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Chapter 1: Introduction Introduction (Research Proposal) 1.1. Introduction The new challenges have been faced by franchising system Such as: high tech systems, franchisee and franchisor relationship, marketing campaigns etc (Saleh and Kleiner, 2005). Marketing operations, franchisor and franchisee relations, high tech systems etc are the challenging areas which had been faced by franchising system (Saleh and Kleiner, 2005). It comprises of moderately lower pricing level and moderately lower control entry mode (Quinn, 1998). The right to marketing of services and goods to franchising that utilises the methods of business and brands of franchisors are sold by the franchisors (combs et al., 2004). With the exchange of some kind of consideration such as an agreement and commitment for the operation of



business according to the standards prescribed by the franchisor, a dealer (franchisee) is granted the right for marketing its products by a supplier (franchisor) in a franchising arrangement (Pride and Ferrell 2000). Franchising is a "type of business arrangement in which one party (the franchisor) grants a licence to another individual. Partnership or company (the franchisee) which gives the right to trade under the trade mark and business name of the franchisor". In addition, franchising is also

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defined as "a long-term, continuing business relationship wherein for a consideration, the franchisor grants to the franchisee a licensed right, subject to agreed requirement and restrictions, to conduct business utilizing the trade and /or service mark of the franchisor and also provides to the franchisee advice and assistance in organizing, merchandising, and managing the business conducts to the licensee" (Luangsuvimol & Kleiner, 2004).

For the purpose of initiating a small business, franchising as such could be viewed as a substitution to decisions pertaining to individual self employment (Kaufmann, 1999; Williams, 1998). A key tool in the



tool box of the entrepreneur is franchising according to Justis & Judd (1998). The right of using its product specifications, operating system and operating system is sold to the franchisee by the franchisor in a franchising relationship. Franchising is described by Felstead (1993) as a business relationship wherein for a payment; a franchisee is permitted by the franchisor for utilizing its business system, product or brand name in a



specific and progressive manner. Franchising is increasingly used as a source of entry into overseas markets. Apart from offering them bright prospects to build up a global operation in a rapid manner and without the exertion of substantial financial pressure upon domestic retail operations,

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for niche retailers such as Sockshop and Benetton, Rocher and Body shop franchising has become the keystone of global expansion

activities. Increasing number of traditional retailers has found favour with franchising. In companies where franchising is utilised as a division of balanced portfolio of entry strategies and those companies which does not have a powerful global appeal have incorporated the Spencer and BHS and

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GIB (Belgium) and UK variety stores Marks, hypermarket and

supermarket operators Casino(France). It has frequently been utilised as a lower priced/lower risk substitute for expansion to globally diverse economies in such cases. The new challenges have been faced by franchising system Such as: high tech systems, franchisee and franchisor relationship, marketing campaigns etc (Saleh and Kleiner, 2005). Further, it is considered as relative low control entry mode and relatively low cost (Quinn, 1998).



According to Combs et al (2004) the right to marketing of services and goods to franchising that utilises the methods of business and brands of franchisors are sold by the franchisors. In addition, he defined franchising as a "type of business arrangement in which one party (the franchisor) grants a licence to another individual, Partnership or company (the franchisee) which gives the right to trade under the trade mark and business name of the franchisor". However, franchising is "a long-term, continuing business relationship wherein for a consideration, the franchisor grants to the franchisee a licensed right, subject to agreed requirement and restrictions, to conduct business utilizing the trade and /or service mark of the franchisor and also provides to the franchisee advice and assistance in organizing, merchandising, and managing the business conducts to the licensee"

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according to Luangsuvimol and Kleiner (2004)

For the purpose of initiating a small business, franchising as such could be viewed as a substitution to decisions pertaining to individual self employment (Kaufmann, 1999; Williams, 1998). A main tool in the tool box of the entrepreneur is franchising according to Justis & Judd 1998). The right of using its product specifications, operating system and operating system is sold to the franchisee by the franchisor in a franchising relationship. Franchising is described by Felstead (1993) as a business relationship wherein for a payment, a franchisee is allowed by the franchisor for utilizing its business system, product or brand name in a specific and progressive manner. Franchising strategy has been connected with the service sector with specific reference to the fast food restaurant business in a conventional manner (English and Williams, 1992). Across a wide variety of other retail sectors, franchising had nevertheless been utilized on a larger scale in current times. "Franchising has also found favour among more traditional retailers, those companies without a strong global appeal, where it has been employed as part of a balanced portfolio of entry strategies, rather than as the sole means of international expansion such companies have included the supermarket and hypermarket operators Casino (France) and GIB (Belgium) and UK variety stores Marks and Spencer and BHS.



In such cases it has often been used as a low cost/low risk alternative for expansion to internationally diverse economies" (English and Williams, 1992: p.192). 1.2. Background of the study Sasol Oil (hereinafter referred to as Sasol) initiated Project Frontiers in 2001 to design, develop and roll out a national network of Sasol Convenience Centres. Today, Sasol currently has 240 Sasol Retail Convenience Centres which are successful. At the outset Sasol Oil made a strategic decision to operate the network under a full business format franchise system and a franchise agreement was formulated to meet this requirement. The franchisees of these Sasol Retail Convenience Centres enjoy a return greater than 30% return on Owners Equity. Sasol Oil's goal is to obtain a 15% market share by 2016. The owner-operator mechanism selected is a key strategic driver in reaching the market share objective. Further in any franchising system, training is a core element and is critical to the transferability of the franchise business system to owner-operators, initially and ongoing. Sasol Oil is currently running training programmes for their franchisees, business advisors and franchise staff. The training programme can be further categorised as follows: i,Franchise training (for franchisees, franchisee administration staff and business advisors). i,Forecourt attendants and car wash attendants. i,Cashiers; Merchandisers; and Bakery / Fresh Food staff. The training programmes above are executed by in-house employees / area specialists (approximately 20%), while the balance of the trainers are external, contracted parties who facilitate general business modules (approximately 60%). In reference to retail point of sales, Sasol Oil did not focus on the off the shelf point of sale system however developed a newly customized point of sale software. Sasol piloted this system with a group of franchisees and received little criticism initially on the integrity of the system. However post roll out of the new system, Sasol received a host of issues threatening the stability, integrity and accuracy of the system. This negatively affected Sasol as there was no formal feedback on the true issues being experienced. In the last quarter of 2007, the franchisees were frustrated and a deadline was given to Sasol to rectify the situation by replacing the system. Thus, this resulted in Sasol's commitment to replace 20 systems in the network to trial and pilot a new system. Although the point of sale and training are challenges to Sasol, the success of business retail is phenomenal as it continues to boast healthy profits. Hence there is a high probability of Sasol's



continuation of the franchised model to grow their market share and probably over time to enter into other feasible and attractive markets within Africa.



However, before entering into International markets, Sasol need to streamline the above two issues, which are currently challenging to the Sasol business. 1.3. Statement of the problem Retail Convenience Centre comprises of a forecourt, convenience shop, ATM and where applicable a car wash. Sasol was successful with the Business Format Franchise Model. Further, the relationship between the franchisee / franchisor is sound and the business model is profitable for the franchisee / franchisor. However, after wide consultation it appears Sasol's struggle is in the area of Retail Point of Sales (POS) systems and the franchisee training. Further, the current status is that Sasol is a domestic player, but, if feasible and attractive opportunities are presented in Africa then Sasol could certainly use this Business Format Franchise model. Thus, the study also looks into the feasibility of entering into other countries (International Franchising) if the present Sasol current franchising is found to be successful. 1.4. Aim of the study To determine SASOL's current Business Format Franchising model (training and retail point of sale system) and predict the opportunities for future downstream retail business via franchising. 1.4.1. Research Objectives 1.To evaluate the success of the current business format of franchise model of Sasol 2.To analyse the challenges faced by SASOL in the current business format franchise model with particular reference to the training and retail point of sale system. 3.To provide recommendation for sustainability of franchising and also future downstream markets. 1.4.2. Research Questions 1.Did Sasol successfully enter the retail business via the business format franchise model? 2.What are the current challenges and issues faced by SASOL in the current business format franchise model with particular reference to the training and retail point of sale system?

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1.5. Scope and delimitations of the study The research is

limited only to Sasol's retail behaviour in South Africa. Further the study will use qualitative and case study design. Secondary data will be used for the analysis. The focus is on training and point of sale.



1.6. Research design and methodology The study adopted case study approach (Henning et al, 2004: p. 41). In addition, the case study approach is appropriate because it will provide an opportunity for the researcher to intensely describe and analyse a single unit, in this case an organisation. Furthermore, the case study approach is advantageous because it will help capture the emergent properties of the organisation's life and also the ebb and flow of the specific activities (Noor, 2008: 1603).

1.7. Outline of chapters

Chapter 2: Literature Review The chapter will critical review the previous studies related to the proposed research topic as well as the literature which has been used during the research process.

Chapter 3: Methodology Research method adopted, data collection, research approach, research philosophy, ethical concern, case study design would be discussed by the chapter elaborately.

Chapter 4: Research Findings Chapter four will not only discuss the research findings but also interpret them.

6 Matching Text [Citation tips](#)

Chapter 5: Conclusion In this section, researcher will summarize the

findings and propose recommendations according to the findings. Furthermore, the chapter will discuss how the recommendations should be implemented and perhaps the likely problems that could



develop.

Chapter 2 Literature Review

2.0. Introduction "Reviewing the accumulated knowledge about a question is an essential step in the research process. It is best to find out what is already known about a question before trying to answer it yourself" (Neuman, 2003: p.96) With the help of an organised review of literature, the gaps in the research could be identified by this section. The research objectives are informed or guided by the academic frameworks and theories which are discussed in this section. The findings taken from extensive secondary research that had been undertaken would be discussed by the researcher in this topic. Academic literature and websites, textbooks and journals are the sources from where the findings are chiefly gathered. Under 3 various sections, the classification of the literature review has taken place. Section I: Concept and history of Franchising and impact on economic development Section II: Theories, motives and reasons of franchising Section III: Franchisor Relationship Section IV: Principle documents in franchising A firm basis for added discussion of the set



objectives and the research problem has been provided by the literature review. An increasing interest in the franchising concept as a new strategy of market entry and new paradigm distribution in the environment of marketing has been found in recent times. Different literature and views by



practitioners, scholars and authors had been born because of this increasing interest. Section I: History and concept 2.1 The Concept of Franchising "Franchising is considered to be a very successful and popular strategy for entering new markets and expanding operations" (IFA, 2001) as the risks involved and the initial investment is very low. Franchising can be understood as an agreement between organizations in which independent business men are granted the rights by a producer of a product or service to undertake business in a particular way, designated place and at a positive time period. Franchising as per International Franchise Association (IFA) is "a continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organizing training, merchandising and management in return for a consideration from the franchisee". "The three elements included in franchising in the business field are the franchisor (owner of business and name in the system); the system (the business in which investment is made) and franchisee (the investor who purchase the right of ownership)". According to Preble (1992), "through a contractual agreement there is an interaction among these three elements. The various types of franchising are: (1) Product franchise: the producer gives a right to the franchisee to sell his products. (2) Name and process franchise: the franchise is given the right to use the name and process of the

business (3) The business format mode: apart from the rights given above, the franchisor also transfer the method of conducting the business". 2.2 History of Franchising Historically the word franchising is

derived from old French and means the privilege of freedom from servitude (Bassuk, 2000, p.8).

"Although franchising originated in the middle Ages, in the 1850s the franchise strategies actually started in the United States. It was decided by Singer Sewing Machines, a company situated in New England to market its products all over United States. By the end of the 19th century the franchising concept was started being used by General Motors and Coca-Cola for expanding their markets and



selling their products" (Bassuk, 2000, p.8). Gradually various other industries also began adopting franchising during the 20th century. After the World War II as there was a desire to start an own business among the several veterans returning home, there was a great expansion during the late 1940's. Later, big fast-food chains such as Dunkin Donuts, Burger King and McDonald have made their appearance in the 1950's. Since the 1960' the international market was flooded by several American fast food chains.



2.3. Impact of Franchising on Economic Development Franchising also impacts prosperity of a nation in the following ways, (1) There is a high rate of success due to franchising: According to the figure given below it is clear that franchised businesses in United States (US) have an advantage in comparison to individual start-ups. It shows that after a period of seven years, 91% of franchised businesses continues to operate as compared to 20% of individual new start-ups. The long period of time investment tend to last in a franchise lasts as compared to in individual businesses. The Small and Medium sized Enterprise (SME) sector is stimulated due to an franchise concepts numbers Figure: Success rate of franchising Source: Franchise USA business advisors, <http://franchiseusa.net/stats.htm> , (17-0-2011). (2) Franchising creates employment: According to an extensive study undertaken by Price Waterhouse Coopers for the International Franchise Association, franchising is good for creating national employment. As indicated in the table given below, the amount of additional activity created is the same in in the case of both, be it franchised or non-franchised businesses. Similar patterns have been shown in the franchise surveys conducted in other countries such as Canada and the United Kingdom. (3) The correlation between franchising and GDP per capita is positive. The fact that there is a relationship between economic prosperity level in that nation and the degree of penetration of the franchisee model of business is argued by Magleby who is an expert on micro franchising. It was he who gathered the statistics from the National Franchise Associations of the concerned nations and it compared to the per capita GDP. Table 1 : Employment, output, and payroll of USA franchising Source:



PricewaterhouseCoopers, Economic Impact of Franchised Business, 2. Since franchise systems per country was different significantly, and particularly US, mentioned by him and the data that is available elsewhere, his findings need to be considered with caution. Although the correlation is relevant it may not be as significant as claimed by him. While analysing the actual cost of living, it is necessary to use GDP per capita PPP when a~considering an emerging' market (23). Section II: Motives and theories of franchising 2.1. Motives for franchising: A model explaining the motives for choosing franchising rather than other forms of market penetration has been introduced by Welch (year?) has Quinn (1998) refers to a theory by Welch that argues that a complex interaction of different factors direct stimuli, background factors and decision marker's characteristics (Engman & Thornlund,2208) influence a company to franchise internationally. This is shown in the figure 1.1. Source: Quinn (1998) According to Welch (1990) learning process, network spread and expansion ethos and are the three background factors that influence the decision to franchise internationally. Background does not influence the franchising process but it prepares a company for the move. Direct stimuli include internal stimuli and external. Finally, in addition to the company and its environment, the characteristics of individuals in the company such as knowledge, value, attitude and experience also play a role in deciding to internationalize. 2.2 Reasons and theories for franchising "Transaction costs approach derived from Williamson's work, the resource constraints theory, and principal-agent theory are three main reasons for franchising. According to the transaction costs approach, it is possible to use franchising as an alternative to full diversification when conditions militate against the firm being able to pass porter's better off test. The price of entry as the main obstruction to complete diversification, particularly into markets that are new is discussed by the theory of resource constraints. The resource constraints theory discusses the cost of entry as the chief obstacle to total diversification, especially into new markets. The principal agent theory considers franchising to be mutually beneficial for the franchisor and franchisees and hence there is no need to integrate them fully" (Boyle, 1999: p.192). 2.3. Transaction cost "The costs occurring during some types of economic exchange, mainly due to uncertainty and opportunism

are known as transaction costs and can be classified as bargaining; maladaptation or monitoring cost" (Watson et al, 2005: p.32).

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Monitoring costs are incurred largely due to opportunistic behavior by agents.

According to Watson et al (2005), opportunistic behaviour and consequently the monitoring cost can be reduced due to franchising provided incentives (Williamson, 1985). "Transaction-cost economics highlight the investment in transaction specific assets, which in effect creates hostages within inter-organizational relationships. Using the hostages appropriately to contain the opportunism without encouraging it will determine the effectiveness of inter-organizational arrangements. In order to have protection from moral hazard (opportunist exploitation) there is creation of contractual safeguards. Hence, the contract is considered to be a complex monitoring agreement and not as an arbitrary use of unilateral power by the franchisor. Hostages are posted on both sides and thus effective centralized monitoring is facilitated and externality costs can be prevented" (Hopkinson and Hogarth, 1999: p.194).

2.4. Resource Scarcity According to the theory of resource scarcity (Oxenfeldt and Kelly, 1968), the motivation to franchise occurs for companies primarily because it acts as enhance the capital.



Various informational and managerial resources are essential for the franchisor during the early stages of development (Michael, 2002). Hence, according to Dant and Kaufmann (2003) "in addition to financial capital, franchisees also bring to the franchise system knowledge of geographic locations and labor markets, and their own managerial labor; that is they represent an efficient bundled source of financial, managerial and information capital". According to Oxenfeldt and Kelly (1968) "this theory suggests that in the long term franchised chains will revert to company owned networks. Due to this several studies have been undertaken to test this proposition. In comparison to firms which have relatively rich resources, the companies which lack the resources will opt for franchising". This proposition has been supported

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by Carney and Gedajlovic (1991) research

findings as cited by (Watson et al. 2005). As per the resource constraint theory, initially almost 100 percent of outlets will be franchised by the franchise chains. However, according to Hopkinson and Hogarth (1999) with a relaxation in resource constraints and lower need to franchise, the proportion will move towards 0 per cent as a franchise chains. Kauffman and Dant (1996, p.120) question the validity of the resource scarcity. "Since franchisees have their financial risk concentrated in a single, or at least limited, number of outlets, they will tend to ask a high rate of return on their investment as a compensation for the risk faced. The tendency to demand a higher rate of return upon their investment as a compensation for the risk faced is present with the franchisees since their financial risk is concentrated in a solitary or restricted number of outlets. Therefore the risk can be diversified by efficiently selling shares in the entire chain. Moreover, if franchising were simply a means to overcoming capital market imperfections, then it would be expected that, as franchisors mature, they would reduce their reliance on franchising". However, according to Watson et al (2005), empirical support for this is lacking. 2.3.2. Agency theory Table 2.1



"The Franchisee is king" According to Mendelsohn (1999: p.148) due to the efforts made by the franchisor to recruit franchisees and the latter's interest to own and operate their own business gives rise to the franchise relationship. Firstly, the obligations of the parties in the relationship are considered with emphasis being placed on the obligations of the franchisor. Then there is an examination of the main documents included in the franchise relationship. Finally, there is a discussion regarding problems in the relationship. 2.4.1. Obligations of the Franchisor These include pre-franchising aspects, ethics, and provision of initial services at the franchise establishment and the provision of ongoing services and communication. 2.4.1.1. The pre-franchising aspects These involve the business concept, the market, finance and a pilot operation must be taken into account by the franchisor to be successful in

franchising. a) The business concept It is necessary to maintain the business in a simple manner because it is necessary to teach others to operate it as successfully as the innovator, and greater the complexity, greater the difficulty involved in recruiting, training and sustaining franchises (Mendelsohn, 1999: p.53). It is necessary that the business should have the potential of being established as a brand (Parker, 1999: p.40). The franchisor should strive to make the business distinctive in its total image (Mendelsohn, 1999: p.54). The franchisor must be something of a visionary, constantly looking around to ensure that his brand remains at the cutting edge of market developments (Abatzoglou, 2002: p.52). The product or service must be able to command a premium price (Parker, 1999: p.40). b) The market The importance of clearly defining the market at which the business is aimed has been emphasised by Mendelsohn (2000: p.54). According to Parker (1999: p.39) since the emergence of competition is inevitable in the market place, it is essential that the market should be sufficiently large to ensure the sustenance of the franchised network or more than one franchise. Gordon (1999: p.12) also points out that the market should have sufficient potential to open a number of franchised stores and rapidly actualise its potential by an aggressive rate of expansion, so that the critical mass can be achieved. c) Finance According to Parker (1999: p.39) the margins should be sufficient to cover the monthly royalty and ensure a return on the investment for the franchisee. The returns should also allow for the franchisee to earn a decent, if not good, reward for his labours (Mendelsohn 1999: p.56). The franchisor too should be in a position to make a sufficient ongoing profit from the fees received from the franchisees. According to Parker (1999: p.40) the franchisor must possess access to sufficient capital for piloting the concept, developing the franchise package and building the essential infrastructure. Franchising must be developed from a sound financial and business base, which will not demand the resources meant for the franchising activities (Mendelsohn, 1999: p.53). d) The pilot operation Mendelsohn (1999: p.56, 148) emphasizes that the franchisor has to undertake a pilot test and prove the profitability of the business. In case a franchisor has not proved his ability to operate his package with success and put his own money at risk, he has no right to market the franchise. Nor will he have established the goodwill, reputation and identity of the name that is associated with his package.



Mendelsohn (1999: p.57) also justifies the pilot project for the following reasons, p. 1. The viability of the concept in practice will be developed and established as acceptable and exclusive in the mind of the consumer. 2. Problem areas will be identified and enable the franchisor to provide solutions. 3. The franchisor will be able to experiment with layouts and discover the best combination of equipment and the cost effectiveness of resources in its acquisition. 4. The potential and actual trading experience in different types of location can be obtained. 5. It provides for training in the operational side of the business, business management and accounting techniques. An Operating Procedure Manual is essential for the franchisor. The lessons learned must be recorded carefully by the franchisor in order to employ them effectively for the benefit of franchisees. Once the viability of the franchising concept has been established, the a-pilot operations' should become company-owned units. The franchisor will be provided with units where it is possible to have improvement due to continuous experimentation (Mendelsohn, 1999: p.59). Such units will also give the franchisor the leverage he may need to persuade the franchisees that their stores need refurbishment and equipment has to be replaced. The franchisees will be able to see the benefits that can accrue to such changes in the owner's stores. According to Gordon (1999: p.12) there is a need for at least one or several pilot operations and company owned outlets in place. This will be the foundation for profitability on the basis of which franchise infrastructure expansion will be possible.

2.2.2 Business ethics

Ethics form basis for the running and establishment of the franchise which will help to build trust in the franchise relationship. Some the tenets of the required ethics are discussed here.

a) Transparency According to Abatzoglou (2002: p.52) transparency is a vital element of every successful franchise network and there should be honesty and openness between the franchisor and all network members. Transparency is important since it can result in trust (McCartney 2000: p.5) Furthermore, during the initial discussions, all sources of income that will be derived by the franchisor by operating the franchise network should be revealed to the prospective franchisee (Mendelsohn, 1999: p.151).

b) Disclosure document The disclosure document is a pre-requisite for the Franchising Association of South Africa's members, and as previously mentioned, not all franchisors are members of FASA. An elaborate portrayal of the complete investment along with ongoing costs and the methods of details and calculation of any limitations thrust on the franchisee apart from an understanding of the offerings of business, thorough details of experience of the principal officers in the franchising and business field have to to be provided by the disclosure



document according to McCartney (2000: p.5). According to FASA (2002) the prospective franchisee must be provided the disclosure at least seven calendar days before any franchise agreement is signed. c) Advertisements According to the FASA Code of Ethics, it is essential that the advertisements referring to records performance with reference to earnings or income of franchisee in detail based on facts and avoid deception (FASA, 2002). There shall be no ambiguity and the advertisement will be in compliance with laws and rules disseminated by agency and government body. d) Misrepresentation FASA (2002) members are barred from offering, selling or promoting any franchise, product or service that may tend to mislead or deceive. There is no permission to have the pyramid or chain distribution system, imitate trademarks, trade names, slogan, corporate name, or identification of another business marks. e) Choice of franchisees According to FASA, (FASA, 2002) "the franchisor shall select and accept those



franchisees, whom, upon reasonable investigation, seem to have the basic skills, education, personal qualities and financial resources adequate to perform and fulfil the needs of the franchise. There shall be no discrimination by the franchisor while selecting based on age, race, sex, religion, disability, or colour. However, he can give franchises to some franchisees on more favourable terms than others as part of making the franchises more widely available" (FASA, 2002). Disagreeing with the above, Mendelsohn (1999: p.151) emphasises "that the franchisor should do no special deals, as this may cause the

successful franchisee to consider himself as a special case and spread resentment among those involved". 2.2.3 Provision of initial services "Several services must be provided by the franchisor to the franchisee - piloting the business, selection, train the franchisees and assist them in starting business" (Mendelsohn, 1999: p.107). "Commencing with the development stage this services may continue until the day of opening of the franchisee's business and in some cases for a few days afterward too" (Mendelsohn, 1999: p.108). a) Recruitment Mendelsohn (1999: p.108) argues that the selection process should include the franchisor assisting the franchisee in making an objectively balanced judgment about whether self employment is right for the franchisee, that the franchised business matches the franchisee's skills and aptitudes, that the franchisee is right for the franchisor and vice versa. b) Training According to Mendelsohn (1999: p.108), training should cover basic business skills and the operational aspects of the business necessary for controlling the operation and the ability to detect problems as they arise in business. c) Premises The franchisee is generally assisted by the franchisor to acquire a suitable premise and prepare it to be used as a franchise outlet (Mendelsohn, 1999: p.110). This involves application of site selection criteria, planning and by-law compliance, lease negotiations and the design and remodelling of premises. c) Equipment and opening stock In case standardized equipment is not included in the package sold to the franchisee, he will be advised by the franchisor regarding the selection of the correct equipment at the right prices. The franchisee will be provided with opening stock inventory by the franchisor or arrangements to purchase it will be made. d) Business launch According to Mendelsohn (1999, p.112) the franchisee will be provided with on-the-spot assistance by many franchisors for opening the store. In order to kick start the business, a team consisting of two or three people may help the franchisee for some days by being present in the location. 2.4. Conclusion The above section reviewed the franchising concepts.



study were discussed by the researcher in this chapter. This is made possible with the deployment of various techniques like in depth interviews and participant observation which is analyzed and elucidated in this topic. On the basis of participant observations and interviews that are carried out within Sasol Oil, findings are made accordingly. For understanding the success of the Sasol business with specific

reference to surveys conducted by Ac Nielsen and Mc-Kinsey report, secondary data sources are considered additionally. The results are categorized according to the following section: Section 1, p. Success of Sasol's business format franchise model. Section 2, p. Challenges faced by Sasol with reference to training and Retail point of sale system. Section 3, p. Competitiveness of Sasol a" This will help to predict the opportunities to enter the downstream market. Section 4, p. Recommendations for Sustainability in current business model and downstream market. Thus, the following section highlights the findings collected from qualitative interview and secondary sources. 4.2. Research Question 1 Did Sasol successfully enter the retail business via the business format franchise model? The above research question was analysed using both qualitative and secondary data analysis. The section analyses the current success models of franchising by reviewing the customer point of view and also a perspective from Sasol management. To understand whether Sasol has been successful in the current market, it is imperative to understand the growth trend of Sasol and also through customer satisfaction surveys and service quality of Sasol. Thus, the present section analyses the success in terms of, p. 1.Growth of Sasol 2.Customer satisfaction surveys assessed using Mystery Shopping results and survey results obtained from franchisees. 4.2.1. Growth of Sasol The graph below shows the growth trend obtained through secondary analysis. Figure, p. Increase in stores according to its type in comparison to its competitors, South Africa (April 2009-2010) Source: Sasol, Franchisee Roadshow, July, 2010 The above figure shows the growth of Sasol



it can be observed that the growth of Sasol was not significant, as observed in the above figures. The below section discusses the findings of: 4.2.2. Quality service and Customer satisfaction of Sasol services The customer satisfaction surveys are assessed through Mystery shopping from the customer point of view and also direct surveys to franchisees. 4.2.2.1. Findings of Customer satisfaction surveys In the present study, mystery shopper results are used to assess the quality service and customer satisfaction of Sasol. The results of the mystery shopping provide insights on service standard adherence particularly in the areas of on the forecourt, bakery / point of sale, rest rooms and car wash and it also assesses the customer experience on the above four areas mentioned. The results of the survey are

presented only for the forecourt. The methodology was conducted at Sasol and Exel stations (is also a brand a brand of Sasol). The site was visited in the morning and afternoon and evaluations were conducted between 6.00 and 13.00 or in the afternoon between 13.00 and 19.00.



The survey was conducted between October 2010 and 03 December 2010. Figure 1: Performance of the different areas Source: Sasol, Mystery Shopper Report, December, 2010 The above figure compares all the services provided by Sasol between Q2 FY09 and Q2 FY2010. The figure shows that there is a vast improvement in the forecourt area particularly from 62% to 84%. Similarly bakery/fast food area observed from 57% to 82%. The shop also showed improvement, while rest rooms and car wash did not observe such improvement; in fact their growth was in the downward trend. 4.2.2.2. Individual service - Forecourt findings Figure: You were directed to a pump by an attendant Source: Sasol, Mystery Shopper Report, December, 2010 The respondents were asked whether they were directed to a pump by an attendant. The results showed that in the year there was 50% agreed, but after that there is an increase in the percentage and in Q2 FY10 the

percentage was 72%. Figure: Time taken to serve the customers Source: Sasol, Mystery Shopper Report, March, 2011 The table revealed that only less than 2 minutes has been taken by the employees to serve the customers. Only few reported that it takes more than 2 minutes to serve the customers. Figure: Employee attending to you greeted you Source: Sasol, Mystery Shopper Report, March, 2011 The above table shows that about 90% of the respondents agreed with the statement on 'employee attending to you greeted you'. This percentage was consistent from the Q2 FY 2010 to Q2 FY2011. Figure: Did employees have correct uniform on? Source: Sasol, Mystery Shopper Report, March, 2011 The above table shows that about 90% of the respondents are agreed with the statement on 'Did employees have correct uniform on'. There is drastic improvement from the year Q2 FY10 to Q2 FY11 as 100% of them agreed with this statement during the current year.



Figure: Speedy Transaction Source: Sasol, Mystery Shopper Report, March, 2011 About 98% agreed about the successfulness of transaction in the year FY10. However, this percentage was decreased in the Q2 FY11 to 3%. This research if analysed could also direct and support the research concern and Sasol's challenge around Retail point of Sale system.

Figure: Greetings to the customers/ clients Source: Sasol, Mystery Shopper Report, March, 2011 In regards to greetings to the customers, about 82% of the employees greeted the customers, while this number significantly dropped in the current financial year.

Figure: Safety measures Source: Sasol, Mystery Shopper Report, March, 2011 The safety message was given by 32 percent of employees and this percent was higher than the last year response. Overall, the above results indicated that there have not been significant improvements as compared to Q1. Further the Q2 findings have show an increase in the shop section by 3.65% followed by the bakery 2.3%. Forecourt followed with a slight increase of 1.23%. Car wash has decreased by 8.28% (not shown above). Further up-selling or promotions has not shown any improvements compared to the last quarter. This quarter is sitting at 26.14% which indicates a 9.05% increase compared to the last quarter. Though up selling has shown an improvement in all quarters, getting attendants to smile and up-sell promotions continues to be a challenge. Once the transaction is completed, their interaction with the customer tends to decrease and this is evident in the declining bidding farewell scores and safety messaging to customers. The general cleanliness of the sites i.e., shops, forecourt and car wash has shown a slight decrease in general cleanliness compared to the last three quarters, however is still above 90%. Carwash section has shown some increase on general cleanliness.



4.2.3. Conclusion The forecourt has shown progress on the seven habits i.e., checking water, oil levels, clean windscreen and check tyre pressure; this clearly indicates that the 7 habits or the norms have been deep-rooted to the staff. There is an increase of 4.64% on checking tyre pressure, 7.93% on checking oil, 9.94% on cleaning windscreen and decrease on checking water of 6.96%. Overall there is showing growth. Further there was adherence to standards on Sasol branded packaging items. Uniform scores are not a true reflection of reality due to the fact that stringent marking was not applied over the period under review. The staff have not shown any significant improvement with regards to the kind of service they provide. They are still marked on service related matters which has more to deal with the attitude. The staff behaviour and non-compliance to service standards have an impact on overall performance of sites which will in the end affect customer perceptions of the service standards of the network.

4.3. Findings of Franchisee surveys In order to understand whether the Sasol was successful in the current franchise model, it is imperative to assess the current business in terms of customer and also franchisees satisfaction. The above section presented the findings of customer satisfaction survey through mystery shopping, while the below section presents the findings of franchisee satisfaction towards Sasol as a franchisor. In order to assess the perceptions / concerns surrounding related to communication and relationship management, business interaction, distribution, franchise, and understanding the customer needs and expectations of franchisee, the franchisee survey was conducted in the year 2009 among 190 potential franchisees.



However, the response rate was only 55% (n=105). The study findings are presented below. Figure: Communication channel with Sasol Source: Sasol Franchisee Survey Results, 2009 The above figure indicates the communication channel with Sasol. The results indicate that about 50% of the franchisees responses were very good. However, only 5% reported poor and another 10% reported fair. Further reporting of poor decreased slightly in 2009. Figure: Monthly basis visits by the Franchise Business Advisor (FBA) Source: Sasol Franchisee Survey Results, 2009 The above figure shows that about 92.4% of the participants reported that franchisor visit on monthly basis but still surprisingly about 7.6% did not report. The finding revealed that the franchisor frequently visits the franchisee. Figure: Effectiveness of FBA (a) and FBA report (b)



Source: Sasol Franchisee Survey Results, 2009 The above study findings revealed that about 18.2% reported that FBA was not effective. Further similar percentage (17.1%) reported that the FBA report provided by the franchisor was not effective. The underlying success for a franchise outlet is the relationship between franchisor and franchisee. The Franchise Business Advisor (FBA) is critical for the success of this relationship. The FBA serves as a face of Sasol to the franchisee and is primarily responsible and accountable for resolving all franchisee issues. Hence, the competency, effectiveness and availability of the FBA are critical for the sustainability of this relationship. The contact report is a



source document which the FBA uses to assess the performance and challenges experienced by the franchisee. The monthly FBA visits are important to the franchisee as this is an opportunity to engage with the franchisee and present opportunities or concerns that franchisees may experience. Figure: Accessibility to Sasol Personnel Source: Sasol Franchisee Survey Results, 2009 In regards to the accessibility to Sasol Personnel, 31.4% of franchisee reported that they cannot access to franchisor Sasol personnel. Figure: Satisfaction level Source:



Sasol Franchisee Survey Results, 2009 In regards to the satisfaction level, franchisee reported that they are mostly satisfied with the general manager retail, followed by call centre staff with 14% and depot personnel. The least percentage was to the training of staff and c-store. Thus, the above figure clearly indicated that training of the staff is poor and they are not satisfied with it. Figure: Timeous response and feedback Source: Sasol Franchisee Survey Results, 2009 The respondents were asked whether they receive feedback and timeous response from the franchisor. It was surprising to observe the results as significant percentage of the franchisees are not satisfied. Figure: Satisfaction regarding support received in running the business Source: Sasol Franchisee Survey Results, 2009 In regards to the satisfaction regarding support received in running their business about 45% of the franchisee reported that they are not satisfied. Thus, it shows that the franchisor is not adequately supporting a group of franchisees in terms of providing feedback and also support to run their business. Figure: Does Sasol work with you in growing your business? Source:



Sasol Franchisee Survey Results, 2009 In regards to the Sasol cooperativeness in business growth of franchisee about 25% reported that the Sasol do not contribute on growing business but about 75% reported that they contribute. Figure: Problems in the documents of Sasol Source: Sasol Franchisee Survey Results, 2009 About 70% of franchisees reported that at least in any of the problems such as invoices, statements, credit notes and delivery notes they had not faced problems. A further significant percentage of franchisees reported that in their day to day activities, they experienced challenges with credit notes as an important document. Figure: Satisfaction with the Sasol Managing the account Source: Sasol Franchisee Survey Results, 2009 With regards to Sasol managing accounts, about 13% of franchisees reported that they are not satisfied. However, the majority seem to be satisfied. Figure: The ease of doing business Source: Sasol Franchisee Survey Results, 2009 Franchisees were asked about the ease of doing the business with Sasol. About 75% reported they are satisfied, while 5% reported not satisfied and only 20% reported that they are very satisfied. Figure: Does POS & Back Office support your business? 2007 2009 Source: Sasol Franchisee Survey Results, 2009 The above figure was regarding the POS and back office support by Sasol. It shows that in the year 2007, about 30% reported that they are not satisfied with the POS and back office, however, this number was gradually increased to 35%, thus, 5% increase within the 1 year period. This clearly indicated that the POS and back office support of Sasol was not satisfactory and do not contribute any success to the franchisees. Figure: Are you satisfied with the competency of the persons performing the maintenance? Source:



Sasol Franchisee Survey Results, 2009 The above figure shows that almost 50% of the franchisees are not satisfied with the competence of the persons performing maintenance to sites. Further this indicated that apart from training of the staff and retail point of sale system, the area of maintenance also poses a concern. 4.4. Research Question 2 Current Challenges at Sasol: Retail point of sales system and Training

4.4.1. Retail Point of Sale system This section analyses the interview questions collected through qualitative survey from the key expertise from Sasol. The experts were interviewed about the key challenges faced by Sasol to sustain the franchise business. The key challenge already identified by the researcher through the experience was Retail point of sale system and training of staff. The below section discusses the findings of retail point of the sales system. 4.4.2. Challenge 1: Retail point of sales system Implementation at Sasol One of the important challenges faced by Sasol is the implementation of retail point of sales system. In order to understand the positive and negative aspects of system and to identify the new system for Sasol franchisee and franchisor requirement, the study conducted one on one interviews with the franchisee, site managers, POS operators,



Sasol retail business management and Sasol Information management. Interviews were conducted off site at a location near to the site. The interview was conducted by business analysts (arranged by Sasol) and guided and recorded by an external independent source. Two interviewers were used for all



interviews. The interview took approximately 10-15 minutes with each participant. The interview from the manager stated that: "Our point of sale system went live in August 2003 at the first Sasol site, which is located in Malanshof Randburg. The site was termed as a pilot site and the franchisee recruited for this site was a Chartered Accountant by profession. The system live posed many challenges but due to a Chartered Accountant operating the site the issues were not as visible". "The franchisee use to run his own manual system which worked for him. This negatively affected Sasol as there was no formal feedback on the true issues being experienced" [Neale Hodgson, IT Manager 2008]. As Sasol progressed with the roll out of more sites ordinary franchisees appointed struggled with the practicality and ease of use of the system. The practice continued for 5 years and repeatedly concerns were being raised at annual franchisee road shows. In last quarter of 2007, the franchisees were frustrated with Sasol's non response and a deadline was given to Sasol to rectify the situation by replacing the system. The franchisees highlighted that the system was impractical and the availability and stability of the system to trade was poor. The integrity of the information received from the system could not be relied upon. In certain circumstances the franchisees notified Sasol that they potentially could be contravening the accuracy of statutory payments. Further regarding the performance of old system, from the interview it was observed that:

4.4.3. Performance of Old system The old system is well below the benchmark in the industry and certainly at site level not fit for purpose. The evaluation at head office level was very highly compared to the XXX(new) system but only because the new system is not a central system. The key for this business to operate is more at site level and head office involvement is regarded more as a perk and complements a way of doing business which is unique in the petroleum industry.

4.4.4. New system The new XXX system that is to be piloted is far more practical, stable and reliable. The functionality that exists on the system is what is required by the industry. However, there are still few concerns exists around new XXX system: -The system is not a central system and therefore not head office integrated. This means that Sasol could compromise their existing business model and the franchise format. -The system, since it is strong at site level, the franchisee has the right to list all his products and prices on the convenience side of the business. -Innovation is required around the bakery; Electronic funds transfer payment system and car wash payment areas.

4.4.5. Lessons Learned 1.Both systems fall short of what Sasol's Retail strategy requires. 2.One must note that currently in South Africa there is no local system that can accommodate Sasol's needs. 3.The old system that Sasol was using for 5 years hoping to achieve global acceptable standard will not materialize either. 4.The new system to be piloted as part of the project satisfies franchisees needs.



4.4.6. General Recommendation The decision taken is to pilot the new system with innovation around the gap areas. Sasol retail needs to manually manage the head office function to ensure compliance is not compromised in the network of service stations. The long term strategy with a 4 year view will be to bring in a new system from overseas. Sasol will start the process of seeking a system from the global shores but the reality is that the earliest we would implement will probably be in the next 2 years. The correct decision for now is to go with XXX system in the interim period. 4.4.7. Development of new system based on the gaps identified a" Proposal 4.4.7.1. Suggestion from the researcher Based on the above research conducted by the researcher, a proposal for new system was proposed. The requirement of new system was based on the below gaps identified by the researcher during his interview with the management. The gaps identified in the new system are: 1. No integrated Carwash 2. No bakery recipes 3. No integrated electronic funds transfer payments The steps used for collating information and development of the above 3 gap areas are exactly the same proposed by the full cycle of innovation and creativity (page 115) Pin Study guide. Step 1 Idea Generation Assembling of sufficient number of ideas



The 3 above gaps required processes and ideas to customize. The project team utilized the Systems forum who are a body representing the franchisee network. The systems forum includes franchisees, specialists, and additional retail experts to assist on being innovative and the manner to incorporate

these processes into the new system. The Systems forum was responsible for drafting or planning of the processes and system flows. This was then sent to the entire network to comment upon and 76 out of 176 franchisees of the Sasol franchise network gave their feedback. Screening On completion and adaptation by the Franchise and System forum, the process was forwarded to Sasol's internal system analyst for reviewing. This screening process internally checked whether or not the process mapped out could form part of the system without compromising any other data. They also checked the flow of events and the accuracy of the accounting treatment for this new inclusion. The system analyst also worked across the spectrum of the support stream for buy in. Feasibility The costing was completed but in this case new functions were non negotiable and had to be included. This phase focused more around piloting of this process in a lab environment. The sign off by the different streams including franchisees are completed during this phase. The user acceptance testing is now completed. Implementation The implementation phase formed part of the project roll out as this functionality was a pre-requisite for the roll out of the new systems. The process flow around the new functionality is demonstrated below: Pay for C-Store Item by EFT-DebitCard Process Please advise source? Pay for Carwash Process Please advise source? Pay for Carwash Process Please advise source? Challenge 2: Current Sasol Oil Franchisee and franchise staff training The above survey findings from franchisee revealed that training level of franchisor to franchisee is low. Thus, in order to understand the training process undertaken by Sasol to the franchise staff training would be analysed. The study would use both qualitative (primary survey) and secondary data in order to prove the results. Further the training undertaken by Sasol would also be compared to other retail franchisors in order to assess the effectiveness of Sasol training. In addition, the training program of Sasol was investigated under the following sub-headings: acWhere Sasol ranks with local and international franchisors in terms of its training? acThe relevance and quality of the content, execution and duration of the training programme/s. acThe quality assessment against the current cost effectiveness of execution.

