

**UNIVERSITY OF KWAZULU-NATAL**

**GUIDING ENTREPRENEURS TO SUCCESS THROUGH FRANCHISING: A  
CASE STUDY OF MIDAS IN DURBAN**

**By**

**Shikar Sanjith Singh**

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degree of Master of Business Administration**

**Graduate School of Business and Leadership**

**College of Law and Management Studies**

**Supervisor: Mr. Steven Msomi**

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## DECLARATION

I Shikar Singh declare that

- (i) The research reported in this dissertation/thesis, except where otherwise indicated, is my original research.
- (ii) This dissertation/thesis has not been submitted for any degree or examination at any other university.
- (iii) This dissertation/thesis does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
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## **ABSTRACT**

The decline of employment globally with various countries and economies either in recession, post recession or on the brink of recession is a serious concern to governments, the private sector, civic organizations and the general population. Associated with this decline are dynamics of poverty, food insecurity, maladministration and corruption, civil war, and a new world order. Governments are now looking to implement and support successful solutions that have been tried and tested. It has been identified that franchising is a successful solution that is on the increase globally. Franchising is a multibillion dollar revenue creator globally and accounts significantly for employment.

The automotive sector is growing at an unprecedented rate with the greater number of motor cycles, cars, taxis, busses and trucks on the road. The Midas franchise is the second fastest growing franchise in South Africa. There are more than two hundred and twenty franchises in South Africa and surrounding countries. The aim of this research study is to investigate if franchising provides entrepreneurs, especially new business owners a more secure business start up, and to assess the success of the Midas franchise. The research methodology adopted in this study adopts a qualitative research method. The instruments used to obtain data are questionnaires, face to face interviews, observation and photography. The study area encompasses franchisees from the eThekweni Municipal area. Six Midas franchisees and the KZN regional Midas franchisor have been interviewed.

The findings have proven to be remarkable, supporting the hypothesis which states that franchising is a successful tool to assist entrepreneurs. Most entrepreneurs have cited their contentment with being with a franchisee and their optimism to venture into more franchises. The franchisor boasted their rapid expansion in South Africa. There were also recommendations arising out of the study so as to enhance entrepreneurship and franchising in South Africa.

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# CHAPTER ONE

## OVERVIEW OF THE STUDY

### 1.1. Introduction

Entrepreneurship is ever increasingly becoming important internationally, nationally and locally. As poverty and unemployment are on the increase, people are encouraged to become entrepreneurs. In turn, they will be contributing to an economy and also create employment for others. Franchising has been identified as a successful system for entrepreneurs to venture in. Franchising is growing at fast pace globally. It is a business that can be replicated, transformed and translated to meet local conditions where it is being implemented.

This chapter presents an introduction to this research study outlining what is the research problem in context, rationale for the study, followed by specific objectives and research questions, and then lastly, the limitations of the study.

### 1.2. Research problem

The South African economy is largely dependent on the success of businesses that are operating (<http://mg.co.za/article/2012-04-10-sas-economy-dependent-on-entrepreneurs>, accessed June 2012). The South African government has identified three strategic priorities as integral to its broad-based socio-economic development plan, namely, developing skills, encouraging small business enterprises and creating employment (Pollin et al, 2006 and Smit, 2007). Promotion and support of small business is specifically legislated through the National Small Business Act of 1996. This Act was predominantly based on a 1995 white paper known as the National Strategy for the Development and Promotion of Small Business in South Africa. The Act was established 'to provide guidelines for organs of state in order to promote small business

in the Republic' of South Africa ([www.polity.org.za/polity/govdocs/legislatio/1996/act96-102.html](http://www.polity.org.za/polity/govdocs/legislatio/1996/act96-102.html), accessed June 2012). The 1995 white paper provided a framework through which the small business sector was envisaged to develop.

The franchising sector contributes to the fulfilment of the South African governments' three strategies to grow the economy (Smit, 2007). According to the IDC (2010), franchised after sales service, maintenance and repair industry is a subsector of the United States seven hundred billion dollars global automotive aftermarket industry. Investment in the automotive franchised sector grew robustly between 2004 and 2008, with the number of new automotive business units growing by more than nine percent per annum. Over this period, franchised units increased from one thousand eight hundred and eight three to two thousand six hundred and seventy three, an absolute increase of seven hundred and ninety new franchised business units (IDC, 2010). In the majority of franchises, the franchisor provides guidance in terms of location, apparel, funding, financials (pricing and buying power), customer and human relations to the franchisee.

### **1.3. Rationale for the study**

There is a need for entrepreneurs to venture into business and contribute to the economy and create employment. Nagel (2002) argues that franchising is critically important to grow the economy of South Africa. The study seeks to identify if entrepreneurs are better placed to effectively manage a business if it is a franchise. The rationale for looking at the motor retail industry, specifically Midas is because of the growth and profitability of this sector. There is a massive demand for motor retail parts and if entrepreneurs are encouraged to enter this sector, this will contribute to the South African economy. Over the past five years, the franchised automotive sector has experienced rapid growth. New outlets grew at nine percent per annum, whilst the number of different franchised brands increased from twenty eight to fifty four over the same period (IDC, 2010). The growth outlook for the franchised automotive sector

remains positive. Factors such as rapid urbanisation, increasing vehicle density and ageing vehicles will continue to drive demand.

The Midas Group is the largest automotive group that caters for the retail motor vehicle market in the country (IDC, 2010). Activities undertaken by the group include auto maintenance and repair services and the retail of auto replacement parts and accessories, which include the wholesale and retail of spare parts to its franchised workshops and independent workshops, fitment centres and engine rebuilders (IDC, 2010). The group has two hundred and twenty two auto spares franchises and about one hundred and thirty franchised auto maintenance and repair operations ([www.midas.co.za](http://www.midas.co.za), accessed September 2010). The Midas Group has successfully used the franchising model as a way of expanding its activities.

There is limited research in the field of the franchising model providing an enabling environment for entrepreneurs and first time business owners in the retail motor industry in South Africa. As was presented earlier, the retail motor industry is one of the fastest growing industries in the country and a research of this nature could significantly add to the body of literature.

#### **1.4. Focus of the study**

The automotive sector is on the increase globally as greater number of people has access to cars. It would be impossible to conduct a study that encapsulates a global phenomenon. It is therefore imperative for the researcher to focus on a particular sub sector of the automotive sector. Secondly, it is important to locate the study in a geographic setting. The importance of focusing the study allows the researcher to make direct correlations and specific assumptions about the topic instead of generalising and being vague.



Franchising has been selected as the focus of the study. It has been identified by the researcher that the Midas franchise is the fastest growing automotive franchise in the South Africa. The research sample will be selected from the eThekweni Municipal area. Seven Midas franchise owners and the Midas franchisor will be researched in detail.

Figure 1.1 below illustrates the context and focus of the study.

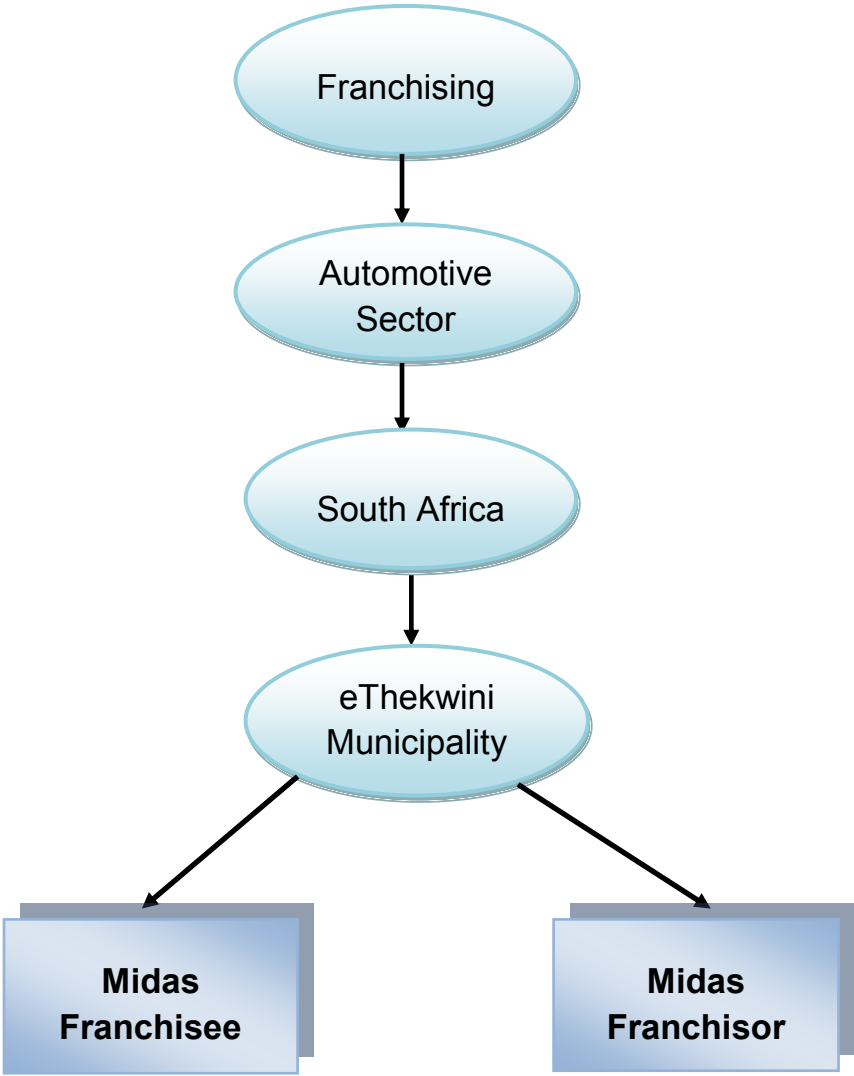


Figure1.1: Focus of the Study

Figure 1.2 geographically locates the study area within the province of Kwa- Zulu Natal in South Africa.



Figure1.2: Map Depicting Study Area

(Adapted from [http://www.worldlicenseplates.com/world/AF\\_ZAKN.html](http://www.worldlicenseplates.com/world/AF_ZAKN.html), accessed October 2011)

### 1.5. Objectives of the study

The objectives of the study are;

- To examine the provision of business establishment support in the Midas franchise.
- To assess the satisfaction or dissatisfaction of new business owners in a Midas franchise.
- To explore franchise owner's reasons for selecting franchising as opposed to starting an independent new business.

- To investigate the success of the Midas Franchise.
- To assess the perception of the franchisor towards their franchisees.

(The researcher defines a successful franchise as one that has been operating for more than four years.)

### **1.6. Research Questions**

- I. What business establishment / development support does the Midas Model offer new business owners?
- II. How does the support or lack of support of the franchisor impact on the establishment of a new Midas franchise?
- III. Why did the new business owners choose the franchise model as oppose to starting their new independent business?
- IV. Is it easier for business owners to expand and grow their business through the model of franchising?

### **1.7. Research Methodology**

The study will adopt a qualitative research design. Primary research will consist of qualitative research methods and secondary research will be conducted through a detailed literature review in attempts to understand the Midas Franchising Model. Primary research shall be carried out on a sample group of Midas franchisees as well as the franchisors, where questionnaires will be deployed to identified respondents together with face to face interviews. The sample size will consist of five Midas franchises that will be assessed in the eThekweni Municipality region. Three new entrepreneurs in the Midas franchise will be interviewed in the study area and four existing (older than four years of operating) Midas entrepreneurs. Two managers and one executive will be interviewed from the Midas group.

## **1.8. Limitations of the Study**

A study of this nature has various limitations attached to it. The most critical limitation is that of time. The time allocated to complete the study was a limiting factor. As this is a partial dissertation, the researcher has delved into the study from that mindset. Further limitations have been discussed in chapter five of the study.

## **1.9. Outline of the Study**

The study has been presented in a coherent manner which comprises of five chapters.

- Chapter one outlines the research and provides a framework for the study.
- Chapter two presents the literature review where terms and concepts are discussed in detail. The chapter also looks at the large body of literature that is available and is discussed in relation to this research topic.
- Chapter three discusses the steps in the research methodology that has been deployed in this research.
- Chapter four is the presentation of results that was produced from the interviews that was conducted on the Midas franchisees and franchisor.
- Chapter five concludes the study along with recommendations and limitations discussed in brief that arose from the research.

## **1.10. Chapter Summary**

The chapter provided an introduction to the study and a prelude to the chapters ahead. The rationale of the study was motivated and clarified. The research methodology together with the aims, objectives and research questions were briefly discussed and is further elaborated in chapter three. The study was also placed in context of the specific facets to be investigated and geographic location of where it is to be held. The succeeding chapter will focus on key concepts and the vast literature relating to franchising and the automotive sector.

## CHAPTER TWO

### LITERATURE REVIEW

#### ENTREPRENEURS, FRANCHISING AND THE AUTOMOTIVE SECTOR IN SOUTH AFRICA

*“The belief that franchising can be an exciting entrepreneurial venture is supported by the continued success of established franchised systems, the proliferation of new franchises, and the profitability reported by franchisees and franchisors.” (Timmons and Spinelli, 2009 p. 400).*

##### 2.1. Introduction

The literature review provides an analysis of key concepts and will look at the vast body of literature that represents these concepts. Sekaran and Bougie (2010) state that there are essentially two types of research that can be conducted in an organization; one form of research is meant solve a particular problem (applied research) and the other form of research is to add something new to the existing body of literature (fundamental research). The literature review will take the form of fundamental research. The concepts under discussion will focus on entrepreneurship, franchising, moving on to a global perspective of the automotive industry, then to challenges faced by entrepreneurs in South Africa and their experiences on franchising. The review will then focus on franchising in the after sales automotive sector in South Africa. The Midas franchise has been selected as a case study to be investigated as it is fast emerging and the largest automotive franchise in the country (IDC, 2010). Research indicates that franchising is a relatively new concept yet on the increase globally.

The survival of businesses in today’s highly competitive and volatile market will depend on the strategies that businesses implement. One of the crucial strategies for new

business owners is to have the knowledge and skills to start and successfully manage a business. However, research has shown that the life span for new business entrants in the market are short lived (Herrington et al., 2007 and <http://mg.co.za/article/2012-03-12-employment-index-shows-record-low-in-business-startups/>, accessed June 2012). The main causes for the failures of small business enterprises are the lack of managerial capabilities such as planning and decision-making and the experience of the entrepreneur (Smit, 2007). Entrepreneurs, during their first step of their entrepreneurial venture, appear limited regarding their requirements for their business career where they set their priorities according to their intentions and interests without focusing on what is actually needed in the market (Konstantopoulos, Tomaras and Zondiros, 2007).

## **2.2. New Venture Creation and the Entrepreneur**

Establishing and operating a business is one the most complex journeys that a person can undertake. The decision to venture out into self employment is a calculated and well researched. It is necessary to possess certain traits before taking the bold step. Amongst other traits, a person should be courageous, be a visionary and strategic thinker, and be self motivated. A person should also have management and financial skills. Usually, people are afraid to venture out to become an entrepreneur. There are various fears which include, the fear of failure and embarrassment, the fear of the unknown, the fear of losing a stable income, the fear of working long hours, etc. Entrepreneurs are people that cannot take orders from others, see an opportunity and derives maximum from that investment. They are creative people who see a context for change or they create their own change. Entrepreneurs are passionate and they empower people around them to act in a desired way (Challenor, 2010). An entrepreneur must be able to take calculated risks and be flexible and adaptive. The fastest growing businesses and according to the Global Entrepreneurship Monitor (GEM) report, the business that are most likely to be on the increase are hotel, hospitality and retail (Herrington Kew and Kew, 2007).

Figure 2.1 illustrates the main facets of new venture creation

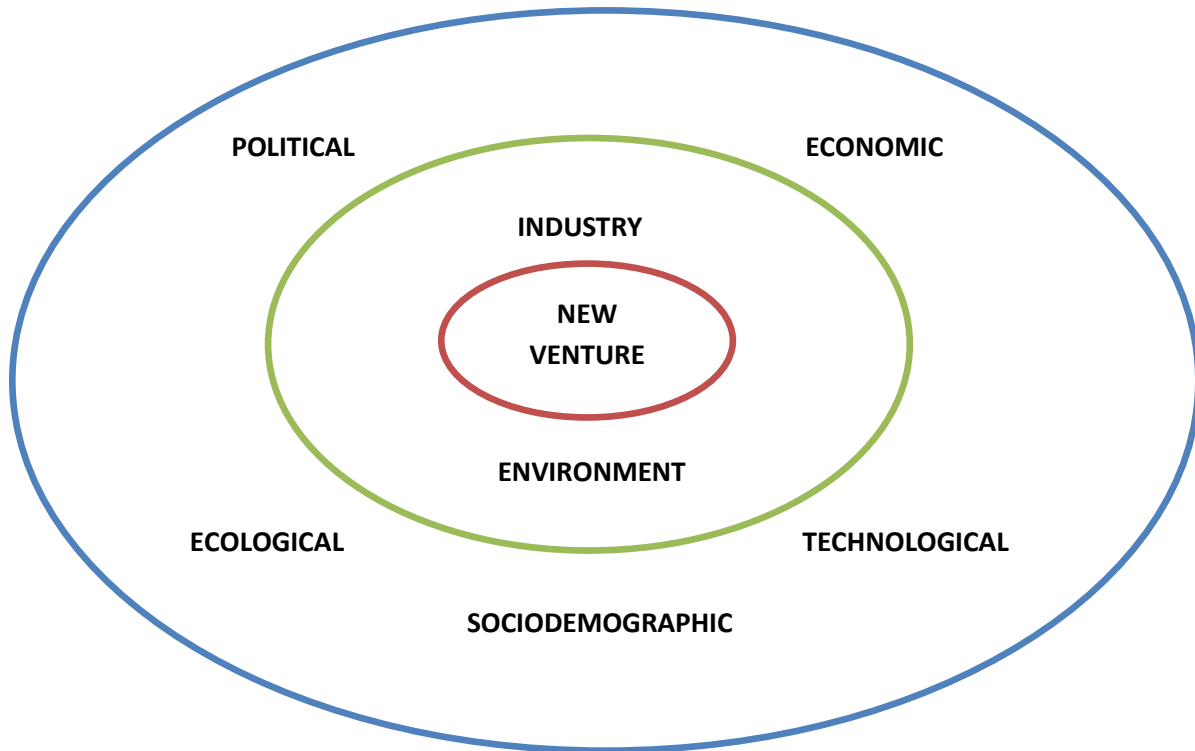


Figure 2.1: Facets of new venture creation

(Adapted from Dollinger 2003, p.52)

Dollinger (2003) has summed up in the above diagram the main facets of new venture creation that exists in any country. An entrepreneur has to consider all of the above facets to become successful and to grow the business. Taking into consideration the above facets, an entrepreneur has a lesser risk of business failure.

“The ecology pertains to such issues as pollution, and waste disposal, recycling of usable materials, protection of wildlife and wilderness preserve areas, workplace safety and hazards, and the general quality of life.” (Dollinger, 2003. p.66). The

ecology is the social responsibility of the triple bottom line. It forms the foundation for doing business the correct way without traversing the law. Acquiring a sound ecological foundation will lead the way to sustainable development.

The world over have become reliable on technology. Technology has created wireless boundaries, saved costs and made business much easier than what previously existed. A person in South Africa can sit behind his laptop and communicate with a person from another continent with the press of a button. Skype, teleconferencing, internet, emails and social networking sites are some of the mechanisms that people are using to communicate their business. Technologically, South Africa is ahead of many third world countries, however, lags behind the developed first world countries. Items such as wireless network are a standard feature in most parts of Europe and America however, in South Africa only designated places are catered for. South Africa still has to catch up on advancing its technology in order to compete with the rest of the world for business. Technology is making it easier for entrepreneurs to venture into business.

The term socio-demographic can be broken into two components. The first refers to the social aspects of a society which includes trends of spending on particular items. The demographics look at the population and segment it according to race, age, gender, education, place of stay, etc. There are typical patterns in different segments of the population in South Africa. Many successful businesses have adapted their marketing and product lines to match the needs of their demographic population and the social trends of this population. It is a matter of adapting or suffering business death.

As we approached the twenty first century, ecological concerns have been plaguing the business environment. Globally there have been different phenomena of environmental disasters such as hurricanes, tornadoes, felt fires,



tsunamis, rising sea levels, droughts, etc. This has severely impacted on business and confidence levels of investors although they are natural occurrences in most cases. South Africa has been affected by rising sea levels, tsunami and drought. Energy efficiency has been a critical problem for business. Electricity prices have tripled in the year 2011 thus affecting those businesses that are highly dependent on electricity. Conference Of the People (COP) 17 took place on November and December 2011 in Durban. Included in the myriad of topics are the effects of business on the climate and vice versa.

Industry analysis characterizes which industry is lucrative or which part of the industry is lucrative. It is an all round analysis that looks at the labour, economic, supply chain and most importantly, the financial health of the business over a period of time. This detailed analysis is conducted by auditors in order that it is error and bias free. The point of entry for investors is the industry analysis.

### **2.3. Values and Skills Required to Start a Business**

Macleod and Terblanche (2004), propound that you don't need to be an expert in a variety of things, but you need to have some knowledge of various attributes, which includes; intelligence, new inventions, a knack for sales, a positive drive, a good marriage, talent for motivating staff, work and management experience, and some luck. Education is also critical in opening, managing and sustaining a business. There are no secret ingredients one has to have or all of the talents above when initially beginning a business, many of the traits are developed while operating a business. However, some traits are crucial as was presented earlier.

For the venture to be successful, staffing is an important issue amongst others. Human resource deployment in a business can either expansively grow, stagnate or even close down a business. As an entrepreneur or owner of the business, it is important to know the subject matter of the business, but not critical to be an expert in the related field.

“Owners- managers have to remove themselves from the specialist side of the work and concentrate on the general building of the business; otherwise it will very likely fail.” (Macleod and Terblanche, 2004. p. 2). Fifty five percent of South Africans start their business out of necessity rather than choice (Herrington Kew and Kew, 2007). These are the entrepreneurs who could not find a job, were retrenched, infuriated at their workplace or was unable to manage with the income that they were receiving.

Entrepreneurs have to boast certain qualities that make them succeed in a venture. These people distinguish themselves from the rest of society and can be easily identified from their qualities. Timmons and Spinelli (2009) states that there are seven themes of desirable and acquirable attitudes and behaviours which include;

- I. Commitment and determination
- II. Courage
- III. Leadership
- IV. Opportunity obsession
- V. Tolerance of risk, ambiguity, and uncertainty
- VI. Creativity, self-reliance, and adaptability
- VII. Motivation to excel

Figure 2.2 outlines the reasons why entrepreneurs choose to invest in a business.

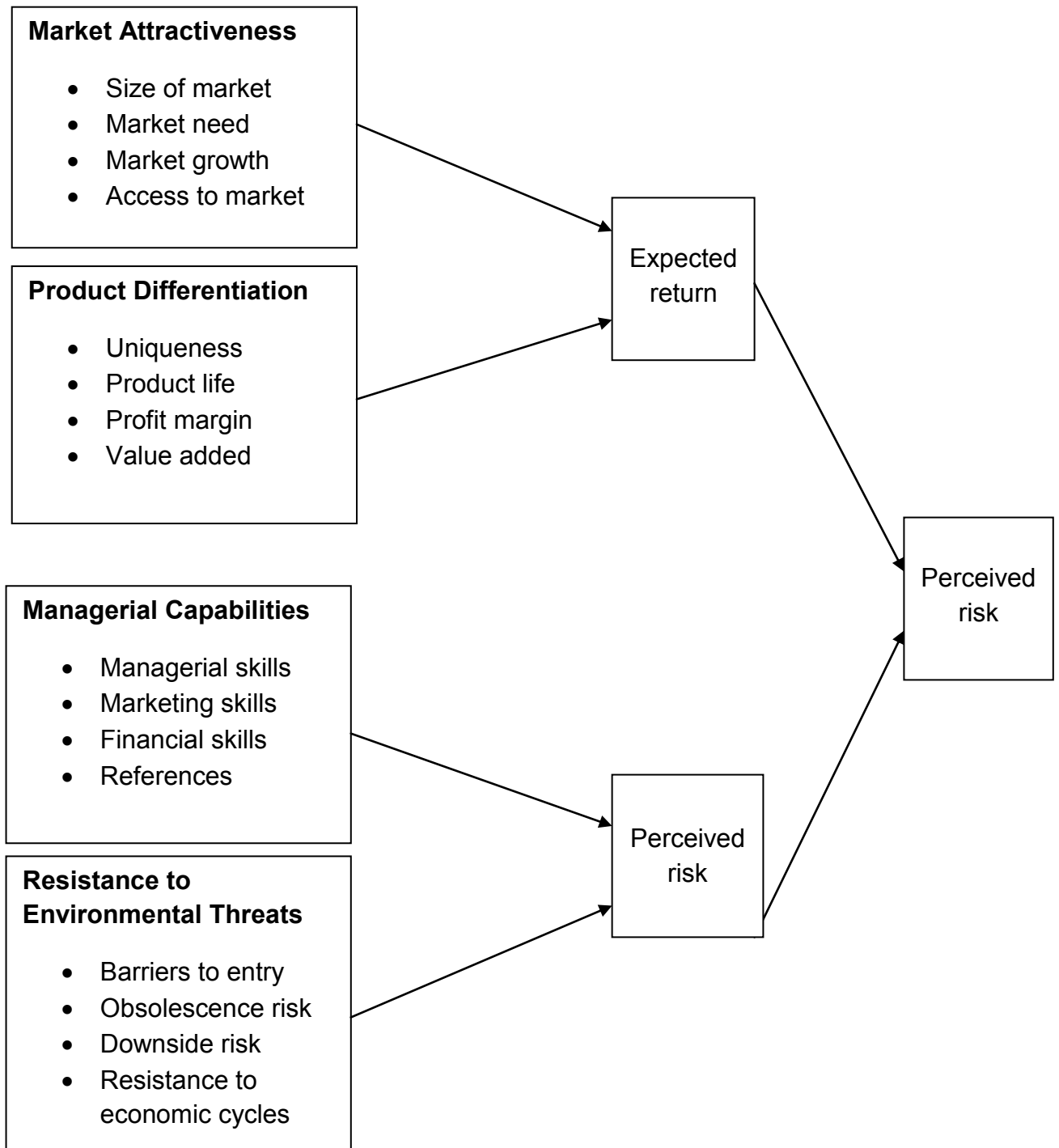


Figure 2.2: Entrepreneurs Decision to Invest in a Business

(Adapted from Dollinger. 2003, p.258)

There are various reasons why entrepreneurs choose to invest in a business. Different reasons will apply to different business types however, market attractiveness, product differentiation and managerial capabilities will apply to most business. Figure 2.2 on page 14 presents these reasons and categorises them into two sub groups; expected return and perceived risks.

#### **2.4. Challenges Faced By Entrepreneurs in South Africa**

*“South Africa faces numerous economic, political and social challenges in its new democracy, of which a key challenge is that of massive and growing unemployment. This problem is especially evident amongst the country’s youth, who more often than not lack the experience, skills and education necessary to access employment in the formal sectors.”* (Herrington Kew and Kew, 2007, p. 12).

The statement above shows that there is a problem in growing the economy, and it appears that the only way forward is to create more entrepreneurs which can absorb the unemployed and underemployed. South Africa has an alarmingly high number of business failures during their initial start up period due to the various challenges that they experience (Herrington Kew and Kew, 2007). Herrington Kew and Kew, (2007) suggest that children growing up in South Africa are taught that a more stable and secure income would come from a salaried job, especially from the government. According to Nieman, Hough and Nieuwenhuizen (2008), the four main reasons that businesses fail are due to;

- “Access to start up and expansion finance;”
- “Access to markets;”
- “Access to appropriate technology;”
- “Access to resources (especially human resources).”

Of the four hurdles above, franchising addresses the latter three directly and the issue of finance indirectly as will be elaborated in chapter four. Banking institutions prefer lending out finance to franchises as they are a more secure investment for the banks.

This is due to franchises being more established and less vulnerable to risk. Macleod and Terblanche (2004) stress that South Africans entrepreneurs begin their business with very little start-up capital with the hope that the business could expand by generating revenue. This can be a very dangerous situation that a business can face. There is a problem between entrepreneurs and the financial institutions in South Africa (Herrington Kew and Kew, 2007). Entrepreneurs do not understand the needs of the banking institutions. More about business and franchise finance will be discussed in the section below.

Table 2.1 categorises the problematic factors for doing business in South Africa in order of most problematic to the least problematic.

<b>Crime and Theft</b>	<b>19.4</b>
<b>Inadequately educated work force</b>	<b>16.4</b>
<b>Inefficient government bureaucracy</b>	<b>13.9</b>
<b>Restrictive labour regulations</b>	<b>11.7</b>
<b>Access to finance</b>	<b>8.5</b>
<b>Corruption</b>	<b>6.6</b>
<b>Poor work ethic and national labour force</b>	<b>4.6</b>
<b>Inadequate supply of infrastructure</b>	<b>4.1</b>
<b>Foreign currency regulations</b>	<b>3.2</b>
<b>Inflation</b>	<b>3.2</b>
<b>Poor public health</b>	<b>3.0</b>
<b>Policy instability</b>	<b>2.4</b>
<b>Tax rates</b>	<b>1.9</b>
<b>Tax regulations</b>	<b>0.9</b>
<b>Government instability/ coups</b>	<b>0.2</b>

Table 2.1: The most problematic factors for doing business in South Africa

(Adapted from Global Competitiveness Report 2009 in Challenor 2010, p. 73)

The table above details the most problematic factors for conducting business in South Africa. Crime and theft is abnormally high for business hindrance in any country. It represents a fifth of the total major problems that exists. Crime is followed by workforce education, government bureaucracy and labour regulations, all of which accounts for double figures. These problematic factors are largely responsible for the unemployment and poverty figures in South Africa. It is the responsibility of government to address these issues in order to grow entrepreneurship and business confidence.

Table 2.2 presents a myriad of reasons why finance applications by SMME's are being rejected by financial institutions. These criteria depend on the value of the loan and as the value of the loan increases, the criterion becomes more complex.

Rank	Start Up	Less than R500K	R500K-R2.5m	R2.5m- R10m	R10m-R20m
1	Cash Flow	Cash Flow	Cash Flow	Cash Flow	Cash Flow
2	Credit record	Financial Statements	Financial Statements	Financial Statements	Over indebtedness
3	Business skills	Credit record	Collateral	Collateral	Collateral
4	Collateral	Collateral	Over indebtedness	Over indebtedness	Financial Statements
5	Financial Statements	Over indebtedness	Credit record	Credit record	Credit record
6	Business Plan	Business skills	Business skills	Business skills	Business Plan
7	No understanding of financials/BPlan	Business Plan	Business Plan	Business Plan	Business skills
8	Don't understand their market	Track record	Track record	Track record	Don't understand their market
9	Track record	No understanding of financials/Bplan	No understanding of financials/Bplan	Don't understand their market	Costing/Pricing
10	Over Indebtedness	Don't understand their market	Don't understand their market	Costing/Pricing	Inappropriate business
11	Inappropriate business/market	Paperwork	Inappropriate business/market	Inappropriate business/market	No understanding of financials/BPlan
12	Paperwork	Costing/Pricing	Costing/Pricing	Costing/Pricing	Inappropriate business/market
13	Costing/Pricing	Inappropriate business/market	Paperwork	Paperwork	Paperwork
14	Entrepreneurial skills	Entrepreneurial skills	Entrepreneurial skills	Entrepreneurial skills	Entrepreneurial skills
15	Noncompliance FICA etc	Noncompliance FICA etc	Noncompliance FICA etc	Educational Qualifications	Educational Qualifications
16	Educational Qualifications	Educational Qualifications	Educational Qualifications	Non compliance FICA etc	Non compliance FICA etc
17	Age of applicant	Age of applicant	Age of applicant	Age of applicant	Age of applicant

Table 2.2: SMME reasons for a finance application to be rejected

(Adapted from United States Agency for International Development, 2010 Financial Institutions' Hurdles to SME Financing, 2010).

## 2.5. Towards a Definition of Franchising

Franchising is a way of stimulating the economy by developing entrepreneurs. “Franchising is a marketing system revolving around a two-party legal agreement whereby one party (the franchisee) is granted the privilege to sell a product or service and conduct business as an individual owner but is required to operate according to methods and terms specified by the other party (the franchisor)” (Konstantopoulos, et al. 2007, p. 1107). Zimmerer and Scarborough, (2005. p. 116) defines franchising as, “a system of distribution in which semi independent business owners (franchisees) pay fees and royalties to a parent company (franchisor) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system”. Dollinger (2003. p. 353) pronounce that, “The successful franchisor possess resources that are rare, valuable, imperfectly imitable, and non substitutable. Usually these resources are a business concept, an operating system, a brand name, and an actual potential national reputation.”

Franchising is a focused business venture that presents a reputable brand in the minds of its consumers. “You recognise a franchise because it carries a strong brand, has a distribution mechanism that reaches far and wide and provides a uniform product, service and image to the public.” (<http://www.fasa.co.za/showguideline1.htm>, accessed October 2010). According to Smit (2007) the franchising sector contributes to the fulfilment of the South African government strategy to grow the economy. The franchisee purchases the franchise from the franchisor.

Knowledge and experience is an important element for new entrepreneurs. Experience is in many cases, mostly for entrepreneurs who avoid undertaking great risks, but also an element which can ease the anxiety and stress of the ‘unknown’ that usually represents the establishment of a new enterprise (Konstantopoulos, et al. 2007). Entrepreneurs have a preference of franchising as opposed to starting a new business because the establishment of a new private enterprise entails a greater risk. Franchising is less risky than an independent business because of the support structure provided.



Risk is the avoidance of undertaking an uncertainty in a market and this is a usual phenomenon, and for this reason many entrepreneurs prefer buying an existing business in the form of a franchise (Konstantopoulos, et al. 2007).

According to Kuhfahl (2004) franchise entities have a far better chance of success than independent business owners, because franchisees are given the blue print that has been tested, refined and implemented by many people before them. She further propounds that if franchisees implement the blueprint according to the instructions, they are likely to succeed, and all their efforts can go into implementation because the development work has been done for them. Dollinger (2003, p.95) puts forward that the franchise system saturates the market, “which gives the franchise the benefit of visibility and recognition, logistical cost savings, volume buying power, lower employment and training costs, and the ability to use the mass media for advertising efficiently.” This directly addresses some of Porter's five forces (Challenor, 2010) alluded to further on in the chapter which threatens the sustainability of a business.

Nieman et al (2008), believes that there are advantages and disadvantage to the franchise system from both the franchisee's and franchisor's perspective. Both the advantages and disadvantages are discussed throughout this chapter. The advantages from the franchisee perspective include;

- I. A proven system
- II. Start-up assistance
- III. Ongoing assistance
- IV. Advertising and purchasing
- V. Easier to obtain finance

The disadvantages from a franchisee perspective include;

- I. Increased set-up costs
- II. Rigid operating procedures

III. Bad decisions by the franchisor

The advantage from the franchisors perspective

- I. Rapid expansion
- II. Dedicated owner operator

The disadvantages from a franchisor's perspective include;

- I. High operating costs
- II. Reduced income per unit
- III. Restrictions on freedom to act

In the franchising industry, franchises are built on the premise that the franchise serves as a strong brand and this is an important advantage for entrepreneurs. Peterson and Dant (1990) state that an entrepreneur has the advantage of belonging to a large chain and is able to compete with large corporate brands yet, is able to maintain their individual status as an entrepreneur.

Figure 2.3: illustrates what high brand equity and a trademark has on a business

### High Brand Equity Means

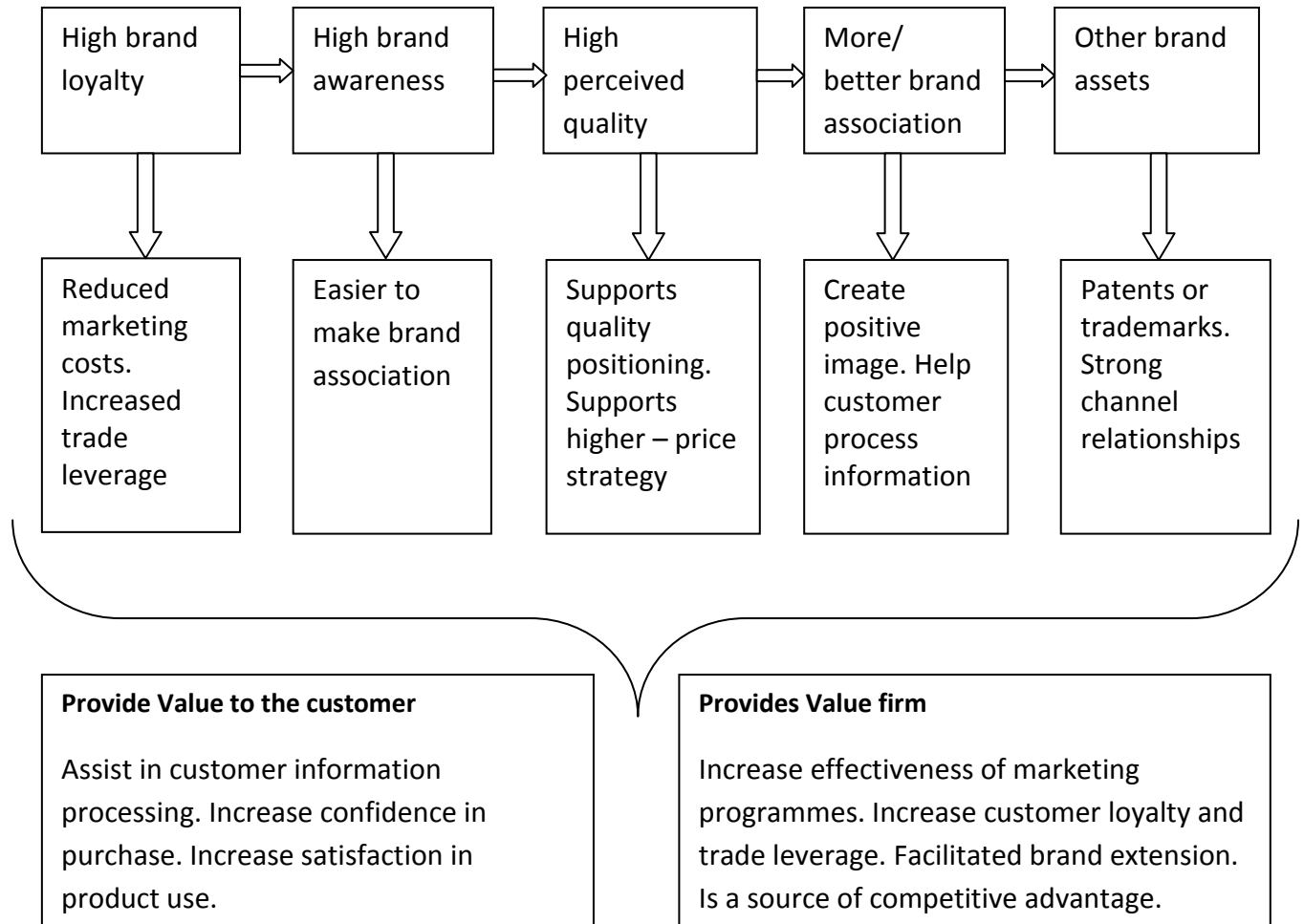


Figure 2.3: Brand Equity

(Adapted from Crawford and Benedetto, 2008, p. 395)

The above diagram highlights the importance that the trademark and brand of a franchise serves. A reputable franchise has high brand awareness and therefore consumers associate it with superior quality than independent stores. Generally, in most businesses, the percentage marked up on items varies from product to product and the price will vary on the same or similar product from retailer to retailer. In a franchise,

consumers are willing to pay a higher price for goods than other retailers because of the perceived quality of goods and services. It is easier to introduce a new range of products in a franchise because consumers place their trust on the known and established brand. A franchise therefore saves considerable amounts of money on advertising as the brand is a self advertised business however, franchises are mandated to pay royalties which covers aspects of advertising and support. Once a consumer has a good experience with a brand, they become loyal to the brand for a long time. As a result, franchisees have to be extremely careful with how they present the store and treat consumers; one bad experience could change the consumers' perception of the brand.

## **2.6. Relationship between the Franchisor and the Franchisee**

In the majority of franchises, the franchisor provides initial guidance in terms of location, apparel, funding, financials (pricing and buying power), signage, layout and design, customers and human relations to the franchisor. This guidance assists the franchised store to remain uniform with other stores. The franchisee further enjoys support after the initial set up stage through marketing and guidance from the franchisor. The relationship between the franchisee and the franchisor is one of interdependence. If the franchisor has a strong brand name, then the franchisee benefits. If the franchisees are successful, then they add value to the brand and create a good image for the franchisor. The opposite is also true, where the franchisee can affect the franchisor by displaying a bad brand reputation.

Timmons and Spinelli (2009) states that franchising is an entrepreneurial partnership between the franchisor and franchisee, and the purpose of this alliance is to use the trade mark to increase revenue for both the parties. In most instances, the franchisor provides the franchisee with, "a trading name, image and good will, systems and procedures, products and services plus an agreed operating territory for the duration of the franchise." The franchisor in addition provides continuous support and guidance to

the franchisee, which assists in the below bullets c, d, and e of the life cycle of a business (Maitland, 1991, p. 1). This is to maintain the goodwill of the brand. “Goodwill may be described as the benefit and advantage of a name, reputation and connection of a business, and is the attractive force that brings in custom” (Nieman et al. 2008, p. 196). The life cycle of majority of businesses are five fold as depicted in the diagram;

- a. Research and development
- b. Start up and growth
- c. Early growth
- d. Rapid growth
- e. Stagnation, death, or further growth

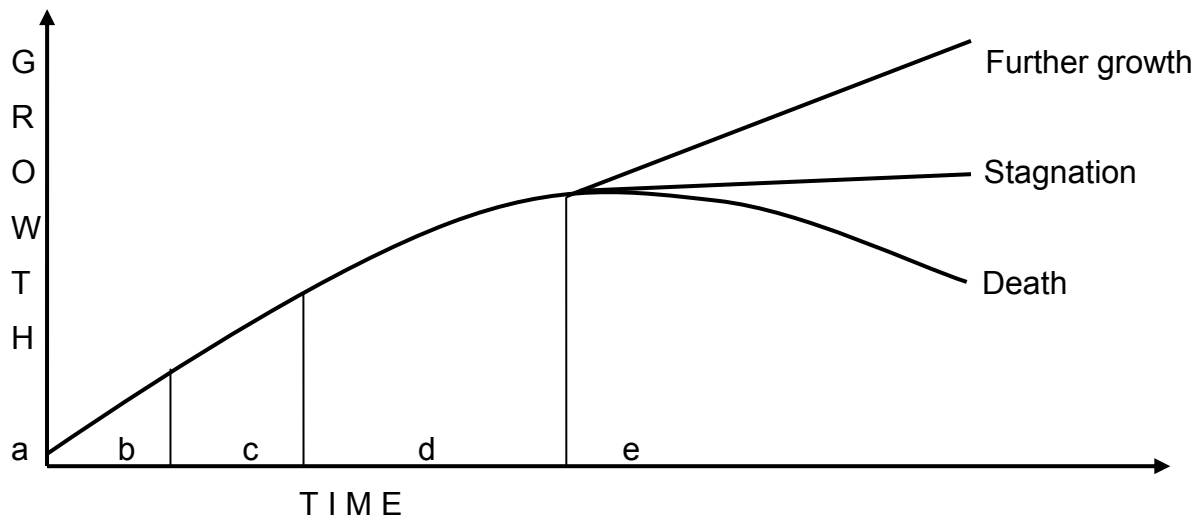


Figure 2.4: Stages of a business

The franchisor provides the blue print to the franchisee and it is expected that the franchisee uses this to their competitive advantage. Therefore, in a franchise business life cycle, the time, energy and costs spent during the research and development is significantly reduced which is phase (a) of the above diagram. Once the research and development stage is complete, the franchisee assists in the marketing of the franchise which occurs in stage (b) and (c). In stage (d), the franchisee has to sustain and grow

their business. This will determine if the franchisee can maintain and grow profits following on stage (e). Understanding the relationship between the franchisor and franchisee in the business life cycle is essential. This allows the franchisee to use the franchisor to their full advantage. It also prevents the franchisee to make common mistakes in the franchise.

Entrepreneurs' entering the wrong business is a common reason for the closure of the business in the first three years of its existence, however, an entrepreneur entering a wrong franchise is supported by their franchisor. This however, does not mean that the franchise business is not bound to fail; there are franchises that have closed down. It is therefore up to each individual franchisee to take care of the day to day running of the business and ensure that the franchise is taken to the next level of growth.

Franchising eliminates the franchisors organizational and financial constraints by allowing the franchisee the opportunity to raise their own capital and manage their own franchise (Dollinger, 2003). In effect, this reduces the entrepreneurial innovation and management that the franchisor has and allows the franchisee to administer these functions. The franchisor has a tried and tested system that he imparts to his franchisee. It is a style that has worked globally with some franchises venturing out to more than a thousand stores with this concept. Becoming a franchisor is a tedious process. Systems and processes have to be sound, and a network has to be set up to administer the launching, training and management of each franchisee. Although the process is so tedious, it is still a cost effective method to expand the business concept as opposed to outlaying millions of rands of capital to open additional outlets.

At this juncture, one may question; if the store is successful, why franchise it? Why doesn't the initial owner/s venture into more stores? Before venturing into franchising, the owner/s of a store has to be flourishing, well established and open at least another store successfully. The owner has to have cumulative knowledge on the business concept, geographical locations, market analysis and strong management control. To

expand a business into many outlets would be virtually impossible without the franchise concept.

“Marketing activities are certainly some of the most sensitive areas in the ongoing franchise relationship because they imprint the trade name and trade mark in the mind of the consumer to gain awareness- the most important commodity in the franchise.” (Timmins and Spinelli, 2009, p.407). It is the responsibility of the franchisor to market the brand or trade mark of the franchise. If this is done in a superior manner, the franchisee benefits which has a positive knock on effect on the franchisor. In many instances as discussed earlier, consumers are willing to pay a higher price for superior quality goods and services. Consumers identify with a brand, its reputation in the market over the years and the offerings it has to present. The franchisor therefore has a national budget to promote the franchise through the media of newspaper, leaflets, television, radio, etc. However, it is critically important for a franchisee to conduct their own marketing as it may not be enough with the franchisor’s marketing. In this regard, most franchisors are flexible with regards to their franchisee’s marketing products in terms of specials.

A franchisee benefits from the economy of scale of the franchisor. Bulk purchases means that the franchisor can negotiate on lower prices and these lower prices are passed on to the franchisee. This is one of the competitive advantages of franchisees. Different franchises offer different buying systems. The two most common systems are total product buying from the franchisor and no buying from other suppliers, or majority stock purchased from the franchisor and limited purchases from other suppliers. This is due to the fact that many product lines are unique to a particular franchise.

## **2.7. Can a Franchisee be an Entrepreneur?**

Does the franchisee have the opportunity to be an entrepreneur within the boundaries that they work in? There are constant market changes that are taking place in a business on a daily basis. These changes include changes in inventory, prices, consumer policies, marketing forms and branding, salary scales, etc. Can the franchisee respond to these changes without infringing on the legal rights of the franchise agreement? Depending on the type of franchise, there is room to accommodate for these changes in some whereas others are inflexible. Franchises are inflexible for the main reason of brand protection. It is perceived by the franchisor that if they give the franchisee space to innovate, the reputation of the franchise may be tarnished.

Dollinger (2003) argues that the distinction between the entrepreneur and the franchisee is the focus on the concept of innovation. Although one may belong to a franchise, there is always room for expansion or, there is risk of failure and stagnation. Dollinger (2003, p. 352) further argues that, “the franchisee is contractually obligated to operate the business in a prescribed manner, he or she has little apparent room for innovation..... however, franchisees frequently do make innovations that are either tolerated by the franchisor or adopted by the franchisor and incorporated into the system.” Maitland (1991) states that franchising is not for entrepreneurs that have characteristics of strong will, as it could be frustrating for them to follow rules from the franchisor thus, leading them to become antagonistic towards the franchisor.

Although franchises have greater chances of success, franchisees have closed shop as profits dwindled. On this basis, it can be argued that franchisees have to be entrepreneurs in order to expand their current franchise and venture out in more franchises, even though they may work in a regulated environment. The franchising model has demonstrated that it has gained significant momentum through the years and continuing to grow at a rapid pace.



## **2.8. Global Phenomenon on Franchising**

The process of wealth creation through franchising has evolved throughout the world where it is evident that not only franchisee's are on the increase, but also new franchisors that are springing up (Timmons and Spinneli, 2009). It is clear that franchising is a one of the fastest growing economic sectors in the world. Successful entrepreneurs are seeing that the vehicle for expanding their enterprise is through franchising. Increasingly, it can be seen in different countries globally that franchising can be used to help effectively grow their economies and as a result, several governments have encouraged franchising in their nations by passing laws, establishing organizations, and developing support programs such as conferences and exhibitions (Hoffman and Preble, 2004). The major business sectors enjoying worldwide growth in franchise activity include restaurants, retail, and services. Among the major operational concerns franchisors need to be aware of are; royalty taxes, contract laws, local tastes and habits, and the existence of codes of ethics in many of the nations (Hoffman and Preble, 2004).

The franchising concept is highly flexible and adaptable, and is suited for both developed and developing economies. While franchising is well established in developed nations, it also works advantageously in transitional economies, where franchising provides the necessary structure and support that otherwise would be lacking (Hoffman and Preble, 2004). Eighty percent of the world's population lives in emerging markets and the Department of Commerce estimated that seventy five percent of the expected growth in world trade in the next decade will come from emerging markets (Alon, 2006). Emerging markets embody the most dynamic opportunities for service franchisors, but their market potential varies considerably in terms of the price of the final goods, the price of the franchise, the business format, selection of merchandise, investment schedule, required return on investment, the mode of entry, the financing available, the location, and the partners selected (Alon, 2006).

The International Franchise Association (IFA) represents franchisees and franchisors with regards to regulatory aspects globally. They have in excess of thirty thousand members in over one hundred countries (Nieman, et al. 2008). There are also many other franchise bodies in the world that represent different categories of franchising. One of the largest economies of the world, the United States of America has four thousand five hundred franchise businesses with six hundred thousand outlets, which accounts for more than forty percent of retail sales in the country (Timmons and Spinelli, 2009). The phenomenon of franchising has transverse the entire globe. A franchise like Mac Donalds, is now existent in every continent and almost every country. It has overcome boundaries of language, national policies of a country, religion, technology and politics. Franchises have adapted to the local conditions of a country where it has been located.

## **2.9. South African Experience on Franchising**

In relation to other developed countries around the world, franchising in South Africa is a relatively new and under-utilised business system. Its contribution to the retail sector of the economy is around eighteen percent whereas in most first-world countries that figure exceeds fifty percent (Finweek, 2008). Although the concept is relatively new, there is more than five hundred and fifty franchised brands and around thirty thousand franchised outlets of which thirty percent is accounted for by the food industry (<http://www.whichfranchise.co.za/article.cfm?articleID=613>, accessed October 20110). The Franchise Association of Southern Africa (FASA) was established in 1979 but was impeded during its first decade by the country's status as virtual outlaw in the international community, but this status changed as apartheid was dismantled (Zeidman, 2003).

Figure 2.5 depicts the fast growth of franchising business in South Africa.

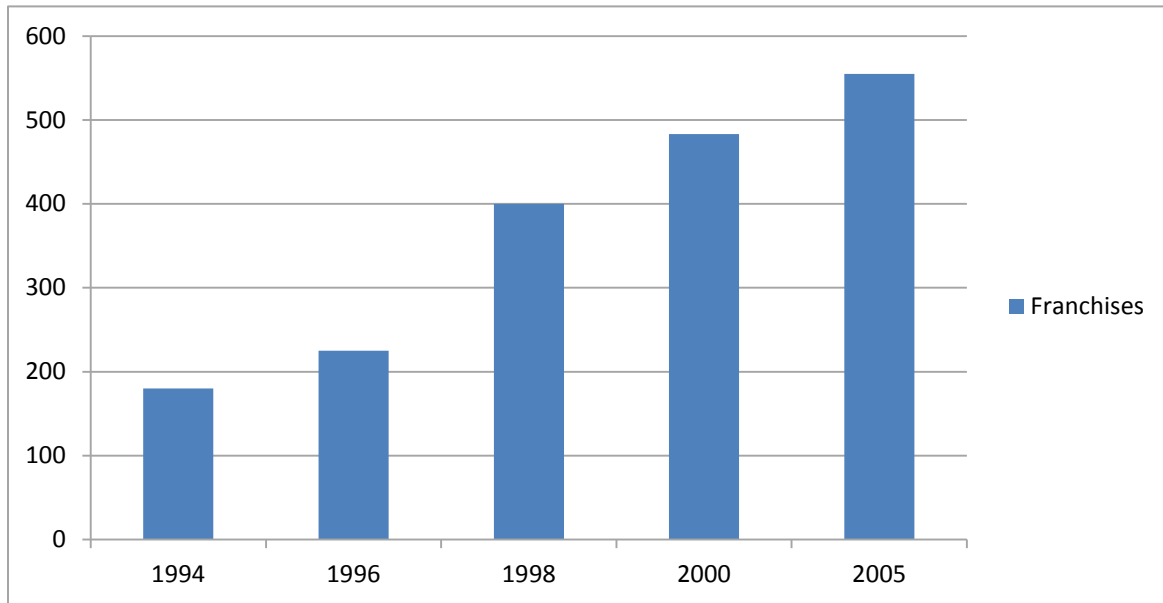


Figure 2.5: The growth of franchising in South Africa

(Adapted from Nieman et al, 2008)

The above table depicts the accelerated growth of franchises in South Africa. As can be seen, there were under two hundred franchise systems in 1994 and in 2005 there are close to six hundred franchise brands which shows that franchising is exponentially increasing. There are multiple franchisees in each franchise brand. Some owned by the parent company (franchisor) and others by independent owners. According to research conducted by FASA in 2008 (Finweek, 2009), the following was reported;

- South Africa's franchise sectors contribution to GDP is up from 12.1 percent in 2006 to 12.5 percent in 2008.
- The franchising sectors turnover grew from R188. 23 billion in 2006 to R256.45 billion in 2008, a leap of thirty seven percent in two years.

In South Africa, there are a few organisations representing franchises which include; the Women's Franchise Committee (WFC), Industrial Development Corporation (IDC), Business Referral and Information Network (BRAIN), South African Chamber of Business, regional chambers of business and Franchise Association of South Africa (FASA). FASA represents franchisors, franchisees and the professional organisations that service the franchise industry. It is the only recognised representative body of the rapidly growing franchise industry within the franchise fraternity in South Africa. "FASA's primary role is to define the business of franchising and ensure that all parties adhere to the franchise business principles adopted and accepted internationally. With franchising universally accepted as one of the most successful business formats, FASA's role is to continually promote the advantages of franchising to business entrepreneurs, prospective franchisees and to the public at large" (Finweek, 2008, p. 14).

In 2003, the franchising sector in South Africa recorded more than four hundred franchise systems, twenty three thousand retail outlets, employing more than six hundred thousand people and growing at a rate of seven percent per annum (Zeidman, 2003). The Department of Trade and Industry is currently working on a proposed Consumer Protection Bill that will regulate certain aspects of the franchise industry which was expected to be promulgated in 2010 (Finweek, 2009). The franchising model presents entrepreneurial opportunities in which small business will always be better positioned to capitalise on a rapidly changing environment. Nieman et al, 2008, is of the strong view that franchising amongst the previously disadvantaged groups is an excellent tool for economic upliftment and growth, and must be achieved through participation from FASA, banks, Department of Trade and Industry (DTI) and franchisors.

"Franchising could be the opening wedge as a point of entry into the economy for large numbers of black putative entrepreneurs" (Zeidman, 2003, p. 41). BEE initiatives encourage franchises to comply with their BEE requirements as far as the development of businesses, skills development and job creation are concerned, and also opened the

door for many more potential franchisees to become part of the franchise system by owning their own businesses (Bester, 2007). This previously disadvantaged group in South Africa lacking experience and discipline necessary for the successful administration of business, would be far better of embracing a proven business model than trying to establish or expand an existing operation (Zeidman, 2003). Banks and other financing institutions have taken significant interest in financing franchisees. The international finance corporation approved 3.75 million dollars annually in the new South African Capital Fund to make loans available to members of previously disadvantaged groups to acquire franchises (Zeidman, 2003).

## **2.10. Regulatory Context of Franchising**

“The core of franchising lies in the rights and obligations of both parties and understanding the legalities of what you are getting involved with is perhaps the most crucial element to choosing the franchise route.” (<http://www.fasa.co.za/showguideline6.htm>, accessed October 2011). There is no singly accepted franchise regulation in the world, and the law governing franchises vary from country to country. Countries like the USA and European countries have stringent franchising laws, as franchising industry in many of these countries account for more than forty percent of the retail economy. In South Africa, the Department of Trade and Industry (DTI) have realized the importance of franchising. DTI have produced a regulatory bill in 2004 which was never promulgated into an Act. Consequently, there is no regulation for franchising in South Africa.

FASA is the only national formal body that support, represents and provides guidance to franchisees. FASA encourages franchisees to develop into ethical profitable businesses (FASA, 2006). Franchisees are encouraged to register and become members of FASA. If they are members of FASA and there is a dispute between the franchisor and the franchisee, both the franchisor and the franchisee have to go through mediation as mandatory being members of the organisation (Finweek, 2009). There is therefore recourse to protect the franchisee if there is disagreement with the franchisor. In

addition, FASA holds annual awards to honour different categories of franchising like new comers, strongest brand, etc.

The terms and condition of owning and running a franchise can be laborious and stringent. Compliance from the franchisee is of utmost importance for a successful and long lasting relationship with the franchisor. Once the franchisee buys the right in the form of a trademark from the franchisor, that person has to run the franchisee in a regulated manner. This prescribes that an owner has to run the business with a certain particular standards. As soon as the owner transgresses or deviates from the standards agreed and signed upon, the franchisor has the right to withdraw the franchise from him or her as it may bring disrepute to the franchisor.

There are various laws that govern the legality of opening, managing and selling a franchise in South Africa. The consumer code of franchising was published in 1995 to protect franchisees and consumers (Nieman, et al. 2008). A disgruntled consumer and an unhappy franchisee have the right to complain to FASA. The disclosure of documents is a legal requirement for franchisors to disclose all relevant documentation to prospective franchisees. Advertising practices by businesses that are not franchisors use the name franchise to attract consumers. Pressure from FASA has resulted in the Advertising Standards Authority of South Africa inserting in its advertising code of practices that the word franchise cannot be used loosely and unlawfully (Nieman, et al, 2008).

The legal contract between the franchisor and the franchisee is of utmost importance in a franchise agreement. The cause of many legal battles between the franchisor and franchisee is due to misunderstandings and breach in the legal contract. It is therefore important that this contract is fully understood before the franchisee purchase the franchise and the franchisor sell the franchise. This forms part of the legal aspect of the disclosure of documents as was discussed earlier.

Throughout the world and also evident in South Africa is the fact that many franchisors only grant new franchises to their existing franchise owners. For example, Kentucky Fried Chicken (KFC) will sell a franchise to a present KFC owner. From the side of the franchisor, this works because the existing owner has the necessary skills and expertise to run additional franchises. On the contrary, this may create a problem for franchisees to manage their various franchises. In this case each franchise will not get the personal attention in terms of management and expansion. This has created many problems for those entrepreneurs wanting to enter the industry of franchising. Due to the racial segregation in South Africa, previous franchise owners were mainly white. After democratization, a few of the franchisors allowed ownership change with BEE transformation either in partnership or full ownership. On the contrary, this may create a problem for franchisees to manage various franchises.

### **2.11. Financing Franchises**

“Without profits, there will be little incentive for staying in business; without liquidity, the business will soon flounder through lack of solvency, the business will not have enough assets to meet its liabilities, which means that creditors could take legal action to put it into liquidation.” (Macleod and Terrblanche, 2004, p.213). The global recession triggered by the banking financial crisis has changed the principles of credit risk assessment and the way Bank’s lend money to individuals, businesses and conglomerates. In South Africa this was further complicated by the introduction of the following pieces of legislation;

- Financial Intelligence Center Act ‘FICA’;
- The Financial Advisory and Intermediately Services Act (“FAIS”); and
- The Consumer Protection Act.

The FICA or as it is generally referred to as 'Know your Client', requires Banks to perform due diligence on all the individuals, companies or even the shareholders. The FAIS and the Consumer Protection Act regulates the financial operations of Banks to protect consumers from unethical lending and excessive pricing in terms of Banks fees and credit margins. Franchising is a good business that complies with (BEE) codes and consequently makes it easier to do business with the government (Finweek, 2007). A stringent requirement by the banks is looking at the BEE status of potential franchisors. Nieman et al. (2008) argues that the franchisee has to constantly exercise a measure of control over the business and has to strictly manage the franchise according to the prescribed norms and standards of the franchisor.

There are many barriers to funding a franchise. When a company or an individual apply for finance to a financial institutions, the following are the key considerations the financial institutions will assess;

- Credit assessment in terms of the individual share holders and directors (black listing and poor credit history will result in disqualification);
- Percentage of equity the shareholders have invested with regards to the total project costs;
- Strength of the directors and shareholders with regards to security the financial institutions will require,
- Level and form of security the shareholders will offer. Financial institutions prefer personal surety, but in special circumstances they will accept a general surety over the franchise assets including the inventory.

Banks have the right to reduce the amount requested as a loan or to refuse the loan entirely. If the loan is approved, all banks will request surety to the equivalent or higher amount of the loan. Surety is collateral against the loan that has been taken and can be in the form of property, inventory, or any other asset that the owner or business has in their possession. The banks also require that the franchisee put in a percentage of their



own equity. This percentage will differ for owner to owner and also from franchise to franchise depending on the risk factor of that business.

“Most of the major banks have dedicated franchise desks and they are familiar with many of the leading franchise brands so prospective franchisees are often considered more favourably than a conventional start up business.” (<http://www.fasa.co.za/showguideline4.htm>, accessed October 2011). Banks require detailed business plans with comprehensive financials attached to it. The business plan should be completed by a franchisee before the franchise is purchased. The business plan will indicate to the prospective franchisee and the banks as to how profitable the business will be, what the expenses are, when the business will reach break- even and how will it repay off all its debts. Apart from the financials, the business plan will conduct a detailed study on the existing and future markets, the strengths, weaknesses, opposition and threats of the business and its location.

In South Africa as part of Government’s drive to create jobs, government departments (Department of Trade and Industry) and the State Owned Enterprises such as the IDC, Kula offers beneficial funding products to franchise – grants and discounted funding rates. This is developed with the intention that franchises create jobs. However it is challenging to access these funding products. Commercial Banks have more challenging lending criteria; however they deliver the most number of funding for franchising.

Opening a franchise is more costly than a conventional business. The start-up costs include;

- I. Franchisee fee
- II. Inventory costs
- III. Signage, furniture and fittings (assets)
- IV. Operating costs

The franchise fee varies from franchise to franchise. In certain franchises, the franchise fees include the initial capital costs, apparel and signage. In other franchises, the franchise fee just allows the franchisee to buy rights into the business and trade under the trade mark of the franchisor. Inventory costs can be significantly high depending on the franchise one engages in. One of the requirements of a franchisor is that their franchisee should be adequately stocked up so that they do not turn customers away with no stock in the business. The major costs in setting up a franchise are the assets. The signage, furniture and fittings have to be customised to the franchisors' requirements. The franchisee has to also budget for the operating costs of the franchise. A safe time frame would be to budget for three or more months of operating costs incurred in the business. The operating costs would include; salaries, rental, royalties, consumables, electricity and water, repayment on a loan, accounting and administration costs.

## **2.12. Franchising and the Automotive after sales Sector in South Africa**

The category of automotive products and services is one of the best established in SA, with forty four franchise systems as part of it and a total of about two thousand two hundred and forty outlets in the country (Van Zyl, 2007). Research conducted by the Industrial Development Corporation (IDC) (2010) indicate that over sixty percent of South Africa's motor cars and commercial vehicles are 'out-of warranty', meaning older than five years and in the current economic climate, vehicle owners prefer to hold onto their cars longer, which also has positive implications for 'out-of-warranty' franchised service centres, fitment centres and replacement parts retailers. Once the vehicle is over the warranty period, owners find themselves using independent service and repair workshops. The main reason for this being that it is cheaper to use independent service and repair workshops. Barnes and Kaplinsky (2010), states that there are hundred and eighty component firms producing for the auto industry and there are approximately two hundred secondary firms that are producing for this sector which results in various types of employment created.

South Africa has a well-established and sophisticated automotive franchising sector on par with developed markets where there are over one thousand nine hundred franchised outlets throughout the country representing fifty four different franchising brands (IDC, 2010). It is therefore not surprising that over the past five years, the franchised automotive sector has experienced rapid growth. New outlets grew at nine percent per annum, whilst the number of different franchised brands increased from twenty eight to fifty four over the same period (IDC, 2010). The growth outlook for the franchised automotive sector remains positive. Factors such as rapid urbanisation, increasing vehicle density and ageing vehicles will continue to drive demand.

The Figure below illustrates the different types and age of vehicles on the South African roads.

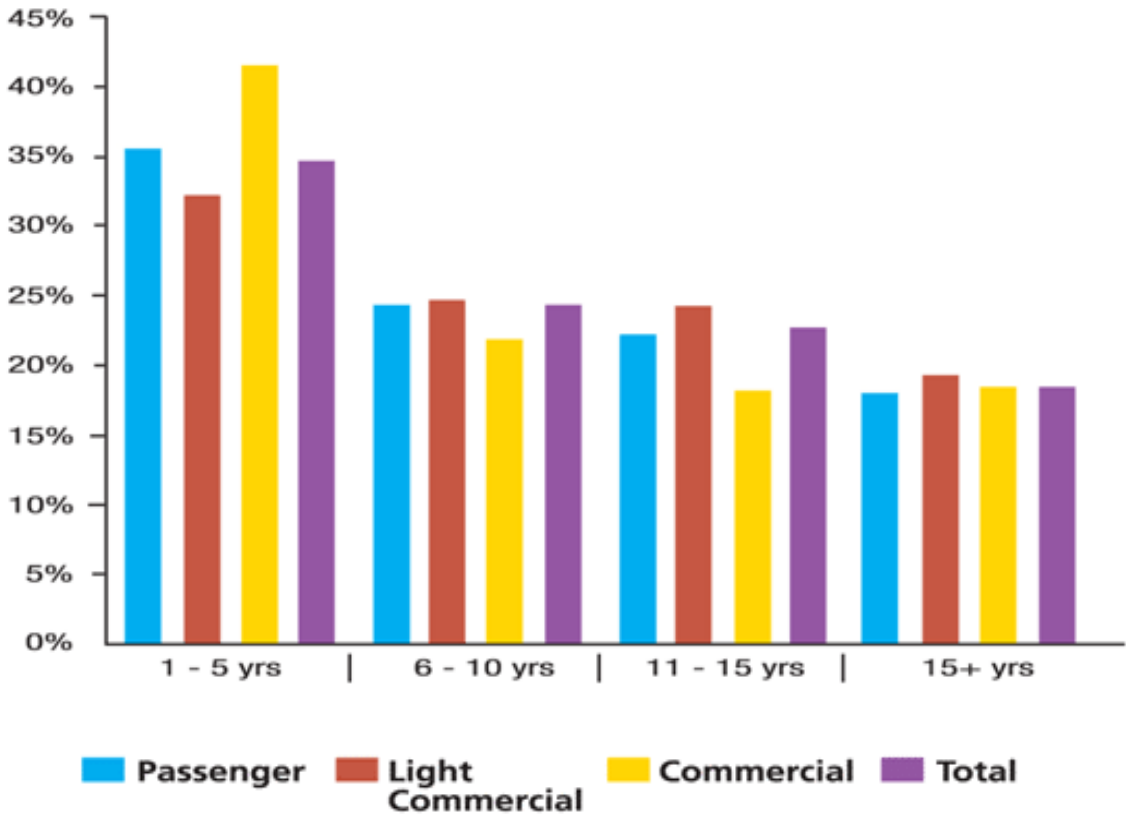


Figure 2.6: Vehicle Park Percentage  
 (Adapted from <http://www.midasgroup.co.za/pebble.asp?relid=1>)

Figure 2.6 illustrates the vehicle park percentage that the Midas group has calculated for all vehicles in South Africa. It is important to note that there is considerable number of passenger, light commercial and commercial vehicles that are between one and fifteen years of age. This further implies that Midas which is the largest automotive parts retailer in the country has a large target market.

### **2.13. Midas Franchise: A Successful Vehicle for Entrepreneurs**

There is a demand for motor retail parts. Midas presents a successful automotive after sales franchise that has grown in size and profitability in the last two decades. The Midas Group is the largest automotive group that caters for the retail motor vehicle market in the country (IDC, 2010). Activities undertaken by the group include auto maintenance and repair services, the retail of auto replacement parts and accessories, including the wholesale and retail of spare parts to its franchised and independent workshops, fitment centres and engine rebuilders (Industrial Development Cooperation, 2010). The group has two hundred and twenty two auto spares franchises and about one hundred and thirty franchised auto maintenance and repair operations ([www.midas.co.za](http://www.midas.co.za), accessed September 2010).

The Midas group was founded in 1968 and was listed on the stock exchange in 1986. In 2009, the group employed one thousand one hundred and sixty six members of staff and generated a turnover in excess of R1.8 billion (Midas Group News Letter, 2009). In 2002, the executive management “leveraged buyout (LBO) from the previous shareholders and simultaneously de-listed from the JSE” (Midas Group News Letter, 2009, p.2). The group further entered in a Black Economic Empowerment deal with Balella investment Holdings (Pty) Ltd. The group again entered into partnership with General Motors South Africa and in 2008, the Midas Group purchased back their shares from General Motors (Midas Group News Letter, 2009). There has been a series of

ownerships from the time the Group was established, each ownership serving a purpose. Currently the group structure is as follows (Midas Group News Letter, 2009);

Figure 2.7 presents the ownership structure of the Midas Group.

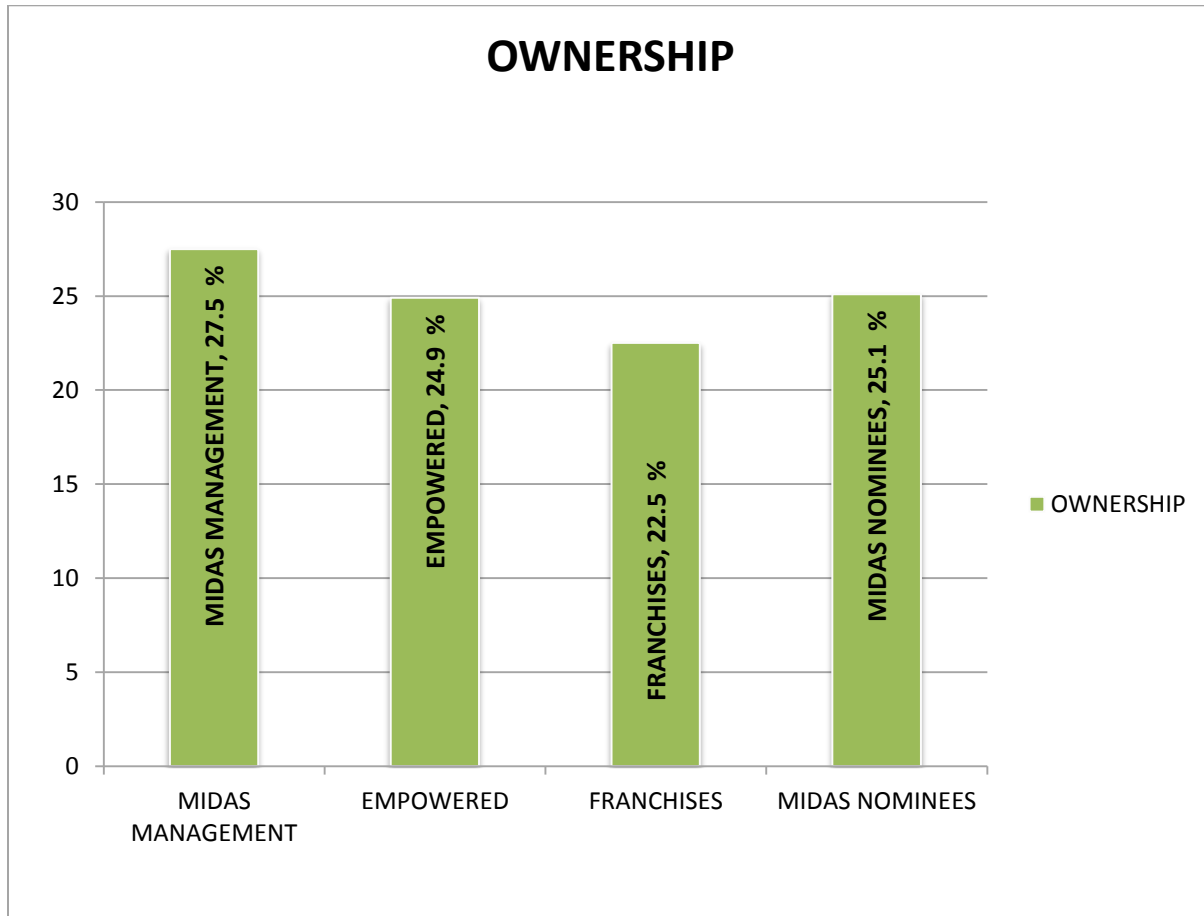


Figure 2.7: Midas Group Structure

(Adapted from Midas News Letter, 2009)

Amongst the various franchises in the group, Midas is the flagship franchise and represents the main brand of the group. “The Midas Group has the unique advantage of critical mass, together with specialised product divisions with focused, technically

competent product management teams serving the distribution hubs which in turn service the needs of the customer. (<http://www.midasgroup.co.za/pebble.asp?relid=1>, accessed October 2011). The Midas Group has successfully used the franchising model as a way of expanding its activities. The Midas Group has successfully used the franchising model as a way of expanding its activities. The Midas group is very innovative in its approach to stay ahead of the market. They constantly invest in “logistics capabilities and provides logistic solutions encompassing physical distribution, electronic procurement, selling, financial and inventory management” (Midas Group News Letter, 2009, p.2).

Under auto maintenance and repair activities, the Industrial Development Cooperation (2010) stated that the group’s franchised brands include:

- Midas – through its two hundred and twenty two nationwide outlets, Midas auto spares sells directly to motorists;
- Motolek – through its sixty nine nationwide outlets, Motolek auto electrical workshops specialises in the servicing of starters, alternators, wiring and motor vehicle diagnostics;
- ADCO – through its forty four nationwide outlets, ADCO specialises in the fitting, repair and maintenance of diesel pumps, injectors and turbo chargers;
- Clutch and Brake Services (CBS) through its fifteen national outlets, CBS specialises in the repair and maintenance of heavy duty and light vehicle brakes, clutch and pressure plates, hydraulics, bearings and cylinders; and
- Autocare and Diagnostics (ACD) – specialises in advanced auto diagnostics and maintenance through its workshops.
- NAPA members are independent and franchised shops that buy in large quantities from the Midas Group. They therefore enjoy greater discounts on their product range.

Figure 2.8 depicts the organogram of the Midas Group and illustrates how the different franchises of the group reach their respective target markets.



Figure 2.8: Midas Group Organogram  
(Sourced from the Midas KZN Head Office)

## **2.14. An Independent Business or a Franchise?**

The question that plagues most entrepreneurs minds whether budding or experienced, should we venture out into franchising, or open an independent business. There are merits and demerits to both business forms. Maitland (1991) is of the view that there are advantages and equally disadvantage of becoming a franchisee. The advantages are; an established brand, a proven track record, preliminary assistance and, ongoing support and guidance. The advantages have been discussed in detail above.

The disadvantages include; continuous hard work, constant payments in the form of royalties, inflexible and procedures, and, the constant mutual dependence. Entrepreneurs should not think that franchising is the easiest form of business to make money. When an entrepreneur decides to enter the franchise industry, he or she has to initially work hard in setting up the business and follow the guidelines from the franchisor. The main source of income for franchisors is royalties. This has to be paid every month and is a considerable amount of income. These guidelines somehow bound you to conduct business in a certain manner and in many cases, stifle your creativity and innovation. As long as a person is a franchisee, they are bound by the mutual agreement and partnership of the franchisor. Working in a franchising environment is just as trying as an independent outlet with some of the additional advantages that franchisees have. However, as eluded earlier, starting a franchise has a greater success rate than taking the independent business route.

Porter's five forces in an industry include;

- I. The threat of new entrants in an industry
- II. The threat of substitute products
- III. The power of customers
- IV. The power of suppliers
- V. Rivalry amongst business in the industry



Porter's five forces have been used for more than thirty years to analyse business opportunities, success, threats and failure. From the earlier discussions, franchising addresses all five forces of Porter as opposed to venturing out into an independent business. Most franchises are based on scale which reduces the extent of the threat of new entrants. Franchising set aside budgets to be innovators and leaders in their industry and are therefore always looking at substitute products. With a powerful brand, franchising increase the power of customers. Bulk buying reduces prices of commodity from suppliers. The terms and conditions in a franchise agreement address rivalry within the same franchise group. This does not prevent rivalry amongst different businesses in the area.

## **2.15. Chapter Summary**

There is a major problem in the South African economy with regards to entrepreneurs venturing into new forms of businesses, especially new business owners. Fewer business owner means that there are lesser people that are employed. New venture creation and sustaining the business is problematic for entrepreneurs as they lack the support and experience. Franchising is a vehicle that presents opportunities for potential entrepreneurs to enter into an industry that offers some guidance and protection for growth and profit making. Franchises vary by region mainly due to social, political and economic conditions. "Whether one looks at it from the point of view of the franchisor or the franchisee, franchising is one of the ideal routes to business success in South Africa" (Nieman et al, 2008, p. 207). The after sale motor industry is a fast emerging industry that is growing in momentum. The Midas group of franchises is the largest franchise after sale motor group in South Africa and has the potential to grow significantly. The chapter that follows outlines the research methodology design and process.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

The research methodology chapter provides an outline of the research design and methodology employed for this study. There does not necessarily need to be a problem for research to be conducted, an identified gap in the body of literature warrants research to be conducted (Sekaran and Bougie, 2010). An unyielding research approach will ensure that the researcher obtains his or her data in a professional, reliable, timely and correct approach. Researchers should be experienced, remain patient and stay ethical in their approach to data collection. According to Mouton (1996) the research design is a route planner which is determined by the formulation of the research problem or the research question and the methodology outlines the tools which the researcher uses to conduct the study and to answer the research question.

This study adopts a qualitative research design, where the data collection is undertaken in its “natural setting sensitive to the people and places under study, the data analysis is inductive and establishes patterns or themes” (Creswell, 2009, p. 37). Furthermore, it engages complex description of the research problem adding to the body of knowledge or calling for action (Creswell, 2009). Qualitative research allows the researcher to understand multifaceted issues with an all-inclusive participation in the research environment and its people.

#### **3.2. Qualitative Research Paradigm**

The qualitative research design is appropriate for this study as rigorous multiple data gathering tools were used. The approach also allows the researcher detailed engagement with respondents within the Midas business franchise across the

eThekwini Municipal Area (EMA). “All qualitative research seek to discover understanding or to achieve explanation from the data instead of from (or in addition to) prior knowledge or theory” (Morse and Richards, 2002, p. 2). The study is multi-dimensional. The instruments used for this research include a desk top analysis, literature review, questionnaires, face to face interviews and observation. The Midas franchisees and franchisors will be interviewed through questionnaires. Secondary research in the form of a literature review of documentation from Midas franchise will be undertaken to establish the type and extent of support offered for new business establishment. Observational research will be carried out in the Midas franchise. This will assist the researcher to better understand the franchise.

### **3.3. Aim of the Study**

The aim of the study is to examine whether franchising provides entrepreneurs especially new entrepreneurs a more secure business start up and business sustenance.

### **3.4. Objectives of the Study**

- To examine the provision of business establishment support in the Midas franchise.
- To assess the perception of new business owners in a Midas franchise.
- To explore franchise owners reasons for choice of this business model as opposed to starting an independent new business.
- To investigate the success of the Midas Franchise.
- To assess the perception of the franchisor towards their franchisees.

### 3.5. Data Gathering

The figure below outlines the various techniques that have been deployed by the researcher to gather primary and secondary sources of data.

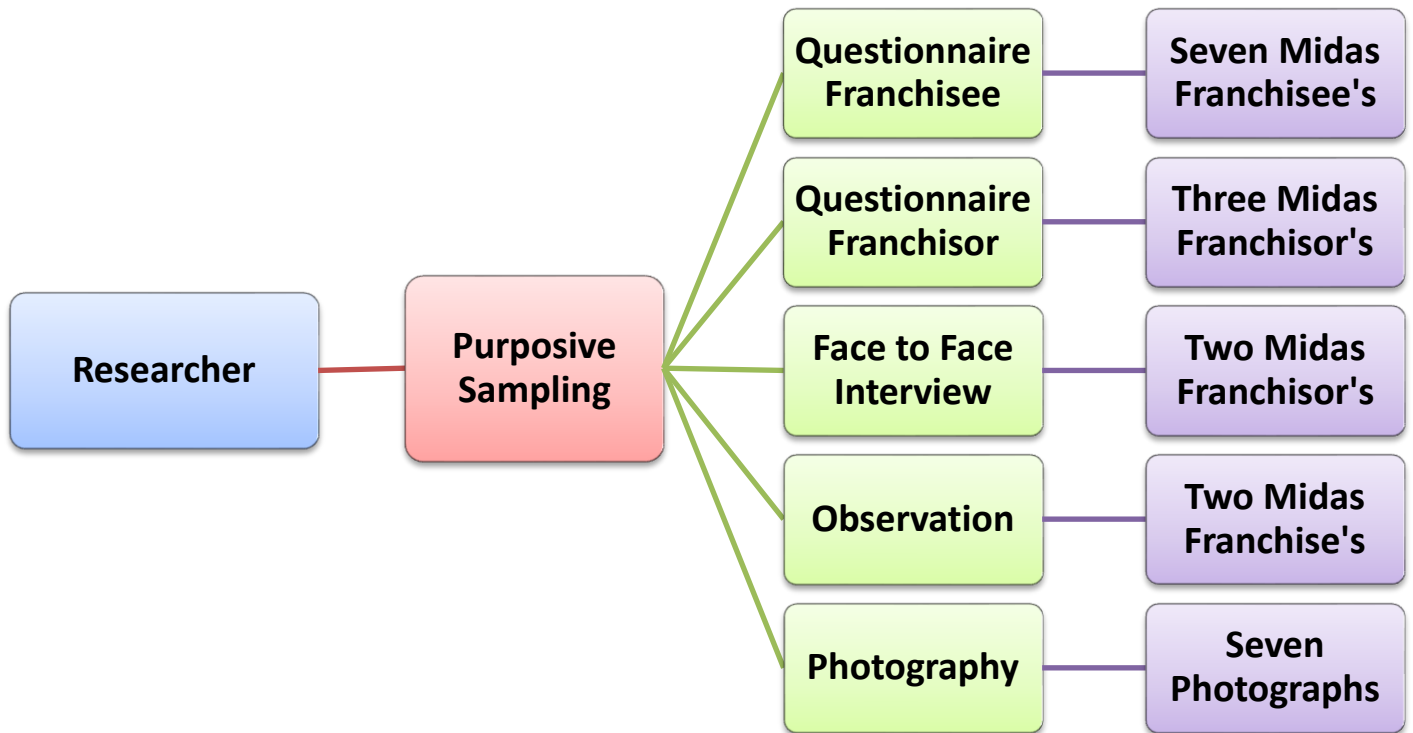


Figure 3.1 Research Techniques Deployed in Study

This study takes on an exploratory research approach. Exploratory research offers the researcher a chance to probe into a subject to get as much information out as possible. “Exploratory studies are also necessary when some facts are known, but more information is needed for developing a viable theoretical framework” (Sekaran and Bougie, 2010, p. 104). A multi-method approach is used to describe and understand the human action from an “insider” perspective (Babbie and Mouton, 2002, p. 53). Therefore, multi sources of data collection were consulted to observe and understand the topic through close interaction with the research environment as well as

respondents (Creswell, 2007: 73). Multi-method data collection reduces the error of bias in the study.

### **3.5.1. Interviews**

A qualitative interview is described as “an interaction between an interviewer and respondent in which the interviewer has a general plan of inquiry but not a specific set of questions that must be asked in particular words and in particular order” (Babbie and Mouton, 2002: 289). The researcher undertook to interview key persons within the region to better inform the research process and inquiry:

#### **3.5.1.1. Face to Face Interview**

The face to face interview included open ended questions where the researcher probed responses from the franchisor. In-depth interviews were undertaken guided by an unstructured interview with the respondent, to understand the background, structure, purpose and operations of the Midas Franchises. The first targeted respondents were the Chief Operating Officer (CEO) or the franchisor of the Region who served two purposes. The first, provide a detailed account of structures both nationally and regionally and secondly, the CEO was approached as “gatekeeper or key informant” (Creswell, 2007, p.71) for authorization to undertake the study within the KwaZulu Natal region.

Further in-depth key informant interviews were held with branch managers or franchisees of four stores within the EMA. These stores included Akals Midas, Atlas Midas, Gateway Midas and Ballito Midas. In some of these stores, there were in some cases more than one entrepreneur interviewed as they were the shareholders in that business. Face to face interviews allows a researcher to physically assess the environment of the respondent and probe questions that had a follow on effect from

previous questions. The researcher also assesses the respondent state when answering the questions.

### 3.5.2. Structured Questionnaires

Structured questionnaires were prepared with closed and open ended questions to understand the operations, experiences and to understand franchisees particular attitude or perspectives within the study area (Babbie and Mouton). Questionnaires were circulated to targeted Midas stores using the purposive sampling method.

Table 3.1 represents questions from the franchisee questionnaire which is aligned to different objectives of this research study.

Questions	Intention
1 and 2	Investigating Entrepreneurship
3, 4, 5, 6	Exploring franchise owners reason of choice for this business model as opposed to starting an independent business
7, 8, 9, 10, 24, 25	Investigating the success of the Midas franchise
11, 12, 13, 14, 16, 17, 21, 22	Assessing the perception of new business owners in the Midas franchise
15	Examining the provision of business establishment support in the Midas franchise

Table 3.1: Franchisee questionnaire linked to the objectives

Table 3.2 represents questions from the franchisor questionnaire aligned to the objective of the research study.

Questions	Intention
1, 2, 15, 16	Assessing the perception of the franchisor
3, 4, 5, 6, 7, 14	Investigating the success of the Midas Franchise
8, 9, 10, 11, 12, 13	Examining the provision of business establishment support in the Midas franchise

Table 3.2: Franchisor questionnaire linked to objectives

**3.5.3. Research Observation**

A researcher can elicit data from respondents without using direct research methods like questionnaires and interviews, rather an observational technique. (Sekaran and Bougie, 2010). This data has a sense of bias as it is interpreted by the researcher on a particular day and may not reflect the true nature of events. It is therefore important that a research conducts this method of research at different times and on different days. Babbie and Mouton (2002, p. 293) identify two types of observation techniques:

- **Simple Observation:** where the researcher observes the study environment as an outsider.
- **Participant Observer:** is a researcher who forms part of the group of respondents where data is being collected.

For this study the researcher engaged in simple observation technique however, he assumed a “middleground position” (Creswel, 2007, p.139) as he also undertook to

engage closely taking note of respondent's attitudes and field of study for deeper understanding and data interpretation.

#### **3.5.4. Photography**

Morse and Richards (2002) state that a researcher may use photography as an independent tool to illustrate different settings or to record something in its natural state. Pictures can also be used to qualify or quantify a particular object or setting. The researcher made use of photography to depict how a Midas franchise appear to be and also to show the products, staff, customer and the layout and design of the store in their natural state.

### **3.6. Sampling**

#### **3.6.1. The sampling technique**

In non-probability sampling, each person in the population does not have an equal chance of being selected. Non-probability sampling more specifically the purposive sampling technique will be employed which will enable the researcher to identify key informants who are Midas franchise business owners in eThekweni Municipality. There are two types of purposive sampling namely, judgement sampling and quota sampling. Quota sampling looks at a quota and describes the dimensions of the population. Judgement sampling is a method based on the judgement of the researcher regarding the characteristics of a representative sample. The sample will be chosen on the basis of what the researcher envisages will encompass focal areas of the research and therefore the researcher will adopt the judgement sampling technique. There is bias with purposive sampling. The sample may not be truly representative of the population as there maybe bias in the judgement of the fieldworker or researcher (Cooper and Schindler, 2001).



### **3.6.2. Size of sample**

Sampling is a method utilized for categorising the population into different strata like age, gender, employment, race, religion, etc. There can be one or more sampling techniques that can be deployed to select a representative population. This representation then represents the entire population being investigated. Categorizing the population into different strata is known as stratified sampling. Once the population is broken down into different strata, a sampling technique is deployed to get a representation of that sample. It is important at this stage to prevent bias in the sampling technique. Cooper and Schindler (2001) assert that there are various reasons for sampling which include; lower cost, greater accuracy of results, greater speed of data collection, and the availability of population elements. The accuracy of the data collected from the sample would be how well that sampling technique represented the population.

The research sample will be selected from the eThekweni Municipal Area (EMA). The EMA is located with the province of KwaZulu Natal (KZN) which is situated on the east coast of South Africa. KZN has eleven municipalities of which, eThekweni Municipality is largest in terms of population and economic activity. Primary research shall be carried out on a sample group of Midas franchisees as well as the franchisors. Four new Midas franchise entrepreneurs in South Africa who owned this franchise as their first business will be interviewed. A structured as well as an unstructured questionnaire will be administered to these entrepreneurs as there will be open ended as well as closed ended questions. Person to person interviews will be conducted with managers in the Midas Franchise Group to establish the rationale behind the model with specific focus on business success and establishment support.

### **3.7. Data Analysis and Presentation**

Analysis of the multiple sources of data largely entailed thematic coding of responses from questionnaires as well as interview transcripts. Closed ended questions were mainly “yes” or “no” choices which guided the researcher’s interpretation followed by open ended questions which assessed the words of the respondents. The researcher undertook self encoding of data using a flexible narrative style to present the data. Thematic coding was undertaken guided by the literature survey and key questions or objectives of the study (Creswell, 2007).

### **3.8. Validity and Reliability**

Scholars agree that measuring the validity of qualitative research against terms and criteria of quantitative research is incorrect because it neither guides nor informs qualitative research. Therefore, the term “validity” may be replaced with the word “credibility” for qualitative research studies (Creswell, 2007, p. 2002-203). Thus validity and credibility have resurfaced as the responsibility of the researcher. More importantly qualitative research needs to demonstrate understanding of subject and data collected presenting a flow of arguments.

### **3.9. Research Ethics**

Through all phases of research, the researcher needs to be sensitive to ethical considerations (Creswell, 2002). He or she may obtain the data in a professional, reliable, timely and correct approach. Researchers should be experienced, remain patient and stay ethical in their approach to data collection. For this study, the prescribed ethical clearance was obtained to meet requirements for fieldwork to be undertaken (refer to Appendix 3, p. 106).

Corporate governance focus on how businesses transact with consumers, other businesses, banks, government institutions and parastatals. Previously, the focus on business was to only make profit. The King Code of Corporate Governance in South Africa looks at the triple bottom line of businesses. Business now has to pay special attention to the environment, social responsibility and profits. A business has to be ethical at all stages of their operation. "Ethics are the norms and standards of behavior that guide moral choices about our behavior and our relationship with others" (Cooper and Schindler, 2001, p. 112). This will assist the long term sustainability of the business.

A researcher has to maintain total confidentiality of their respondents at all time and in cases where they reveal their respondents information, it should be with their full permission. In this study, ethical clearance and informed consent (refer to Appendix 4, p. 107) had to be obtained before the researcher conducted his research. This ensured that no sensitive questions were asked which would make the respondent uncomfortable to answer or stir the respondent's emotions. It is the duty of the researcher to explain fully what the research is about and how the results of the research will be used. Respondents also have a right not to partake in the study or withdraw at any stage if she or he wishes. A gate keeper's letter (Appendix 5 109) should be obtained from the parent company seeking permission to conduct research in that organisation. The results arising out from the research should be presented in a correct manner and reflect what the respondents said.

### **3.10. Research Challenges**

There are various challenges that a researcher faces during the process of data collection. One of the main challenges include the non- availability or the non response of respondents to the interview schedule. In a research study of this nature, many of the respondents are entrepreneurs who are very busy people who have little to no time to accommodate research in their daily schedules. The study initially targeted five stores in the EMA however, only four stores were reached due to the non availability of some

entrepreneurs. Obtaining appointments with the branch manager for the face to face interview was tedious as he had a busy schedule and follow up appointments were just as difficult.

Research is very costly process for a researcher. A researcher expends his resources (time, money and emotions) in order to obtain primary or secondary data. If the sample is large, the researcher may deploy field workers who need to be trained and educated on the subject matter. In this study, the sample was focused enough for the researcher to collect data himself and build relationships with the respondents.

### **3.11. Chapter Summary**

In chapter two, an in-depth focus into secondary sources of information was researched. This chapter outlined how the researcher explored primary sources of data collection. The research design and sampling techniques was discussed in detail presenting which methods was used and why it was appropriate. Chapter four which precedes this chapter looks at the analysis and discussion of results that was achieved through the primary research.

## **CHAPTER FOUR**

### **ANALYSIS AND DISCUSSION OF RESULTS**

#### **4.1. Introduction**

The process of data collection was presented in the previous chapter. This chapter provides an analysis of the data that was collected from the respondents. The analysis presents the results of; the interviews (franchisees and franchisors), observation, and content analysis of photography. The analysis and discussion is two pronged; the first part of the analysis focuses on Midas franchisees, and the second looks at the Midas franchisor. The purpose of analysing both the franchisee and the franchisor is to obtain a holistic picture of franchising from different perspectives.

#### **4.2. Franchisee Analysis**

The seven franchisees that were interviewed were of different ages and gender. They included people that owned business before and those that owned businesses for the first time. Franchisees generally venture into a related or similar business that they were in. For example, it is likely for a take away owner to venture into the food franchise industry or, an independent motor parts retailer to venture into a Midas. The sample also included those that owned business before, but owned a franchise for the first time.

The diagram below represents the percentage of those that owned a business before the Midas franchise. The sample chosen indicates that forty three percent of the respondents did own a business before and the remaining fifty seven percent did not own a business before. The researcher did not make a correlation between the probability of owning a franchise and owning a business before that. However for the results presented in the diagram, twenty nine percent of those that were entrepreneurs ventured into the Midas franchise as their additional business. Of the forty three percent

of entrepreneurs that owned business before, fourteen percent owned a franchise before Midas.

Figure 4.2.1 illustrates the Entrepreneurs Ownership of Business before Midas

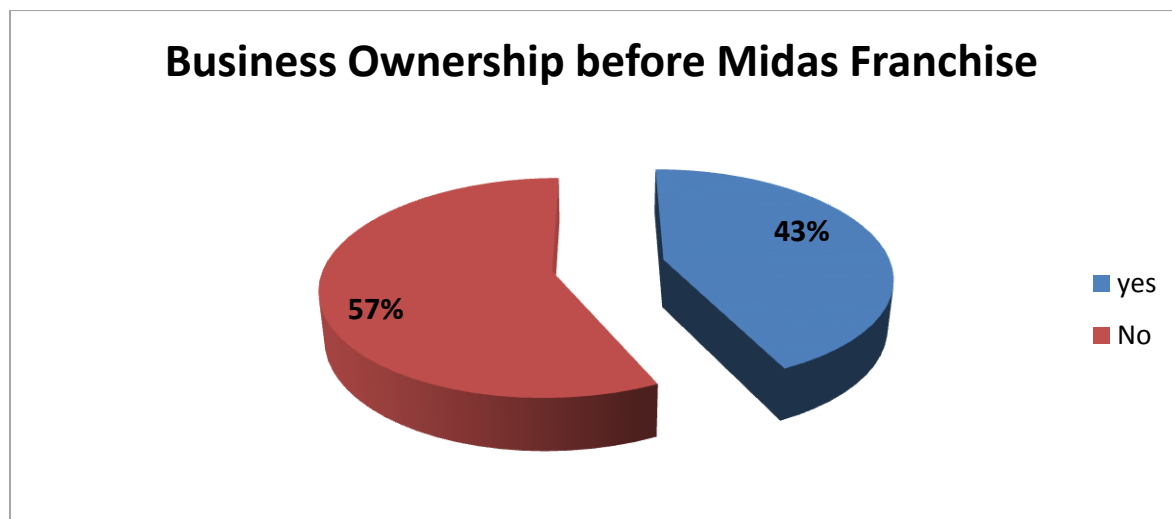


Figure 4.2.1 Business Ownership before Midas Franchise

There were various reasons that franchisees put forward as their reason for venturing out into business. Some of the responses included;

- “To test my enterprising spirit and to create wealth”
- “To help supplement my income”
- “Having your business gives you a lot of challenges, and challenges in business are very exciting. Being a business woman make me my own boss. Also gives the opportunity to create employment”
- “I had reached the ceiling (manager) at the last company I worked for. It was paying well and had good perks, but not enough for me to achieve my long term goals”
- “Ability to control your own financial success”

#### **4.2.1. Franchising as Opposed to an Independent Private Business**

The choice for entrepreneurship varied; however, the common themes among all respondents were financial gain and freedom to explore the unknown of the business world. There is a vast difference between of choice for a prospective entrepreneur choosing an independent business as opposed to a franchise. There were mixed responses from respondents as to their choice in opening a franchise.

Owners were of the view that franchise is the way to success in the future. Those that were entrepreneurs before franchising believed that the franchising option was much more expensive than venturing into a private business. In a private business, you can start of small and grow incrementally, as opposed to franchising; you have to have the shop fitting, full range stock, signage and other related items that would be a great deal more expensive. However, if they had the chance to venture into franchising as their first business, they would have endeavoured to pursue that option.

Some of the benefits Midas entrepreneurs put forwarded for opting for a franchise were,

- Marketing was taken care of by the franchisor
- Greater discounts for franchisees
- Customers know what to expect when they walk into a Midas store
- Complimentary business
- Brand awareness is already established
- Strong buying power
- Support from the franchisor

These were preconceived ideas that entrepreneurs had before they entered the business of franchising with regards to what the benefits of a franchise were.

#### 4.2.2. Experiences of Midas Franchisees

There were both positive experiences and challenges experienced by Midas franchisees. The positive experiences outweighed the challenges but it is important to note these challenges as future entrepreneurs can mitigate them.



Figure 4.2.2 The External Appearance of a Midas Store

Figure 4.2.2 portrays the external appearance of a Midas store. The signage and branding is provided by the franchisor and will look similar in all Midas stores. Depending on the size of the store, more than one sign can be erected. The Midas logo always accompanies the sign.

#### 4.2.3. Positive Experiences of Midas franchisees

The graph which follows depicts the functions which the Midas franchisor assisted their franchisees.



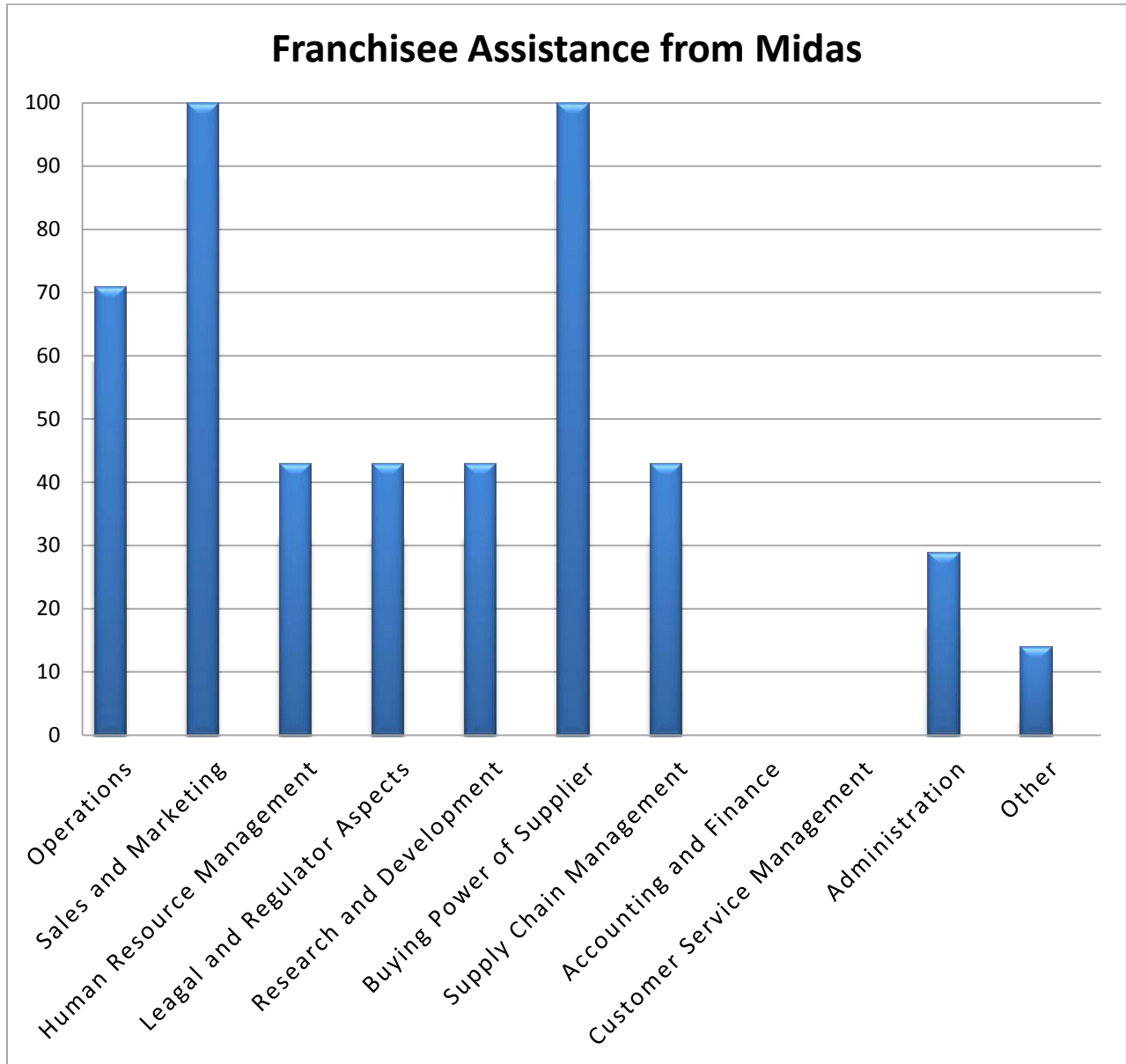


Figure 4.2.3 Franchisee Support Received from the Midas Group

The graph above clearly depicts the support that franchisees received from the Midas Group. Sales and marketing and, buying power of supplier was the two support mechanisms scoring a hundred percent. Accounting and finance and, customer service management scored the lowest with no support at all from the franchisor with regards to these two services. Most of the other services scored under the fifty percent mark except for administration and other (merchandising). When cross checked with what the

franchisor stated, the above graph is a true reflection of the services provided by the franchisor to the franchisee. The franchisor stated that they do not assist in three fields; human resource management, accounting and finance, and administration.

The critical considerations for the franchisee's;

- Buying power- most of the inventory is procured at large volumes and therefore good prices, which is passed to the franchisee and then filters to the customers.
- Sales and marketing- with an established brand, a franchisee inherits an established brand without much effort.
- Operations- being new in the industry, the initial operational support received, especially on the issue of layout and design, provides great help.
- Merchandising- in one franchise store, the merchandising took approximately three weeks and the franchisor assisted with labour, time and expertise.
- Research and Development- with regards to the initial stock order, the car park (information of vehicles in an area) was given to the franchisee. They therefore stocked according to this.
- Supply Chain Management- ability to receive goods when ordered the same day and thus providing goods to customer on time.

The above services which the franchisees thought they were assisted most by the franchisor totalled six. The researcher requested the top three services. There are therefore different perceptions on services that the franchisees experienced on the services that they received from the franchisor. Marketing was the only common thread through all franchisees.

All seven respondents agreed that it was profitable and beneficial to be part of the Midas franchise group. There were other positive experiences that Midas franchisees had. The Midas franchise attracts experienced staff, including the sales team who prefer

working for an established brand. The franchisee provides good credit terms for the initial purchase of inventory, which is of great assistance in terms of initial working capital. The franchisor provided experienced technical support. It is easier to open additional stores as it is easier to replicate the franchise model. Midas franchise has very good track record and is a leader in its field.

The gross profit averages are very good and if volumes of stock are sold, then high profits can be achieved. As the demand for cars increase amongst the South African population, the demand for car spares will also increase proportionally. Franchises like Midas stores has minimum quality standard which explains why the store looks attractive.

#### **4.2.4. Midas Marketing**

In most franchises, marketing is a critical component as to the reason franchisees decide on the option for franchising. As was identified in 4.2.3, marketing was the most important service received from the franchisor. The brand of Midas is well known and has a strong reputation. Some of the comments from respondents included;

“We do not have reps going out looking for business, but business is improving everyday” (Franchisee questionnaire).

“It is a name known to the whole country” (Franchisee response).

“Franchisor gets advertising from suppliers at no cost to us” (Franchisee response).

“I don’t pay for marketing campaigns” (Franchisee response).

“Customers know what to expect from the store. There was not a need to create any new branding” (Franchisee response).

The responses above from the various franchisees indicate that Midas like most other franchises provides significant time and money towards marketing for their franchisees. This in turn prevents franchisees from using their operational income for marketing and advertising. In every quarter of the year, the franchisor provides a brochure of approximately twenty pages with various specials on it. On these specials, the franchisees are allowed to purchase the advertised good from the franchisor at a reduced cost. However, franchisees are encouraged to carry out their own marketing in whatever form they wish to with the guidance of their franchisees. Royalty programmes are existent in almost all large companies. Midas has introduced the 'My Bonus' royalty card. As consumers purchase more, they increase their points on the card which they can equate to purchases at any Midas store in the country.

Any new Midas store that opens will receive preferential treatment in the form of a 'grand opening'. The grand opening is primarily subsidised by the franchisor where the funds are taken from the initial franchise costs. This can equate to between R30 000 to R50 000 depending on the status of the store and owner. NAPA stores get a budget on the higher range. This budget is used for printing, advertising, discounted stock, entertainment on the day, food and beverages. On this day, franchisees are encouraged to sell stock at cost and some stock below cost so as to get people into the store and familiarise them with the products. The purpose of the day is to create hype so people are aware of the new store in the area. On the day, the Midas franchisor provides a team of people to facilitate the events of the day.



Figure 4.2.4: A New Midas Store Grand Opening

Figure 4.2.4 shows the long queue in a store that has had its grand opening. Due to the low prices, customers have been attracted to the store. Owners of the store stated that majority of the stock have been sold below cost just to get in the feet and to publicise the name. The picture also illustrates the layout and design of the store. Front of store is for shoppers to browse around and choose items (oils, car care products, camping, fishing, etc.) they wish to purchase. Behind the counter is the 'hard parts' which customers request from sales persons.

#### **4.2.5. Challenges Experienced by Midas Franchisees**

In any business, including franchising there are challenges. Midas franchisees are also experiencing challenges. These challenges include;

- It is difficult to receive a franchise licence from the franchisor, especially if you are a first time business owner
- The franchisor does not disclose marketing and turnover information from similar store due to ethical constraints

- Raising funds was a very important challenge
- The initial stock order is expensive and also getting the right stock in the shop is important. Wrong stock (slow movers) will stay on the shelf for long periods as opposed to correct stock (fast movers). It is therefore imperative that fast moving stock is in the store. Different locations will demand different types of stock. Also, if a store does not have stock for a customer, they can lose that customer for good as the perception of the customer is that this store is not stocked properly.
- Competition with other spares shops or franchise stores in close proximity
- Recruiting personnel to work in a high profile franchise
- Opening accounts with other retailers to purchase from Midas

#### **4.2.6. Training Provided By the Midas Franchisor**

Most franchising systems offer their franchisors basic training which may include some or all; human resource management, customer relationship, finance management, information technology system. It was interesting to learn that Midas does not provide a wide range of training to their franchisees. They therefore prefer that existing franchisees open new stores as they are already equipped with the know how and expertise to open, manage and sustain the new store. The Midas franchisor provides guidance to their franchisees and not actual training on how to manage the day to day operations of the store. The training that was provided to franchisees included;

- Consumer Protection Act (CPA)
- Marketing
- Information Technology
- Technical know how

With regards to the information technology, Midas franchisees use one of two systems Techfinity or ELCB. These are online catalogues that are linked to Midas head office for

ordering and buying stock. The training is provided by the service provider and not directly by the franchise.

#### 4.2.7. The Initial Set-Up of the Franchise

One of the foremost support that franchisees cited, is assistance received from the franchisor with regards to the set-up and lay out of the shop. Once an entrepreneur has been granted the Midas franchise, the franchisor holds the hand of the franchisee until the store is launched. The franchisee will provide the layout design of the shop, the signage, merchandising, shelf erection, shop fitting, providing apparel to staff and the grand opening. Detailed drawings of the layout are provided to specification of the size of the shop by the franchisor. These drawings include where and what position the shelving will occupy, where the counter and cash desk will be. The franchisor will provide the signage and apparel to the franchisee at their cost. The franchisor physically comes and erects the shelves and merchandises the store. In an average shop size, the merchandising could cost in the region of one million rand.



Figure 4.2.5: Product Range in a Midas Store

Figure 4.2.5 depicts the wide range of products that a typical Midas stocks in their stores.

#### **4.2.8. Franchisee Creativity**

The literature review presented that majority of franchises in the world does not allow their franchisees to be creative in their store. The terms and conditions of owning a franchise are provided to the franchisee when the contract is signed between both parties. These terms and conditions are very prescriptive in the manner in which a franchisee manages his or her store and there is no flexibility. Norms and standards have to be maintained.

The researcher found it very interesting that the Midas franchisees were given substantial room for creativity in their store unlike other franchises. All of the seven franchisees agreed that they were allowed to be creative in their respective store. Franchisees cited that they were allowed to purchase thirty percent of their stock from other suppliers and thus can have a greater range of stock. Franchisees are also allowed to have their own specials and carry out their own advertising. The franchisor does not dictate the daily operations of the store and the pricing of goods. Different stores around the country have different prices on their stock. It can be concluded that every store has similar features but is unique in their own way through the flexibility given to their franchisees.

#### **4.2.9. Skills Acquired in a Franchise**

The skills acquired in a franchise may very well differ from that of the skills offered in an independent business. Most SMMEs manage their businesses to the way they see fit, however, in a franchising system, operating a business is in accordance with corporate specifications. There is considerable skill transfer from the franchisor to the franchisee.



Figure 4.2.6 reveal how franchisees perceive the skills they acquired being part of a franchise.

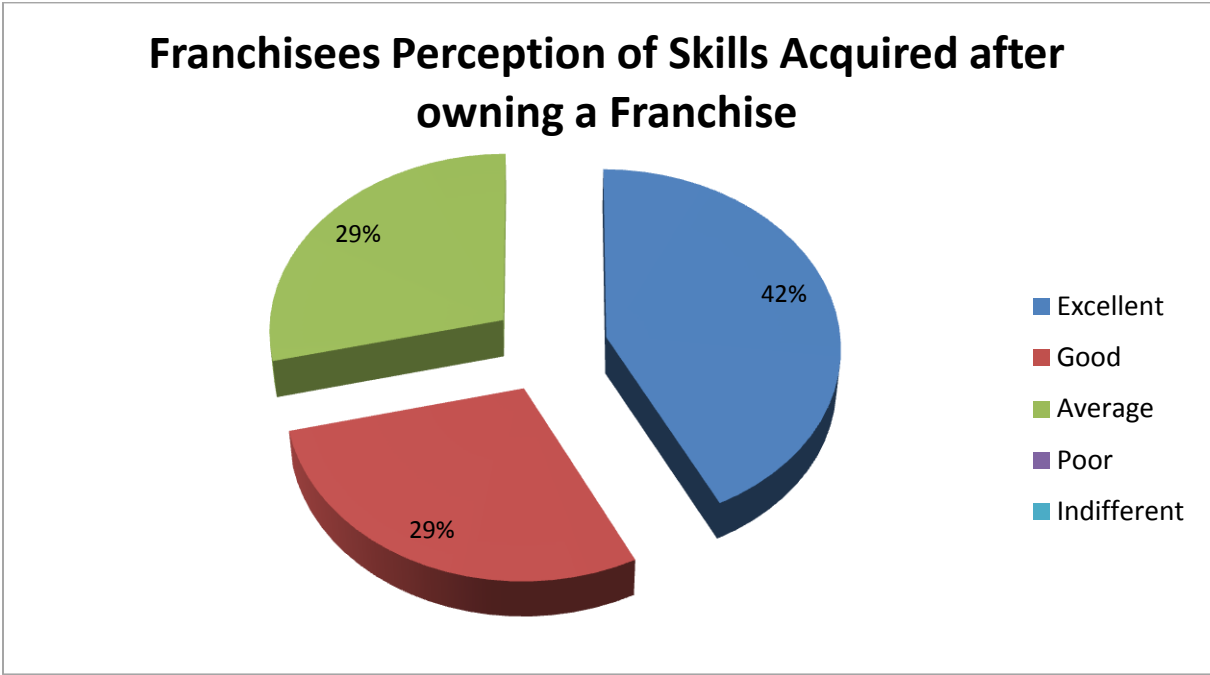


Figure 4.2.6: Skills Acquired by Franchisees

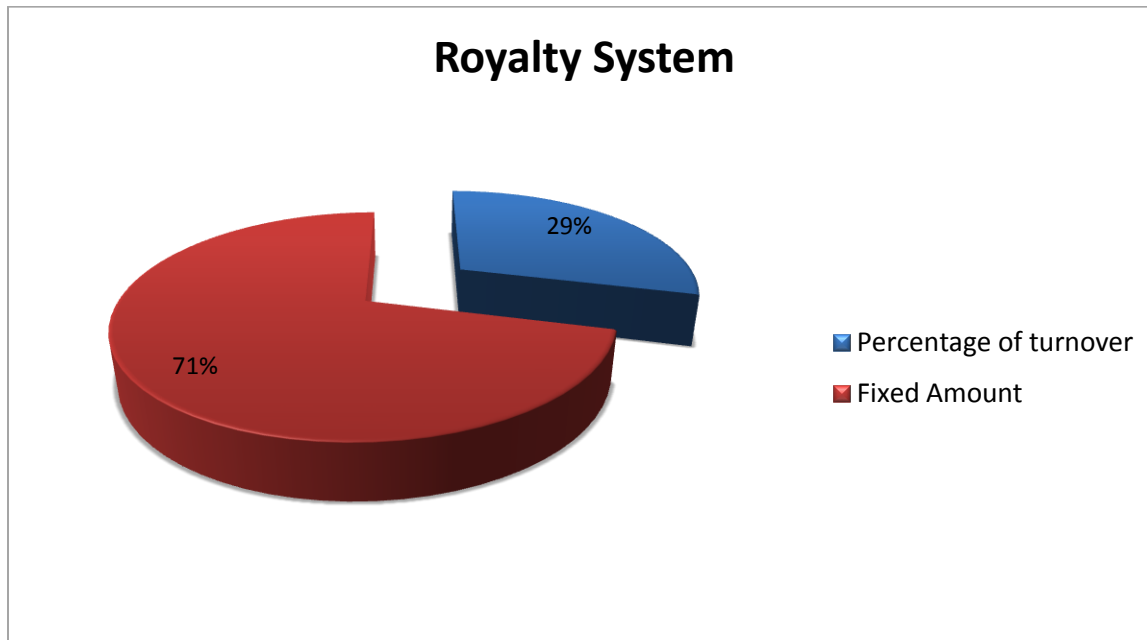
The figure above represents the skills that entrepreneurs acquired while being franchisees of the Midas Group. There were five options that were offered to franchisees; excellent, good, average, poor and indifferent. There were no franchisees that choose the option of poor or indifferent. The option of excellent skills and expertise acquired by being a franchisee ranked the highest with forty two percent. The options of good and average raked equally at twenty nine percent each. There can be two assumptions from these results. Most franchisees (seventy one percent) believe that they acquired very beneficial skills from Midas. Secondly, some franchisees (twenty one) have not yet fully acquired the necessary skills and know how to operate a franchise. All hundred percent acquired some skill from the franchise.

All franchisee respondents agreed that after owning and operating a Midas franchise, they can venture into other businesses that are not necessarily franchised. Midas franchisees are fully equipped with their indispensable skills, knowledge, know-how and are also confident to venture into other businesses. Some of the comments from franchisees are;

- “Setting up a franchise is similar to setting up any other business. The initial help provided does educate you on the basics of business which is the same compared to setting up any business. From the experience of opening a franchise, franchisees can venture into other business.
- Starting any other business will however require more commitment and effort in marketing the store, designing a layout, sourcing reputable manufacturers to supply inventory at discounted prices.
- It will be more difficult to obtain funding from Banks for a non franchised business which has years of successful track records and therefore venturing into another franchise would be a better option.
- Franchisees will be confident to enter other businesses which include; workshops, fishing, camping and outdoors. These are directly sub categories that Midas retails.”

#### **4.2.10. Franchisee Preference towards Royalty System**

Figure 4.2.7 illustrates the preference of Midas franchisees towards different royalty systems.



**Figure 4.2.7 Franchisee Preference of Royalty System**

Figure 4.2.7 portrays the option of royalty systems that franchisees prefer. There are currently two royalty systems that exist in franchising models, a fixed amount or a percentage of the turnover. Both have advantages and disadvantages. If total sales are low, then the percentage of turnover is a better option for franchisees, if sales are high, then the fixed amount works better for franchisees. The above figure shows that seventy one percent of Midas franchisees prefer the fixed amount and a minority (twenty nine percent) opted for a percentage of the turnover. Franchisees cited that the benefits of an increased turnover accrue to the owner versus being shared with the franchisor. Sales are low for new franchisees but this changes and it is therefore beneficial to be part of the fixed amount royalty. Franchisees also stated that their royalty rate was lower than their competitors.

Two of the seven franchisees who stated they had a preference for the percentage of turnover stated that there is no fixed commitment/cost on a monthly basis. The variable

component of the royalty system should also be linked to the discount structure one receives for goods purchased. Lastly, if the business does not make money, then it is the responsibility of the franchisor to assist the franchisee to increase turnover as opposed to collecting a fixed amount.

#### **4.2.11. Franchisee Recommendation to the Franchisor**

All seven franchisee respondents agreed that they were content with the Midas franchising system. They understood the concept and believed in it. All of them stated that they will recommend franchising to other people. Franchisees however had some recommendations to the franchisor which included;

- Franchisor should provide franchisees with better prices on their stock order.
- Delivery service should be improved by the franchisor.
- Midas should provide promotional items to their franchisees so they can pass on to their customers.
- The franchisor should provide guidelines to franchisees on how they should price their stock.
- The franchisor should assist the franchisee with raising bank finance, and have some arrangement with selected financial institutions.
- The franchisor should consider shadowing new store owners with existing stores to up skill them on the general management of the store.
- The franchisor should think about seconding staff from their own stores for a six month period to facilitate skills transfer.
- The franchisor should perform additional market assessments of potential location of new stores and offer this to existing store owners.
- Information sharing sessions should be held with other different franchisees so strengths and weaknesses can be discussed.

- Being part of the Imperial group, franchisees should enjoy discounts on motor vehicles from Imperial group.
- More training across the franchise, mechanics of the store and business should be provided by the franchisor.

### **4.3. Franchisor Analysis**

There are six regional offices located in different provinces in the country which are called Parts Incorporated Africa (PIA). The route to supply products to the franchise network is through the regional offices. The office for the Midas regional office is located eThekweni, Durban alongside the National Freeway (N2). It has a huge storage and distribution hub and an advanced supply chain system. The branch manager stated that the regional KZN office out grew the initial planned size in the first two years of their operation and have subsequently started renovating to increase capacity. Section 4.3 presents details of key findings from a franchisor perspective. This information was received through a structured questionnaire with the franchisor and a face to face interview with the Midas branch manager of KZN.

The Figure below details the pre requisites of potential franchisees.

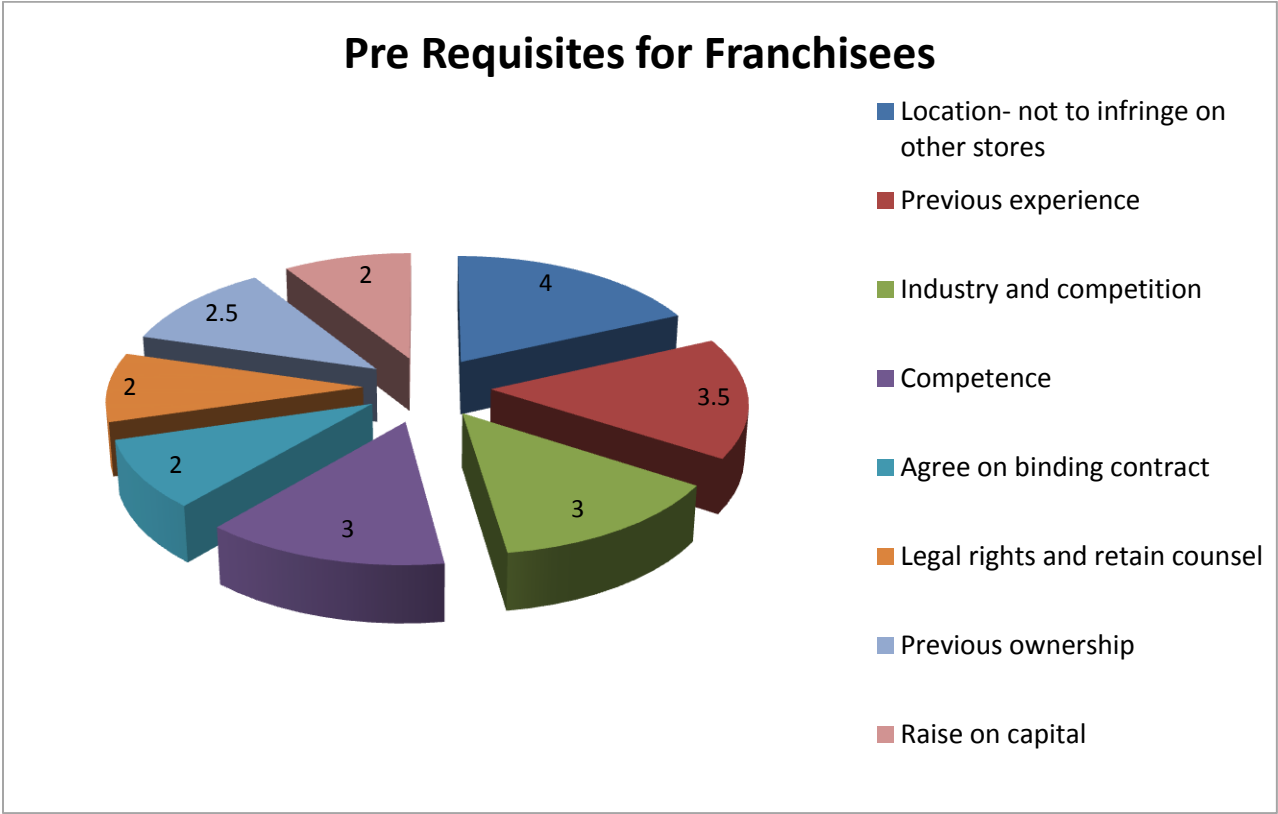


Figure 4.3.1: The screening process of potential franchisors

In most franchises, there are stringent requirements for a person to become a franchisee. The figure above shows some of the minimum requirements that franchisees should have before applying to purchase a franchise. Some pre requisites carry more weight than others. The pre-requisites that represents majority of the pie chart are; location- not to infringe on other stores, previous experience, previous ownership, industry and competition. Midas has similar requirements and vets their potential franchisee before granting their franchise. Some of the requirements from Midas head office include;

- I. Existing customer (conversion)
- II. Credit worthy

- III. Suitable retail premises
- IV. Ability to conform to the national corporate image
- V. Quality Staff
- VI. Attend regional, national, international meetings and conventions

The first option is converting an existing Midas franchisee to open a new store which can be attributed to the following reasons. Firstly, the relationship is built between the franchisor and the franchisee. Secondly, the existing franchisees already acquired the necessary expertise, experience and know how about the franchise. Finally, the franchisee understands the dynamics of the daily operations of the franchise and knowledge in the related field.

Checking the credit worthiness of a potential franchisee is of utmost importance. The Midas group will not grant a franchise to a potential franchisee if they have serious judgements or are listed for defaulting with their finances. The Midas franchisor will conduct a credit check on a person which will result in one of two outcomes. If the credit check is fine, they will grant the franchise. If they grant the franchise, it will be based on conditions of the credit limits. This will be based on the 'FICA" regulations to determine that the entrepreneur is not overly committed.

A significant weighting is placed on the physical location of the franchise by the franchisor. The Midas franchisor locates a franchise based on the car park of an area. This car park is defined by the number of cars that a franchise can service in a particular jurisdiction. For example, in a highly dense area with car owners there can exist more than one franchise on the other hand, in a sparsely populated area of car owners, there may only be one franchise serving a much larger geographic area.

The ability to conform to the national corporate image is also an important requirement of the franchisor. This deals with protecting the corporate brand of the franchise. Midas

franchisees are obliged to conform to the corporate image of the Midas group. There are specific requirements related to marketing and advertising, types of products sold in a store and, the way the brand is projected to consumers. Midas prides itself with very high brand equity and a reputable name that stood the test of time.

The last two requirements of the Midas Group are of a lesser importance than the first four. Quality staff is more important to a franchisee than a franchisor. The staff in a business to a large extent can determine the success of the business. The Midas Group has a vested interest in good staffing of a franchise. They however do not provide training to the staff of independent franchisees. It is the responsibility of the franchisee to recruit staff in their business. At different intervals in the year, there are different meetings that are held by the franchisor. These meetings can be in the form of seminars, team buildings or networking. This entails the full participation from all independent franchisees. Some of these meetings are subsidised by the franchisor.

#### **4.3.1. The Advantages of Owning a Midas Franchise from a Franchisor Perspective?**

There are numerous benefits of owning a Midas franchise. Belonging to the franchise allows the franchisee to retail and market under the national corporate image of the franchisor. Each Midas store has particular products that are branded by the Midas brand which represents quality and establishment to the consumers. There is an important consideration to Midas franchises which is not prevalent in most other franchise businesses. Majority of products (minimum 70 percent) is to be purchased from the Midas head office, and fewer products (maximum 30 percent) to be purchased from other wholesalers or suppliers. The Midas group ensures that the product mix is wide and all encompassing. This allows each store to have an extremely wide range of products available to consumers. The franchisor negotiates further deals local, national and international suppliers. A large range and quantity of goods are imported from other countries.



Midas franchisees participate in an incentive programme. This permits franchisees to accrue greater discounts and promotional products with different types of purchases with the head office. A further advantage that Midas franchisees benefit from is the national network and warranty programme. Most Midas products (battery, electrical, etc.) have a one year warranty. Some products like Midas tool range has a lifetime warranty. This increases the value of the product where consumers know that if they have a problem with a product, they have the option of returning it for an alternate product or a full cash refund within the warranty period.

Being part of the Midas system is beneficial as the franchise provides a diverse product offering, it is highly profitable with good increases on GP margins. These were some of the success factors that the Midas KZN branch manager put forward. He added that the Midas franchises are extremely successful, where he cannot remember in his tenure over the past six years as branch manager, a franchise closing down. He further added that franchisees are “scrambling to identify areas to open second and third shops, and not many open areas are left in the KZN areas” (questionnaire handed to franchisor). In the year 2010, approximately eight new franchises opened in KZN alone. This supports the theory in chapter two stating that Midas is the second fastest growing franchise in South Africa. There is competition between franchises for space to open additional stores.

There is positive communication between the franchisor and the franchisee. The franchisor ensures good customer care with their franchisees. On periodic occasions, the franchisor conducts surveys to ascertain feedback from their franchisees. This assists them to address any problems experienced by the franchisees and also to take forward the franchisees recommendations. Most of the suggestions received are around price and product range.

#### **4.3.1.1. Midas Advantages as Opposed to other Independent Stores and Franchises**

The Midas franchisor supplies products to the entire motor industry including independent and other franchise networks. However, the Midas group is on a preferential matrix. One of the most important advantages of the matrix is that Midas franchises are provided with cheaper prices. This in turn creates a huge competitive advantage for the franchisees as opposed to independent motor retail parts businesses. This matrix is what differs Midas franchises to other independent stores supplied by the Midas head office. Apart from the cheaper pricing, the matrix provides the following advantages;

- I. National promotions
- II. Regional promotions
- III. Share of profits
- IV. Product research and development
- V. Midas online business systems and cataloguing
- VI. Contracts and tenders
- VII. Merchandising program and store revamps
- VIII. Assistance with legal compliance related to South African law

#### **4.3.2. Support Mechanisms to Franchises that are Struggling**

Like other franchises, the Midas KZN branch manager stated that Midas head office offer support to poorly performing stores. The support takes the form of various procedures and steps that has to be followed. The franchisor first identifies the strengths, weaknesses, opportunities and threats in that franchise. They then conduct a strategic planning session where they review the business structure. Following this, the franchisor implements a programme to market and get more feet in that particular store. They subsidise the marketing programme for up to a six month period with various

promotions. This is done with the eventual hope that the ailing store will turn around in that period and once again become profitable.

#### **4.3.3. Midas Head Office Creating a Competitive Advantage for their Franchises**

To stay ahead of the game, Midas has to constantly innovate and come up with new ideas and strategies. Developing a competitive advantage is crucial for a franchise as the opposition sees a loophole and exploit it, gaining a greater market share. Midas group has developed various strategies to increase their competitive advantage. They are a compressive set of actions that was carefully thought and brain stormed and it is continually developing as the market evolves. These strategies of actions include;

- I. The online system provides a twenty four hour access including pricing
- II. Orders are processed immediately after received from franchisees
- III. The distribution warehouse works on a twenty four shift
- IV. Orders are delivered a few times in a day
- V. Skilled sales and technical staff
- VI. Latest inventory management systems
- VII. Continuous range expansion
- VIII. Structured external staff representation
  - a. Technical back up
  - b. Online technical training

#### **4.3.4. Challenges Experienced by the Midas Franchisor**

Apart from all the positive features related to a franchisor, there are challenges that they experience. Continually providing value adds to enhance franchisee business profitability is a strain. It is challenging to continuously innovate to maintain market share. Always attaining goals to reach and surpass future growth is a tedious task. The Midas franchise has to ensure that new products are purchased and marketed

continually. The franchisor has to on an ongoing basis explore and venture out into new markets to ensure continued growth. They have to also ensure that their franchisees are continually stocked up. This entails having a detailed and comprehensive supply chain system. Not having stock in the warehouse can affect so many franchises resulting in disgruntled franchisees and consumers.

**4.3.5. The Attributes which the Midas Group Assist their Franchisees**

The below are services that Midas franchisor assists the franchisee with. The table depicts what the franchisor suggested as services they provide to the franchisee. These services assist the franchisee to successfully start, launch and sustain their store. These services provide support and continuous guidance to the franchisees. The three services that are not supported by the franchisor directly pertain to the daily operations of the franchisee. This allows the franchisee to be innovative in the recruitment and management of their staff, accounting finance and, the daily operations of the store. The franchisor prefers to not intervene in these three aspects.

The table below indicates the expertise that the franchisor offers the franchisee

Operations	X
Sales and marketing	X
Human Resource Management	-
Legal and Regulatory Aspects	X
Research and Development	X
Buyer Power of Supplier	X
Supply Chain Management	X
Accounting and Finance	-
Customer Service Management	X
Administration	-
Other	X

Table 4.3.1: Expertise Offered by the Franchisor to the Franchisee

Of the services indicated by the franchisor in the above table, the three most important services indicated by the franchisor are;

- I. Sales and Marketing
- II. Buyer Power of the Supplier
- III. Other (National Corporate Image)

The three most important services benefit the franchisee in a number of ways. The sales and marketing increase the feet in each store and diversifies the customer base. The buyer power of suppliers allows Midas group at lower costs and passing this discount to their franchisees. In this regard as discussed above, the Midas Group offers differential pricing to their Midas franchisees. The National corporate image of Midas is standard for the entire Southern Africa. Franchisees benefit from brand association and resonance. The picture below shows two different brochures of Midas franchisor. These brochures are marketed every quarter with specials.



Figure 4.3.2: Marketing Brochures from the Franchisor

The skills offered to franchisees allow them to open further Midas stores. In addition, there are incentives to franchisees to open up more stores. These include; reduced join up fees, the ability to access the business income statement so as to implement best

practice. This has been also confirmed by the franchisee respondents who ventured into more than store.

### 4.3.6. Midas Group Assisting the Franchisee to set up and Launch their Franchise

One of the most beneficial aspects of belonging to a franchise is that they assist the franchisee to set up and merchandise their store. This is to ensure that there is uniformity in every store in terms of design and looks. Midas is no exception to this rule. They provide a set of procedures to the each franchise as indicated below. In figure 4.3.3, the researcher was fortunate to view a new Midas Franchise and observe how the franchisor assists the franchisee to set up the shelving and merchandise the store with stock. The franchisor looks at what stock is needed by the franchisee and merchandises accordingly as different franchises will differ slightly on the stock they carry. This is based on the market demand of the area.



Figure 4.3.3: Initial Layout, Design and Setup

The set of procedures the franchisor provide include, conducting a market survey to assess the profitability of the area. Secondly, the Midas group provides the suggested stock order and assist in the product selection. The Midas Group carries in excess of 20 000 line items and it is not possible for each store to stock the same. The franchisor then assists in the selection of these items. The Group provides quotations for shop fitting, shelving and IT systems from tertiary suppliers. These suppliers have worked with the Group on previous occasions and therefore quality is granted. The Group thereafter provides a merchandising team to assist in setting up the store in terms of layout and final product display. It is for this reason that when a consumer walks into any Midas in the country, the layout looks the same. Finally, the franchisor assists the franchisee in the marketing and advertising the grand opening of the store. The grand opening is one of the largest events for a franchisee. The franchisor sets aside a large budget for this process. The budget can pay for discounts on products, other advertising and marketing features like prizes and promotional items.

#### **4.3.7. Franchisors Projection of the Midas Group in the next 20 Years**

The franchisor is optimistic that Midas will continue being the group leader in motor vehicle parts and accessories in the years to come. Products will also be diversified to include a greater variety of things. Midas will gain more market share from its current competitors and expand to new areas in the years to come. Like the ACD, ADCO, MOTOLEK and CBS, there may even be more franchise sub groups developed under the group name. This would be dictated by the market needs. Midas is a name to be reckoned with in the motor retail industry.

#### **4.4. Chapter Summary**

The analysis chapter analysed and discussed the Midas franchisees and the Midas franchisor. It can be interpreted from both the franchisee and the franchisor that being part of the Midas Group, franchisees were successful in their business ventures. It is

also clear that the three most important services that franchisees benefitted from are sales and marketing, buying power of supplier, and, operations. There were some challenges experienced from both the franchisor and franchisee. There is growing interest in the Midas franchise and it is fast growing in South Africa. Chapter five concludes the study and discusses the limitations, while proposing recommendations arising out of the study as well as recommendations for future study.



## **CHAPTER FIVE**

### **CONCLUSION, LIMITATIONS AND RECOMMENDATIONS**

#### **5.1. Introduction**

This chapter summarizes and concludes the research study outlining some of the significant issues that have been discussed in the preceding chapters. This chapter will also provide recommendations arising out of the study, limitations of the study as well as recommendations for future research in the fields of entrepreneurship and franchising in South Africa.

#### **5.2. Summary of Key Findings**

The South African government has pledged its support in the past two decades to create employment and one of the most important means to achieve is for people to become entrepreneurs. There is a problem with people venturing to become entrepreneurs where a salaried job is seen as better alternate, as there are various fears and phobias that people have in becoming entrepreneurs. Franchising can be seen as a successful instrument for new and existing entrepreneurs to venture into. The risk with venturing into franchising is to a large extent lower than that of venturing into an independent business as there is greater support from the franchisor. Franchising is growing exponentially globally and in South Africa. This study endeavoured to explore whether franchising provided entrepreneur's especially new entrepreneurs a secure business start up and business sustainability over a period of time. The study aimed to assess the experiences of Midas franchisees and franchisors being part of a franchise system. This was done by questionnaires, face to face interviews and observation. Midas was chosen by the researcher as it is the second fastest growing franchise in the country.

The findings of the study addressed all the research questions and it unearthed the experiences of both the franchisor and the franchisee. There were both advantages and disadvantage of belonging to a franchise system. The advantages however, surpassed the disadvantages and franchisees found it very beneficial and profitable to be part of a franchise group. New and existing Midas owners were satisfied with being owners of Midas franchises and were looking for opportunities to acquire more Midas franchises. The franchisor projected expansion of the group in KZN and concurred with the view that franchising is the way to do business in the future. The Midas franchisor provided a stable platform for their franchisees and a conducive environment to operate their businesses.

Marketing and branding was cited as one of the two top advantages of belonging to a franchise, the other was the buying power of the supplier. Franchisees agreed that the skills and expertise acquired in a franchise allows them to venture into other businesses. The business establishment support provided by the franchisor allowed the franchisee to be successful. The Midas franchise is growing very fast in South Africa and is proving to be a successful vehicle for entrepreneurs to venture in. the Midas group holds the largest market share for aftermarket motor vehicle retail parts and accessories.

### **5.3. Limitations**

There were various limitations that the researcher was challenged with during the course of the study. Some of the limitations were circumvented and overcome, while the others presented some gaps in the research study. The limitations included;

- Time constraints inhibited the researcher to delve deeper into the research of this study.
- Franchisee respondents are entrepreneurs who are very busy people and hence setting up appointments to administer the questionnaire was a challenge.

- A further challenge was to access certain information from franchisees that were confidential to their business.
- It was difficult to ascertain follow up appointments with the Midas franchisor due to busy schedules.

#### **5.4. Recommendations**

- It should be recommended that entrepreneurs have an equal chance of obtaining a franchise as long as they meet the criteria. Currently, many franchises only offer existing franchisees opportunities to open new franchises.
- Financial institutions prevent entrepreneurs from obtaining loans for venturing into business. Many budding entrepreneurs do not have sufficient collateral to cede to the banks. Alternative ways should be explored by banks in order to lend money. It was suggested from franchisees that the franchisor should assist them with raising bank finance.
- Franchisees require greater support from their franchisor with regards to the recruitment of human personnel, finance applications, reduced costs of products, pricing, etc.

#### **5.5. Recommendations for Future Study**

- A research study that looks at franchising the food retail industry as it is the fastest growing franchise sector in the world.
- A research study that looks at the difference between two franchise systems. In this way, comparisons can be made as to which franchising model works better for their franchisees. For example, some franchises have fixed royalty systems while other have a percentage of the turnover, some franchises have strict control as others allow their franchisees to be flexible.

- A research study that looks at the difference between a franchised business and an independent business in the exact same field. This will allow for direct correlations to be made as to the advantages and disadvantage of being a franchisee and an independent business owner.

## **5.6. Chapter Summary**

The chapter concluded the entire research study by connecting the aim, objectives and research questions of the study to the literature review and the finding of the research. Recommendations have been made with the intent of ensuring that both franchisees and franchisors benefit. The recommendations also seek to create an enabling environment for entrepreneurs in South Africa. Further recommendations have been made for future research to be undertaken so as to add to the body of literature of entrepreneurship and franchising.

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## Appendix 1

### Questionnaire- Franchisee

Name:

Gender:

Age:

Name and location of franchise:

Position:

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1. Did you own a business before?

YES		NO	
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2. Why did you choose to venture out into business?

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3. Why did you choose franchising as opposed to an independent private business?

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4. Is this your first franchise?

YES		NO	
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5. If not, what other franchises do you own?

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6. How does this differ from Midas?

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7. What are the advantages of owning a Midas franchise?

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8. What are the challenges you experience in owning a Midas franchise?

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9. Do you think that it is profitable and beneficial to be part of a franchise group?

YES		NO	
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10. Provide a reason for your answer above.

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11. Which of the areas below did Midas assist you with?

Operations	
Sales and Marketing	
Human Resource Management	
Legal and Regulatory Aspects	
Research and Development	
Buying Power of Supplier	
Supply Chain Management	
Accounting and Finance	
Customer Services Management	
Administration	
Other	

Which of the above areas would you rank amongst the top 3 services provided by Midas

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12. How has the above three services positively influenced your business?

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13. How do you as an independent store benefit from the marketing and branding of Midas?

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14. What training did Midas provide to you as an entrepreneur?

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15. How did Midas assist you in the set up of the franchise?

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16. Does the Midas franchise offer you the opportunity to be creative in your store?

YES		NO	
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17. Explain your answer above?

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18. Does the skills acquired in a franchise allow you to venture into other business that are not franchised,

YES		NO	
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19. Explain you answer above?

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20. After owning and operating the Midas franchise, how would you rate yourself in terms of skills and expertise acquired in operating a business?

Excellent		Good		Average		Poor		Indifferent	
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21. Which royalty system do you prefer, a percentage of the turnover or a fixed amount?

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22. Why do you prefer this system?

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23. Are you content with the franchising system thus far

YES		NO	
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24. Would you recommend franchising to other people?

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25. What recommendations do you have to the Midas franchisor?

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## Appendix 2

### Questionnaire – Franchisor

Name:

Gender:

Age:

Name and location of franchise:

Position:

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1. What are the requirements for an entrepreneur to own a Midas Franchise?

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2. Do other retailers and franchises in the motor industry purchase from you, explain?

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3. How does the Midas franchise benefit from the Midas group as opposed to other buyers or retailers?

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4. What are the advantages in owning a Midas franchise?

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5. What are the challenges you experience with Midas franchisees?

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6. Do you think that it is profitable and beneficial to be part of a franchise group?

YES		NO	
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7. Why do you think it is profitable and beneficial to be part of a franchise group?

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8. Which of the below attributes does Midas assist the franchisee with?

Operations	
Sales and Marketing	
Human Resource Management	
Legal and Regulatory Aspects	
Research and Development	
Buying Power of Supplier	
Supply Chain Management	
Accounting and Finance	
Customer Services Management	
Administration	
Other	

9. Which of the above attributes would you rank amongst the top 3 services that the franchisor provides to the franchisee?

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10. How has the above 3 services positively influenced their business?

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11. How does the franchisee benefit from the marketing and branding from the franchisor?

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12. What training does Midas provide to their franchisee?

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13. How did Midas assist the franchise in the setting up their store?

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14. How does the skills acquired in a franchise allow franchisees to open more than stores?

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15. What recommendations do you have to the Midas (Imperial) Group with regards to franchises and franchising?

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16. Which royalty system work better, that of a fixed amount or the percentage of the turnover, explain?

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17. Do you wish to add anything else?

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## **Appendix 3: Ethical Clearance**



## **Appendix 4: Informed Consent Letter**



**Appendix 5: Midas Gate Keepers Letter**

**Informed Consent Letter 3C**

**UNIVERSITY OF KWAZULU-NATAL  
SCHOOL**

Dear Respondent,

**Master of Business Administration**  
**Researcher:** Shikar Singh (082 857 3220)  
**Supervisor:** Steven Msomi (031 2607927)  
**Research Office:** Ms P Ximba 031-2603587

I (Shikar Singh) am an MBA student, at the Graduate School of Business, of the University of Kwazulu Natal. You are invited to participate in a research project entitled (Guiding Entrepreneurs to Success through Franchising: A case study of Midas in Durban). The aim of this study is to examine / assess the experiences of new business owners in franchising

Through your participation I hope to understand.

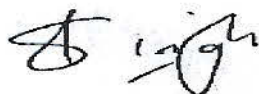
- The experience of new business owners in a Midas franchise.
- The provision of business establishment support in the Midas franchise.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey/focus group. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business, UKZN.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

The survey should take you about 20 minutes to complete. I hope you will take the time to complete this survey.

Sincerely



Investigator's signature

Date : 23- 09 2011

**This page is to be retained by participant**

**UNIVERSITY OF KWAZULU-NATAL  
SCHOOL**

**Master of Business Administration**  
**Researcher:** Shikar Singh (082 857 3220)  
**Supervisor:** Steven Msomi (031 2607927)  
**Research Office:** Ms P Ximba 031-2603587

**CONSENT**

I.....*AHOOREN ROY RAJADAW*.....(full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

SIGNATURE OF PARTICIPANT

DATE

.....*[Signature]* *Roy RAJADAW*..... *26/9/2011*.....

**This page is to be retained by researcher**



Research Office, Govan Mbeki Centre  
Westville Campus  
Private Bag x54001  
DURBAN, 4000  
Tel No: +27 31 260 8350  
Fax No: +27 31 260 4609  
[snymanm@ukzn.ac.za](mailto:snymanm@ukzn.ac.za)

27 October 2011

**Mr SS Singh (202522024)**  
**Graduate School of Business**

Dear Mr Singh

**PROTOCOL REFERENCE NUMBER: HSS/1107/011M**  
**PROJECT TITLE: Guiding Entrepreneurs to Success through Franchising: A case study of Midas in Durban**

In response to your application dated 28 September 2011, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

**Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.**  
**PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years.**

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

.....  
**Professor Steven Collings (Chair)**  
**HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE**

cc. Supervisor – Mr Steven Msomi  
cc. Mrs C Haddon



06 October 2011

**Student Name** : Mr. Shikar Sanjith Singh

**Student Number** : 202522024

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**Re: Request for approval for conducting research entitled, 'Guiding Entrepreneurs to Success through Franchising: A case study of Midas in Durban, at University Of Kwazulu-Natal**

Dear Mr. Singh

As per your request, Midas grants you permission to conduct the research, with the topic, Guiding Entrepreneurs to Success through Franchising: A case study of Midas in Durban which will include employees of this company.

If you require any assistance, please feel free to contact me.



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**Roy Rajhdaw**

Branch Manager – Midas KZN

031 5335303 (Direct)

086 6038127 (Fax)