THE SUCCESS FACTORS, BARRIERS AND CHALLENGES FACED BY FRANCHISEE (SME'S) OPERATING A FAST FOOD OUTLET IN SOUTH AFRICA

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Abstract - In South Africa, approximately 440,000 small businesses (SME's) have closed in the last five years. The number of new business start-ups is at an all-time low and has stagnated over the past decade. Small businesses offer the only real prospect of large-scale job creation in South Africa. This study aimed to success factors, barriers and challenges faced by franchisee (SME's) operating a fast food outlet in South Africa. This was a desktop study.
The success factors of a franchisee were found to be management capacity, system controls and inventory control, skills requirements, site location and accessibility. Barriers and challenges are shrinking disposable income, increasing competition (market share), Rising costs, falling staff morale, bad debts, Adapting to consumer needs, access to funding and start-up capital; as well as socio- economic factors. An integrated framework to provide SME's in the fast food franchise industry with the necessary support to be sustainable, access start-up funding and capital to expand their business is recommended.

Keywords - Fast Food, Franchise, Funding, Sustainability, Small Businesses, South Africa

I. INTRODUCTION

Franchising is a popular and multifaceted arrangement that attracts considerable research attention (Combs, Michael & Castrogiovanni 2004; Michael & Combs 2008:74). Fast food industry's growth is spurred on by globalisation and general increase in incomes of the wider global population. More-so in the developing world, more inclusive economic growth creates a new market for fast food franchising, due to increased demand for and consumption of convenient, quick serving and ready-made meals (Tabassum & Rahman, 2012).
South Africa saw similar growth in the fast food franchise market (Negal, 2013). According to FASA, 25% of 845 franchised brands and over 40528 franchised business outlets contributes13.3% to the country's GDP. The stats in South Africa are healthy with robust franchising system compared to Canada'sapproximately 17 franchise categories.
Insight Survey report that the fast-food industry is worth R300 billion per year, while Statistics South Africa recorded income from "takeaway and fast-food outlet" as R170 billion in 2015. Euromonitor estimates consumer growthto 42 million in 2017-8; Euromonitor predicts that fast food in South Africa will continue growingat 9% p.a. for 2014-19. In 2014, 134 new takeaway stores opened in the country, which is set to increase by 4% every year, according to Insight Survey. All of this indicates that the South African food service industry in general and the fast-food industry in particular, is in robust shape as we enter 2017.
Morne Cronje (Head of Franchising at FNB Business & Fin24) report (2016), franchising showed resilience and continues to grow in tough economic conditions, the sector is not without risk. Franchise systems are a proven model that can successfully replicate; these types of businesses are often considered less risky for entrepreneurs. The reality is that no franchise is immune to tough economic conditions – levels of success vary depending on the concept, strength of the brand, management and the industry. Regardless of business operational issues and challenges faced by the Small Enterprises like compliance, regulations and policies, lack of sufficient capital and credit facilities is often a major handicap to the development or growth of small businesses, especially in the early stages. Researchers allege that globally, 95 percent of small businesses rely on their personal resources, loans from friends and families or business partners to finance such business and result to failure in business (www.moneyweb.co.za).
This was a desktop study. To identify success factors, barriers and challenges faced by Franchisee (SME's) operating a fast food outlet in South Africa. In South Africa, Franchise business contributes 13.3% to the country's GDP. The Franchise in Fast food is third in business categories at 25%, following Retail and Manufacturing.

II. LITERATURE REVIEW

It is not possible to determine with any degree of accuracy whether the financing available in the private sector and the public sector (government schemes) is sufficient to meet the needs of SMEs. It is also challenging to determine if the current framework on Small Business is aligned and include sustainability of operating franchise in South Africa.The study highlights benefits, advantages and disadvantages of operating fast food franchise and

challenges faced by franchisees to sustain the business.

Franchising in South Africa

1960s: The Steers idea came to George while he was on holiday in the United States in 1960. Halamandaris decided that he would bring the concept and updated method of restaurant and fast food catering to South Africa, which resulted in the first "real" steakhouse in the country1. The first Steers steakhouse restaurant was opened in Bellevue, Johannesburg. In 1983 Steers launched a new franchise program and in 1994 the company was listed on the Johannesburg Stock Exchange under the name Steers Holdings Limited. Today Steers has 522 stores around the world.

The 1970s were an important time for franchising as they saw the birth of a truly iconic South African retail franchise that has become part of the cultural landscape. This franchise is Shoprite. The first Shoprite was founded in 1979 in Cape Town when a number of small supermarkets were purchased for a price of R1 million. The first branch outside the Western Cape was opened in 1983. In 1990, Shoprite opened its first store outside South Africa in Namibia.

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

1990s: Debonairs pizza was established in 1991 by two university students. One of these students was Craig Mckenzie who operated from a family bakery in Pietermaritzburg. Another franchise that was established in the 1990s was Mugg and Bean. The first store was opened in 1996 on Cape Town's Waterfront. Ben Filmalter got the idea when he was on a trip to Chicago with his wife Judi in the early 1990s5. Today Mugg and Bean operates in five countries around the world including the United Arab Emirates and Saudi Arabia.

Post-apartheid: Franchising continues to grow apace in South Africa and many franchises expand throughout Africa and even to Europe or the United States. What is unique about the South African franchise landscape is that around 90 percent of franchises in South Africa are locally developed ones.

The franchising industry plays an important role in the South African economy. It contributed over R302 billion revenue to the overall gross domestic product (GDP) in 2013 (Franchising Association South Africa [FASA], 2014:14-17). Within this industry, the fast food franchising sector leads by commanding approximately 22 percent of the overall franchise sector (Stats SA, 2014:140-198). South Africa experienced a 160 percent increase (R516.3 million to R1342.9 million) in the income generated by the fast food industry between 2006 and 2012 (Stats SA 2014:140-190). The growth of the South African fast food industry has been attributed to factors such as rising household incomes, growth in the black middle class segment, participation of women in the labour force, and the increasing value of household time (Mackay et al., 2013:68; Roberts-Lombard, 2009:236).

When one examines the South African franchise sector, two things stand out:

- Around 90 percent of South Africa's franchise opportunities is based on locally developed concepts. This contrasts with most countries outside the USA where foreign brands tend to dominate the market. This did not happen here because when franchising took root, trade sanctions prompted many international brands to adopt a wait-and-see attitude, giving South African firms time to develop.
- The high level of professionalism displayed by bona fide franchisors. This is based on the good work done by the Franchise Association of Southern Africa and its affiliated members who kept abreast of international developments and introduced them to local franchisors.

Financial inadequacies, which according to Beck (2007) are related to farm size, are key barriers to firm growth, leading to a mismatch between Small Enterprise demand and financial Institutions' supply of finance. Entrepreneurs across various sectors experience challenges to access financial assistance to start or grow their business through financial institutions (Maas and Herrington, 2008) due to rigid lending criteria and not meeting set requirements including collateral securities (FinScope Small Business Survey, 2010). Fal (2013) pointed out that lack of talented and skilled workers in South Africa means that small enterprise businesses often struggle to scale up; although government had the best intentions to assist small businesses.Oftengovernment introduce regulations that are easy for big companies to adhere to, but which compound the red tape for smaller firms. Small Enterprise development currently faces serious constraints including the scarcity of long term financial resources like long term loans and venture capital (Wu et al, 2008) and many entrepreneurs don't understand how to access funds (www.mail&guardian.co.za).

Operation and advantages of Fast Food Franchise

Several key variables are operationalised in literature as important factors to franchise growth. The actual process of franchisee sales growth is far more complex and no single factor can determine the outcome of this process. The advantage of operating under local brand is that the product is designed from scratch with local conditions in mind. For the same

reason, local franchisors are best positioned to monitor changing consumer expectations on an ongoing basis and stay at the forefront of developments.

Level of success to operate a franchise food outlet in SA

Moreover, successful franchisors and retailers are customer centric and their strategic and tactical decisions revolve around present and potential customers (Urban & Kongo, 2015:2). Store choice decisions in the food retailing industry are widely discussed in literature. A consumer's decision to shop at a store is, in general, based on location or convenience, assortment and quality of merchandise, service quality, price image, ambience conditions and promotions as well as brand selection (Jaravaza & Chitando, 2013:303).

Success or failure of Franchisee fast food outlet

Reasons of success and failure include internal and external factors. In most studies the commonly cited cause of small businesses failure is poor management and cash flow. Although it is not easy to recognize what constitutes poor management, the majority of small businesses problems are characterized as managerial (Zimmerer, et al, 2008).

Management Capacity, system controls and Inventory

Small businesses managers need experience in the field they want to enter. Experience provides practical understanding as well as knowledge about the nature of the business, which determines difference between failure and success (Scarborough &Zimmerer, et al, 2008). Effective control system keeps the business on track and alert managers of potential danger. If control does not signal impending problems then such controls are ineffective (Griffin & Ebert, 2006). Many small businesses fail due to poor inventory control have excessive amounts of cash tied up in an accumulated useless inventory.

Site location

Various models of site selection and location exist within the fast food and general retail environment, with the most prominent model, the location-allocation model (Goodchild, 1984:87), analyzing the relationship between the facilities available within location as well as demand density within the area (Frasquet, Gil & Molla, 2001:25). Additionally, Shopping Centre Attractiveness (SCATTR) scale is based on 21 attributes and is used successfully to assess attractiveness of shopping centres from a customer perspective (Wong, Lu & Yuan, and 2001:26). The SCATTR scale includes factors such as family shopping environment, banking facilities, retail merchandising, food court, entertainment and parking availability.

Accessibility is the ease with which a customer can get into and out of a site. To assess a site's accessibility, a fast food outlet or retailer simultaneously evaluates several factors such as road patterns, road conditions and barriers (Jaravaza & Chitando, 2013:305). Considering that in South Africa many consumers rely heavily on public transport, accessibility to franchise fast food outlets is pivotal. If accessibility of the centre does not allow for ease of access to retail and fast food outlets, it decreases the chance of consumers to patronize the location and negatively influence growth (Strydom, 2014:3).

Skills requirements to operate fast food outlet franchise

According to FASA, many people mistakenly believe that owning a restaurant franchise is a sure way of becoming rich. However, opening and owning a restaurant is a complicated process that involves more than a menu and serving food to the masses. For this reason restaurant franchise is not the right choice for everyone. A restaurant franchise owner requires a particular type of personality, solid research, and willingness to work within the confines of someone else's entrepreneurial vision.

However, buying a restaurant franchise is a good alternative for entrepreneurs who are apprehensive about starting or investing in an independent restaurant business – especially during tough economic times.

Barriers and challenges faced by franchisee

Despite importance of franchising in South Africa and the fast food industry, little research has been conducted at store level across franchised fast food restaurant brands. This is a serious oversight as franchising captures a sizeable portion of the restaurant industry worldwide and plays an important role in its growth (Hsu et al., 2010). Moreover, researching franchised fast food restaurant brands is important in an emerging market context such as South Africa, when considering the marked increase in consumption of affordable, large-portioned and immediate fast foods (Terblanche & Boshoff, 2010:2; Van Zyl, Steyn & Marais, 2010:125). The study problem is increased competition from local and international franchise brands entering the South African market, forcing fast food restaurants to take cognizance of factors influencing their growth (Strydom, 2014; Van Zyl et al., 2010).

Morne Cronje (Head of Franchising at FNB Business & Fin24) (2016) highlights challenges that franchise owners should take into consideration during tough times as follows:

- Shrinking disposable income – as the cost of living increases due to a number of economic factors, consumers are beginning to spend even less. This is one of the biggest threats facing the franchising industry.
- Increasing competition (market share) – a number of foreign-owned brands such as Starbucks, Burger King and Domino's Pizza have now been incorporated into the local market. While this has a positive economic impact and gives consumer more choice, it significantly

increases competition and puts more pressure on the performance of established brands.

- Rising costs – the current drought, had a direct impact on food price inflation, will significantly increase costs for franchises within the fast-food and restaurant sector. With consumers already struggling due to shrinking disposable income, it will be difficult for franchises to pass on these costs to them. Furthermore, increasing electricity costs, interest rates, salaries, transport and maintenance costs are putting more strain on the bottom line of franchises.
- Falling staff morale – when business conditions are not great, some franchises can often not afford to hire more staff or bring in temporary staff, leaving employees severely stretched and demotivated. Job security issues are also heightened during this time as some employees may fear losing their jobs. Motivating staff and constantly updating them on how the business is doing is extremely important since quality customer service goes a long way during this time.
- Bad debts – with interest rates likely to continue increasing throughout the year, franchises may find it difficult to service debt and borrow more money, leading to cash flow constraints.
- Adapting to consumer needs – following a tried and tested model is no longer a guarantee for success in the franchising sector. Convenience and innovation in technology is increasingly becoming important to customers.

Access to funding and start-up capital

Lack of funds could lead to excessive borrowing and consequently business becomes insolvent because their liabilities are higher than their assets. According to Dwivedi& Jain (2005), the role of financial institution is to facilitate the flow of funds from individual surplus spending units to deficit spending units. According to Mail and Guardian (2013), Africa is known as the world's second fastest growing region after Asia, and has seen increasing interest from foreign and African investors. However, access to finance is in general still a major limitation for many African small and medium enterprises.

Small business and Economic impact in South Africa

South Africa is reported to be the largest, most diversified and highly industrialized economy in Africa. According to Statistics (2017), South Africa is also influential regionally, due to its investment and political engagement in many African countries with an active role and leadership within the inter-governmental African Union. Economic policy in South Africa is guided by the need to achieve economic growth and to address high levels of poverty, inequality and unemployment in the country. One of the main failures of South Africa's economy in recent years has been its inability to create sufficient jobs. This has constrained growth, kept the country's tax base narrow and forced the Government to use public finances in an increasingly redistributive manner.

III. FINDINGS

Factors of success and failure on Franchisee operating a fast food outlet

Internal factors are: (1) management capacity, system controls and inventory control; and (2) skills requirements in operating the fast food outlet franchise are important. for an entrepreneur, to start a franchise business he or she must have experience in the field they want to enter, which would provide practical understanding as well as knowledge about the nature of the business. Effective control system keeps the business on track and alert managers of any potential danger. To be a restaurant franchise owner you require to be a particular type of personality to do research, and with a willingness to work within the confines of someone else's entrepreneurial vision. External factors are: (1) Site location and (2) accessibility. For example, the Shopping Centre Attractiveness (SCATTR) is a necessity. This is asituation where the location should have a good family shopping environment, banking facilities, retail merchandising, food court, entertainment and parking availability. Accessibility as mentioned above, is the ease with which a customer can get into and out of a site.

Barriers and challenges faced by franchisee in operating successful business:

Shrinking disposable income, increasing competition (market share), rising costs, falling staff morale, bad debts, adapting to consumer needs and access to funding and start-up capital.

Other challenges according to the Banking Association South Africa

Socio-economic factors are:crime and corruption; appropriate technology and low production capacity (includes access to electricity; lack of management skills and inadequate skilled labour; finance and obtaining credit; access to markets and developing relationships with customers; recognition by large companies and government bureaucracy; knowledge and support for their role in economic development; regulatory compliance; poor government service delivery and political uncertainty.

CONCLUSION

It has been found that the success factors of a franchisee operating a fast food outlet include internal and external factors. Internal factors are (1) management capacity, system controls and inventory control; and (2) skills requirements. external factors are (1) site location and (2) accessibility. barriers and challenges include: shrinking disposable income, increasing competition (market share), rising costs,

falling staff morale, bad debts, adapting to consumer needs and access to funding and start-up capital; as well as socio- economic factors.

It is recommended that it is necessary to have an integrated framework to provide SME's in the fast food franchise industry with the necessary support to be sustainable, access start-up funding and capital to expand their business.

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