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FRANCHISING AS A POTENTIAL GROWTH STRATEGY FOR A SMALL BUSINESS

A case of Sam-Chi fast food restaurant

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Koulutusohjelman nimi

TIIVISTELMÄ

Tekijä	Sadiq Odunsi
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Tämän opinnäytetyön tarkoituksena oli selvittää, voiko Sam-Chi pikaruokaravintola kasvaa franchising – konseptin avulla sekä antaa suosituksia yrityksen omistajille, miten kehittää yritystä tehokkaasti kyseisen mallin kautta. Ravintola sijaitsee Lagosissa, Nigeriassa ja sen omistaa Samuel Okore sekä hänen vaimonsa Chichi Okore.

Opinnäytetyön teoriaosuus on jaettu kahteen osaan. Ensimmäisessä osassa käsitellään yrityksen kasvua sekä mitä yrittäjän tulisi yleisesti tietää kasvusta. Toinen osa käsittelee franchising –konseptia sekä miten sitä voidaan tehokkaasti hyödyntää yrityksen kasvustrategiana. Tässä työssä konseptia on käsitelty franchising – antajan näkökulmasta.

Työssä hyödynnettiin kvalitatiivista tutkismusmenetelmää ja käytetty data kerättiin haastattelujen avulla. Työtä varten haastateltiin yrityksen omistajia, kahta työntekijää sekä viittä asiakasta. Haastattelut suoritettiin erikseen yrittäjäparia lukuun ottamatta.

Tulokset paljastivat, että yritys ei ole valmis kasvattamaan toimintaansa franchising –mallin kautta, koska yrityksellä ei tällä hetkellä ole siihen tarvittavia edellytyksiä. Tämä voi kuitenkin tulevaisuudessa olla mahdollista, jos kyseiset edellytykset saadaan täytettyä. Yrityksen tulevaisuus näyttää lupaavalta, koska sen toiminnassa on nähtävissä tiettyjä avaintekijöitä, joita globaalit franchisingyritykset käyttävät. Tulokset ja suositukset on annettu yrityksen omistajien tietoon, jotta he voivat kehittää yritystään ja mahdollisesti tulevaisuudessa kasvattaa toimintaansa franchising – konseptin kautta.

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ABSTRACT

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Title	Franchising as a Potential Growth Strategy for a Small Business. A Case of Sam-Chi Fast Food Restaurant
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The purpose of this study was to find out whether Sam-Chi fast food restaurant can grow through franchising as well as to give the owners recommendations on how to effectively adopt the franchising business model as a means to grow their business. Sam-Chi restaurant is situated in Lagos, Nigeria and the restaurant is owned and operated by Samuel Okore and his wife Chichi Okore.

The theoretical framework of this research is separated into two sections. The first section covers the growth of a business and what entrepreneurs should know about growth in general. The second section describes in detail what the franchising business concept is and how it can be effectively adopted by an entrepreneur as a growth strategy. The franchising concept was viewed from a franchisors perspective.

The qualitative research method was used in this thesis and the data was collected through interviews. The owners of Sam-Chi fast food restaurant were the first to be interviewed followed by two of their employees. Five customers of Sam-Chi restaurant were also interviewed and all the interviews were conducted separately except for the one of Sam-Chi couple.

The results of this study revealed that Sam-Chi fast food restaurant cannot currently grow through franchising because the restaurant does not have some of the requirements a company needs to be franchised. However, the restaurant has the possibility to grow through franchising in the future if these requirements are met. The future of Sam-Chi fast food restaurant is very promising because the restaurant has some of the key success factors of global fast food brands that have been franchised. Recommendations have been given to the owners of Sam-Chi restaurant on how they can prepare their restaurant for growth through franchising.

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1 INTRODUCTION

This thesis is structured into three sections; the introduction, the theoretical framework and the empirical study. The first section gives an introduction of the thesis and background information, the research problem and objective is also defined followed by the outline of the thesis.

1.1 Background of the Study

The theoretical framework of this thesis is divided into two; the first section briefly discusses what growth is and also clarifies the basic assumption of growth. The main focus of the thesis is franchising and the second section discusses the concepts of franchising in detail.

Growing a business can maintain and secure competitive advantage for a company but growing without a coherent plan and budget can undermine the fundamental strengths of a business. Growth is mostly seen by entrepreneurs as a positive thing but in reality growth can be good for a business and it can also be bad, depending on the circumstances. It is essential for entrepreneurs to have a realistic view of growth because growth comes with another phase of business risk and managing a business growth is complex and challenging. (Allen 2005, 358; Barringer, et al. 2010, 513)

Growth brings change and it requires capital, people and processes which need to be properly planned and managed for the growth to be successful. Successful growth requires proactive management since growth is dynamic and the franchising business model provides entrepreneurs the possibility to grow without having to worry about managing the new business units. Franchising is one of the growth methods available to entrepreneurs and the concept is especially attractive to new and small ventures because it provides entrepreneurs with limited capital the possibility to grow rapidly. (Allen 2005, 356)

Over the years the franchising business model has gained attention from entrepreneurs around the world due to the numerous opportunities the model creates.

These opportunities have been brought into light by the success of global companies like McDonald’s, The Body Shop, and KFC etc. Franchising as a form of business growth is especially attractive to small companies with limited capital because franchising makes it possible to grow rapidly within a short period of time using franchisee’s capital. (Allen 2005, 366; Barringer & Ireland 2010, 513)

The strenght of franchising comes from the win-win situation it proposes to both the franchisor and the franchisee. The franchisor is the owner of the concept and he wins because he can quickly grow the business and strengthen its brand name with the franchisees’ capital and the franchisees also win because they will start their operations with a proven and tested business idea and also benefit by using the franchisor’s intellectual property. (Barringer, et al. 2010, 513)

1.2 Research problem and objective

Sam-Chi is a fast food restaurant owned by Samuel Okore and his wife Chichi Okore. The restaurant is located in Lagos, Nigeria and it currently operates in one location. The restaurant offers its customers different types of fast food items but their meat pie and egg roll are the best-selling items. Sam-Chi fast food restaurant was opened in 2012 and the restaurant has been experiencing increased profitability ever since. The constant increase in sales made Sam-Chi owners want to grow their business and after considering different types of expansion strategies, they decided to grow their restaurant through franchising. According to the owners of Sam-Chi fast food restaurant, the main reason why they want to grow their business is to make more profit from their investment. The reason why they decided to grow through franchising is that franchising will provide them the opportunity to open multiple outlets of Sam-Chi restaurant in a short period of time and their franchisees will also provide the capital for opening the new units.

The franchising business concept truly offers the possibility to grow with the franchisees’ capital in a short period of time but for a business to be franchised, it has to meet the franchising criteria. Therefore, this research will aim at finding out whether Sam-Chi fast food restaurant can grow through franchising. After the investigation, recommendations on what needs to be done or developed before growing through franchising will be provided to the owners and the suggestions will be based on the theoretical framework and the findings from the empirical study.

The research problem is to find out whether Sam-Chi fast food restaurant can grow through franchising. The study will examine the strengths and weaknesses of Sam-Chi fast food restaurant in terms of growing through franchising and the findings will be used to give recommendations to the owners of the restaurant. The research problem will be supported by three main questions which are; Does growing directly result to increased profitability? What are the benefits and drawbacks of growing through franchising? What are the requirements to grow a fast food restaurant through franchising? The empirical study will analyze whether Sam-Chi restaurant has what it takes to grow through franchising and the results of the analyses will be used to give suggestions to Sam-Chi owners.

1.3 Limitations

The theoretical framework of this research starts with the discussion of business growth followed by the concepts of franchising. Since franchising is the main focus of the research, the business growth topic is not discussed profoundly. The topic gives the reader a general idea of what business growth is, and it also highlights what entrepreneurs should know about growth. The franchising business model is discussed profoundly in the second chapter but the concept is viewed from a franchisor's perspective. The case company of this study is Sam-Chi fast food restaurant. Since the owners of the restaurant want to become franchisors, this research focuses on the franchisor. The two topics discussed in the theoretical framework are relevant to the research but the discussions are limited to the aspects that are most important to the study.

A total of nine people are interviewed, including the two owners of Sam-Chi fast food restaurant, two employees of the restaurant and five customers. Interviewing more customers could have provided additional information for the research but the researcher was unable to interview more customers because most of the customers were in a hurry and unwilling to be interviewed.

Franchising in Nigeria is still in its development stage so there is not enough information regarding the legal aspect of the business model in Nigeria. The suggestions given to the owners of Sam-Chi fast food restaurant regarding the legal aspect of franchising are based on the literature review but franchising in Nigeria might not be as regulated as it is in developed countries. Despite the limitations of the study, the research question is answered and the theoretical framework of the study can be used by any company aiming to grow through franchising.

1.4 Outline of the Thesis

This thesis is divided into two main sections; the first section is the theoretical framework and the second section is the empirical study. The theoretical section focuses on franchising but the concept of growth is first described to give the reader an understanding of what business growth is.

In order to have an in-depth understanding of franchising, the history is first presented followed by the different types of franchising and the kinds of franchising agreements available. The advantages and disadvantages of franchising are explained as well as the guidelines for successfully adopting franchising. Lastly, the cost of franchising a fast food restaurant is discussed and the fast food industry as a whole is reviewed.

The information gathered from the interviews is analyzed in the empirical study. The data is collected by interviewing the owners of Sam-Chi fast food restaurant and two of their employees. Five customers of Sam-Chi restaurant are also interviewed to find out the kind of service they receive from the restaurant. After analyzing the results of the interviews, conclusions and recommendations are made to the owners based on the findings of the research.

2 BUSINESS GROWTH

Growth is a natural by-product of a thriving new venture. It secures and maintains competitive advantage for a company, but can also be complex and challenging. Growth comes with another phase of business risk; growth brings change, and it requires continuous learning and improvement. Generally, expansion requires capital, people and processes, and if they are not properly planned and managed, the expansion process can lead to failed initiatives. (Allen 2005, 356; Hess 2011, 12)

Some entrepreneurs make the conscious decision of not growing or control growth even in the face of enormous market demand for their product or service. The reason behind this decision is that "hyper-growth" can destroy a company. The growth phase of a venture can be exciting in the event of extraordinary market demand but if the company does not have the skills, systems or capacity in place to fulfill the market demand, the outcome can be disastrous for the company. "eToys" is an example of a company that faced the tragic outcome of "hyper-growth" in 1999. The company was unprepared for the holiday season so they had inadequate or no systems in place to fulfill the market demand on their products which then led to bankruptcy of the business. (Allen 2005, 358)

Growth is mostly seen as a positive thing but in reality growth can also be bad for a business. Entrepreneurs should have a realistic view of growth and not grow for growth's sake. It is essential to understand that if there is no coherent plan and budget for growth, growing can undermine the fundamental strengths of a business. In fact, research has shown that in some circumstances excessive growth can kill a business. Getting bigger and bigger should not be a company's objective but continuous improvement of its customer value proposition should be the prime objective. By doing this, a company can beat its competitors with its value. (Allen 2005, 358; Hess 2012, 22-24)

2.1 To grow or not to grow

The decision on whether to grow a company or not should not just be assumed. The decision should rather be a strategic decision made after assessing the risks of growing. Hess (2012) in his book "Grow to Greatness" developed a tool called the "Growth decision template". The tool consists of strategic questions for business owners to analyze a company's risks of growth. However, the decision to grow sometimes might not be the entrepreneur's decision but the demand for a firm's product or service might compel the entrepreneur to keep up with market demand. (Allen 2005, 358; Hess 2012, 26)

Growth Decision Template
1. Why should we grow?
2. How should we grow?
3. How much should we grow?
4. How fast should we grow?
5. Do we have the right people, processes, and controls in place to support growth?
6. What are the risks of growth?
7. What are the risks of not growing?
8. Do the benefits of growth outweigh the risks?
9. How should we manage the risks created by our decision?

Table 1. Growth decision template (Hess 2012, 26)

Normally, a company will have a few employees by the time it is ready to grow to the next level. This makes leadership a requirement for a successful growth. As the business grows, it becomes bureaucratic, and managing it also becomes more complex. At this point, an entrepreneur will have to delegate tasks to others and is now needed to guide or lead the business to make sure the vision becomes reality. Everyone in the company looks up to the entrepreneur to make decisions critical for the survival of the company. A leader's responsibility involves guiding the company and its people towards achieving the company's goal; a leader must have the ability to inspire people to action. Leadership requires another set of skills and not all entrepreneurs have leadership skills. This is why many entrepreneurial ventures have a management team completely different from the team that founded the company as the business advances. Entrepreneurs can also get displaced at this stage by the investors, board of directors, or creditors because the skills they used in building the business are not the same skills needed to manage the business as it reaches its pinnacle of growth. (Allen 2005, 358-363; Hess 2012, 22-24)

2.2 What entrepreneurs should know about growth

Business research tells us what every entrepreneur should know about growth. The findings are as follows.

1. Few businesses evidence any systematic, predictable patterns of growth over the long run.
2. There is not a strong relationship between growth and profitability
3. Continuous business growth is the exception, not the rule.
4. At some point, the costs and complexity of being bigger outweigh the benefits.
5. Growth can damage a business. Growth can stress people, processes, controls, culture, and customer value proposition, propelling a business into a different competitive space where it has to compete against bigger and better competition.
6. While not every business is required to grow in size, every business must constantly improve and earn revenue in excess of its costs.
7. Growth is an evolutionary process that does not occur smoothly or continuously but usually in spurts.
8. Good growth companies are characterized by strategic focus, operational excellence, continuous improvement, customer centricity, and high employee engagement.
9. Many good growth companies put in place processes to experiment and test growth ideas without risking lots of money or time. They test, learn, adapt, and improve continuously.
10. Consistent good growth requires the right kinds of leadership, culture, and processes.

Table 2. Growth facts (Hess 2012, 23)

It is important for a business owner with the passion to grow to study these findings about growth carefully. These facts about growth will help entrepreneurs get the right picture of growth. Successful growth requires proactive management because growth is dynamic. Growing a business without proactive management will most likely lead to a failed business. Franchising a business reduces the stress of managing a growing business. Franchising also provides entrepreneurs the possibility to expand their business quickly without providing the capital to finance the growth. Franchising is one of the alternatives available to entrepreneurs for growing a business and it will be discussed in detail in the following chapter. (Hisrich & Peters 2002, 542; Allen 2005, 356)

3 FRANCHISING AS A GROWTH ALTERNATIVE

Over the years, the franchising business model has gained attention from entrepreneurs around the world. Franchising is no longer viewed as an exotic form of business operations but has grown to be a business model that is increasingly and widely used across countries and industries. The model has been used by companies with limited capital to grow within a short period of time. Entrepreneurs seeking growth through geographic expansion also use the franchising strategy to enter several markets at once. The opportunities franchising creates has been brought into focus by the success of global companies like McDonald's, Burger King, Subway and so on. These companies know the potentials of franchising and they have adopted the model as their growth strategy. (Allen 2005, 366; Welch, Benito & Petersen. 2007. 51)

Franchising proposes a win-win situation for both parties involved. The franchisor is the owner of the concept and he wins because he can quickly grow the business and strengthen the brand name with franchisees capital and the franchisees also win because they will start their operation with a proven and tested business idea and also benefit by using the franchisor's intellectual property. (Barringer & Ireland 2010, 513)

3.1 History of franchising

Franchise means “privilege” or “freedom” and the word originates from an old French dialect. The history of franchising can be traced back to the middle ages (476 A.D. – 1453 A.D.) when kings granted franchises to specific people or groups to perform a certain type of commercial activity on their land. German breweries in the 1840s also used franchising to distribute their beer to different geographic areas. The breweries granted the franchises to certain taverns to be the sole distributor of their beer in a specific area. Isaac Singer was known to be the pioneer of the use of written franchise agreements. In the 1850's, Isaac Singer started granting franchises for his sewing machines because he wanted to distribute his sewing machines to customers around the United states. Singer opted for franchising because he did not have the capital to increase the production of sewing machines and he also faced the problem of training customers how to use the machines. People would not buy Singer's machines without proper training and service retailers did not have the expertise to teach people how to use the machines. Singer's solution to the problems facing the sales of its sewing machines was to charge licensing fees to specific people in a certain geographic area who would then own the right to sell the sewing machines. This solution increased the sales of Isaac Singer's sewing machines because the licensees were also responsible for training people how to use the machines. Isaac Singer gave the franchisees the right to sell his newly improved machines in return for an initial payment and royalty fees. He also trained them to use the machines for them to teach their customers as well. (Welch, et al. 2007 52; Barringer, et al. 2010 513; Franchoice)

Franchising began to grow in the 20th century due to its extensive use in the retailing and automobile industry. Business format franchising (the licensing of the entire business concept including the brand name and trademark) is the most common mode of franchising which gained dominance after World War II. After the war, the demand for products and services was overwhelming and franchising provided entrepreneurs a fast way to grow their businesses. (Franchoice)

The wave of franchising today was unleashed by McDonald. It all started in 1954 when Ray Kroc, a milk shake mixer and hamburger salesman, discovered McDonald brothers in San Bernardino, California. Kroc realized his mixers were selling so much due to the high-volume production system he had developed which provided fast service and low cost consistently. Kroc started recruiting franchisees in the Chicago area and created the cloning method of franchising, i.e. the licensing of the entire business concept including the brand name and trademark. The idea was to make customers get the same service and food when they visit any McDonald's restaurant. The method was successful and Kroc later bought out his colleagues' interest in 1988 and became the senior chairman of the company. McDonald's has over 35,000 restaurants today in 118 countries and the company has created jobs for over 1.7 million people. (Dugan 1998, 9-10; Franchoice; McDonald franchise)

As the use of franchising continued to grow in the 20th century, various fraudulent activities and unfortunate events grew with it. These events led to the creation of the International Franchise Association (IFA) in 1960. The organization was tasked with regulating the franchising industry to avoid further damage to franchising. Franchising is still highly regulated today in order to create a healthy and safe business environment. (AboutMoney)

3.2 Concepts of franchising

Franchising is a form of business that is poorly understood by most people. Most entrepreneurs and students know the basis of franchising, what it is and what it entails, but to gain in-depth understanding of the many subtle parts of franchising, careful study or practical experience is required. (Barringer, et al. 2010, 513)

Before digging deep into the context of franchising, it is important to understand the basic terminologies. Firstly, the parties involved in a franchise agreement will be presented, followed by the explanation of franchising.

The two parties of a franchise agreement are the franchisor and the franchisee.

3.2.1 Franchisor

The franchisor is the person or entity licensing its brand name, trademark, business concept and proprietary knowledge to another person or organization. The franchisor can be a new company or an established firm. The franchisor grants the right to the other person in return for a franchise and royalty fee. (Barringer, et al. 2010, 513)

3.2.2 Franchisee

The franchisee is the person or entity granted the right to use another person or organization’s brand name, trademark, concept and other proprietary knowledge. The franchisee purchases the franchise from the franchisor (the owner) and the franchisee receives the right to clone the franchisor’s business. The franchisee pays the franchisor an initial franchise fee and a continuous royalty for the granted right. (Hisrich, et al. 2002, 542; Franchoice)

3.3 Franchising explained

Franchising has been defined by different authors and associations and the definitions are all similar. “FranChoice” gave the following definition for franchising;

> “Franchising is a long-term cooperative relationship between two entities—a franchisor and one or more franchisees—that is based on an agreement in which the franchisor provides a licensed privilege to the franchisee to do business. The franchisor grants the franchisee the right to use a developed concept, including trademarks and brand names, production, service and marketing methods and the entire business operation model, for a fee. The franchisee then provides the time, capital, and desire to utilize the brand and services provided by the franchisor to build a thriving business.”

International franchise association also defined franchising as;

> “Franchising is simply a method for expanding a business and distributing goods and services through a licensing relationship. In franchising, franchisors (a person or company that grants the license to a third party for the conducting of a business under their marks) not only specify the products and services that will be offered by the franchisees (a person or company who is granted the license to do business under the trademark and trade name by the franchisor), but also provide them with an operating system, brand and support.”

Franchising can only work when a firm already has a successful product or service. It is appropriate for firms with a well-designed business model and a strong or potentially strong trademark. A company with a poorly developed or flawed business model, and a product or service that does create value for its users will be unsuccessful at franchising. Franchising as a form of business growth is perhaps especially attractive to new ventures because franchisees provide the capital needed for expansion. Financing growth with franchisees money is a better alternative to some entrepreneurs because it saves them from debt financing. A franchisor can also be an established enterprise that does not necessarily need franchisees capital to grow but adopts the franchising model as a mode of expansion due to the opportunities and numerous advantages the model provides. (Barringer, et al. 2010, 513; Hisrich, et al. 2002, 542)

Franchising is a contractual relationship between the parties involved; the franchisor (the party who grants the license) and the franchisee (the party who is granted the license). The franchisor will provide the business concept, train and provide ongoing support for the franchisee. The franchisee is obligated to operate the business according to the franchising agreement or franchisor’s instruction, and the franchisor has the right to exercise control over the business to ensure the franchisee adheres to the contract terms or company guidelines. In the end, the franchisee hopes to profit from the franchised business and the franchisor will also receive a franchise fee and a continuous royalty payment. (International Franchise Association)

Franchising is therefore a business package that comprises of (but not necessarily limited to) intellectual property rights protected by law (tradename, trademark, or patents), know-how, training, continuous support, control, and the franchisees obligation to adhere to the franchising agreement. (UNIDROIT Franchising Guide 2007)

Cavusgil (2012, 472) provides a visual image of how franchising works. It should however be noted that franchising varies considerably among companies so there is no standard pattern for this process.

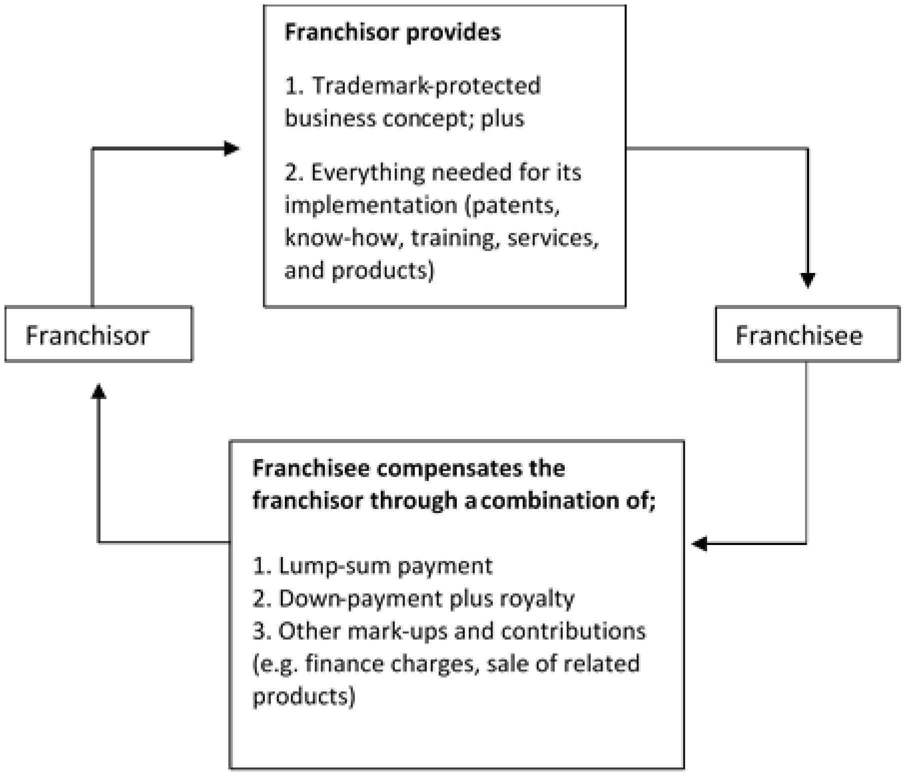

Figure 1. How franchising works (Cavusgil 2012, 472)

3.4 Types of Franchise

Business Format Franchising and *Product Development Franchising* are the two types of franchising system. Business Format Franchising is the most common and the most identifiable to the average person.

3.4.1 Business Format Franchising

Business format franchising is the most common type of franchising. It is commonly used by entrepreneurs and entrepreneurial ventures. In business format franchising, the franchisor oversees every aspect of the franchisee's business. The franchisor does not only provide its trade name, product or services to the franchisee but lays down an entire system or formula for operating the business. The franchisor generally provides the franchisee training, site selection, interior design, operating manuals, development support, brand standards, quality control, business advisory support, marketing strategy and any other forms of assistance for running the business. Business format franchising can be very rigid compared to product distribution franchising. For example, fast-food restaurants like Burger King and McDonald's influence every aspect of how their franchisees run their restaurants. They teach them every detail such as how many seconds to cook French fries and the exact word to use when their employees greet customers, e.g. "Will this be dinning in or carry out". Business format franchising can at times be demanding to franchisees due to its nature. Majority of business format franchisor's revenue comes from their franchisees in the form of franchise fees and royalties. (Barringer, et al. 2010, 514-515, International Franchise Association)

International Institute for the Unification of Private Law (UNIDROIT Franchising Guide 2007) has listed the basic elements required for a franchise to be considered as business format franchise. The criteria are that;

1. A tested and successful system of doing business has been developed by an entrepreneur (Franchisor) and the entrepreneur has granted another entrepreneur (Franchisee) the right to use the system.

2. Both entrepreneurs are independent, legally and financially. The franchisee does not rely on the franchisor for capital; he invests his own capital and undertakes the risk of losing the capital invested if the business is not successful.

3. The right granted by the franchisor to the franchisee to use the franchise system gives the franchisee the right to use the franchisor's assets and intellectual property rights, e.g. know-how that is part of the system, the franchisor's trademark/name etc.

4. In return, the franchisee undertakes to follow the franchisor's method of operation and pay the compensation requested by the franchisor, usually a franchising fee and/or continuing fees which is normally calculated as a percentage of the turnover.

5. The franchisor has the right to supervise the franchisee on the manner at which the franchise system is being implemented; and

6. In most cases, the franchisor provides the franchisee with the training needed to run the business as well as continuous support.

Additionally the parties of the franchise agreement or contract might undertake a variety of arrangements. Not all these arrangements are present in all contracts at the same time and some of them are potentially controversial. The once that will be included in the agreement will be determined by the nature of the franchise or subject matter. Examples of such undertakings are;

7. "Territorial exclusivity"; the franchisor will undertake not to engage in any franchised business or grant franchise to any other franchisee within a specified area the franchisee has been granted the right to operate.

8. "Product exclusivity"; the franchisee undertakes not to sell any other product apart from the franchisor's product.

9. The franchisee's obligation to buy the product it uses or sell in the franchised business from the franchisor or from the supplier recommended or approved by the franchisor only; and

10. The provision of indicative pricing lists from the franchisor to the franchisee for the goods and services the franchisee will be selling or providing.

Price lists may be a form of price fixing even though it is only indicative in nature. The franchise agreement should therefore be prepared according to the competition law of the country involved.

3.4.2 Traditional or Product Distribution franchising

"Traditional or Product Distribution franchise" is also called "A product and tradename franchise". It is less identified with franchising by the average person but it is actually larger than business format franchising in terms of total sales. Product distribution franchise focuses mainly on the franchisor's product rather than the entire business concept. Under the product distribution franchise, the manufacturer (franchisor) of a product grants another entrepreneur (the franchisee) the right to buy and sell his product using its trade name/mark. The manufactured products in the distribution franchise in most case but not all situations needs a pre- and post-sale service, an example can be found in the automobile industry. Franchisees operating under the product and distribution franchise are typically allowed to run their business in a fairly autonomous manner. The franchisors are usually concerned with providing a quality product and maintaining the integrity of their product rather than monitoring how their franchisees run their business. This type of franchising typically connects a franchisor with a network of distributors or dealers. For example, General Motors (GM) has established a network of dealers around the world that sells their cars using their trade mark/name and British petroleum (BP) has established a network of franchisee-owned gasoline stations that distributes BP's gasoline in various locations around the world. (Barringer, et al. 2010, 514; UNIDROIT Franchising Guide 2007; International Franchise Association)

Coca-Cola bottling company is also an example of companies using the traditional or product distribution franchise. The Coca-Cola Company gives the right to bottle Coca-Cola drinks to franchisees around the world, the franchisees choose the location or factory at which they produce the drink and distributes the drinks to retailers that sells them to end customers. Coca-Cola Company does not monitor the factories day to day activities, their franchisees run their factories the way they choose. Other examples include beer distributorship and agricultural machinery dealers. (Coca Cola Bottling Franchise; Barringer, et al. 2010, 514)

The traditional and product distribution franchisor obtains the major part of its income from selling its products to its distributors and dealers rather than receiving a franchising fee and/or royalties in the case of business format franchisors. (Barringer, et al. 2010, 514; UNIDROIT Franchising Guide 2007)

3.5 Types of franchising agreements

The franchising agreement between the franchisor and the franchisee are essentially in two forms which are directly or through master franchise arrangements. The direct franchising is further divided into two namely, "The traditional unit franchising" or "An individual franchise agreement" and "The development agreement" also known as "Area Franchise Agreement". The individual franchise agreement is the most common type of franchising arrangement and the master franchise arrangement is the most common internationally. (Welch, et al. 2007, 55; Barringer, et al. 2010, 515; UNIDROIT Franchising Guide 2007)

3.5.1 Individual franchise agreement

In this type of franchising agreement, the franchisor grants the right to individual franchisees in a specific location. For example, a franchisee may purchase a McDonald franchise to be operated on a particular street in Vaasa, Finland. (Barringer, et al. 2010, 515)

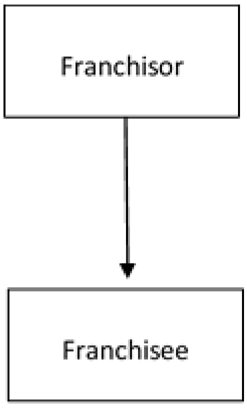

Figure 2. Individual franchise agreement (Barringer, et al. 2010, 516)

3.5.2 Area franchise agreement

In the case of an area franchise agreement or development agreement, a franchisee receives the right to open a number of outlets within a specific area in accordance with a predetermined schedule in the franchise contract. Under the development framework, the franchisor and the franchisee may establish a development agreement, as well as an individual agreement with each outlet opened. The franchisee has the same rights and obligations as any other franchisee under the unit agreement for each outlet. On the other hand, the development agreement may cover both the development framework and the unit franchise agreement. For example, a franchisee may purchase the right to open ten McDonald franchise within Vaasa, Finland in a specific period of time. (Barringer, et al. 2010, 515; UNIDROIT Franchising Guide 2007)

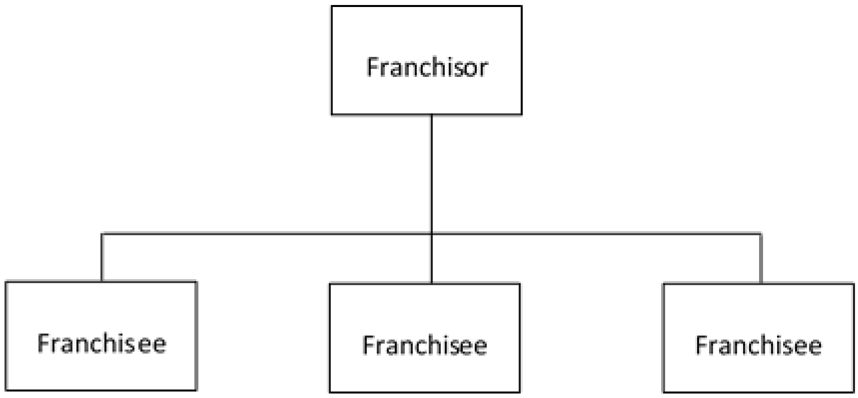

Figure 3. Area franchise agreement (Barringer, et al. 2010, 516)

3.5.3 Master franchise agreements

Master franchise is similar to development franchise agreement. The difference is that a master franchisee, in addition to opening its own outlets in a defined area can also sell franchise to other people within a certain territory. In a master franchise arrangement, the parent company (Franchisor) grants another person or company (Sub-franchisor) the right to own and operate franchise outlets within a specific territory. In addition to having its own outlets, the sub-franchisor also has the right to sell the franchise to other people (sub-franchisees) within a predefined geographical area.

There are two essential agreements involved in master franchise arrangement: the first agreement is between the franchisor and the sub-franchisor (the master franchise agreement), and the second agreement is between the sub-franchisor and each of the sub-franchisees (the sub-franchisee agreement). Master franchise is mostly used in international franchising but the use is not limited to that, they may also be used within a country or domestic franchising context. In most cases, there is no direct relationship between the franchisor and the sub-franchisees, the sub-franchisor acts as the franchisor in the given territory usually a country, and is responsible for ensuring that the sub-franchisees comply with the franchise agreement. For example, McDonald’s fast food headquarter is located in Illinois, USA and the company sells a master franchise to another company (sub-franchisor) in Finland. The master franchise agreement gives the sub-franchisor the right to open a certain number of McDonald’s outlets in Finland, and also the right to offer and sell McDonald’s franchise to other individuals or organizations interested in opening a McDonald’s restaurant in Finland. The sub-franchisor normally pays an up-front fee or initial fee to the franchisor, and a continuous royalty fee based on its outlets’ sales. The franchisor and the sub-franchisor also share the royalty fee paid by the sub-franchisees. (Welch, et al. 2007. 55; Barringer, et al. 2010, 515; UNIDROIT Franchising Guide 2007)

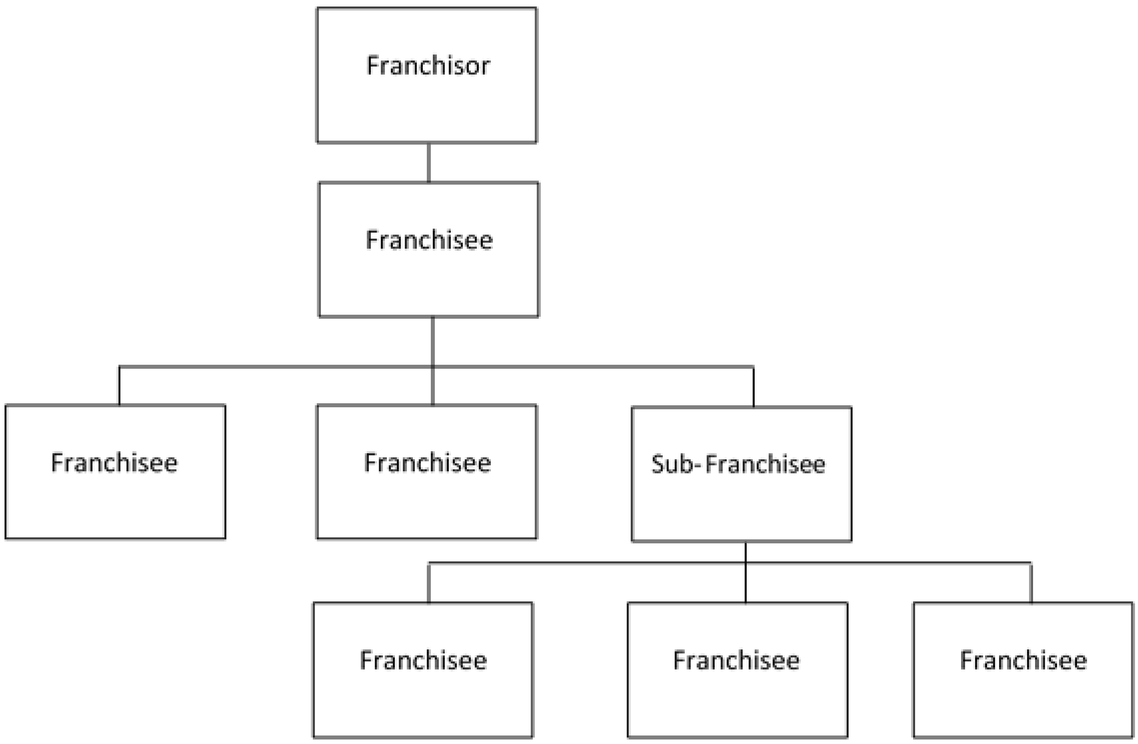

Figure 4. Master franchise agreement (Barringer, et al. 2010, 516)

3.6 Franchising advantages and disadvantages

Franchising is a form of business that benefits all the parties concerned. This may be true, but franchising, like any other business model has its benefits and drawbacks. Since this study is focused on the franchisor, the advantages and disadvantages of franchising will be viewed from the franchisors perspective. (UNIDROIT Franchising Guide 2007)

Growth perspective: Pros and Cons

Rapid expansion is the most obvious advantage franchising offers to an entrepreneur. Franchising makes it possible for a business to expand quickly over a short period of time with little capital. The franchisees provide the capital needed for expansion so the franchisor does not have to make direct investment to the new place of business. Growing with the help of franchisees allows a business to reach smaller markets. In addition to that, franchisees usually have knowledge of the local market which makes them likely to better exploit those markets. (Hisrich, et al. 2002, 545; Barringer, et al. 2010, 522; UNIDROIT Franchising Guide 2007)

The ability to exercise control over the franchise network is a major disadvantage to franchisors. The degree of control an entrepreneur has over its franchisees business is less than if the outlets were owned and operated by the company. Another major disadvantage is managing rapid growth, although growth seems to be a good thing but managing it can sometimes be challenging. A franchisor is required to provide a number of services, such as ongoing support and training for each of its franchisees. If the franchisor's business is growing rapidly, the franchisor needs to keep supporting its growing number of franchisees which will require the franchisor to continuously employ new personnel and it can stress out the franchisor. (Hisrich, et al. 2002, 545; Barringer, et al. 2010, 522; UNIDROIT Franchising Guide 2007)

Financial perspective: Pros and cons

The size of a franchised company creates opportunities for both the franchisor and the franchisee. Many franchise companies purchase or produce in large quantity the raw materials, parts, packages and accessories they use. Franchisees are normally required to purchase these items from their franchisors as part of the franchise agreement. Producing or purchasing these supplies in large quantities enables the franchisor to achieve economies of scale and the franchisees usually benefit from the low prices as well. Another cost advantage of franchising is that franchisees share most of the franchisors expenses, such as advertising. Each franchisee normally contributes a certain percentage to fund advertisement. The ability to commit a large sum of money towards advertisement usually makes it possible for franchise companies to conduct advertisement across a wide geographic area. Without franchising, the franchisor would have had to fund the advertising budget alone. The franchisor also receives income from the initial and royalty fee paid by its franchisees and with these incomes, the franchisor gets a fairly quick return on its know-how and trademark without incurring substantial risk. (Hisrich, et al. 2002, 545; Barringer, et al. 2010, 522; UNIDROIT Franchising Guide 2007)

Profit sharing is a major financial disadvantage of franchising. Franchisors only get a percentage of the return derived from their proprietary products or services. The profit derived from the franchisees business is usually shared in percentage by the franchisee and the franchisor, the percentage is normally written in the franchise agreement. Franchising a business also creates additional expenses for the franchisor, e.g. legal expenses and franchisee training program. Franchising is a highly regulated form of business; the franchisor is required to take care of the legal aspect before making profit from franchising. (Barringer, et al. 2010, 522; UNIDROIT Franchising Guide 2007)

Legal perspective: Pros and cons

Even though the franchisee's business is operating under the franchise network, the franchisor and the franchisee are still legally and financially independent. The franchisee is an entrepreneur recognized by law; the franchisor is not responsible for the omissions or mistakes of the franchisee. Both of them will remain an independent entrepreneur throughout the franchise relationship. (UNIDROIT Franchising Guide 2007)

Since both entrepreneurs are legally independent, conflicts are likely to be resolved via legal actions or court decisions. There are differences in government laws around the world; in international franchising, the franchisee is familiar with its territorial law and since the place of the franchised business is normally in the franchisee's territory, the court decision is likely to favor the franchisee. Generally, legal disputes are costly for the parties involved. (Cavusgil, et al. 2012, 476; UNIDROIT Franchising Guide 2007)

Motivation and relationship perspective: Pros and Cons

Franchisees motivation is a major advantage for the franchisor. Typically, franchisees are motivated entrepreneurs willing to invest in a known-brand. Franchisees invest their personal capital in the business because they believe in it, so they will most likely be committed to making their franchise outlet successful for them to profit from their investment. In contrast, managers of company-owned outlets may not commit to the business or work as hard as franchisees because they do not have their capital at risk. Franchisees pay attention to cost, they generally have greater ability to motivate employees and create better relationship with them which is likely to result to increased productivity. (Barringer, et al. 2010, 522; UNIDROIT Franchising Guide 2007)

Every entrepreneur wants to profit from their investment and this typically requires saving costs and making decisions perceived necessary. Friction can develop between the franchisor and the franchisee especially in business format franchising over decisions perceived as necessary to the franchisor, but not necessary to the franchisee. A franchisor might want its franchisees to acquire modern equipment or modernize their premises but the franchisees might view this request as unnecessary for the business. A franchisee can also resist some instructions from its franchisor in order to save cost. (Barringer, et al. 2010, 522; UNIDROIT Franchising Guide 2007)

Experience and replication perspective: Pros and cons

Generally, franchisor and franchisees complement each other. The franchisor possesses intellectual property and know-how of its business which is carefully passed to the franchisee and the franchisee is an entrepreneur with the knowledge of its local market and how to operate a business there. The franchisor can incorporate its franchisees knowledge to enhance its business performance abroad and also leverage its franchisees ideas and suggestions to the franchise network. (Barringer, et al. 2010, 522; Cavusgil, et al. 2012, 475; UNIDROIT Franchising Guide 2007)

Franchisors face the risk of creating a competitor for themselves in the future. A franchisee might break away from the franchise network to setup a competing business after acquiring the franchisors knowledge or know-how. Another major challenge peculiar to business format franchising is the ability to completely replicate a business. Business format franchising emphasizes on completely standardized products and marketing. Cultural differences can make it difficult to achieve completely standardized activities across markets. There are differences in franchisees' resources, physical space, key ingredients, and even employee qualifications. These changes may require a change in the business operation. For example, KFC in japan are forced to change the design of their cooking equipment from a wide horizontal design to a narrower vertical design because of the space restrictions in Japan. (Barringer, et al. 2010, 522; Cavusgil, et al. 2012, 472-476; UNIDROIT Franchising Guide 2007)

3.7 Franchising relationships

The relationship between a franchisor and a franchisee is likened to a marriage because both parties work hand in hand. However, the relationship is not a plain sailing; selecting the right partner at the beginning is very important in any kind of relationship. A good franchisee is ready to take the risk of running a business but appreciates the security franchising provides by investing in a known brand compared to starting a completely new business. Also, the ideal franchisor is a leader and creative thinker who is experienced in its industry. Recruiting franchisees should be carefully planned to avoid future problems in the franchising relationship. Franchisee recruitment is a major challenge for inexperienced franchisors operating new ventures. Entrepreneurs running new businesses are so keen to grow that they might not be as selective as they ought to be. The risk of selecting the wrong franchisee does not necessarily mean the franchisee will be inefficient or lazy; rather the franchisee may be dissatisfied with the franchise relationship and spread dissatisfaction throughout the network. Franchisors should always remember that the success of the franchise system depends ultimately on the quality of the relationship maintained with franchisees. A franchisor should fulfill its promises and create an exemplary reputation for the franchisees. (Murray 2003, 63; Barringer, et al. 2010, 522)

Communication is very important in the franchise relationship. A good franchisor should be approachable and attentive to its franchisees problems. Disputes in franchise relationship often arise from poor communication. With regular communication, disputes can be resolved and both parties should bear in mind that franchising is a two-way relationship in which both sides complement each other. If the franchise relationship does not work, the franchise network as a whole could suffer considerable damage, for example, reduction in sales of the brand. The franchisor especially will suffer the most since he owns the trade mark/name. (Murray 2003, 64; UNIDROIT Franchising Guide 2007)

3.8 Franchising guidelines

Barringer, et al. (2010, 518-522) has listed the steps an entrepreneur, which has decided to use franchising as the method of growing its business, should take. The steps are divided into two parts; the first part outlines the things an entrepreneur should plan for and the second part contains the checklists of the entrepreneur's business to ensure that its products or services meets franchising criteria

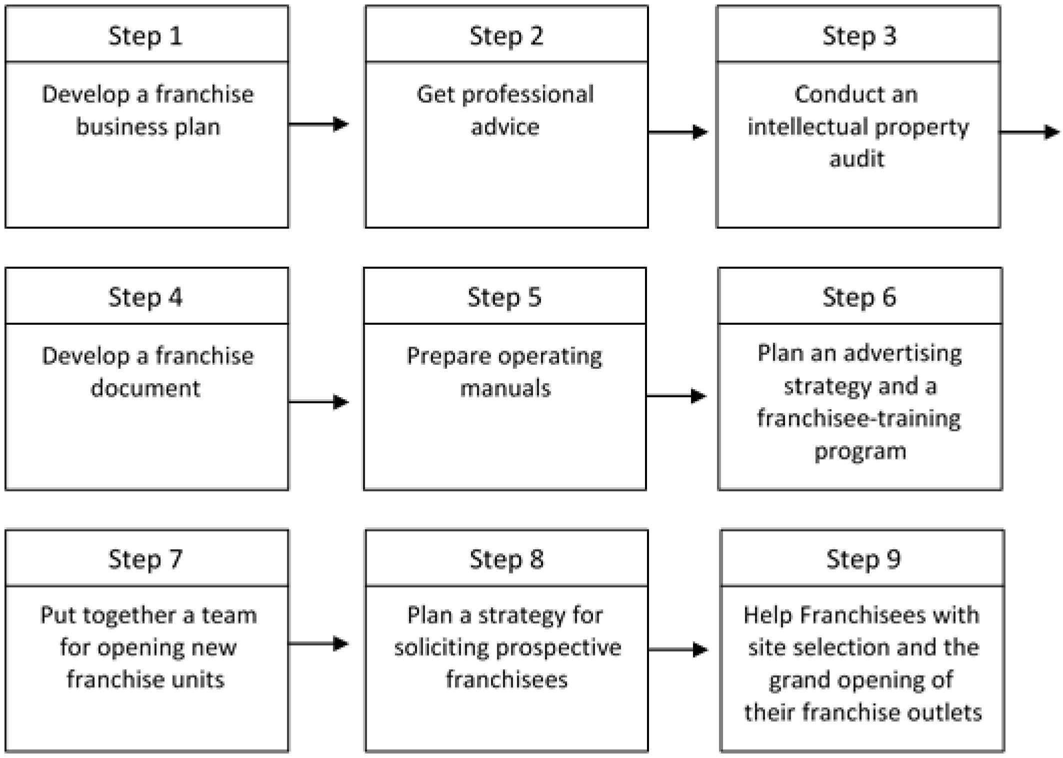

Figure 5. Nine steps in setting up a franchise system (Barringer, et al. 2010, 519)

Step 1*:* Developing a franchise business plan

The franchisor should develop a franchise business plan that fully details the reason for franchising the business and the franchisor's goals for deciding to franchise the business. The format of the franchise business plan should follow the traditional business plan format.

Step 2: Seek professional advice

An entrepreneur should seek the support of a qualified franchise lawyer or consultant after the decision to franchise. This saves the entrepreneur's time and money in case the business cannot be franchised in reality. The consultant can also guide the entrepreneur if the business has the potential to become a franchised business.

Step 3: Conduct an intellectual property audit

This step is important for an entrepreneur to protect the company's intellectual property. It is important to ensure the company's trade mark/name, business manuals, training videos and any other intellectual property are registered properly and are under copyright protection. If a company has a unique business method, the entrepreneur should consider obtaining a patent because franchising involves disclosing these secrets to franchisees who may turn out to be future competitors.

Step 4: Developing a franchise documents

A potential franchisor should prepare the franchise disclosure document (FDD) and the franchise agreement at the beginning of the franchise process. A franchise lawyer can help with matters regarding these documents.

Step 5: Preparation of an operating manual

Typically, a business that meets franchising criteria has a business system that can be passed or taught to franchisees easily. Every aspect of the business and the entrepreneur's know-how should be documented because it will be passed to qualified franchisees.

Step 6: Advertising strategy and franchisee training program should be planned.

An entrepreneur should plan the advertising strategy based on how fast he wants to grow the business. Prospective franchisees will also want to see a training program in place before making any decision.

Step 7: Organizing a team for new franchise outlets

A team should be created to help new franchisees open their franchise units. This team should be well trained because they will be responsible for guiding and training new franchisees. The actions of this team may decide if the franchise will be a success or not.

Step 8: A strategy for soliciting potential franchisee should be planned

Today, there are many channels an entrepreneur can use to attract prospective franchisees. Examples of these channels are, franchise publications, franchise trade fairs, newspapers and internet advertising etc.

Business checklist

The uniqueness of the company's product or service

A company's product or service should be unique, and create value for its users or customers. Generally, a firm with a unique product or service is likely to succeed at franchising.

The consistent profitability of the business

For a business to expand through franchising the profitability of the business should be consistent and the future profitability should also be fairly easy to predict. Franchisees are buying a tested and proven business model, so a firm should have several prototype units to test the viability of its business model before franchising the business.

The company should be profitable year-round

A business that is profitable during a specific season of the year may not succeed at franchising. Franchisees want to profit from their investment all year-round not just during a specific season. Ice cream franchises in some part of the world experience this problem because of the decline in the sales of ice cream in winter.

The business system should be fairly easy document

The system of running the business should be easy to write down. A complex system will be difficult to teach to the franchisees and the idea of franchising is to teach someone else the system that is working for you.

The business proposition must be clear

A potential franchisor should be open and willing to communicate. The franchisees should be able to understand or get the full picture of the business they are about to commit to.

After carefully scrutinizing the guidelines listed above and being convinced the company meets these criteria, an entrepreneur should review all other growth alternatives. No method of business expansion is the best under all circumstances. Each growth strategy has its draw-backs but the best method of expansion for any business is the method that best fits the organizations objectives. (Barringer, et al. 2010, 523)

Although, various researches has shown that franchised businesses generally have lower failure rates than traditional startups, it is important to point out that franchising can also fail and it should not be used as a remedy or solution for a poorly developed business model. Sometimes, it is just not appropriate or possible to franchise some businesses. For example, Stores like Wal-Mart would be almost impossible to franchise even though it has a strong trademark. The stores are huge and expensive to build, managing a store like Wal-Mart is complex and it will also be nearly impossible to find suitable franchisees with the capital and expertise to run a Wal-Mart unit successfully. (Barringer, et al. 2010, 518; Sanghavi, Nitin 1998, 35)

3.9 Fast food franchising (Industry overview)

The journey of the fast food industry as we know it today began in 1921 when Edgar Waldo “Billy” Ingram and Walter Anderson established White Castle, known to be the first fast food restaurant in the world. It all started in Wichita, Kansas and the success of the company was its marketing, cheapness and transparency. Before 1921, Americans had concerns about the safety of meat products which made hamburgers undesirable. Ingram and Anderson’s solution to the concern was to locate their kitchen in the dining area so that customers could see for themselves how the burgers they eat came into being. After two years, Ingram and

Anderson's strategy proved successful and the company expanded to several locations around the United States, making it the first fast food hamburger chain in the world. (Consumerist; Minyanville)

Although White Castle is a success, the company did not grow beyond regional operations because the management refused to franchise the company due to the fact that they want to personally manage all the aspect of the business in every location. Unlike White Castle, McDonald's has used franchising to expand its business operations to almost every territory in the world and, according to Forbes; McDonald's is the sixth most valuable brand in the world. (Consumerist; Minyanville; Forbes)

The fast food industry today is a multi-billion dollar industry and the big players of this industry include McDonald's, KFC, Subway, Burger King, Pizza Hut, Starbucks and Domino's Pizza among others. Various research findings have shown that these brands have similarities in the factors that contributed to their success. IBISWorld industry report of 2010 has listed some of the key success factors of the biggest fast food restaurant brands today.

Business expertise: The fast food industry is a low margin industry, the operators have to sell a large number of products to be profitable because they typically make small amount of profit per goods sold. Business expertise is required in this industry as it is highly competitive and losses can easily be made.

Ability to franchise: The ability to franchise the business concept is a key success factor in this industry. The case of White Castle and McDonald's is good example of how franchising can transform an idea into a global success. Today, McDonald's has about 13,000 stores in the United States and over 35,000 restaurants worldwide with total revenue of 28 billion U.S. dollars in 2013 while White Castle has only 420 outlets and revenue of $528.3 million in 2013. White Castle's refusal to franchise is depriving the company from achieving global success since all their stores are fully owned and operated by the company.

High profile outlets: Easy access location contributes to the success of a fast food restaurant. Locations such as city centers can easily be accessed by customers, provision of drive through and parking services will also increase customer's convenience and is likely to boost sales.

Effective cost controls: The ability to control cost is important in low margin industry. Wastage should be minimized since it is only small amount of profit that is made on each product sold.

Market research: Consumer needs and desires should be taken into consideration in this industry as consumers taste varies from one geographical location to other. Cultural differences is also an important aspect to be considered and a proper market research can identify the needs of the locals which should then be used in the services provided to them.

Whether you travel from America to Europe, even to Asia, the Big Mac remains the same regardless of the accent and languages. Standardized menu and brand recognition which is achieved by huge advertisement campaigns has been attributed to the success of the fast food industry leaders. McDonald's is probably not making the best burgers in the world but it supplies consistent and low cost food majority of people appreciate. McDonald's build good relationship with their suppliers because maintaining the consistence and low priced food is critical to the success of the company and its franchisees. McDonald's work closely with its stakeholders to improve production technique and their relationship is defined as the three-legged stool principle which involves the suppliers, McDonald's and their franchisees. Although, McDonald's franchisees are obligated to run their restaurants according to the company's guideline, there is still opportunity for innovation. According to McDonald's website, many items on their menu are franchisees ideas. Improvement and developing new menu items is crucial for the survival of a restaurant because of the changes in consumer taste over time. For example, McDonald's introduced Egg McMuffin in 1971 to cater for breakfast trade; the idea was developed by a franchisee. Drive-throughs and Filet-o-Fish are also examples of ideas and concepts from franchisees. (McDonald)

Tropical Smoothie Café is also an example of a franchise restaurant that is incorporating the ideas of its franchisees to the company's menu. Brad Shellen is a Tropical Smoothie Café's franchisee, he was experimenting with smoothies that featured avocado, lime and coconut, and he is offering samples to customers and receiving feedback until his recipe was ready. Brad offered his new recipe to the CEO of Tropical Smoothie Café at a meeting with franchisees and the CEO liked it. The recipe was taken to the headquarters where it was adjusted a little bit and called the Avocolada. The recipe was then introduced in May 2014 as a limited time offer at the company's national convention. Mike Rotondo, the CEO of Tropical Smoothie Café said "A good franchisor is always going to listen and respond to ideas from franchisees" and "We are being proactive and asking for that information." (Entrepreneur)

3.10 Cost of franchising a restaurant business

Undercapitalization is one of the reasons why new franchisors fail; franchising allows an entrepreneur to grow rapidly but it requires capital investment and a considerable amount of time. The cost of franchising a business varies considerably depending on the type of business. Also, franchising can be done in many different ways but the most important factor to consider when estimating the costs involved in franchising a business is the aggressiveness of the franchisor's expansion program. How big an entrepreneur wants to grow its business and how fast the entrepreneur wants to achieve the growth will determine the cost of franchising the business. For example, an entrepreneur that wants to franchise two to three units of its business locally within two years will spend less money than an entrepreneur that wants to franchise ten units of its business in the same time frame. (Entrepreneur.com; americanexpress.com)

The startup cost to franchise a business mostly go to legal representations and preparation of the regulatory documents. For example, in order to open two or three outlets of a restaurant through franchising, the franchisor needs to figure out two basic costs: the legal costs and quality control costs. A franchise attorney is needed to develop the legal documents which include the franchise agreement and the franchise disclosure document. Other related paper works are trademark protection and license agreements and the cost of developing these documents depends on the attorney preparing them. The franchisor might also need to comply with state registration laws depending on the state or country where the franchise outlets are opened and the registrations could cost more money. An estimate for the legal cost of franchising a business with the desire for conservative growth is about $25,000. For a more aggressive growth, legal expenses may include the development of complex contracts such as, area development contracts, master franchise, etc. The franchise lawyer that will prepare these documents will also charge more money due to the complexity of the contracts. (Entrepreneur.com)

The other cost is the quality control cost. Even if a franchisor wants a conservative growth, the franchisor needs to control the quality of its business by developing an operating manual that will define quality standards to franchisees. The operating manual will be incorporated into the franchise contract and the manual will be the governing document that will control quality within the franchise network. Some franchisors develop the operating manual internally but it carries certain risks because if the document is not properly crafted the franchisor runs a significant risk of hurting its already successful business. A good operating manual should cover every aspect of the business including the day to day operations of the firm. Another reason why it is important to have a good operating manual, is that it limits the franchisor's liability in case of mistake or negligence from the franchisees. According to Mark Siebert, the CEO of iFranchise Group, the cost for developing a professional operating manual is about $25,000. So for a restaurant franchisor to sell few franchises locally, about $50,000 is needed to develop the documents to get started. (Entrepreneur.com)

A more aggressive strategy requires additional planning, such as thorough understanding of the competitive environment. A small mistake when preparing the franchise document can be the difference between the success and failure of the franchise system. A thorough planning process for an aggressive growth can be quite expensive depending on various factors such as the nature of the market research that will be conducted and competitive analysis. Hiring a consultant to assist with the development of this plan could cost about $25,000 to $35,000 and more complex situations could cost more. (Entrepreneur.com)

3.10.1 Marketing the franchise

The difference between a conservative and aggressive franchisor is the marketing of the franchise. The conservative franchisor will wait for potential franchisees to approach him while the aggressive franchisor will make potential franchisees approach him. Marketing a franchise starts from creating a well-designed brochure. The brochure is needed to sell the franchise to prospective franchisees; the brochure also demonstrates the credibility of the franchise to key people (attorneys, accountants etc.) that will play significant role in the franchise system. A professionally designed brochure will cost around $15,000 to $20,000 depending on the design and quality of the brochure. The aggressive franchisor also needs a franchise sales video to promote the franchise offering and a professionally produced video generally cost about $15,000 to $25,000. (Entrepreneur.com; franchisedoc.com)

The aggressive franchisor needs a marketing budget to sell franchises. An aggressive franchisor should budget $5,000 to $7,500 for the promotion of each franchise to be sold because it takes an average of twelve weeks to sell a franchise. So to sell 20 franchisees, a franchisor should budget about $100,000 to $150,000 for advertising. A franchisor should budget for about 6 months of promotional campaign before getting started or at least about half of the advertising budget should be available to the franchisor before starting to market the franchise. Investing in a market research is also good idea to better understand potential franchisees and the research will cost the franchisor additional capital. A market research is unnecessary for a conservative franchisor. (Entrepreneur.com)

Hiring a sales force is just as important as any other investment in the franchise process. New franchisors leverage off their existing staff at the beginning, usually the business owner acts as the primary sales person and the employees can support in the area of training franchisees and operations. This method works for conservative franchisors but an aggressive franchisor should plan for staff to fill key roles, e.g. franchise salesperson, training and field support etc. The franchisor should budget at least four to six months' salary for the sales force before receiving any franchise income. (Entrepreneur.com)

Developing a cash flow analysis is the best way to get an understanding of all the costs required to franchise a business. The cash flow analysis should account for the entrepreneur's legal, marketing, hiring, and development needs. The cash flow analysis should also account for the inflow of royalties, franchise fees and all other source of income. Many factors can influence a franchisors ultimate cash need but a rule of thumb for an aggressive franchise program is $250,000 and a good rule of thumb for a conservative growth is $50,000. These estimates can fund the franchise cost until the franchisor starts receiving income from franchising. (Entrepreneur.com)

These estimates are only a rule of thumb. Some franchisors have expanded their businesses with less capital and some franchisors have failed at franchising after spending much more. Even though franchising also requires capital investment, it is important for entrepreneurs to remember that the cost of franchising a business, even in the case of aggressive growth scenarios, is often less than the cost of establishing a completely new business. An investment in a franchise program can transform an entrepreneur to a franchisor with hundreds or thousands of units around the world creating a leverage that cannot be found in any other method of business expansion. (Entrepreneur.com)

4 THEORETICAL FRAME OF REFERENCE

The theoretical frame of reference concludes the theoretical section of this work. This chapter presents an overview of the topics discussed in the theory and it also states their significance to the study. The theoretical framework stands as a foundation for this thesis and it also provides a background for the research problem. The theoretical framework of this study is divided into two parts which are: business growth and franchising as a growth alternative.

The theory began with a discussion of business growth. The discussion revealed that growth can be good for a business and it can sometimes be bad. The growth topic of this thesis is very important because it clarifies the basic assumption that growing a business directly results to increased profitability. It was revealed that there is no strong relationship between growth and profitability; also unsuccessful growth can undermine the fundamental strengths of a business which can eventually kill the business. A business can be profitable even without growing, what is important is to continuously improve a company's customer value proposition instead of aiming to grow bigger and bigger. (Allen 2005, 358–363; Hess 2012, 22–23)

The study further emphasizes on how important it is for entrepreneurs to make a strategic decision on whether to grow their business or not. The decision to grow a business should not just be assumed, the decision should be a strategic decision made after accessing the risks involved in growing the business. It was also revealed that sometimes the decision to grow a business might not be the entrepreneur's decision but the demand for the firm's products or services might compel the entrepreneur to grow in order to keep up with market demand. (Hess 2012, 23)

The main focus of the thesis, which is franchising, was discussed in detail in the second part. The concept was described from a franchisor's perspective since the research is focused on the franchisor. The history of franchising was first presented and followed by the definition of a franchisor and a franchisee. A franchisor is the owner of the concept, the person buying the concept is called the franchisee and the concept or license being granted is the franchise. These terms are essential to this research because they are repeated several times throughout the study. The types of franchising system were also presented which are; Business Format Franchising and Traditional or Product Distribution franchising. The case study of this research is using the business format franchising which makes this franchising system significant to this study. (UNIDROIT Franchising Guide 2007; Barringer, et al. 2010, 513)

The relationship between the franchisor and the franchisee is crucial to the success of the franchise system. The franchisor and franchisee relationship topic gives insight on this relationship. The topic that followed is the franchising guidelines; a step by step guide for entrepreneurs aiming to grow through franchising was presented under this chapter. The cost of franchising a business was also discussed in detail and the topic is essential to this study because many franchisors fail due to undercapitalization. Finally, an overview of the fast food industry was presented; the aim of this topic was to review the key success factors of the fast food industry. (Barringer, et al. 2010, 519; Murray 2003, 82; IBISWorld industry report of 2010; Entrepreneur.com)

5 EMPIRICAL STUDY

5.1 Marketing research

A marketing research is conducted to support a firm's marketing decision. A company's external environment changes all the time, therefore a marketing research is essential for companies to determine whether to adapt their marketing mix to the change. Marketing research also enables companies to monitor past occurrences such as successes and failures which are then used to make future marketing decisions. (Birks & Malhotra 2007, 2; Gates & McDaniel 2012, 59). A research is not only used to make marketing decisions, it is also conducted to assist in making general corporate decisions. For example, it can be used to determine whether a company should grow or not. (Churchill & Iacobucci 2010, 5)

There exist three types of research design; exploratory research design, casual research design and descriptive research design. Exploratory research design aims at discovering ideas or investigating a situation or problem which will later provide insights for the researcher. The method of collecting data from an exploratory research is usually unstructured or informal, such as interviews, experiments, group discussions etc. A casual research design aims at finding out the factors that cause a problem. This research design tests cause and effect relationships and the data are gathered through experiments. The descriptive research design concentrates on describing the relationship between two variables. This market research describes the present situation or marketing problems, it provide answers to the questions what, who, how and why. (Kotler & Amstrong 2004, 148; Churchill, et al 2010, 58– 59)

The exploratory research is used in this thesis because the thesis aims at finding out whether Sam-Chi fast food restaurant can grow through franchising. The thesis will provide answer to the research problem by examining the restaurant's method of operation and present situation which will be compared to the findings of the theoretical framework. The results will then be used to give suggestions to the owners of Sam-Chi on how the restaurant can effectively grow through the franchising business model.

5.2 Marketing research process

A marketing research process is used to make decisions related to problem identification and solving. It involves the systematic identification of information as well as collection, analysis and dissemination of the information. The process requires six stages according to Birks and Malhotra (2007) and the stages are:

1. Problem definition: The first stage of the research problem is aimed at trying to understand the nature of the problem that needs to be researched and how to properly define it.

2. Research approach development: After defining the research problem, the next stage is to figure out factors that influence the research design. These factors include the development of the theoretical framework that will stand as the background of the research, the research questions and the selection of appropriate sample etc.

3. Research design development: This stage requires developing a framework that will guide the research to obtain the needed information.

4. Data collection/Fieldwork: The data collection stage involves collecting the required information. This stage can begin with the collection of secondary data followed by conducting a quantitative or qualitative research.

5. Data preparation and analysis: After collecting the data, the data collected need to be analyzed and prepared. The preparation of the data includes editing, transcription, coding and verification.

6. Report preparation and presentation: The final stage includes documenting the research problems/questions, the data analyses and collection procedures, the research approach and design including the findings of the research.

The first and most important step of the marketing research process is problem definition. It is impossible to have a clear objective without having a properly defined research problem. Having a clear research problem will also determine the kind of information needed to solve the problem and the source to gather the information effectively and efficiently. To define a research problem, it is important to understand the nature of the problem that needs research support. The cause and symptom of the research problem should be properly defined and a researcher should be careful not to mistake the symptoms of a problem for the real problem. For example, reduction in the sales of a company’s product or service is usually caused by a problem. The sales reduction is the symptom of this problem and the real problem can be for example poor service or poor quality. Firstly, researchers need to find their way to the root of the problem by asking “What caused this problem to occur” until they get to the root. (Churchill et al. 2010, 37–38; Gates et al. 2012, 58–66)

After identifying the real problem of the research, the researcher should define the research objectives. The research objectives will be the guideline for the research problem. The success of the research can also be measured at the end of the research by asking “Were the objectives met”. If the objectives were met then the research can be said to be successful. The objective of this thesis is to find out whether Sam-Chi fast food restaurant can be franchised and the research problem is supported with the questions: Does growing directly result to increased profitability? What are the benefits and drawbacks of growing through franchising? And what are the requirements to grow a fast food restaurant through franchising? (Birks et al. 2007, 8; Churchill et al. 2010, 37–38)

5.3 Qualitative, quantitative and mixed research methods

Quantitative research focuses on collecting information through numerical data which are then analyzed statically. The data in quantitative research is collected through survey and the sample is bigger than that of qualitative research method. Quantitative research method is critical and logical because the questions have to be designed in a way that they can be analyzed statistically. (Ghauri & Grønhaug 2005, 110)

Mixed research method is the combination of both quantitative data and qualitative data. The aim is to give the researcher complete or holistic understanding of the issue being studied. (Creswell 2003, 208–209)

Qualitative research is conducted to understand the respondent’s point of view or to gain insight on a person’s opinion about an issue that cannot be reached through measurement. Qualitative research is used to explore how the respondent feels about a particular subject, for example, about the service or product they use. The sample of a qualitative research is usually much smaller than in quantitative research but the researcher has a higher potential to gain new insight on the subject because the method is usually flexible and intensive compared to questionnaires. (Creswell 2003, 181–183; Ghauri et al. 2005, 109–110)

The most common methods of collecting data in a qualitative research are in-depth interviews, observational methods and focus groups. Qualitative research method was used in this research and the data was collected through interview. An interview was used to gain insight on the operation of Sam-Chi restaurant and also to have an in-depth understanding on why the owners of Sam-Chi restaurant wants to grow their business through franchising. Gaining an insight on the operation of Sam-Chi restaurant will help the researcher determine whether the restaurant meets franchising criteria. It is also important for the researcher to have an understanding of why the owners of Sam-Chi restaurant want to franchise their restaurant because franchising has its own benefits and drawbacks. What the owners of Sam-Chi restaurant want to achieve by growing through franchising must be in line with the opportunities franchising offers. For example, if the owner of the restaurant wants to control every aspect of their restaurant’s operation, they cannot grow through franchising because franchisees have the right to monitor the daily activities of their franchise outlets; they are only required to follow the franchisors guidelines while doing so. Qualitative research was used in this thesis because it is impossible to gain complete understanding of the research questions through measurement. (Creswell 2003, 181–183; Ghauri et al. 2005, 109–110)

5.4 Research Process and Sampling

This research is conducted for Sam-Chi fast food restaurant and a qualitative research method is used. A qualitative research method by definition is exploratory and it is used to delve into the issue of interest. Qualitative research method is conducted to understand the respondent's point of view or to gain insight on their opinion about an issue. How much is known or suspected about the respondents and the area of research usually determines the appropriate research method. Quantitative research focuses on collecting information through numerical data which are then analyzed statically, therefore, if a research is after deep meanings then a qualitative research method is appropriate. (Maxwell, 2005, 75; Ghauri & Grønhaug 2005, 110; Surveygizmo)

According to Maxwell (2005) qualitative research questions fall into three categories: questions that illuminate context, question that define meanings or how people make sense of the world and questions that investigate or examines a process. Marshall & Rossman (2006) also separates qualitative research questions into four categories: exploratory questions, explanatory questions, emancipatory questions, and descriptive questions. The exploratory questions investigate a phenomenon that the researcher has little understanding about. The explanatory questions explain a phenomenon and the emancipatory questions are meant to engage in social action around a phenomenon. Lastly, the descriptive questions try to describe a phenomenon. (Churchill, et al. 2010, 58– 59; Maxwell, 2005; Marshall et al. 2006)

Maxwell (2005) suggests that research question that investigates or examines a process falls into the qualitative research category. Also, one of Marshall & Rossman (2006) qualitative research questions category is the "exploratory questions" and it seeks to investigate a phenomenon that the researcher has little understanding about. Since the research question of this study is "Does Sam-Chi fast food restaurant have what it takes to grow through franchising?" and the study seeks to investigate whether the restaurant can grow through franchising or not, a qualitative research approach is justified. The qualitative research was used to delve into the issue of interest and to gain complete understanding on why the owners of Sam-Chi want to grow their restaurant via franchising. It is unlikely that the complete understanding needed for this study can be gained through quantitative method which brought up the need for a qualitative research approach. (Maxwell, 2005, 75; Ghauri & Grønhaug 2005, 110; Marshall & Rossman 2006)

5.5 Sampling

The qualitative research data of this thesis is collected through interview in order to gain insight on the operation of Sam-Chi restaurant and also to have a complete understanding on why the owners of Sam-Chi restaurant want to grow their business through franchising. The type of information needed for this research cannot be measured which brings about the need for an in-depth interview. Convenience sampling method was used to select the informants.

Sampling is used to draw up conclusions about a target group. That is, an experiment is conducted among a small set of the population and the results of the experiment are generalized or used to draw up conclusion about the whole group. There are two types of sampling: probability sampling and non-probability sampling. Probability sampling means the informants are selected randomly and each unit of the population or target group has an equal chance of being selected as a sample. Non-probability sampling on the other hand means the members of the target group or population does not have an equal chance of being selected. Non-probability sampling method is mostly used for pilot studies, case studies, etc. (Churchill & Iacobucci 2010, 283; Laerd dissertation; Explorable.com)

Convenience sampling method is used for this study and this means the sample of the research are population members that are conveniently available to the researcher. Convenient sampling method is a non-probability sampling technique that relies on the judgement of the researcher. The convenience sampling data is collected from members of the population or individuals that are easy to access or conveniently available to the researcher. A convenience sample must represent the population being tested. For example, a research about men must have a convenience sample of men and not women. The advantage of convenience sampling is that it saves cost and time. It also enables the researcher to be confident that the sample represents the population being tested. Convenience sampling also enables the researcher gather information from specific group or people that is of interest to the research which would not have been possible with probability sampling techniques. The disadvantage of convenience sampling is that the result can be bias since the sample is not chosen randomly. (Creswell 2003; Laerd dissertation; Explorable.com)

The case company of this study is Sam-Chi fast food restaurant, therefore the stakeholders of the restaurant are expected to provide valuable information needed for the study. Samuel Okore and Chichi Okore are the most important informants because they own the restaurant, which means they can provide primary data for the research. The employees and customers of the restaurant are also relevant to the study because the researcher can get first-hand information regarding the operation of the restaurant from them. A total of nine people are interviewed in the study which include: the two owners of Sam-Chi fast food restaurant, two employees of the restaurant and five customers. The two employees and the five customers interviewed are selected because they are conveniently available to the researcher and the researcher is confident that they are of interest to the issue being researched.

The interview is used to explore information relevant to the objectives of the research from the owners of Sam-Chi restaurant. It is also used to explore the opinions of Sam-Chi employees and Sam-Chi customers about the restaurant’s operations and the kind of service it is providing. All the interviews are conducted in English and separately except for the interview of the owners as they both own and operate the restaurant. The questions of the interview are open and the questions are framed according to the role of the respondent, i.e. Sam-Chi owners, Sam-Chi employees and the customers of the restaurant all get a different question that is based on specific matters relating to the stake they hold in the company.

The interviews were held in July 2015 and the first interview was the one of Sam-Chi owners. The second interview was the one of two Sam-Chi employees and the third was five customers that visited Sam-Chi restaurant to buy food. The entire interviews were carried out in the restaurant’s premises and they were all written down for analyses purpose. The interview questions are presented in the following chapter.

5.6 Presentation of the interview questions

As already stated a total of nine people were interviewed in this study. The questions are distributed under separate themes; Growth, Franchising, Franchisor Franchisee Relationship, and questions about the business. The objective of asking the growth question is to find out why the owners of Sam-Chi fast food restaurant want to grow their business as the theoretical framework discusses the growth of business. The franchising questions is asked to find out why the owners want to grow through franchising. The franchisor and franchisees relationship questions are asked to determine if Sam-Chi owners can become franchisors. Lastly, the questions about the business are asked to determine whether Sam-Chi fast food restaurant meets franchising criteria.

5.6.1 Questions for the owners of Sam-Chi fast food restaurant

Question about growth

The owners of Sam-Chi fast food restaurant were asked why they want to grow their business in order to determine whether they have a valid reason for growing their business. It is not advisable for entrepreneurs to grow the business just because they feel like growing, entrepreneurs should always have a reason for growing the business and also have an objective before growing their operations. The growth objective will determine the appropriate growth strategy. In addition, growing requires a realistic plan and a budget, which can only be made after having a clear objective for the growth. (Allen 2005, 358; Hess 2012, 22-24)

1. *Why do you want to grow?*

Questions about franchising

An in-depth knowledge of franchising is required to successfully franchise a business. Barringer, et al. (2010) said an entrepreneur aiming to expand business operations via franchising requires in-depth knowledge of the franchising business concept and the knowledge can only be gained through practical experience or careful study. This question was asked to know if the Sam-Chi owners have an understanding of what the franchising business concept is and also to find out how they have gained the knowledge since it is relevant for the success of the franchise system.

2. *How did you know about the franchising business concept?*
3. *Do you have any experience with franchising?*

There are many growth strategies available to entrepreneurs and every growth strategy has its benefits and drawbacks but the best method is the method that best fits the organization's objectives (Barringer, et al. 2010, 523). It is important for the owners of Sam-Chi restaurant to check if franchising can help them achieve their objectives before adopting the model.

4. *Why do you want to adopt franchising as the method to grow your business?*
5. *Have you considered other growth alternatives?*

How big a company wants to grow and how fast it wants to get there plays a major role in determining the cost of setting up a franchise system. For example, if Sam-Chi owners want to franchise two to three units of their restaurant locally within two years, they will spend less money than if they want to franchise ten units of their restaurant within the same time frame. It is very important for the owners of Sam-Chi restaurant to plan and have a realistic budget for the cost of franchising their restaurant because many franchisors fail due to undercapitalization. (Entrepreneur.com)

6. *How big and fast do you want to grow?*
7. *What vision do you have for your business?*

8. *Do you have a plan and budget for the cost of franchising your restaurant?*

Questions about the business

According to Barringer, et al. (2010) a company with a unique product or service is likely to succeed at franchising. This is why the owners of Sam-Chi fast food restaurant are asked if they have a unique meal. A similar question is also asked from five customers of Sam-Chi fast food restaurant in order to compare the answers for a reliable result.

9. *Do you have a unique meal?*

This question is asked to find out if the owners of Sam-Chi fast food restaurant know every detail of their business system. For a business to be franchised, the system of running the business should be easy to write down. A complex business system will be difficult to teach franchisees and the idea of franchising is to teach someone else the system that is working for you. The answer to these questions will help the researcher determine whether Sam-Chi fast food restaurant is in a state to be franchised or not. The answers will also be used to give recommendations to the owners of the restaurant on what they have to do to have a clear picture of their system and how they can document every detail of the system. (Barringer, et al. 2010, 523)

10. *Do you have a clear picture of your business system?*
11. *Can you write down your business concept?*

Franchisees are entrepreneurs who want to profit from their investment. The first thing a prospective franchisee will check is how profitable Sam-Chi restaurant is, and how consistent is the profit. A business that is profitable during a specific season of the year may not succeed at franchising. Franchisees want to profit from their investment all year-round not just during a specific season. Sam-Chi restaurant needs to be profitable and the profit has to be consistent year-round for the restaurant to succeed at franchising. This question is asked to get information on the profitability of the restaurant and the response will be used to determine if Sam-Chi restaurant can succeed at franchising. (Barringer, et al. 2010, 523)

12. How profitable is your business year-round?

It is important to know how long Sam-Chi fast food restaurant has been in operation before the restaurant is franchised. It is not advisable to franchise a business that has been in operation for just a year because the business has not had the time to really test the viability of its systems. Also, franchisees are buying a tested and proven business model, so a firm should have several prototype units to test the viability of its business model before franchising the business. The problem with not having a prototype unit before franchising is that, the current business might be profitable due to several other factors the entrepreneur might not even be aware of. For example, an entrepreneur may think his business is successful because he has a unique product or service, but in reality, the business might only be successful because there is no competition. If the entrepreneur franchises this kind of business and the franchised outlets are located in competitive areas, the franchise system will fail. To avoid this kind of situation, it is necessary to find out whether Sam-Chi restaurant have a prototype of their restaurant before franchising. (Barringer, et al. 2010, 523)

13. Do you have a prototype of your business?
14. When did you open Sam-Chi restaurant?

Franchise values are important to franchisees. Franchisees will only invest in a franchise system that will create value for them. Sam-Chi owners need to emphasize on the values their franchisees will receive when marketing Sam-Chi's franchise. This question was asked to draw the attention of Sam-Chi owners to the issue of creating value for their franchisees. (UNIDROIT Franchising Guide 2007)

15. What values are you giving your franchisees?

Questions about the franchising relationship

The ideal franchisor is a leader and manager. Leadership and management skills are required in order to successfully grow through franchising. A franchisor is required to manage and lead its franchisees because the franchisees will look up to him to make decisions critical to the success of the company. Franchising is a two-way relationship in which the franchisor and the franchisee complement each other, and maintaining a good franchise relationship is very important because the franchise success partly depends on the franchise relationship. If the franchise relationship does not work, the franchise network as a whole could suffer considerable damage. The franchisor especially will suffer the most since he owns the trade mark/name. The questions about management/leadership and franchise relationship were asked to bring the attention of the owners of Sam-Chi restaurant on how important it is to have a good relationship with franchisees. (Murray 2003, 43; UNIDROIT Franchising Guide 2007)

16. Do you have managerial and leadership experience?
17. How do you view your relationship with people?

5.6.2 Questions for the employees of Sam-Chi fast food restaurant

The interview questions directed to the employees of Sam-Chi restaurant are asked in order to confirm the answers the owners of Sam-Chi restaurant gave to the similar questions. The type of relationship Sam-Chi couple has with their employees and customers can be used to determine if the owners keep good relationships with people. Keeping a good relationship with franchisees is important in franchising, also it is important that the owners of Sam-Chi restaurant manage and lead their franchisees effectively. (Murray 2003, 92; UNIDROIT Franchising Guide 2007)

18. How will you refer to the relationship you have with your employer?
19. Do you consider your boss to be a good leader?
20. What is your opinion about the management of Sam-Chi restaurant?

5.6.3 Questions for the customers of Sam-Chi fast food restaurant

Franchising can only work when a firm already has a successful product or service, also a company with a product or service that does create value for its customers will be unsuccessful at franchising. This point brought up the following questions to find out why Sam-Chi customers patronize the restaurant. The question will also help the researcher determine whether the customers visit the restaurant because Sam-Chi has a unique meal or if they simply visit the restaurant because they are not open to other alternatives. The answers of the customers will be compared to the answers Sam-Chi owners gave to similar questions and the results will be used to determine if Sam-Chi restaurant has a successful meal. The results will also be used to give recommendations to Sam-Chi owners. (Barringer, et al. 2010, 513; Hisrich, et al. 2002, 542)

21. *How often do you patronize Sam-Chi?*
22. *Why do you patronize Sam-Chi?*
23. *Are you open to other alternatives than Sam-Chi?*
24. *Do you think Sam-Chi restaurant has a unique meal?*
25. *Can you describe the value you get from purchasing a Sam-Chi meal?*

6 ANALYSIS OF THE RESEARCH

The results of the interview are divided into five parts. Each section analyses the findings and gives recommendations. The last part highlights the strengths of Sam-Chi restaurant and further discusses the development ideas given.

6.1 Growth

The owners of Sam-Chi restaurant gave two reasons for the decision to grow their business during the interview. The first reason they pointed out was that since their business is currently profitable they want to expand to make more profit. They also believe growing will make their business remain successful. Growing a business does not guarantee success and profitability, there are companies that operate small and are still successful. If Sam-Chi owners improve their customer value proposition, their business can remain successful and profitable even without growing.

Growing can truly increase a company's revenue and profit but growing is complex and it also comes with another phase of business risk. Sam-Chi owners should not just assume when to grow their restaurant, but instead their decision should be a strategic decision made after assessing the risks of growing. Hess (2012) has developed a list of strategic questions that can help entrepreneurs to decide whether to grow or not. A tool like this can be of help to the owners of Sam-Chi restaurant to make their decision.

Growth Decision Template
1. Why should we grow?
2. How should we grow?
3. How much should we grow?
4. How fast should we grow?
5. Do we have the right people, processes, and controls in place to support growth?
6. What are the risks of growth?
7. What are the risks of not growing?
8. Do the benefits of growth outweigh the risks?
9. How should we manage the risks created by our decision?

Table 1. Growth decision template (Hess 2012, 26)

The ability of the owners of Sam-Chi restaurant to carefully assess the risks associated with growing their restaurant, and making a realistic decision based on the assessment will ultimately determine if the growth will be successful or not.

6.2 Franchising

The owners of Sam-Chi fast food restaurant do not have any experience of franchising. They learnt about the business concept from individuals approaching them of their interests in owning a Sam-Chi franchise. According to the owners, about three people approached them in 2014 alone. The increasing numbers of interested franchisees is why the owners are curious about the business concept and after several months of gathering information about franchising, the couple finally decided they will grow through franchising.

An entrepreneur aiming to expand its business operations via franchising requires an in depth knowledge of the concept and the knowledge can only be gained through practical experience or careful study (Barringer, et al. 2010, 513). Sam-Chi restaurant owners do not have a practical experience of franchising but they have gained their knowledge from several months of research and studying the concept. Studying is a good way to acquire knowledge about franchising, the owners can obtain all the information required to franchise their business by carefully studying the business model.

Loan financing is one of the growth alternatives the owners of Sam-Chi restaurant considered before choosing franchising. In the interview, the couple said they once considered expanding their business with loan because if they provide the capital for expansion they will have more control over their outlets than franchising it. They said the reason why they finally choose franchising is that, if they finance their business with loan, they will be pressured to quickly repay the loan and it might affect the decisions they make on the business. They also mentioned that why they think franchising is the best option to grow their restaurant is that it is the franchisees that will provide the capital to open new outlets. They said they can open multiple outlets at the same time with less management burden since it is also the franchisees that will manage the new outlets.

Loan financing and franchising are good methods of financing a business growth depending on the vision of the entrepreneur. Sam-Chi fast food restaurant's vision is to become an international brand and franchising has proven to be the ideal method for a fast food restaurant to achieve that status. White Castle and McDonald's are both fast food restaurants. McDonald's has grown through franchising to become the sixth most valuable brand in the world with over 35,000 restaurants worldwide and White Castle on the other is known to be the first fast food restaurant in the world but it only has 420 outlets since it was opened in 1921. All White Castle's restaurants are company owned because the management does not want to franchise the concept and this has limited the growth potential of the company. Franchising has transformed McDonald's and many other fast food restaurants into a global success so Sam-Chi can also gain global recognition through franchising.

Franchising truly offers the possibility to open multiple outlets of a restaurant within a short period of time without having to stress about managing all the outlets but that opportunity has its own drawback. It is important for the owners of

Sam-Chi restaurant to know that the degree of control they will have over the franchise outlets will be less than if they own the outlets themselves. If the chain is not properly controlled, the brand will suffer and it might lead to decrease in sales of the already profitable Sam-Chi restaurant. One way to control the chain is to develop an operating manual that will guide the network. The manual will serve as the governing document controlling quality within the chain. Operating manual is usually developed with the help of a franchise attorney but it is possible for Sam-Chi owners to create the manual themselves, although it is advisable to use the service of a professional. The operating manual will be incorporated directly into the franchise contract and Sam-Chi owners runs a significant risk of tarnishing the image of the restaurant they have built over the years if the manual is not properly crafted.

During the interview, it became apparent that Sam-Chi owners are more excited about the fact that franchisees provides the capital for expansion, that is true but franchising is not a "no cost" method of expansion. It is important for Sam-Chi owners to be aware of the cost of franchising their fast food restaurant. The cost of franchising the restaurant led to two questions asked in the interview. The questions were how big and how fast does Sam-Chi restaurant wants to grow and if the owners are aware of how much it will cost them to franchise their fast food restaurant. The owners have an idea about the cost to franchise their restaurant but they have not really given the financial aspect much thought.

Undercapitalization is one of the reasons why new franchisors fail at franchising because they mostly forget some of the required cost to set up a franchise operation before investing in the model. Setting up a franchise system requires a capital investment from the franchisor and it also takes a considerable amount of time. Most of the capital required to franchise a business goes to legal expenses and preparation of the franchise documents such as operating manual and regulatory documents.

How big a company wants to grow and how fast it wants to get there plays a major role in determining the cost of setting up a franchise system. Sam-Chi has the ultimate goal of becoming a global brand but the company wants to conquer its local market first before pursuing international recognition. The company wants to sell four to five franchises locally for the first year and then increase the number in the following year.

To franchise Sam-Chi fast food restaurant, the owners need to first figure out two basic costs which are legal costs and quality control costs. The basic legal costs are franchise agreement and Franchise Disclosure Document (FDD). Other related legal costs are trademark protection, license agreements etc. An attorney specializing in franchising is needed to develop these documents and the cost of developing these documents can vary considerably depending on the attorney preparing them. It is recommended for the owners of Sam-Chi restaurant to inquire about the costs of developing these documents from different attorneys to get a fair price.

The other cost is the quality control cost. Sam-Chi owners need to create an operating manual that defines the quality standard required from franchisees. The manual will cover the day-to-day operation of the business and a well-crafted operating manual also limits the franchisor's liability in the case of negligence or mistake from the franchisee or the franchisee's employee. The cost of developing this document also varies considerably depending on the attorney so it is difficult to give an estimate. It is once again recommended for Sam-Chi owners to inquire about the cost of developing an operating manual. A small mistake in the preparation of the franchise documents can be the difference between success and failure of the franchise system. For example, the difference between four and five percent royalty may seem small but the one percent difference may cost the franchisor more than $10,000 per franchise sold. Assuming the franchisor sold about fifty franchises, the one percent difference will amount to over $500,000 per year and by three years or more on the contract, the franchisor can easily lose millions.

Sam-Chi owners should also plan for the cost of marketing the franchise. The marketing strategy should be based on how big and how fast Sam-Chi restaurant wants to grow. The marketing effort starts with creating a well-designed brochure.

The brochure is needed to sell the franchise to potential franchisees; it also demonstrates the credibility of the franchise to people (attorneys, accountant, bankers etc.) that will play key role in the franchise process. The cost of printing this brochure depends on the quantity printed, the quality of the paper used, the printing process and the design specification. The cost of the channel to be used to promote the brochure to prospective franchisees should also be considered. Examples of these channels are, franchise publications, franchise trade fairs, newspapers, direct mail, internet advertising etc.

Sam-Chi restaurant needs a professionally designed website. The website should include the franchise information and a franchise application form with an autoresponder that can help sought out spam from genuine applications. Creating a website is becoming less expensive but developing a professional or a very good website can cost about one million Nigerian naira or five thousand dollars.

A franchisee training program should also be developed by Sam-Chi. Prospective franchisees will want to see a training program in place before making any decision. A good training program is crucial for the success of the franchise system. The franchisees need to be trained properly to effectively run their franchise units according to company standards. Developing a training program usually requires hiring a sales force. The sales force will be responsible for training new franchisees and Sam-Chi owners should be ready to pay at least four to six months' salary for the sales team before receiving any franchise income. It is possible for Sam-Chi restaurant to leverage off their existing staff at the beginning of the franchise phase. The owners of Sam-Chi fast food restaurant can act as the primary franchise salesperson and their existing staff can support in the areas of franchisee training and operations.

6.3 Franchisor franchisee Relationship

The relationship between the franchisor and the franchisee is crucial to the success of the franchise network. The owners of Sam-Chi fast food restaurant considered themselves to have a good relationship with people and it was also confirmed by two of their employees. The relationship between the franchisor and the franchisee is likened to a marriage because both parties need to work closely. Sam-Chi couple should however note that the relationship between them and their franchisees will not be a plain sailing. Some basic guidelines can be of help to Sam-Chi owners during the franchise relationship. The first step to having a good relationship with franchisees is recruiting the right franchisees at the outset. New franchisors are likely to make mistakes in recruiting franchisees because they are keen to make their first sale which might make them not as selective as they should be. Sam-Chi should not hurry to recruit franchisees, they should take their time in the selection process because selecting the wrong franchisee will affect the franchise network in the future.

Sam-Chi should always look for a way to maintain its franchisees morale during the franchise relationship. Maintaining franchisees morale will encourage them to work harder and commit to the success of the brand. One way to maintain and build team spirit among franchisees is to create an avenue for the whole franchise network to exchange views, socialize and have fun. Sam-Chi can also maintain franchisees morale by rewarding outstanding performance yearly. An example could be choosing the franchisee of the year and paying for them to go on a holiday.

Communication is also very important in franchise relationship because dispute often arises from poor communication. The owners of Sam-Chi should always be attentive and willing to help solve the problems of their franchisees. It is recommended for the owners of Sam-Chi restaurant to create a mechanism for their franchisees to express their views. For example, Sam-Chi can setup a consultative committee; the most important thing is to have an open door policy in case the franchisees have a concern about the franchise network.

Regular newsletter and occasional reports are a good way to communicate with franchisees. It is important for Sam-Chi owners to always keep their franchisees in the know. Both the franchisor and the franchisee should bear in mind that franchising is a two-way relationship in which both sides complement each other. Although, Sam-Chi franchisees are obligated to run their restaurants according to

Sam-Chi standards, it is wise for the Sam-Chi couple to give room for innovation. Franchisees' ideas can benefit the whole franchise network as we see in the case of Tropical Smoothie Café in the theoretical framework. Another good example of how a franchisee's idea can benefit the whole franchise network is the case of Kevin and Gaynor Surgett who owned a Durham Pine furniture franchise in Ipswich, UK. Durham Pine furniture allowed Kevin and Gaynor Surgett to launch their own advertising and promotional campaign. The result of the campaign was spectacular and it doubled the turnover of Kevin and Gaynor Surgett's franchise outlet. The success of the campaign made other Durham Pine furniture stores throughout UK copy the idea. (Murray 2003, 65)

Sam-Chi should always fulfill its promises and create an exemplary reputation for its franchisees. The ideal franchisor is a leader and a creative thinker who is experienced in its industry. Leadership and management skill is a requirement for the owners of Sam-Chi restaurant to successfully grow through franchising. This is why the couple was asked in the interview if they have managerial and leadership skills. The owners believe they have both skills and since the restaurant is currently profitable, it is only fair to say the founders are managing the restaurant well. The employees of the company were also asked about their opinion regarding the company's management. The employees believe the couple is managing the restaurant efficiently. However, franchising requires a franchisor to be more of a leader than a manager. The owners of Sam-Chi restaurant will be needed to lead their franchisees in making sure the vision of Sam-Chi fast food restaurant becomes reality. The franchisees will look up to Sam-Chi to make decisions critical to the success of the company.

Sam-Chi owners must have the ability to inspire their franchisees to action. The ability to inspire is one of the qualities of a good leader and inspiring franchisees is very important in the franchise network. Sam-Chi owners should note that management skill is different from leadership skill and it is not all entrepreneurs that possess leadership skills. Behavioral scientists believe that some people are born with leadership traits but the good news is that people who are not born with leadership skills can also become a very good leaders through learning.

6.4 The current state of Sam-Chi fast food restaurant

During the interview, the owners were asked questions related to the operation of Sam-Chi fast food restaurant and the researcher also interviewed five customers of the restaurant. The purpose of asking these questions was to find out the current state of the restaurant's operation and the response will help the researcher determine if Sam-Chi fast food restaurant can grow through franchising. According to Barringer, et al. (2010) a company with a unique product or service is likely to succeed at franchising. This made the researcher ask the owners of Sam-Chi fast food restaurant if they have a unique meal. A similar question was also asked from five customers of Sam-Chi fast food restaurant. The customers were asked what they think is unique about Sam-Chi restaurant. Sam-Chi couple pointed that the success of their fast food restaurant lies in their menu. They said their meat pie is the most successful out of their entire menu and they generate most of their revenue from selling the meat pie. The owners of Sam-Chi restaurant believe the success of their meat pie can be attributed to a secret ingredient they use in preparing the pie. The owners did not reveal the ingredient during the interview since it is unique and vital to the success of their business.

The five customers interviewed also agreed that Sam-Chi's meat pie is different from other fast food restaurants meat pies. They were asked if they are open to other alternatives than Sam-Chi. Four of the five customers said they are open to other alternatives but they prefer Sam-Chi meals and the fifth customer said she is also open to other alternatives but in terms of location, Sam-Chi restaurant is the closest to her so it is easier to buy her food from Sam-Chi. The customers were also asked how often they buy food from Sam-Chi. Two of the five customers said almost every day and the other three said few times in a week. When asked why they buy their food from Sam-Chi, two of them said when they feel like eating Sam-Chi's meat pie and the other three customers said when they did not bring food from home or when they have nothing else to eat. The customer that goes to Sam-Chi restaurant because it is the closest to her also said she only buys Sam-Chi's food when she does not bring food from home. This shows that even though Sam-Chi fast food restaurant has a unique meal, not all customer visit the restaurant for the unique food, some customers only go there because it is close to them.

Another factor the owners of Sam-Chi restaurant believe contributed to the success of their restaurant is the location. Sam-Chi fast food restaurant is close to a market square. For a restaurant to be successful at franchising, it does not only need a unique meal, but a unique meal accompanied with other factors critical to the success of a fast food restaurant (e.g. easy access location). It is obvious that Sam-Chi fast food restaurant has a unique meal and the restaurant is also located in a high profile outlet. Unique meal and easy access location is critical to the success of a fast food restaurant; so all Sam-Chi franchise outlets should be in a central location.

The method of operating the Sam-Chi restaurant should be easy to document. Since the idea of franchising is to teach someone else the system that is working for you, it is a must for the owners of Sam-Chi fast food restaurant to have a clear picture of their business system and they should be able to write it down. Sam-Chi owners said they have a clear picture of their business system, they said they can easily write down every process and aspect of their system and they already have an informal documentation of the processes involved in preparing some of their menu.

The profitability of Sam-Chi restaurant is an important factor to consider. Franchisees are entrepreneurs who want to profit from their investment. The first thing prospective franchisees will check is how profitable Sam-Chi restaurant is, and how consistent is the profit. Currently, Sam-Chi restaurant is profitable and the revenue shows no sign of decline in the foreseeable future but that alone is not enough for franchisees to invest in the concept. Franchisees are buying a tested and proven business model and Sam-Chi restaurant has not been tested because the restaurant only has one outlet.

According to Barringer, et al. (2010) a firm should have several prototype units to test the viability of its business model before franchising the business. Sam-Chi restaurant needs to test their business model by opening other units of Sam-Chi restaurant. If the prototype units are profitable and the profit is consistent, that means Sam-Chi restaurant has been tested and proven. The problem with not having a prototype unit before franchising is that, the current business might be profitable due to several other factors the entrepreneur might not even be aware of. For example, an entrepreneur may think his business is successful because he has a unique product or service, but in reality, the business might only be successful because there is no competition. If the entrepreneur franchises this kind of business and the franchised outlets are located in competitive areas, the franchise system will fail and the outcome will be disastrous for the whole network.

6.5 Company strengths and recommendations

Sam-Chi fast food restaurant currently has a good customer base, the restaurant has a unique meal which is a plus for a business aiming to grow through franchising. The owners do not have a practical experience of franchising but they have the knowledge of the concept through extensive reading. The restaurant is currently profitable and the profit is consistent which makes it likely for franchisees to buy into the franchise since franchisees are interested in investing in a profitable business model. The couple has a clear picture of their business system and they already have an informal documentation of some of the processes involved in operating the business, this is a good step towards franchising Sam-Chi restaurant because franchising is about passing the franchisor's know-how to franchisees. The owners of Sam-Chi restaurant have managerial experience and a good relationship with their employees and customers, both qualities are important for the owners in order to have good relationship with their franchisees.

The owners of Sam-Chi restaurant should be aware that there is no direct relationship between growth and profitability so the decision to grow the restaurant should be made after the pros and cons of expanding the business has been accessed. The owners should also be sure of how big and fast they want to grow because a realistic plan and budget is a requirement for successful growth.

Franchising truly offers exciting opportunities but it also has its disadvantages. The owners of Sam-Chi restaurant should compare the benefits and drawbacks of growing their restaurant through franchising before investing in the concept and it is also advisable to review other growth alternatives. All growth strategy has its advantages and draw-backs but the best method of expansion for any business is the method that best fits the organizations objectives.

The couple should have a prototype of their restaurant to test the viability of their business model before investing in franchising. This is a requirement for a business to be franchised because franchisees will not buy a concept that has not been tested. Franchisees are ready to take the risk of investing in a successful brand not a brand that is struggling to survive.

A well-designed website is essential for Sam-Chi restaurant. Currently, the restaurant's websites is poorly designed. The new website should be optimized for franchising, it should include all franchise information and a franchise application form with a spam filter to separate spam mails. The company's website is the first place franchisees will go to for information about the company's franchise so it should be appealing. Since Sam-Chi fast food restaurant wants to grow via business format franchising, it is recommended for the owners to create a standard interior design that will be used by their franchisees and the company logo should also be standardized.

It is recommended for Sam-Chi owners to carry out a market research before selling franchises. The research will help the company determine the best place to locate Sam-Chi outlets. The market research should focus on customer needs and desires in the areas the franchise outlets will be established. The research should also be conducted among Sam-Chi's current customers to find out the strengths of the restaurant. What exactly do customers value about the restaurant and what they need to improve should be researched. The information gathered from this research will be useful to Sam-Chi restaurant and their franchisees. Sam-Chi owners should also not hurry in recruiting franchisees, their franchisees should be selected based on how qualified they are and not because Sam-Chi wants to make its first sale.

The owners of Sam-Chi restaurant should build good relationship with their franchisees. A good franchisor and franchisee relationship is critical to the success of franchise system. Sam-Chi should be willing to support their franchisees in every way they can, they should help their franchisees open their franchise outlets and give them every support they need to keep the unit running efficiently. Even though Sam-Chi franchisees are obligated to run their restaurants according to Sam-Chi's standards, the owners should still give their franchisees the opportunity to innovate. Innovation can help the franchisee's business and the franchise network as a whole.

Franchise values are important to franchisees, Sam-Chi should emphasis on the values their franchisees will receive when marketing Sam-Chi's franchise. For example, the owners can provide business advisory support for their franchisees, quarterly sales forecast, market research, and advertising campaign etc.

Finally, the couple should seek professional advice on matters regarding franchising their restaurant. The service of a franchise attorney or lawyer should be used to create the franchise documents. These documents are crucial to the franchise agreement and a seemingly little mistake in the development of these documents can create a legal and financial problem for Sam-Chi restaurant in the future.

7 CONCLUSIONS

The aim of this study was to find out whether Sam-Chi fast food restaurant can grow their business through franchising as well as to the give the owners recommendations on how to adopt franchising as the method to grow their business.

The theoretical aspect of this thesis focuses on franchising but business growth in general was first discussed. The basic assumption that growing a business directly results to increased profitability was explained in the theory and it was revealed that there is no strong relationship between growth and profitability. Growing a business can be good and it can also be bad because growth comes with another phase of business risk and if these risks are not properly managed it can undermine the strengths of a business. Entrepreneurs should focus on improving their customer value proposition rather than focusing on getting bigger because many companies remain small and successful while some companies grow and fail.

The study also discusses how important it is for entrepreneurs to make a strategic decision on whether to grow their business or not. The decision to grow a business should not just be assumed, the decision should be a strategic decision made after accessing the risks involved in growing. The study also revealed that sometimes the decision to grow a business might not be the entrepreneur's decision but the demand for the firm's products or services might compel the entrepreneur to grow the business in order keep up with the market demand.

The second part of the theory discusses franchising in detail and the concept of franchising can be traced back to the Middle Ages. The franchising business model was brought into focus by the success of giant multinational companies like McDonald in the 20th century. A franchisor is the owner of the concept, the person buying the concept is called the franchisee and the concept or license being granted is the franchise. There are two types of franchising systems: Business Format Franchising and Traditional or Product Distribution franchising. Sam-Chi restaurant is using the business format franchising which is the most common type of franchising. In business format franchising, the franchisor oversees every aspect of the franchisee's business. A business format franchisor generally provides the franchisee training, site selection, interior design, operating manuals, development support, brand standards, quality control, business advisory support, marketing strategy and any other forms of assistance for running the business.

Franchising cannot be used as a remedy for a failing business, the concept only works when a company already has a successful product or service. Franchising provides the opportunity for an entrepreneur to grow with franchisees capital but entrepreneurs should bear in mind that franchising only provides a low cost means of expansion not a “no cost” means of expansion. Franchising requires capital investment but the investment is often less than the cost of establishing a completely new business. Franchising also makes it possible for a business to have physical presence in all corners of the world which would not have been possible if the entrepreneur has to make capital investment to all the locations. In addition, the franchising business model also takes away the burden of managing multiple units since franchisees are in charge of managing their employees and the daily activities of their units.

The owners of Sam-Chi fast food restaurant should not grow just because they feel like growing. They should have an objective for growing their restaurant. The owners should also assess the risks involved in growing their business before growing and the growth decision should be a strategic decision. The owner’s growth objective will determine the appropriate growth strategy for the restaurant. Also, growing requires a realistic plan and a budget which can only be made after having a clear growth objective.

Sam-Chi fast food restaurant has the potential to grow through franchising but the restaurant does not currently have the requirements for it to be franchised. The owners of Sam-Chi have to establish a prototype of the current Sam-Chi restaurant to test the viability of their business model. Franchisees are entrepreneurs willing to invest in a tested and proven business so having multiple outlets of profitable Sam-Chi restaurant will prove the viability of Sam-Chi’s concept to franchisees.

The company currently has a poorly designed website; a well-designed website that is optimized for franchising is a requirement for Sam-Chi fast food restaurant because it is the first place franchisees will go to for franchise information. The founders of Sam-Chi restaurant should also conduct a research among their customers to find out the strengths of their business; what exactly does customer value about Sam-Chi restaurant and what improvement should be made? These information will be useful for Sam-Chi to create an operating manual that will be used for the prototype restaurant.

Sam-Chi couple can easily transform from an entrepreneur to a franchisor but the couple should keep in mind that managing employees is different from managing franchisees. Franchisees are entrepreneurs that are financially and legally independent so Sam-Chi owners should take extra care in making sure they maintain a good relationship with their franchisee. Sam-Chi owners should keep in mind that communication is very important in the franchise relationship, so they should be attentive to their franchisees problems to avoid disputes. Disputes in franchise relationship often arise from poor communication but with regular communication, disputes can be resolved. If the franchise relationship does not work, the owner of the brand will suffer the most so Sam-Chi owners should make it their ultimate goal to make the franchise relationship work.

Even though Sam-Chi fast food restaurant cannot currently grow through franchising, the future of the restaurant to grow through franchising seems promising. Three prospective franchisees already visited the restaurant in the year 2014 to ask if the owners are interested in franchising their restaurant, the couple only needs capital investment to make the dream become a reality. Most importantly, the couple should seek the advice of a franchise attorney before making any major decision about franchising their restaurant.

8 THEORY CONNECTIONS

This chapter presents some connections between the theoretical aspect of this thesis and the empirical findings. The purpose is to compare the statements in the literature to the findings of the research in order check if they are in line. Firstly, the theories will be presented in italics, after that the connections with the research findings will be explained.

An entrepreneur aiming to expand its business operations via franchising requires an in-depth knowledge of the franchising business concept and the knowledge can only be gained through practical experience or careful study (Barringer, et al. 2010, 513). The owners of Sam-Chi fast food restaurant do not have a practical experience of franchising. They heard about the business concept from individuals approaching them of their interests in owning a Sam-Chi franchise. The increasing numbers of interested franchisees made Sam-Chi owners want to know more about franchising. The couple acquired an in-depth knowledge of the franchising business concept through several months of research and studying which is in line with the theory that franchising knowledge can be gained through careful study.

Franchising makes it possible for a business to expand quickly over a short period of time with little capital. The franchisees provide the capital needed for expansion so the franchisor does not have to make direct investment to the new branch or place of business. Financing growth with franchisees capital is a better alternative to some entrepreneur because it saves them from debt financing (Barringer, et al. 2010, 513; Hisrich, et al. 2002, 542). The main reason why Sam-Chi owners decided to grow their restaurant through franchising is that it enables them to open new units of the restaurant without making direct investment since franchisees provide the capital for expansion. Also, the owners want to grow via franchising because it will allow them to open multiple outlets of their restaurant at the same time with less management burden since franchisees will manage the new outlets. Sam-Chi couple said they once considered growing their business with loan. They chose franchising because they believe growing with loan might affect the decisions they make on their restaurant since they will be pressured to quickly repay the loan.

A company's product or service should be unique, and create value for its users or customers. Generally, a firm with a unique product or service is likely to succeed at franchising (Barringer, et al. 2010, 523). Sam-Chi fast food restaurant has a unique meal which is their meat pie. They generate most of their revenue from selling the meat pie. Some of Sam-Chi's customers also confirmed that Sam-Chi's meat pie is the best they have tried and they cannot compare it to any other restaurant's own.

To franchise a business, the system of running the business should be clear and easy to write down. A complex system will be difficult to teach franchisees and the idea of franchising is to teach someone else the system that is working for you (Barringer, et al. 2010, 523). The owners of Sam-Chi restaurant already have an informal documentation of the process involved in preparing some of their menu. It is apparent that the owners have a clear picture of their business concept and they are confident they can write down every step in their business operations.

Franchising can only work when a firm already has a successful product or service. Franchising is appropriate for firms with a well-designed business model and a strong or potentially strong trademark. A company with a poorly developed or flawed business model and a product or service that does create value for its users will be unsuccessful at franchising (Hisrich, et al. 2002, 542). If Sam-Chi fast food restaurant has a flawed business model and the restaurant is unsuccessful, the owners will not make the decision to grow the restaurant through franchising. The owners aim to grow through franchising because they have a successful product and a potentially strong trademark which corresponds with the literature review.

The ideal franchisor is a leader and manager; leadership and management skill is a requirement to successfully grow through franchising (Murray 2003, 64). The employees of Sam-Chi fast food restaurant believe that Sam-Chi owners are managing the restaurant effectively. Since the restaurant is increasingly profitable, it is only fair to say the owners have been managing the restaurant well. Additionally, the owners of Sam-Chi restaurant can become great leaders through learning.

A business that is profitable during a specific season of the year may not succeed at franchising because franchisees want to profit from their investment all year-round not just a specific season (Barringer, et al. 2010, 523). Sam-Chi fast food restaurant can succeed at franchising in this context because the season of the year does not have a direct effect on the revenue of a fast food restaurant.

9 RELIABILITY AND VALIDITY OF THE RESEARCH

9.1 Reliability

A qualitative research can be considered to be reliable if the findings of the study remain the same regardless of who the researcher is. A research is more reliable if the researcher makes fewer mistakes or error. A reliable research should focus on the right target group, the research problem should be properly defined and the sample of the research should be reasonable. For example, a research cannot be considered reliable if the respondent is giving the researcher the answers the researcher would like to have or appreciate. (Kumar et al. 2002, 265; Creswell 2014, 201)

The reliability of this research was ensured by properly defining the research problem and the objective of the research was kept in mind while developing the research questions. During the interview, the reliability of the research was ensured by expressing the interview questions conscientiously. The interview questions were open so that the questions will not lead the respondents to give a particular reply and also to ensure that they respond based on their opinion. It can be concluded that this research is reliable because the researcher focused on the right target group. The interview was also conducted face-to-face which will increase the reliability of results.

Generally, there are three methods to ensure the reliability of a research; Test-Rated method, equivalent method and internal consistency method. The Test-Rated method of assessing the reliability of a research focuses of gaining the same results. The Test-Rated method of reliability is carried out by repeating the measurement with the instrument previously used, if the research generates the same result or a similar result, the Test-Rated reliability is confirmed (Golafshani 2003, 602). I strongly believe that this research work will yield the same result or a very similar result when it is repeated with the same instrument.

The equivalent or alternative form means the addition of a similar question to the research should produce the same result or derive the same answers from the respondents. This method refers to the ability of a similar form of instrument to generate a correlated result. The interview questions of this research were clear to the respondents and I am convinced the respondents answered in an honest manner. There are few questions in the research that are closely related and those questions produced the same results when asked from the same respondent. The equivalent form of reliability was also tested in this research by asking different respondents the same questions on an issue they are both familiar with. Some closely related questions were presented to the owners of Sam-Chi restaurant and their customers. The same approach was repeated when interviewing the employees of the restaurant. Some questions that have been asked from the owners of the restaurant were also directed to their employees. The closely related questions were on a matter the respondents are familiar with and they generated the same answers which supports the reliability of this research. (Golafshani 2003, 602; Saunders et al. 2009)

The third approach is the internal consistency method. This means the ability of an instrument to generate the same result or a similar result when employed on a different sample in the same time period to measure a phenomenon. The sample of this research is Sam-Chi fast food restaurant, the state and objective of the sample restaurant will influence the results of the research so a similar kind of research on a different restaurant might not produce the same results. For example, the owners of Sam-Chi restaurant can write down their business system but they do not have a prototype of their restaurant; another restaurant may already have a prototype restaurant with a documented business system. Therefore, these differences will greatly affect the result of the research which is why a similar kind of research on a different sample might not produce the same results (Golafshani 2003, 602)

9.2 Validity

A research is considered to be valid if the research measures what was intended to be measured. A high validity research is measured by the degree at which the results of the research are analyzed and interpreted correctly. For a research to be valid the researcher should stay objective in the study and the empirical findings should support the theoretical framework. (Kumar et al. 2002, 265; Creswell 2014, 201)

The validity of a research can be considered in different ways such as face validity, content validity, criterion-related validity and construct validity. Face validity simply means the extent at which the measurement tool measures what was intended to be measured. The research problem of this study was answered and the objectives were reached so the measurement used in this study measured what was intended to be measured. (Gates et al. 2012, 289; Creswell 2014, 201)

Content validity means the level of appropriateness of the research contents. Content validity measures whether the research topic is covered adequately. The researcher and the thesis supervisor checked the final drafting of the interview questions to ensure it is adequate and the interview questions also answered the research problem which confirmed the appropriateness. (Golafshani 2003, 602; Saunders et al. 2009)

Criterion-related validity is the degree at which one measurement instrument predicts another instrument. If the research achieves the desired correlation with the criterion then there is adequate evidence for criterion-related validity. The criterion-related validity for this research can be measured in the future. (Saunders et al. 2009; Golafshani 2003, 602)

A measure has construct validity if the result is in line with the theory behind the study. This simply means the researcher understands the theory behind the measurement. This research started with a profound understanding of the theoretical aspect of franchising and the results of the study behaves according to the theoretical foundation. (Gates et al. 2012, 289–294; Golafshani 2003, 602)

Overall, this research can be considered valid. The objective of the study is to find out whether it is possible to grow Sam-Chi restaurant through franchising and also to give recommendations on how to effectively adopt franchising as a way to grow Sam-Chi fast food restaurant. This research is valid because a literature review has been done about franchising for the researcher to gain an in-depth knowledge of the concept and the interview questions were developed from the theoretical background. The key issues in the literature review were discussed in the interview and the questions were reviewed severally to ensure the research measures what was intended. The interview questions were able to answer the research problem and that shows that the researcher stayed objective in the research.

10 SUGGESTIONS FOR FUTURE RESEARCH

This research was able to answer the research question which was “Does Sam-Chi fast food restaurant have what it takes to grow through franchising?” However, some point of interest came to the researcher’s attention during the study.

The cost of franchising the restaurant was not discussed profoundly in this research due to the lack of information regarding the cost associated with franchising a fast food restaurant in Nigeria. The costs used as a guideline for Sam-Chi restaurant are from the United States. Nigeria and the United States may have a different franchising law and the regulations might influence the legal cost of franchising the restaurant. Labor costs of both countries are also different; a franchise attorney in the US will most likely charge more money than a franchise attorney in Nigeria.

If a similar kind of study is conducted in the future, the researcher can interview a franchise professional in Nigeria who can provide a realistic cost guide for the research. The success rate of Nigerian owned franchise restaurant can also be studied in the future to determine if expanding via franchising can make Sam-Chi fast food restaurant become successful.

There is not enough information regarding how long a fast food restaurant should be in operation before it is franchised. Sam-Chi restaurant has been in operation for three years and the restaurant has experienced increased profitability ever since but as there is no credible information about how long a fast food restaurant should be in operation before it is franchised, it is difficult to give Sam-Chi owners a realistic timeframe.

Future research on this topic can focus on this issue to give potential restaurant franchisors a credible timeframe on how long they should be operation before franchising their business concept.

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Interviews

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APPENDIX 1. Interview questions

INTERVIEW QUESTIONS FOR THE OWNERS OF SAM-CHI RESTAURANT:

Growth

Why do you want to grow?

Franchising

How did you know about the franchising business concept?

Do you have any experience with franchising?

Why do you want to adopt franchising as the method to grow your business?

Have you considered other growth alternatives?

How big and fast do you want to grow?

Do you have a plan and budget for the cost of franchising your restaurant?

About the business

Do you have a unique meal?

Do you have a clear picture of your business system?

Can you write down your business concept?

How profitable is your business year-round?

Do you have a prototype of your business?

When did you open Sam-Chi restaurant?

What values are you giving your franchisees?

What vision do you have for your business?

Franchising relationship

Do you have managerial and leadership experience?

How do you view your relationship with people?

INTERVIEW QUESTIONS FOR SAM-CHI EMPLOYEES

How will you refer to the relationship you have with your employer?

Do you consider your boss to be a good leader?

What is your opinion about the management of Sam-Chi restaurant?

INTERVIEW QUESTIONS FOR SAM-CHI CUSTOMERS

How often do you patronize Sam-Chi?

Why do you patronize Sam-Chi?

Are you open to other alternatives than Sam-Chi?

Do you think Sam-Chi fast food restaurant has a unique meal?

Can you describe the value you get from purchasing a Sam-Chi meal?