THE ASSESSMENT OF A FRANCHISING MODEL BY THE SOUTH AFRICA POST OFFICE AS A BUSINESS EXPANSION TOOL

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ABSTRACT
As the capital strapped South African Post Office with mostly company-owned outlets is challenged to drastically and urgently increase its footprint in order to provide basic postal products and services to all citizens, the state-owned enterprise needs to find an alternative business expansion vehicle.

This paper therefore investigates the implementation of a franchising model as a business expansion tool by evaluating the business expansion success of the concept, identifying the inhibitors and enablers of franchising business expansion as well as the potential of franchising to support and enable SAPOs specific business expansion objectives in the company’s capacity as state-owned post office enterprise in the African and South African context.

Literature based research suggests that the franchising concept comprises of a few basic preordained principles that are obligatory and cannot be removed, but may be manipulated. This makes the concept flexible for application in almost every location and situation, but alterations and modifications to the basic model has inevitable cost and quality implications and the success of the application therefore depends on the franchisor’s ability to find the ideal equilibrium through effective model manipulation.

Effective planning and concept development that is based on unique company requirements will therefore enable the South African Post Office to achieve fast and sustainable franchise based business expansion

Key words: Franchising, business expansion, state-owned enterprises.

INTRODUCTION
According to literature, franchising for business growth has been applied with great benefit by certain industries in the private sector. State-owned enterprises are however confronted with distinctive demands and are experiencing unique business challenges and limitations. This study therefore investigates how the South African Post Office can successfully apply franchising as a business expansion tool.

The South African Post Office (SAPO) is a state-owned enterprise licensed to perform services on behalf of the South African government. The government requires SAPO to make basic communication products and services available to all citizens and SAPO is required to build additional outlets and to relocate some of their existing outlets in an effort to comply with this requirement (Creamermedia, 2011, p. 1). SAPO no longer receives a subsidy from the government and is therefore motivated by both profit and public good organisational objectives. In an effort to
reduce the capital required for the expansion project, SAPO is planning to apply the franchising concept to grow its network.

Franchising is a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees) (Franchise Direct, 2012, p. 2). The franchisor sells the right to do business on its behalf to the franchisee and then assists the franchisee to set up a business and to deliver services in return for financial compensation.

The basic concept of franchising is that it allows the franchisor to, without having to invest own capital, transfer the responsibilities of establishing a business and of producing, marketing and/or selling the franchisor’s products and services to another party. According to Franchise Direct (Franchising as a means of business expansion, 2012, p. 2), the benefits of franchising as a means of expanding a business are twofold. Firstly, it involves low capital investment by the franchisor (the capital used to expand the network comes from franchisees) and secondly, by franchising the business, the franchisor places his/her business expansion in the hands of people who are motivated to make it work.

Though franchising is widely used as an instrument for business growth, the question remains if the basic franchising model can be effectively applied by SAPO. This study therefore investigates the implementation of a franchising model by SAPO as a state-owned enterprise in South Africa. The conditions that are relevant to the issue are discussed and the aims and objectives laid out. This is followed by a review of relevant literature and the research methodology used. Thereafter recommendations are made about how the franchise concept could be modified to ensure beneficial results for all stakeholders and to make it a viable business venture for SAPO.

**PROBLEM STATEMENT**

**The SAPO business establishment**

SAPO is a distributor of written and published material, handling more than seven million postal articles per day (South African Post Office, 2012, p. 1). It processes more than 360 000 financial transactions daily and acts as an agent for a large number of private and public organisations. SAPO operates from more than 1 600 branches and 850 agencies nationally and has business associations with about 200 countries.

**The issue of business expansion at SAPO**

SAPO is a public company licensed by the Department of Communications (DoC) to perform services on behalf of the government. In terms of the South African Post Office Soc Ltd Act 2011 (South African Post Office Soc Ltd Act. Act No.22 of 2011, 2011, p. 4), SAPO must ensure the achievement of universal service access to postal services by providing an acceptable level of effective, reliable and regular postal services to all areas, including rural areas and small towns where post office outlets are not sustainable. To achieve the target ratio of one point of presence per 10 000 citizens, 1 922 additional points of presence are required. In terms of the Government Gazette, Notice 149 (Notice 149 of 2012, 2012, p. 4) SAPO must provide at least 50 new outlets and relocate 50 existing outlets per annum. A regulator (the Independent Communications Authority of South Africa - ICASA) must ensure that SAPO conforms to the requirements.

**Current SAPO business expansion strategy**

A large and unaffordable capital outlay will be required by SAPO to provide additional outlets and to relocate existing outlets. To overcome this obstacle, SAPO has implemented a multi-channel strategy, providing for the inclusion of conventional post offices, retail post offices (a post office outlet within a host business), transportable post office units, mobile post offices and self-service
facilities. Recently, the objective of adding franchises has been added to the strategy to grow the network. Franchising will allow SAPO to grow its footprint to comply with government requirements and defend its market position against new entrants and non-traditional competitors by increasing accessibility to its own products and services.

**How franchising may be able to address the issue**

The franchising concept has developed as a result of the lack of business expansion capital. A key principle in the franchising model is that initial capital investment is provided by the franchisee minimising financial by the franchisor. Gonzalez-Diaz and Solis-Rodriguez (Why do entrepreneurs use franchising as a financial tool? An agency explanation, 2012, p. 3) point out that the higher the cost for the franchisor, the more the franchisor will rely on expansion through franchising as opposed to company-ownership.

Another obstruction in the way of company business expansion is finding, controlling and retaining good outlet staff. Lots of cost and energy is spent on recruitment, compensation, training and controlling of staff and managers at company-owned outlets to ensure high productivity. Ghosh and Whalley (State-owned enterprises, shirking and trade liberalisation, 2008, p. 2) point out that in state enterprises, members need to collectively meet a budget constraint requiring that the value of sales is equal to the enterprise wage bill. Members need to further make provision for an exogenous enterprise commitment to the state budget. Labour can however shirk, either through low on-the-job effort (leisure), or through moonlighting to second jobs in the private sector. Franchising allows passing of the wage bill as well as controlling of labour shirking onto the franchisee.

**Aims and objectives**

The aim of this investigation was to explore the implementation of a franchising model by SAPO as a business expansion tool.

The research objectives were:

a) To investigate if franchising accelerates business expansion.
b) To identify specific accelerators which enable business expansion through franchising.
c) To reveal any inhibitors to expansion in the franchise model.d) To determine if franchising supports and enables SAPO’s business expansion objective.e) To establish if franchising is a relevant business model for SAPO.

**RESEARCH METHODOLOGY**

*Design and sample*

Given the exploratory nature of the study the researcher conducted a literature study using secondary academic literature and internal company proprietary documents to assess the feasibility of introducing franchising as a business model for SAPO. The researcher utilised the steps detailed by Joselyn as cited by Cengage (Secondary data research in a digital age, 2012, p. 1) in order to conduct the literature study.

As a first phase, the research was initiated by sourcing information from academic sources using the following key words: retail business expansion theory, franchising, post offices, public sector, business expansion theory, organisational theory, strategic planning, entrepreneurship and economics. Published works included, books and electronic academic journals published through academic search engines and websites such as EBSCO Host and Emerald. In the second phase, the research was extended to other material (journals, periodicals, articles, etc.) published on academic websites and other internet sources.
In addition, to the academic articles review, in order to assess the feasibility of applying a franchising business expansion model to SAPO, internally-sourced material were used including SAPO proprietary records and documents. Externally-sourced material includes printed and electronic material such as academic books, major science-cited journals, articles in acknowledged periodicals, newspaper articles, legislation as well as secondary information such as data sourced from Statistics South Africa.

The different articles found were analysed and selected to focus the research on the aspects around the possible implementation of franchising by SAPO in its capacity at a state-owned enterprise in the retail sector and guided by general business expansion principles.

Data analysis
The purpose of this literature analysis was to identify patterns in terms of franchising concepts and models and to enable the researcher to make proposals to SAPO. The following process was applied:

a) Step 1: Field and source categorisation
The bulk of the literature was categorised by the fields they cover to find a core number of documents that are most relevant to the intersection of (1) general retail outlet business expansion theory, (2) unique SAPO business expansion requirements, (3) general franchising concepts and (4) the application of franchising by related organisations in the same industry as SAPO.

The field categories applied were:

- Organisational Theory
- Strategic Planning
- Entrepreneurship
- Economics
- Legal and Regulatory
- Marketing
- Human capital management
- Psychology
- Sociology

b) Step 2: Topic and methodology classification
The core contributions that are selected as a result of the above categorisation were then analysed in order to classify them in accordance with their topics as well as to the research methodology that was used.

The topic classes selected are:

- Business expansion concept
- SAPO business expansion requirements
- Franchising concept
- Franchising in Africa and South Africa
- Franchising by public entities
- Franchising by post offices worldwide
The methodology classes selected were:

- Review
- Survey
- Strategy
- Conceptual / model or framework

Step 3: Analysis of articles in relation to focus and contribution

A third analysis of the information was then done to firstly note the focus of each article and secondly the contribution per selected article.

The selected focus areas are:

- Effectiveness of franchising in accelerating business expansion
- Franchising accelerators which enable business expansion.
- Franchising inhibitors to business expansion.
- The ability of franchising to support and enable SAPO’s business expansion objectives
- Considering if franchising is a relevant business model for SAPO

Five different tables were constructed to display the results of the focus and contribution analysis. This was done to identify and record the focus of the information obtained as well as to note and summarise the contribution to the new research. The tables are included as Appendixes: Analysis of Articles in Accordance with Focus and Contribution in respect of each research question.

LITERATURE REVIEW FINDINGS

To evaluate the universal business expansion ability of franchising, the investigation is initiated with an overview of the basic concept and motives of franchising before reviewing actual franchising results.

A. Ability of franchising to accelerate business expansion

The objective of this section was to understand how franchising should be applied to achieve accelerated business expansion. The focus is on the franchising concept and on the mechanisms and actions within scope of company management (factors within the company and its immediate industry and competitive environment) that can be applied to manipulate the basic franchising model. The factors inherent to franchising and factors in the outer ring of the company’s macro-environment over which the company has very little control are seen as aspects that may inhibit business expansion through franchising and are investigated in the next section.

1. Focus on the franchisor’s system
   a) Franchisor business viability

Authors indicate that companies need to meet certain criteria before embarking on franchising. A company that wants to roll out franchising fast should already experience exceptional performance in its market (Lord, 5 More Myths for Franchisors, 2009, p. 57) and a distinct competitive advantage
in at least one area (price, service, people, technology, etc.). Moreover, it must be capable of being replicated in other markets (Franchisedirect, 2011, p. 1), by having a distinctive niche and brand to differentiate it from competitors (Norman, 2006, p. 1). The company should also be free from threats to its income stream and profitable enough to pay franchisees (Davis, 1996, p. 6). A powerful distribution system is required which allows a company to expand and extend the reach of its networks (Versi, 2007, p. 1). A high service component (Lord, 5 More Myths for Franchisors, 2009, p. 57) and a complex set of skills enabling the company to manage franchisees over a long distance is required (De Vries, 2008, p. 22). The company should have a detailed long term technology plan in place, based on the projected growth in outlets (Pamecha, 2008, p. 16). The technology should be a single system, consolidating multiple platforms and technologies, eliminating manual processes and reducing operating costs.

SAPO should note that all information analysed show that the viability of the prospective franchisor’s own business is one of the most important accelerators of business expansion. This is effectively encapsulated by Lavonen (Franchising as a potential growth strategy, 2010, p. 6) that expansion should not be the purpose for a company, but a result of competitiveness, know-how and innovation.

b) Franchise-ability of concept and commodities
Important prerequisites for fast franchise roll-out are a franchise-able concept (Tanyeri, 2008, p. 1) that is capable of being replicated in other markets (Franchisedirect, 2011, p. 1) and commodities that are in demand (Norman, 2006, p. 1). Davis (When expansion goes on a roll, 1996, p. 6) indicates that customers must be more interested in what is being provided (unique commodities) than in who is offering it (the company itself or agents).

In this regard SAPO qualifies as potential franchisor, having a well-developed business concept and sought-after commodities that already facilitated replication to more than 2500 outlets including agencies.

c) Franchisor ability to develop an effective franchise concept
Studies at 88 restaurant chains show that accelerated franchise growth is achieved through effective concept and contract design (Michael & Combs, 2008, p. 73). Franchisors need concept development expertise (Tanyeri, 2008, p. 1) and should invest to build the ideal concept (Franchise Direct, 2012, p. 1) as it also is imperative for franchise survival and network performance (Chaudey & Fadaio, 2008, p. 118).

Besides agency practice, SAPO does not currently have experience in developing a franchise concept.

d) Franchisor organizational culture
Organisational culture is one of the three major antecedents for fast success of a franchise system (Prince, Manolis, & Tratner, 2009, p. 1). It dictates the effectiveness of the organization’s decision-making and problem-solving processes and therefore forms the foundation for motivated human activity in the organisation. Employees must work together in the franchise team and culture provides an opportunity for the development of identity and a sense of belonging for all (Hough, Thompson, Strickland, & Gamble, Crafting and Executing Strategy, 2008, p. 297). Everyone in the organisation must be in support of the fast roll-out and franchisors need to have a good understanding of the culture of the company (Weiss, 2007, p. 12).

e) Franchisor commitment and support
For fast expansion, franchises must be in demand and existing franchisees should stay committed. According to Meek et al (Commitment in Franchising: The Role of Collaborative Communication and a Franchisee’s Propensity to Leave, 2011, p. 1), there are three dimensions of commitment, each representing a reason why franchisees might be drawn to franchisors. Affective commitment represents an emotional attachment to the relationship. Normative commitment reflects a mind-set of obligation to remain in the exchange relationship and continuance commitment reflects recognition of high relationship switching costs. Social exchange theory suggests that franchisors who want to expand fast as well as maintain their current base of franchisees need to examine each dimension of commitment to understand what attracts franchisees and holds them to the relationship. SAPO should build all three dimensions into its concept and effectively maintain them.

Sustained commitment requires delivery on promises (Tanyeri, 2008, p. 1). Each member of the franchisor team must always be available to support franchisees in every way possible (3at1, 2012, p. 1). The most important promise is income and franchisee profitability must therefore be the obsession of the team (Tanyeri, 2008, p. 1).

SAPO will have to actively pursue franchisee profitability.

f) Franchise network growth

Although SAPO needs fast outlet growth, the company already having 2 500 plus outlets should note the dangers when outlets grow too fast and become so many that loss of control is experienced.

2. Focus on the franchisee
a) Franchisee competence
Demand for new franchises is highly dependent on the success of existing franchises. Mabesele (The role of performance measures in the fast food franchise industry to sustain positive growth: Cape Metropole - South Africa, 2009, p. 17) finds that there are a “plethora” of reasons for franchise failure and most pertains to the lack of management competencies. To sustain growth, incompetent ownership should therefore be prevented (Evancarmichael, 2012, p. 3) by recruiting the best franchisees (Tanyeri, 2008, p. 1). Required qualities are the ability to follow a system and drive it passionately, entrepreneurship skills (Lord, 5 More Myths for Franchisors, 2009, p. 57) strong marketing ability, hard work, good ethics, and dedication (3at1, 2012, p. 1).

Franchisee experience has a large effect on franchisor failure (Michael & Bercovitz, 2009, p. 202) and most new franchisees do not have this. All authors agree that initial and on-going training (Weiss, 2007, p. 13) and “aggressive” training (Tanyeri, 2008, p. 1) will ensure that franchisees are proficient in all sectors of operation (3at1, 2012, p. 1).

To ensure sustained growth, SAPOs should recruit and train effectively. The training program must cover the business model, marketing and advertising, store operations, merchandising, customer service and management techniques as well as inventory, cost accounting and general business procedures (3at1, 2012, p. 1).

b) Active franchisee ownership
Passive ownership describes limited involvement of the franchisee (the person that signed the agreement) into the franchise/s that is owned. This results in franchise quality and profit failures and damages the brand, lowers the demand for franchises and slows down business expansion. Studies show that franchisor control costs are positively related to passive ownership restrictions (Weaven, Frazer, & Giddings, 2010, p. 1) and franchisors have a lower propensity to allow franchisees to own several outlets (Vazquez, 2008, p. 1093). Chains that properly align passive ownership with operational characteristics perform better (Weaven, Frazer, & Giddings, 2010, p. 1). SAPO currently allows passive ownership by its agents (RPAs) and is well aware of the implications.

c) Franchisee empowerment and motivation
Studies confirm that imbalance of power in the franchisor-franchisee relationship results in conflict (Weaven, Frazer, & Giddings, 2010, p. 1). The bad publicity and the time and energy spent by the franchisor to address these issues negatively impacts on the ability to accelerate business expansion. Franchisees must be effectively empowered and motivated (Tanyeri, 2008, p. 1), (Franchise Direct, 2012, p. 1). The approach of 3at1 (Welcome to the 3@1 experience, 2012, p. 1) is to ensure that the concept is flexible to allow the franchise outlet to adapt and evolve in line with the personal strengths and preferences of the franchisee. This is confirmed by Viiala (The Role of entrepreneurial orientation in franchisee performance: A case study in the machinery industry, 2011, p. 11) who indicates that empowerment of franchisees to allow for local market adaptation appears to mediate the effects of innovativeness and risk taking on franchisee performance. This ensures that franchisees also act in the interest of the franchisor (Michael & Bercovitz, 2009, p. 193).
SAPO may be able to achieve this through "soft" franchising, especially to accommodate geographical, demographical and demand variances.

d) Franchisee profitability
Franchisor success only comes from franchisee success (3at1, 2012, p. 1) that is based on profitability. Profitability is mostly influenced by franchisor royalty rates (Weaven, Frazer, & Giddings, 2010, p. 1) and franchisors must be innovative in structuring fees. Another factor is demand that is dependent on effective location analysis and marketing (Evancarmichael, 2012, p. 3). If the fees are right and the location effective, the franchisee must be allowed some freedom to be creative in making the franchise profitable (3at1, 2012, p. 1).

It seems that the more freedom franchisees have, the more successful they can be. This, however, depends on experience and entrepreneurship skills

3. Accelerators pertaining to both parties
a) Mutual trust
Mutual relationship in franchising is important (Kotler & Keller, 2012, p. 485). Franchising implies the transferring of responsibilities to people who the franchisor have to trust because breach of trust means failure for both parties. Lavonen (Franchising as a potential growth strategy, 2010, p. 19) points out that relationship is “a leap of faith”. Researchers therefore emphasize social interactions (e.g., trust and relational norms in the relationship) in franchising as a way to attenuate agency problems (Meek, Davis-Sramek, Baucus, & Germain, 2011, p. 1). Recent research is focussing on relationship building behaviours that reduce conflict and develop strong partnerships (Meek, Davis-Sramek, Baucus, & Germain, 2011, p. 1).

Dickey (The role of trust in franchise organisations, 2007, p. 1) mentions two types of trust (belief-competence and belief-honesty) that is affecting five key franchisee behaviours that determine franchising performance: identification, satisfaction, compliance, non-compliance and relationship
quality. Among the benefits reaped by franchisors are motivation and hard work resulting from recognising the franchisees familiarity with local communities and conditions. (Kotler & Keller, 2012, p. 485).

Once again, this indicates to the opportunities that soft franchising may offer to build trust.

b) Effective communication and goal congruence.

Communication together with organisational culture and goal congruence are the three major antecedents for success in franchising (Prince, Manolis, & Tratner, 2009, p. 1). Communication assists in understanding and balancing competing interests (Tanyeri, 2008, p. 1) and in achieving goal congruence. Meek (Commitment in Franchising: The Role of Collaborative Communication and a Franchisee’s Propensity to Leave, 2011, p. 1) advises that communication should be collaborative (frequent, rational and reciprocal). If the outcome of communication exchanges remains positive over time, both parties have increased trust and increased commitment to the relationship. When communication is absent or ineffective, the propensity for dysfunctional franchisee behaviour increases (Prince, Manolis, & Tratner, 2009, p. 1). SAPO already communicates to many outlets, but a dedicated mechanism, focussing on the specific requirements of franchisees should be implemented and constantly monitored.

c) Realistic expectations

Accelerated expansion can only be sustained in an honest environment. Prospective franchisees should be fully aware of the consequences of the franchise agreement and franchisors should therefore do effective legal review with franchisees (Tanyeri, 2008, p. 1). The second factor is realistic income expectations (Evancarmichael, 2012, p. 3). Studies show that lack of effective due diligence results into unrealistic franchisee income expectations and increased conflict (Weaven, Frazer, & Giddings, 2010, p. 1). Prospective franchisees must also know that franchise failure rates are high (Lord, 5 More Myths for Franchisors, 2009, p. 57). SAPO will be able to confirm that these findings are very applicable to their current agency sector.

B. The inhibitors to expansion through franchising

In this section, the aspects prohibiting a company to achieve business expansion through franchising are identified and analysed in three categories. Firstly, constraints that are inherent to franchising are identified, analysed and discussed as franchising concept inhibitors. Secondly, aspects in the external business environment of the company which the company cannot address through franchise model manipulation or customisation are identified and analysed. Lastly, the absence of the enabling factors that were analysed in the previous section is discussed.

1. Franchising concept inhibitors: Model constraints

a) Reduced operational control

Most authors agree that the paramount detriment of franchising expansion is loss of control over the quality of the commodities and the protection of the brand. These important aspects are left to an operator in another company and this is described as “a leap of faith” (Lavonen, 2010, p. 19) in that the franchisor must trust the franchisee and give up some of the control. The effect of the loss of control may best be demonstrated by the Woolworths case where the company had to convert their franchises into own outlets after finding that their franchise model’s reduced control was not supportive of their quality standards (Moneyweb, 2011, p. 1). Davis (When expansion goes on a roll, 1996, p. 6) already predicted this in 1996 when he declared that franchising may appear to be a simpler solution, but rolling out own outlets allows greater control.

In franchising control is a balancing act as too much control impacts on mutual trust and inhibits franchisee commitment, motivation, innovation and business growth.
b) Loss of expansion opportunity
During the contracting phase, franchisees are granted exclusive or non-exclusive rights to serve certain market areas. Over time, the market areas may become sub-optimal, requiring restructuring and the franchisor may need to open additional outlets in the same area. Exclusivity is usually granted to protect a franchisee and ensure profitability and the additional outlets will involve a breach in the contract (Cox & Mason, 2009, p. 503). This will restrain the business expansion process until the contract expires (Lavonen, 2010, p. 15). Once again, this is a Catch-22 situation: franchisee profitability must be protected by limiting franchisor growth.

c) Reduced income and profit for the franchisor
Franchising allows more sales, but profits passed on to the franchisor are smaller than if the business would only have owned outlets (Lavonen, 2010, p. 18). Franchising may appear to be a simpler solution, but rolling out own outlets allows more profits (Davis, 1996, p. 6).
Reduced income is another trade-off situation that is inherent to franchising and cannot be overcome.

2. Macro business environment inhibitors: Environmental constraints
a) Identification of factors in the outer ring of the franchisor’s macro-environment
According to Hough et al (Crafting and Executing Strategy, 2008, p. 53), all companies operate in a macro environment that is shaped by influences from the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors and by the industry and competitive arena in which the company operates. “A company’s macro-environment includes all relevant factors and influences outside the company’s boundaries – ‘relevant’ means important enough to have a bearing on the decisions the company has to make” (Hough, Thompson, Strickland, & Gamble, Crafting and Executing Strategy, 2008, p. 53).

Figure 4.1. The Components of the Company's Macro-environment
As depicted in Figure 4.1 above, the factors and forces in the macro-environment that have the biggest strategy-shaping impact pertain to the company’s immediate industry and competitive environment (competitive pressures, the actions of rival firms, buyer behaviour, supplier-related considerations, etc.). This means that the company is able to address the immediate industry and competitive environment in the setting up of a proven, successful and franchiseable business concept, but effective business expansion through franchising is also dependent on outer-ring factors (economy, legislation, demographics, values, technology, etc.).

b) Inflexibility of the franchising model to mitigate variances in cultures, social values and lifestyles

There is a strong relationship between culture and the cost of doing business in a particular geographical area. (Hill, 2001, p. 23). According to Alon (Global Franchising and Development in Emerging and Transitioning Market, 2007, p. 156), the business may be constrained by social pressures, cultural clashes, and perceived culture challenges. These variables also affect the feasibility and acceptance of a franchise business expansion program. (Abizadeh, 2009). The effect of culture is confirmed by the Hofstede (1980) model that identifies four primary dimensions to assist in differentiating cultures: power distance, individualism, masculinity and uncertainty avoidance.

The territorial cultural barriers stem from differences in cultural variables (material culture, social organisation, religion, language, aesthetics, popular culture, etc.). The greater the difference between these cultural variables, the greater is the cultural distance. The greater the cultural distance, the more challenging is the transferring of a franchising system (Abizadeh, 2009, p. 12).
Crone (Strategic interactions in franchise relationships, 2007, p. 33) emphasises that as a result of ‘social aspects’, such as power, negotiation and trust, some prospective franchisees might not be willing to adopt a business format that was developed for fast replication.

Culture impacts on products, operations, store layout, training and marketing approach (Risner, 2001, p. 16). Local preferences and dislikes must therefore be taken into account when planning franchising (De Vries, 2008, p. 27). Franchisors may retain core values but allow local franchisees to change their offering to suit local preferences (Lord, Unleashing franchisees’ creativity, 2007, p. 1).

The standardisation basis of franchising does not allow enough freedom for cultural based adaptation. Assumptions about how work should be done are imbedded in the operational processes of franchising and this can restrain local franchising implementation (De Vries, 2008), (Cronen, 2007, p. 1).

In the SAPO case where expansion will span many different cultures “soft” franchising (De Vries, 2008, p. 18) may allow the company to develop concepts that are more flexible and that may accommodate cultural differences.

c) Dependency of franchising business expansion on economic conditions

During unfavourable economic conditions investment capital is scarce and business expansion through franchising is slowed down due to a lack of qualifying franchisees (Evancarmichael, 2012, p. 1). If the product or service offered is not essential, sales are also affected. Franchisees are not interested in long term investments in the hope future profits. Franchises, similar than other businesses, even under normal economic conditions, take at least half a year to break even (Lavonen, 2010, p. 18). This period may be much longer under unfavourable conditions. (Weaven, Frazer, & Giddings, 2010)

Very favourable economic conditions can also reduce profitability due to brutal business competition where the demand for franchises and commodities are high and there is too much competition (Evancarmichael, 2012, p. 1). Extreme market conditions therefore appear to aggravate dissatisfaction in franchise systems and inhibit business expansion.

d) Influence of distance and regional demographics on franchising business expansion

Franchising expansion is negatively impacted by geographical distance due to the difficulties and cost of franchise monitoring. The cost of establishing local monitoring structures in remote areas is high but Coke ensures that they are “local” where they operate (Versi, 2007, p. 42). Time and distance also raises the level of uncertainty and widen the information gap (De Vries, 2008, p. 22).

There is also a general lack of business education and business acumen in remote areas. Low economic activity forces able and educated people to relocate to more prosperous areas. Franchisors, especially in the service industries, then have difficulty in finding suitable franchisees as the possibilities for franchisee failure are higher (Buchan, 2010, p. 251).

Regional language variance, especially in South Africa, impacts on the franchisors ability and cost to expand. In SAPO there is currently a necessity for the translation of contracts and operational procedures for current agencies into local languages.

Demographical barriers to franchise expansion like distance and language can be overcome at high cost, but a lack of suitable franchisors will involve intensive and persistent hand-holding which defies the objective of franchising.
e) Dependency of franchising on legislation and regulation
Effective franchising regulation is needed for business expansion. Franchising is dependent on business regulation and an effective competition legal framework is required (Huyen, 2008, p. 1). Developed countries have elaborate regulations and separate franchising laws and are keeping their franchise legal systems in a constant state of evolution to ensure adequate protection (Polavsky, 2010).

Effective franchising legal frameworks are required to structure business and to guide and protect franchisors, franchisees as well as their customers.

f) Influence of political factors on franchising business expansion
Political factors create business hazards such as general instability (revolution, external aggression), expropriation-risk (nationalisation, contract revocation), operations risk (import restrictions, local content rules, taxes, export requirements) and financial risk (financing restrictions, exchange rates). Expropriation happens when the government seizes the business with some reimbursement (Abughazala, 2006, p. 25). The South African government’s seemingly undecided views on nationalisation and privatisation currently impacts on business expansion decisions.

In government service franchising, political views are more important as the government is directly involved in state-owned enterprise business decision-making.

Another aspect is organised labour as the unions are major player in politics and are often used to leverage political strength and it affects public policy (Flanagan, 2008, p. 1). This is of particular importance for SAPO as a state-owned enterprise venturing into franchising, as this move may affect the union membership numbers and will represent a loss and redistribution of union powers.

If political risk factors are evident in a country or geographical area, it is negatively impacting on business expansion abilities of franchisor.

g) Access to technology and other market access barriers
Access to markets is dependent on development (Wresch & Fraser, 2012, p. 1) A study done at companies expanding into remote areas have found barriers such as difficulty with logistics, inadequate local banks, etc. (Wresch & Fraser, 2012, p. 1).

For franchising, lack of technology infrastructure is a major obstacle as technology facilitates business expansion to remote markets by breaking down barriers of distance. (International Journal Of Market Research, 2010, p. 1) Some of the remote areas of South Africa are still deficient of physical technology infrastructure and SAPO is currently dependant on costly satellite communication to service these areas.

Besides technology, SAPO is currently experiencing barriers such as access to electricity supply, roads infrastructure deficiencies, lack of telephone services, lack of suitable business accommodation, and extreme climate conditions.

3. Absence of any of the accelerators for franchising business expansion
In the previous section the accelerators for franchising were identified, analysed and discussed. It is important to note that an absence of any of these accelerators also inhibits business expansion through franchising.
C. The ability of franchising to support and enable SAPO’s business expansion objectives

1. SAPO in Africa: Franchising in Africa
   a) Franchising framework
   The protection of intellectual property in Africa is lacking and franchisors are scared off (Africa-investor, 2010, p. 1). Prospective franchisees have limited access to finance (Franchise Direct, 2012, p. 1) as African banks are cautious to lend to new businesses (Africa-investor, 2010, p. 1), but a few countries have more accommodating policies (Sotos & Hall, 2007, p. 80). Franchising is dependent on enabling economic, legal and financial frameworks and most African countries still are not able to provide this.

   b) Franchising applicability
   Africa has mostly low-income markets and only few large international franchisors have entered (Franchise Direct, 2012, p. 1). Due to individuality of the African markets, franchise model variation is required (FASA, 2012, p. 2) and Woolworths stated that franchising may need a different approach in Africa (Howwemadeitinafrica, 2011, p. 1), (Moneyweb, 2011, p. 1). There is significant variation in development levels and business environments amongst different African countries (FASA, 2012, p. 2) and a lack of entrepreneurial skills, although studies in Botswana (questionably) show that franchisees do not require entrepreneurial skills to succeed (Chinyoka, 2010, p. 1).

   Although emerging markets in Africa are attractive for franchisor growth and offer opportunities for capitalising on local knowledge, income levels are low, franchising is not yet accepted as primary business format and the format itself needs some customization.

   c) Franchising results
   About 200 franchisors are active in Africa (Africa-investor, 2010, p. 1). In Morocco, franchising growth is already 24% per annum (Africa-investor, 2010, p. 1) while Botswana, Senegal, Tanzania, Egypt (Sotos & Hall, 2007, p. 80) and Tunisia (Africa-investor, 2010, p. 1) have accommodating policies. In Nigeria franchising is receiving support (Africa-investor, 2010:1) and in Kenya, franchising is reducing business failure (Africa-investor, 2010, p. 1). Franchising is slowly starting to find its feet in Africa.

   d) Franchising benefits
   Franchising can bring order in Africa by improving procurement, management and financial practices (Africa-investor, 2010, p. 1), by supplying in the growing demand for basic goods and services (FASA, 2012, p. 2) and by offering a solution to poorly-trained entrepreneurs (Africa-investor, 2010, p. 1).

   Franchising can support business development in Africa and this is noteworthy for underdeveloped SAPO service-areas in South Africa.

2. SAPO in South Africa: Franchising in South Africa
   a) Franchise framework
   Franchising does not have statutory status, but the current legal framework is supportive and the Consumer Protection Act reflects franchising principles (FASA, 2012, p. 1).

   Financing is effectively supplied by commercial banks (FASA, 2012, p. 1) and Sotos and Hall (African Franchising: Cross-Continent Momentum, 2007, p. 80) reports that specific institutions are instigating legal and financial reform.
The government is supporting franchising in creating jobs and developing skills (Van Zyl, 2010, p. 14). Velasis (Great contributor to economy, 2010, p. 43) however reflects that the government should also support franchising to achieve small business growth.

South Africa has accommodating financial and legal frameworks and government is positive about franchising.

b) Results of franchising in South Africa

Franchisedirect (History of franchising in South Africa - decade-by-decade, 2011, p. 1) indicates that South Africa is unique - 90% of franchises are locally developed. Franchising stimulates entrepreneurship, establishes small business and creates jobs in South Africa (Velasis, 2010, p. 43).

Franchising growth (13% per annum) in South Africa is positive, but accuracy of some other published results seems to be of concern. There is evidence of conflicting information on the number of jobs created and on the number of franchise concepts. Velasis (Improve your chances of success, 2010, p. 14) reported 50 000 jobs in 2010 while Franchiseek (Franchise South Africa Statistics, 2012, p. 1) reports 300 000 people being employed by the franchise business in 2012. Van Zyl (Improve your chances of success, 2010, p. 14) reported in 2010 that there were 500 different franchise concepts while Franchiseek (Franchise South Africa Statistics, 2012, p. 1) reported more than 400 concepts 2 years later.

In 2010 franchising contributed R128 billion or 12% of SA’s GDP - in the US it exceeds 50% (Franchiseek, 2012, p. 1). South Africa has franchises in 17 sectors - the US has 70, the UK has 50 and Canada 25 (Franchise-Law, 2012, p. 1). Franchising in South Africa experienced a setback when Woolworths decided to convert most franchises to company stores (Moneyweb, 2011, p. 1).

Franchise failure rates are not generally published, but Franchiseek (Franchise South Africa Statistics, 2012, p. 1) indicates an 11% failure rate, compared to the 33% of small businesses.

Although the accuracy of reported franchising results needs to be further investigated, there is strong local concept development skills available and franchising contributes to economic growth.

3. SAPO as state-owned enterprise: Franchising by governments

Governments world-wide realise the benefits of franchising as instrument for effective public service delivery. There is evidence that it is effectively applied by reframing the resource scarcity and agency theories of franchising to comprise the distinctive characteristics of social franchise systems (Tracey & Jarvis, Toward a theory of social venture franchising, 2007, p. 667).

Countries like Australia focus on substitution of public by private sector ownership and according to Aulich (It's not ownership that matters: it's publicness, 2011, p. 199), the function of governments is only to decide “what” public services must be provided and “how” it must be delivered. Pagadis (A road map to success for public-private partnerships of public infrastructure initiatives, 2008, p. 1) indicates that this can be achieved through public-private partnership ("P3") initiatives that can provide attractive opportunities to private investors. In this regard Ngo et al (Developing and Launching the Government Social Franchise Model of Reproductive Health Care Service Delivery in Vietnam, 2009, p. 1) studied government health care franchise models and find that it makes the enhanced industry competitive, develops infrastructure, standardises services, improves staff relationship management and upgrades service quality.
South African government indicated that franchising could be included in their forward planning and that social and tandem franchise systems in public/private partnerships should be explored (FASA, 2012, p. 1). Jupe (Rail Franchising Matters -The Award of Open Access Rights on the ECML,, 2007, p. 83) however reports that government franchising in Britain reflects confusion over responsibilities and government's undecided attitude to privatisation. For SAPO this is an important aspect to contemplate.

The primary objective of government franchises is to benefit the public. The rights or interests of the franchisees are secondary (The Free Dictionary, 2012, p. 1), but this objective may be in conflict with the profit drive of the basic franchising model (Jupe, 2007, p. 83) and there may be terms and conditions to the acquiring and selling of government franchises which may impact on private investment decisions.

Evidence is found that social franchise systems can improve public service delivery and that government, including South Africa’s, are starting to realise the benefits. Franchising can allow governments to focus on policy-making. To attract investors, governments should however obtain political mandates and should be clear about their policies on privatisation and on terms and conditions regarding re-selling of franchises. Government franchises may be less attractive in terms of profitability if not subsidised by them.

4. SAPO as postal organization
Global postal volumes have significantly declined due to internet diversion, private postal service providers, courier companies and the overall state of the economy. During 2008 it has dropped by 12,7% in the USA (Sigmon, 2010, p. 21). Trends are showing further decline in transaction revenue and increasing transaction cost (Sigmon, 2010, p. 21) and it seems that current stand-alone post office-operated outlets will no longer be sustainable.

Many countries are implementing a “postal network evolution” (IPC, 2010, p. 1) through new outlet structures and replacement income streams. Out of 31 countries reviewed by the IPC, only four still own all their postal outlets, while quite a few own very few - Deutsche Post has 12 000 franchises and only 600 owned outlets. La Poste in France has franchised 30% of its outlets (La Poste, 2012, p. 1). Many others such as Australia Post and Royal Mail (Crew, Kleindorfer, & Cambell, 2008, p. 2), Indiapost (Indiapost , 2010, p. 2) and Brazil have applied franchising to rural as well as suburban areas.

It is clear that franchising can be successfully applied by postal organisations, notwithstanding the drop in postal income. Conditions (USO, low profits, etc.) in India and Brazil are very similar to some areas in SA and SAPO may benchmark with them.

5. SAPO’s specific business expansion requirements
A SAPO franchising model should primarily enable SAPO to achieve its specific business expansion requirements based on its USO.

a) Provide universal access to facilities promptly
SAPO must make basic communication products and services available to all citizens (Creamermedia, 2011, p. 1) and must provide a sustainable outlet roll-out programme for annual review (South African Post Office, 2012, p. 2). According to the Amended Reserved Postal Service Licence (Government Gazette, 2012, p. 10), SAPO must build 1 922 additional outlets and relocate some existing ones (Creamermedia, 2011, p. 1), but the company is currently only able to establish 50 additional outlets per annum and will only reach the target in 40 years (South African Post Office,
Due to geographic and infrastructure challenges (distances, roads, electricity, water, IT), the establishment of own outlets is unaffordable. SAPO is however allowed to enter into agreements with third parties to provide services under the licence (South African Post Office, 2012, p. 2). The license also sanctions rendering of reserved postal services “through vending machines or other devices” (Government Gazette, 2012, p. 10).

The obligation to provide 1,922 additional outlets is unachievable through the establishment of own outlets due to time, geographical and infrastructure challenges. A more flexible service delivery vehicle that can be rolled out faster is required. The SAPO licence allows the use of third parties. There is evidence that franchising in some or other customised format has been successfully applied to overcome similar challenges effectively.

b) Provide basic products and service at all outlets
SAPO must provide access to all basic products and services to all citizens: “The licensee shall not differentiate in the provision of services between serviced areas and under-serviced areas and shall not discriminate against any person in respect of the provision of the reserved postal service” (Government Gazette, 2012, p. 10). SAPO outlets are therefore obligated to provide price controlled, low profitable basic letters, postage stamps, cash on delivery items, insured parcels, registered letters, money transfer and banking products and services.

Postal organisations world-wide, including some in underdeveloped countries, proved that franchising can be applied to deliver postal services in terms of the universal service obligation.

c) Ensure universal high quality of products and services
SAPO must provide an acceptable level service to all citizens: “…the licensee shall not differentiate and …discriminate ……in respect of the provision of the reserved postal service” (Government Gazette, 2012, p. 10).

Quality control is an intrinsic element of the franchise concept and will allow SAPO to ensure an acceptable level of service to all citizens.

d) Lower the cost of business expansion
SAPO do not receive a government subsidy and is dependent on profit to fund business expansion. Current initiatives to expand the network is found to be too slow and unaffordable (South African Post Office, 2012, p. 2).

In franchising, initial capital required to establish outlets is provided by franchisees. Gonzalez-Diaz and Solis-Rodriguez (Why do entrepreneurs use franchising as a financial tool? An agency explanation, 2012, p. 3) point out that the higher the total cost of own outlets, the more the franchisor will rely on expansion through franchising. In South Africa’s underdeveloped areas, the availability of franchisee capital may be a barrier to franchise expansion.

e) Scale down direct operational involvement
SAPO’s Retail division is currently managing more than 2500 outlets and nearly 7000 employees. Direct Retail operational expenditure (excluding cost of supporting units within SAPO) exceeds Retail revenue by far (South African Post Office, 2011, p. 10). Salaries in other postal entities also exceed 70% of total cost (Yafeh, 2007, p. 17). Ghosh and Whalley (State-owned enterprises, shirking and trade liberalisation, 2008, p. 2) states that state-owned enterprises, on top of breaking even, need to contribute to the state budget.
As indicated earlier, Franchising allows passing operational costs (wages and controlling costs) onto the franchisee. The profitability of the franchisor company is however reduced through the compensative elements of the franchise agreement.

f) Grow income through business expansion
SAPO’s USO obligation implies that it has to be profitable in achievable areas and then spend most of the profit on expanding its footprint and on subsidising the cost of basic service delivery in unprofitable areas. Postal income is however globally declining (Sigmon, 2010, p. 21) and profits are not achievable. Constraints are:

- Demographic variance (consumer income, education, demand patterns, etc.).
- Wide and specialised product and service range requiring comprehensive staff knowledge (retail, banking, postal, courier, communication and third-party services).
- Small profit margins of government-enforced, price controlled commodities.
- Little demand for more profitable (uncontrolled) commodities at locations where expansion is enforced by government.

Hough et al (Crafting and Executing Strategy, 2008, p. 224) maintain that expanding geographical coverage is effective in reaching more potential buyers and paving the way for sales growth that outpaces general market escalation. They however propose selective expansion based on specific industry and company situations.

Franchising will allow SAPO to grow its footprint to comply with government requirements and defend its market position and income streams against new entrants and non-traditional competitors by increasing accessibility to its products and services. Another benefit which franchising may bring along is innovation in terms of optimisation and income growth. This due to the incentive to sell more, spend less and increase profits (Gilles & Combs, 2009, p. 1).

The government license does not prevent SAPO to add other more profitable commodities. This can be achieved through franchising. The huge spectrum of services franchised may however require increased training, support and controls.

Although Moyak (Truth about Franchising, 2012, p. 1) reports that, in general, company-owned businesses are more profitable, SAPO’s circumstances are different. Franchising may be the solution and though hard franchising may not be feasible for low-demand areas, soft franchising (as explained earlier) may allow franchisees to deliver basic SAPO commodities in addition to commodities in demand in their own areas. These additional commodities may be delivered outside the franchise agreement.

It seems that SAPO needs a carefully planned and diversified application of franchising - a range of modified approaches will be required to suit varying conditions.

D. Is franchising a relevant business model for SAPO
1. SAPO’s business viability
A distinctive niche and brand is required to differentiate franchisors from competitors (Norman, 2006, p. 1). SAPO is a well-known national brand; however customers are lately finding it difficult to distinguish between SAPO and a franchised competitor operating as Postnet. SAPO will be able to overcome this through an active communication campaign focusing on the distinction before the intended franchising.
A distinct competitive advantage in at least one area is necessary (Norman, 2006, p. 1). SAPO is currently enjoying the protection of its license in terms of its core products (Government Gazette, 2012, p. 10). Franchises will benefit from this.

Exceptional performance in the market is required (Lord, 5 More Myths for Franchisors, 2009, p. 57). SAPOs is still the largest distributor of mail in the country, but its performance that is riddled by regular labor action which needs attention.

A business concept capable of being replicated in other markets is required (Franchise Direct, 2012, p. 1). SAPO already has more than 2500 outlets in country-wide (South African Post Office, 2012) and is able to replicate outlets.

The company must be profitable enough to pay the intended partners (Davis, 1996, p. 6). SAPO is experiencing drastic reductions in income from the traditional core business (South African Post Office, 2012, p. 1) due to factors such as internet diversion, private postal service providers, courier companies and the overall state of the economy (Sigmon, 2010, p. 21). At this stage, SAPO is however still able to achieve and sustain a small annual profit (South African Post Office, 2012, p. 1) and although SAPOs general profitability is under stress, it is able to remunerate nearly 7000 employees and more than 800 RPAs. The additional franchise income should enable payment for franchise services.

A powerful distribution system which allows it to expand and extend the reach of its networks is necessary (Versi, 2007, p. 1). SAPO is in the distribution business and successful in servicing its current 2500 outlets. The extension of the system to include new outlets may have some cost implications.

A high service component is required (Lord, 5 More Myths for Franchisors, 2009, p. 57). SAPO as postal entity is by nature a service organization. Due to the requirement for monitoring and support of franchises across geographical regions, SAPO however needs to implement a dedicated hierarchical franchise organizational structure with multiple levels (Sigmon, 2010:29).

A complex set of skills enabling the management of franchisees over a long distance is required (De Vries, 2008, p. 22). SAPO is currently effectively structured (South African Post Office, 2011, p. 1) and able to manage 2 500 outlets which are nationally distributed. These include RPAs which represent soft franchises. The addition of franchises will however require the revision and extension of organizational structures to include a dedicated and focused franchise service component.

The technology applied should be consolidated a system, automating processes and reducing operating costs (Pamecha, 2008, p. 16). SAPO has a newly developed point of sales system and a management information system in place. A single franchise system will however have to be developed. SAPO has an in-house IT development team.

2. The franchiseability of the SAPO products and services

To franchise, a company should have a distinctive niche and commodities that are in demand (Norman, 2006:1). Customers must be more interested in what is being provided (unique commodities) than in who is offering it Davis (1996:6). Many other postal organizations globally (Australia Post, 2012), (Crew, Kleindorfer, & Cambell, 2008), (Deutsche Post, 2012), (IPC, 2010), (Indiapost , 2010), (La Poste, 2012), (Royal Mail, 2012), (United States Postal Service, 2012), that are offering similar commodities and experiencing the same conditions have successfully
implemented franchising (Sigmon, 2010, p. 47). SAPO will able to ensure success by benchmarking with these organizations.

3. **SAPO’s ability to develop an effective franchise concept**
SAPO currently lacks the ability to develop a franchise concept. Prospective franchisors require franchising expertise (Tanyeri, 2008:1) and should invest in building the ideal concept (Franchisedirect, 2012:1) as this plays a key role in franchise survival and network performance (Chaudey and Fadairo, 2008:118). SAPO needs to implement dedicated structures to develop franchising and needs to buy in the necessary expertise. SAPO should note that a considerable financial commitment is required as the start-up is very involved franchising does not generate income during the first couple of years (Bjornberg, Gudmundsson, & Jonsson, 2005).

4. **Franchisor organizational culture**
Organisational culture is one of the major antecedents of success of a franchise system franchisors need to be aware of this (Prince, Manolis, & Tratner, 2009, p. 1) as everyone in the organisation must be in support of the roll-out (Weiss, 2007, p. 12). There seems to be evidence of culture issues within SAPO that will impact teamwork and on decision-making and problem-solving processes (Hough, Thompson, Strickland, & Gamble, Crafting and Executing Strategy, 2008, p. 297).

5. **Franchisor commitment and support**
To sustain franchise commitment, SAPO have to deliver on promises such as profitability (Tanyeri, 2008, p. 1) and the franchisor team must always be available to assist and support the franchise network (3at1, 2012, p. 1). As indicated in the previous paragraph, the SAPO culture is currently not supporting this requirement and SAPO will have to build a new supportive culture and ensure commitment through effective performance management. The ability to manage franchisees over long distances involves complex skills and current SAPO management experience is not necessarily sufficient. This again underlines the need for a dedicated SAPO franchise section and a committed team.

6. **Franchise network growth**
SAPO requires very fast business expansion (South African Post Office, 2012), but it will be difficult to ensure network sustainability if growth is too fast (Tanyeri, 2008, p. 1). The company therefore needs to practice controlled business expansion to prevent franchise fad (Evancarmichael, 2012, p. 1) and to ensure the quality of the franchises (Bordonaba-Juste, Lucia-Palacios, & Polo-Renondo, 2011, p. 1). SAPO is required to present an annual outlet roll-out plan to government (Government Gazette, 2012, p. 6) and a reasonable franchise growth plan may be agreed.

7. **Franchisee competence**
SAPO has to ensure that franchisees have the ability to follow a system and drive it passionately (Lord, 5 More Myths for Franchisors, 2009, p. 57). Franchisees should have strong marketing abilities, good ethics and should be dedicated (3at1, 2012, p. 1). Other important aspects are franchisee experience (Michael & Bercovitz, 2009, p. 202) and operational efficiency (3at1, 2012, p. 1). It is not believed that the current SAPO outlet managers completely fit this profile or that prospective franchisees will have prior experience. SAPO will therefore have to create a profile against which franchise applicants will have to be assessed and should align their in-house training department to develop franchisees on an on-going basis.

8. **Active franchisee ownership**
SAPO is currently allowing passive ownership (the owner is not involved in operations) in respect of its current RPAs, which can be classified as a form of soft franchising. This results in failure in terms
of quality and profit and it damages the brand, therefore SAPO monitoring costs are high. Studies confirm that passive ownership restrictions result in better performance (Weaven, Frazer, & Giddings, 2010, p. 1). SAPO should therefore not allow franchisees to own several SAPO or other franchises.

9. Franchisee empowerment and motivation
SAPO in its capacity as state-owned enterprise is a typical example of a bureaucracy with a well-developed delegation of authority and strict controls to ensure effective management and PFMA compliance. This approach may result in imbalance of power in the franchisor-franchisee relationship and in conflict between the parties (Weaven, Frazer, & Giddings, 2010, p. 1). SAPO will therefore have to design a dedicated franchise management approach to allow sufficient empowerment of franchisees based on their personal strengths and preferences and to realize the positive contribution of franchisee innovation and risk taking (Michael & Bercovitz, 2009, p. 193).

10. Franchisee profitability
SAPO franchising will only be successful if their franchises are profitable. The high-volume SAPO commodities are regulated and price controlled by government and the profit margin is low. In order for franchises to be profitable in applying the same basic business model, products and pricing structure, franchises will have to be more productive in applying resources and increase income per customer. SAPO has the following options: develop and add profitable commodities that are generally in demand nationally, allow franchises the freedom to innovate and to add locally demanded commodities, subsidise the franchises (i.e through low royalties and fees or by implementing the social franchise concept). Any combination of the aforementioned can also be applied. SAPO will furthermore have to do proper location analysis to ensure sufficient demand and should allow franchisees to be creative in making franchises profitable through implementation of the soft franchising concept.

11. Mutual trust
According to Kotler and Keller (Marketing Management, 2012, p. 485) franchising implies the placing of the business operations in the hands of other people and the franchisor must be able to trust the franchisee to ensure success. Accept for managing RPAs, SAPO has no prior experience of real franchising and the company will have to develop relationship building abilities and acquire skills in trust-building.

12. Communication and goal congruence.
SAPO currently has well-developed operational communication systems in place and will be able to apply it to convey business related information and to increase trust and commitment to ensure goal congruence. When this is absent the propensity for dysfunctional franchisor behaviour increases (Prince, Manolis, & Tratner, 2009, p. 1). SAPO may also have the ability to initiate franchise associations or advisory councils to facilitate communication and collaboration and to encourage standardisation and innovation (Sigmon, 2010, p. 35).

13. Realistic expectations
Apart from its RPA knowledge, SAPO does not have proper experience in setting up franchises. To ensure realistic franchisee expectations, the company must ensure that proper due diligence studies are done prior to the signing with individual franchisees and that prospective franchisees are fully aware of the consequences of the franchise agreement as well as the profit prospects and failure rates. Studies show that lack of frankness results into unrealistic franchisee expectations and increased conflict (Weaven, Frazer, & Giddings, 2010, p. 1).
CONCLUSIONS AND RECOMMENDATIONS

DISCUSSION OF THE FINDINGS FROM THE RESEARCH QUESTIONS

Research question 1: Does franchising accelerate business expansion?
There is general agreement that franchising enables fast establishment of large numbers of outlets. High growth results are reported and franchises employment figures are impressive.
To fulfil the search objective, it is also necessary to investigate the sustainability of fast franchising expansion and it seems that some franchise industry reports are misleading by only providing positive results. Independent and more reliable research shows both franchisors and franchisee failure rates are high.

The question is if franchising is successful in speedy business expansion, but one of the major findings is that speed may not always be the main objective. Franchising has developed due to lack of capital, but easy replication of outlets and the dynamic nature and flexibility of the concept also make it attractive, opening up more objectives such as fast brand building, the opportunity to disperse operational responsibilities and the reduction of business risk in distant and unknown territorial areas.

Fast business expansion may be more important than cost saving and profitability. Lack of capital investment and low franchisor operational expenditure are generally accepted as the key principals of franchising and the credo is that the higher the cost of managing own outlets, the more franchising. The cost elimination theory is however debatable and some research proves that company owned outlets are more profitable than franchises. Franchisors spend lots on supporting franchises, on controlling quality and protecting the brand and pay franchisees for their services. This means that franchisors do not really “eliminate” costs - responsibility is only assigned to another party at cost. The finding is in line with the distribution channel theory that if extended channel quality is poor and/or profit is low, own are advisable. SAPO with low profit margins should note this.

In final fulfilment of the research objective the research also needs to deliver findings on the effectiveness and social responsibility of fast expansion. Firstly, superfast franchise based expansion raises concern that the process may represent mass production with subsequent quality issues. Secondly the popularity of franchising makes it highly marketable - this can be explained through the concept of pull strategy and franchisee may take emotional buy decisions which may increase franchise failure.

Research question 2: What are the specific accelerators which enable business expansion through franchising?
The approach of the investigation was to define accelerators of franchising business expansion as the factors that are within the scope of company management to manipulate. These factors can be divided into franchisor system factors, franchisee factors and factors that apply to both parties.

- Franchisor system factors
Franchising expansion should not be the purpose, but the result of competitiveness, know-how and innovation and the franchisor’s business must be viable by being profitable, experiencing exceptional market performance, having distinct competitive advantage and a distinctive niche and brand. Its business concept should be capable of being replicated and an effective franchise contract enables successful franchise expansion. A high service component, support skills and a powerful
distribution system is required and the company must have a dedicated franchise computer system. Products and services must be in demand and so that customers do not care who the distributor is.

Organizational culture enables teamwork to support fast roll-out. Social exchange theory indicates that franchisors need to examine the dimensions of commitment to understand how to manage franchisee relationships. Sustained commitment ensures success but requires delivery on promises and all members of the franchisor team must always be focused on supporting franchisees.

Continued organizational growth and a manageable franchise network deliver the best results and franchise expansion must be controlled to ensure sustainability.

- **Focus on the franchisee**
  
  Demand for new franchises is highly dependent on the success of existing franchises. SAPO has many complicated commodities and should be aware that incompetent franchisee ownership results in failure and that effective recruitment and constant training is required. Franchisors must also be innovative in structuring royalties and fees and do effective location analysis and marketing to ensure franchisee success.

  An imbalance of power in the franchisor-franchisee relationship results in conflict and franchisees should be empowered and motivated to allow the franchise outlet to evolve in line with the franchisees personal strengths and to permit sufficient freedom for creativeness in making the franchise profitable.

  Passive franchisee ownership results in quality, profit and brand failures and increase franchisor control costs.

- **Accelerators pertaining to both parties**
  
  Mutual relationship is crucial. Franchising implies transferring of responsibilities and breach of trust results in failures. Two types of trust (belief-competence and belief-honesty) are affecting five important key franchisee behaviours that determine franchising performance by building good relationships through motivation and recognition.

  Effective communication is instrumental in understanding and balancing competing interests and achieving goal congruence. Communication should be collaborative to be effective as ineffective communication increases dysfunctional franchisee behaviour.

  Accelerated expansion can only be sustained in an honest environment and prospective franchisees should be fully aware of the consequences of the franchise agreement, have realistic income expectations and know that franchise.

  The analysis of the information and the above findings are adequate and sufficient to fulfil the relevant research objective.

**Research question 3: What inhibitors to expansion have been identified in the franchise model?**

Based on the findings, the factors prohibiting a company to achieve business expansion through franchising are classified as franchising concept inhibitors, environmental inhibitors and the absence of enabling factors.

- Franchising concept inhibitors
Concept inhibitors are distinctive constraints within the franchising model. Firstly, application of the franchising concept results in loss of control over quality and brand. Too much control however impacts on trust and inhibits commitment, motivation, innovation and business growth.

Secondly, exclusivity of the franchisee’s contract restrains the franchisor’s business expansion process results in loss of growth and profit opportunities. Exclusivity however protects franchisee profitability en ensure franchisor expansion sustainability.

Lastly, franchising allows more sales, but franchisor profits are smaller as that of owned outlets. Most franchisors however lack capital to establish own outlets.

- Macro business environment inhibitors
  Companies operate in a macro environment that is shaped by influences from all relevant factors outside the company’s boundaries and that have bearing on company decisions. Culture impacts on franchising but the standardization basis of franchising does not allow enough freedom for cultural based adaptation and this can restrain local franchising implementation.

Extreme (unfavourable and very favourable) market conditions appear to aggravate dissatisfaction in franchise systems and inhibit business expansion.

Geographical remoteness negatively impacts franchising expansion. Distances raise the cost of monitoring, increases uncertainty levels and widen information gaps. Other barriers are inadequate logistics and infrastructure, especially technology infrastructure. SAPO should note that suitable franchisees are unavailable in most remote areas.

Franchising is dependent on effective as it impacts on franchising expansion prospects.

Political risk factors are negatively impacting on business expansion abilities. Politics create business hazards and in government service franchising (as in the SAPO case), political views are powerful. Unions are major factors in leveraging political strength.

- Absence of the accelerators for franchising business expansion
  Total fulfilment of the research objective necessitates reference to the negative effect of the absence of any of the accelerators for franchising on business expansion.

**Research question 4: Will franchising support and enable SAPO’s business expansion objective?**

With the purpose of affirming a fully-fledged in-depth research into franchising’s inherit ability to support and enable SAPO’s specific business expansion objectives, the research had to acknowledge all facets of SAPO and the presentation of the findings are based on this.

- Franchising in Africa
  Franchising supports business development in Africa and emerging markets in Africa are attractive for franchisor growth, but income levels are low and franchising is not yet accepted as primary business format. The format itself needs some customization. The protection of intellectual property is generally lacking and franchisees have limited access to finance.

- Franchising in South Africa
South Africa has accommodating franchise frameworks and government is positive towards franchising as it stimulates entrepreneurship, establishes small business and creates jobs. Franchising growth is positive, though accuracy of some of the published results seems to be of concern.

- **Franchising by state-owned enterprises**
  The objective of government franchises is to serve the public and rights or interests of franchisees are secondary. This may be in conflict with the profit drive of the basic franchising model and will impact on SAPO’s franchise decisions. Limiting terms and conditions to the acquiring and selling of franchises may impact on private investment decisions.

The governments are realising that social franchise systems can improve public service delivery. Franchising can allow governments to focus on policy-making. To attract investors, governments should obtain political mandates and be clear about policies on privatisation.

- **Franchising by postal organizations**
  Franchising can be successfully applied by postal organisations. USO objectives and other conditions in India and Brazil where postal franchising was also implemented are similar to some areas in SA and leave opportunities for SAPO benchmarking.

- **SAPO’s specific business expansion requirements**
  SAPO’s specific business expansion requirements are based on its USO. The SAPO license allows the use of third parties and franchising can overcome the lack of expansion capital. Franchising quality systems may secure high service levels as required by SAPO’s license. Franchising may allow for innovation in terms of optimization and income growth which can benefit SAPO. The franchising concept will allow successful inclusion of all SAPO commodities. Most SAPO commodities have a small profit margin, but soft franchising may allow franchisees to add commodities and increase income.

The research covered all SAPO’s requirements and the overall finding is that franchising in some modified capacity will be able to support SAPO’s business expansion objectives.

**Research question 5: Is franchising a relevant business model for SAPO?**

In order to assess if franchising is a relevant business model for SAPO, the company’s ability to implement and control franchising effectively is reviewed at hand of its ability to capitalize on the enablers of franchising.

SAPO embraces adequate business viability and has a well-known national brand. The company is also enjoying government protection in terms of its core products and this can be transferred to franchises. Company profitability may be an issue, but it seems that SAPO will be able to reimburse franchises for their services. SAPO commodities are not very profitable and to ensure franchise profitability, the company will have to be creative in franchise concept development, but totally lacks franchising skills and may need to buy in expertise and benchmark with other postal organizations with franchising experience. A dedicated franchise computerized management system is also absent. There may be culture issues within SAPO which must be addressed. An aspect of concern is that SAPO is currently allowing passive ownership with its RPAs and the company should not permit this in franchising.

Most of these aspects are however within the ability of SAPO to resolve and the overall finding is that in general, franchising seems to be a relevant model for SAPO.
CONCLUSIONS DRAW FROM THE RESEARCH QUESTIONS

Research question 1: Does franchising accelerate business expansion?
Based on the findings from the study it can be concluded that that franchising enables fast establishment of large numbers of outlets. Franchise expansion is faster when franchises are profitable and SAPO with low profit margins will need to ensure high franchise demand. Sustainability of expansion should be ensured and exploitation of buyers of franchises should be avoided.

Other advantages of franchising such as low capital investment, concept flexibility, fast brand building, dispersing of operational responsibilities, improving chances for success in unknown territorial areas will also be of value to SAPO.

Research question 2: What are the specific accelerators which enable business expansion through franchising?
The research is very conclusive and objective in that enablers for franchising expansion are intensively investigated and effectively categorised.

It is clear that SAPO will have to ensure that enablers within in its business area such as business viability, competiveness, organizational culture, commitment and enthusiasm will have to be in place and effectively supporting franchising.

Franchising success depends on franchisee success and SAPO should ensure competent ownership, empower and motivate franchisees, allow scope for innovation and actively plan and support franchisee profitability. Also mutual relationship, effective communication and openness and honesty between both parties should be built to ensure sustained business expansion.

Research question 3: What inhibitors to expansion have been identified in the franchise model?
Some of the identified factors that will prohibit SAPO to achieve business expansion through franchising are distinctive constraints within the franchising concept, some are environmental barriers and others are the result of the absence of enabling factors. Franchising results in loss of control, expansion constraints and smaller profits and the only way to avoid this is not to franchise.

Some of SAPO’s macro business environment factors such as extreme economic conditions, political risk, legal aspects, geographical remoteness, and lack of logistics and infrastructure will impact on SAPOs ability to enable expansion. SAPO’s franchising will especially be impacted by cultural differences that cannot be addressed by a universal franchise model and by unions that may use political leverage to prevent franchising.

Research question 4: Will franchising support and enable SAPO’s business expansion objective?
Franchising can overcome the SAPO lack of expansion capital and provide effective quality control as required by the license. Franchising will enable SAPO to implement and support its wide range of commodities and the concept is flexible enough to allow modification to mitigate the low profitability of the commodities. Soft franchising, for instance, will allow for franchisee innovation and profit initiatives that will create a demand for franchises to achieve business expansion. The SAPO license allows the use of third parties but Government approval for franchising is required and the successful application of franchising by other postal organisations will allow SAP good
opportunities for benchmarking. The overall conclusion is that franchising, in some modified capacity, will be able to support SAPO’s business expansion objectives.

Research question 5: Is franchising a relevant business model for SAPO?
SAPO is a viable business and have government protection in terms of its core products that is transferrable to franchises. The company however has low-profit basic products and services that may impact on franchisee profitability. SAPO lacks franchising experience and skills as well as a dedicated franchise computerized management system. Company culture issues will have to be addressed. Most of the adverse aspects are however within the ability of SAPO to resolve and the overall finding is that in general, franchising seems to be a relevant model for SAPO.

RECOMMENDATIONS

It is recommended that Government approval for franchising is obtained before SAPO embarks on any development work. A detailed business plan will be required.

To accelerate business expansion, it is recommended that SAPO develop a suitable, custom-made franchise concept that will overcome the capital constraint and enable the company to create a strong demand for franchises and ensure sustained expansion. Franchisee profitability should be the prime objective in this regard and social responsibility should be pursued. The franchise concept must also allow scope for franchisee innovation to create profitability initiatives but must be very effective in quality control. Soft franchising and social franchising concepts may be explored and benchmarking with other postal organisations is advised.

SAPO will have to ensure that all franchise enabling factors are in place. The company should especially improve organizational culture and employee commitment and put dedicated franchise structures in place to ensure franchisee success through support, training, empowerment and motivation. Franchise skills should be bought in and a dedicated franchise computer system should be developed. To ensure sustained business expansion SAPO should build effective relationships, implement effective communication channels such as franchise forums and promote openness and honesty between the parties.

It is recommended that SAPO do a business environment scan in respect of each geographic area that is earmarked for expansion. The objective should be to identify and classify prohibiting in accordance with their ability to be mitigated through franchise concept manipulation, investment in infrastructure, political negotiation, etc. Action plans should then be based on addressing the barriers. SAPO may find that some areas may not be suitable for franchising at all, especially due to cost implications, political leverage and cultural aspects.

The following simple action plan is proposed:
1. Develop business plan including a cost/benefit analysis
2. Obtain government approval
3. Implement franchise structures and populate them with skilled staff
4. Do benchmarking
5. Perform an environmental scan and identify and classify all barriers and inhibitors
6. Develop actions plans to mitigate barriers and inhibitors
7. Identify unsuitable geographical areas
8. Develop franchise concept(s) based on findings
9. Develop dedicated franchise computer system
10. Develop detailed expansion plan
11. Ensure all franchise enablers are in place
12. Pilot test concepts
13. Evaluate pilot findings and do adjustments
14. Implement

FINAL CONCLUSIONS
Effective planning and concept development that is based on unique SAPO requirements will enable the company to achieve fast franchise based business expansion. The scope of this research did include franchise concept development as well as franchise computer system development and it is advised that further research in this regard

References


106
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