africa in 2004

Business Category	Number of franchises	Percentage of total
Automotive products and services	38	9.72%
Building, offices and home services	38	9.72%
Business to business	25	6.39%
Education and training	36	9.21%
Video and entertainment	10	2.56%
Fast food and take out	61	15.60%
Health and beauty	14	3.58%
Petroleum retail	7	1.79%
Real estate services	16	4.09%
Restaurants	55	14.07%
Retailers	60	15.35%
Other	31	7.93%
Total franchises	**391**	100.00%

Source: FRAIN Census (2004: 4)

The FRAIN Census (2004) states that these franchise systems generated an estimated R 129, 291 million in sales during the 2004 financial year and contributed and estimated 10.7 percent to Gross Domestic Product (GDP). These franchise systems employed an estimated 11, 488 people with franchisees employing 232, 489 staff.

One hundred and twenty four franchised systems are members of FASA and represent 31.7 percent of all franchise systems in South Africa.

4.5 TYPES OF FRANCHISING

According to (Parker and Illetschko, 2007:14) there are two distinct types of franchising models; product or trademark franchising and business format franchising.

4.5.1 Product and trade name franchising

Blair and Lafontaine (2005:3) state that product or trade name franchising originated in the United States in the late 1800s. Examples of this type of franchising method are motor manufactures that use the dealer or franchise network to distribute their products and act as the retail stores for the manufacturer. Soft drink manufactures and oil companies also use this method to distribute their products.

4.5.2 Business format franchising

In business format franchising, the franchisor provides the name, image and method of doing business. The International Franchise Association (IFA, 2001) defines business format franchising as follows:

"In business format franchising, the franchisor prescribes for the franchisee a complete plan, or format, for managing and operating the establishment. The plan provides step-by-step procedures for major aspects of the business and, anticipating most management problems, provides a complete matrix for management decisions confronted by the franchisees."

The IFA state that the major advantage of buying a business format franchise is that the means for distributing goods and or services has been developed, tested, and associated with the trademark.

Business format franchising is the most popular type of franchising world wide.

The IFA (2001) compared business format franchising to product distribution franchising in the United States and found that ".business format franchising had about 4.3 times as many establishments, employed 4 times as many workers, generated 2.5 times the payroll, and produced nearly 3 times as much output" (http://www.franchise.org/industrysecondary.aspx?id=10008 , 9 October 2008).

4.6 ADVANTAGES AND DISADVANTAGES OF FRANCHISING FOR THE FRANCHISOR

Nieman et al (2003:250) have highlighted a number of advantages and disadvantages of franchising for the franchisor, which are summarised as follows:

4.6.1 Advantages

- The distribution network can be expanded rapidly without the franchisor using their own capital as the franchisee carries the financial risk;

- Franchisees are more motivated than managers because they own the enterprise and have a vested interest in ensuring its success;

- The franchisor can compete with larger competitors as franchising allows wider geographical coverage and distribution of the product or service;

- The franchisor can benefit from collective and centralised buying power as bulk deals and discounts could become available;

- Cooperative advertising enables the franchisor and franchisee to share the cost of advertising and in doing so build the value of the brand.

4.6.2 Disadvantages

- Franchisors could find it difficult to ensure that all franchisees will adhere to the standard operating procedures in order to ensure uniformity and consistency across the franchise system. The franchisee is not an employee and cannot be ordered to follow instructions;

- The objectives of the franchisor and the franchisee can at times be in conflict.

  The franchisor will want to maximise sales and ensure that the integrity of the brand is maintained. Whilst the franchisee will focus on achieving his profit goals and could cut costs to the detriment of product quality or service levels, which could impact negatively on the standards of the franchise;

- The franchisor can only terminate the franchise agreement under certain legal conditions making it difficult to dispose of non performing franchisees;

- The franchisee may understate sales to reduce the royalties payable to the franchisor;

- A successful franchisee could start their own operation in competition with the franchisor (Nieman et al, 2003:250).

4.7 THE DECISION TO FRANCHISE

According to Nieman (1998:17) the decision to franchise will usually arise out of one of five possible situations:

i. The prospective franchisor is currently operating a successful established business and wishes to expand. Franchising is an attractive method of achieving this;

ii. The prospective franchisor has specifically set out to develop a business concept that can be franchised;

iii. The prospective franchisor has developed a specific product or service and would like to establish an extensive distribution network quickly for that product or service;

iv. The prospective franchisor seeks out established independent outlets in the same field of business and persuades them to join a network, a practice known as conversion franchising;

v. The prospective franchisor is a firm with profitable individual units, which are burdened by management and labour concerns, or the corporate structure or distribution system is inadequate. The prospective franchisor could franchise these units to maximise profits. This method of franchising is called retro-franchising.

Nieman et al (2003:251) states that the decision to franchise cannot be taken lightly and certain criteria must be considered before embarking on a franchising strategy.

4.7.1 Criteria for identifying and developing a franchise operation

Standardisation in products and services**:** there must be a high degree of standardisation in the product or service offered by the franchise in order to ensure uniformity and consistency the across the franchise system. For example a product purchased from an outlet in Cape Town should be identical to one purchased from the same franchise outlet in Johannesburg (Nieman, 1998:18).

Reproducibility**:** the franchise concept should be able to be reproduced easily in any location time after time. Big global brands such as Mc Donald's or KFC or local brands such as Nando's that have been exported, all look the same where ever they are located (Nieman, 1998:18) .

Distinct and noticeable business**:** the business should be distinctly different from its competitors for example; in the chicken category in South Africa three brands dominate the market. With each brand, according to Nieman et al, (2003:265) occupying, a distinct and unique brand positioning with KFC appealing to families as a convenience product, Nando's has a upmarket "taste of Portugal" flame grilled experience and Chicken Licken appeals to the lower end of the market with smaller cheaper portion sizes offering better value.

Straight forward operating method**:** operating procedures need to be simple to ensure that they are easy to learn and implement by the staff and managers of the franchise. This will also assist with the maintenance of standards in the franchise system (Nieman, 1998:19).

Profitability**:** the franchise must have a proven level of profitability and the market must be large enough to support a developing franchise system. Breakeven sales should be relatively easy to achieve (Nieman, 1998:19).

Regular suppliers**:** supplies of raw materials or finished products to be sold by the franchise system should be readily available and accessible to the franchisee (Nieman, 1998:18).

Legal constraints**:** the enterprise should be able to trade without any legal constraints or legislation and not infringe any of the requirements of the Business Practices Committee or the Competitions Board (Nieman, 1998:18).

Personal commitment**:** the franchisor must be willing to make a significant investment in systems, procedures and support infrastructure for the franchise. There is also a moral responsibility to ensure the well being of the franchisees (Nieman et al, 2003:265).

4.7.2 Twelve critical success factors when considering franchising a business.

Parker and Illetschko (2007:15) highlight twelve critical success factors when considering franchising a business. The twelve critical success factors are as follows:

i. Does the business operate in a large growing market?

Market demand needs to be sufficient to sustain more than one franchise network as competitors will enter the market as the window of opportunity opens. A large market will make the profit margins of the business sufficiently lucrative to attract franchisees. A franchisee must be able to grow their business in the market. As the franchising model relies on the multiplier effect, the faster the franchise system grows the sooner the franchisor will achieve a return on investment.

ii. Is the growth in the market likely market likely to be sustainable?

Parker and Illetschko (2007:18) state that fads are not suitable for franchising as their growth is not sustainable over the long term. The market must therefore have the ability to grow over a long period of time as franchisees sign long term franchise contracts and the franchisor has to build an infrastructure to support the franchise system.

iii. Are the profit margins sufficient to cover the franchise fees?

The operating or trading margins must be adequate enough for the franchisee to cover his fixed and variable costs, pay franchise royalties and achieve a reasonable return on investment over the period of the franchise agreement. If the margins are not sufficient for the franchise to pay the business expenses and trade through downturns in the business cycle then the concept is not franchisable (Parker and Illetschko, 2007:18).

iv. Can the product or service demand a price premium?

The franchise must be able to sell value added products or services at a premium price. Products or services that compete only on price do not attract loyal customers who look for bargains where ever they find them. The franchisee's margins will always be under constant pressure as they compete in a price driven market. The franchisee will struggle to prosper under these conditions and the return on investment for the franchise will not be attractive enough in the long term to make the franchise sustainable (Parker and Illetschko, 2007:18).

v. Does the franchisor have access to sufficient capital?

Franchisors need capital to develop the pilot concept, franchise package, build the necessary infrastructure and fund ongoing franchise support and day to day administration of the franchise. Parker and Illetschko (2007:19) state that first stages of franchising are capital intensive and the franchisor must be financially stable in order to survive the initial start up period.

vi. Does the potential exist to establish a memorable brand?

A critical component for building a strong franchise is the ability to create a brand that is unique and recognisable and has the ability to cultivate lasting customer loyalty. A good brand name is easy to pronounce and be remembered. The brand name must be protected through trade mark registration (Parker and Illetschko, 2007:19).

vii. Is there a substantial barrier to entry?

A concept that is easily copied will struggle to gain an advantage required to succeed in a competitive market. Most markets are competitive by nature and the franchise concepts uniqueness is a prerequisite for success. The barriers to entry must be elevated by offering consumer benefits that other brands are unable to provide (Parker and Illetschko, 2007:19).

viii. Will the development costs allow for a satisfactory return on investment?

The franchisor and the franchisee must be in a position to earn a reasonable return on their investment.

The franchisor will invest capital to develop infrastructure and a franchise system, whilst the franchisee will invest in the franchise to gain access to a tried and tested concept and with a market related return on investment (Parker and Illetschko, 2007:20).

ix. Is it possible to grow a franchise culture in the company?

A franchise culture is defined according to (Parker and Illetschko, 2007: 20), as an "open and learning oriented system which must be flexible and supportive".

When companies make the decision to franchise they cannot treat franchisees as managers but as partners. The franchisor must be committed to creating a mutually beneficial relationship, provide guidance and support but at the same time allow the franchisee the entrepreneurial space to operate within the franchise system.

x. Does the concept have staying power?

A franchisor must have an enduring commitment to the success of the franchise with a long term vision for the future.

As the franchisee has invested a significant amount of money in the franchisors concept, it is incumbent on the franchisor to operate within ethical guidelines and principles as the franchisee has placed a great deal of trust in the franchisor.

The long term viability of the franchise will depend on the franchisors good reputation (Parker and Illetschko, 2007: 20).

xi. Is it relatively easy to transfer the required skills?

Franchisees do not have unlimited funds and they cannot be involved in long franchisee training programmes with no income.

The training should be easy to understand and implement with an on-the-job training programme taking place after the initial franchise training (Parker and Illetschko, 2007: 20).

xii. Are suitable systems and procedures in place?

Parker and Illetschko (2007:21) are of the opinion that “franchising is the art of controlled duplication” and unless suitable systems and operational procedures are in place the franchise cannot be managed effectively.

4.8 STEPS IN DEVELOPING A FRANCHISE SYSTEM

Nieman et al (2003:252) state that there are certain basic generic steps that must be followed when developing a franchise system. A ten steps process has been developed by (Nieman, 1998: 21) and adapted to a nine step process (Nieman et al, 2003:252).

Figure 4.1: Steps in developing a franchise system

Source: Adapted from Nieman et al (2003:253)

The nine steps for developing a franchise system are discussed in detail below.

4.8.1 Step 1: Establish if the business is suitable for franchising

In order to assess if the business is suitable to be franchised the concept must be extensively evaluated in terms of the criteria for identifying and developing a franchise operation (refer 4.7.1).

4.8.2 Step 2: Draw up a business plan and feasibility study

The possibility of developing an existing or potential business into a franchise operation will require an in depth feasibility study and business plan in order to asses the overall viability of the concept in terms of market size, competition, brand positioning, margin analysis and resource allocation (Spinelli, Rosenberg and Birley, 2004:10).

It must be determined if the franchisor will be able to:

- Administer the franchise system appropriately within FASA guidelines;
- Support the franchisees with operations, marketing, human resource and administrative assistance;
- Enjoy the benefits of franchising as a growth strategy rather than developing the enterprise as company owned and operated business.

4.8.3 Step 3: Establish a pilot operation

The next very important step in the process is the development of a pilot or prototype operation to test the concept, operating procedures, training methods and profit models. Nieman (1998:26) citing Hall and Dixon (1988) believe that "it is unethical to use the franchisees as guinea pigs as their business will soon suffer if the operational methods constantly have to be changed simply because the system was not fully thought out and tested before being sold as a franchise".

Illetschko (2004) states that the pilot operation should have been trading for at least 12 months and there must be compelling evidence that the business is ready for expansion.

Mendelsohn (1985:48) is of the view that as the franchisor is selling a sophisticated package of know-how. If the franchisor has not proved the ability to operate that package with success by putting his own money at risk, he has no right to market the franchise.

The advantages of setting up a pilot operation, according to Nieman (1998:27) are as follows.

i. Induction of potential franchisees

Potential franchisees can spend time at the pilot operation to observe the activities and become acquainted with the business. It creates a basis for sound business relations and satisfied franchisees (Nieman, 1998:27).

ii. Testing of products, methods, systems and procedures

All products, system and procedures can be tested and evaluated in the pilot operation before being released. Franchisees cannot be expected to experiment with new ideas on behalf of the franchisor (Nieman, 1998:27).

iii. Problem identification

The pilot outlet assists the franchisor to identify problem areas and enables the franchisor to provide solutions in relation to the following business aspects (Nieman, 1998:28):

- Marketing;
- Acceptability and availability of product or service;
- Methods of marketing, promotion and merchandising;
- Local by-laws;
- Building regulations;
- Fire regulations;
- Health and safety work requirements;
- Planning requirements;
- Streamlining of shop-fitting methods;

- Staff availability and training requirements;
- Taxation, including VAT, and customs and excise duties (where applicable);
- Layout and the best combination of equipment and;
- Other factors of a legal and business nature relevant to the particular type of business.

iv. Staying in touch with the market

The pilot operation enables the franchisor to maintain direct customer contact and respond to changing consumer tastes and preferences. The pilot operation enables the franchisor to monitor competitive activity in the market place and stay ahead of the competition (Nieman, 1998:28).

v. Keeping the blue print up to date

As the franchisor owns and operates the pilot outlet, the franchisor is able to acquire actual and not theoretical information about the productivity levels and profit margins. Should a franchisee deviate from these norms, the franchisor will be able to identify the deviation and be in a position to offer remedial assistance (Nieman, 1998:28).

vi. Training and retaining of franchisees

A major portion of the franchisee's training takes place in the pilot operation as on - the - job training. Classroom theory is thus translated into daily working activity (Nieman, 1998:28).

vii. Determining location requirements

The potential and actual trading experience of different types of locations can be obtained and includes possible changes in customer profiles, trading hour requirements and competitive activity (Nieman, 1998:28).

viii. A basis for compiling an operations manual

The experience gained through operating the pilot site can be used as a basis to compile the operations manual. The manual must be comprehensive and easy to understand and use. The lessons learned must be recorded by the franchisor so that they are effectively employed for the benefit of the franchisees (Nieman, 1998:29).

ix. Income generating and proof of financial viability

The setting up of a franchise operation is a costly activity and once the pilot operation begins to generate a consistent and steady income it will enable the franchisor to set up the infrastructure needed to support the franchisees. This will help the franchisor to determine the actual financial viability of the concept (Nieman, 1998:29).

4.8.4 Step 4: Develop the franchise package

Developing the franchise package involves the bringing together of the elements of the business to be franchised. Mendelsohn (1985:52) states that the franchise package reflects the accumulation of the franchisors total operational experience and expertise in the development of a comprehensive package. This comprehensive package must be prepared in advance and the experience obtained in setting up and running the pilot operation will provide the platform upon which the elements of the franchise package are structured.

The franchise package will include the following; a franchise marketing kit, training programme and facilities, operations and procedure manual and start up assistance information. This will be discussed in more detail below.

i. The franchise marketing kit

To market the franchise, the franchisor will need to compile a franchise marketing kit. This can be made available to prospective franchisees who, responded to an advertising campaign, as well as to other unsolicited enquiries.

According to Nieman (1998:31) the kit can take any form but will usually include the following information:

- Background and history of the franchise;
- Franchise application;
- Franchise agreement;
- Franchisee qualification checklist;
- Disclosure document as required by FASA.

ii. Training programme and facilities

- The franchisees and their staff will need to be trained. Training facilities and a detailed training programme must be developed;
- The training requirements for the franchisees and their staff should be identified;
- The duration of the course can be determined;
- The presentation must be carefully structured.

The training time will vary depending on the complexity of the business (Nieman, 1998:31).

iii. Operations and procedural manual

Mendelsohn (1985:52) believes that the operations manual is one of the most important documents which the franchisor will make available to franchisees. The operations manual will provide the franchisee with all the information required to operate the franchise business successfully. The manual will be used in training, and thereafter, while the franchisee is running the business, for guidance on any aspect of the business.

iv. Start-up assistance

The franchisor will need to support the franchisee in the start-up of operations. In this respect, certain aspects need attention and clarification even before the marketing of the franchise commences.

According to Nieman (1998:32) it is essential that the franchisor assists the franchisee in the following matters:

v. Site selection and outlet location

The criteria against which the location will be judged must be developed by the franchisor.

The franchisor should also assist with the lease negotiations to ensure continuity of a particular outlet as the duration of the lease is normally the same as the duration of the franchise agreement (Nieman, 1998:32).

vi. Pre-opening assistance

Nieman (1998:33) states that the franchisee will need to be guided by the franchisor in the setting up of the franchise outlet.

The experience gained in running the pilot operation will enable the franchisor to prepare standardised plans, specifications, equipment and shop-fittings, which can be varied and amended to fit in with the requirements of the particular premises. The franchisor will use trade contracts, plans and checklists to ensure that on completion the new outlet conforms to the franchise standards in every respect.

vii. Statutory requirements

The franchisee will require guidance regarding certain statutory requirements such as licensing and registration with the Receiver of Revenue, the Unemployment Insurance Fund and other statutory bodies. The franchisor can make staff available to assist the franchisee with these tasks (Nieman, 1998:32).

viii. Staff selection and training

The franchisee will need to employ staff and set guidelines in respect of staff selection, placement and remuneration. This information should also be covered in the operations and procedures manual (Nieman, 1998:32).

ix. Administrative systems

The franchisor will assist the franchisee to set up the administrative system. Specific forms and checklists required for the administration of the business should be available to ensure that the franchisee is able to fulfil all the administration obligations and responsibilities of the franchise (Nieman, 1998:32).

x. The opening promotion

It is necessary to develop a promotional package to make the target market aware of the opening of the new franchise outlet. This function will be implemented by the marketing department of the franchise (Nieman, 1998:32).

4.8.5 Step 5: Develop operations manual and franchise agreement

i. Operations Manual

The Best Practice Manual for Franchising, developed by (Illetschko, 2004:7), for the Franchise Advice and Information Network (FRAIN) states that the "…operations and procedural manual will contain a clear and detailed description of every operational step franchisees are expected to implement. Without limiting the scope of the operations and procedural manual, this will include all aspects of product/service delivery as well as the operation and maintenance of the systems and procedures needed to administer and control the business and prepare required reports.

The operations and procedural manual will be delivered to franchisees in a format that is conducive to quick and easy access. Presentation in hard copy format is recommended, but delivery in electronic format, either via the network's intranet or on magnetic medium or compact disk (CD) is acceptable.

It is the franchisor’s responsibility to keep the operations manual up to date to ensure that it always reflects current practices”.

ii. Franchise Agreement

The franchise agreement is a legal document that licenses the franchisee to operate the franchised business in accordance with the franchisors blueprint.

This entails the imposition on the franchisee of the franchisors standards of operations.

In order to operate effectively as a group the franchisee must control of all aspects of the business operation. The franchisor is the custodian of the brand and must protect interests of the franchise and all the franchisees in the group.

The franchise agreement is a contract which protects the franchise by including all the terms of agreement and obligations of each party.

This legal document defines the relationship between the franchisor and the franchisee (Nieman, 1998:74).

The contractual obligations of the parties can be summarised under the headings below:

- Duration of the franchise contract;
- Lease for franchise premises;
- Territorial rights available to the franchisee;
- Initial, royalty and advertising fees payable by the franchisee;
- The contractual obligations of the franchisor;
- The contractual obligations of the franchisee;
- The franchisee’s right to sell the business;

- Termination of the agreement;
- Consequences of termination of the agreement.

  (Hall and Dixon, 1991: 78).

4.8.6 Step 6: Complying with ethical requirements

The offer and sales of franchises was not strictly regulated in South Africa according to (Nieman et al, 2003:200) as in the case in other countries. In 1995 the Business Practices Committee drafted and published a Consumer Code for Franchising to protect consumers and prospective franchisees. This committee worked with the Franchise Association of South Africa (FASA) to develop a Code of Ethics which was intended to govern the conduct of franchising operations.

The FASA Code of Ethics primary objectives are as follows:

- To promote the concept of franchising and to ensure that franchising as an industry is above reproach;
- To issue guidelines according to which sound franchising schemes should operate; to apply a Code of Ethics to the industry; and to act against those who transgress the Code;
- To represent the industry vis-à-vis the government, the media and the general public as the need arises.

Prospective members of FASA are carefully screened before admittance and all must subscribe to the FASA Code of Ethics and Business Practices (Nieman et al, 2003:201).

In terms of FASA's guidelines the franchise agreement to be entered into by a prospective franchise must make specific reference to a disclosure document (Parker and Illetschko, 2007:80).

Nieman et al (2003:201) state that the FASA disclosure document is aimed at a full and complete disclosure by a franchisor to a prospective franchisee and allows a compulsory seven day cooling off period before a prospective franchisee is required sign a franchise agreement or to pay any monies to the franchisor.

Franchisors should not have any difficulty in complying with the requirements of the disclosure document which should be regarded as the minimum disclosure requirements and all franchisors should have no objection to providing significantly more information (Nieman, 1998:35).

4.8.7 Step 7: Recruit and select franchisees

According to Nieman et al (2003:254) the South African franchise market has grown significantly over the past few years and this has resulted in franchisors competing for quality applicants.

Marketing the franchise requires considerable patience as very few of the initial enquires end up as suitably qualified franchisees with capital to invest in the franchisee.

To attract these applicants, franchisors must promote their brand and handle enquiries in a timely and professional manner. Franchisees are seen as entrepreneurs and in the selection of prospective franchisees, these characteristics, would be seen as an important attribute in the franchise application. In the final analysis, the best way to market a franchise is to demonstrate success and the pilot operation is critical in this respect as it is proof that the concept works in practice.

The steps in marketing the franchise package are as follows:

- Develop presentation material to market the franchise;
- Develop the disclosure document;
- Generate franchise enquiries;

- Follow up on enquiries;
- Select and meet with prospective franchisees;
- Make the disclosure document available;
- Sign the franchise agreement;
- Establish the franchise operation.

(Nieman, 1998:89)

Seltz (1982: 103) states that significant time, effort and money is invested in attracting prospective franchises and proper controls must be in place. This is to ensure that every lead is followed up systematically and professionally in an efficient and cost effective manner.

4.8.8 Step 8: Train the franchisees

The franchisor is responsible for providing appropriate training to ensure that each franchisee is capable of running a franchise outlet professionally and competently.

Of equal importance is the franchisors success in instilling a sense of confidence and self belief in the franchise. As a result of the training, the franchisee should feel that operating the franchised business is an opportunity to become an astute and successful business person who will render a service to the community, create jobs and make a profit.

Developing the training component of the franchise will require three major actions by a franchisor, namely:

- Designing and implementing a training function;
- Establishing a training location;
- Developing a training programme.

(Seltz, 1992:153)

4.8.9 Step 9: Operate and manage the franchise system

The normal management functions apply to running a franchise system such operational, marketing, human resources and financial management. It is only the relationship dynamic between the franchisor and franchisee that is different as the franchisee is a business owner and not an employee of the franchise.

The constructive support of franchisees is therefore essential for the efficient operation and ultimate success of a franchise system. The franchisor must develop and maintain a support structure, which will satisfy the needs of each franchisee.

Franchisees normally require support in the following areas:

- Initial training to instil confidence;
- Assistance in setting up the business;
- Ongoing support such as market information, product development and procedures.

(Nieman et al, 2003:255)

The nine steps discussed above can generally speaking, be applied to any business format franchise system as the steps cover all the aspects that are required to be addressed by the prospective franchisor.

4.9 CONCLUSION

This chapter discussed the development of franchising internationally and in South Africa. It covered the advantages and disadvantages of franchising for the franchisor.

The decision to franchise and the criteria for identifying and developing a franchise operation were addressed and finally, the steps in developing a franchise system were reviewed in detail.

Jafari (2003: 240) citing Naisbitt (2002) is of the opinion that “franchising is the single most successful marketing concept ever”

Franchising has become a significant contributor to world economies. According to the International Franchising Association in 2001, in the United States alone, there were 767,483 business establishments either owned by franchisors and franchisees. These enterprises “…employed almost 10 million people, with direct output close to $625 billion, and a payroll of $230 billion”. These franchised establishments “… account for significant percentage of all establishments in many important lines of business: 56.3% in quick service restaurants, 18.2 percent in lodging, 14.2 percent in retail food, and 13.1 percent in table/full service restaurants” (http://www.franchise.org/industrysecondary.aspx? id =10008, 29 September 2008).

There are many well established franchise brands that originated in South Africa and are now trading in international markets. Nando’s is a good example of this, with its first outlet opening in Johannesburg in 1987. Nando’s now operates on five continents in 26 countries. Other well known examples are Steers, Spur and Debonairs Pizza that all started out as successful single outlets and by means of the business format franchise model developed into multi unit franchise systems.

These examples address the second sub problem and illustrate that;

The franchise model can be used to develop a successful single unit restaurant concept into a multiple unit franchise system.

The next chapter discusses restaurant franchising and the creation of a restaurant franchise concept development model.

CHAPTER 5

RESTAURANT FRANCHISING

5.1 INTRODUCTION

Sen (1998:397) states that franchising within the restaurant industry is the most prevalent method of doing business interims of dollar sales and number of outlets. The restaurant franchise industry represents 69.4 percent of the total restaurant sector in the United States (IFA, 2001) (http://www.franchise.org/industrysecondary.aspx? id=10008, 29 September 2008).

According to the (FRAIN Census, 2004:4), the number of South African franchised fast food outlets accounted for 15.6 percent and restaurants represented 14.0 percent; a combined total of 116 franchised systems or 29.6 percent of the total franchised industry. The total restaurant category had 19 percent more franchised systems than any other franchise category.

The total restaurant category contribution to total franchise system sales during the February 2004 financial year was R 11,428 million or 8.8 percent of the total franchise system sales.

Restaurant companies face various constraints such as access to capital or management talent as they attempt to add outlets without sacrificing consistency across the system. Franchising provides important advantages to the franchisor by overcoming these constraints (Sen, 1998:400).

The chapter will attempt to answer the third sub problem of this study, namely:

What are the requirements and characteristics of a successful restaurant franchise system?

Khan (1999:315) is of the view that whilst franchising has numerous advantages as a business growth strategy, it is not suitable for all types of businesses. Certain business will never be franchisable.

Successful restaurant owners often under estimate the difficulty of franchising as the concept is not based on sound principles that lead to franchising.

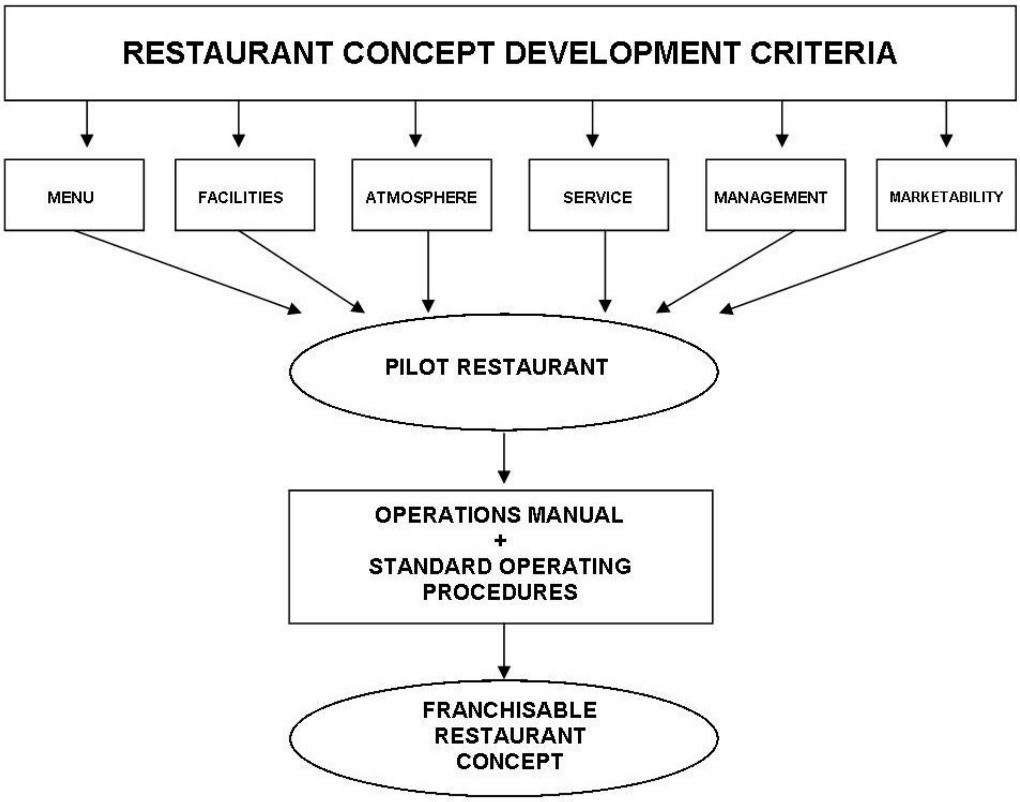
5.2 RESTAURANT FRANCHISE CONCEPT DEVELOPMENT

Khan (1999:315) defines a concept “as an idea conceived in the mind and concept formation is the process of sorting specific experiences into general rules or classes”.

The basic features of successful restaurant franchise concepts can be assessed on the following criteria; menu, layout and physical facilities, service, management and marketability of the concept.

The model below has been created by the author and is based on (Khan, 1998: 315 - 352) chapter 11 on *Franchise concept development* from his book Restaurant Franchising.

Figure 5.1: Restaurant franchise concept development model



Source: Authors own creation adapted from (Khan, 1998)

The restaurant concept development criteria illustrated in the above model will be discussed with specific reference to the aspects which make up each of the criteria.

5.2.1 MENU

The menu is considered to be the most important aspect when choosing a restaurant; a menu defines what product category and market the restaurant trades in.

Walker and Lundberg (2005: 189) state that guests visit a restaurant for a specific dining experience, be it fast and convenient service or a fine dining experience.

According to Khan (1998: 316 - 330), the aspects that make up the menu criteria of the restaurant concept development process are as follows:

Simplicity: most successful restaurant franchises have simple menu concepts. It is much easier to work with simple menu items, as training, preparation and service are easier to implement operationally. Complexity is the primary reason why most up market table-service restaurants cannot be franchised.

Replication capability: the entire concept, from product to service, should be capable of replication. The principle of franchising is based on consistency of products in both quality and service across the entire franchise system.

Ready availability on menu: *a*ll menu items must be readily available at short notice whenever needed. In franchise restaurants, a busload of customers may walk in and have to be served within a short period of time, with consistent quality. Preparation procedures should be simple and easily understood by any employee.

Quality: the quality of products and services should be stable all year round. Products should be such that they maintain quality and consistency after preparation.

Availability of Ingredients: all ingredients required for the preparation of menu items should be readily available. Seasonal variations should not have any adverse impact on the availability of ingredients.

Food Characteristics: an acceptable menu item should have taste and appeal and should be preferred by large sections of the target market. Food characteristics, including their sensory properties, play an important role in their acceptance. The most important food characteristics are briefly discussed below.

- **Colour**

  Interesting and coordinating colour combinations help in the acceptance of food and can help stimulate appetite;

- **Texture and shape**

  The textures and shapes of foods affect customer preferences. Certain foods are preferred because of their hard or soft texture. A desirable combination of soft and hard-textured items on a menu is essential. The shape of food for example a pizza slice will have appeal due to the ease of holding and eating;

- **Consistency**

  Consistency refers to the degree of viscosity or density of a product. Like texture, consistency provides for variety among menu items.

  The consistency of a menu item could be watery, gelatinous, thin, thick or sticky and this could in certain cases make a product difficult to eat;

- **Flavour**

  The flavour of food should be given prime consideration in the selection of menu items. Foods can have sweet, sour, bitter or salty flavours, present alone or in combination. A desirable blend of flavours is essential for creating a successful innovative menu item;

- **Smell**

  Food items should have a pleasing smell, preferably signifying the method of preparation.

Food odour may serve as a marketing tool in itself for example the smell of grilled meat or chicken in a shopping centre provides instant appeal.

Preparation Method: careful consideration should be given to the method of preparation used to make the menu items; the method selected determines the kind of equipment needed. The method of cooking should used for a variety of menu items in order to reduce the need for specific items of equipment that will only be used to make a few products.

Serving Temperature: serving temperatures should be well controlled. An item may be consumed within the restaurant as a take-away or a home delivered product. Foods selected should be such that they retain the desired temperature at the time of consumption.

Presentation: the final appearance of food on a plate, display case or in take-away packaging is very important. Attractively presented foods have their own appetite appeal. Presentation should be carefully planned so that the quality of each menu item is optimal when it is received by the customer.

Nutritional Quality: the nutritional value of food is becoming important to customers. In the initial stages of concept development, items planned for a menu should have adequate nutritional quality.

Recipe Standardisation:

- **Food Preference**

  Any menu concept that is successful is based on the food preferences and acceptance of its customers. Food likes and dislikes are acquired habits;

- **Packaging and Delivery**

  The size, shape, contents and consistency of food should be such that it can be plated, packaged or delivered when necessary, whether to the home or via the drive-through window. Packaging material should maintain the desired temperature and quality of the item for as long as possible. These materials should be easily degraded or recycled;

- **Cost-Effectiveness**

  The cost-effectiveness of menu items should be critically evaluated. A product may have all other attributes but may not be cost-effective when food and labour costs are taken into account. Franchising looks for volume production of all menu items in limited time. The use of ingredients that are subjected to price fluctuations should be avoided as menu items should be profitable. If the menu item does not meet the above criteria it should not appear on the menu.

Standardisation procedures: recipes that are tested for quality, quantity, procedures, time, temperature, equipment and yield are called standardised recipes.

Recipes are standardised to the extent that when the specified ingredients, conditions and procedures are adhered to, the result is always a predictable product of uniform quality.

Consumer surveys and taste evaluations: recipe evaluation should be considered one of the most important tasks when developing menu items. The profitability of the restaurant depends on it. Franchisors often maintain test kitchens in their research and development departments, where recipes are tested and evaluated by taste panels and customers on a regular and continual basis.

5.2.2 LAYOUT AND PHYSICAL FACILITIES

Khan (1998:332 - 340) states that a major aspect of the restaurant franchise is the layout and physical facilities of the restaurant. The general functions of a restaurant operation are receiving, storage, preparation, service and sanitation.

The facilities for these functions should be arranged in a way that allows a smooth and sequential flow within each area.

Some of the common functions for which space allocation should be considered are described below:

Receiving areas for foods, beverages and supplies must be planned for maximum efficiency. The type and frequency of deliveries play an important role in planning. The number of deliveries, in turn, is determined by sales, availability of personnel, space in the storage areas and other related operational aspects. Adequate space is needed for receiving, checking, moving, stacking and transporting items received.

Storage areas vary according to the types of foods and beverages being stored and the temperature required for their storage. Safety and sanitation should be considered in planning all storage areas.

Quick and easy location of all stored products is desirable and products should be arranged conveniently and in a logical sequence. A well organised storage area reduces movement as well as labour and material costs.

The space required for storage areas is dependant on the following:

- Type of menu;
- Temperature and humidity requirements;
- Frequency of deliveries;
- Maximum volume required to be stored;
- Desired duration of storage.

Dry storage areas are used for foods and various supplies to be kept at a temperature range of 10° to 21℃. The desired relat ive humidity for this area is approximately 50 percent. Adequate ventilation is needed and detergents and other cleaning supplies should be stored away from food items.

Refrigerated storage areas are needed for products that have to be stored at temperatures of 2° to 5℃. These temperatures are e ssential for storing fresh meats, fruits, vegetables, dairy products, leftover items, and beverages.

Refrigeration space is also used for thawing meats. Space requirements for refrigerator storage areas depend on the volume and type of products to be stored and the number of meals served per day.

Frozen storage areas are required for food storage at temperatures of -18° to -24℃, and are mainly suitable for storing frozen f ood items. The space requirements for frozen food storage may be less than for refrigerated storage.

Preparation area: many restaurant operations have areas for the pre preparation of certain items, such as peeling and coring vegetables and thawing and trimming meats.

Space required for preparation areas is based on the following;

- The type of menu and the items included in the menu;
- The type of preparation and the extent of the required preparation;
- The number of items and the quantity of each item to be prepared;
- The type of service;
- The equipment available for the preparation.

It is important to plan the placement of equipment in the preparation area as well as to plan the work spaces. All equipment should be placed in such a way that there is easy access without much movement by the personnel working in the kitchen.

Serving and dining areas are dependent on the style of service employed by the particular restaurant operation.

In most restaurants, the service areas are attached to preparation areas and there is a pick-up centre or pass through which food is served to the customers. Particular emphasis should be given to ensure that the dining area is not affected by the smoke, heat, and sounds from the food production areas.

In general the space requirements for dining areas are based on:

- Type of service;
- Number of customers served per meal;

- Largest number of customers served at one time;
- Type of menu offered and number of choices;
- Turnover rate;
- Type and pattern of seating arrangement;
- Table and seat sizes, shapes, and numbers;
- Aisle spaces between seats;
- Number and location of service stations;
- Special space required for beverages, serviettes, condiments, straws, and waste containers.

The best possible plan for a dining room takes into consideration the maximum number of customers that can be accommodated within the dining area without disruption of service or inconvenience to patrons.

Sanitation areas include dishwashing and pot-pan-washing facilities. Space requirements vary based on the following:

- The volume of dishes, pots, pans, and other utensils to be cleaned at one time;
- Space available for holding clean dishes and utensils;
- Type of washing facilities and dishwasher;
- The methods used for cleaning and sanitizing;
- The number of personnel available for work.

The sanitation area should be organised so that there is sufficient space to stack clean dishes and utensils. In addition to dishwashing and pot-and-pan cleaning, the area should include waste disposal space and a place for keeping mops, brooms, and other housekeeping equipment.

Equipment selection and layout**:** the selection of the proper equipment is extremely important. The volume of food production and handling, employee productivity, and the profitability of the restaurant depend on the type of equipment available at the facility.

The factors to be considered in the selection of equipment are discussed below and the need for a particular piece of equipment should be assessed from several points of view as follows;

- Will the equipment will be used for prolonged periods of time;
- Does the equipment have the potential to meet the future needs of the foodservice operation;
- Will the equipment will require ongoing maintenance;
- Are there alternative, less expensive versions of similar equipment that can adequately meet the demand of the operation;
- Can the equipment can be modified for multipurpose use.

As specialised equipment may be needed for a franchise, it is advisable that a manufacturer custom designs the equipment and its layout so that it can be used in all the franchise systems units.

Restaurant equipment should be selected on the basis of cost, its overall performance, including such aspects as quiet operation, easy mobility, remote control operations, computerised controls, variety of functions, availability of parts, ease of maintenance and the ability to keep it clean. The energy conservation features of the equipment should be considered.

5.2.3 PLANNING THE OVERALL ATMOSPHERE

Khan (1998, 343 - 345) is of the opinion that the atmosphere provides the overall impression of a restaurant. Planning the atmosphere involves the creative efforts of architects, engineers, interior designers, and foodservice managers. The atmosphere of a franchise restaurant is a trademark in itself and helps build the image.

Developing repeat customers is dependent on how well the atmosphere is received.

The following aspects should be considered when planning a restaurants atmosphere:

Appearance: the overall visual appearance of a restaurant includes the design and décor, lighting, signage and colours. The exterior design should be coordinated with the interior décor.

Odour: an effective extraction system should be used for air circulation and the elimination of undesirable odours, smoke and fumes. Aroma is also an important factor in deciding what foods to order from the menu.

Sound may originate from the washing of dishes, rattling of crockery and cutlery or music played in the background. The origin of all sounds should be considered in planning the atmosphere of a restaurant. In order to avoid sounds from the kitchen and sanitation areas, sound barriers should be appropriately located.

Music must be appropriate for the style of the restaurant and is an important component in the setting of the overall atmosphere, as it has a direct effect on customer mood. Music should cause the least possible distraction and should help portray the concept to the customer.

Comfort: a well-planned atmosphere should convey a feeling of comfort. The ideal temperature within the dining area should be between 21° to 24°, with a relative humidity of approximately 50 percent. Dining room temperatures must be adjusted according to the type of room arrangement as well as seasonal variations.

It is the combination of all these factors that results in an inviting and appropriate atmosphere for a restaurant concept.

5.2.4 SERVICE

Khan (1998:346) states that service is a major component of a restaurant franchise. Customers rank service as one of the primary reasons for visiting a franchised restaurant. Any concept that will be widely accepted will depend on the level of service offered and the operations ability to meet the customer's expectations.

Service becomes an effective way to differentiate one franchise operation from another and consistently good service provides the franchise with a competitive advantage. The level of service received from a restaurant will ultimately determine if the customer will visit the restaurant again (Mill, 1998:137).

5.2.5 MANAGEMENT

Khan (1998:349 - 350) believes that the overall suitability of the concept from the business management perspective must be critically evaluated. The entire concept should be transferable to other locations, nationally and internationally.

An existing restaurant concept or single functioning restaurant may or may not be franchisable as its success may be due to the location or the personality of the manager.

The following factors should be taken into consideration:

- The ability to provide training and develop an operations manual;
- Will the system lend itself to an adequate training package and understandable training manual;
- Can the business concept be easily operated after proper training;
- The concept should not be tied to the presence of a specific individual or manager;
- The training program itself should be simple and comprehensive.

The entire concept should have a built-in profit margin that should be achievable at each location where the franchise trades.

Whilst profit margins will vary from location to location there should be adequate profit margin for the franchisee to pay the royalties other fees. Franchisees look for a return on their investment, so a sufficient profit margin should be provided for the venture to succeed. This should be calculated before all aspects of the concept are tested and finalised.

Franchisors should also evaluate their resources before undertaking franchising. The financial resources required for the concept to succeed should be assessed. A prototype of the concept must be developed. Adequate capital is needed to run the pilot operation to provide for training facilities and programs, to handle start-up costs, to provide human resources for the entire operation, and to market the concept.

5.2.6 MARKETABILITY

The overall restaurant concept should have unique marketing niche that will differentiate it from the competition. This can only be confirmed by adequate consumer and field testing. There should be a market identity of the concept itself. This can be related to the product or service, such as a pizza restaurant or a drive-through-only concept.

Branding builds market identity through a trademark, logo, or other insignia that signifies the concept that franchisees use in their business. The rights to such identity marks must be licensed and used in advertising and promotion whenever possible. This identity has to be carefully planned, as the business depends on the image that is perceived by the customers and stakeholders Khan (1998:349).

Marketing the franchise to prospective franchises and other stakeholders must be done professionally with attractive brochures and literature (Nieman, 1998:89).

5.3 PILOT UNIT

A new, tested concept ready for business should be placed in pilot operation. This prototype should be conveniently located and portray concept in its entirety.

There can be more than one pilot operation distributed at various geographical locations. Customer reactions to products and services can be tested at these pilot locations.

All attributes discussed in this chapter should be considered in planning this prototype unit, which also becomes a model for showing to prospective franchisees.

Factors to be considered in the restaurant prototype include site selection, design and layout, equipment selection, training, marketing, and management of the entire system.

The entire operation, from receiving, storage production, service and quality control should be tested and evaluated. Modifications in processes, procedures, design and management should be made based on the functioning and problems experienced at a pilot location (Khan, 1998:352).

5.4 OPERATIONS MANUAL

The role of the operations manual was briefly addressed in the previous chapter on franchising. Khan (1999:166) states that the franchise operations manual is the most referred to manual of the franchise restaurant as it outlines all the operational functions and standards of the franchise. The manual should be clearly written and convey all information in a clear, concise and easy to understand way and should be updated and revised regularly. The manual is confidential and remains the property of the franchise system.

5.4.1 Operations manual content

The restaurant operations manuals should be comprehensive enough to answer all the questions related to the operation of the franchise.

A typical restaurant operations manual would cover the following aspects of the restaurant operation.

Section 1:	Introduction
Section 2:	General rules
Section 3:	Menus and menu plans
Section 4:	Equipment use and care
Section 5:	Food purchasing
Section 6:	Receiving and storage
Section 7:	Sanitation requirements
Section 8:	Food Preparation
Section 9:	Delivery and service of food
Section 10:	Financial aspects
Section 11:	Management
Section 12:	Restaurant operation
Section 13:	Marketing
Section 14:	Maintenance

5.4.2 Standard operating procedures

The standard operating procedures flow from the operations manual and are an essential tool in the effective management of a franchise system. Standards are precise measurement criteria against which something is compared.

The operational standards measure what is bought and sold, how it is prepared, the sanitation and appearance of the restaurant, and the performance of the management and employees. Standards measure what the minimum operational levels are in all aspects of the franchise system.

The standard operating procedures would cover the following aspects of the restaurant operation.

- Food Standards;
- Purchasing Standards;
- Receiving Standards;
- Storage Standards;
- Preparation Standards;
- Portion Control Standards;
- Production Standards;
- Employee Standards;
- Service Standards;
- Recruitment Standards;
- Sanitation Standards;
- Cash Control Standards.

(http://www.howtorunarestaurant.com/howtorunarestaurant18.php#2, 23 October 2008)

5.5 FRANCHISABLE RESTAURANT CONCEPT

Khan (1999:315) states that in any concept formation there are two process firstly, an identification of important characteristics, and secondly an identification of how the characteristics are logically linked. The "… concepts serve as norms or models that account for the potential of some things to fluctuate in some respects while remaining constant in others.

Applying these basic concepts to franchising, an idea or concept becomes the nucleus on which other business concepts are developed.

This basic idea then becomes a franchisable model. The concept would then need to be tested and retested to ensure that the principles that concept is based on are franchisable".

The final outcome of the *restaurant concept development model* illustrated in figure 5.1 is the creation of a *franchisable restaurant*.

This result is achieved through a sequential process which commences with the definition of the restaurant concept development criteria such as the menu, layout and physical facilities, service, management and marketability of the concept.

The next step in the process is the testing of all the aspects of the concept criteria in a pilot or prototype restaurant which will also include all the operational and financial aspects.

Based on the results and experience gained from the pilot outlet, the operations manual and standard operating procedures are created to provide a blue print of how the franchise will be managed by the franchisee.

Finally, the restaurant concept is ready to be franchised and the generic steps for franchising a business discussed in chapter four, will apply.

5.6 CONCLUSION

The chapter identified the requirements and characteristics of a successful restaurant franchise system based on the *restaurant franchise concept development model*.

The following chapter will address business research and the case study as a research strategy.

CHAPTER 6

RESEARCH METHODOLOGY

6.1 INTRODUCTION

This chapter will briefly define business research, review research design and the various methodological approaches. Available research methods will be considered and the single unit case study as a research strategy will be chosen as the most appropriate research method for this study.

6.2 RESEARCH DEFINED

Business research is defined as"… an *organised, systematic, data-based critical objective, scientific enquiry or investigation of into a specific problem, undertaken* with the purpose of finding answers or solutions to it. In essence research provides the needs information that guides managers to make *informed* decisions to successfully deal with problems" (Sekaran, 2003:5).

Collis and Hussey (2003:1) claim that whilst "research is central to both business and academic activities, there is no consensus in the literature on how it should be *defined*."

They argue that research means different things to different people. However from the many definitions offered, there appears to be agreement that:

- Research is a process of enquiry and investigation;
- It is systematic and methodical;
- Research increases knowledge.

6.3 RESEARCH DESIGN

The research process pursues the same basic format regardless of academic discipline (Leedy and Ormrod, 2001:91).

Underlying and unifying any research project is its methodology. Leedy and Ormrod (2001:8) believe that the methodology controls the study and determines how the data are acquired, arranges them in a logical sequence, sets up an approach for refining and synthesising raw data, develops an approach so that the meanings that lie below the surface of those data become evident and finally yields a conclusion or series of conclusions that lead to an expansion of knowledge.

6.4 METHODOLOGICAL APPROACHES

According to Brynard and Hanekom (2006:36) two basic methods or methodologies can be distinguished: quantitative and qualitative methodology or methodological models. They argue that types of research and research methods are often associated with field or academic discipline in which the research is conducted, the two methodologies referred to above are important in all scientific investigation.

Leedy and Ormrod (2001:101) state that both processes involve similar approaches such as the formation of a hypothesis, review of the related literature, collection and analysis of the data.

6.4.1 Quantitative research

Quantitative research involves the collection of primary data from large numbers of individual units with the intention of projecting them to a wider population (Coldwell and Herbst, 2004:15).

Leedy and Ormrod (2001:101) are of the opinion that "…quantitative research is used to answer questions about relationships among measured variables with the purpose of explaining, predicting and controlling phenomena.
This approach is sometimes called the *traditional*, *experimental*, or *positive a*pproach."

6.4.2 Qualitative research

Qualitative research is used to answer questions about the complex with the purpose of describing and understanding the phenomena from the participant's point of view. The qualitative approach is also referred to as the *interpretive, experimental*, or *positivist* approach (Leedy and Ormrod, 2001:101).

Coldwell and Herbst (2004:13) argue that "as general rule information is considered qualitative in nature if it cannot be analysed by means of mathematical techniques."

6.4.3 Quantitative versus qualitative research

Quantitative research can for example reveal statistically significant differences between heavy and light users of a product. In contrast, qualitative research can be used to examine the feelings and motivations of the heavy user of a product (Coldwell and Herbst, 2004:13).

In the literature on research methods, there is debate on which methods or techniques are more suitable or *scientific*. Coldwell and Herbst (2004:16) are of the opinion that methods most suitable for a particular research project depend on the research problem and the purpose of the research. However it is more difficult for purely qualitative material to be fully scientific as the findings of such studies may be difficult to replicate and as a result amenable to falsification.

Leedy and Ormrod (2001:103) are of the view that by making a distinction between quantitative and qualitative research, the implication is that the approaches are mutually exclusive and that a researcher must choose between one or the other for a particular a study. However researchers often combine elements of both research methods.

6.4.4 Triangulation

Triangulation is when multiple sources of data are collected in the hope that they all converge to support a particular hypothesis theory. This approach is common in qualitative research. Leedy and Ormrod (2001:105) state that a researcher may engage in many informal observations in the field and conduct in-depth interviews and then look for common themes that appear in the data gathered from both methods.

Kane (1985) as quoted by (Jankowicz, 2000:214) explains the rationalisation for triangulation and represents that the archival review, questionnaires, interviews and participant observations potentially overlap in scope.

6.4.5 Validity and reliability

According to Leedy and Ormrod (2001:31), validity and reliability are terms that are used repeatedly in research methodology to define measurement. The validity and reliability of the measurement instruments influence the extent to which the researcher can learn about the phenomenon being studied.

Validity refers to the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure. While reliability is concerned with the accuracy of the actual measuring instrument or procedure, validity is concerned with the study's success at measuring what the researchers set out to measure (http://writing.colostate.edu/guides/research/relval/pop2b.cfm ,16 November 2008).

Reliability is the extent to which an experiment, test, or any measuring procedure yields the same result on repeated trials. Without the agreement of independent observers able to replicate research procedures, or the ability to use research tools and procedures that yield consistent measurements, researchers would be unable to satisfactorily draw conclusions, formulate theories, or make claims about the generalisability of their research (http://writing.colostate.edu/guides/research/relval/pop2a.cfm, 16 November 2008).

6.5 CHOOSING THE MOST APPROPRIATE RESEARCH METHOD

Several different research methods are used in business and management research work. Choosing the most appropriate method for a research project would vary according to the scope and nature of the topic.

The primary methods available to the researcher are according to (Jankowicz 2000:210) are as follows:

6.5.1 Archival method

The archival method is when questions are directed at people and written sources concerning issues and events in the past in order understand the present and to predict the future. This is achieved by making judgements about the data using either historical review or a variety of biographical analysis techniques.

6.5.2 The survey

The survey method directs questions at groups of people in order to explore issues in the present.

6.5.3 The field experiment

The field experiment identifies relative importance of one or more variable in situations where a focus on the variables rather than the issues make sense.

6.5.4 The case study

The case study explores issues in the past and present as they affect the individual, groups of individuals or organisational units (single case study) or groups of organisational units (comparative case study). Yin (1994:1) states that in general, case studies are the preferred strategy when *how* or *why* questions are being posed.

6.6 THE CASE STUDY AS A RESEARCH STRATEGY

According to (Yin, 1994:12) citing Schramm (1971) "the essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: <u>why</u> they were taken, <u>how</u> they were implemented, and with <u>what</u> result".

Yin (1994:13) states that the case study as research strategy "comprises an all encompassing method with the logic of design incorporating specific approaches to data collection and to data analysis. In this sense, the case study method is not either a data collection tactic or merely a design feature alone but a comprehensive research strategy".

The case study method will be used to address the research questions of this treatise using a single case study (unit of analysis) approach.

6.7 THE CASE STUDY

The case study selected for analysis is the Port Elizabeth based Dulce Franchise Group for the following reason.

The Dulce franchise group originated in Port Elizabeth and developed from a single coffee shop and restaurant concept into a successful franchise system.

6.8 THE CASE STUDY PROTOCOL

Yin (1994:63) states that a case study protocol must be used under all circumstances, as the protocol increases the reliability of the study and serves as a guide for the investigator.

The case study protocol to be pursued is as follows:

6.8.1 An introduction to the study

i. The purpose of the study.
ii. The research problem.
iii. The objectives of the study.
iv. An overview of the literature results.

6.8.2 The case study questions

i. What growth options were available to expand the Dulce business?
ii. Why did you decide to franchise?
iii. How did you go about franchising the business?
iv. What do you consider to be the requirements of a successful franchise?
v. What are the characteristics of a successful restaurant franchise?
vi. What would you do differently if you had to start franchising again?

6.8.3 Closure

i. Thanks.
ii. Feedback of the results of the study.

6.9 ANALYSIS

The results of the case study will be reported on in the next chapter. The results will then be compared against the literature survey and the sub problems that were investigated and individually addressed in chapters 3, 4 and 5.

The results will be tested against the problem statement and the conclusion and recommendations will then be drawn from the case study.

6.10 CONCLUSION

This chapter defined business research and reviewed the various methodological approaches available. The chapter found that there are a number of research methods available to researcher.

The case study method was chosen which; according to (Yin, 1994:13) is an empirical enquiry that investigates a "…contemporary phenomenon within its real life context".

On this basis the single unit case study approach was selected as it enabled the author to test the literature review against an actual case study example.

A case study protocol was developed to increase the reliability of the study and serve as a guide and six questions were formulated based on the sub problems of the study.

The results and analysis of the case study will be addressed in the following chapter.

CHAPTER 7

CASE STUDY: DULCE

7.1 INTRODUCTION

This chapter will report on the results of a case study undertaken on the Dulce Franchise Group, a restaurant and coffee shop franchise based in Port Elizabeth.

On the 31 October 2008 an interview was held with two directors of the Dulce Franchise Group, Mr. Lee Caldecott the Director of International Design & Projects and Mr. Mike Pullen the Managing Director and co founders of the Dulce Franchise. The interview encompassed the history and development of the Dulce franchise and addressed the case study questions detailed in chapter 6 (refer 6.8.2).

The interview was conducted according to case study protocol addressed in the previous chapter (refer 6.8) and the answers to the questions are recorded below.

7.2 THE CASE STUDY

7.2.1 An introduction to the study

The interview commenced with an explanation by the author that the case study on the Dulce Franchise is the treatise component for the partial fulfilment of a Masters Degree in Business Administration at the Nelson Mandela Metropolitan University Business School.

The topic of the treatise was revealed as; *franchising a full service restaurant: a case study*.

The reason for selecting the Dulce Franchise Group was explained and was based on the fact that:

The Dulce franchise group originated in Port Elizabeth and developed from a single coffee shop and restaurant concept into a successful franchise system.

The objective of the study was explained as the; *Development of a model that will enable a full service restaurant concept to be converted into a successful franchise system.*

The sub problems were discussed and it was stated that the sub problems would be used as the basis for the case study questions.

An overview of the literature findings was briefly reviewed with specific reference to chapter 5 on Restaurant Franchising. The *restaurant franchise concept development model* (refer Figure 5.1) and the *restaurant concept development criteria* was addressed and the criteria flowing from the model, that is; menu, layout and physical facilities, service, management and marketability of the franchise concept was explained.

7.2.2 The history and development of the Dulce franchise

In 1980, Mr. Hubert Stempowski, an Argentinean immigrant founded an ice cream manufacturing company called *Dulce,* the Spanish word for sweet.

Stempowski opened the first Dulce retail store in Rink Street in 1984. The business had a limited menu and in addition to its famous ice cream, Dulce sold coffees, teas, milkshakes, quiches, salads and toasted sandwiches.

In 1987 the outlet was purchased by entrepreneurs Lee and Licia Caldecott who created a continental restaurant experience by expanding the menu to include breakfasts, cakes, pastries, pita bread with fillings, tramazini's and pastas.

Caldecott acquired the rights to use the Dulce trademark in the Eastern Cape in 1991 from Stempowski and during the period 1991 to 1994 opened three company owned Dulce outlets in Port Elizabeth. Franchised outlets were opened East London and Grahamstown.

In 1994, the Wilmot family purchased the ice cream factory and the Dulce trademark from Stempowski. The Dulce ice cream was manufactured by the Dulce Milkwood factory and sold to the Dulce outlets.

During 1994, the Wilmot family, the majority shareholder and Caldecott started a franchise company to franchise the Dulce brand nationally and were joined by Mr. Mike Pullen as the Managing Director of Dulce Franchising.

The expansion of the Dulce franchise was initially used as a vehicle to sell ice cream manufactured by the factory using the product franchising model.

A business format franchising model was developed for the Dulce retail outlets and between 1995 and 2002 over 25 stores were opened nationally, concentrating on regional shopping centres, small towns and captive markets such as hospitals.

As the franchisee expanded, the sale of ice cream products declined from approximately 20 percent to 10 percent of sales. This was as a result of the menu becoming more focused on food and beverage sales which were more profitable for the franchisee than ice cream. Ice cream volumes declined and the profitability of the ice cream factory came under pressure.

The majority shareholders business objective was to use the Dulce franchise outlets as a distribution network to sell their ice cream products and adopted a product/trademark franchising model (refer 4.5.1) whilst the Dulce Franchising company's strategy was to sell business format franchises (refer 4.5.2) and profit from the initial and ongoing management service fees. This caused a major conflict of interest between the majority shareholders and the franchise company management.

In 2002, as a result of this conflict, the management of the Dulce Franchise Company offered to purchase the balance of the majority shareholders equity.

Since the management buyout and unhindered by shareholder conflict of interest, a focused business format franchising strategy has enabled the Dulce Café franchise to grow into a chain of 62 restaurants.

The group has developed two additional franchise concepts namely Deli Biscotti and Ayobayo and entered a joint venture with a Port Elizabeth based pizza restaurant to franchise a new pizza concept.

An international franchising strategy has resulted in two Dulce Café outlets being opened in the Middle East.

7.2.3 The case study questions

i. What growth options were available to expand the Dulce business?

Caldecott stated that when he purchased the Dulce store in Rink Street he believed that market was not being serviced adequately and as a result of this he expanded the menu and increased the product range in order to attract more customers and increase the outlets turnover.

As a result of the success of the menu expansion strategy the outlet become known through out Port Elizabeth according to Caldecott "as the only decent coffee shop in town". He states that he was approached by various shopping centre developers who offered him premises to open more Dulce outlets.

Outlets were then opened in the Summerstrand Shopping Centre and at the Bridge Shopping Centre.

ii. Why did you decide to franchise?

Caldecott states that the business evolved into a franchisable concept and initially, he did not see franchising as a specific growth option as he planned to open outlets which would be owned and operated by himself and his wife.

However, as a result of numerous enquiries from people who wanted to open Dulce outlets in the Eastern Cape. Caldecott negotiated the trade mark rights for Dulce in the Eastern Cape from Stempowski. Franchised outlets were then opened in Grahamstown and East London.

He states that franchising became a logical strategy to grow the Dulce business as he had limited financial and management resources to open his own outlets beyond Port Elizabeth.

Caldecott explained that it became difficult to run his three outlets and concentrate on franchising the business simultaneously so he decided to sell the Sumerstrand and Rink Street outlets and keep the Bridge Dulce as a company outlet.

iii. How did you go about franchising the business?

Caldecott states after doing an analysis on the strengths and weaknesses of the business it became apparent that he would need assistance with financial planning and administration and that it would be important to set up a franchise infrastructure.

Mr. Mike Pullen then joined the Dulce franchise as the managing director and proceeded to create a franchise head office and infrastructure.

Pullen created a business plan, developed the financial models for the franchise, structured the companies legal business entities and a franchise agreement was developed in conjunction with a firm of attorneys. The menu was improved by Licia Caldecott and an operations manual was produced.

Caldecott became the franchise manager and in conjunction with Pullen proceeded to market the Dulce franchise concept to landlords and developers.

According to Pullen, it was critical that all the share holders had a common vision and not conflicting business objectives. “We had the vision to grow the franchise business locally and internationally and create a really good brand … all the majority shareholder wanted to do was sell more ice cream. Once we bought out the majority share holder in 2002 we resolved this conflict of interest and we were able to really drive the business forward”.

Pullen states that “we evolved from an entrepreneurial business to a professionally managed enterprise … as the group grew; we found we had access to more expertise and as we got more expertise so the system became more sophisticated. We got designers to improve our restaurants upgraded the Dulce branding and outsourced the marketing to a professional advertising agency”.

Pullen adds that “we joined the Franchise Association of South Africa (FASA) which requires its membership to apply international best practice. This added to our credibility as a franchisor”.

Caldecott referred to the *restaurant franchise concept development model* (refer Figure 5.1) and the concept development criteria and stated that the “… menu, facilities, infrastructure, atmosphere, ongoing service orientation, management infrastructure and the marketability of the Dulce brand is now at a point where we are a sought after brand by shopping centres. We have achieved all those elements over a period of time. We are striving to do things even better through venturing into different types of brands using existing infrastructure to grow the group to next level”.

iv. What do you consider to be the requirements of a successful franchise?

Pullen states that "you have to invest in infrastructure before you can roll out your stores. In your business plan you have to make sure that you have enough capital to pay those salaries of the people that actually run the operation… as opposed to having insufficient infrastructure and then picking up service problems with your franchisees…if you don't strike that balance your franchisees suffer. The business plan has take account of the number of stores required to absorb the costs of extra staff".

According to Pullen "it is a classic chicken story …you've got to plan to have a certain infrastructure in place before you can franchise. That is why a lot of franchises fail because they don't have sufficient capital to fund the infrastructure for long enough".

Pullen states that they brought a Charted Accountant (CA) into the business to sort out Dulce's financial controls, initially at a huge cost to the business. "However they pay for themselves over and over, he made us manage our expenses and follow strict budgeting procedures. He introduced a corporate financial discipline into the business".

Pullen adds that the franchise concept must be able to be replicable despite the personality of the franchisee as this is what makes a franchise concept successful.

v. What are the characteristics of a successful restaurant franchise?

According to the literature study (refer Chapter 5) the basic features of successful restaurant franchise concepts can be assessed on the following criteria; menu, layout and physical facilities, service, management and marketability of the concept.

The author referred to the model in figure 5.1 and asked whether the Dulce management had followed the elements of the model either consciously or subconsciously.

a. menu aspects and characteristics

The author asked the Dulce directors how much attention was given to the menu aspects and characteristics (refer 5.2.1) in the development the Dulce franchise.

Caldecott maintains that as they had their own Dulce outlet, they were able to test the menu items and gauge customer's response to each item. Caldecott is of the opinion that it is very important for a menu to be tested by a company operation and not to expect the franchisee to do this. "We looked for a happy medium between simplicity for the franchisee to make and presentation and appeal to the customer. We had to find a balance between make and appeal."

Caldecott stated that he had worked with Billy Gallagher at Southern Sun and learned what products had wide appeal and then applied them to the Dulce menu. He said that there was "a lot of trial and error which was part of the evolution"

Replication capability was very important and they worked hard to make menu items that were easy to produce and had an overlap of product on certain menu dishes so preparation was minimised. Caldecott states that they worked on a minimum ingredient list which could be replicated across the franchise system.

According to Caldecott they reviewed the sensory aspects such as the colour, texture and shape, consistency, flavour, smell and visual appeal of each dish. He states that preparation methods are clearly established in the operations manual and every single dish has a photograph, recipe and a preparation method.

On the serving food at the correct temperatures, Caldecott adds that “initially we weren’t to worried about this aspect as a lot of the food served was cold but the as demand increased for hot meals we had to start focusing on serving food at the correct and appropriate temperature”

Nutritional quality was not an important factor in the early days of Dulce but “it is becoming a factor and we have used heart foundation logos and vegetarian symbols to highlight certain dishes… we have evolved to this over time” says Caldecott.

Pullen states that Dulce does regular focus groups to ascertain what customers think of their menu items.

b. Layout and physical facilities

The author asked the Dulce directors how much attention was given to the layout and physical facilities aspects (refer 5.2.2) in the early days of developing the franchise.

Caldecott stated that the kitchen created for the Bridge Dulce served as a blue print for the way Dulce designs their kitchens today. “We had a walk in cold room, goods receiving area and storerooms…this all came from my hotel background. This criteria was important from a professional point of view because when you have developers coming in to look at the store… they look at those things”.

c. Planning the overall atmosphere

The author asked Caldecott how much attention was given to planning the overall atmosphere (refer 5.2.3) in the early stages of the restaurant concept development.

According to Caldecott they did consciously plan the atmosphere in the early days however they had financial constraints … we had plastic chairs and tablecloths… the kitchen and the bar counter was state of the art but we fell short interims of décor and store design of the restaurant. We have evolved and had to be smart and look at best practice in our travels and become aware of the newest trends and various elements of concepts that we have incorporated into our overall design. We are now at a stage where we have to revamp every five years where as in the early days every new store that was built had a different design element which initially caused problems as a store that was built five years ago looked different to a new store. We started with a cool café patio type feel and now we've gone to a warm coffee shop continental restaurant type feel"

Pullen maintains that there must be a common thread that links the old stores to the new stores so that there is a familiar look and feel to all the Dulce outlets.

d. Service

Service was briefly discussed (refer 5.2.4) according to Pullen, good service is a minimum requirement to be successful in the franchise industry and excellent service is a competitive advantage.
Dulce have ongoing initiatives to maintain service levels such as a server buzzer system which notifies the server when their order is ready to be collected. This enables the servers to be more productive and spend more time with customers.

e. Management

Managing a franchise system was discussed (refer 5.2.5) and Caldecott is of the opinion that "…you need to start with the right management skills; you have to have the right team and employ the right people".

"By bringing a CA into the business at relatively earlier stage in the development of the franchise we were able create a financial management system that enabled us to apply professional financial principles to the way we ran the business" said Pullen.

Pullen adds that "having the right people on the ground such as a professional operations team to notify you of competitive activity, new shopping centre developments and franchise enquiries assists the franchise tremendously".

f. Marketability

Marketing the franchise was discussed and according to Pullen was a major challenge as a result of the company being based in Port Elizabeth which was seen as a backwater by some. He states that they initially found it difficult to convince landlords that Dulce was a good concept and would be good for their tenant mix.
Pullen claims that "the problem that we had in the beginning was credibility… it was a huge factor…and in those days we didn't have the professional tools that are available today like PowerPoint to market ourselves in a professional manner. In some case landlords were looking for something new…so that got us into the door…instead of a House of Coffees or what ever brands were available in those days…the fact that Dulce was a new brand was something that also worked in our favour".

According to Caldecott, "Dulce had captured a niche in the market by placing ourselves strategically between a restaurant and a coffee shop and classifying ourselves as a continental café or espresso bar in the true European tradition by serving four major products, namely, food, liquor, coffee and ice-cream"

vi. What would you do differently if you had to start franchising again?

With the benefit of hindsight the author asked Caldecott and Pullen what they would do differently if they had to start franchising again.

Their responses to this question were as follows:

Caldecott stated that he would have focused solely on developing the franchise company from its inception rather than trying to run his restaurants and franchise the business at the same time. He is of the opinion that one cannot run a franchise company part-time.

Pullen claimed that “one of our problems is that we never started with a war chest we started with an overdraft … you have to start off with cash”.

Pullen stated that before starting to franchise it is imperative that one has a partner with the same objectives and not with conflicting objectives which was the case with Dulce original majority share holders. “Having the wrong share holders puts you at a real disadvantage” said Pullen.

“ A big challenge that one faces is that initially there is a credibility gap and you battle to convince prospective franchises to invest in the franchise… this forces you take the first person with money instead of the right person but we didn’t have a choice in the beginning” said Pullen.

Caldecott agreed and stated that it is essential to choose franchisees that are passionate about the business.

Pullen states that one needs to create a professional perception of the franchise from the beginning in order to sell the concept to prospective franchisees, property developers and shopping centre owners. “You need quality marketing material to promote the franchise for example glossy brochures, slick PowerPoint presentations and other professional marketing material…in the beginning we didn’t… really have the skills that we have today” said Pullen.

7.2.4 Closure

The interview closed with the author thanking Mr. Caldecott and Mr. Pullen for their time.

Once the study had been completed the author undertook to share the results with directors of the Dulce franchise.

7.3 CONCLUSION

In this chapter the results of the case study questions on the Dulce Franchise Group were reported on.

The following chapter will summarise the responses to the case study questions and draw conclusions based on the findings of the literature study.

CHAPTER 8

CONCLUSION AND RECOMMENDATIONS

8.1 INTRODUCTION

In the previous chapter the results of the case study on the Dulce Franchise Group was reported on.

In this concluding chapter the results of the case study will be summarised and tested against the findings of the literature review.

Then, based on the analysis of the case study and literature review, a model will be created in an attempt to solve the problem statement.

8.2 CASE STUDY RESULTS SUMMARY AND LITERATURE ANALYSIS

The case study summary and literature review analysis is as follows:

i. **What growth options were available to expand the Dulce business?**

a. *The menu expansion strategy increased and improved the product range; this attracted more customers and increased sales.*

b. *Opened two more outlets in Port Elizabeth.*

c. *Franchising becomes an option after requests from investors.*

The literature (refer 3.6, Nieman et al, 2003: 232) illustrates that the desire for growth should be embedded in the mind of the entrepreneur.

The growth options available to Dulce evolved from an internal growth strategy (refer 3.6.1, Perreault and McCarthy, 1999:67) as a result of an opportunity (refer 3.5.1, Rwigema and Venter, 2004:28, Nieman et al 2003:83 and Timmons 1999:38) resulting initially; to an expansion of the business from within through the expansion of the menu, then to the opening of additional outlets which were owned and operated by the entrepreneur, Mr. Caldecott.

As a result of the success of the internal growth strategy, franchising became an effective means of expanding the business by leveraging the investment potential of third parties (refer 3.6.2, Rwigema and Venter, 2004: 453).

ii. Why did you decide to franchise?

a. The business evolved into a franchisable concept based on the success of the two outlets opened in Port Elizabeth.

b. Franchising became a logical strategy to grow the Dulce business as the owner Mr. Caldecott had limited financial and management resources to open his own outlets beyond Port Elizabeth.

c. Mr. Caldecott found it difficult to run his three outlets and concentrate on franchising the business simultaneously.

The decision to franchise (refer 4.7, Nieman, 1998:17) can arise when a prospective franchisee is operating a successful business and wishes to expand.

Franchising has a number of advantages (refer 4.6.1, Nieman et al, 2003:250) such as the franchisee using their own capital to expand the franchise. Franchisees are also more motivated than managers as they have a vested interest in ensuring their businesses success.

iii. How did you go about franchising the business?

a. An analysis of the strengths and weaknesses of the business highlighted a need for financial planning and administration and a franchise infrastructure.

b. A professional manager, Mr. Pullen joined the group and proceeded to create a separate franchise company, head office and management infrastructure for Dulce.

c. A business plan, financial models, operations manual and a franchise agreement were developed.

d. The Dulce concept was then marketed to landlords, developers and franchisees.

e. Dulce became a member of Franchise Association of South Africa (FASA).

The nine steps in developing a franchise detailed in the literature study (refer 4.8., Nieman, 1998: 21 and Nieman et al, 2003:252) are generic and apply to all business format franchises.

Step one (refer 4.8.1, Nieman et al, 2003:252) involves determining if the business is suitable to be franchised.

Step two (refer 3.5.2, Lambing and Kuehl, 1997:37, Rwigema and Venter, 2004: 32 , Bartholomew 1992:10, Lambing and Kuehl, 1997: 136, refer 4.8.2, Nieman et al, 2003:252, Spinelli, Rosenberg and Birley, 2004:10) deals with the establishment of a business plan and feasibility study.

Step four (refer 4.8.4, Mendelsohn, 1985:52 and Nieman, 1998:31) encompasses the development of the franchise package which will assist a franchisor to market the franchise concept.

Step five (refer 4.8.5, Illetschko, 2004:7, Nieman, 1998:74 and Hall and Dixon, 1991: 78) encompasses the development of the operations manual and franchise agreement.

Step six (see 4.8.6, Nieman, 1998:35, Nieman et al, 2003:200, Parker and Illetschko, 2007:80) refers to the compliance with the ethical requirements of franchising.

Step nine (refer 4.8.9, Nieman et al, 2003:255) involves the management of the franchise system which includes the functional operations of the franchise.

All the above steps were addressed by the Dulce management as the brand evolved and was developed into a franchise system.

iv. What do you consider to be the requirements of a successful franchise?

a. An investment in franchise support infrastructure is required before embarking on franchise outlet growth.

b. The business plan must ensure there is sufficient capital to pay for resources such as franchisee support staff and must take into account the number of stores required to absorb the costs of extra staff as the system grows.

c. Ensuring key positions are filled by professionals for example employing a CA to take care of the financial management of the company.

d. The franchise concept must be replicable despite the personality of the franchisee.

Marshalling the resources of an enterprise (refer 3.5.3 Rwigema and Venter, 2004:33) involves the use of the firms resources such as financial and human capital.

Organising and mobilising the entrepreneurial team (refer 3.5.4, Lambing and Kuehl, 1997:82, Timmons, 1999:40) includes bringing skills into the business and organising the employees into a logical, organic and evolving structure.

The reproducibility of the concept (refer 4.7.1, Nieman, 1998:18) is an important requirement of a successful franchise.

v. What are the characteristics of a successful restaurant franchise?

The characteristics, literature review and analysis are summarised below.

a. Menu aspects and characteristics

A successful franchise must have menu items that have been tested and are replicable, simple to produce and have wide appeal (refer 5.2.1, Khan 1998: 316 – 330).

b. Layout and physical facilities

The layout and functional areas of a restaurant must be based on an actual operating store and the facilities for these functions should be arranged in a way that allows a smooth and sequential flow with in each area (refer 5.2.2, Khan, 1998:332 - 340).

As a result of testing and experimentation with equipment and layouts, the third Dulce store that opened became the blueprint for all future stores kitchen layouts.

c. Planning the overall atmosphere

The planning the atmosphere involves the creative efforts of various professionals such as architects and interior designers (refer 5.2.3, Khan, 1998:343 - 345).

In early days of franchising Dulce the management were limited by financial constraints interims of décor and design of the stores. Over a period of time the franchise evolved to where they are now able to design restaurants that have the newest trends and concept elements whilst maintaining the a common thread that links the old stores to the new stores.

d. Service

The level of service (refer 5.2.4, Khan, 1998:346 and Mill, 1998:137) received from a restaurant ultimately determines if the customer will return to the restaurant.

Dulce focuses on ongoing service initiatives which are required to maintain service excellence and a competitive advantage.

e. Management

The resources and management of a franchise system (refer 5.2.5, Khan 1998:349 - 350) should be sufficient to provide the necessary human and financial inputs to manage the entire operation in all functional areas such as marketing, operations and financial management in order to provide the necessary support to the franchise system.

Dulce evolved from an entrepreneurial business (refer 3.5.5, Bridge et al, 1998:104 and Churchill and Lewis, 1983) to a professionally managed enterprise. As the group grew they had access to more expertise and as they got more expertise, the management of the system became more sophisticated. This evolution is typical of the growth stages of a small business (refer figure 3.2 Churchill and Lewis, 1983).

f. Marketability

The restaurant concept should have a unique marketing niche (refer 4.7.1, Nieman et al, 2003:265, 4.7.2. Parker and Illetschko, 2007:19, 5.2.6 Khan, 1998:349) that will differentiate it from its competitors.

The Dulce concept occupied a niche in the market, was positioned between a restaurant and a coffee shop and was classified as a continental café or espresso bar and according to European tradition served four major products, namely, food, liquor, coffee and ice-cream.

vi. What would you do differently if you had to start franchising again?

a. A single minded approach focused on developing the franchise company from inception rather than part-time basis.

b. Start the business with cash rather than debt (overdraft)

c. Ensure that all the business partners have the same objectives.

d. Project a professional image to prospective franchisees, landlords and other stakeholders to overcome the credibility gap.

e. Choose the right franchisees and not the first person who has money to invest.

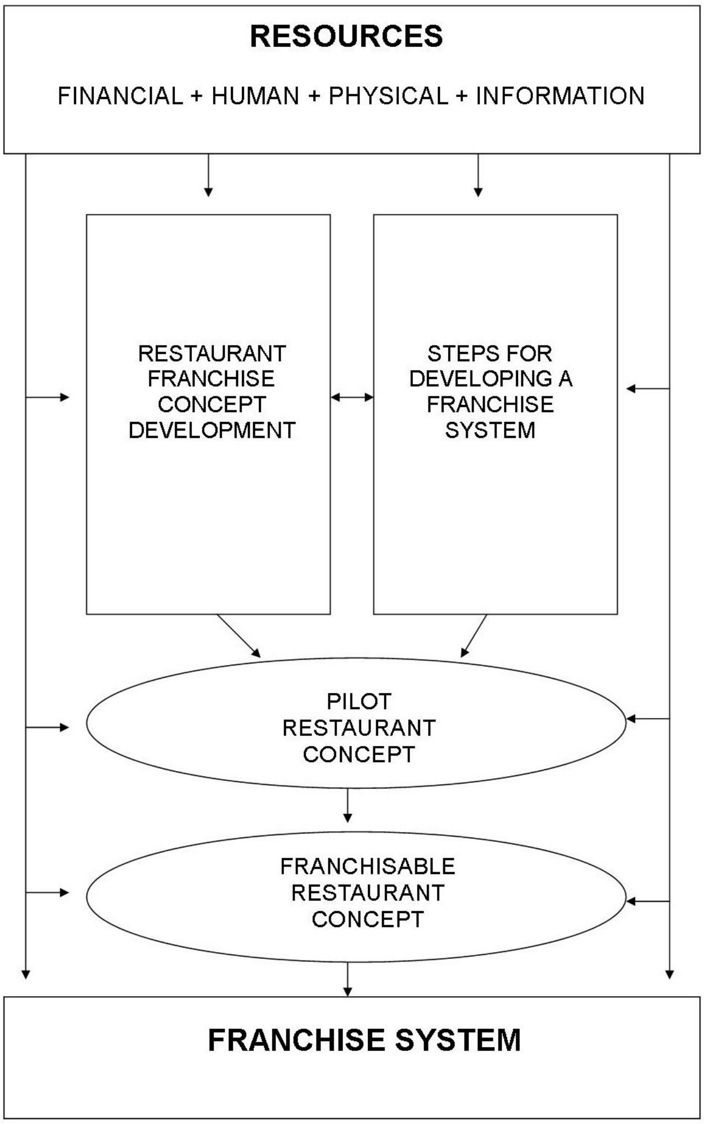
f. Ensure that franchisees are passionate about the business.

Most of the above points have been addressed in the preceding analysis in addition, choosing the right franchisees who are passionate (refer 4.8.7, Nieman et al, 2003:254 and Seltz, 1982: 103) recruitment and selection and the training of franchisees (refer 4.8.8, Nieman et al, 2003:254 and Seltz, 1982:153) are critical steps in ensuring the overall success of the franchise system.

8.3 RESTAURANT FRANCHISE CONVERSION MODEL

As a result of the analysis of the case study and the literature review the following *restaurant franchise conversion model* has been created in an attempt to address all the criteria and aspects that need to be followed by a prospective restaurant entrepreneur who wishes to *convert a full service restaurant concept into a successful franchise system.*

Figure 8.1: The restaurant franchise conversion model



Source: Authors own model (2008)

The restaurant franchise conversion model can be explained as follows:

8.3.1 Resources

Resources are the things that that an entrepreneur uses to pursue a business opportunity. In economics, factors of production or productive inputs are the resources employed to produce goods and services (http://en.wikipedia.org/wiki/Factors_of_production, 23 November 2008).

They include the money that is invested in the business; the people who contribute their efforts, knowledge and skills to the venture; the physical assets such as land, equipment and buildings; and the information used to make decisions. All of these can be subject to investment. One of the key functions of the entrepreneur is to attract investment to the business and to use this investment to build up a set of assets that allows the business to supply its own product or service. As the business grows, it develops its own processes and systems and the people within the business adopt distinct roles. During this process, the responsibility of obtaining resources is taken over by specialist functions in the business such as, financial, operations, marketing and human resources (Nieman et al, 2003:112).

In, summary, there are four types of resources that prospective entrepreneurs will combine to build a business: financial, human, physical and information.

The *restaurant franchise conversion model* requires that the resources of the enterprise are focused on completing all the necessary processes in the development a franchise system.

These processes, as illustrated in the model, are as follows:

- Restaurant franchise concept development;
- Steps for developing a franchise system;
- Pilot restaurant concept;
- Franchisable restaurant concept.

8.3.2 Restaurant franchise concept development

The *restaurant concept development process* has been illustrated by a model (refer figure 5.1) and the criteria for the development of a restaurant concept has been discussed at length in chapter five of this study.

8.3.3 Steps for developing a franchise system

The *steps for developing a franchise system* are all the activities that are required to be addressed when developing a franchise system (refer 4.8 Nieman et al, 2003:252). These steps also overlap with elements of the *restaurant franchise concept development* (refer figure 5.1) such as the creation of an operations manual*.*

8.3.4 Pilot restaurant concept

The establishment of a pilot restaurant concept (refer 4.8.3 Mendelsohn, 1985:48 Hall and Dixon 1988, Nieman, 1998:26, Nieman et al, 2003:252, Illetschko 2004 and 5.3 Khan, 1998:352) is the combination of the *restaurant concept development process and* the *steps for developing a franchise system* into a concept restaurant that will tested and evaluated*.*

8.3.5 Franchisable restaurant concept

The *franchisable restaurant is* the result of the final concept developed from the pilot restaurant (Refer 5.5 Khan, 1999:315). This then becomes the restaurant concept that is franchised.

8.3.6 Franchise system

The achievement of a franchisable system is final outcome of the restaurant franchise conversion model.

8.4 CONCLUSION

The purpose of this study was to:

To develop a model that will enable a full service restaurant concept to be converted into a successful franchise system.

The outcome of the study is a combination of primary and secondary research which has resulted in the working model.

8.5 RECOMMENDATIONS FOR FUTURE STUDIES

The following topics can be recommended for further investigation:

- The role of the restaurant franchise industry in the development and transfer of basic management skills to their employees;
- The restaurant industry as an entry point and platform for immigrant entrepreneurs to build diversified business organisations;
- Co-branded restaurant franchising as a growth strategy for franchise systems;
- The prevalence of multi unit restaurant franchise ownership and the franchisee management of these systems.

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