

An Investigation of Supermarket Franchising as a Business Opportunity for Entrepreneurs within the South Africa Retail Industry

Andrea GEORGIU

*Mancosa Graduate School of Business,
16 Samora Machel St, Durban Central,
Durban, 4001, SOUTH AFRICA*

Christo Abraham Scheepers

ir@mancosa.co.za

Abstract

The research sought to investigate supermarket franchising as business opportunities for entrepreneurs within the South African retail industry. The research problem proposed that starting and owning a business raised a number of challenges, without even taking macro-economic factors into consideration. It is further perceived that supermarket franchising was not well suited for entrepreneurs due to its rigidity and lack of freedom. The research is significant for three reasons: the research will shed light on the supermarket franchise system; it will enlighten both the franchisor and franchisee; and it will inform government of the issues faced by business owners. The research was exploratory in nature and adopted a qualitative research method using in-depth semi-structure interviews. The interviews were conducted with ten existing supermarket franchisees who were either part or sole owners of the business. The research found evidence that the supermarket franchise industry offered a number of good business opportunities, provided the individuals possessed the right skills and personality. The study also found that government were a significant hindrance in the growth of this sector. A number of recommendations were made to government, the franchisor, and potential franchisees. As this study did not consider all potential supermarket franchise groups, there is scope for further research which should also include the franchisor as a research participant.

Keywords: *branding; economic growth; entrepreneurship; franchising; supermarkets.*

1. Introduction

A franchise is a contractual agreement between two entities. It allows an individual or group of people (the franchisee) the rights to market or sell a product or service using an already existing trademark of another business (the franchisor) (Srinivasan, 2012). In order for this to be successful and feasible, it must be mutually beneficial to both parties. Franchising provides a business strategy alternative to that of traditional forms of business, such as independently owned supermarkets. One of the biggest attractions to franchising is that there is an already established brand name and operational structure supporting it. This study has been produced in order to investigate supermarket franchising as a business opportunity for entrepreneurs within South Africa.

1.1 Research context

The supermarket is a large format retail space that sells a variety of food and other household goods (Srinivasan, 2012).

It has become an integral part of the community and forms an important part of food production and distribution, linking supply and demand.

Franchising as a whole is a growing industry in South Africa despite tough trading conditions and has shown considerable resilience (Van Aardt, 2017). It is seen as an important way to boost economic growth and the creation of jobs (Van Aardt, 2017). The Franchising Association of South Africa (FASA) is the only recognized body for the franchise industry within South Africa that services the franchise industry (Van Aardt, 2017). FASA (2015) estimates the turnover generated by the franchise sector was R 465 billion which steadily increased from R 302 billion in 2012, and that the retail sector is the second largest franchise system accounting for 12 percent of the franchise sector. Within the South Africa there are four dominant supermarket franchises chains and collectively they have over 2000 franchises nationwide.

This study will mainly focus on SPAR and Pick n Pay as they are the largest and

most dominate supermarket franchise groups within South Africa.

1.2 Research problem

In the supermarket retail industry trading hours are long; labour regulations are strict; high cost of utilities; diminishing margins due to increased expenses; high crime; industry competitiveness; and high set up costs. Additionally, it is perceived that supermarket franchising as a business opportunity is not considered to be entrepreneurial due to its rigidity and lack of business freedom.

However, despite these issues, supermarket franchising is fast growing compared to other supermarket business opportunities, such as independently owned supermarkets of which there are very few and within South Africa not substantial enough to compete with the dominant franchise chains. This study determines to explore the supermarket franchise industry in order to make appropriate recommendations to potential and established supermarket entrepreneurs and business owners wanting to explore supermarket franchises as a business opportunity.

1.3 Research questions

The following research questions have been derived from the research objectives:

- Is supermarket franchising considered a good business opportunity?
- Is the franchisee considered to be entrepreneurial?
- What are the challenges and benefits of supermarket franchising?
- What is government doing to assist or hamper entrepreneurs and business owners?

1.4 Significance of the study

Franchising is a broad subject with multiple business models and various franchise systems. The South African unemployment rate is high and economic growth has been poor over the last few years (Strydom, 2015). Franchising is a significant contributor to economic growth and job creation; therefore it must be explored, understood, and studied in more detail. Often franchising is thought to be attractive business opportunity as it

promotes the ideals of having a self-owned business which will allow for a more flexible lifestyle, independence, personal fulfilment, and higher earnings (Venter, 2015), despite its challenges. There is no known study that outlines and investigates the supermarket franchise industry as a business opportunity in South Africa. The significance of this study is therefore three-fold.

Firstly, this research will be significant to the individual and entrepreneur in that it will provide theoretical framework and context of the franchise system, and the benefits and drawbacks thereof. It will highlight the pros and cons of supermarket franchise systems which can act as a tool for decision making.

Secondly, the research will be significant to the franchisor and organisation as it will provide an understanding on some of the challenges and issues franchisees' experience with the franchise system.

Lastly, government and policymakers could also benefit from this research. They will gain first-hand information and insight into some of the challenges and difficulties of the industry, hopefully bridging the gap between public and private sector businesses.

2. Literature review

The concept of the supermarket came into existence in United States of America (USA) as early as 1930 (Ellickson, 2011). The supermarket is generally regarded as a self-serviced retail grocery store that sells a variety of household goods. These goods can range from groceries; baked goods; fresh produce; dairy products; meat; alcoholic beverages; and in some instances a range of non-food products (Srinivasan, 2012).

2.1 The franchise

The word franchise originates from the French word *franche* which refers to freedom (Van Aardt, 2017). Franchising is emerging as a highly effective and accepted strategy for business opportunity, employment, economic development, and is considered to be one of the fastest growing forms of doing business (Van Aardt, 2017). This is especially true for emerging and developing economies like South Africa where the franchisor has the potential to

expose itself to less risk while still benefiting from rapid expansion.

2.2 The franchise system

Franchising can be defined as “a contractual agreement between or license between two parties (Franchisor and Franchisee) for the purpose of organising and managing business, where the parties are mutually benefited” (*Srinivasan, 2012*). The franchisor typically sets conditions and standards and grants operating permissions to a franchisee to sell a product or service. In return the franchisee pays a fee or royalty for the rights, and agree to abide by the conditions and standards as set out by the franchisor via an agreement (*Van Aardt, 2017*).

2.3 The advantages for the franchisee

Established brand, product and service: This means the franchisee will inherit a franchise business where there is already an established business process that has a significant brand name and reputation. Often, this is one of the primary reasons for potential franchisees wanting to join a franchise group (*Srinivasan, 2012*).

Formal training and support: The franchisor begins with an initial training period and thereafter on-going training to both the management and employees to ensure that the quality and image of the franchise is guaranteed (*Van Aardt, 2017*). Interestingly, according to *Srinivasan (2012)*, some franchisors prefer their prospective franchisees have no formal experience or training in their specific field of operations so that the franchisor is able to train the candidate from the onset without being influenced by prior experiences.

Financial assistance: Entrepreneurs often have limited access to sufficient capital and it is often one of the major stumbling blocks when wanting to start a business. Banks generally view franchising as a lower-risk investment compared to an independently owned business due to the support and establishment of the franchisor (*Venter, 2015*).

Marketing and management benefits: The franchisee will benefit from the franchisor’s extensive marketing, advertising and promotional campaigns as well as an operational manual of processes

and procedures which will allow the franchisee to learn how to operate successfully (*Srinivasan, 2012*).

Growth opportunities: The franchisor may provide future growth opportunities for the franchisee in accordance with their territory agreement which allows the franchisee to operate exclusively in a certain geographical area (*Srinivasan, 2012*).

2.4 The disadvantages for the franchisee

Rigid operating procedures: Often the franchisor can be relatively prescriptive in the way in which the franchise needs to be run, which can prove to be stifling for some entrepreneurs (*Van Aardt, 2017*).

Reliability of the franchisor decisions: Over reliance on the franchisor can be disadvantageous to the franchisee. Bad decisions and failure to provide back-up support can damage the operation and reputation of the franchisees’ business.

Limited control and freedom: For many entrepreneurs, freedom to act and control their actions is their greatest attribute. When a prospective franchisee joins a franchise, they will inevitably surrender most of their independence (*Webber, 2013*).

High franchise and royalty fees: Lastly, many franchisors have high start-up costs, franchise and royalty fees which can erode profits and become burdensome for any new or established business (*Venter, 2015*).

2.5 The advantages for the franchisor

Allows for rapid expansion: Through multiple franchise outlets, the franchisor can experience rapid expansion, while using less capital and risk exposure (*Webber, 2013*).

Dedicated owner-operator: The owner managed outlets have a greater monetary incentive to succeed; they tend to operate more effectively with greater motivation (*Venter, 2015*).

Less risk: The franchisor will expose themselves to less risk, particularly when moving into less stable and unknown markets (*Venter, 2015*).

2.6. The disadvantages for the franchisor

Working relationship with franchisee: The success of the franchise will be built on a foundation of mutual respect, trust, and open communication. Without these key components the franchise relationship will be challenging and lead to long-term failure (Venter, 2015).

Quality control: This is probably one of the most significant disadvantages for the franchisor. Although the franchise agreement will clearly stipulate the quality expectations and requirements, it may be increasingly difficult to ensure that all franchise outlets adhere to the same standards (Venter, 2015).

2.7 Franchisee-franchisor relationship

Varotto and Parente (2016) found that the success of a franchise depended on the satisfactory relationship between franchisee-franchisor. In order for the relationship to work it ought to be mutually beneficial for both parties (Grace, Frazer, Weaven & Dant, 2016). Within the relationship there are risks for both concerned. From the franchisors perspective, the brand as a whole is at risk. The franchisee also assumes a certain amount of risk in that they are investing capital into a system that may or may not work for them.

2.8 The importance of brand equity

Kotler and Keller (2012) state that credible brands indicate a certain level of quality. Brand equity is "the added value endowed on products and services" (Kotler & Keller, 2012) and is indicative of the way consumers feel and act towards a brand. Brand equity is measured by four key concepts: brand loyalty, perceived quality, brand awareness and brand associations (Buil, Martínez & de Chernatony, 2013).

2.9 The impact of government on business

The challenges facing South Africa are immense (Schwab, 2014). Despite high levels of unemployment and poverty, South Africa's rate of economic growth is alarmingly low. The Department of Trade

and Industry reported that there are between one and three million SMEs (Strydom, 2015), contributing more than 50 percent to the country's GDP and 60 percent to employment (Kongolo, 2010). Government has recognised the need and importance of SMEs and business owners and the pivotal role they play in the economy. Government policies and regulations can either be a contributor or an inhibitor for business growth. Experts cite skewed and cumbersome government policies and regulations which are still key factors constraining business development.

2.9.1 Taxes

Global Entrepreneurship Monitor (GEM) (2016) found that a high proportion of entrepreneurs lacked the skills to comply with the legal and tax requirements set out by government. Simplification of South Africa's tax laws, with particular focus on SMEs could stimulate the economy and promote job creation. Additionally, excessive taxes, compliance costs, and poor infrastructure are constraining factors which do not encourage new growing businesses (GEM, 2012).

2.9.2 Labour regulations

Labour regulations are currently ranked as the fourth most problematic factor for doing business in South Africa (Schwab, 2014). South Africa has particularly restrictive labour policies. Access to quality skilled labour is also an underlying issue, while semi-skilled and skilled labour is being cited as too expensive.

2.9.3 Other factors

Other contributing factors that could contribute to low business aspirations and growth include:

Economic factors: Erratic fluctuation of exchange rates; prolonged fear of a ratings downgrade; high cost of electricity; slow economic growth; instability and uncertainty within government (Schwab, 2014).

Crime: This is a major deterrent for small business owners, especially in the retail and trade sector (Cant & Wiid, 2013). Crime not only impacts the safety of staff and customers, but also adds additional costs (Cant & Wiid, 2013).

Government corruption: Many entrepreneurs and investors are disillusioned by high levels of government corruption with the impression that their investments are not secure and will be undone by inefficient and corrupt governments (Schwab, 2014).

Costs of compliance: Government's lack of capacity to deal with business requirements; and the cost of compliance with legislation is high and is seen as a threat to the SMEs (Schwab, 2014). The present excessive bureaucracy and burdensome application processes, and inefficient decision-making have limited the positive impact on business growth.

3. Research methodology

Exploratory studies are broad in focus and are useful in order to gain insight into a particular problem or topic, particularly if there is uncertainty around the nature of the problem (Zikmund, Babin, Carr & Griffin, 2013). Interviews are often semi or unstructured in order to gather as much data as possible. Due to their semi and unstructured nature, it is a fairly flexible and adaptable form of research which can be advantageous when a change in direction is needed as a result of new data (Saunders, Lewis & Thornhill, 2012). Exploratory, qualitative research was adopted due to its flexibility and ability to seek out rich data when applied in an interview setting and also due to the uncertainty and ignorance of the problem being studied.

3.1 Target population

The target population was supermarket franchise owners who were either part owners or sole owners of the business. The target population of supermarket franchisees' in South Africa exceeds 2000 and was far too large to cover within the stipulated timeframe, therefore a sample for this study was drawn from the population.

3.1.1 Sampling

Bryman, Bell, Hirschsohn, dos Santos, du Toit and Masenge (2014) define a sample as a segment of the population that is chosen for the selected research. Initially the sample was limited to the Western Cape with the intention of assisting

the study achieve more focus and for convenience purposes. The sample was then broadened to include specific franchisees within the borders of South Africa. For this study, non-probability sampling was selected.

3.2 Limitations of the study

The limitations of the study were indicative of the variety of franchisees that were found and available for the study. It would have been preferable that a greater mix of gender and race be evident among the sample of business owners to produce more diverse results due to different cultural and gender opinions and approaches to business. However, the selected participants displayed sufficient experience, skill, and years of service to add to the credibility of the study.

Further limitations existed in the study based on current and available literature regarding whether franchising, specifically whether franchisees were definitively considered to be entrepreneurs. The impact of this is a lack of definitive literature and scholarly opinion on whether franchising is conclusively entrepreneurial or not, leaving much room for subjectivity.

3.3 Elimination of bias

Bias can occur at any point during the research process. The use of the interview method could potentially carry some risk of bias which could stem from the interviewer's misinterpretation of the respondent's answers (Saunders et al., 2012).

Although Bryman et al. (2014) asserts that it is incredibly difficult to remove bias all together; the above points were adopted in an attempt to eliminate bias during the research process. The study did not knowingly produce any biases toward the findings or during any part of the research process.

3.4 Ethical considerations

According to Saunders et al. (2012) ethics can be explained as the standards of behaviour that guide researchers' conduct. The following steps were taken to ensure the wellbeing of the participants.

3.4.1 Ensuring participants have given informed consent

Informed consent requires that all participants are fully informed about the study and research process (Miller, Birch, Mauthner & Jessop, 2012). All participants were informed about the process and permission was sought before any data is collected.

3.4.2 Ensuring no harm comes to participants

Harm can be referred to as embarrassment, stress, discomfort, pain or conflict (Saunders et al., 2012). All participants were emailed a copy of the questionnaire five days prior to the interview.

3.4.3 Ensuring confidentiality and anonymity

Individual respondents were at no time referred to by name further ensuring their anonymity.

3.4.4 Ensuring permission is obtained

Prior permission was provided by each individual franchisee before any data was used.

4. Results

Twelve participants were approached and accepted to participate making the response rate 100 percent. Participants varied in terms of the franchise brand, location of business, years of service, number of businesses, and age. These variations added to the believability and credibility of findings.

4.1 Thematic analysis

The following main themes were identified: barriers to growth; disadvantages of operating under a franchise; advantages of operating under a franchise; franchising as an opportunity and the alternatives; and entrepreneurship and franchising.

The three main disadvantages determined include: supermarket franchising being corporate and administrative, rigid and restrictive; and financial challenges.

Theme three highlights the advantages of operating under a franchise system. This was undoubtedly where the most positive feedback emerged around the franchise system. Franchisees were optimistic and considered the franchise they belonged to of vital importance to their success. The franchisees that showed considerable year-on-year growth (above inflation) were more positive about their franchise. The three main advantages were: freedom within bounds; existing infrastructure and access to resources; and associated with a well know brand.

The consistency of a franchise, such as brand logo, quality, and product range, means brand recognition and trust regardless of the franchise location.

The overwhelming majority of franchisees still considered supermarket franchising to be a good business opportunity. All franchisees showed growth, despite the tough economic trading conditions and market competitiveness. The overwhelming majority were also still confident that their businesses would continue to grow, provided they continued to be innovative and creative, with particular emphasis on controlling increasing expense.

4.2 Entrepreneurship & franchising

There was one theme that emerged from the analysis which was particularly relevant to the study; whether franchising was considered to entrepreneurial, with particular emphasis on the franchisee. Many scholars have debated whether the franchisee or franchisor should be considered the true entrepreneurial.

5. Conclusion & Recommendations

A strong case has been made that supermarket franchising should be considered a good business opportunity and that it was well suited for entrepreneurs in some situations but not all. There is a strong correlation between the literature review and the primary data collected from franchisees and that they did in fact consider themselves to be entrepreneurial.

A strong connection was found between the challenges highlighted in the findings against those in the literature.

In determining the impact that government had on business, there was a strong link between the theory and primary

data gathered. The government was found to not be doing enough to assist and promote business development and owners. Particular emphasis was placed on over regulation, macro-economic factors, crime, and government support. Legislative and compliance burdens were revealed as costly and administrative heavy, adding to increasing costs.

5.1 Recommendations

The following recommendations have been made based on the literature, findings, and conclusions of the study.

5.1.1 Government

The following recommendations can be made to government in an effort to increase business confidence and growth:

- Simplify the process of starting and running a business by reducing the levels of legislation;
- Reduce the cost of basic utilities;
- Simplify tax regulations and procedures;
- Liberalise the labour market by increasing flexibility for SMEs;
- Provide better state department support with emphasis on better qualified agents with a business mindset;
- Develop different assessment tools for funding;
- Strong emphasis on reducing and controlling the high levels of crime;
- Simplify the application for funding process; and
- Ensure that there is sufficient funding for business growth and development.

5.1.2 Franchisor

The franchisor should consider reducing the amount of corporate red tape involved with the running of a franchise business. Providing financial support, specifically at start-up phase will benefit the franchisor in allowing faster expansion. The franchisor should seek to employ staff with similar inclinations to that of the franchisee in order to reduce the levels of corporatization.

5.1.3 Potential franchisee

Spend time – similar to that of an apprenticeship – with an existing franchisee in order to experience the way in which the business operates.

5.2 Conclusions

Theory and findings proved that the franchise industry was sort after and is showing significantly growth, providing both personal and financial reward. Both sources point to the fact that supermarket franchising can in some situations be for entrepreneurs. There is some certainty that the franchisee should be considered an entrepreneur when involved in multiple franchise businesses.

Strong evidence found that there are multiple advantages and disadvantages of the franchise system. Although there were some areas of concern, the challenges could be overcome which was evident in the franchisees growth, profitability, optimism, and willingness to remain a part of the franchise system. The findings proved that the benefits of trading under a franchise could not be disputed and significantly contributed to the franchisee's success.

Government was considered a serious hindrance in the promotion of business growth. The degree to which government legislation, regulation, and lack of involvement impacted businesses was clearly evident. Franchisees confirmed that they would continue to be innovative and creative in their own specific ways in circumventing and overcoming government hindrances. The study has undoubtedly satisfied the primary aim of the research in investigating supermarket franchising as a business opportunity for entrepreneurs within the South African retail industry.

5.3 Suggested future research

As this study did not consider all potential supermarket franchise groups, future studies could be conducted on a much boarder scale, and include a more diverse sample and demographic. It would also be interesting to engage with the franchisor and analyse their perspective of the franchise system.

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