AN INVESTIGATION INTO THE MORTALITY RATE OF SMALL BUSINESSES, WITH PARTICULAR REFERENCE TO FUEL RETAILERS WITHIN THE REPUBLIC OF SOUTH AFRICA

by

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DECLARATION

I, Ramchunder Singh, registration number 201506941 hereby declare that the thesis entitled:

"An investigation into the mortality rate of small businesses, with specific reference to Fuel Retailers within the Republic of South Africa"

is the result of my own research and investigation and as far as I am aware, has not been submitted in part or in full for any other degree or to any other university.

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ABSTRACT

The impact of change and transformation on small businesses has compelled them to face a multitude of new challenges. The successful application of the selected strategies depends largely on an understanding of the predisposing and prevailing business dynamics and variables that impacts on their profitability, continued sustainability and future growth. There is increased attention that is focused on the turnover factor of small business in South Africa and this gives added need for extensive qualitative and quantitative analysis.

International experience suggests that small businesses are a pervasive feature of the economic landscape in the developed world. The intensity and growing proportions of small business failure in South Africa is alarming. The problem not only presents management with new dilemmas, but also presents a challenge to researchers who are faced with the task of identifying through rational and scientifically valid processes, the underlying causes of the high failure rate amongst small businesses.

Previous studies suggest that government regulations and franchised business have proven to be successful due to the infrastructure support offered by the franchisor. Since retail service station dealers operate within a highly regulated industry and within a franchised environment, this study examines the reasons for failure and success within the Retail Fuel Industry sector in South Africa.

It was anticipated that there are a number of factors that influence success and failure from both within and outside the control of the fuel entrepreneur. While

some researchers have identified gender, education levels and age as critical success factors, others suggested that management factors and occupational experience are key drivers. The fuel retail industry is regulated and seeks to reward efficiency through a retail fuel margin. This study provides new insights and important clues concerning the failure amongst fuel retailers. The closure of the business did not result in the physical disappearance of the establishment but rather in a transfer to new ownership.

The purpose of this study is to conduct a more in-depth and comprehensive qualitative research using the case study methodology, which will investigate the causal factors that lead to the high mortality rate of fuel retailers in South Africa.

The non-fuel aspect of the business comprises the shops and quick service restaurants and presents another dynamic to fuel retailing. This was investigated to fully address the research question. The case study analysis also attempted to quantify the level of support that franchisees received.

There was sufficient evidence from the research findings to nullify the rival proposition that success and failure of fuel retailers was only a function of sales and volume. The case study evidence supported the research proposition that the reasons for failure and success were due to factors other than size.

The 47% per annum failure rate recorded in the study was attributed to a number of factors from both within and outside the control of the fuel entrepreneur. While gender, education levels and age were not found to be

critical success factors, the ability to manage the key components of target costs was critical. The management of manpower costs and the efficient application thereof was found to be the most significant variable in the cost build up and differentiated successful and failed retailers.

There was also evidence of substantial imposed costs from both the regulatory environment and the franchisor. The monthly adjustment of fuel prices had an impact on working capital and generally resulted in net stock price losses. Both these variables were not factored into the calculation of the retail fuel margin resulting in the understating of the true costs. The loose regulatory environment also marginalised the fuel retailer.

It was found that the oil companies optimised their fuel delivery regimes at the expense of the small business owner through the automatic replenishment system of wet stocks, controlled through a central ordering system. While, wet stock control mechanism was in place for the fuel business, the non-fuel business received limited support for stock and shrinkage management.

The case study evidence also supported the retailers view on the inadequate level of business support and training. This was an important finding and such poor orientation negatively influenced the quality of the due diligence checks and business valuation. In many cases, the budgeting was optimistic with little or no recourse for remedial action leading to eventual failure.

Statistical analysis indicated that the two groups differed significantly with regard to the mean difference between Shop sales and Budgeted Shop sales. It

appears that in the case of the success group that the shop sales mean was much higher than budgeted mean, while in the case of the failure group the mean was lower than budgeted mean. Failure to achieve the shop budgets did contribute to failure.

Important recommendations are made based on the case study findings. This includes the establishment of a central training unit, an industry valuation model and a more relevant regulatory regime aimed at removing the imbalances between the oil company and the retailer in terms of delivery and payment methodology.

DEDICATION

This research is dedicated to the gallant efforts of all those who participated in the Energy Finance Group vision and objectives of bringing financial empowerment to the many small fuel retailers by facilitating their ownership of fuel retail outlets in the Republic of South Africa.

We salute the Industrial Development Corporation, Gensec Bank, ABSA bank, Engen Petroleum, Chevron Texaco South Africa and most importantly, Hannover Re Reinsurance Company who provided the guarantee for obtaining the wholesale funding. I hope that this research work would provide a valuable insight into why some of the EFG retailers failed whilst others recorded successes.

Ultimately, this research work is dedicated to all those failed and successful EFG retailers who pursued the small business option as an important aspect of wealth creation and financial independence. For those who have failed, your contribution has been captured for posterity in this research work and for those who continue to be successful; your experience will now be available to the new entrepreneurs desirous of owning fuel retail businesses in the Republic of South Africa. It is through your experience that many small fuel retailers will be benefited in the future.

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LIST OF ABBREVIATIONS

BFP	Basic Fuels Price
c/l	cents per litre
DME	Department of Minerals and Energy
DWP	Draft White Paper
EC SME	European Commission Small Micro Business
EFG	Energy Finance Group
FCF	Free Cash Flow
FFR	Failed Fuel Retailer
FRA	Fuel Retailers Association
GEM	Global Entrepreneurship Monitor
GP	Gross Profit
HBR	Harvard Business Review
HSE	Health, Safety and Environment
IDBR	Inter Department Business Register
IDBR	Inter Departmental Business Register
IDC	Industrial Development Corporation
MPAR	Marketing Petroleum Activities Return
N-arc	Need for Achievement
POS	Point of sale
PPAB	Petroleum Products Amendments Bill
RATPLAN	Rationalization Plan
RSA	Republic of South Africa
SAPIA	South African Petroleum Industry Association
SFR	Successful Fuel Retailer

SBAB	Small Business Advisory Bureau
SBO/M	Small Business Owners /Managers
SFR	Successful Fuel Retailer
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax

CHAPTER 1

OVERVIEW OF THE STUDY

1.1 INTRODUCTION

Small business development has become an area for intensive research with regard to business viability, profitability, sustainability and growth. One of the current and most striking observations of small business is the high mortality rate of a large proportion of small businesses. Previous studies like Jovanovic (1982:649-670) and Hall (1985:59-66) have highlighted some common potential pitfalls and contributory factors to small business failures. The purpose of this study is to conduct an in-depth and comprehensive scientific research, which will investigate the causal factors that lead to either the high rate of mortality in the retail fuel sector or to its success and viability. This research will endeavor to enhance and broaden the basis of previous studies, which examined aspects of small business failure.

1.2 THE NEED FOR THE STUDY

The democratization of the Republic of South Africa has ushered in numerous challenges and opportunities. The increase in foreign trade and investments continues to exponentially increase the welfare benefits and the general living conditions of all South Africans. Economic restructuring has taken place against the background of a constitution that is conducive to a market based economy. However, while the policy framework and groundwork has been laid,

the country continues to be challenged by high unemployment rates and crime.

Indeed, the President in his 2006 State of the Nation address highlighted the importance that small business development plays in creating and maintaining jobs. The development and nurturing of the entrepreneurial spirit would go a long way in facilitating the ideals sought by government.

An investigation into the high failure rate amongst fuel retailers, especially in the light of transformation challenges, will make an important independent contribution to the current debate. The industry is highly regulated with significant government intervention. The profit levels are preset. It operates within a franchised format, supplies one homogenous product as its core offer in a monopolistic competitive trading environment and its financial endurance is currently being debated between government and industry stakeholders.

Interestingly, previous studies (Johnson 1999) have suggested that Government intervention and franchised formats are critical success factors for the survival of small businesses. While it is not possible to provide a guarantee against failure, the mortality rate can be reduced to ensure that the economic rebirth that exists is executed within a more reliable format. Other researchers like Bosman (1987), Clark (1983), Hope (1983) and Gape (2000) have suggested a multitude of reasons for small business failure and success.

Fuel retail bodies have indicated that service stations are operating within sub-profitable levels and are forced to endure financial loss and ruin, potentially threatening their future existence and job security for their employees.

The seriousness of the assertions is reflected in the reports that retailers intend absorbing fuel price reductions without passing it on to the motorist. This study would be useful to Governmental bodies, micro-business lenders and most importantly for future and existing entrepreneurs. The study would also be of interest to specialists who study and interact with small firms – attorneys, bankers, educators, trade - associations, prospective entrepreneurs and owners and managers of small firms. This study would also provide an important starting point for further research.

There is growing interest in small business policy formulation within Government, local Authorities and among larger companies. This interest has extended to academics within universities, polytechnical and technical colleges to the extent that research is being conducted. Why is the mortality rate amongst small businesses so high? The field of investigation is developing at a phenomenal rate and the RSA Government is encouraging public sector Authorities to take the small and medium business sector seriously as an aspect of economic development policy. The study will aim to provide answers to the following questions:

- What challenges do small fuel retailers face in their efforts to function effectively?
- What gaps exist in the promotion and development of small business within the fuel retail industry?

- What business management skills, processes and methodologies need to be used or enhanced? Does the franchise support structure work?
- Does the lack of or provision of adequate resources, technology and business support affect the functioning of the small fuel retailer?
- Do the employers and employees possess adequate business and technical skills to compete successfully in a highly competitive environment or is this a competitive environment?
- Are there adequate government policies and support structures in place to support the small fuel retailer given that the industry is a regulated one?
- Was the gearing level of the EFG business at the correct level?
- What expertise, skills and knowledge can be imported from other first world countries for the development of the fuel retail business in South Africa?
- What should be the role of tertiary institutions and oil company training courses in providing entrepreneurial and business support?

1.3 OBJECTIVES OF THE STUDY

The objectives of this research are as follows:

- To identify and examine the causes of business decline and failure within the small fuel retail business.
- To identify the symptoms that signal business failure and the particular patterns and trends observed in such situations to enable emerging entrepreneurs to take appropriate remedial or corrective action.

- To examine how small business managers can create a turnaround business in order to restore profitability and a return to the levels of performance that create profitability and viability.
- To identify and elucidate on the variety of symptoms that signal or are indicative of business decline.
- To examine the financial indices that can be effectively used as predictive indicators of business decline. Special emphasis and reference will be made to financial indicators in the Retail Fuel Industry that herald business decline.
- To examine the causes of business decline by examining aspects such as poor management, inadequate financial control, competition, high cost structures, changes in market demand, marketing problems, capital projects and overtrading.
- To examine trends, patterns and idiosyncrasies in the government regulated South African Petroleum Industry and to determine whether these contribute to, or exacerbate the decline of small business ventures in the Retail Fuel Industry markets.
- To examine International trends and patterns that contribute to the success or failure of small businesses.

While an attempt would be made to suggest methods of enhancing profitability the provision of any guarantee against failure is not possible. The dynamics and diversity of small businesses is too divergent to include such an area.

1.4 SCOPE AND LIMITATIONS OF THE STUDY

The scope of this study was confined to the South African Fuel Retail Industry and the following influenced a further refinement of the scope of the study:

- Previous government publications and studies, although limited in nature, offer insights into the regulation and compensation of fuel retailers.
- The emphasis in the present study is on researching the reasons for failure and success amongst fuel retailers using a case study approach.
- The investigation in the present study of the empirical data obtained by means of an in-depth questionnaire designed for the field fieldwork, through personal interviews with the case respondents

It is acknowledged that the qualitative case study approach may affect the generalisation of the study findings. Nevertheless, the study aims to make significant contributions by identifying the reasons for failure amongst fuel retailers and exploring the dynamics within this franchised and regulated small business sector. The limitations of this study were further influenced by the lack of previous research in this area and the theoretical complexity of topic. The study was exploratory in nature and focused on the Energy Finance Group case study. This decision was taken to facilitate the research objectives of conducting an in-depth study within this sector.

1.5 STRUCTURE OF THE THESIS

Chapter 1 provides an overview of research work. It presents the reasons for the study, the research objectives, limitations and scope of work.

Chapter 2 presents an overview of small business in South Africa focusing on government strategy followed by a review of the strategy implementation against the 2001 Global Entrepreneurship Report focusing on entrepreneurship in South Africa.

Chapter 3 reviews the literature on small business failure pre-empted by a number of theoretical propositions on what motivates people to become entrepreneurs.

Chapter 4 provides a preview on the small fuel retail business in South Africa and examines the role of government, margin determination within the policy and regulatory environment thus setting the scene for the research methodology.

Chapter 5 details the research methodology adopted and the rationale for the case study approach. This chapter also covers the methodological issues.

Chapter 6 presents the case study evidence as obtained from a number of multiple sources. The evidence is presented as collected and is then followed by a critical analysis allowing for independent assessment of the findings.

Lastly, chapter 7 presents the conclusions of the case study research and makes a number of recommendations including implications for future research.

1.6 CONCLUSION

It is anticipated that this study will provide useful strategies for mitigation against small business failure within the fuel retail sector. The positive economic developments in the country have created considerable opportunities for emerging entrepreneurs to compete equitably on the open-market system as independent self-owned businesses. Regrettably, many small businesses have failed resulting in business decline or liquidation. This chapter is a succinct attempt to define the scope, primary objectives and limitations of the study. The following chapter provides a definition of key terms and an overview of the small business environment in South Africa. The intention is to extract from the cross case evidence support or rejection of the research proposition that success and failure are caused by factors other than sales and volumes.

It is anticipated that there are a number of factors that influence success and failure from both within and outside the control of the fuel entrepreneur. While some researchers have identified gender, education levels and age as critical success factors others have suggested that management factors and occupational experience are key drivers. The fuel retail industry is regulated and seeks to reward efficiency through a retail fuel margin. Chapter four provides an overview of the dynamics within the fuel retail business sector in South Africa.

Government has presented a small business Policy Paper in 1995 outlining the strategic directions that would be pursued to strengthen the institutional

and support structures for small business. This would be evaluated against both the achievements to date and the regulatory environment governing the fuel sector.

The non-fuel aspect of the business comprises the shops and quick service restaurants and presents another dynamic to fuel retailing. This would be investigated to fully address the research question. The case study analysis will also attempt to quantify the level of support that franchisees receive and will be conducted to seek responses to the varied questions posed.

CHAPTER 2

KEY DEFINITIONS AND AN OVERVIEW OF SMALL BUSINESS IN THE REPUBLIC OF SOUTH AFRICA

2.1 INTRODUCTION

The main objective of this chapter is to provide an overview of small business, business failure and success and to provide an overview of the state of small business in South Africa. The chapter reviews government support and mechanisms that use small business to absorb labour, penetrate new markets and to expand the economy in creative and innovative ways.

Reference is made to the National Small Business Strategy as released in 1995. Comparison is also made to the 2001 South African Global Entrepreneurship Monitor to test the strength of the institutional reforms and strategies implemented. These two references offer valuable insights into the small business sector in the Republic of South Africa. The fuel retail business operates as franchises in South Africa and the role of franchising as a small business structure is discussed.

2.2 DEFINITION OF SMALL BUSINESS

The scope of this research is limited to small businesses. There are many definitions of small businesses and it is important to place a definition within the context of this research work. There is much debate and varying opinions on what constitutes a small business.

According to Burns (2001:7-9), being a small firm is not just about size. Small firms have important defining characteristics. Firstly, the small firm has a small market influence. It is therefore not able to influence prices or national quantities of the good or service that it provides. Secondly, the small firm is independent in the sense that it does not form part of a larger enterprise and the owner is free from outside control in taking principle decisions. Lastly, small firms are managed in a personalised way and not through the medium of a formalised management structure.

Various definitions of small business are used amongst researchers. The differentiations were based on the number of employees and the sales volume. Carland and Carland (1990:10-12) defined a small business based on qualitative criteria as follows:

- It is independently owned
- It is independently operated
- It is not dominant in the market
- It is characterised by a single business unit

Industries comprising two or more of the above characteristics are classified as a small business. In the USA, the definition is based on the Small Business Act of 1953 (Hodgetts and Kuratko 1989:3). A small business is one that is independently owned and operated and is not dominant in its field of operation.

The Bolton Committee Report of 1971 on Small Businesses concurs with this definition. (Internet 1: www.dti.gov.uk/sme4/define.htm)

The international definitions differ as well. In the UK, the European Commission in 1996 adopted a single definition of SMME's, which is depicted in figure 2.1.

FIGURE 2.1

EC SME DEFINITIONS

Criterion	Micro	Small	Medium
Max no. of employees	9	49	249
Max. Annual turnover	-	7M €	40M
Max. Annual balance sheet total	-	5M €	27M
Max %owned by one, or jointly	-	25%	
Enterprise not satisfying the same criteria	-		25%

Source: (Internet 2: www.dti.gov.uk/SME4/Define.htm)

It would appear that the definition could be applied as widely or generally across small businesses. The definition used by the US Committee of Economic Development would seem more applicable and realistic. For the purposes of this study, a small business in the retail fuel sector is defined as follows:

- All Retail fuel service stations in the Republic of South Africa as the study are limited to fuel retailers in South Africa.
- The asset base is of no relevance, as the oil company owns most of the assets.

- Ultra City fuel sites and One stop service station are included in the study.
- Service stations with a turnover exceeding R50 million per annum are excluded to prevent any distortions.
- The staff complement is not in excess of 80 employees.

Burns (2001:8) states that, Bolton's definition looks naïve, outdated and was probably influenced by the economist's definition of perfect competition. Kirby and Watson (2003:182), concluded that the importance of small business as an economic generator, is compromised due to the different criteria used for definitional purposes. While the definitions of small business differ, there is consensus on what determines failure and success

2.3 DETERMINATION OF FAILURE AND SUCCESS

In the United Kingdom, the Inter-Departmental Business Register (IDBR) monitors the failure and success rates of small businesses using the registrations and de-registrations of companies for Value Added Tax. (Small Business Research April 2001:109).

This is not entirely a scientific basis for measurement, as a fair amount of small businesses is believed to operate below the threshold for value added tax submissions. This is especially true in the Republic of South Africa where registration is compulsory for companies with a turnover exceeding R300 000 per annum. In the cases used in this study, all service stations are registered as value added tax vendors.

On the other hand, Barclays Bank in the United Kingdom, produced business survival rates based on bank accounts that open and closes. This is a more inclusive approach, as every small business has to have a bank account. (Internet 3: www. businesspark.barclays.com/bulletins/bulletin10/index.htm)

According to Hewitt's (2003:2) speech to the UK parliament, small business created 12 million jobs for the United Kingdom economy, contributed to more than half of the country's output and generated nine out of every ten new business ideas. There were an estimated 3.7 million businesses in the UK at the start of 1999 and it is expected that small business will grow to 4.5 million within the next decade.

Kuehl and Lambing (1994:18), challenges the general definition of failure stating that, "a closer look at the statistics of failure proves that this is quiet misleading". The use of the word "business failure" and "business continuity" synonymously, leads one to mistakenly believe that all businesses that are discontinued are business failures. This is not the case as a business can close due to the retirement of the owner.

For the purposes of this research failure and success is defined as the financial inability and ability to continue respectively. The inability to continue trading and to pay for product will be classified as a failure. Any changes to the original capital structure or ownership constitute a failure for the purposes of this case study.

2.4 ASSESSMENT OF BUSINESS FAILURE

Business failure can be assessed from four standpoints namely, social, economic, legal, and managerial. The social perspective highlights the human suffering resulting from business failure. Pahn (1993:5) noted that, "amongst those who do become entrepreneurs, very few succeed". The cost of failure extends beyond the monetary considerations. It could lead to demotivation and loss of confidence.

Economists believe that failure represents a situation where the realised return on invested capital is significantly lower and continuously lower than the prevailing rates in similar investments. According to Porter (1990:125), entrepreneurship is the heart of economic advantage for a country. It leads to the provision of new good and services and the prospects of higher returns is the primary driver for business activity. These individuals exploit business opportunities for personal gain (Sexton and Bowman-Upton 1991:11). Failure can result in economic ruin and the experience can be an inhibitor for future economic activities. Small businesses failure make an important contribution to society through the creation of jobs

A legal failure arises when one or more of the following situations arise namely, failure to meet debt obligations, the firm does not continue trading, but is only able to meet its financial obligations on termination. Kuehl and Lambing (1994:18), refers to failure as a tale of doom. While the classification of a failure may not be entirely accurate, "everyone in the private sector is concerned about small business... the reason behind this concern is that 1000

small businesses quit everyday. They simply close their doors, swallow their losses, pocket their pride and give up". Closing the doors usually results from the failure to meet debt obligations.

The managerial perspective on failure is that business decline is symptomatic of a failure of management. Where significant losses are incurred over several years, one may expect the shareholders to demand a change of management. Wright (1995:48-63) disagrees with the conventional view that the lack of cash leads to failure. Entrepreneurs are often themselves to blame. Good management is a critical requirement for business success.

It is imperative that we address business decline, failure and turnaround by first establishing what the terminology relates to in context of the small business environment. Recession invariably arouses increased interest in the possibility of business failure. The indications are that failure is on the increase across the industrialised world within a recessionary period. This is evident from the information available from the Japanese and American economies, which both have the largest micro-economies in the world.

It is doubtful whether one can accurately quantify business failure despite increased collection and analysis of official statistics. Hall (1995:125), investigated the relationship between success and a whole host of factors. The findings only indicated where attention should be paid without isolating the individual factors that lead to failure.

In South Africa, this is due to the number of informal businesses that establish and close within short periods. While the registration and de-registration for Value added tax in South Africa can provide some indication, many of the small businesses are not required to register for Value added tax, hence no records are available

According to Hall (1995:125), the reasons why holistic answers to the question on failure is not readily forthcoming, is that only a narrow range of variables are examined

Cochran (1981:50-59) in his research on the mortality rate of small businesses concluded that, "Although much is written about small business failure, reliable information about who fails, why, and at what rate is hampered by differences in definitions, data sources and methodologies. The myriad studies of business mortality, with their various conceptions of failure and different purposes and research designs speak to the subject with a babble of tongues."

Cochran (1981:50:60) further noted that dependable data is required for the following reasons:

- To alleviated failure, the barriers to understanding the reasons for failure must be removed.
- Accurate evaluations of policies and to help small businesses are difficult without a yardstick to measure the efforts of Government and other institutional agencies.

- Our knowledge of and ability to predict business cycles are deficient without information on the rate and extent of failure.
- Alternative forms of enterprises such as co-operatives and community development projects might be judged more fairly and realistically, if, there existed a measure of small business mortality with which to compare their performance.

Kuehl and Lambing (1994:18) noted that, no one should start a business convinced that it cannot possibly fail. It was also noted that a business could close down for non-financial reasons. The word failure has several synonyms and can be used to mean death, termination, discontinuance, insolvency or bankruptcy. For the purposes of this study, all of the synonyms are applicable and failure is used as a composite term. The following gives an indication of why it is relevant.

2.4.1 BUSINESS DECLINE

According to Pearce and Robbins (1982:624), when a business has experienced a successive decline in real earnings for a period of not less than two years, that business may be said to have experienced a decline in its fortunes. The significance of the working definition is that there needs to have been successive periods of earning decline.

2.4.2 BUSINESS FAILURE

Timmons (1994:10) referred to failure as the inability of the business to meet its financial obligations or the discontinuation of a business. From a managerial perspective, business discontinuance is indeed a failure, as the management team has not adequately risen to the challenge of competitive advantage.

2.4.3 TURNAROUND

Pearce and Robins (1982:624) noted that, a turnaround situation might be defined as the period during which the firm is engaged in turnaround efforts that are intended to restore profitability. A process of expenditure control, asset retrenchment and rigorous revenue pursuits, characterise this situation. Turnaround may be said to have occurred where there has been a return to at least the level of performance experienced prior to decline.

2.5 SYMPTOMS OF BUSINESS DECLINE

Managers respond differently to warning signals that are symptoms of business decline. Most managers display a subconscious denial of impending doom brought on by the symptoms of decline. Wright (1995:48-63), noted that erratic movements in the customer base, as an example, can cause the small business to remain unstable and it, "totters on the brink of disaster through its lifespan".

The symptoms indicative of business decline, representative of both the early and dramatic warning signals include the following:

2.5.1 DECLINING PROFITABILITY

Pearce and Robins (1982:624-628) noted that, profitability can be defined as a return on investments and assets. Where a growth in sales is not translated into a growth in profits, there is evidence of decline. Often a proliferation of products and the resulting building of inventory can disguise the decline.

Smaller firms do not account for inventory holding costs. In this way, the product proliferation may suggest growth, but in reality, it hides declining margins. Kuehl and Lambing (1994:20), noted that, businesses can fail during boom periods because the prices they must pay for goods and services rise faster than the prices that they can pass on to their customers.

2.5.2 DECREASING SALES VOLUMES

When sales volumes decline, it is possible to keep profits constant if costs are tightly controlled. The management accounts of many smaller enterprises lack sophistication and can disguise this decline in real profitability. Wright (1995:48-63) noted that, too little effort to market the business is a cause of failure. While a lot of attention is paid to manufacturing and sales, little effort is invested in attracting and keeping customers.

2.5.3 DECLINING MARKET SHARE

Hall (1995:152) found a positive statistical correlation between market share and profitability where the market share falls or remains stagnant; there is sufficient reason to investigate a decline in performance. The erosion of a firm's market share is often the result of competitor actions or a shift in market conditions.

2.5.4 DECLINE IN WORKING CAPITAL

Hall (1995:47) found that owners of small businesses often lay the blame for their failure on under-capitalisation. While increasing debt can be a feature of growth, it is also indicative of a decline in performance. This is especially true when short-term credit is used to finance the operations of the business. Liquidity ratios measure the sufficiency of working capital. The most common liquidity ratios are the current ratio and quick ratios:

- Kuehl and Lambing (1994:530) defined the **current ratio** of a business as the proportion of current assets relative to current liabilities and is an overall measure of liquidity. While the quick ratio is the acid test of the business and excludes the value of stock, from current assets, before evaluating the proportion of current assets to current liabilities.

It must be emphasised that ratio analysis only has merit if the ratios are expressed relative to a known performance standard, or if they are seen to represent a trend. Trends can be interpreted, but ratios on their own are inadequate predictors of decline. The management of debtor days, creditor

days, and stock turnovers cannot be overemphasised as noted by Wright (1995:48-63).

2.5.5 RAPID MANAGEMENT TURNOVER

Staff turnovers are indicative of a troubled environment and where management turnover is rapid; there is a strong likelihood of disagreement amongst managers. This leads to the exit of key staff. Kuehl and Lambing (1994:21) noted that, the majority of failures amongst small businesses are not caused by the economy, high interest rates or a bad product. Failure is caused by the owner's incompetence in specific areas, including the management of key staff. The entrepreneur must be able to instill confidence in his workforce.

2.6 COMMON CAUSES OF BUSINESS DECLINE

According to Van Aardt, Van Aardt and Bezuidenhout (2000:249:257), the most common causes of decline are as follows:

2.6.1 POOR MANAGEMENT SKILLS

When an entrepreneur has other business interests, his interest may wane because the day-to-day management efforts are often sidestepped. Generally, entrepreneurs are not necessarily super managers, because they are entrepreneurial in their approach to business management. They still need the skills and foundations to the principles of management. It is crucial for business success that the entrepreneur should control a wide range of

business functions, including marketing, sales, financial management and administration.

2.6.2 THE IMPORTANCE OF PROPER FINANCIAL CONTROL

Poor financial control means that there is insufficient or poor planning, poor budgetary control and poor costing. A set of monthly management accounts does not constitute adequate financial control. This is merely aggregate data for an accounting period and must be interpreted and acted upon to constitute financial control. The opportunity or risk of small business enterprises can be summarised from its financial statements. Wright (1995:50) noted that, a good lesson for success is, "good record keeping".

2.6.3 RISK ASSESSMENT

Small businesses lack the capacity to proactively plan and cater for the statistical probability of failure. Strategies need to be formulated on an on-going basis to mitigate risks. Plan 'B', which is the contingency plan should set out in advance an estimate of things that could go wrong and what measures are in place to avert such failures. Hall (1995:67), characterised the entrepreneur as willing to take risks, both in the sense of degree of uncertainty, in which the business gamble is taken and the size of the penalty for making the wrong decision.

2.6.4 COMPETITION

Product and price control are frequently causes of decline. Product obsolescence is a feature of a world characterised by rampant consumerism. A decline due to product competition arises from a new introduction that fails to revise the product portfolio. In addition to severe price competition, there is the global business environment. The small business may not be equipped to deal with severe price competition. Prahalad and Hamel (1990:79:91) noted that, a firm must actively deal with its environment to be competitive and it should possess a specific core competency.

2.6.5 HIGH COST STRUCTURE

A business operating at a cost disadvantage to its competitors will always be exposed to the risk of decline. Cost disadvantages may often arise from an absence of scale economies – small businesses do not always reap the benefits of economies of scale. Timmons (1994:10), showed strong evidence that a high failure rate resulted from excessive debt and extremely high operating expenses.

2.6.6 CHANGES IN MARKET DEMAND

The demand for a company's products or services are subject to seasonal variations and trends, which require careful planning, especially by small businesses that lack skills in forecasting. New technological developments and innovations can also result in decreasing profitability, especially when the

more astute small entrepreneur is not skilled to effectively handle the changes. Kirby and Watson (2003:180) noted that, it was important for small businesses to help themselves and find ways to improve the organization of their businesses and find adequate means to adapt to the market requirement and expectations.

2.6.7 MARKETING SKILLS

Many small businesses lack marketing skills and these are reflected in poor or little advertising, a poorly managed and inefficient sales team, outdated or no promotional materials and little or no research. Research studies indicate that poor coordination of the marketing effort results in market penetration by accident rather than by design. Wright (1995:53) suggested that a marketing strategy should be formulated and market research and analysis should be continuously done.

2.6.8 CAPITAL PROJECTS

Small businesses often undertake large capital projects without proper planning or cash flow analysis. In addition, they lack skills in contingency planning and often overrun scheduled completion dates, thereby resulting in delays and cost overruns. Kuehl and Lambing (1994:140) suggested that the use of outsourcing could be used to keep investment costs low.

2.6.9 OVERTRADING

Overtrading is a situation where a firm or small business is unable to finance growth that is achieved through an increase in sales volumes. Unfortunately, the consequence of trading beyond the company's capacity to generate cash is illiquidity, resulting in additional pressures from creditors. The situation does not necessarily end in disaster, but frequently does. Wright (1995:48:63) identified that poor management skills is a key reason for this.

2.6.10 NATURAL CAUSES

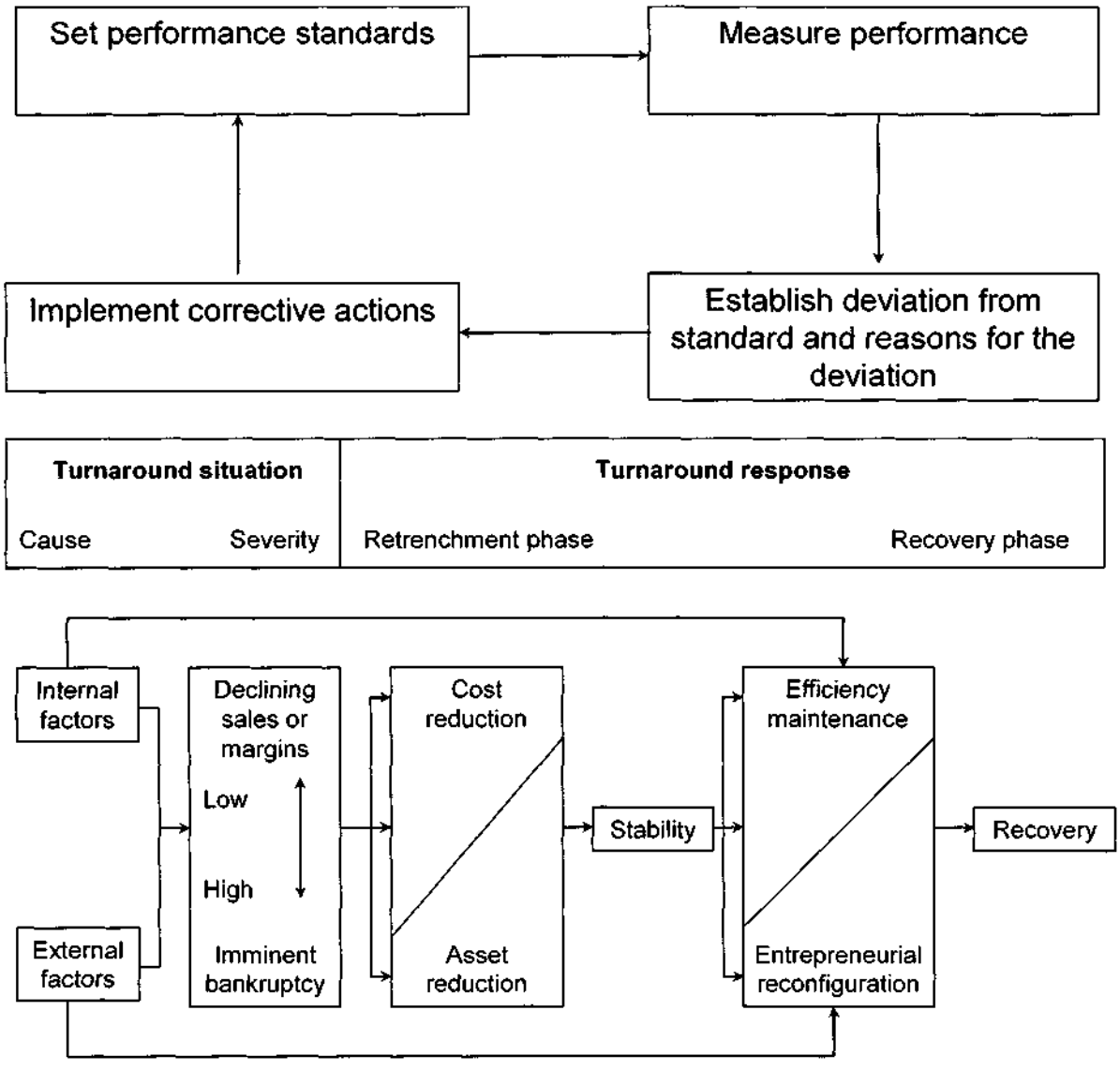
Very often small business is family owned and operated and the death of a key person could cause failure. Kuehl and Lambing (1994:99) noted that, as the owner's children enter the family business they are frequently challenged to overcome considerable skepticism on the part of non-family employees. Acceptance and credibility are important considerations.

2.7 BOUNCING BACK FROM THE BRINK

Pearce and Robbins (1982:624) noted that, not all businesses fade into obscurity. A select portion are resuscitated by a series of stringent management actions – recognised and defined as retrenchment or turn around. The following diagrams demonstrate a schematic flow chart of the steps and processes that may be followed in order to assist businesses to "bounce back" to normality and turnaround the operations from decline to recovery.

FIGURE 2.2

THE TURNAROUND PROCESS



Source: Pearce and Robbins (1982:624)

Pearce and Robbins (1982:624) assimilated prior research to develop a model for the turnaround process. It involves implementing corrective actions, setting performance standards and then measuring such standards. The turnaround phase involves cost reduction, retrenchment and asset reduction leading to recovery. This turnaround process is the methodological approach recommended by authors who document a recipe for arresting declining business performance and recovering a position of profitability.

2.8 THE RECOVERY PHASE

Pearce and Robbins (1982:623) describe efficiency maintenance and reconfiguration as actions taken to re-establish differential competitive advantage. Where the root cause is related to marketing, these issues need to be addressed through a comprehensive and coordinated marketing strategy. Where the cause of decline is related to financial matters, a sound financial plan requires to be put into place. Perhaps most difficult of all, where the root cause is entrepreneurial ineptitude and managerial incapacity, the problems must be addressed by introducing external skills and reframing the entrepreneur's potential contribution.

2.9 THE IMPORTANCE OF SMALL BUSINESS IN SOUTH AFRICA

The issues of economic growth and empowerment remain key strategic imperatives for government, as reiterated in the Presidents 2006 State of the Nations Address. The high unemployment rate has spurred government efforts in the direction of small business development to generate sustainability and equitable growth. The impact and contribution of micro businesses in the Republic of South Africa can best be illustrated by the following facts supplied by the University of Natal, Faculty of Economics and Management, Department of Accounting and Finance (Course Notes Acc 1C: 1997:7*):*

- More than 95% of businesses in RSA are small and medium businesses.
- Approximately 46% of overall economic activity can be accredited to small and medium businesses.

- Small and medium enterprises provided 84% of all private employment.
- Small and medium enterprises in the formal sector contribute a larger proportion to the countries gross domestic product than all the corporate giants put together.

2.9.1 SIZE AND DIVERSITY OF THE SECTOR IN SOUTH AFRICA

According to the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (1995:7-8), the size and diversity of the sector is summarised as follows:

- Although South Africa has a poor statistical data base of small business information, indications are that there are 800 000 small and medium businesses in the country absorbing about twenty five percent of the country's labour force of 15 million people. This excludes the 3.5 million people involved in some or other type of survivalist enterprise activity.
- The small business sector is very diverse, covering retail, manufacturing and mining, with structures, problems, growth potential and access to support differing widely between the segments.
- There are four categories of small businesses namely, survivalist, micro, small, and medium business that pervade the South African economy.

Survivalist enterprises are activities conducted by people unable to find a paid job or to enter into an economic sector of preference. Poverty and an attempt to survive are the main characteristics where income generated is lower than the minimum wages and there is little capital investment with virtually no skills and training, exasperated by limited growth opportunities.

Micro businesses are very small businesses owned and operated by the owner and some family members with only a few paid employees, if any at all. They usually lack formality in terms of statutory registrations like value added taxes, trading licenses and accounting procedures. Most have a limited capital base with rudimentary technical or business skills.

Small enterprises constitute the bulk of the established business, with employment ranging between five and fifty. They are generally owner managed and are likely to operate from business or industrial premises meeting statutory compliance requirements. Lastly, medium enterprises in South Africa constitute a category difficult to demarcate. It is still owner or manager controlled employing about 200 people with a capital asset base of about R5 million.

It would appear that the four different categories would require different policy and support approaches. Compounding the challenge is the need to pay special attention to the particular problems and needs of enterprises owned and controlled by previously disadvantaged groups including women and marginalised groups living in remote rural areas.

2.9.2 THE ROLE AND CONTRIBUTION OF SMALL BUSINESS

In spite of the diversity and the uncoordinated approaches of various support agencies as acknowledged by the Draft White Paper (1995:9), small businesses continue to flourish and grow and their particular contributions can be listed as follows:

- Small business plays a critical role in the economic and social development of a country as illustrated by many developed economies amongst which Japan and United States of America are prime examples. Although South Africa is no different, the small business sector has been neglected in much of the century following the discovery of diamonds and gold and the establishment of a modern, capitalistic economy with almost exclusive white control.
- While the role and importance of big business cannot be denied, there is sufficient evidence that the labour absorption capacity of small business is high and the average capital cost per job created is usually lower than big business and its role in technical and other innovation is vital for many of the challenges facing the South African economy.
- Given South Africa's legacy of big business domination, constrained competition and unequal distribution of income and wealth, small businesses tend to generate employment, exploit niche markets and enhance productivity and technical change thus stimulating economic growth.
- Small business plays a crucial role in people's efforts to meet basic needs to survive especially within a South African context where there

are many female heads of households and marginalised groups living in poverty-stricken areas with no social grant systems.

2.9.3 CONSTRAINTS FACING THE SMALL BUSINESS SECTOR

Given the limited support infrastructure for small business in South Africa, the constraints are numerous and relate to the legal and regulatory environment, limited access to markets, finance and business premises at affordable rents, the acquisition of skills and managerial expertise, access to technology and in some cases the tax burden. In addition to the sector-based constraints, the historical constraints placed on Black people limited their participation and deprived them and the country of viable business opportunities as follows:

- Bantu education restricted opportunities for technical and professional skills acquisition.
- There was no entrepreneurial education or sensitising of young people to adopt a culture of entrepreneurship.
- Apartheid also confined millions of people to homelands with limited business opportunities and the lack of a dynamic business environment.
- The system also prevented joint ventures and partnerships between the races allowing the leveraging of capital and skills sets.
- Segregation also increased the living distances between work and home thus increasing the cost and risk of conducting business.
- The curtailment of property ownership rights made it impossible to acquire assets that could be used as collateral for loan financing. This inhibited the long run process of capital accrual and growth through rising property values.

- Apartheid also left women with no real space of business involvement as the marriage laws reduced women to unions with no contractual capacity

2.9.4 ELEMENTS OF THE SUPPORT FRAMEWORK

The Draft White Paper (1995:23-59) notes that a wide range of interventions are required to support small business development as follows:

- **CREATING AN ENABLING LEGAL ENVIRONMENT**

Government has promulgated numerous pieces of legislations to reinforce its strategy and focus on small business. Firstly, the National Small Business Act of 1996 was promulgated and provides for the establishment of a National Small Business Council and The Ntsika Enterprise Promotions Agency. Other interventions include the streamlining of regulatory conditions, investigations by the Competitions Board about the possible small business constraints inherent in the current competitive structure, increasing the number of small claims court and increasing the level of claims falling within its jurisdiction and establishing a user-friendly environment for the simplification and standardization of documents.

- **ACCESS TO INFORMATION AND ADVICE**

Government's efforts are focused on getting quality data and sector specific information to small business owners. To date the number of enterprises effectively reached remains small compared to the vast number of people involved in self-employment efforts in both urban and rural areas.

- **ACCESS TO MARKETING AND PROCUREMENT**

Small business usually regard market constrains and the inability to sell their products and services as a significant obstacle. Efforts include procurement quotas, voluntary commitments and simplification of the tender processes in public and parastatal tender authorities, export support programmes and export credit guarantee schemes.

- **ACCESS TO FINANCE**

Unlike most developed countries, South Africa's commercial banks in the past have been reluctant to provide comprehensive services for the fragmented, risk prone and geographically dispersed small business sector. Support is required for initial start up equity, concessionary and low interest rate loans and ongoing subsidization or matching grant finance. Other initiatives included are the establishment of venture capital funds, credit guarantee schemes, deposit-taking by lending Non Government Organisations, alternative collateral and information on access to finance.

- **THE PHYSICAL INFRASTRUCTURE**

The development and financing of business and industrial premises, like shops, factories and market stands is necessary for small business development and success. This also includes the need for industrial incubators and industrial zones.

- **STIMULANTS FOR SMALL BUSINESS GROWTH**

Training in entrepreneurship, skills and management is critical for success. In addition, literacy and entrepreneurial awareness are particularly important to

- **DIFFERENTIAL TAXATION AND OTHER FINANCIAL INCENTIVES**

It is acknowledged that much has to be done to reduce the tax burden of small business in South Africa. Amongst the mechanisms to be considered are a lower rate of corporate tax, exemption of a minimum of profit from taxation, more generous depreciation allowances, exemption and rebates on import duties on manufacturing inputs and a review of the Regional Council services levies.

The South African executive report of entrepreneurship, (GEM Report 2001) was used as a benchmark to compare Governments progress in achieving its strategy position as the survey was independently done six years after the strategy was released in Parliament.

The Gem Report by Driver, Wood, Segal and Herrington (2001:14) shows that only one in eighteen South African adult is an entrepreneur and only one in twenty three adults is an start up entrepreneur while only one in sixty seven adults is a new firm entrepreneur.

The GEM report was produced from data collected through key informants interviews, surveys and questionnaires. The major limitations are the small number of respondents and the dependence on government sources for most of the information.

GRAPH 2.1

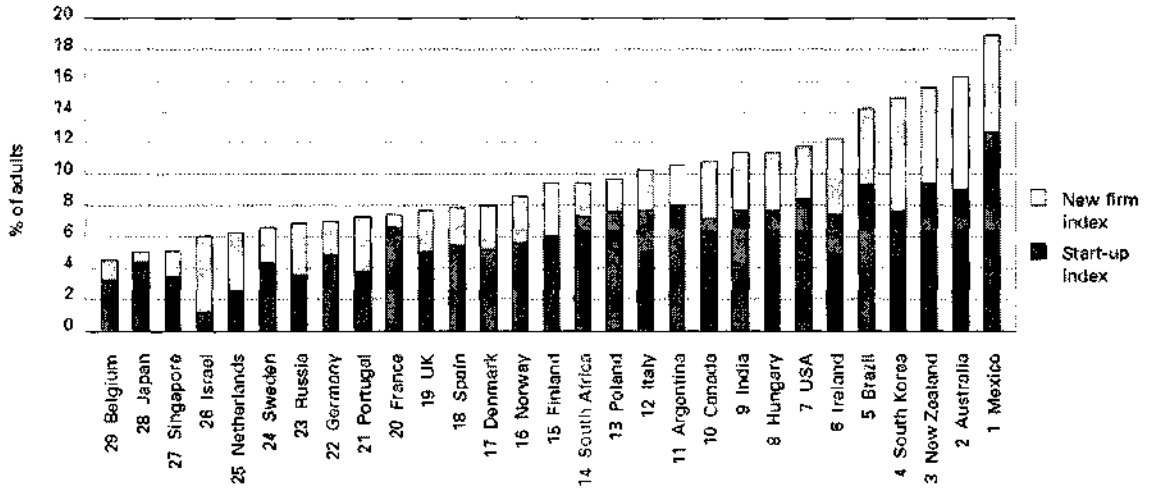
INTERNATIONAL COMPARISON OF TOTAL ENTREPRENEURIAL ACTIVITY AND REAL GDP GROWTH RATES FOR 2000-2001

Source: Global Entrepreneurship Monitor (2001:14)

South Africa ranks 14th amongst the 29 countries surveyed on total entrepreneurship activity and its rate of entrepreneurial activity is the lowest amongst the developing countries. The Global Entrepreneurship Report (2006:13) reports that South Africa's ranking has dropped to 30 out of 35 countries. This suggests that the enabling environment that government strategy refers to may not have been as successful. While there is not a straightforward relationship between the GDP growth and levels of entrepreneurial activity, South Africa's GDP growth is much higher than the business activity participation again suggesting that all is not well in the small business sector in South Africa. The following graph 2.2 further illustrates this phenomenon.

GRAPH 2.2

INTERNATIONAL COMPARISON OF START-UPS AND NEW FIRM PARTICIPATION RATES



Source: Global Entrepreneurship Monitor (2001:15)

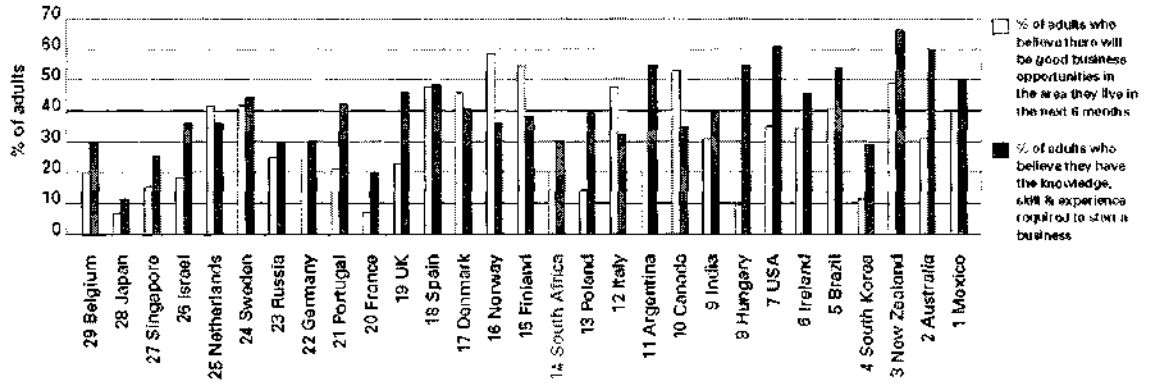
Graph 2.2 shows that almost all countries have a higher start up index than new firm index. This is expected, since there is an inherent drop out rate amongst entrepreneurial ventures, as not all of them succeed. South Africa's new firm index relative to the start up index, suggests a lower survival rate amongst start-ups than is typical internationally. The 2005 results indicate a similar trend. This again places in question government's strategy in terms of support. Why does the Republic of South Africa have such a higher failure rate? This research attempts to provide a perspective on this management dilemma.

To increase the country's level of entrepreneurial activity, both a strong business birth rate and survival rate is required. Simply increasing the business birth rate in South Africa, with the absence of a support system would simply increase the number of business failures. An indication that the government strategy has not sufficiently addressed the challenges of small business is further illustrated in the Global Entrepreneurial Report (2001:19).

Responses to the question of availability of business opportunity and requisite skills sets are graphically illustrated as follows.

GRAPH 2.3

INTERNATIONAL COMPARISON OF ENTREPRENEUR'S PERCEPTIONS AND CAPACITY



Source: Global Entrepreneurship Monitor (2001:15)

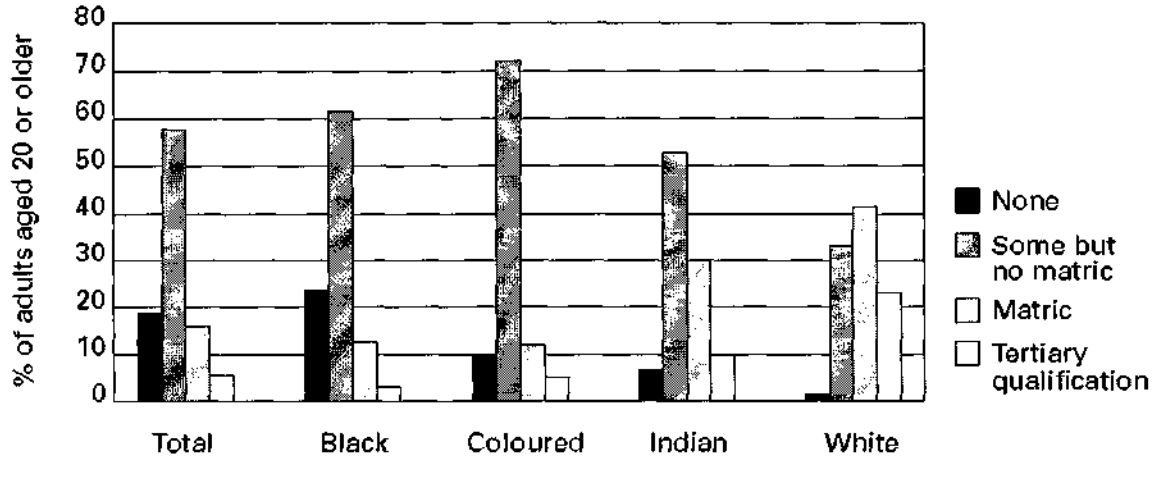
Entrepreneurial capacity is about the ability and will to respond to business opportunities. Unlike the high levels of self esteem and entrepreneurial capacity that exists in most countries as indicated in graph 2.3, a relative small proportion of South Africans believe that they have the necessary skills to start a business or see good business opportunities. While supporters of government strategy may argue that pessimism about business opportunities probably has more to do with the lack of ability to recognise opportunities than the actual lack of opportunities, people in countries like Belgium, New Zealand and Mexico have far higher confidence in their ability and experience than South Africans do.

The DWP strategy to encourage women entrepreneurs and young participants must be commended but reinforced through a skills and education plan. The South African Global Entrepreneurship study (2001:20), found that twice as many males become entrepreneurs compared to females and the levels of participation is highest in the 35-54 age groups for both men and women. These age and gender patterns are similar to other countries surveyed. The South African challenge is a country specific one and requires country specific interventions.

It was also found that those with matric and a tertiary qualification are more likely to own and manage a start- up than those without a matric as illustrated in graph 2.4.

GRAPH 2.4

AGE AND EDUCATION

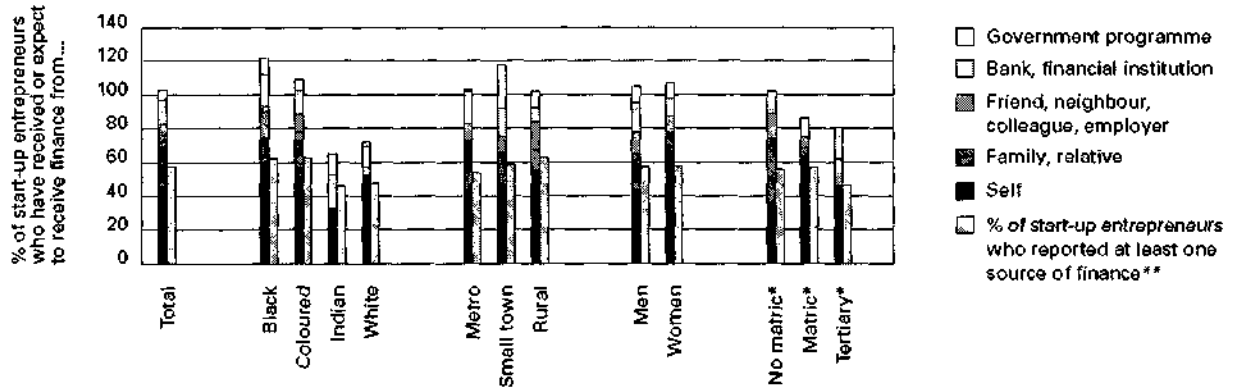


Source: Global Entrepreneurship Monitor (2001:15)

But if Government strategy is to target the youth, how will such persons access capital? In addressing this question the findings from the Global Entrepreneurship study 2001 becomes significant.

GRAPH 2.5

SOURCES OF FUNDING



Source: Global Entrepreneurship Monitor (2001:15)

The graph 2.5 shows that the most common source of finance is the entrepreneur personally. This is true regardless of race, gender, location or education level. Forty-five percent of start up entrepreneurs reported that they would invest their own savings or income in the business. The Small Business Act provides for financial assistance through dedicated state institutions. The expectations of government finances are significantly higher in rural and country towns, where economic activity is most needed.

In concluding the evaluation of government strategy against actual entrepreneurial findings, a policy implementation perspective of potential entrepreneurs is discussed. The Global Monitor survey (2001:46-47) reported

that 39% of the experts interviewed identified government policies as one of the three main inhibitors for small business growth.

TABLE 2.1

INTERNATIONAL COMPARISON OF REGULATION OF START-UPS

	# of procedures a start-up has to comply with in order to start operating as a legal entity	Time taken in business days (for registration and post-registration procedures)	Cost (as a % of GNP per capita in 1997)
Argentina	12	71	0.23
Brazil	15	67	0.67
India	10	61	0.13
Mexico	15	112	0.57
South Africa	**7**	**30**	**0.37**
Average for 75 countires	10.2	63	0.34

Source: Global Entrepreneurship Monitor (2001:47)

The main problem in the area of government policy is the administrative burden placed on firms by compliance with the combination of tax, labour and other legislation. This remains so in spite of the DWP strategy to address this as a high priority intervention in 1995. Administrative burden placed on informal businesses is a disincentive to become formalised, which in turn would have implications for tax and small business development.

Government has made substantial progress in reducing the time taken to register a business to 30 days as compared to the average of 63 days in a

2.10 FRANCHISING

Franchising is a relatively new concept in South Africa and has been the subject of much debate. This section outlines the role that franchising plays in ensuring success in small business. While Carland and Carland (1990:373) stated that, the lower failure rate for franchises is due to the marketing-management expertise and training offered by the franchiser, Stanworth and David (1998:56) stated that, the majority of young franchises are typically small scale entrepreneurial ventures facing considerable challenges. Perspectives on this argument are also included.

2.10.1 DEFINITION OF A FRANCHISE

Siropolis (1994:139) defined a franchised relationship as, "an agreement between the seller and the buyer – an agreement that permits the buyer (franchisee) to sell the product and service of the seller (franchisor)".

Carland and Carland (1990:373) defined a franchise as, "a business that has a contractual relationship with another business in which marketing and management services are provided in return for initial and ongoing fees".

Kuehl and Lambing (1994:110) provides an alternative definition that is somewhat simpler. They refer to a franchise as an "arrangement by which the owner of a product, process or service allows others to distribute the product, use the process or offer the service".

From the definitions, it is clear that the franchisor allows the franchisee, to use the complete business package containing all the elements necessary to establish a previously untrained person in a franchised business. This enables the franchisee to run the business on an ongoing basis, according to the guidelines supplied, efficiently and profitably.

The franchising concept appeals to a venturing entrepreneur as provision is made for training and support and the venture is not perceived to be a wholly individual effort. The franchisor has a proven record of accomplishment in a specific business. There is no emphasis on previous experience or qualifications thereby making it an appealing business option.

According to Kuehl and Lambing (1994:111), there are three types of franchising arrangements. Firstly, there is a product or trade name franchising that permits the new entrepreneur to use the franchisor's trade name in exchange for fees and royalties as well as an obligation to sell only the franchisor's products. Examples of this type of franchising are car dealers and fuel retailing service stations.

Business format franchising permits the franchisee to use the franchisor's entire business concept. This would include the trading name, goodwill, products and services, packaging, marketing strategies, expertise and support facilities. The franchisee would pay an initial fee and ongoing management support fees. Lastly, manufacturing franchises gives the dealer the exclusive right to produce and distribute product in a particular area.

2.10.2 IMPLICATIONS FOR SMALL BUSINESS

Illetschko (1991:12-13) reports that about one third of all retail sales in the United States are carried out through franchised outlets. It would be possible to spend an entire life utilising franchised services. One could be born in a franchised clinic, helped into the world by a franchised mid wife and taken home in a franchised vehicle. One could then go to a franchised play school, attend franchised educational institutions or build a home using franchised builders. One's entire life from birth to death could potentially be "under franchise" – including being buried by a franchised undertaker.

Ordinary people generally undertake this wide-spectrum of activity. What then makes franchising so successful? According to Stanworth and Purdy (1998:56), franchising removes a good part of the risk associated with starting of a new business. It gives the new entrepreneur the support and advice required, during the most trying parts of setting up and operating a small business.

2.10.3 FRANCHISING AS A FORMAT FOR SMALL BUSINESS

Siropolis (1994:139-140) suggests that, franchising thrives because it merges the incentives of owning a small business with the management skill of big business emphasing that personal ownership is one of the best incentives created to spur on hard work.

While tremendous growth is seen in the franchising industry, many personal franchise failures are disguised in the process of franchise transfers through outlet ownership changes. Growth is partly due to the fact the large corporations are using franchising as a way of unbundling and expanding. It is seen as an alternative to staff retrenchment and a valuable mechanism today to enhance Black Economic Empowerment in South Africa.

Stanworth and Purdy (1998:56) state, that franchising is an avenue into self-employment offered by franchisors. It is a blend of big and small business – the fusion of energy and commitment of the individual with the resources, power and strength of a large company. It is widely perceived as a relatively safe way for people to get into business for themselves but not by themselves.

According to the British Franchise Association (1996:2), "you are five times more likely to succeed as a franchise, than if you start a comparable business independently."

Sub contracting and outsourcing are on the increase because of the need for flexibility and decreased overheads structures of large corporations. Examples include the use of accounting firms, legal firms and employment agencies by huge corporations.

2.10.4 THE BENEFITS OF FRANCHISING

The benefits of franchising are numerous. Johnson (1999:72) in researching franchising as a mechanism for economic empowerment in South Africa, notes

that the ability to raise capital becomes exponentially improved within a franchised format. The lenders of funds are comfortable to deal with a credible franchise as apposed to dealing with an individual. The franchisee is assisted in running all aspects of the business, as it is also in the interest of the franchisor, that the franchisee is successful. Franchised businesses have good accounting systems and controls that enhance the businesses ability to perform better.

This is not necessary the case for the franchisor. Trutko, Trutko and Kostecka (1993:7) portrayed a different picture for franchisors starting out. They noted that, the development of a business from a proven concept through to the sale of its first franchise is typically a long, expensive and risky process for the franchisor.

Johnson (1999:72) also noted that, franchisors generally identify potential market areas and establish franchise outlets in those geographic locations to exploit the market opportunities. Through the establishment of a franchised network, markets grow and the franchisor utilises collective resources. In most cases, the franchisor secures an order and uses the franchisee to execute the supply function. Consumers are familiar with particular brands of products and services and become brand loyal. A privately owned business has an absolute disadvantage in this respect.

However, the research work conducted by Shane (1996:216-234) found that a new franchise system brings with it the high probability that the new franchisee will not be around in future years, because over half of the new franchises

ceased to franchise during the first four years of operation. It appears that the benefits that Johnson (1999:72) refers to, are mostly applicable to established franchises.

The findings of Johnson (1999:72), is similar to the findings of Rodkin (1996:16-18), in that the success of franchised business is largely dependant on the skills transfer that takes place between the franchisor and its franchisee. The franchisor provides knowledge, business experience and start-up support to ease entry into the business.

This is a critical contributory factor for the success of franchise businesses. The new entrepreneur acquires the valuable expertise and experience of the franchisor. A proven franchise may eliminate many problems that are associated with the initial start-up. The franchisor, for instance, assists the franchisee with the site selection, planning, staff training, opening of business and its consequent smooth running. Prospective franchisees are thus able to start a business with little or no previous training in a given industry.

Kuehl and Lambing (1994:113), emphasised the benefit of instant recognition as apposed to a one-man business, whose ability is limited in influencing suppliers and other service providers. A franchisee is part of a larger network of businesses. Franchisees can therefore demand and secure a wider range of services at lower prices. This could include health care, pension funds, saving facilities and insurance. The lean early years that cause many small businesses to fail are less applicable to franchised businesses.

Cross (1994:2-4) noted that the benefit of association is only valid if the franchisor's responsibilities are met. Insufficient support of franchisees is a common cause of franchise failures.

Johnson (1999:72) further identified the ability to buy and advertise as a critical benefit in franchising. Generally, the franchisee sells a product or service that is well known by consumers. If the product or service is already a proven success then the franchisee can focus on the day-to-day operations of the business rather than being preoccupied with the promotion of the product or service. It is also a fact that many small businesses cannot afford to advertise extensively. The franchisee buys this advantage from the franchisor. As the number of franchises increase so does the public awareness of the product and service. Franchises within reasonable location from each other can jointly advertise thus reducing operating costs.

2.10.5 THE DISADVANTAGES OF FRANCHISING

There are as many disadvantages as there are advantages. Hall (1995:109) stated that, initiative might be severely restricted. Franchisors may allow very little scope for their franchisees to exhibit any innovation in what or how to sell.

Johnson (1999:72) agreed that conformity to the franchisor's system is critical if consistency amongst franchisees is to be maintained. This invariably leads to a trade-off between an individual's business creativity and the forced compliance of the franchisor's demands. The control exercised by the franchisor to regulate the provision of a service or the production of a product

to the consumer leaves little opportunity for the entrepreneur to impose his own personality on the business.

According to Johnson (1999:72), the capital costs for research and design of a product can be exorbitant. Generally, the franchisor has a stepped fee structure in exchange for not providing any guarantees of success for the franchisee. This non-profit initial fee and slow-to-accumulate royalties may in the short-term place a financial constraint on the franchisor.

Ellingham (1996:79-84) concurs with Johnson's (1999:72) observation and suggested that to take an already profitable franchise pilot operation to break-even point as a fully-fledged franchise network, requires at least USD 150 000 and the recruitment of 30-40 franchisees over a 4-year period. Any sluggishness in the recruitment of franchisees may result in the franchisor entering year six of the post pilot operation, still not having reached break-even point.

Siropolis (1994:144-145), described as a myth that franchisees are independent businesspersons. Franchisees are not free to run their businesses as they see fit and are often hamstrung by the franchisor's policies, standards and procedures. Franchisor's do not want their franchisees to improve the way they do business – they often look for persons who understand their systems but do not have any wish to improve them.

Johnson (1999:72) concurs and reiterated that the basic assumption that the franchisor has all the requisite expertise and skills can become a serious point

of contention, should the reality not reflect this. Should the franchisor's support infrastructure not be suitable to fulfill the expectations of the franchisee, then the business relationship can be strained and unsuccessful.

Johnson (1999:72) notes that, the ultimate risk, like a privately owned business lies with the franchisee. Should the franchisor's image become tarnished then the negativity is permeated across the franchisee network. The franchisee is perceived by the public to be the representative of the franchisor. Franchisees are also subjected to a financial risk. Many franchisors require substantial investment in the business by the franchisee.

There is no guarantee of success in the franchise industry. Researchers Castrogiovanni, Justis and Julian (1993:105:115) examined data on franchise failures and concluded, based on legal disclosure obligations, that franchise failure rates ranged from 2.1 to 5.2 percent.

Theoretically, franchising should reduce the probability of failure due to the non-franchise causes, on condition that the franchisors' responsibility are met and that the appropriate back- up services, expand at the rate sufficient to cope with any growth in the franchise network. Cross (1994:2-4) identified that, persistent franchisor-franchisee conflict, poor franchisee screening and insufficient support of franchisees are amongst the main reasons for franchisee failure.

Siropolis (1994:145) found that, the fast growth of franchises has spawned a number of myths. The most popular one is the promise of instant wealth. The

nature of a franchise relationship places a call for equal effort by both parties. The franchisee's expectation of huge profitability in the initial stages may not be realised and the franchisor's expectancy of a hard working and dedicated franchisee may not be realised. This would lead to failure of the franchise initiative. Kirby, Waites and Bagri's (1996:5) report on franchising, claimed that, "franchising start up costs are high, it is often difficult to find the appropriate advise, which is perceived to be expensive and the banks appear to treat developmental franchises as they do new small firms".

It is clear that the advantages far outweigh the disadvantages. The oil company uses franchised insignia, brands the Retail service station business and visuals, have dedicated franchised support systems and brand specific advertising. This research work will attempt to test the advantages listed above against the experience of the case respondents.

2.11 CONCLUSION

This chapter covered the definitions of small business, small business failure and other key definitions. It also included an overview of governments national strategy published in 1995 that was compared to the findings in the 2001 South African Global Entrepreneurship Monitor. The chapter examined the importance of the small business sector in South Africa, the size and diversity of the sector and the constraints faced.

The government strategy paper did not consider the benefits that franchising can play and the chapter concluded with an analysis of the potential

advantages and disadvantages of franchising as a mechanism for small business. The next section provides theoretical foundations for small business followed by an analysis of the reasons for failure and success as recorded by previous researchers.

CHAPTER 3

SMALL BUSINESS PARTICIPATION AND REASONS FOR FAILURE

3.1 INTRODUCTION

This section explores the theoretical foundations for small business development. Why do people want to become small business owners? Entrepreneurship is about people who realise new opportunities and are persistent, passionate, adaptable and able to take risks in pursuit of those opportunities. Researcher's perceptions about criterion for success vary and these varying viewpoints are discussed.

This chapter also addresses the critical success factors for small business. In order to determine the factors that contribute to success or failure of small business, it is necessary to identify the key issues within the environment that small business operates in. An attempt is made to address some of these issues from the extant literature. What motivates people to own their own businesses? Four main theories of motivation dominate literature in relation to possible reasons for small business participation. These are Maslow's hierarchy of needs, Herzberg's two–factor theory of motivation, Vroom's expectancy theory and Adams' equity theory.

3.2 MASLOW'S HIERARCHY OF NEEDS

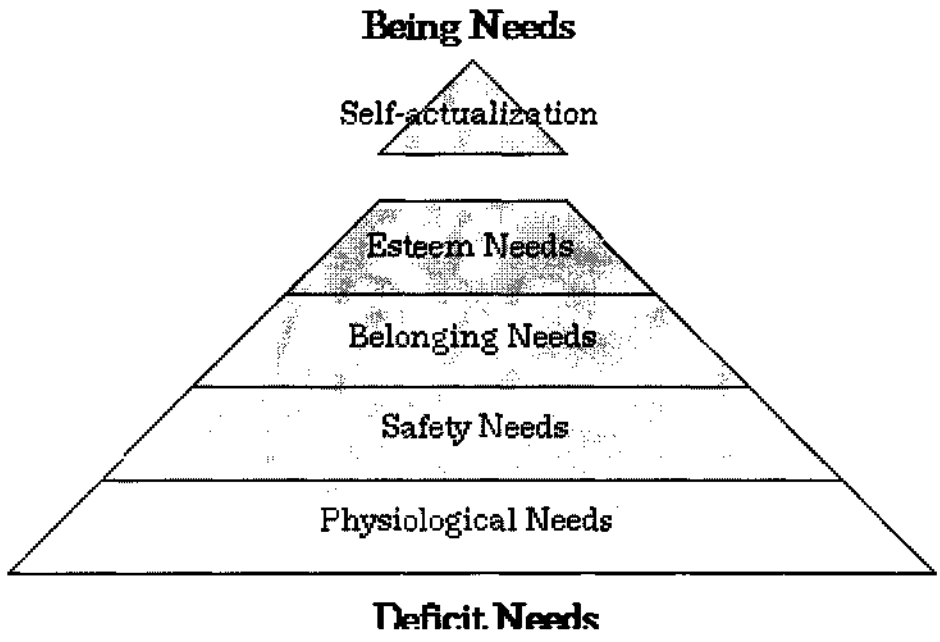
Maslow (1943:370-376) devised a theory around human nature that proposed a hierarchy of needs that were required to be satisfied. These needs can best described as follows:

- Physiological needs refer to the absolute basic needs of individuals for food, shelter and sleep.
- Safety and security is a higher-level need. Here the individual seeks to be protected from physical and psychological threats. Individuals would seek for their physical safety, freedom from fear and for certainty, regarding the future.
- Social needs of human beings include the need for love and affection, friendship and social interaction.
- Ego needs refers to an individuals self-respect, self-esteem, confidence, power and status.
- Self-actualisation – this is the highest level of needs on the hierarchy of human needs. Here individuals seek to achieve individual growth, a sense of achievement and the realisation of ones potential.

Maslow suggested that individuals would seek to satisfy their lower level needs first and then progress to rise up the hierarchy, as illustrated by figure 3.1, to ultimately satisfy the final level of self-actualisation.

FIGURE 3.1

MASLOW'S HIERARCHY OF NEEDS



Source: Maslow (1943:370-396) Management by participation

Pillay (2000:21) suggests that entrepreneurs venture into their own businesses to fulfill stage two requirements as classified by Maslow. He suggests that self-employment is a form of safety and security sought by most individuals entering the micro business sector. Actually, persons could also enter into small business to fill their basic need for food and shelter as is evident in many survivalist type business activities in South Africa.

Johnson (1999:66) suggests that only 55.7% of persons surveyed in her research, involved themselves in franchise business operations because an opportunity was presented to them – they did not actively seek out those businesses. Only 9.1% of franchisees surveyed indicated that their previous job failed to provide the degree of fulfillment and job satisfaction sought. This means that persons may not enter business life due to the "need" to do so but

simply because an opportunity presented itself. In other cases, persons could enter into small business to fulfill their self-actualisation needs.

Handy (2001:22) addresses the new capitalism issue in the USA and makes some pertinent points that are relevant to this research work. He submits that the critical and worried voices are not evidence of failure of capitalism, but they do suggest that as capitalism moves into a new phase, there would have to be some major adjustments in society and more thought needs to be given to cope optimally with the new challenges. He metaphorically refers to the challenge as, "the age of elephants and fleas".

Elephants are large corporations that increasingly dominate our economies as competitors become globalised. In so doing, the elephant are driven to marry or swallow each other in order to increase resources or spread their reach. Fleas on the other hand are small ventures, the sub-contractors, start-ups, self-employed specialised consultants, entrepreneurs and the small family business that is the back- bone of the USA economy. Successful capitalism undoubtedly, needs both.

Handy (2001:22) further elabourated that elephants offer efficiency, resources for developing guarantees of reliability and employment. However, elephants are cumbersome, slow to give birth to new ideas and can miss the niches of opportunity in pursuit of bigger game. Fleas sit on these niches and on the backs of elephant's, they are nimble and quick to change, providing ideas and specialised skill that elephants often lack. Some fleas grow to become

elephants but more often elephants would swallow the fleas if they seem interesting.

Many have discovered that the way to riches is on the back of an elephant. The former US labour secretary, Robert Reich, has argued that big companies will eventually become more of a giant brand than an organization, a brand backed by a host of small fleas – small semi-autonomous teams and project groups. Many have been lured away from elephant careers to flex their might and become entrepreneurial fleas.

However, fleas are subject to nature's law of abundance. Too many seeds are produced by nature because so many fail to germinate. The USA's tolerance of entrepreneurial failure is recognition of this law. The USA leads the way in germinating the counterbalancing abundance of new fleas through its culture of newness, individual responsibility and wealth as a sign of net worth.

Handy (2001:22) suggests that the USA government needs to pay more attention to immigration policy in addition to the technical aspects like start up capital and bankruptcy laws. Conversely, the immigration laws in the Republic of South Africa are being relaxed to attract people with requisite capital and skill.

Handy (2001:22-25) proceeds to highlight the dilemmas ahead. Fleas are passionate and busy, self- absorbed and even self-obsessed. They have little time for community participation. Their loyalty is first for themselves, their

careers and their family members- corresponding to social needs referred to by Maslow.

Elephants promise employability rather than employment and generally end up preparing their staff for the life of a flea. Elephants slim down, outsource and sub-contract thus growing the population of fleas. In the USA, only 40% of the labour force is on lifetime employment contract while the remaining 60% are self-employed, part-time or a temporary flea of some sort. Although Maslow's analysis of human needs is an acceptable postulation for human activity, relating to business, it is not without criticism.

A number of researchers have probed the validity of Maslow's hierarchy. Their findings does not consistently support the rankings postulated. Hofstede (1980:42-63) found that, social needs as apposed to self-actualization needs was the primary motivation of employees desiring a better quality of life. Howell, Strauss and Sorenson (1975:225-227) found that, the needs of managers in Liberia were concentrated on security and self-esteem and this differed from their counterparts in developed countries.

Buera and Glueck (1979:113-123) compared the needs of managers in Liberia and the United States and found that the rankings differed, because of the different cultures. These conflicting research findings suggest that while a hierarchy does indeed exist, the needs are different across the economic and cultural spectrum of society.

Another criticism is that there are examples of people who exhibit the very least aspects of self-actualisation and are far from satisfying their lower level needs. While babies are best examples of human self-actualisation, Maslow saw it as something that was very rarely achieved by the young.

While Maslow's theory makes sense from an intuitive standpoint, there is little evidence to support its hierarchical aspect. In fact, there is evidence that contradicts the order of needs specified by the model. For example, some cultures appear to place social needs before any other needs. Maslow's theory also fails to address the case of the "starving artist" in which a person neglects lower needs in pursuit of higher ones. Finally, there is little evidence to suggest that people are motivated to satisfy only one need level at a time, except in situations where there is a conflict between needs.

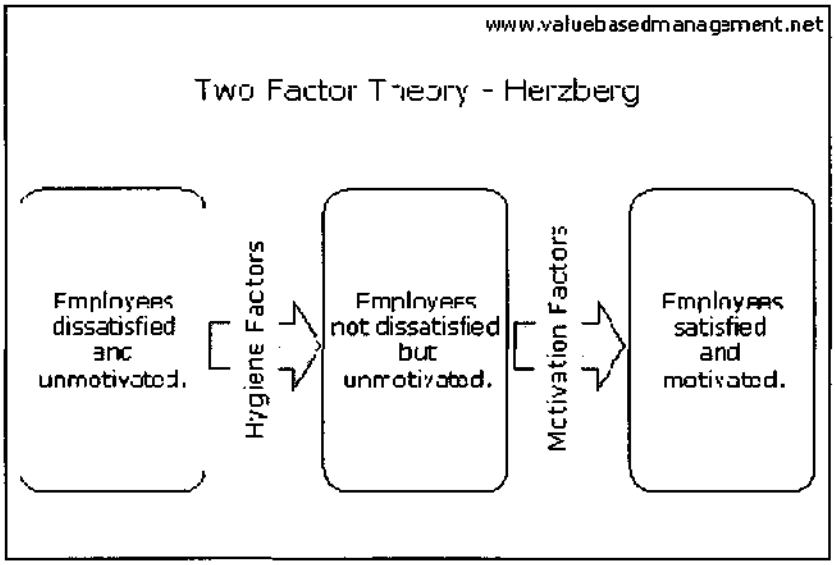
3.3 HERZBERG'S TWO-FACTOR THEORY OF MOTIVATION

According to the Two Factor theory of Frederick Herzberg, people are influenced by two factors, Hygiene factors and motivation factors. Typical hygiene factors include working conditions, quality of supervision, salary, status, security, company, job, company policies and administration and interpersonal relations. These factors, if addressed play a role in preventing dissatisfaction and demotivation but are incapable of motivating staff.

Motivation factors on the other hand include achievement, recognition for achievement, responsibility for task, interest in the job, advancement to higher-level tasks and growth. The two-factor theory is illustrated in figure 3.2.

FIGURE 3.2

HERZBERG'S TWO-FACTOR THEORY OF MOTIVATION



Source: Value based Management (Internet 6:www.valuebasedmanagement.net)

Combining the hygiene and motivational factors result in four scenarios:

- **High hygiene and high motivation**: Ideal situation where employees are highly motivated and have few complaints.
- **High hygiene and low motivation**: Employees have few concerns but are not highly motivated. The job is perceived as a pay back.
- **Low hygiene and high motivation**: Employees are motivated but have many complaints. A situation where the job is challenging and satisfying but working conditions and remunerations are not up to par.
- **Low hygiene and low motivation**: This is the worst situation. Unmotivated employees with lots of complaints.

It seems obvious that the two-factor result is observed because it is natural for people to take credit for satisfaction and blame dissatisfaction on external

factors. Furthermore, job satisfaction does not imply a high level of motivation or productivity.

The research into Herzberg's theory suggested that its universality could not be assumed as specific factors that acted as motivators or hygiene factors differed between cultures. In the context of this study, it would be of particular importance to assess whether persons dissatisfied with their work conditions would pursue small business interests.

3.4 VROOM'S EXPECTANCY THEORY OF MOTIVATION

Lord (1993:50) noted that, in the 1960's a considerable body of process type theory existed in the area of workers motivation. These theories provided a dynamic theoretical basis for the structure of work design strategies. They considered the relationship between employee's efforts, performance and reward. Lord (1993:50) noted that, Vroom proposed that an individual's motivation to perform tasks was a function of the product of two factors, being his "expectancy" and his "valence" in respect of the likely outcomes thereof.

Vroom's theory is based upon the following three beliefs:

- **Valence** refers to the emotional orientations, which people hold with respect to rewards, and includes the extrinsic variables like money, promotion, free time, benefits and intrinsic variable of satisfaction and rewards.

- **Expectancy** refers to the individual's degree of expectation that the anticipated outcome (financial reward or promotion) would actually be provided upon completion of the task.
- **Instrumentality** is the perception of employees whether they would actually receive what they desire – management must fulfill their promises of reward.

Schuler (1980:331-340) in testing a role and expectancy perception model of participation in decision making, found positive relationships between participation in decision making and the performance – reward expectancy of employees.

Lord (1993:50-60) further notes that, the effect of perceived work-goal difficulty has frequently been founded on expectancy principles. Examples of studies indicating that an employee's commitment reduced, as his perceived chances of attaining his work-goal diminished, includes Shalley and Oldman (1985:628-640).

Erez and Zidon (1984:69-78) conducted a labouratory experiment with technicians, who were shown a set of high-level objectives in their work environment. The technicians' goal acceptance and performance declined significantly, because of the perceived difficulty of these targets. Is it possible that when the expectancy needs are not fulfilled that such persons would seek to influence the outcomes by becoming their own bosses?

In attempting to address the research question for the reasons for failure and success amongst fuel retailers, careful attention will be paid to what motivates people to enter the small business environment and become entrepreneurs.

3.5 ENTREPRENEURIAL FACTORS

This section seeks to identify the reason that motivates a person to become an entrepreneur. A broad definition of entrepreneurship, with the intention of isolating the "being" of the entrepreneur, is provided. Do these individuals have specific qualities that distinguish them from the general population? Are characteristics a differentiating factor for success and failure?

3.5.1 DEFINITION OF AN ENTREPRENEUR

The owner or the entrepreneur is the soul of the business. Small businesses are born through the desire of the entrepreneur and the lifespan is intrinsically linked to the ability of the owner to ensure its sustainability, growth and its ultimate existence.

Timmons (1994:7-8) defined entrepreneurship as, "creating and building something of value from practically nothing. Fundamentally, entrepreneurship is a human creative act. It involves finding personal energy by initiating and building an enterprise"

Most contemporary authors like Burns (2001:6) agree, that the entrepreneur is a business leader and plays a pivotal role in fostering economic growth.

Entrepreneurs use innovation to exploit or create change and opportunity for making profit. They shift economic resources from an area of lower productivity into an area of higher productivity and greater yield.

While there is agreement that entrepreneurs are opportunistic and self-motivated, Burns (2001:25-27) cautions that linking character traits of an individual to business success cannot be generalised. Whether a clearly definable set of entrepreneurial characteristics exists remains a controversy. It appears that successful people like politicians and athletes possess similar traits as was confirmed in the research work of Chell, Haworth and Brearley (1991:34).

The most likely candidates for entrepreneurs are inventors; unfulfilled managers (as potential entrants based on Maslow's, Herzberg's and Vroom's theories) displaced managers and young professionals. This corresponds to the research findings of Glas (1996:389-423), who examined the profiles of Slovenian entrepreneurs and concluded that, entrepreneurs came from various social groups like former employees of middle and large state owned enterprises, successful craftsmen, former top and middle managers and graduates of self-employment programmes.

Zimmerer and Scarborough (1998:12) offer another interesting perspective for entrepreneurial interest. They cite the American lifestyle where successful entrepreneurs are seen as heroes, the high quality of entrepreneurial education at colleges and universities, the ideal of an independent and self-sustaining lifestyle and international opportunities.

3.5.2 CHARACTERISTICS AND MOTIVATIONAL FACTORS FOR ENTREPRENEURS

Researchers have suggested a number of reasons for entrepreneurial participation. Developing a detailed list of characteristics is difficult as there could possibly be too many to mention or as described by Van Aardt, Van Aardt and Bezuidenhout (2000:9), "No single researcher has been able to pinpoint the personality traits of a successful entrepreneur". However, some perspectives are necessary given the important role entrepreneurs play in small business development.

- **CHILDHOOD FAMILY ENVIRONMENT**

According to Hisrich and Peters (1998:25), the childhood family environment, education, personal values, age and work history are some factors that shape an entrepreneurial mind.

The family environment of the entrepreneur includes birth order, parent's occupation and social status. The first-born or an only child receives extra attention and love thus developing the child's self-confidence. Hisrich and Peters (1998:25) found that, from a national sample of 408 female entrepreneurs in Europe, 50% were first-born.

Van Aardt, Van Aardt and Bezuidenhout (2000:10), describe as a myth that entrepreneurs are born and not made. They accept that while entrepreneurs are born with certain innate characteristics, the talent in them is like, "unmoulded clay or an unpainted canvas". The making of an entrepreneur takes place by accumulation of relevant skills and know how.

However, many other studies of male and female entrepreneurs show no correlation to first-born status. According to Frese (2000:25), children of entrepreneurs get a positive role model of entrepreneurship starting at an early age. Having a father who is an entrepreneur is a strong inspiration for the child. The independent nature and flexibility of self-employment has an ingrained effect on the child. The overall parental relationship is the most important aspect of the family environment in establishing the desirability of entrepreneurial activity within an individual.

- **AGE**

Age as a factor of entrepreneurial activity has been carefully studied. There is a general belief that there is a direct relationship between age and success in business. The greater energy levels and physical vigor of youth is thought to ensure greater success. This was validated by the research findings of Hall (1995:48-62), who investigated failure and success in the United Kingdom construction industry using personal interviews as a data collection tool.

It was found that owners of surviving companies were younger than those of failures. This finding is somewhat surprising – if people gain knowledge, skill and experience as they become older, then following Javanovic (1982:649-670), one would expect that these increases in human capital reduce the probability of their companies failing. Perhaps young people are open to new ideas and have more energy.

However, in research conducted by Bates (1990:551-559), it was found that the rate of small business closures shows an inverse relationship to age. The age group between 45-55 years was found to be positively correlated.

Simmered and Scarborough (1998:12) started their businesses between the ages of 30-40 years. They view their business ventures as alternatives to employee status. It is also possible that older people are subject to age discrimination and go into business to create self-employment, especially in cases where adequate provision for retirement does not exist.

Lastly, in the research done by the University of Port Elizabeth by Venter, Tait and Venter (1996:122) it was found that 59.8% of the respondents entering small business were over the age of forty with only 18.9% being under the age of twenty-nine. There is clearly no consensus amongst researchers on the role that age plays in differentiating entrepreneurial success and failure.

- **EDUCATION**

The education level of entrepreneurs has also received significant research attention. Contrary to popular belief that most entrepreneurs are less educated than the average person is, research finding suggest otherwise.

According to Frese (2000:25), human capital is the accumulation of knowledge and skills. While Rauch and Frese (1998:190-200) showed that human capital is slightly correlated to entrepreneurial success in western countries, Bates (1990:551-559), found that entrepreneurs with a college education were more likely to see their firms survive than those less educated.

Education should play a dual role in that it instills the initial confidence required to start ones own business and it also plays a major role in helping the entrepreneur cope with the day -to - day challenges and pressures of business life.

In the research done by Hisrich and Peters (1998:25), the findings show that nearly 70% of all female entrepreneurs sampled had a tertiary education. Hisrich and Peters (1998:25) found that both male and female entrepreneurs have cited an educational need in the fields of strategy, finance, marketing and management. Education facilitates good communication and customer orientation. Entrepreneurial studies conducted in the Port Elizabeth Metropolis by Tait and Venter (1996:120), reflects that only 34.8% of respondents had a matriculation exemption and that 34.1% obtained a diploma or certificate on leaving school.

The earlier research work conducted by Frese (1995:112-124) in South Africa and Uganda, found that education did not play a significant role. Some of the most successful entrepreneurs had relatively little education. While poor education was found to be a barrier, once the entrepreneurs became business owners, it was found that education did not play an important role for success.

Lastly, Hall (1995:59) concludes that possession of a degree would not necessarily speed progress up the learning curve and must remain an "open question".

- **PERSONAL INITIATIVE**

Many studies conducted, had concluded that personal values are important for entrepreneurs. However, many of these studies have failed to differentiate entrepreneurs from managers, unsuccessful entrepreneurs or the general populace. Borman and Motowidlo (1993:71-98) stated that, personal initiative contributes to organizational effectiveness. Entrepreneurship is about seeking opportunities and turning them into economic benefits. The entrepreneur is both goal and action orientated.

Frese, Fay, Hilburger, Leng and Tag (1997:139-161) agreed that, characteristics like aggression, benevolence and creativity are important to entrepreneurs. The high initiative entrepreneur acts as a role model for his or her employees.

Lumpkin and Dess (1996:136) argued that, entrepreneurial orientation consists of five dimensions, namely, autonomy, innovativeness, risk taking, competitive aggressiveness and pro-activeness. The nature of the enterprise, opportunism and individuality of the entrepreneur differ significantly from the bureaucratic organization and the planning, rationality and predictability of its managers. A successful entrepreneur is frequently characterised as a winner, implying that the desire to win is a pre-requisite for a person becoming an entrepreneur.

However, Van Aardt and Van Aardt (2000:10) noted that, it is a myth that entrepreneurs are are their own exclusive bosses and seek power and control

over others. While they are driven by goals, the efforts are managed in an orderly way.

- **NEED FOR ACHIEVEMENT**

Entrepreneurs are greatly concerned with personal performance levels. Successful owner-managers thrive on feedback mechanisms – a technique to increase their achievement. The research results of Rauch and Frese (2000:15) showed that, there is a clear-cut relationship between the need for achievement and entrepreneurial success. Successful entrepreneurs scored high on power and achievement motives.

Burns (1998:28) concurs with this view. Entrepreneurs have a high need for achievement and often money is the "badge of achievement" to the successful entrepreneur. Public recognition of achievement is also important to some entrepreneurs and can lead to certain negative and unwise decisions like excessive risk taking and over spending.

Entrepreneurship has different status connotations in different societies. This is especially true when one looks at the minority Asian groups in America. Status is not fully consequent on wealth and capital manipulation but on traditional values.

While there is agreement on the attributes making up the achievement motivation, namely locus of control, independence, drive, involvement and moderate risk – taking, the concept of achievement motivation is open for interpretation and therefore the measurement of data and their interpretation

are not consistent. McClelland and Burnham (1995:127-139) argue that, power and achievement are great motivators for entrepreneurship.

Longenecker and Moore (1991:13-14) noted that, entrepreneurs faced different risks when starting a business. These include financial risks as entrepreneurs invest their life savings and guarantee their bank loans., career risks as a failure would make re-entry into the job market difficult, family risks due to the emotional stress of coping with failure and psychic risk as the entrepreneur identifies so closely with the venture that a business failure is seen as a personal failure.

Burns (2001:26) noted that, individuals with a high need for achievement also have moderate risk taking propensities. This means that they prefer risky situations where they can exert some control on the outcome, in contrast to gambling situations where the outcome is based on luck.

Longenecker and Moore (1991:15) also found that, many entrepreneurs are motivated by an "escapist" mindset. Firstly, there is the "foreign refugee" who escapes political, economic or religious constraints of their homelands and cross the borders for a better life. Frequently, such individuals face discrimination or handicaps in securing salaried employment and go into business as a last resort.

Secondly, the "corporate refugee" flees the bureaucratic environment of big business by going into business for himself or herself. Some organizations

spawn so many entrepreneurial off springs that they can be described as "incubator organizations".

White and Brown (1996:40-45) suggested that, teaching decision-making skills aids in developing entrepreneurs and nurturing the need for achievement. The findings were suggestive that entrepreneurship can be trained. In a policy document released by the UK government, the authorities there have acknowledged the role it needs to play to stimulate enterprise, to encourage innovation and reward success. These factors stimulate a higher need for achievement (Internet 4: http://ukonlineforbusiness.gov.uk).

The policy document outlines the importance of encouraging entrepreneurship and is wary of the fact that effective role models are required and that the perception of the risk of failure and its consequences may dissuade people from pursuing their own businesses.

The UK government (Internet 4: http://ukonlineforbusiness.gov.uk) has outlined a programme to promote the development of entrepreneurial skills in young people and to implement strategies that maximise the contribution of the education system and business participation in creating a more enterprising culture – a culture that thrives on achievement.

While findings continue to be conflicting, the need for achievement is still an important characteristic. Shaver and Scott (1991:23-41) concluded that, although far from a perfect measure, achievement motivation remained one of the best theories supporting entrepreneurial-led new entrepreneurship.

- **PERSONALITY TRAITS AND LEADERSHIP**

In attempting to evaluate the relevance of this vast area, a very simplistic view of what constitutes "personality" is considered. Hall (1995:66) cautions that, a personality trait displayed by an individual can vary with the situation – "a bully at work can be bullied at home."

Commonly, entrepreneurs are characterised as risk takers, a tendency to be innovative and an instinctive to search for new opportunities. In the research work quoted by Burns (2001:31), the researchers believed that entrepreneurs are "delusional". The decision making process of 124 entrepreneurs were tested against that of 95 managers of big companies. The entrepreneurs turned out to be much more confident - even in cases where they provided wrong answers to questions. The researchers concluded that entrepreneurs were more prone to both delusion and opportunism than normal managers were.

This finding conflicts with the findings of other studies, which suggest that personality traits (risk taking, autonomy, change, cognitive structure, innovation and locus of control) are effective dimensions in distinguishing successful entrepreneurs from the general population.

Personality and leadership can also be influenced by culture. Hofstede (1991:71) referred to "power distance" – whether the culture accepts and expects people who are more powerful to behave differently from the ones lower in the hierarchy. African cultures rank high on the power distance. The legitimacy of power is never questioned and the "boss knows best" idea is

generally applicable. While entrepreneurs from such backgrounds function as goal-oriented persons, they would defer in situations where their culture is practiced.

Frese (2000:12) argues that in small businesses, the founder of the enterprise is the main decision maker – he influences the "general culture" and strategic orientation of the business. Rajagopolan, Rasheed and Datta (1993:349-384) concur that the pervasive influence of founders of businesses and their dominance on the decisions made are significant.

It would appear from the above findings that the final act of business judgment and decision-making is somewhat intuitive and remains within the entrepreneur's area of influence. Collins (2001:70-76) provides an illustration of levels of leadership, as follows:

Level 5 Executive

Build enduring greatness through paradoxical combination of personal humility plus professional will. Lumpkin and Dess (1996:136) had earlier made a similar finding and described entrepreneurial autonomy as the "ability and the will to be self directed".

Level 4 Effective Leader

Refers to one who catalyses commitment with vigorous pursuit of a clear and compelling vision that will stimulate the group to high performance standards. Frese (2000:57) made a similar finding, that the high-initiative entrepreneur acts as a "role model for his employees".

Level 3 Competent Manager

Organises people and resources towards the effective and predetermined objectives. Burns (2001:33) referred to this as having, "vision and flair". To succeed entrepreneurs need to have a clear vision of what they want to achieve. This helps lead employees in the pre-determined direction.

Level 2 Contributing Team Leader

Contributes to the achievement of group objectives, works effectively with others in a group setting. Entrepreneurs do not generally work with group objectives as they are individually driven.

Level 1 Highly Capable Individual

Make productive contributions through talent, knowledge, skills and good work habits. Frese (2000:56) stated that, stability and learning orientation means that the entrepreneur does not become emotional and despondent when things go wrong.

Collins (2001:70-76) also found that leadership is an essential factor from moving a company from good to great but it was not the only one. Some of the key findings were as follows:

- **First Who**: One would normally expect that good to great leaders would start with a vision and a strategy. Instead, they attend to people first, strategy second. They get the right people onto the bus, move the wrong people off, ushered the right people to the right seats and then figured

out where to drive the bus. This view is supported by Burn's (2001:251) idea of the entrepreneur being "once a learner, a teacher, a doer and a visionary".

- **Stockdale Paradox**: Admiral J. Stockdale received a medal of honour after surviving seven years in the Vietcong Prisoner of war camp by clinging unto two beliefs: his life could not be worse now, and that his life would one day be better than ever. Collins (2001:72-76) found that like Stockdale, people in the good-to-great companies confronted the brutal facts about their current reality and simultaneously maintained absolute faith that they would prevail in the end. They held both faith and facts at the same time – all the time. Timmons (1999:10) earlier concurred with Collins that entrepreneurs are "patient leaders, capable of installing tangible visions and managing for the long haul". There is a great tolerance of risk, ambiguity and uncertainty.
- **Build-up – Breakthrough Flywheel:** Collins (2001:70-76) also found that good-to-great transformations did not happen overnight. Rather the process resembled the relentless pushing of a giant flywheel in one direction. At first pushing, the flywheel turns once and with constant effort, it turns more frequently until breakthrough point has been reached. The research found that the comparison companies did not sustain the kind of break through momentum that good-to-great companies did – they lurched back and forth with radical change programmes, reactionary moves and restructurings.
- **The Hedgehog Concept:** Collins (2001:72-76) used the parable of the fox and the hedgehog. The fox knows many things about everything but the hedgehog only knows one big thing very well. The research suggests

that breakthroughs require simple hedgehog-like understanding of three intersecting circles: what is the company best at, how does its economics work and what best ignites the passion for its people. Breakthroughs happen when you get the hedgehog concept and become systematic and consistent with it, eliminating virtually anything that does not fit the circle.

- **Technology Accelerators:** The Collins study (2001:72-76) also found that good-to-great companies had a paradoxical relationship with technology. While assiduously avoiding new technology bandwagons, they were pioneers in the application of carefully selected technologies making bold farsighted investments in those that are directly linked to the hedgehog concept.
- **A Culture of Discipline:** Good – to- great companies display three forms of disciplines: disciplined people, disciplined thought and disciplined action. When an organization has disciplined people, then it does not need hierarchy and with disciplined thought, there is no need for bureaucracy. Disciplined action would remove the need for excessive control. When the culture of discipline is combined with the ethic of entrepreneurship, a magical alchemy of great performance will result.

Bowman and Faulkner (1997:45) considered management and leadership styles as important signals about appropriate behavior. How managers spend time sends signals about the priorities.

While Collins (2001:70-76) does capture the reflections of highly successful individuals it is highly unlikely, that all people have the level five seed in them. The study is heavily slanted towards a description of

what makes a level 5 manager but with no credible list of actions to journey there. It does, however, provide the budding entrepreneur a peek into what an ideal standard would be. There is also the opportunity for the entrepreneur to accept some kind of mentoring.

3.6 ENTREPRENEUR MENTORSHIP

Another aspect of training and education is accepting a mentor. The primary reason for acquiring the expertise of mentors, is the pressure to perform with scarce resources. Ensher, Murphy and Vance (1995:99-108) suggested that, varying roles and functions of mentors, including emotional, vocational and role modeling support, will have many positive benefits for both entrepreneurial protégés and mentors. Selecting mentors with the right skill sets, gives the entrepreneur the opportunity to transform and to add value to his entire enterprise in the areas of strategy, processes, technology and people.

Cope and Watts (2000:102-124) noted that, strategic benefits of using a mentor includes access to help the entrepreneur to interpret critical incidents as learning experiences.

The management benefits include availability of high-level skill for transfer to employees and the freeing of staff to focus on projects that are more productive. The quality of staff productivity is also enhanced. From an operational perspective, strengths can be capitalised on while weaknesses are eliminated. The business is kept in the forefront of operational systems.

Evans and Volery (2000:333-350) found that, face-to-face contact is needed for as a primary form of communication and that internet provision is not a substitute. The entrepreneur must ensure that a good relationship or fit exists and that there must be a written agreement determining the scope of the assignment, the outputs and the costs. Typically, the agreement must provide penal clauses for non-performance. In choosing a mentor, the entrepreneur must clearly identify the area of skill and focus required. The mentor must have a good track record in terms of practical experience.

The entrepreneur must be satisfied that the mentor subscribes to the highest level of ethics and is accountable for decisions taken. It is advisable that an interview is conducted to ensure that a good personality fit exists.

3.6.1 THE PROCESS OF MENTORSHIP

Van Biljon in People Dynamics (2000:45) mentions a number of stages in the mentoring process.

- **STAGE ONE**

Initial interview and due diligence

This stage is considered the most critical in the establishment of the relationship. The relationship fit is clearly identified at this point. The scope of the assignment, the specific outputs sought and access to the right members of staff and documentation is clearly indicated.

- **STAGE TWO**

Finding solutions

On completion of the due diligence checklist and information gathering tasks, the different strengths and weaknesses would be identified. The mentor will then apply his practical skills and knowledge to capitalise on the strengths and to eliminate the weaknesses.

- **STAGE THREE**

Allocation of responsibility and Time schedule

This is a critical part of the action plan and should only be constrained by financial limitation. The entrepreneur and the client must agree on the way forward and assign responsibilities to tasks identified in the solution chain.

- **STAGE FOUR**

Implementation plan

This is generally a very sensitive part of the solution process and demands that all participants be committed to the action plan. In this stage, everything is put to the test and is the stage where the mentor's intervention is most significant.

- **STAGE FIVE**

Reaping the benefits

The monitoring process would require very little input from the mentor. In the ultimate analysis, entrepreneurial characteristics are an important consideration to the providers of loan capital and finances. It is not uncommon

for the providers of capital, to grant loans conditional to acceptance, of a mentorship programme.

3.7 BANKERS PERCEPTIONS OF SUCCESSFUL ENTREPRENEURS

Obtaining funding has been reported to be the most significant hurdle in developing small business in South Africa. However, do entrepreneurs perceive the same characteristics as important or are there perceptual difference between bankers and small business owners on what constitute characteristics for entrepreneurial success?

Hall (1996:56) questioned the value of investigating this complex relationship and concluded that it does not provide any valuable insight. If the owners of failures generally perceived banks as unhelpful, successful entrepreneurs would perceive them as helpful.

Nevertheless, Zimmerer and Scarborough (1998:302) state that," raising money to launch a new business venture has always been a challenge for entrepreneurs". In understanding the reasons for failure and success amongst small firm, a discussion on the entrepreneur's ability to raise funds is necessary.

An important part of small business success is adequate capital acquisition. Capital can be raised both internally and externally, but it is the external acquisition of funds through commercial loans that are most utilised by small business owners.

Kuehl and Lambing (1994:165) emphasised that, while debt financing is freely available for successful entrepreneurs that continue to grow, it is essential to develop a working relationship with the bank.

FIGURE 3.3

BANKERS' PERCEPTIONS OF SUCCESSFUL ENTREPRENEURS

Ranks of all items for small business owners /Managers and bankers

Item	SBO/M rank	Bankers Rank
Oral communication	1	3
Listening	2	9
Self-motivation	3	3
Determination	4	2
Confidence	5	14
Problem analysis	6	1
Initiative	7	10
Caring	8	23
Planning	9	3
Insight	10	19
Judgement	11	7
Motivation of others	12	11
Leadership	13	3
Organising	14	7
Encouragement	15	23
Goal directed	16	11
Management control	17	19
Decisiveness	18	14
Innovation	19	25
Structuring	20	22
Need for feedback	21	23
Optimism	22	26
Staffing	23	16
Achievement Orientation	24	16
Flexibility	25	21
Interpersonal insights	26	29
Quantitative Analytic Ability	27	28
Independence	28	31
Delegation	29	18
Conceptualization	30	29
Risk taking	31	33
Organizational sensitivity	32	11
Oral presentation	33	32

Source: Dickenson: Perception of Entrepreneurial Success Characteristics: American Journal of Small Business (2001)

From the bankers perspective the above were a set of items considered relatively important but were considered less important by small business owners. These items include leadership, organising, delegation and organisational sensitivity. The contrast is clear. Bankers consider some of the traditional "big business" characteristics as critical for success.

According to Zimmerer and Scarborough (1998:311), venture capital companies are private, for profit organisations that purchase equity positions in young businesses they believe have high – growth and high-profit potential.

Zider (1998:132) notes that, from a venture capitalists point of view the ideal profile of an entrepreneur is as follows:

- Is qualified in a "hot" area of interest;
- Delivers sales or technical advances;
- Tells a compelling story that is presentable to outside investors;
- Recognises the need for liquidity;
- Has a good reputation and can provide references that show competence and skill;
- Understands the need for a team with a variety of skills and therefore sees why equity has to be allocated to other people;
- Works diligently towards a goal but maintains flexibility;
- Gets along with the investor group;
- Understands the cost of capital and typical deal structures and is not offended by them;
- Is sought after by many venture capitalists; and
- Has realistic expectation about process and outcome.

Venture capital investments are more directed to the larger of micro businesses. They accept that on average, good plans, people and businesses succeeds only one in ten times. Their analysis is based on probability theory. Although a company might have an 80% probability of succeeding with each of the critical components in business, the averaged probability is less than 20%.

3.8 REASONS FOR SMALL BUSINESS FAILURE

There is an exhaustive body of research on why small business fails. The most notable amongst them is the work of Argenti (1984:14), who places business failure into a sequence of events referred to as defects, mistakes and symptoms. Defects begin when the top management is autocratic, dominating, and not interested in accepting advice. Other key personnel are also weak and there is no proper control in place. There is generally a poor response to change, as evidenced by an ageing product, old premises and out of date attitude to employees.

Mistakes start when the business gearing becomes noticeably high. The company grows faster than it has the financial ability to accommodate resulting in cash flow problems. Symptoms are evident in the financial statements and financial ratios, creative accounting, a retardation of quality and service coupled by summonses and staff resignations.

However, Burns (2001:373) concludes that most firms are born to stagnate and die. As the number of start-ups increase so too does the number of closures. He concludes that, "this never-ending cycle of start-up and exit is part of the dynamic of small business sector as small business responds to the ever changing marketing place".

While the Bannock and Daley (1994:74) provide evidence in support of this never-ending cycle, from a statistical review of the United States small business economy, there is a tragic human story behind failures and a stigma that is attached to failure.

Clearly, this is a management dilemma worthy of research. It is through research that future entrepreneurs can have the benefit of others experiences and possible adopt a pre-emptive approach. According to Atkin, Chell and Mason (1993:56), it would useful to broaden our knowledge of the factors associated with failure in the hope of gaining some understanding of the reasons why it takes place.

Small businesses do not abruptly collapse. Argenti (1984:14) identified the following symptoms:

- **CONFIDENCE AND MORALE ARE ERODED**

Survival becomes the objective and the undercapitalised firm is challenged on a continual crisis. Kuehl and Lambing (1994:552) cautioned that one of the most common mistakes entrepreneurs make is to assume that a profitable company will have sufficient cash on hand to meet all financial obligations.

Many small business owners are shocked to learn that a very profitable company may consistently be short of cash. The failure to fully grasp this concept leads to the loss of confidence.

- **THE FINAL DAY OF RECKONING**

The entrepreneur is concerned that there is no money to pay the staff, that a critical supplier will no longer extend credit and cease deliveries and that the tax collector will knock on the door for the last time. Frese (2000:91) noted that, emotional coping maybe effective because it allows the entrepreneur to better concentrate on other aspects of the business that can be influenced.

- **NO CONTINGENCY FUNDS**

Most entrepreneurs are unable to meet the unpredictable emergencies that haunt startup businesses. This is due to the limited cash resources that most small business have access to. Hall (1995:41) notes that, while the purchasing of a capital item can be planned for, it is difficult to know with certainty in the future, what the cash flow requirements would be. While large businesses have sophisticated forecasting techniques, small business owners rely on their intuition.

- **THE BUSINESS CANNOT BUY TIME**

It cannot sustain expenditures that could pull it out of a temporary trough. The shortage of cash robs the owner-manager of the time required to think, act and talk his way out of the difficulties. All his efforts are concentrated on the cash crisis. Business Date (1996:7) reports that, inadequate initial capital leads to failure. The entrepreneur's efforts are limited to a sole purpose – that is to

raise additional funds. This is done at the expense of other aspects of the business management.

- **THERE IS LITTLE MARGIN FOR OVERCOMING MISTAKES**

Most small businesses cannot squirrel away cash reserves to meet the fact-of-life emergencies and to cushion inevitable error and misjudgment. Small business can be crushed by the loss of a key customer or an overly optimistic expansion plan. This optimism and lack of prudence was referred to by Wright (1995:52-53) who concluded that, amongst the reasons for cash flow problems, is that too much money is spent too soon on buildings, houses, machines, luxury cars and owners salary.

- **A CASH CRUNCH PRECLUDES IMPROVEMENT**

A cash crunch precludes improvement and expansion–orientated profit programme. There are no funds for adequate advertising and promotion. The firm cannot afford to adequately market a good product. In its haste to get to the market, it is incapable of sustaining adequate research and development. The research results of Timmons (1994:10) indicated that, 38.4% of failures resulted from excessive debt, extremely high operating expenses and insufficient working capital. Funds are required for supporting marketing and business growth.

- **UNWILLING TO TAKE CALCULATED RISK**

The owner manager is unwilling or unable to assume a calculated risk that is normally essential to generate growth and future stability. This finding by

Argenti is surprising as risk taking is the hallmark of the entrepreneur. However, Burns (2001:33) stresses that whilst all owners are willing to take risks and live with uncertainty, "true entrepreneurs are willing to take far greater risks and live with far greater uncertainty."

- **UNREASONABLE PRICE INCREASES**

In desperation, the owner manager may raise prices beyond the markets willingness to pay for it. This could retard the cash flow situation even further. Higher prices will decrease demand and eventually sales leading to failure.

- **STAFF ARE UNPAID**

Employees are the first casualties of cash strapped businesses. The firm does not have the ability to hire key personal. According to Frese (2000:167), the procedures of systematically training employees and motivating them are factors that are strongly related to success. Inability to pay staff would mean that training and motivation are secondary drivers.

While the above symptoms may not necessarily lead to failure, they are good indications that failure is eminent. In reviewing the extant literature on business failure it was found that no clear consensus existed amongst researchers and in addressing the research question in this study, it is expected that this management dilemma could be solved. What are the reasons for failure and success? Researchers have suggested a multitude of reasons for failure as follows:

3.8.1 AGE AND SIZE OF BUSINESS

Hall (1995:8) stated that, there is no doubt that the probability of a company's survival increases positively with its age and size. However, Dunne, Roberts and Samuelson (1989:495-515) found that the mean growth rate of survivors declined with size and age. The effect of age was less clear as growth rates apparently declined with the age of the small business.

The economist Jovanovic (1982:649-670) undertook a significant economic research study. The model concludes that differences in firm size reflect different positions along the critical growth path with older firms having more time to learn about their costs thus enabling the business to make cost estimates with a greater measure of accuracy.

In the R3 8th Survey of Personal Insolvency the result showed that individuals operating businesses, that are less than 4 years old are more likely to end up in bankruptcy (43.5% of business related bankruptcies related to business in this category). (Internet 5: www.r3.org.uk/8th).

The rationale for this is that younger businesses are less likely to have the asset base and income streams to enable them to support a credible voluntary arrangement.

It was empirically confirmed that modest changes in size increased the chances of survival. Philips and Kirchoff (1989:65-74) showed that, survival rate was greater in companies that had an absolute growth in employees.

The economist Jovanovic (1982:50), made an important contribution to the question of crystallising the reasons for corporate failure. Firms are assumed to make output decisions based on efficiency levels but are unaware of what these efficiency levels are. Over a period, firms learn more about their efficiency and those that are most efficient would enjoy a lower cost structure and would expand their output. The larger a firm the less likely that it will be taken by surprise by unfavorable cost levels and find its optimal output to lie below the failure boundary.

Jovanovic (1982:50) suggested that older firms have more time to learn about their costs and would have better control. While the model provides an impressive set of conclusions it does not reduce the level of costs usually associated with learning curves. Bate's (1990:4) concurs that, previous knowledge of operating a business could also lower the degree of uncertainty about costs.

It can also be argued that education and training could also help determine the correct efficiency levels. The Jovanovic model seems more applicable to manufacturing and production type firms and would be very difficult to apply in retail and service type organisations. However, the principle could be applied in the empirical work to be conducted for the South Africa Fuel Retailers in determining their mortality rate.

Dhawan (2001:41) suggests that, small firms are significantly more productive but riskier than their larger counterparts. In a study carried out on a panel of

US firms the profitability of smaller firms (size was defined according to the firms assets) was 1.5% higher while the failure rate was twice that of larger firms.

Dhawan found that the mean profit rate and standard deviation of the profit rate decline with firm size. The F-tests indicated that the profit rates differ over different size classes. The failure rate declines with size and the rate amongst smaller firms are 10 times higher than that of extra-larger firms. The small firm profit rate is approximately 1.6 times higher than that of larger firms. While the large firm failure rate is 6.42%, it is 50% lower than smaller firm is. The profitability and failure rate declined with firm size.

FIGURE 3.4

PROFIT RATE AND FAILURE RATE BY FIRM SIZE

Profit Rate and failure rate by firm size, 1970-1989

A	B	C	D
Type	**Mean profit rate**	**std dev %**	**failure rate %**	**Adj Profit rate %**
Small	12.92	16.89	13.80	11.13
Medium	11.95	6.70	9.50	10.81
Large	11.15	6.52	3.60	10.74
X-Large	9.93	5.55	1.30	9.80

A – size is average value of total assets

B – profit rate = operating income after depreciation per unit of total assets

C – failure rate is the proportion of firms that exist due to bankruptcy, liquidation or ceasing to trade

D – the adjusted profit rate = mean profit x survival probability

Source: Dhawan, Journal of Economics 2001

The model suggests that the higher profitability rate is a result of the smaller firms being more productive – this collabourates Handy's explanation of companies that operate as fleas being more efficient and quicker to adapt to challenges.

In spite of the consensus on the positive relation between age and size to success, it appears that the findings cannot be generalised across all small business sectors.

3.8.2 OCCUPATIONAL EXPERIENCE

There is a limited body of theory on the nature of a relationship between previous experience and failure but it would not be surprising if such a relationship existed. Work experience can be a negative displacement in the decision to launch a new entrepreneurial venture and plays a role in the growth and the eventual success of the new venture. The dissatisfaction with different aspects of ones job such as a lack of challenge or promotional opportunities as well as frustration and boredom often motivates one to venture out into ones own business. Burns (2001:73) argues that most people base their businesses on the experience gained from a previous job. While, both Maslow's hierarchy of needs and Herzberg's two-factor theory may explain entrepreneurial motivation, it seems that entrepreneurial pursuit based on previous experience and networks created while employed, is a sound enough reason for making the transition from employee to entrepreneur.

Hisrich and Peters (1998:72) noted that, technical and industry experience is of paramount importance once that decision is made. Experience in finance, product or service development, manufacturing, development of distribution channels and preparation of a marketing plan is important. As the venture becomes established and starts growing, managerial experience and skills become increasingly important.

Although most ventures start, with managing ones own activities and those of a few part or full time employees, as the number of employee's increases along with size, complexity and geographic diversity of the business, the entrepreneur's managerial skills becomes increasingly important.

However, the research study of 59 small businesses in Zambia conducted by Bruederl, Presisendoerfer and Ziegler (1992:227-242) stand in contrast to Hisrich and Peters (1998:72) research findings. The interview method was adopted to gather data and the study conclusively showed that there was no significant difference between those entrepreneurs who had business specific experiences and those who had no experience.

While it is a fact that formal tertiary training does not in any way provide direct training for a business career, occupational experience would influence the conduct of a business enterprise. Sound decisions on capital requirements, sale and credit policies and general management are enhanced by direct experience or prior managerial experience within the same industry.

Storey's (1994:67-78) review on antecedent literature reflected a similar finding. Reviewing three multivariate studies, he found that there was a statistical significance between unemployment and the probability of starting up a new business. Unemployment gives one a strong impetus into self – employment generally into the industry that one worked in.

Frese (2000:171) refers to studies done in Zimbabwe, that show that small business owners who started a business due to unemployment, were generally more successful than those who had other motives like independence and profit. This confirms the views of Mead and Liedholm (1998:61-74), who argued that there is a higher start up during the time of crisis or high unemployment.

Prior self-employment experience have also been linked to success by both Hisrich (1990:209-222) and Preisendoerfer and Voss (1990:107-129). According to Ford (1998:63), a strategy should be aimed at developing and maintaining the sum total of the company's knowledge and abilities. Clearly, this knowledge and ability has to be a function of previous experience amongst start-ups

Bates (1990:72) agrees with the Jovanovic model (1982:649-670) and points out that previous knowledge of running a business could lower the uncertainty about costs and speed progress along the critical growth path.

It appears that experience is the best teacher. Indeed, another reason cited for failure in South African is the lack of appropriate skill sets. Whether this has a direct consequence for failure needs to be tested in this research work.

3.8.3 SKILLS AND TRAINING

The concept of managerial skills is supported in the study by Frese (2000:3) in his research investigating the psychological factors that lead to success and failure amongst small businesses. The study emphasised the importance of developing a school system that stimulates business ownership and the training of entrepreneurs. This finding is consistent with previous research findings that management competence is a key factor for success in small firms.

Inadequate management skills were postulated by Business Date (1996:7), as the most common cause for small business failure. Managerial competence in marketing and planning were flagged as critical success factors. Kiggundu (1988:169-243) also noted, that the lack of accounting and financial management skills affects success negatively.

Kolshorn and Tomecko (1992:53-56) cautioned that, while specific skills like writing a balance sheet, developing a marketing plan and stock taking are useful – these skills must be complemented by general psychological skills such as learning how to be proactive , planning, initiating and innovating.

The world bank advisor, Ellermen (1999:25-35) pointed out that, the "entrepreneur should learn those skills that allow him or her to deal with the environment on his or her own terms".

The National Skills Task Force on "skills for all" has highlighted the fact that SMME's, in particular, those that employ 50 employees or fewer do not systematically invest in off-the-job training. The report also draws attention to the high proportion of owners and managers who either have no or low level qualifications. This is being addressed through the learning and skills Council, through Business Links, National training organizations and Investors in People UK.

Small businesses are an integral part of the whole economy and it is therefore of paramount importance that they are technologically linked to the mainstream economic activities. In the International Benchmark Study 2000, conducted in the UK, France, Germany, Italy, Sweden, United States, Canada and Japan, the UK recorded significant improvements in the connectivity of micro businesses on email and website and thus to the digital market place. In a telephonic survey of 6000 businesses, as reported online on (Internet 4: www.ukonlineforbusiness.gov.uk), the UK indicated that 55% of all small business was digitally connected while Germany had recorded a 65% connection.

Diehl and Stroebe (1991:392-403) suggested that psychological training is also important. One must become innovative about product and process and one must learn to increase the pure quantity of ideas to be successful.

However, West (1990:309:334) noted that, to be innovative one also needs a clear vision or idea of what one wants to achieve.

It appears that there is a consensus amongst researchers that training and skills development is necessary for success. However, Burns (2001:39) concludes that, the influence of training cannot be proved – if we accept that entrepreneurs are born and made, and then we must accept that they can be influenced – training only serves to improve performance, it is not the primary cause of success.

3.8.4 FAILURE DUE TO FINANCIAL REASONS

When one considers the risk of individual persons snapping up credit opportunities and over extending their ability to repay such debt, then the implications for a larger organisation, like a small business becomes easier to grasp. According to Burns (2001:336), banks are all too aware of the failure statistics for business start-ups, which explains why it is difficult to obtain start-up finance.

The number of small businesses that become bankrupt is relatively small according to Kuehl and Lambing (1994:222). Amongst the various reasons cited for failure, the absence of financial controls is the most notable. Business Date (1996:7), found that financial failure could result from bad financial management, over-extension of credit, high gearing, and lack of budgeting, forecasting, and incorrect bookkeeping.

Hall (1995:20) quotes research carried out specifically amongst small enterprises in which it was found that failures had a lower gross profit margin than successful enterprises while neither had a history of losses. This contradicted the findings of Argenti (1984:14) where it was found that larger businesses did indeed have a history of losses. Hall (1995:20) also found that small businesses that failed, did not experience a steady decline in profits, although they did record greater volatility over time in their profitability. In considering the financial reasons for failure, the following must also be noted:

- **CAPITAL STRUCTURE**

Atkin, Chell and Mason (1993:62) found that, there is a higher concentration of failure amongst businesses that are not sufficiently capitalised. In identifying the reasons for failure, they noted that,"undercapitalisation figured as most important followed by poor management of debt".

In proposing future policy positions, Hall (1995:163) noted that, "surely the under capitalisation that was so frequently blamed by the victims of compulsory liquidation cannot simply be dismissed as a convenient scapegoat". Under capitalisation can result from an over investment in debtors and stock, over reliance on creditor finance or being under-capitalised at the outset of the business venture.

- **GEARING RATIOS**

Burns (2001:337) notes that, bankers see small businesses as a riskier lending proposition due to higher gearing. Cressy and Olofsson (1997:87-96) cite that, the main reason for increased need of capital is the rising expenses

in research and development and the launching of new products. This leads to additional borrowing and higher gearing ratios, if sufficient cash reserves are not available.

Kirby and Watson (2003:68) found that, there is a correlation between insufficient capital on one hand and the susceptibility to crisis on the other hand. Due to the inability to compensate for losses incurred one cannot generalise that high gearing will lead to failure but all indications are that lowly geared business have a greater chance of success. This postulation will be tested in this research work.

- **EXTENSION OF CREDIT**

Write (1995:52-53) cites the extention of generous credit terms and the inability to ensure continuous collection as one of the reasons for cash flow problems and eventual failure.

It appears that small firms are forced to extend credit to customers to generate higher revenues. This in turn increases their risk and places a heavy burden on the capital structure, thus leading to failure. Hall (1995:131) summarises this dilemma as follows, "...other things being equal, it is better to pay bills as late as possible and receive payment early, but this ignores the ill-will that such a hard nosed policy can generate". While a prudent entrepreneur may attempt to heed Hall's advice, an overly generous credit policy could cause financial ruin.

A major weakness cited by a number of studies, including Burns (1200:380) is the typical over dependence on a number of customers for too high a proportion of sales. While credit sales, are an intrinsic part of most businesses, it is the management of such debt that is more important. The retail fuel stations in South Africa are prohibited by law to sell fuel on credit according to the Rationalisation Plan in place.

- **COST MANAGEMENT**

Profitability and success is a function of costs. Jaggard (2001:14) suggested that at least 60% of small business owners do not have the ability or have failed to put a ceiling to their cost management efforts. Runaway cost has been identified as a key contributor to the failure of micro-businesses.

Cooper and Chew (1996:88-97) offers another perspective on cost control management. His research covered a sample of 20 Japanese companies. He found that when cost became an issue and when senior managers tried to drive costs out of their operations ex post facto or reengineering downstream processes, they often discovered that as much as 70% to 80% of a products cost were effectively immutable after it left the design stage over which they have no control.

Competitive companies are therefore determining the ideal selling price of a product, then establishing the feasibility of meeting that price and then control costs to ensure that prices are met. Cooper and Chew (1996:88-97) refers to this system as target costing.

Timmonds (1994:10) refers to a study conducted in the United States among small businesses to determine the causes of failure. It was found that 38.4% failed due to extremely highly operating expenses. Inability to manage expenses leads to a drain on cash reserves and eventual failure. While these research results cannot be generalised across the small business sector, the assumption that this remains, as one of the primary reasons for failure will be tested in this research.

Target costing has immense applications for the fuel retailer in the Republic of South Africa. Firstly, the Department of Minerals and Energy uses target costing to arrive at dealer margins. The margins or dealer profitability levels are preset to industry average costs. Secondly, the dealer operating costs would determine the level of dealer's profitability. In a sense those service stations with controlled costs structures, that match the benchmark costs in the industry would return the appropriate levels of profitability.

While the idea of target costing is applicable to the retail fuel industry, it is of paramount importance that transparency prevails. It is equally important that the cost-reduction objectives are achieved and realisable. Setting the bar too high can be tantamount to having no bar at all. The methodology applied by the Department and analysed in this case study is questionable.

The sample size appears inadequate. The spread of the sample tends to thin out the industry almost to the point where it could become irrelevant. One would accept that a good sample would represent the "center of the crowd".

It is alleged that at least 60% of the dealer network operate "inefficiently" i.e. they are unable to operate within the suggested costs structures. There is however, no independent study to confirm that that the costs suggested by government are indeed reflective of the costs that are being incurred by fuel retailers. The retail industry operates within a franchised structure and it seems that oil companies do not have a set of ideal costs in spite of having access to aggregate data.

3.8.5 OWNERS AGE AND EDUCATION

Longenecker (1991:17) concluded that, the ideal age to start a business lies between the late twenties and early forties. His conclusion is based on the premise that there is a balance between gaining the necessary experience on one - hand and family commitments and obligations on the other. This finding is contradicted in Halls (1995:20) research work, where it was found that owners of surviving companies were always younger than those of failures.

It is also a fact that teenagers start successful small businesses young while retired persons also pursue small business in search of a better quality of life having access to pension payouts and life savings. In research done on 180 entrepreneurs in Latvia, Kuzmina (1999:92) found that, more than half of the Latvian entrepreneurs were between the ages of 35 and 50. This contradicts the findings of both Hall and Longenecker.

Nevertheless, Longenecker (1991:17) reports that, proper preparation for entrepreneurship requires some mixture of education and experience although

no indication is provided on the how much education and how much experience is required to ensure success. While he concludes that formal education of new business owners is superior to that of the general adult population, there are many examples of uneducated entrepreneurs making a great success of their small business ventures.

In many instances, the closure of the business does not result directly from the financial challenges nor can such failure be attributed directly to the entrepreneur. Lumpkin and Dess (1996:135-172) noted that, entrepreneurs have to be more entrepreneurially orientated in a complex, dynamic and hostile environment to be successful. There are a number of small business closures that are due to non-financial exogenous reasons.

3.9 EXOGENOUS VARIABLES

There are reasons for failure and successes that cannot be directly attributed to the small business owner, some examples include:

3.9.1 NATURAL CAUSES/NON-FINANCIAL REASONS

The closing of a business is not always indicative of unsuccessful operations. Kuehl and Lambing (1994:18-22) noted that, there are many reasons, other than failure, for business closure. This could include, death and in the case of female proprietors, pregnancy. Poor health is a major threat to solvency and business success. Small business ownership requires long hours of work,

leaving little time for family. Consequently, an entrepreneur often decides to close or sell the business in order to, "spend more time with his or her family".

3.9.2 ECONOMIC FACTORS

Kuehl and Lambing (1994:20) described as a myth that business failures are high during recessions and low during good economic times. While economic factors do have a role to play in the success and failures of small businesses, it would be incorrect to conclude that economic factors have an absolute effect. Very little has been written about the effects of economic variables on failure and success. Small businesses may flourish during times of low interest rates and low inflation – and not solely because of the economic upswing. Management's ability to exploit the opportunity could enhance profitability or their inability could result in the competition attracting the lion's share of the market.

Wadhwani (1986:96) examined the effect of inflation on the incidence of compulsory and creditors' voluntary liquidations. He concluded that, in an imperfect capital market, inflation could influence the volume of corporate failures by its disproportionate effect upon the value of interest payments.

To illustrate the effect of inflation an adoption of Wadwani's (1986:96) example is as follows: Assume that the real interest rate (p) is 1 per cent and that a company had borrowed R1 000. In inflation-free environment, the company would pay R10. Now suppose inflation (p) increases to 10% and that the nominal interest rate (r) is given by the formula (1+r) = (1+p) (1+p). Then (r)

would rise to 11.1 percent and the total interest payment to R111. Although the revenue had only increased by 10 percent, interest payments rises eleven fold, causing cash flow problems.

The above illustration would be irrelevant if the company could borrow another R100, leaving it to find only R11, a rise of ten percent, equal to its own increase in revenue. In an inefficient capital market, banks would not accommodate this and companies are likely to face an increased probability of failure.

Hall (1995:28) comments that Wadhwani (1986:96) did not introduce inflation directly into his regressions, but used nominal and real interest rates. The former would seem to have a stronger influence on the incidence of liquidations, but statistical significance of real interest rates would seem to have been affected by which other variables were included in the model, which does not suggest a strong relationship.

Simmons (1989:99) developed Wadhwani's (1986:96) model further but his empirical findings does not strongly suggest that inflation influences business failure. Simmons believed that business failure was synonymous to personal bankruptcies and in conducting tests on four sectors found that the incidence of bankruptcy fell with increases in the price level.

The results of both Wadhwani (1986:96) and Simmons (1989:99) research are not standardised in any way and one cannot draw an absolute conclusion from their findings. The relationship between the inflation rate and mortality of small

business would be subject to further empirical tests in this research work. Logically, one would accept that highly geared service stations would be subjected to higher instances of failure. This assumption would be tested in this study.

However, Kuehl and Lambing (1994:21) asserted that most small business failure is not caused by the economy, a bad product or high interest rates – rather most business failures are caused by the owners themselves, due to incompetence and lack of experience. This assertion will be tested in this research work.

3.9.3 GOVERNMENT REGULATIONS

In a policy statement released on the website (Internet 4: www.ukonlinefor business.gov.uk) the UK government has set an ambitious goal that by the year 2005, it would become the world's most attractive destination to start and grow a business.

The critical success factors have been identified as easy access to advice, training and finance, sufficient workspace, labour with the appropriate skills and information. Kirby and Watson (2003:189) identified the inability to access information as one of the key reasons for failure of small business in Bulgaria.

The UK policy statement noted that small business would require a tax and regulatory environment that is fair, simple and straightforward. The policy

guideline outlines the stance that needs to be adopted to ensure that small business grows and survive.

The policy document calls for the adherence to the principles of good regulation – proportionality, transparency, accountability, targeting and consistency. It recognises that the strong voice of small businesses is the heart of government and plays an important role in influencing and shaping the UK Government policies.

While it is acknowledged that there would need to be a process of consultation to ensure that regulation and Government policies do not adversely effect the establishment of small business, regulation does indeed have a role to play. The Black Economic Empowerment Report (2001:53) identified stringent labour laws and legislative compliance as a burden to small business development in South Africa.

Kirby and Watson (2003:191) further stated that, the unstable and unreliable legal framework for the development of small and medium businesses and the heavy bureaucracy stunts small business development and success. Government must provide macroeconomic conditions to enable small firms to flourish not just survive.

The Government must ensure that proper standards are maintained and that the principle of consumer protection is upheld. The South African fuel industry has been regulated since 1970 in the belief that consumer has been protected

from high prices. In concluding this section, the possible sources of capital are discussed.

3.10 SOURCES OF CAPITAL

According to Kuehl and Lambing (1994:160-182) the sources of capital for small business include personal savings, retirement cash outs, loans from family members, bank loans, government support programmes, angel financing and accounts payables. While bankers have pre-determined criteria for lending, the small businessperson tends to focus on less observable characteristics. Zider (1998:132) advises that small business owners ought to concentrate more on the characteristics that bank manager's weight as important – and bank loan officials need to review their approach as to whether they are seeking for the right characteristics. While Cooke (2001:954-974) is not supportative of the venture capital route, the following is an example of the perceptions of the venture capital industry.

3.10.1 VENTURE CAPITAL

According to the Zider (1998:132), the venture capital industry is envied throughout the world as an engine of economic growth. Venture capital fills the voids between the sources of funds for innovation and traditional low-cost sources of capital available to ongoing firms.

The investors in venture funds are typically pension funds, financial firms and insurance companies that normally put out a small percentage of their funds

into high-risk investments expecting anything between 25% and 35% per annum over the life of the investments. These funds represent a tiny part of the institutional investor's portfolios giving venture capitalists the latitude they require.

More than 80% of the venture capitalists money goes into the adolescent's phase of the company's life cycle. In other words, micro business owners would be expected to fund the enterprise to a point from their own resources and when the shape and form of the company becomes clearer, venture capitalists would invest, normally for an equity stake.

FIGURE 3.5

VENTURE CAPITAL INVESTMENTS

Individual event	**Probability**
Company has sufficient capital	80 %
Management is capable and focused	80 %
Product development goes as planned	80 %
Production and component sourcing goes as planned	80 %
Competitors behave as expected	80 %
Customers want product	80 %
Pricing is forecast correctly	80 %
Patents are issued and are enforceable	80 %
Combined probability of success	17 %

Source: Harvard Business Review (1998:1)

Van Aardt, Van Aardt and Bezuidenhout (2003:199:200) stated that, cash is key for survival in a small business. The absolute precondition to survival of a small business is the availability of ready cash when it is really needed.

Many small businesses and specifically service stations are cash operated businesses. A cash crunch can be symbolic of a greater problem and in many cases is not simply the consequence of an ailing business, but a specific case of poor cash management. Resnik (1998:140) also reports that, more than 30% of the owner-managers questioned in their survey reported a case of under capitalisation. Hall (1995:40-41) lists out the reasons for under capitalization as poor estimation of capital needs, shortcomings in negotiating skills when dealing with the bank and the banker's perception that the business is a probable loser.

Resnik (1998:140) concluded that, cash shortages are endemic to small businesses. Big businesses on the other hand are generally cash flush and can use their asset base to generate the necessary cash flow. Small business has limited access to capital markets. Small business owners generally sink all their personal savings into a small business venture. Further cash is required to fund growth or to absorb start-up losses.

The unfortunate irony about small businesses is that the smaller the firm the more meager its resources and the greater the need to manage its scarce financial resources. Resnik (1998:140) further noted that, serious cash shortages would cause inhibiting problems, especially to cash strapped start-up business.

3.11 CONCLUSION

This chapter covers small business participation and the reasons for failure. Firstly, a theoretical foundation is used to explain the possible reasons that motivate small business owners. Maslow's hierarchy of needs is discussed together with Hertzberg's two-factor theory and Vroom's expectancy theory. These theories explain human behavior and motivation.

The chapter also discusses the entrepreneur – the definition of an entrepreneur, the characteristics of one who could become an entrepreneur and the mentorship process. Bankers have very specific perceptions about small business owners and in particular, the venture capitalists views are recorded and discussed.

Lastly, the chapter summarises the reasons for failure as suggested by the research work of others. The chapter concludes with the sources of capital for small business setting the scene for the next chapter where the subject small business – the fuel retailer is discussed.

CHAPTER 4

INTRODUCTION TO THE SOUTH AFRICAN FUEL RETAIL INDUSTRY

4.1 INTRODUCTION

The South African Retail fuel industry is unique as compared to other countries due to the complex regulations that govern the industry, petrol prices are regulated and Government adopts an interventionist approach in terms of price setting and industry profitability.

The service station network, which is the case under review in this study, is an integral part of the small business economy. There are four thousand eight hundred service stations in the Republic of South Africa. While most service stations are franchised outlets, there are still a large number of failures in the industry. The failure rate is of concern since Government grants a margin to the dealer as a profit per liter for the sale of fuel.

The non-fuel part of the business includes the convenience shop, quick service restaurant and car wash that fall outside government regulation. The implications of failure in this sector suggest that either government's intervention as a regulator has failed or that the industry is confronted with a serious management dilemma. The research propositions of this study hopes to provide some clarity.

The Petroleum Industry is represented by major multi-national companies and has a small indigenous industry in the form of Sasol and Mossgas, which

produce fuel from coal and gas respectively. The regulatory framework has been derived and structured around the synfuel industry that was a strategic imperative of the previous government.

The previous Government was challenged to encourage foreign investment in refineries while managing the price that the consumer paid for fuel. The price management, which is not in use currently, was a political pricing system implemented through the equalization fund.

4.2 THE REGULATORY FRAMEWORK

The current regulatory framework for the South African liquid fuels industry is a linkage of mechanisms and interventions that are mutually interdependent and constitute a number of major elements like price control, import and export control and marketing arrangements. This current system, including both detailed government regulation and loose industry arrangements, is under review with amendments having been proposed to the Petroleum Products Act and regulations that will be promulgated under it.

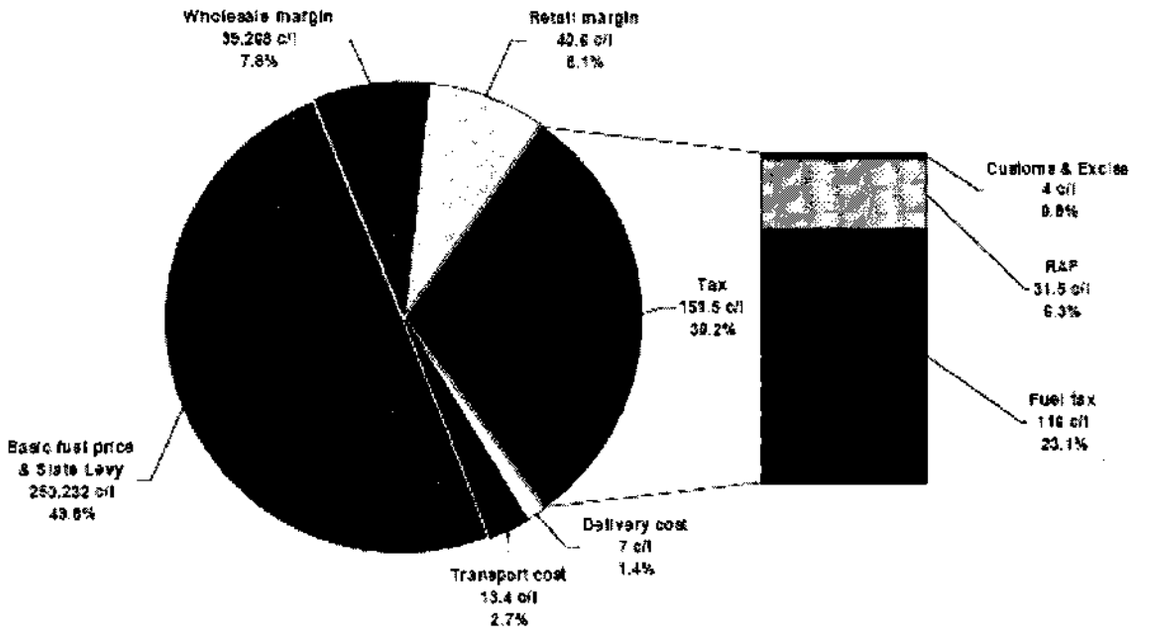
The price of petrol is prescribed at the retail level (Retail Price Maintenance) in terms of the Petroleum Products Act 2006. The prices of diesel and illuminating paraffin are not prescribed but are incorporated into the regulatory and administrative dispensation. The price of fuel comprises an international component (determined by external factors) and a domestic component (determined by domestic factors) as illustrated in graph 4.1. The domestic

component can be divided into industry and transport related costs and Government imposts.

GRAPH 4.1

PETROL PRICE BUILD UP

Composition of the Petrol Pump Price 93 Octane (Gauteng) in SA cent per litre 502 c/l - 06 April 2005



Source: Department of Minerals and Energy (2005)

The basic fuel price, which represents the international component, is R2.50232. In other words, in a non-regulated environment a fuel retailer could import a litre of petrol at the cost of the basic fuels price. The fuel tax is R1.5150 and includes the road accident fund, fuel levy and customs and excise. The compensation for the small business retailer is 40 cents or 8% of the pump price.

With reference to the international dimension, an import parity basis BFP (basic fuels price) is used to determine the deemed 'basic' price of fuel, with the price of petroleum products being directly linked to benchmark refineries at Singapore and Bahrain. The BFP consists of the Free-on-Board value (product postings) and freight, insurance, ocean leakage and wharfage. The BPF is converted to cents per litre by applying the applicable Rand/Dollar exchange rate. The calculated BFP represents the transfer price from refineries to the marketing divisions of oil companies and it includes the refining margin.

With reference to the industry related and transport costs the wholesale (marketing) margin is based on a benchmark return of 15 per cent on depreciated book values of assets with allowance for additional depreciation, but before tax and payment of interest. The retail margin is determined on the basis of the actual costs incurred by the service station operator in selling petrol. The subject interest of this research is the small fuel retailer.

Transport cost to the different pricing zones is determined by using the transport tariffs of Petronet, Spoornet and private haulers. The tariffs are based on the dominant or most economical transport modes namely pipeline, road or rail transport. The delivery cost (service differential) element compensates marketers for depot-related costs and distribution costs from the depot to service stations. A slate levy is currently applicable to reduce the negative cumulative slate balance. The BFP is a function of daily changing postings and the foreign exchange rate movements. The average of these changes determines the actual BFP for the month and hence the pump-price. Since it is not possible to change regulated pump prices on a daily basis, an

account is kept of these movements. The over and under recoveries multiplied by the volume sold for a specific month accumulate to form a positive or negative balance on the Slate-account. The actual price adjustments are determined in terms of prescribed rules and petrol prices are adjusted on a monthly basis.

The small fuel retailer is at the end of these complexities and is subjected to the international and domestic movements. In other words, when fuel prices are increased the retailer would have to find extra working capital to fund that increase. While the opposite is also true when prices fall, the twelve-month averages of petrol prices show a net increase.

The importation of petroleum products is controlled in terms of the Import and Export Control Act, 1963 (Act 45 of 1963) that is administered by the Department of Trade and Industry, with the Department of Minerals and Energy acting in an advisory capacity. In terms of current policy, refinery capacity utilisation is promoted, and only if local refiners cannot meet demand, is importation of refined products recommended.

The marketing of petroleum products has in the past been largely controlled through industry agreement called the RATPLAN (Service Station Rationalisation Plan). The RATPLAN represented an understanding between the oil industry, the service station industry and Government that guided the service station network expansion. The basic objective of the Plan was to prevent the proliferation of petrol outlets and service stations and thus reducing the rate for margin increases in a price-controlled environment. The

Plan also became an important instrument to promote black economic empowerment in the industry.

The RATPLAN has, however, not been functional since 2000 and in its place regulations are to be promulgated under the Petroleum Products Act (new or amended as the regulations deal with some matters that are not specifically provided for in the Act). The regulations will pursue the same objectives as the RATPLAN and will also give effect to specific policy elements as reflected in the White Paper on Energy Policy published in 1999.

The government has now embarked on a process of liberalisation of the liquid fuels sector and the ultimate de-regulation of the industry is foreseen. The following policy challenges as set out in the Energy White Paper (1999), remain of paramount importance. Policy challenges for the South African retail fuels industry include the need to achieve, amongst others, the following:

- An efficient and internationally competitive industry;
- The stable and continued availability of quality product throughout the country at internationally competitive and fair prices;
- An equitable balance between the interests of industry participants and consumers;
- An industry supportive of government's broader social and economic goals; and
- The meaningful inclusion of those interests, which have been historically disadvantaged.

Unfortunately, the Policy Paper is silent on the implications for small business. This is perhaps a good example of the governments conflicting approach to national priorities matters. While Small business is a strategic imperative for the Department of Trade and Industry as enunciated in the National Small Business Strategy document of 1995, no mention is made of it in the Department of Minerals and Energy Policy Paper.

The dominant paradigm of economic thinking today is that which promotes less government involvement in the economic process. The thinking requires commercialisation and/or privatisation of state owned enterprises and deregulation of the workplace. According to the SADALEC study (2001:58), some of the key features of the current thinking are that:

- Ownership of means of production should be in private hands;
- Government should limit itself to the provision a legal and regulatory framework (when required) but should have limited economic involvement;
- Prices as set by the market should co-ordinate economic activity such as level and timing of investments;
- Competition if it is operating correctly should ensure maximum efficiency and prevent abuse of power; and
- Fundamental economic decisions should be made by economic units, according to their perception of what is in their self-interest.

The regulation of an industry is normally justified as an effort to promote economic efficiency in order to:

- Prevent unreasonable prices where "conditions" create natural monopolies;
- Prevent discrimination between groups that have unequal bargaining power;
- Maintain certain types of services considered to be of broad public interest;
- Ensure sufficient profits for the development and expansion of an industry;
- Enable government to maintain strategic control in industry; and
- Prohibit price discrimination, undue preferences and practices of charging higher rates for shorter hauls than for longer hauls.

The important question that needs to be addressed in the South African situation is the level of competition that exists.

4.3 COMPETITION IN THE FUEL INDUSTRY

Odendaal (1998:23-26) concludes that, although there is no real competition because of strict regulations, the petroleum industry compares well with other deregulated European countries. The following may be used to determine whether the South African Fuel industry is competitive. Using the 1996 data the Herfindahl index (HHI) can be used to test whether collusion takes place.

Economic concentration is the extent to which an industry is dominated by a few companies, to which wealth is held by few individuals and to which oil reserves are located in a few countries.

The Herfindahl index:

$$H = \sum_{i=1}^{n} Si^2$$

Si denotes the market share of company *i*, where *i* runs from *1* to *n*. Squares are determined to accentuate the situation where there are only a few companies with big market shares that operate in the sector.

TABLE 4.1

THE HERFINDAHL INDEX

Oil Company	Fuel market share %	Si 2
BP	15.9	252.81
Caltex	18.5	342.25
Engen	25.8	665.64
Sasol	7.50	56.25
Shell	17.6	309.76
Total	12.1	164.41
Zenex	2.60	6.76
Total	100.0	H = 1 797.88

Source: Odendaal (1998:27) Deregulation of the Fuel Industry

When H less than 1000	No concern with regard to market concentration
When H >1000, but <1800	Concern with regard to market concentration
When H >1800	Potential for collusion with regard to market share

The Index indicates that with the reading of 1 797.88 there is potential for collusion. The greater freedom to enter a market, the greater is the pressure on companies in that market to minimise cost and price their products efficiently. If they do not do so, it would create profit opportunities for new entrants to seek to exploit the opportunity. In markets where there are low barriers to entry and exit, even a sole producer may have little market power.

The particular significance of this analysis is that oil companies under the existing dispensation can freely enter and exit the market. While the market shares indicated there is good potential for collusion, this is not possible in the current regulated environment. Should Government decide to deregulate the industry, the fate of the small business owner would be precarious as the oil companies' could merge to enhance competitor strength while leaving a number of the retailers to a price war in the market place.

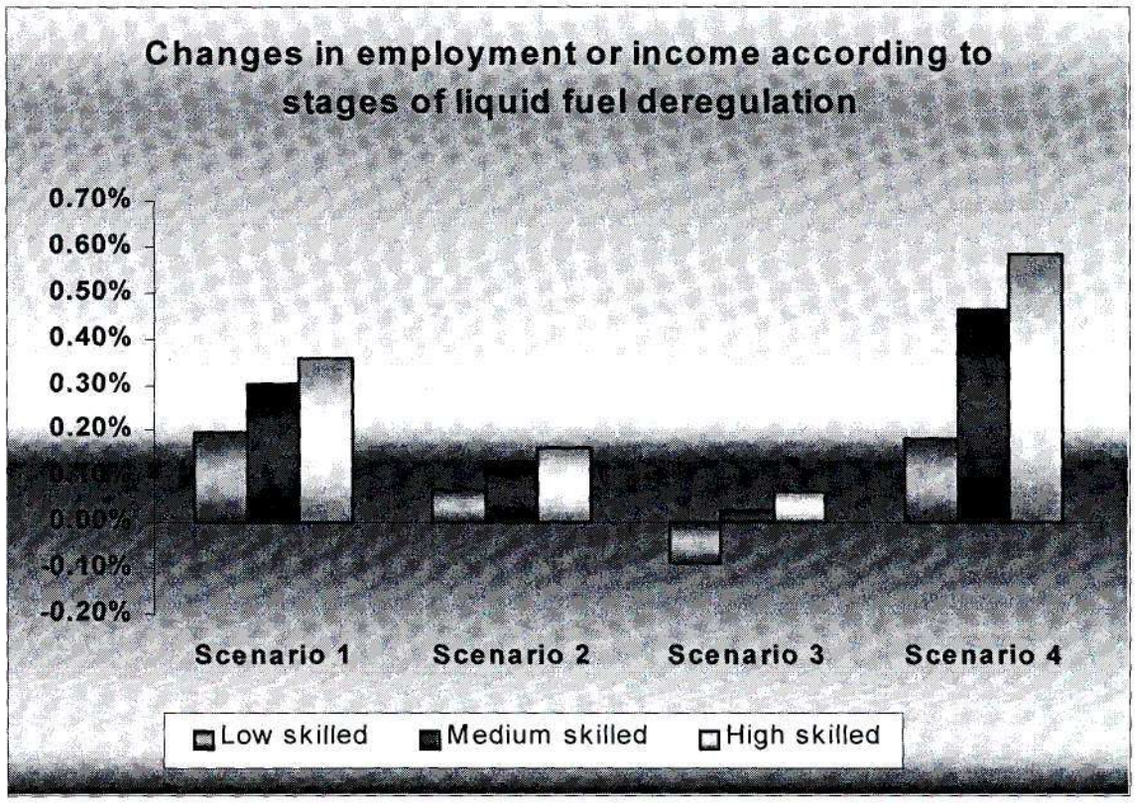
On the other hand, the retail sector is the one sector of the petroleum industry that is truly competitive and therefore lends itself to immediate deregulation. There is also some concern emanating from the long-term contracts between the retailers and oil companies that could be seen as promoting uncompetitive behaviour. In deregulating the retail fuel industry, government has to be mindful of unintended consequences for small business.

4.4 THE IMPACT OF DEREGULATING THE FUEL RETAIL BUSINESS

The SADALEC (DME 2001:58) modelled a number of scenarios of the implications of deregulating the retail fuel business. Graph 4.2 presents changes in total economy wide employment arising from the various stages of liquid fuel deregulation.

GRAPH 4.2

CHANGES IN EMPLOYMENT DUE TO DEREGULATION OF THE RETAIL FUEL SECTOR



Source: SADALEC report to DME (2002: 5)

- Scenario 1 refers to import control deregulation and subsequent price reduction at 'refinery gate' level. It is believed that the only way to introduce real competition into the refining part of the industry is by allowing product imports into the SA oil industry. Relaxation of import and

export control will possibly have the most impact on basic prices and expose the local refining sector to real global competition. The small business operator could choose to import product. In constructing this scenario the assumptions made was that a minimum of 10% of products would be imported. And at the retail level, new players would inject fresh capital into retail stations, which are likely to have much higher throughputs.

- Scenario 2 – refers to the introduction of retail price competition combined with maximum retail prices. In this scenario, discounting is permitted at the retail level which results in price competition amongst fuel retailers. Price competition will result in right sizing of the retail sector and lead to closure of inefficient service stations. The assumption made included the net effect of new small business entrants and that 10% of the current retail network will close, that 10% of the jobs will be lost and that retail profits in urban areas will be reduced by 20%. There will also be some level of investments in the upgrading of service station in transaction automation and in additional services like convenience stores and car washes.

- Scenario 3 included the abolition of full service requirements at petrol stations. In this scenario the impact of the removal of full service requirements is analysed. For this scenario, the assumptions included a 30% reduction in number of fuel attendants resulting in a loss of about 15 000 jobs and that some level of further investment in automation

equipment and other associated electronic payment systems will be made.

- Scenario 4 modelled a full liquid fuels industry deregulation position. Full industry deregulation is for the purpose of the analysis in this report essentially defined as a combination of all the above three scenarios. In constructing this scenario, removal of the prohibition on vertical integration is also included. In both this scenario and scenario 2, licensing of retail operations will be rendered unnecessary.

The closure of liquid fuel stations and the abolition of the full service requirement have a direct negative effect on employment. However, growth in output induced via increased demand, and investment has a positive impact on employment. It is for this reason that the impact on small business should be considered, as they are potentially the biggest job creators.

In all scenarios the impact on national employment of highly skilled labour exceeds that of medium and low skilled labour. In scenario 2 (retail price competition) and 3 (abolition of full service requirements) this is partly the result of the reduction in employment of service attendants, which negatively affects employment of medium and low skilled labour.

However, even in scenario 1 (import control deregulation) where employment of service attendants is not affected, high skilled labour benefits more. There is a positive correlation between the skill intensity of production and the percentage change in output. Output of skill intensive sector in general rise

more than less skill intensive sectors. The impact on total employment differs enormously across sectors.

- In scenario 1 total economy wide employment of low skilled, medium skilled and high skilled labour increase by 0.2% (6 760 jobs), 0.3% (8 279 jobs) and 0.35% (3 947 jobs), respectively.
- In scenario 2 total employment of high skilled, medium skilled and low skilled labour increase by 0.07% (2 534 jobs), 0.13% (3 582 jobs) and 0.16% (1 774 jobs), respectively.
- In scenario 3, total employment of medium and high skilled increases by 0.03% (782 jobs) and 0.07% (750 jobs), respectively, but employment of low skilled labour decreases by 0.09% (-3 017 jobs).

The reduction in employment in scenario 3 reflects the decline in employment of fuel attendants. However, the growth in output arising from increased domestic and foreign demand combined with improved investment alleviates some of the initial decline in employment. Given the fact the Government's small business strategy is targeted towards job creation, the implication for employment as enunciated above needs careful scrutiny. Singh, (1999:50), suggested similar consequences of deregulation.

4.5 THE RETAIL MARGIN

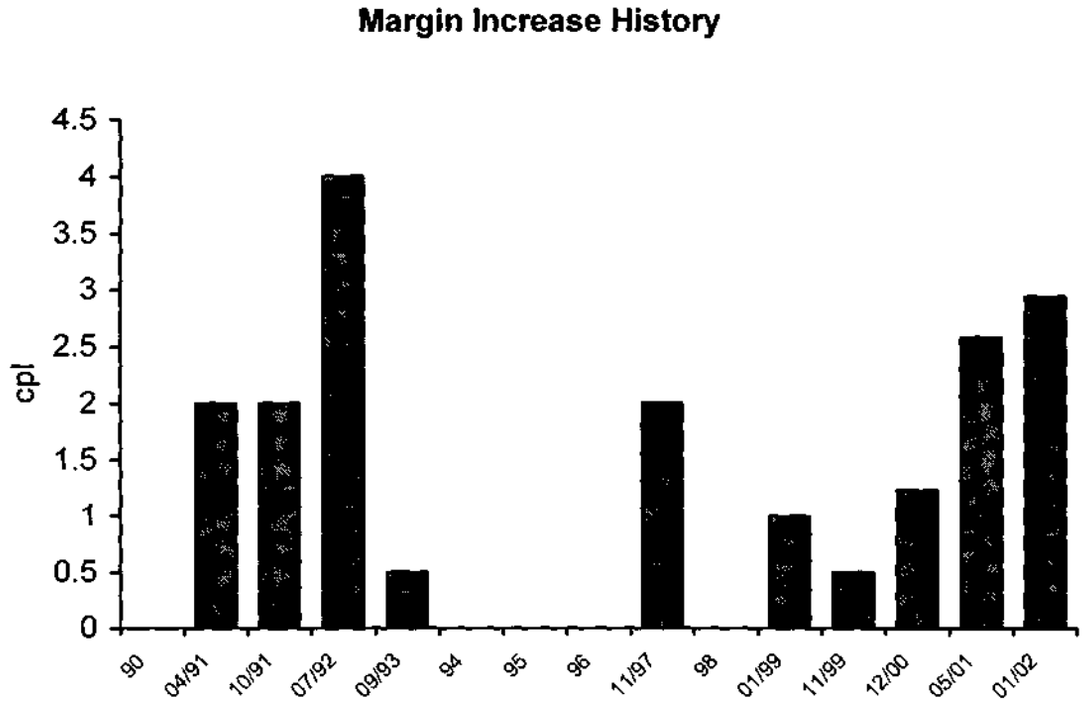
The retail margin is controlled by the Department of Minerals and Energy and is determined by the actual costs incurred by the retailer. This cost takes into account all proportionate driveway costs such as rental, forecourt wages, overheads and retailer drawings. The Department conducts a Retail Margin

Study on an annual basis to determine the margin by using a sample of 100 service stations across the country using an average basket of volumes.

The methodology used in the study of the costs creates an incentive to retailers to become more efficient and in that way increase their profits proportionate to their efficiency. The non-fuel margin is generally determined by the oil company through their franchised operations. The following graph illustrates the retail margin increases from January 2001 to January 2002.

GRAPH 4.3

RETAIL MARGIN HISTORY 2001-2002



Source: Central Energy Fund Website (2001)

South Africa has about 4900 service stations countrywide as illustrated on Map 4.1. The service station is an integral part of the micro- business sector

and an important node for business development. It is estimated that 50 000 pump attendants are employed at fuel outlets supporting at least three dependants each, thus the industry is providing social security to some 150 000 South Africans.

The RATPLAN (Rationalisation Plan) seeks to protect the small business owner and the job creating ability of such businesses. Oil companies are prohibited from owning service stations and are only permitted to own and operate one site per province for training purposes. Self-service is also prohibited to ensure that the attendant's jobs are protected.

The building of service stations is carefully controlled through a quota system to prevent an over proliferation of sites. General dealer outlets are also positioned to ensure that fuel is available in the rural areas. The Government in executing its regulatory functions conducts an independent review of the profitability of fuel sites. The study covers all aspects of cost management and tries to ensure that the dealer - owner receives an adequate return for his capital investment.

Government conducts an annual study of this small business by carefully analysing the cost structure of 100 service stations nationally. The actual costs of operations are analysed and a retail margin is calculated. At the time of this study, the dealer margin was 25.2 cents per liter. The margin is effectively a reward for efficiency.

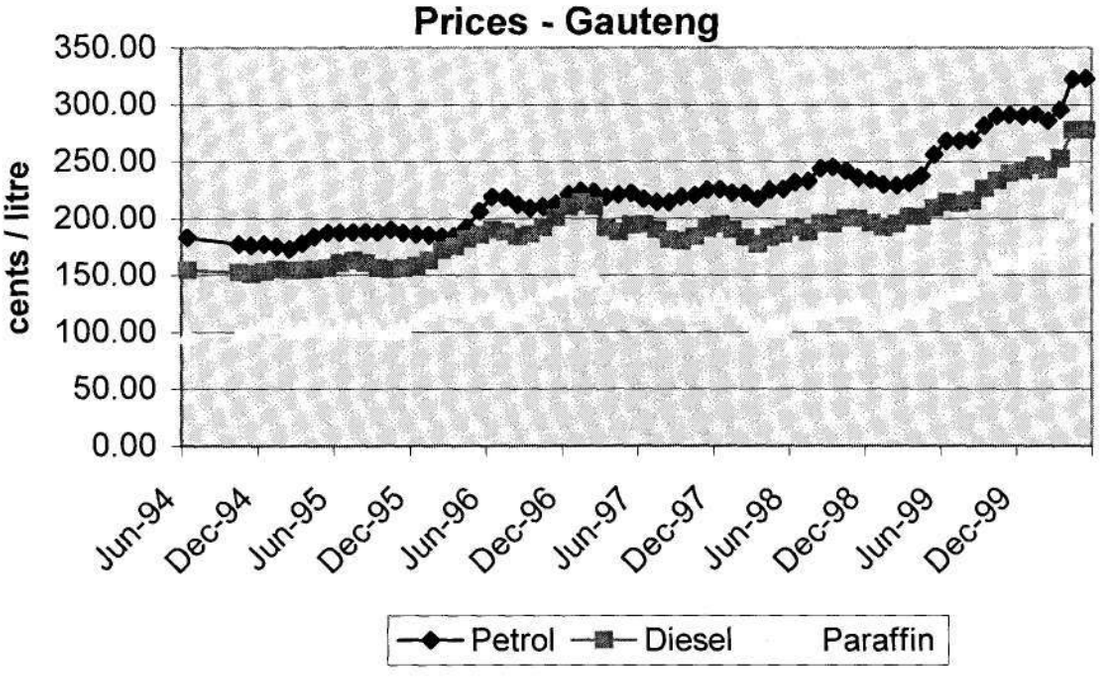
The price of petrol is regulated to ensure that urban and rural prices are not distorted and that the price build-up accommodates all aspects of the regulatory mechanism. The prices are adjusted on the first Wednesday of each month to reflect the movements in foreign exchange and the crude oil price. The price has an international and domestic component. Diesel is not a regulated product. The basic price is the BFP transfer price and represents the international component of the pricing system.

While the margin methodology has been criticised by retailer bodies, in the absence of free market operations, the findings are accepted. This research would test the cost build-up using the case study information as a basis for comparison. Monthly increases in the fuel price places an additional working capital burden on small business retailers as they would need additional capital to fund both the price increase and debtor purchases as deposits held cannot be increased and decreased on a monthly basis.

The Graph 4.4 illustrates a typical petrol price pattern from June 1994 to December 1999.

GRAPH 4.4

FUEL PRICE MOVEMENTS

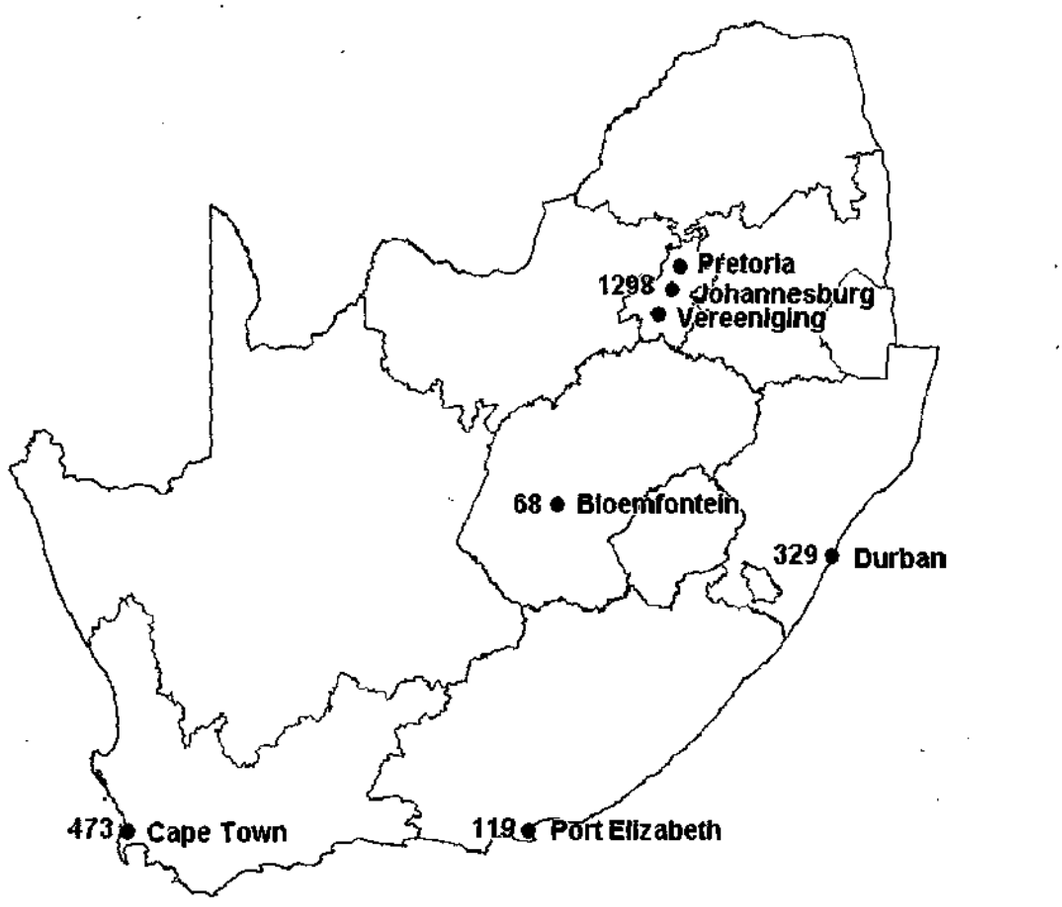


Source: Central Energy Fund website (Internet 12: www.cef.org.za)

The **graph 4.4** illustrates the price movement over five years. All products reflect a gradual increase suggesting that the regulation in place does indeed bring some "order" to the South African economy. There are no wide swings in the pricing history. The impact of this for the small fuel retailer is discussed in the presentation of the case evidence in Chapter six. The number of service stations and their geographical spread is included in the map that follows:

MAP 4.1

SERVICE STATIONS IN SOUTH AFRICA



Source: Service Station locations in South Africa (2000), Department of Minerals and Energy

The Map shows the intensity of investments in the major provinces. The inland area constitutes more than 50% of the economic activity in SA and has about 50% of the service stations in SA. The preset profitability has supported the employment levels in the industry. The oil industry would have been substantially downsised had the regulatory mechanisms been removed. The question that needs to be addressed is whether the right sizing of the small business retailers enhances efficiency. It must also be pointed out the retail margin study recommends the same increase across all provinces while the labour costs, which constitute about 50% of the gross profit is different in

different areas. The Retail margin study does not factor in the spectrum of the retail offer or benefit that oil companies invest in to increase their return from the petrol sites.

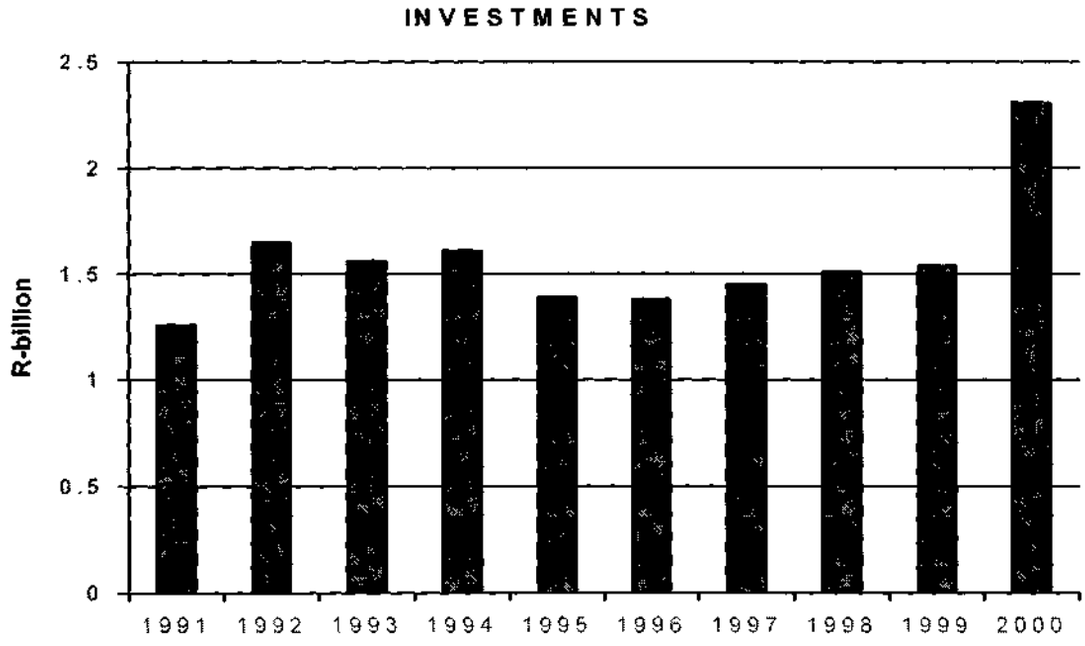
4.6 OIL COMPANY INVESTMENTS INTO RETAIL SITES

The regulatory regime has ensured that stability prevails in the oil industry. Stability and clear Government policies are key considerations for foreign direct investments. It is accepted that the regulations in terms of returns on investment, price stability and market access has indeed encouraged and increased foreign direct investment. The introduction of unleaded petrol from the beginning of 2006 cost the oil industry R12billion as a cost of doing business – this further illustrates the size of capital invested.

The following graph 4.3 summarises the size of total investments made over a ten-year period. The investment as measured across the value chain equals R1.5billion per annum. This is the largest sectoral investment into the economy on a continuous basis. The regulatory regime continues to remain the catalyst for such investments.

GRAPH 4.5

INVESTMENTS BY RSA OIL INDUSTRY

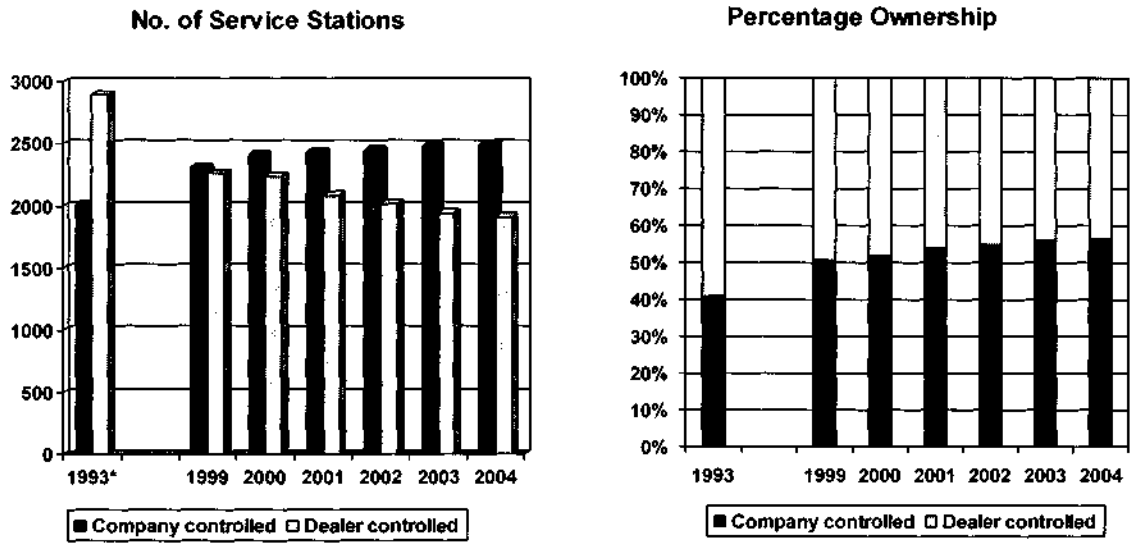


Source: SAPIA Annual Report 2004

It would appear that oil company investments into the retail network are influenced by competitive positioning. Oil companies own 40% of the retail sites in the country and dispense 60% of the fuel sales through these outlets. Privately owned sites are therefore not as attractive as Oil Company sites due to the inability of private owners to make the kind of investments required. Oil companies also obtain a marketing return on all investments made as per the regulatory dispensation in place. This benefit is not allowed to private owners.

GRAPH 4.6

SITE OWNERSHIP



Source: Department of Minerals and Energy (2005)

Government policy in terms of incentives does not accommodate the majority of the small fuel retailers or the dealer owned sites. Oil companies tend to invest heavily into company owned sites to gain market power and to increase non-fuel income as a strategic intervention in advance of deregulation. This effectively means that government's policy approach disadvantages a section of the small business fuel retailers. Oil Company controlled and owned sites have been steadily increasing from 1994 to 2004 compared to 1983.

There is a perception by government, and this is supported by the graphical information provided that that there has been an explosion of retail service station numbers and that companies are over-investing in their service stations This perception seems largely based upon the number of large '1st world' service stations that have been built in South Africa which provide a fully developed non-fuel offer.

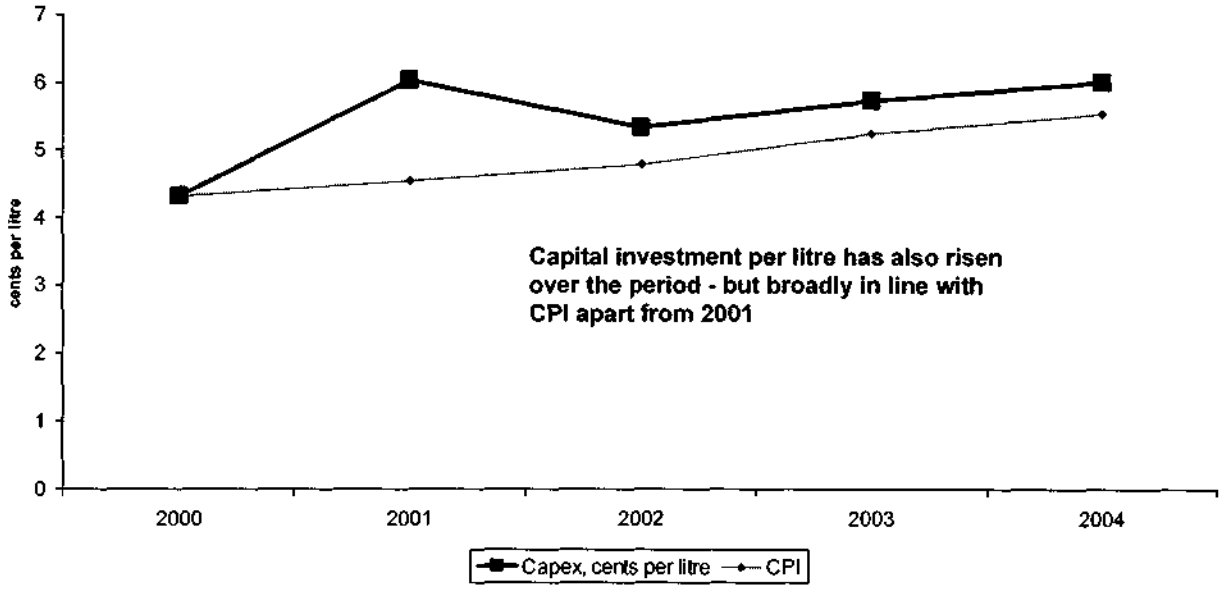
All companies base their investment decisions upon a discounted cash flow analysis, an evaluation of the future revenue income resulting from a service station project versus the capital investment and costs incurred. According to the Mackenzie report (2005:5), a range of views exist among the oil companies about the future level of margins but generally it appears that margins are assumed to fall in the long term (i.e. the assumed impact of eventual market deregulation). If a project does not meet the company's investment criteria (e.g. payback period or IRR) it is not supported and will not proceed.

The consistent clear message is that oil companies will only invest in South Africa where they can justify the decision - either to local head office or within a global organisation. This investment behaviour in South Africa is rational and can be observed in most markets where the international oil companies operate. If a company makes poor investments or over-invests in ways which earn a lower return than the 15% allowed under regulation, they are only partly compensated through while any competitors who invest more wisely stand to benefit.

But the result of such investment behaviour remains that the retailer owned sites would continue to diminish due to the lack of investment in upgrade and expansion. It is this aspect that would marginalise some small business retailers against others on the basis of customer offer.

GRAPH 4.7

CAPITAL INVESTMENT



Source: Department of Minerals and Energy (2005)

The graph 4.7 illustrates the capital investment programme of oil companies over the 2000-2004 year. With the exception of 2001, the capital investment per litre has increased in line with the consumer price index. Franchisees operating company owned and controlled sites would continue to have stronger competitive strength in the market place in terms of customer offer like quick service restaurants, shops and car washes at a cost.

It is clear that the oil major's control of the retail network has increased significantly over recent years as over 70-80% of all new to industry sites are company controlled sites. The percentage of company controlled sites in the retailer network has risen from 41% in 1993 to 57% in 2004 while about 70-80% of site closures are dealer controlled sites.

It is important to point out there are a number of possible factors which may have influenced these trends - they may not arise purely because of a structural weakness in regulation.

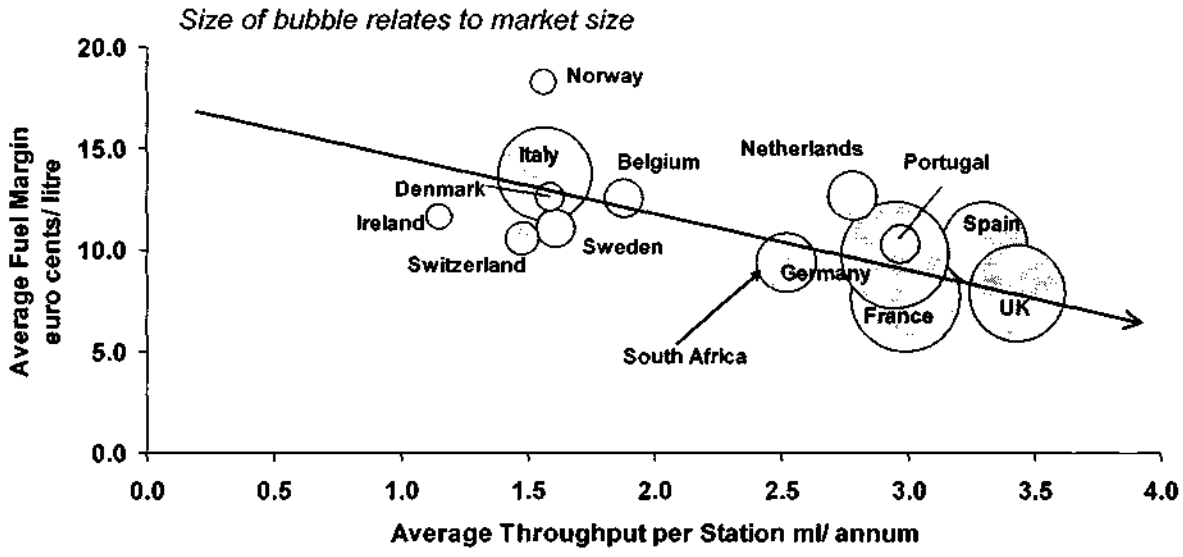
Oil majors may seek greater control over their network to ensure high levels of customer service. This is especially relevant in South Africa where retail gasoline price competition does not exist and so companies have to compete on non-price elements - location, customer service, fuel differentiation and non-fuel offering.

The growth in non-fuels convenience retailing is important. The oil company ownership gives them control and access to the profit potential from this fast growing business. Therefore, in themselves, it can be argued that these trends do not provide evidence of independent investors being disadvantaged. The independent small business owner is disadvantaged primarily as a result of the exclusion from the return on investment approach that oil companies are awarded.

This research would attempt to examine the franchise and real estate recoveries in the fuel retail business. Given the fact that most oil companies are multi national corporations and operate in international deregulated markets, a comparison of South African average volumes and geographical dispersion to European countries would be useful.

GRAPH 4.8

AVERAGE FUEL SALES (RSA AND EUROPE)



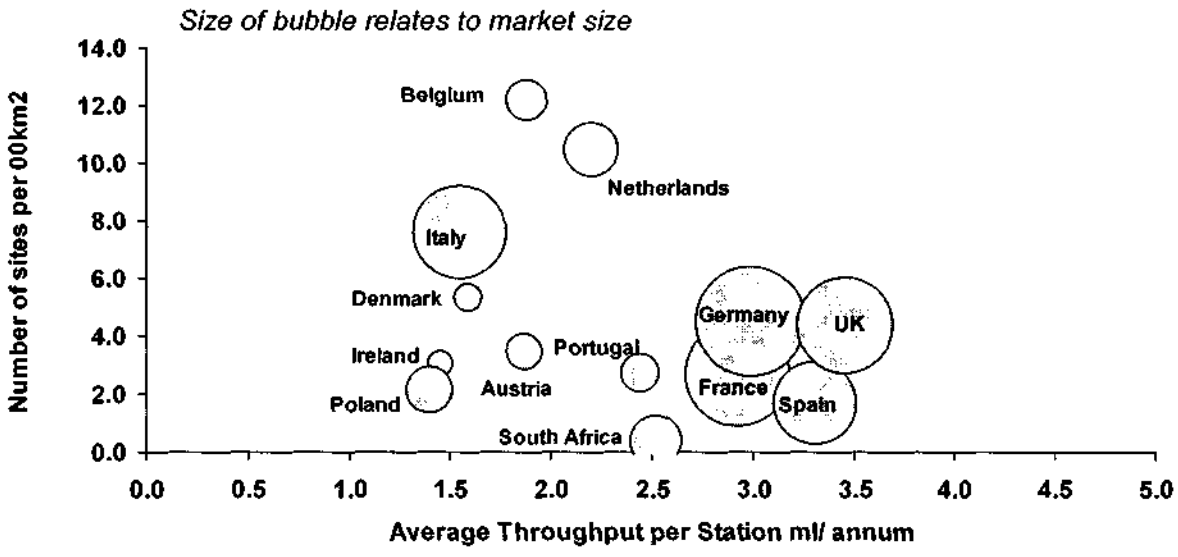
Source: Department of Minerals and Energy (2005)

The average volume in South Africa is about 2.5 million litres per annum, which is much higher than Switzerland, Italy, Belgium and Norway. However, when comparing the market size, South Africa is about the size of Netherlands where the average volume is much higher.

The conclusions that can be drawn, is that the small retail business, although operating in different regulatory environments with varying volumetric sales survive through non-fuel income. Graph 4.9 shows that, service stations in South Africa are the furthest to each other at more than 100km radius compared to a country like Belgium where the sites are 8 km apart. Close proximity implies greater competition. In South Africa, there is no competition as prices are regulated. Is customer service or is the location of the business a differentiation? What influences the retail small business competitive advantage in the South African context?

GRAPH 4.9

NUMBER OF SITES PER KILOMETER

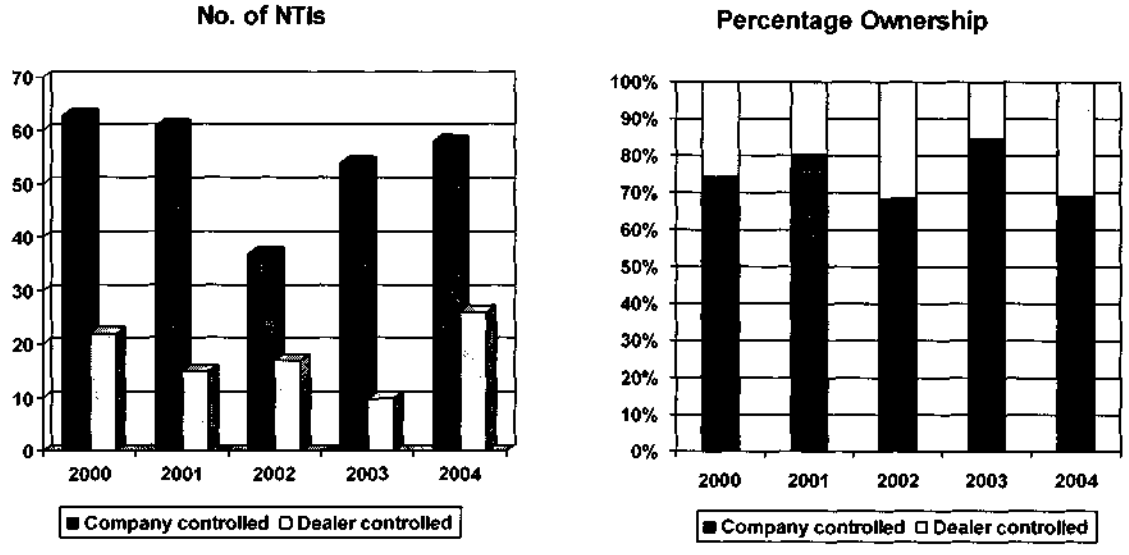


Source: Department of Minerals and Energy (2005)

South Africa has the least number of sites per 100 square kilometers, in comparison to most European countries but pumps a higher average annual volume. The current regulatory format will continue to divide the market on lines of capital strength. Oil companies would become more dominant and private owners more marginalised in their ability to compete should the market become liberalised. The number of new small business retail sites being constructed by oil companies continues to increase as shown by the following graph.

GRAPH 4.10

NEW SERVICE STATION OWNERSHIP

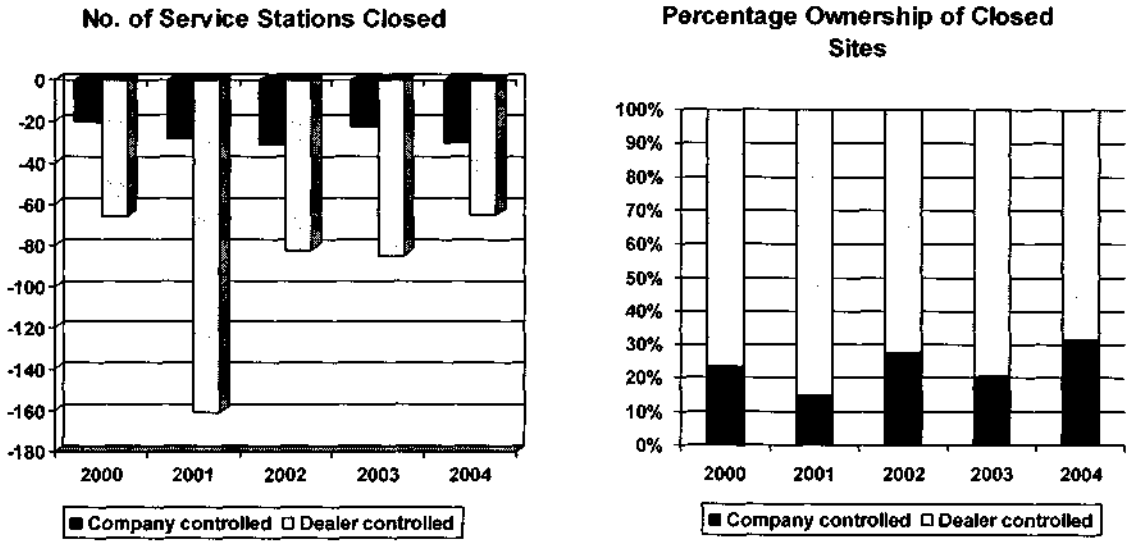


Source: Department of Minerals and Energy (2005)

Graph 4.10 shows that within a four-year period (2000-2004) 367 service stations were built in South Africa. This is in spite of the overtrade that exists suggesting that oil companies are divesting from non-performing sites and investing in new sites with higher volume and non-fuel income. This is evident from graph 4.11, which shows that in tandem with the general trend of closures over 180 dealer-owned sites closed in 2001. This also illustrates that 490 small business retail sites closed while 367 new sites were build in the same period.

GRAPH 4.11

SERVICE STATIONS CLOSURES



Source: Department of Minerals and Energy (2005)

It is apparent that oil company investments at service stations includes non fuel businesses and that the general strategy appears to be high investment in company owned sites which would result in high volume and non fuel income sites being completely dominated by the oil majors.

Lastly, the size of the non-fuel investment is supported by the data on graph 4.12. The rationale for the change in market emphasis is the same abroad as in South Africa. According to the Mckenzie report (2005:4), growth in non-fuel retailing from service stations is a global trend. It has also become apparent during the research that there is a paucity of statistical information regarding service station numbers in South Africa.

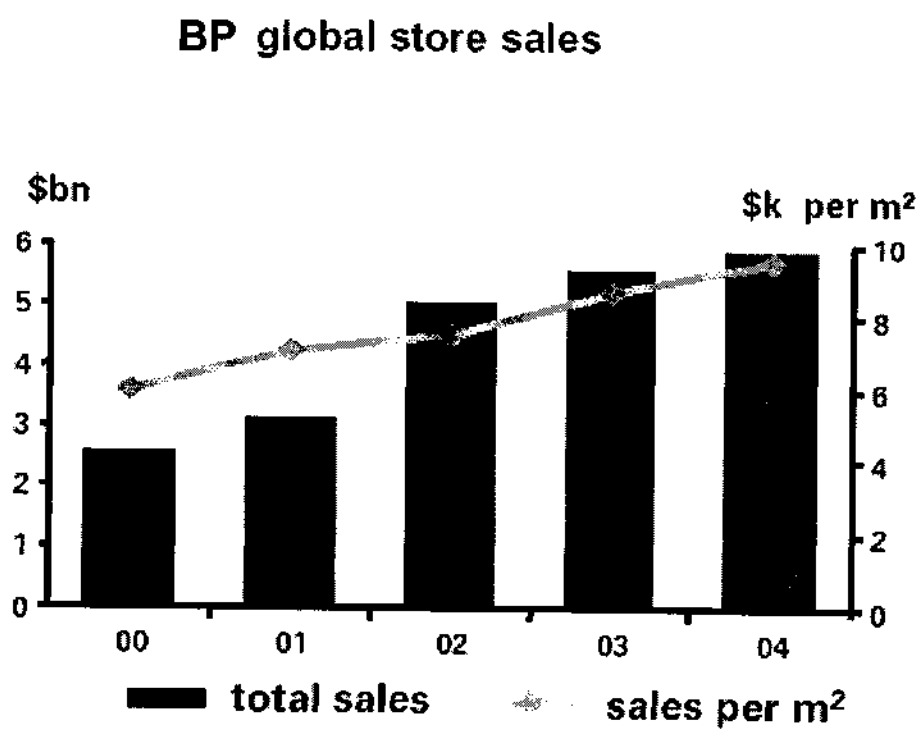
There are two key factors behind this trend. Firstly, it is opportunity driven. The regulatory or consumer trends, such as convenience shopping or 'eating on

the go', have created demand for non-fuel services from petrol stations. Oil majors have spotted the opportunity and developed new retailing formats to meet the demand. Secondly, Low fuel margins in competitive markets means that service station operators must find alternate income streams to survive. This has forced the oil majors into becoming major players in the convenience retailing sector in markets such as the US, UK and Germany.

They have the skills which can then be applied in other markets where they also operate. This does, however, present a different challenge for small fuel retailers. They have moved from selling one homogenous product at fixed prices to retailing over two thousand line items. Retailing requires specialist skills like merchandising, stock management and gross profit targeting.

GRAPH 4.12

GROWTH IN NON-FUEL SALES



Source: McKenzie presentation to Department of Minerals and Energy, 2005

BP has reported that their growth of their total store sales since 2000 has grown by nearly 16% compared to a market growth of 6%. The trend line shows a constant increase from 2000 to 2004 with average sales per square meter of USD 800.

As in many markets, over recent years there has been a significant trend towards the development of non-fuel retailing in South Africa (C-Stores, restaurants, café's etc.). This non-fuel income can materially improve the service station economics and the international oil companies will be able to lever off their expertise developed in other countries. It is under these expert franchise conditions that small business should thrive and the question about their failure under such conditions becomes even more important.

4.7 CONCLUSION

This chapter provided insights into the regulatory conditions that prevail in the retail fuel industry. Small business retailers receive a margin on petrol sales calculated on an industry benchmark basis. Retailers functioning below the efficiency line are penalised and those operating above would generate increased cash flows.

The retail fuel industry is regulated and there is price setting effectively preventing price competition in the market place amongst fuel retailers. Retailers can only compete on service, location and non-fuel merchandise.

The oil industry is allowed a return on marketing investments made and there is a perception that the regulatory regime has led to this unintended consequence. Notwithstanding government's perception, the number of new retail sites increased over a number years matched by a number of closures. In both instances, the small fuel retailer owning sites were disadvantaged. The fuel retail business provides a significant number of jobs and the impacts of potential deregulation of the industry were discussed.

While the capital investments increased on a continuous basis, the capital seems to be directed at increasing non-fuel income from shops and car washes. The last four chapters had set the scene for the case study analysis and the following chapter presents the research methodology.

CHAPTER 5

THE RESEARCH METHODOLOGY

5.1 INTRODUCTION

This qualitative investigation focuses on small business failure within the fuel retail industry in South Africa. The study aims to formulate strategies to address the reasons for failure and in that way contribute to greater effectiveness. Consequentially, this would better prepare small business entrepreneurs and thus contribute to small business development, which has been identified as a major intervention to address unemployment and economic development within the new South Africa. Against this background, there is a need to clearly identify and address the reasons for failure within this franchised and highly regulated industry.

The previous chapters reviewed the extant literature on small business and small business failure setting the scene for conducting the case study analysis. The main aims of this chapter are to present the methodology approach by addressing the research problem, the various sub-problems, the dilemma when confronted with the methodology question and the rationale for adopting the said approach. The generalisation issue is also addressed together with the research design, data collection, pilot study and case selection criteria.

5.2 THE RESEARCH PROBLEM

The problem that formed the basis for this research work was first outlined in the introduction to this research work. While other research studies (Pillay 2000; Johnson 1999) have focused on small business failure and success in general, no research has been done in the fuel retail sector. The intention is to focus on a contemporary phenomenon in a real life context by using the case study approach while adopting great care in the design and approach to overcome the traditional criticisms of the case study method.

Previous studies investigating small firm performance focused on small business failure or success. A review of the literature on "failure" by Berryman (1983:47-59) showed that there were many factors associated with failure. The majority of the apparent causes, like the lack of sufficient cash and inventory control, were considered to be symptoms of managerial inabilities. Berryman (1983:47-59) then grouped another set of apparent causes as "behavioral", including excessive optimism and a reluctance to seek professional help. A third set of factors was termed "exogenous". This referred to ill health, personal problems, economic and seasonal conditions.

Other researchers undertook studies on "going concerns" or successful small business units. As indicated in the literature review section, there are many reasons for success. Financial performance data has been used as a measure of success. According to Cooper, Woo and Dunkelberg (1998), new business owners generally have a high optimist in the beginning. Their goals are often immodest and almost one third express a desire to grow their businesses into

larger firms. According to Kirchhoff (1994) few would ever become growth firms. William and Lloyd (2001:75) state that research in new business profitability is often constrained because virtually all of them are privately held. Hornaday and Wheatley (1986) emphasised goal setting rather than planning activities.

The fuel retail industry often represents the dream and aspirations of small business entrepreneurs due to its being the most accessible part of the value chain in the oil industry. Indeed, government has annexed the voluntary Liquid Fuels Charter as part of the Petroleum Products Amendments Act in 2005. There is a need to understand the critical success and failure factors. What are the reasons for failure in the retail fuel industry?

Cooper and Schindler (2001:62) suggested that, a useful way to approach the research process is to state the basic dilemma that prompts the research and to then try to develop other questions by progressively breaking down the original question into more specific ones.

Emory and Cooper (1991:675) concur with Schindler by stating that, the problem statement contains the need for undertaking the research project. The problem is usually represented by a management question. It is followed by a more detailed set of objectives. Both approaches are adopted in this research work. There are about four thousand nine hundred five service stations in the Republic of South Africa. The Fuel Retailers Association and the Department of Minerals and Energy both concur that the failure rate amongst fuel retailers is unacceptably high.

It is in the assessment of the factors that contribute to both failure and success that small business failure can be minimised. Micro-businesses are the foundational contributors to the economy. The intensity and size of the failure rate warrants careful scrutiny. Why is the failure rate so high? What are the key contributing factors? What are the critical success factors? What are the controllable factors? Is it at all possible to reduce the failure rate? What are the reasons underlying failure? A detailed understanding of the contributing factors to failure and success will form the foundational basis for the creation of future entrepreneurs. It is hoped that this study would contribute to the world of knowledge of small business success and failure and in that way instill greater confidence in potential entrepreneurs contemplating small business ventures that is the backbone of the economy.

The high failure rate has a major inhibiting influence on risk taking. The fear of failure and financial ruin could shrink the size of the small business sector. Entrepreneurial flare is dampened thus reducing the chances of new inventions and the generation of new ideas. It is not the intention of this research work to generate a model that would guarantee success, nor is it the intention to isolate all factors that contribute to failure. If such a model, can be constructed, and it is hoped that future researchers would attempt to investigate this, using the results of this study as a starting point.

The study seeks to examine a number of sub problems without inhibiting the findings of the study. The breaking down of the research problem into discrete sub-problems, each researchable by the testing of dedicated hypothesis, was

proposed by Leedy (1993:70). The research hypothesis should initially be presented in a scientific format, and be subsequently converted into testable, statistical hypothesis.

While, Cooper and Schindler (2001:49), suggest that in research, hypothesis serve several important functions by guiding the direction of the study and identifying the facts that are relevant and those that are not thus suggesting which form of research design is likely to be most appropriate – this study does not adopt any hypothesis as a basis for testing the reasons for failure and success.

A theoretical proposition, as is the tradition in case study analysis is presented together with a rival theory. The theoretical proposition is that other factors such as education, skills and training, management factors and occupational experience are the main reasons for success and failure amongst fuel retail outlets in the Republic of South Africa. The rival theory is that the main criteria for success or failure are the size of fuel volumes and non-fuel turnovers. In other words, service stations with high volumes of fuel sales and high turnover from non-fuel income streams will succeed and by implication sites with lower volumes and turnover are deemed to fail.

5.3 OBJECTIVES OF THE STUDY

The reasons supporting the choice of the fuel retail business, as a sector of the small business environment in South Africa was as follows:

- The country is on a national drive to develop and encourage small business development. The fuel retail business is an integral component of the small business sector. It employs 50 000 attendants at four thousand nine hundred service stations. The industry is highly regulated and government allows a margin on fuel sales as a profit incentive. The margin is a function of costs – and these costs are independently verified on an annual basis. The paradox lies in the fact that there is a perception that many of the fuel retail outlets are marginal. In spite of this, low-pumping sites, lower than the average volume used in the margin study, continues to operate. Banks have traditionally viewed the service station business as high-risk businesses and are generally reluctant to loan funds or provide working capital facilities. These considerations coupled with the researchers keen interest in the service station business, was sufficient to ignite interest and led to this research work;
- Oil companies normally operate as a franchisor and provide expensive training courses to the prospective fuel retailers. Notwithstanding this, many service station operators exit after disillusionment and failure. Their reasons are not clearly understood nor has it ever been academically studied as far as the researcher is aware;
- There are many interested parties attempting to get an independent assessment of the fuel retailer sector. Government believes that the industry is over traded and hence it's "marginal" performance. The Fuel Retailers Association alleges that the major oil companies are in a way responsible for small business failure. Their reasoning lies in the excessive franchise fees, high real estate fees and rigid terms of agreement that oil companies force small retailers to endure. These

divergent views made it easy to obtain information and the researcher had access to quality information from the EFG case study;

- Government is contemplating the gradual liberalization of the industry by 2010. This would introduce free market competition amongst retailers and will eventually lead to self-service and vertical integration. The implication for small business and employment is of serious concern. Clearly, any policy shift by Government must be investigated thoroughly. This research would provide valuable information to be considered amongst other research studies for the development of the new policies;
- Lastly, the researcher has worked for a major oil company and is currently in Government tasked with the policy development for the fuel retail industry. The researcher has witnessed fuel retailers going bankrupt and losing all their personal capital and in two cases – even committing suicide. Conversely, there were other fuel retailers who enjoyed great success and became wealthy as fuel retailers. What distinguishes the two classes of fuel retailers?

Most service stations have standardised offerings and generally retailed one homogenous product in the form of fuel as the main income stream. Yet, some failed and some succeeded.

The **main objectives** of the study are:

- To examine why many emerging small fuel retailers fail although they operate within a franchised structure within a highly regulated industry.

- To conduct qualitative testing using the case study approach for the purposes of conducting an in depth analysis of the issues under investigation.
- To establish and compile a comprehensive databank of information through interviews, observations, documentation survey, legislative analysis and review of case study information.
- To propose business management strategies and approaches that is capable of overcoming the challenges of fuel retailers.
- To examine the quality of franchise support and support mechanisms in place.
- To review current government policies and procedures to formulate alternative and effective strategies for the industry.

5.4 THE RESEARCH STRATEGY

The intention was to find out the reasons for failure and success. In order to do this the sample data had to be extracted from a population that had the same chances of success and failure or else any conclusions from a finding that was predicated on different circumstances could have different reasons for success and failure. It was also important to interview both failed and successful retailers to establish the reasons for either phenomenon. In other words, the reasons for failure, if applied positively would be the reasons for success. If poor management was a cause for failure then was good management a cause for success? The sample would have to include a representative number of failures and successes within a specific time frame.

This presented a serious challenge. Any statistical testing on a randomly selected sample could provide generalised results. The random sample would have to be selected from the whole population of four thousand nine hundred service stations – the number of fuel sites that currently exists in South Africa. The sample size had to be significantly large. To be truly randomly drawn, the sample could include retailers across the nine provinces. The cost of travel and time constraints made this impossible. It was also difficult to extract such a list from the oil companies and indeed, although the industry is regulated a comprehensive list of sites does not exist within the government library.

Another important consideration was the availability of information, especially for failed sites. An extraction of a random sample from the oil company credit records would have been acceptable but the sample bias could distort the data. The other restriction is that there are six major oil companies operating in South Africa, each with its own brand and operating conditions and this would make the scientific and random selection sample permutations complex and beyond the scope of this work.

Leady and Ormrod (2005:208-209) stated, that data is delicate and sensitive to unintended influence. Bias attacks the integrity of the facts and is particularly vicious when it enters surreptitiously into the research and goes undetected. It can render suspect even the most carefully planned research effort.

Qualitative studies are concerned with quality or qualities. Leady (2005:205) states that a "qualitative research has two things in common. Firstly, they

focus on phenomena that occur in natural settings – that is in the real world. Secondly, they involve studying those phenomena in all their complexity."

Quality researchers do not simplify what they observe but recognise that the issue being studied has many dimensions and layers. Gillham (2000:12) states that qualitative study enables the researcher to achieve the following:

- To carry out an investigation where other methods such as experiments are not practical;
- To investigate situations where little is known about what is there or what is going on;
- To explore complexities that are beyond the scope of more "controlled approaches";
- To "get under the skin" of a group or organization to find out what really happens – the informal reality which can only be perceived from the inside;
- To view the case from inside out – to see it from the perspective of those involved.

Strauss and Corbin (1990:17) defined qualitative research, as "any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification." Another definition offered by Yin (2003:13) is that, "a case study is an empirical enquiry that investigates a contemporary phenomenon within a real life context, especially when the boundaries between phenomenon and context are not clearly evident."

Patton (1990:65) notes that, in quantitative studies researchers seek casual determination, prediction and generalization of findings while qualitative researchers seek illumination, understanding and extrapolation to similar situations.

Yin (2003:13-17), also points out that the case study approach should not be confused with "qualitative research". Some qualitative research follows ethnographic methods and seeks to satisfy two conditions: (a) the use of close-up detailed observation of the natural world by the investigator and (b) the attempt to avoid prior commitment to any theoretical model. However, ethnographic research does not always produce case studies nor are case studies limited to these two conditions.

Gillham (2000:13) also states that, in adopting the case study method, different sub methods are used like interviews, observations, documents and work samples etc. Data can be accumulated by different methods and when these methods converge then the researcher can be reasonably confident that a true picture is being created. Triangulation is the approach adopted from different methodological standpoints.

While discussing the methodological challenges with the sponsor and various other researchers it was accepted that, the case study approach would best meet the methodology challenges at hand.

In the decision to adopt a qualitative research approach, several considerations were taken in to account. Although Gillham (2000:12) had

stated that qualitative methods can be used to better understand issues about which little is known, the main reason for adopting this approach lies in the need for an in-depth understanding about small business failure amongst fuel retail business.

The intention in this research work was to "get under the skin" and to get a better grip on the complexity of the reasons for success and failure. The research purpose was to get an "insider" view of what the issues were and to actually see it from the perspective of those involved – the fuel retailers. It was important to interact with those that risked their capital and lost and those that risked their capital and succeeded. This makes research real – asking in an informal way for the sharing of experiences of those that are the subject of study.

However, there are limitations with qualitative research work in that the results cannot be generalised due to the small sample sizes that are normally drawn. It is also situation and time bound, often requiring a lot of time for appropriate data collection and can be an intrusion into the lives of others.

Another consideration is the challenge of bias – is the researcher attempting to replace a quantitative method with a reduced sample set and then drawing conclusions from the analysis? This "background" noise was a constant reminder about the importance of ensuring that a number of sources of evidence were gathered that embellished the interview findings and made for a truly in-depth analysis of the case history. This involved follow- up interviews using email correspondence and telephonic discussions. Audited financial

statements were obtained, augmented by attendance to fuel retail conferences hosted by government. The researcher had attended parts of an oil company training course and went back into the field, in some cases three or four times to observe a particular phenomenon like the taking of dips for wet stock reconciliation.

Yin (2003:13) notes that a case study enquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points. It relies on multiple sources of evidence, with data needing to converge in a triangulation fashion and benefits from the prior development of theoretical propositions to guide data collection and analysis.

There are many advantages to the case study approach. Firstly, Cooper and Schindler (2001:137) contend that, "case study approach place emphasis on a full contextual analysis of fewer events or conditions and their interrelations".

It is adopted when the researcher does not have any control over the events and when the focus is on contemporary phenomenon within a real life context. This is precisely what this research is focused on. The phenomena being investigated are the reasons for success and failure amongst fuel retailers. These reasons were outside the researcher's control. It is currently a point of discussion and debate in both the private and government circles. Government at the time of this research is presenting new legislation in parliament about the fuel retail business. It is expected that this research would be completed by the time the regulations are published for public comment and this could add to the debate around the new policy formulation

in this small business sector. It is most interesting to observe how persons who were most successful in their previous occupations would fail abysmally in operating a fuel retail business. Yet, on the other hand, it would seem that a person with limited expertise and education makes a tremendous success of the venture.

Secondly, case study approach provides the researcher with a detailed set of information from which specific theoretical nuances can be examined and explored. Thirdly, the method is useful as it allows for multiple theoretical approaches to be tested against the same set of events using multiple data sets of the same phenomena and is therefore valuable in the evaluation and comparison of competing theories.

The research sought to examine the complex phenomena around the reasons for failure and success. Case studies allow an investigation to retain the holistic and meaningful characteristics of real life events. The EFG (Energy Finance Group) case history as described in **APPENDIX 1** is a real life event where a niche funder loaned capital to entrepreneurs to purchase their own fuel stations.

The overall results of the twenty - one entrepreneurs placed in these businesses, are that almost half of them had failed. This failure report was extracted from the loan records of the finance company. It is for this reason, that the case study approach was adopted, in order to "get under the skin" and to conduct in-depth tests to identify the reasons for failure and success. The total case population shared the same uniform procedures as a condition

before the loan was approved and all received the same professional support for the duration of the loan. The EFG case study was an ideal opportunity to address the research question.

5.5 THE SCOPE OF THE STUDY

The study was conducted in the period 2000 – 2005 and focused on those emerging entrepreneurs that had received funding from the EFG. The case study respondents used in this research were also selected from the afore-mentioned group where the researcher explored reasons that constituted failure or success of the retail fuel Industry sample.

5.6 THE GENERALISATION ISSUE

Newbold (1991:782-783) asks, "What is the relevant population and is a listing of it available?" He concludes that dubious conclusions have often been reached following an otherwise perfectly respectable analysis of survey data.

There are four specific threats to external validity: the interaction of testing and experimental treatment; the interaction of selection and treatment; reactive arrangements and interferences of multiple treatments with one another. This diagnosis could be possible due to the fact that because of the advances in sampling theory in survey research, it is possible to draw samples from very large and heterogeneous populations and then to generalise using the logic probability statistics.

Denzin (1983:133-134) rejects generalisation as a goal in research and notes that, "the interpretivist rejects generalisation as a goal and never aims to draw randomly selected samples of human experience. For the interpretivist, every instance of social interaction, if thickly described represents a slice from the life world that is the proper subject matter for interpretive inquiry ...every topic... must be seen as carrying its own logic, sense or order, structure, and meaning".

This strong rejection of generalisation is perhaps due to the historical tendency to regard the issue of external validity as irrelevant and hence to disregard it as qualitative research tradition has been closely linked to cultural anthropology with its emphasis on the study of exotic cultures.

Finally, Gomm, Hammersley and Foster (2000:74) notes that, many qualitative researchers have began to recognise the importance of dealing with the issue of generalization. It is clear that the classical view of external validity is of little help to qualitative researchers interested in finding ways of enhancing the likelihood that their work will speak to situations beyond the one immediately studied – that is, that it will be to some extent generalisable. The idea of sampling from a population of sites in order to generalise to the larger population is simply and obviously unworkable in all but the rarest situations for qualitative researchers, who often take several years to produce an intensive case study of one or a very small number of sites.

Whilst the findings of this research work may not in the conventional sense be generalised, case studies like experiments are generalisable to theoretical

propositions and not to populations or universes. In this sense the case study, like the experiment does not represent a "sample" – and in doing a case study the goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation).

5.7 THE CASE STUDY DESIGN

Yin (2003:19) describes a case study design as, "case study design is the logic that links the data to be collected and the conclusions to be drawn to the initial questions of the study. Every empirical study has an implicit, if not explicit research design. Articulating "theory" about what is being studied helps to operationalise case study designs and make them more explicit"

The data collected in the EFG case study (see case history in **APPENDIX 1**) was drawn from multiple sources. The various sources of data sought to address the research question raised: What are the causes of success and failure of small fuel retailers in the Republic of South Africa?

Nachmias and Nachmias (1992:77-78) describes a research design as a plan that, "guides the investigator in the process of collecting, analysing and interpreting observations. It is a logical model of proof that allows the researcher to draw inferences concerning casual relations among the variables under investigation".

The research design is therefore a logical plan of action detailing how the researcher would make progress from dealing with the research question, then

collection of the relevant data and then describing how the data will be analysed. Due to its limited use by researchers as a methodology, a fair amount of doubt exists about the design of case studies. Careful care has been taken to deal with this apprehension at the outset.

The importance of developing a research plan is that its development will help avoid the situation where the evidence does not address the research questions being investigated. The reasons for failure and success will be provided by the case evidence that will emerge from the cross case analysis, observations, interviewing and re-interviewing, review of selected parts of the retailer-training course and the quantitative analysis from the financials and other reports.

The research questions in this study deals with the reasons for small business failure and success. The methodology adopted is a multiple case study approach comprising twenty-one fuel retailers. By adopting the multiple case approaches, a cross sectional analysis was possible. This allowed the researcher to draw meaningful conclusions about the reasons for failure and success.

5.7.1 COMPONENTS OF THE RESEARCH DESIGN

Yin (2003:21) further states that five components are important in case study research design. They include the study questions, its propositions, the unit of analysis, the logic linking the data to the propositions and the criteria for interpreting the findings.

It is in the assessment of the research findings into the study questions that insight can be obtained into the reasons for both failure and success in the fuel retail sector. Micro-businesses are the foundational contributors to the economy. The reason for the failure and success amongst fuel retailers warrants careful scrutiny. Why is the failure rate so high? What are the key contributing factors? What are the critical success factors? What are the controllable factors? Is it at all possible to reduce the failure rate? What are the reasons underlying failure and success? A detailed understanding of contributing factors to failure and success will form the foundational basis for the creation of future entrepreneurs.

The research will specifically provide answers to the raging debate that currently pervades the retail fuel industry. Firstly, Government determines the margins for the fuel retailer and is therefore perceived as unsympathetic by fuel retailers, then the oil industry operating as franchisors are accused of not fully performing their function as franchisors, bankers have red-lined the retail fuel sector as high risk sector thus limiting the flow of capital and lastly, the fuel retailers themselves see the oil industry as exploiters seeking to improve their bottom line without due regard to themselves. All of these issues are eclipsed by the absence of an independent research.

Secondly, the study propositions for the reasons of success and failure are considered. Although this research is a qualitative case study intended to extract by in-depth analysis of individual cases, the reasons for failure and success, on the basis of the literature review, industry experience and

intuition, the researchers study propositions is that failure is primarily the result of poor management and training, entrepreneurial factors, occupational factors and exogenous factors.

The third component of the research design is the unit of analysis. This component is related to the problem of defining what the case is. Yin (2003:12) states that, "In each situation, an individual person is the case being studied and the individual is the primary unit of analysis"

This is a case study of fuel retailers financed by EFG and hence they are the unit of analysis in this research. The successful and failed fuel retailers were appointed in 2000 and 2001. Only those successful or failed fuel retailers that EFG loans were granted to in 2000 and 2001 was part of the unit of analysis.

Specific time boundaries have been defined to determine the limits of the data collection and analysis. Only the original set of fuel retailers that were funded by EFG was considered – the first twenty-one loans.

Attempts were made to link the data to the propositions. This was done by providing a financial analysis on the audited financial statements and then comparing the financial results to the findings from the detailed interviews. The financial and interview results was further augmented by observing and reviewing selected sections of the oil company training course, conducting expert third party interviews, attending the government sponsored workshop on fuel retailers, returning to the field for further observing activities on the fuel retail sites and re-interviewing, to obtain clarity on working capital issues.

The criteria used for interpreting the findings included a comparative analysis of key operational and financial variables between the successful and failed retailers and an integration of the interview results with the documentary evidence to find support for case respondent views. The purpose was to strike a pattern or match. If for example, it was found that retailers failed due to insufficient education and training, then the chances of failure may be reduced by improving education and training. In other words, failure is a function of education and training.

5.7.2 THEORETICAL DEVELOPMENT

The role of theory development, prior to the collection of data, is a significant point of difference between case studies and other related methods of research. Many research methods such as experiments and surveys deliberately avoid specifying any theoretical propositions, although such exploratory studies have a stated purpose at the outset. In a quantitative study, a hypothesis is formulated and is later tested in the research findings.

Lord (1993:198) notes that, as stated by Scapens (1990), "That the appropriateness of a research methodology, as opposed to competing methods, depended upon the methodological and epistemological position of the researcher".

The social sciences and the theoretical presuppositions of the researcher influence the observation, the perceived phenomena and the interpretations

thereof. It is therefore appropriate to review the epistemological stances that might have been appropriate for this research work and to explain the approach adopted.

The definition of epistemology was given by Emory and Cooper, (1991:37) as: "...The philosophy of science or, more specifically, epistemology is the body of knowledge that provides the classifications that help us discriminate amongst the styles of thinking."

Lord further notes that, Otley and Berry (1994:45-46) distinguished between three epistemological stances of positivism, functionalism and insight. Positivism suggests that research aims to develop the explanations of phenomena. Researchers continue to modify theory as new evidence emerges. Theories can be abandoned by researchers should superior theories emerge.

Lord (1993:199) also states that, functionalism aims to explain phenomena in relation to their functions in support of the purposes of an organization. This approach was criticised by Otley and Berry (1994:50) as it tended to produce interpretations of phenomena and control systems, rather than working towards the building or developing of theories.

Lord (1993:199) also states that insight stances, also referred to as "Verstehen", include phenomenology, ethno methodology and interpretative methods. These methods are not utilised for formal theory-testing purposes, but address the pivotal issues of purpose, power and values that are ignored

by positivist approaches. Otley and Berry (1994:50) stated that, researchers often adopted insight stances when they were interested in rationales or theories in use by subjects within a case study situation. They noted that such researchers often relied on predetermined theory through which observations were interpreted.

Otley and Berry (1994:48) criticised the functional and insight approaches, as they did not primarily aim at building, developing or the testing of theory. Anderson, Sweeney and Williams (2002:359) stated that, hypothesis testing could be used to test the validity of a claim and for decision making.

This research work is undertaken as a multiple case study analysis, examining the reasons for failure and success amongst individual fuel retailers within the EFG group. Otley and Berry (1994:48) supported that a positivist approach could be applied as the study of a particular organization could be viewed as part of a wider set of similar studies, provided that adequate scientific control was demonstrated. This would ensure that subsequent researchers could follow the design in a reliable manner. This research work can best be classified as a positivist approach.

Otley and Berry (1994:48) further acknowledges that the main difficulty with this approach was the potential inability to control the boundary of the research study effectively, thus failing to ensure that the values of the endogenous variables were held constant. They also noted that the full range of the exogenous variables might not be fully observed, and comparative analysis may then not be possible.

Yin (2003:28) states that, "For case studies, theory development as part of the design phase is essential, whether the ensuing case study's purpose is to develop or test theory". The goal is to have sufficient blue print for the study, and this requires theoretical propositions, as noted by Sutton and Staw (1995:378), as "a hypothetical story about why acts, events, structure and thoughts occur".

While theory is not primary and evidence is – this research seeks to test the assumptions that underlie this study and hopes to find evidence that either strengthens the initial understanding or challenges the assumptions made. It is accepted that contradictory evidence could emerge or even evidence that qualifies the emerging understanding but both remain basic to research integrity.

The theory being presented in this research is four - fold. Firstly, the researcher has theorised that entrepreneurial factors may play an important role in success and failure. The variables to be considered include the entrepreneurial factors such as age, gender, professional affiliations, education, training and motivation. The retailer as the unit of analysis is the subject that needs to be studied under close scrutiny. Understanding the human ability and influence is important in extracting the reasons for failure and success.

Secondly, management Factors are a key component of success and failure. This is perhaps the most significant variable to be considered in explaining the

phenomenon of failure and success. It is intended to qualify the entrepreneur's decision to buy the business. The spectrum of questions would include consideration of pre-business purchase issues and a due diligence study with a series of probing sub –sections covering financial and general management.

Thirdly, it is theorised that occupational factors play a role in small business success and failure. It is suggested that business success is enhanced by previous experience. Previous experience is not restricted to previous retail convenience experience but any small business experience, as the fundamentals are essentially the same. The test of previous experience attempts to clarify whether the move from the position of employee to entrepreneur is any different than moving from one small business to another.

Lastly, exogenous factors have an influencing role for success and failure. This refers to factors directly outside the influence of the small business influence like economic shocks in terms of high interest rates or other externalities like road closure, as was the case with one of the cases originally considered for inclusion in the multi case study.

The rival theory is that none of the above is relevant but that success and failure is a function of volume and turnover. In other words, the volume of fuel pumped or turnover generated from non-fuel income streams determines the retailer's success or failure. This subsection has suggested that a complete research design, covering the five components of research design is enhanced by the development of a theoretical framework for the EFG case study.

5.7.3 RELIABILITY

The research design is intended to represent a logical set of statements. The quality of the research design was also determined by certain logical tests. These tests include trustworthiness, credibility, conformability and data dependability. In essence, the tests are reliability and validity.

Reliability ensures that if a consequent researcher adopted the same procedures as described in this research work and conducted the same study again, then the researcher will arrive at the same conclusions and findings. This simple test for reliability was followed. The "footprint" of the research process was recorded to enable another researcher to take the same journey. An inventory of all the documentary evidence was kept and has been indexed for easy reference.

Reliability seeks to reduce the errors and bias in the study. The case study protocol was adopted to deal with the issue of reliability and thus allowed a second researcher to retrace the steps adopted.

Yin (2003:69) recommends that a case study protocol should include an overview of the case study, field procedures adopted, case study questions and outline of the case study report.

The reason for adopting the case study approach was that all fuel retailers funded under the EFG relationship went through the same qualifying

processes and had the same chance of succeeding. In spite of this, about fifty – percent of the fuel retailers had failed. Failure was defined in chapter two sections 2.3 as the inability to trade or a structural change in the business. In other words, any change to the original structure of the working capital or ownership was treated as a failure. The study is intended to research the reasons for such failure.

This makes for an interesting academic study in the context of the research question. The case history is attached as **APPENDIX 1**.

The only asset that the small business entrepreneur owns is the share in the "goodwill" or brand. All other assets on site, from pumps and tanks, to shop equipment are owned by the oil company. When purchasing a service station, the retailer has simply prepaid for the future cash flows. In most cases, the small business fuel reseller owns the property but these are generally smaller sites that offer limited convenience to the motorist. Price is not a differentiating factor as the fuel retail business is price regulated with service and convenience being the main driving considerations.

The reasons for failure and success would be the same for either an oil company owned site or for a fuel retailer owned and operated site. This is due to the regulated nature of service stations in South Africa. Profit margins are set by Government and are the same for both types of service stations.

The EFG funding model used the future cash flows as security and lent funds against the future earnings. All loans were paid into a proprietary limited

company and the shares were ceded to EFG as security. This ensured that, in the case of inability by the fuel retailer to make loan repayments, EFG would then exercise its option to take cession of the lease and then appoint a new retailer.

EFG also provided insurance and financial support services to its clients. According to the loan register twenty one (21) loans were issued between 2000 and 2002 and of this total there were eight successes (08) successes and seven (07) failures. The remaining six retailers could not be included in the analysis.

The substantive issues to be investigated include training and skills, previous occupational experience, general management ability and exogenous variables. The last option has been included to isolate factors that do not require research to identify. These include factors such as death and economic shocks like exceptionally high interest rates.

The rationale for using the EFG fuel retailer is two- fold. The candidate businesses have strong uniformity in their funding, training and support. Now, under such similar circumstances how is it possible that some would succeed and some would fail? Are there perhaps other reasons that define success and failure? If poor training is the reason for failure then good training must be a reason for success. Does such a linear relationship exist? The rival theory presented is that, fuel volume turnover and non- fuel sales are the most substantial reasons for failure and success. Is this really true? If it is then what

is the volumetric threshold that reflects such a point? The theoretical development also factors in externalities or exogenous variables.

One particular service station, funded by EFG was FFR10 in Newlands. This site pumped in excess of 400 000 litres – this was an exceptional volume compared to the South African industry average of 170 000 liters. However, a new road detour stranded the service station and the volumes were reduced, forcing the retailer out of business. This externality is not considered in this case report, as the reason for failure is unfortunate – but known. In answering the research questions, we are attempting to isolate factors that differentiate failure and success in the same range of turnovers challenged by the same circumstances. We would then arrive at a set of controllable factors capable of management control.

Another of the retail sites that would have been a classic inclusion was FFR10. This site pumped in excess of 300 000 litres per month and the non-fuel income was R250 000. The fuel retailer at this site failed – and could not be included in the analysis due to the retailer's reluctance to participate.

Previous studies by Johnson (1999) suggest that government regulation and franchising enhance the chances of success. Service station retailers operate within a regulated industry and within a franchised environment. Government regulates the profitability of service stations by allowing a retail margin on the sale of fuel. This margin is calculated from a survey study done by the Potchefstroom Small Business Unit. The margin is a reward for efficiency – the

reasons for efficiency and inefficiency amongst the EFG case group will be determined in this research.

The field procedures adopted is detailed under section 5.11 and was primarily constituted of informal interviews. The case study question is the last aspect of the case protocol used for establishing increased reliability and reflects the heart of the research enquiry. Yin (2003:74) states that, "the protocols questions are in essence your reminders regarding the information that needs to be collected and why."

The protocol is for the data collection from a single case, or one fuel retailer and was not intended to serve the entire project. Miles and Huberman (1994:75) recommended that, the protocol questions should include, "table shells" which are outlines of a table clearly defining the rows and columns of a data array – but without actual data.

This technique was applied to further increase the validity of the research by allowing another researcher to use a similar tabulated approach. A table shell facilitated the collection of parallel information from different fuel retailers in the multiple case studies and is attached as **APPENDIX 2**.

APPENDIX 2 outlines the open- ended questions posed to each of the selected EFG fuel retailers. The final section on increasing reliability considered the format of reporting the case study. A multiple case study approach within both a qualitative and quantitative style was adopted. This was done to increase acceptability of the findings or to seek greater

convergence or triangulation in the research findings. The quantitative techniques simply adopted financial analysis and ratios to seek support for the qualitative findings.

No separate chapters or section was dedicated to specific fuel retailers but the entire report will consist of cross case analysis both descriptive and explanatory. Each of the issues will be covered in separate sections and the findings of individual cases will thus be dispersed throughout each section. Clearly, the documentation collected and used in the case study analysis forms an integral part of the data- base. The research, as recommended by Yin (2003:77) included in the case study report an annotated documentation list in which each of the available documents was itemised. This is included in **APPENDIX 9.**

The annotations will help increase the validity, as future researchers will know which documents might be relevant for further enquiries. In this way, the key findings across the cases will be clearly captured and compared to other sources of evidence.

5.7.4 VALIDATION

Internal validity is only a concern for casual or explanatory case studies in which a research is attempting to establish whether event x led to event y. If the causation is incorrectly established – without knowing that some third factor – z, may have actually caused y – then the research has failed to deal with the threat of internal validity. This approach does not apply to exploratory

case studies such as the one being undertaken. The objective is to draw out the reasons for success and failure and not to seek a basis for correlation in advance.

External validity deals with the issue of generalization – knowing whether the studies findings are generalisable beyond the immediate EFG case study. Critics often state that a single case will offer poor basis for generalization. However, such critics are implicitly contrasting the situation to survey research where a sample, if correctly stated, readily generalises to a larger universe. Survey research relies on statistical generalization while case study research relies on analytical generalisation. In analytical generalization, the researcher is striving to generalise a particular set of results to some broader category.

Replication logic – not generalization is claimed in case study approaches. Replicating the findings in a second or even third study will test a theory. Once such direct replications have been made, the results might be accepted as providing strong support for the theory. If poor training is identified as a failure factor in the in the first case study and this is repeated in the second and third and so forth – then we can state with confidence that poor training provided by the oil company is a possible cause of failure within the EFG case group. Another researcher can then adopt quantitative approaches and use this as a starting point for obtaining a more generalised view on a wider sample.

Yin (2003:35) notes that, "people who have been critical of case studies often point to the fact that a case study investigator fails to develop a sufficiently

operational set of measures and that subjective judgments are used to collect the data."

In view of Yin's concerns, multiple sources of evidence were used in a manner encouraging convergent lines of enquiry in the data collection phase. This involved both unstructured but in-depth interviews with each of the fuel retailers chosen, third party interviews with industry experts, returning to the field for further clarification and analysis of audited financial statements together with other documentary evidence.

The analysis could further be divided into failed retail operators and successful retail operators- thus enhancing the quality of the research findings. The other data collection procedures were developed as the research unfolded. This resulted in further interviews, field trips for observation of management control, expert third party discussions, critical review of the loan valuation model and due diligence information and other data collection methods.

Various tactics were available to increase construct validity when doing case studies. Firstly, there is the collection of data from multiple sources in a manner that encourages convergent lines of enquiry. This was done – although it was more expensive, time consuming and required the researcher to be trained on how to successfully conduct interviews.

Other documentary evidence and observation results were also used to test the case study responses to remove individual bias or inaccuracy. An example was the question in the informal interview schedule about the size of retailer

drawings– the responses were measured against the drawings amount reflected in the audited financial statements.

The data used in the research work was both primary and secondary in nature. Primary information was defined by Cooper and Schindler (2001:81) as: "...Proximity to the truth", while secondary data was defined as: "have at least one level of interpretation between the event and its recording." The core of the primary information collected constituted individual interviews and documentary review. The secondary data came from third party interviews.

Secondly, the establishment of a chain of evidence in the data collection phase also increases construct validity. This was established to improve the quality of the validity. Lastly, the researcher emailed the draft case report to the key informants to be reviewed for accuracy and content. Comments were further analysed and inputted into the main body of the findings. The validity of one source of information, was compared and contrasted to other sources and in cases where discrepancies resulted, such discrepancies were noted.

The use of theory also becomes the main vehicle for generalising the results of the finding or seeking external validity. While statistical generalization cannot be claimed, as the individual service station cases were not sampling units, the multiple cases in this study were treated as multiple experiments. The research will make an "analytic generalization" in which the previously developed theory is used as a template with which to compare the empirical results of the case study, as suggested by Yin (2003: 32-33).

If two or more cases from amongst the EFG fuel retailer support the same theory then replication logic will be claimed. The empirical results would be more potent if two or more cases support the same theory but do not support the plausible rival theory.

5.7.5 SCREENING OF CASE STUDY NOMINATIONS

Lord (1991:209) refers to the "accidental access" as a reason for undertaking research. This refers to cases where the researcher or his associates have prior personal contacts with senior managers in an organization. Such a pre-existing relationship can aid the process of "selling" the research proposal to management.

This research work in the small business area and specifically within the fuel retail sector was no accident. The researcher had an express interest in the small business sector and more particularly the service station industry having previously owned and operated a number of service stations. The target population is all the loans from the EFG loan book and the selected cases met the following criteria:

- Retailers had to be from the class of the 2000 /2001 loans – when EFG was first formed to finance fuel retailers. The rationale here was that, those existing at the time of this study would have an extensive financial and document base year on year. Documents for those that have failed were available from EFG. This criterion was important to prevent double counting as many of the failed retailers businesses were re-financed and then operated by "new entrepreneurs." The researchers primary interest

was to identify the reasons for success and failure amongst the group that "were given the same chance" under the same conditions in 2000. Criteria like cost of capital, interest rates, support structure and sweat equity contributed were the same. This was important as it created uniformity in the data set to be examined.

- To seek convergence in the findings the research has adopted a triangulation approach where both quantitative and qualitative techniques would be applied. The basis was to test whether a variable like financial training had a bearing on the retailer's success and failure. In the ordinary world, one would expect that well trained retailers were successful and untrained ones failed. Access to audited financial information was important.
- It was also important to have the full support and co-operation of the respondent to maximise the provision of information.

Each of the nominees was contacted by telephone and through personal visits where appropriate. Information on twenty-one fuel retailers was obtained and six had to be excluded. There were eight successes and seven failures. Table 5.1 provides a list of the cases that were considered based on the accessibility to the fuel retailer and thoroughness of the documentation.

TABLE 5.1

THE NOMINATED FUEL RETAILER CASES

SFR01	FFR01
SFR02	FFR02
SFR03	FFR03
SFR04	FFR04
SFR05	FFR05
SFR06	FFR06
SFR07	FFR07
SFR08	FFR08
SFR09	FFR09
SFR10	FFR10
	FFR11

Six of the nominations had to be excluded. Firstly, FFR09 in Cape Town could not be traced and was therefore excluded. Then FFR10 had to be excluded as the site was stranded due to new road developments. This resulted in the volumes being reduced by more than half and ultimately causing the fuel retailer to exit the site. The reason for failure – uncontrolled in this case was not due to the dealer's activities and was thus not considered. The reason for failure in this case was obvious. Although, contact was made with SFR08 and the retailer agreed to participate, there were significant gaps in the documentation required and it was decided to exclude this case from the final list.

The fuel retailer at SFR09 was deceased. The FFR11 could not be traced and was also was excluded from the case study. The SFR10 was reluctant to participate and after some consultation with other fuel retailers was excluded.

Although the screening process resulted in a large number of exemplary cases, multiple case studies are best suited when a large number of cases are included. While the exemplary cases chosen were mainly from Kwa Zulu Natal, this had little bearing in the case results due to the regulated nature of the industry. The case samples had a fair mix of huge volume and average volume sites setting the scene for interesting analysis.

Yin (2003:13) notes, "The specific cases to be studied may be selected by following several different rationales, one of which is to select "exemplary" cases. The use of this rationale means that all the cases will reflect strong, positive examples of the phenomena of interest. The rationale fits the replication logic well, because your overall investigation may then try to determine whether similar casual events within each case produced these positive outcomes."

Yin (2003:78) notes that, "... Sometimes the selection is straight forward because you have chosen to study a unique case whose identity has been known from the outset of your enquiry. Or you may already know the case you will study because of some special arrangement or access that you have."

This was indeed the situation in this study. The researcher had access to the historic information in the form of individual administrative and financial

information and full access to the fuel retailers – many of whom were known on a first name basis.

This familiarity did present the risk of choosing the wrong "cases" and to guard against this, a screening procedure was applied in advance of the formal data collection. However, a notable constraint was that only a small number of cases could be the subject of the study. This was based on "getting under the skin" of each case and into the research questions for the reasons of failure and success in the fuel retail sector.

Another limitation was that the study needed to be able to inform policy decisions on the future of the fuel retail business and to create a platform for dialogue between the different stakeholders. Although no statistical representative sample could be drawn from such a small number of cases, some distributive factors needed attention.

Multiple cases were required but only a small number could be subjected to greater study, thus leading to the use of replication logic to select the final cases. Ginsburg (1989:597-679), noted that an exemplary case design is important.

In applying replication logic three criteria was necessary. Firstly, every case had to demonstrate, prior to final case selection, the occurrence of exemplary outcomes. The considerations were whether similar events in the case of each fuel retailer could result in similar outcomes. Secondly, the criterion must reflect the researcher's quest to provide answers to the research questions.

Lastly, the cases were to cover different fuel retailers across the different fuel outlets emphasising different styles and approach of the different retailers, with the uniformity in support and operations that the EFG retailers had experienced.

As a result of these considerations, the researcher firstly considered all the fuel retailers that EFG had funded. The total number of fuel retailers funded by EFG was twenty-one. This was across the Engen, Caltex, Exel and Shell brands. Due to the diversity and operational requirements of each brand, it was decided to consider all brands to enhance the integrity of the case study when choosing the sample cases. While individual brands, like Engen did have unique operational and training requirements, they were operating under similar circumstances. Thus, the fuel retailers were chosen from across the different brands. All the cases chosen had documented and exemplary outcomes that survived the researchers screening procedures. The selection included failures and successes covering some distribution across the geographic and economic conditions.

It is important to qualify this reasoning and choice of "cases" as supported by Yin (2003:78), who advised that although there may be many qualified "cases" one has to choose a multiple of cases from amongst them.

A set of operational criteria was also used to help select the "cases." Senior management knowledgeable about each candidate case from EFG and the respective oil companies were consulted about each case. Documentation, including annual financial statements and due diligence reports, on the

selected cases were collected to further qualify the selected cases. The researcher also wanted to avoid an extensive screening procedure that effectively became a "mini" case study.

The multiple cases selected showed good potential for the analysis to provide answers to the research questions.

5.8 DESIGN OF THE QUESTIONNAIRE

Two open-ended questionnaire was used to obtain primary information. The first questionnaire contained the major thrust of the research data and the second questionnaire, which was administered telephonically, covered only the working capital considerations. According to Tull and Hawkins (1984:252), "a questionnaire is a formalised set of questions for eliciting information." The design and construction of the interview questionnaires, based on the literature review, went through many drafts and was constantly refined until the final research instrument was formulated. Melville and Goddard (1996:43) noted that a good questionnaire design should satisfy the following conditions:

- It is complete and elicits all the data required
- It asks only relevant questions
- It gives clear instructions
- It starts with general questions
- It has objective questions with sensitive questions spread at the end

These elements were considered in the drafting of the questionnaire to ensure active respondent participation. The instrument used in this research consisted

of a series of questions intended to solicit maximum response and comprised the following sections:

- A Biographical information
- B Service station operations
- C Financial information
- D Occupational experience
- E Management factors
- F General management information
- G Human resource management
- H Exogenous variables
- I General

The first questionnaire comprised one hundred and forty three structured questions, which elicited detailed information from the case study respondents as shown in **ANNEXURE 4**. A covering letter to the respondent outlined the importance of the study, the aim of the research and the importance of participation. An incentive in the form of sending through the final study results was used to bolster co-operation. The covering letter was formalised using the institutional letterhead and was either faxed or shown to the respondents to validate the authenticity of the study. The questionnaire was directed to the fuel retailer and the researcher conducted all fifteen case interviews and third party interviews personally.

The second questionnaire, the working capital questionnaire, was administered telephonically and covered five questions as follows:

- Calculation of the working capital amount

- Inclusion of capital and non capital items
- Consideration for stock turns
- Consideration for fuel price adjustments
- Consideration for no margin increases

The working capital questionnaire resulted from the analysis of the first questionnaire and was therefore **not** conceived of at the beginning of the research. To complete the cross case analysis, it was necessary to return to the field and obtain further information on the working capital structures for each of the cases.

5.9 PRE-TESTING

Pre-testing is important to establish research credibility and it facilitates quality data collection.Martins (1996:232) states that, "the researcher who avoids a questionnaire pretest and tabulation of replies is either naïve or a fool." Pre-testing refers to initial testing of the questionnaire by friends or associates to ascertain the following:

- Are the question prompts clear enough to stimulate discussion?
- Is the choice of words in the questionnaire clear enough?
- Is the structure of the questionnaire logical and easy to follow?
- Are the questions not leading the respondent in a particular direction?

The questionnaire was given to a research methodology lecturer at the University of South Africa and to a fuel retailer in Kwa-Zulu Natal for constructive critique with a view to further amendments and fine-tuning. Both

individuals were familiar with the objectives of the study and the following is noted:

- It took too long to administer the interview questionnaire but the researcher was reluctant to reduce the number of questions asked in the unstructured interview questionnaire, as it would have necessitated the removal of entire variables from the research work and could be subjected to criticism, as this was a qualitative effort. It was better to continue the interview over a number of sessions than reduce the number of questions.
- The questionnaires were administered to the respondents in the English language and this presented no problems. The researcher was concerned that English was not the first language of most of the respondents.
- The pre-test did reveal some minor ambiguity and the questionnaire was refined to ensure clarity and simplicity of expression. Some questions were unclear and resulted in yes or no answers only. This was reworded to generate detailed responses. It also found that some questions were repeated and they were deleted. This related to Mark ups and GP's in sections E, F and I.
- The format of the original questionnaire was also a problem. The question type approach restricted the respondents to the question being asked. The question format resulted in many "yes" or "no" answers with not much conversation. Clearly, this was not suitable and was changed to using prompts.

The continuity and flow of the unstructured interview questionnaire, the sequence of the items, and the open - ended responses sought within the preambles were all successfully pre – tested. The recording devices worked well and the recording of responses in abbreviated form for later compilation was also successfully done. No significant changes were necessary on the interview questionnaires and it presented no validity problems.

5.10 PILOT STUDY

Cooper and Schindler (2001:81) noted that, a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. While the study adopts a mix of qualitative and quantitative approaches, a pilot study was still considered relevant. The qualitative aspects required that only exemplary cases be considered for inclusion.

Yin (2003:78-79) notes that, "a final preparation for data collection is the conduct of a pilot case study. The pilot case may be chosen for several reasons unrelated to the criteria for selecting the final cases in the case study design. For example, the informants at the pilot site may be unusually congenial and accessible, or the site may be geographically convenient or may have an unusual amount of documentation and data. One other possibility is that the pilot case represents a more complicated case, compared to likely real cases, so that nearly all the relevant collection issues will be encountered in the pilot case".

Convenience, access and geographic proximity were considered in selecting the pilot cases. This allowed for a less structured and more prolonged relationship between the respondents and the researcher. This approach was useful as the pilot case was used as a "labouratory" for the testing of the informal discussions.

The enquiry was very broad based and served as a trial run. The objective was to determine the validity and reliability of the questionnaires with a view to making final changes in advance of the actual survey. As a precautionary measure, the two pilot sites were representative of the EFG case respondents in that they were EFG retailers and had gone through the same processes as the actual case respondents.

The pilot retailers are also long time friends. Besides the proximity and convenience, they did not mind the fact that the research was at its initial stages. One was a Caltex branded site, situated in Gauteng and was owned by FFR10, who had undergone financial difficulties and was forced out of the site by Caltex and EFG. This fell within the category of failed retailers. The other retailer, SFR10 had operated an EFG funded site at Johannesburg International Airport and was considered a successful fuel retailer at the time of the interview. The geographical location of the pilot cases was close to the researcher's residence and this helped to refine the process through many visits. The following were the main lessons from the pilot test:

- An important finding was that although a single protocol could be used to understand the reasons for success and failure, the questionnaire had to be refined to enable its use for both a failed and a successful site. Other

specially designed questionnaires would have been needed for each success and failed category resulting in two questionnaires and will be cumbersome. Questionnaire prompts were used to stimulate a meaningful discussion. This also removed the need for different questionnaires being developed for failed and successful sites and highlighted researcher weakness as a research interviewer. Formal interview training was taken from Mr. C Coetzee, a research methodology lecturer at the University of South Africa.

- It was not easy to obtain copies of the audited financial statements and due diligence reports. The audited financial statements were obtained from EFG and special consent was necessary. In the sample case, the financials for FFR10 could not be obtained. This became an important consideration when making the final case selection, as the audited financial statements were key for the cross case analysis to be done.
- It was clear that telephone interviews or email discussions could not replace the actual interviews, as was the original intention.
- Retailers had a certain passion for reporting their success and especially their failures. It was almost impossible to allocate a time for the informal interview due to the number of issues and personal views that the fuel retailers held. This was another consideration for the data collection. Therefore, no time limit was proposed for the real case interviews and the respondents were informed about this in advance. A valuable lesson learnt was the need to inform the retailer that the entire interview could be completed in different stages – in other words on different days, if the discussions could not be concluded in one sitting.

- It was noted that while testing the data collection plan that the retailer often had relapses or forgot about specific details but wanted to report it and therefore tried to get a copy of some document or correspondence to make a point. This involved the retailer calling the office staff and on both occasions, the office staff could not find the specific documentation. On site interviews was therefore the logical choice for the actual interviews.
- The pilot test also revealed the importance of referencing each report. At the end of the second pilot interview, the researcher had often forgotten who made specific remarks due to the quantity of information being collected. If this were the case with the two pilot cases, then the responses from the selected cases would represent a significant data - base of information. Each response was therefore coded by using SFR01 for the first successful retailer and SFR02 for the second and so on. The same was adopted for failed retailers and FFR01 denoted the first failed retailer and FFR07 for the seventh failed retailer.
- Some mild resistance was noted from the pilot respondents who were apprehensive, about their comments being referenced to themselves. This was a particular problem and the researcher noted the importance of communicating that the final case report would be structured across different subject matters and that the financials would be coded so as to keep the financial data confidential. Thankfully, the covering letter from the business school and the confidentiality disclosure placated most of their fears. It is still not clear why this would have created the apprehension it did.

Further refinement of the questionnaire was not deemed necessary and the pilot study revealed some important pointers for the actual data collection process.

5.11 DATA COLLECTION

According to Varkevisser, Pathmanathan and Brownlee (1991:142), "data collection techniques enable researchers to systematically collect information in order to answer questions in a conclusive way." Yin (2003:97) also notes that a "major strength of case study data collection is the opportunity to use many different sources of evidence. Further more, the use of multiple sources of evidence far exceeds that in other research strategies..."

Two main data sources were used in this research. Firstly, informal interviews were conducted with specific fuel retailers, stakeholders and experts and secondly a number of documents were collected, workshops attended and publications scrutinised.

5.12 DATA COLLECTION USING INTERVIEW QUESTIONNAIRES

5.12.1 CASE RESPONDENT INTERVIEWS

Each of the selected fuel retailers was telephonically contacted and the purpose of the study was explained. An appointment was secured and upon arrival, the purpose of the study was again explained. Permission was obtained to use the interview notes and the financials for academic purposes.

A formal letter of introduction, as attached in **APPENDIX 3**, was faxed in advance of the interview, and in some cases read before the interview. On a number of occasions the schedule of dates were changed due to the respondents busy work schedule. The questionnaire covered different questions and the case respondents were encouraged to provide much detail as possible.

The importance of recording the interview was highlighted and the basic functioning of the Olympus digital voice recorder VN-240 PC was also explained. This was useful as the recorded interviews were saved as sound files on the laptop. The recorder had a very useful pause button – allowing us to break when a staff member interrupted or something urgent had to be attended to. The master response sheet on the laptop was used for abbreviated notes as the respondent spoke to the different prompts raised. As far as possible, the respondent's comments were recorded verbatim.

The interviews were conducted over five months starting May 2005 to November 2005. This totaled 17 visits across the country – including the pilot interviews. In the cases of failed retailers, the interviews were conducted at their new businesses or homes and in some cases at their sites.

The interviews generally lasted for about two hours. The following prompts were used to guide and stimulate the discussions: (Details in **APPENDIX 2**)

- Biographical information
- Service station operations
- Financial information

- Occupational experience
- Management factors
- Financial management
- Wet stock management
- Dry stock management
- Cash management
- Controls and administration
- General management
- Human resource management
- Exogenous variables
- General information

To the extent that the retailer felt comfortable with the researchers typing on the laptop, this was done. At times when the typing of notes seemed to create a break in the conversation, only headline details was recorded for completion after the interview.

When failed fuel retailers were interviewed, the atmosphere was initially tense. The retailer initially felt uneasy and was generally very critical of the Oil Company and EFG. In such cases, the researcher allowed the retailer to vent their emotions and paid complete attention to the retailer's views and relied completely on the tape recordings for later analysis. This was done to ensure that the retailer did not feel that the researcher was unsympathetic or disinterested in the views being expressed.

The case study report was then completed from the notes and was emailed to the respondents to ensure accuracy of facts with a request that track changes on Microsoft word be used. This was possible as all retailers had access to email. A short instruction on how to use the track change facility was also included. Only one report with tracked changes was received back. On receipt of the track-changed report, the response was filed for later analysis.

A digital recording device was used to record all interviews and the voice recordings were transferred as sound clips onto the electronic database. This again enhanced the reliability that was being established. In cases where further clarity was required – a telephone call was made. In cases where significant clarity was required, email follow- ups were used and allowed the researcher to gather additional information with the flexibility of moving back and forth between data collection and data analysis.

5.12.2 SECOND CASE RESPONDENT INTERVIEWS

The researcher had to return to the field to seek further elucidations and clarity on responses received and on a number of new questions raised about the working capital situation. The second questionnaire included questions as reflected in **APPENDIX 5**. This was necessary as the comment around working capital was varied and it comprised a major variable in the analysis. These discussions were telephonically done and focused on margin adjustments and fuel price increases.

5.12.3 EXPERT THIRD PARTY INTERVIEWS

Expert third party interviews were conducted with hand picked individuals who were considered fuel retail experts and who had extensive experience in the fuel retail business. This extensive experience qualified them as experts. Each was requested to share their views on what constituted the reasons for failure and success of fuel retailers. The question was not limited to the EFG cases but fuel retailers in general. These discussions were held with:

- Mr. Abel Malinga from the Industrial Development Corporation;
- Mr. David Chiat, the previous Engen retail manager who oversaw the EFG roll out process from 2000 to 2003;
- Mr. Lenny Chetty, the incumbent Engen retail manager;
- Mr. Peter Morgan, Chief executive officer of the Fuel Retailers Association;
- Mr. Theuns Burger, Director for Petroleum and Gas Regulation at the Department of Minerals and Energy;
- Mr. Andrew Watson and Mr. Grant Fincham, the ex-director and present financial director of EFG;
- Mr. Monison Sookay – a long time friend and seasoned successful fuel retailer.

The discussions and conversations were recorded on field notes and later transcribed. Expert third parties interviews are attached in **APPENDIX 7**. This was done in an informal way. Experts were notified about the nature of the research and only one question was posed as follows: The retail fuel industry appears to be under the spotlight – what are your views? A recording device

was not used and the researcher relied on hand written notes to complete the reports that would form part of the greater analysis. No structured interview schedules were used as only expert opinions were being sought by using rigorous discussions as a medium.

5.12.4 DATA COLLECTION FROM SECONDARY SOURCES

- **DOCUMENTATION REVIEW**

Official records and documentation were another valuable source of information and were collected both during and after the interview process. The annual financial statements formed the bulk of the documentary evidence.

The financial information from the income statement and balance sheet was aggregated into one spreadsheet and is attached as **APPENDIX 6**. Hard copies of the actual financials as submitted to the South African Revenue Services for the 2001-year end were used.

Other documentary evidence included the complete EFG loan valuation model, the five year budget forecast schedule, the oil company training curriculum, government and industry publications, working capital analysis worksheets, turnover reports, wage books, staff rosters, franchise agreements and the original due diligence reports. Where possible, documentation was not taken off site.

The study of documentation involved many visits to the head office of EFG. Again, the laptop was used to record notes from each site file. Electronic

- POS report detailing sales, cost of sales, gross profit and VAT
- Debtors report with age analysis, debtor invoicing, debtor journals, credit notes and receipts
- Credit reports with age analysis, credit invoices, creditor journals, creditor credit notes and creditor payments
- Stock reports
- Weekly wage schedules
- Monthly salary schedules
- Schedule of staff loans
- Rental and oil statements
- Details of general expense data
- Copies of fixed assets invoices purchased
- Copies of installment sale agreements and leases entered into
- Copies of call account statements and bank accounts
- Daily fuel readings, sales, lotto and banking
- Daily cash payouts and safe drop payouts
- Daily cheque payments
- Daily internet payments or direct debit on bank accounts
- Daily receipts

Time was also spent on site on the back office system – this was the technological support provided by the franchisor. While this was not done for all cases respondents (as it would have been a futile exercise given that all case respondents operate the same system) many days were spent on the processes for wet cash and stock control , the dry stock control facilities, daily shift analysis information and on line banking system in place. These

observations were recorded on flash disk 2 as, "notes and observations from supplementary readings – operations".

- **OBSERVATIONS**

As part of the field work the researcher spent time on site observing the different trading activities, stock control measures, staff movements, customer buying patterns, time spent by the retailer on site and general operating procedures. The observations are recorded as "researcher notes". On average, about half a day was spent on some sites usually during the morning or evening rush hour.

- **ATTENDANCE OF CONFERENCES AND WORKSHOPS**

The research work necessitated attendance of fuel retail conferences and workshops. This included participation at the Department of Minerals and Energy workshop on opportunities for women in the oil industry in 2003. This also included attendance to the oil company-training course held in Durban in 2002.

On completing the first batch of interviews, it became apparent that training was raised by the fuel retailers as a critical issue. While divergent views were noted on the training benefits – the issue of financial training surfaced as a burning issue. The researcher then approached Mr. Keith Pin, the general manager of Engen, explained the research work to him, and promised to share the research findings once concluded. Mr. Pinn arranged for the company's training manager to forward the latest training programme (Attached as **APPENDIX 10**) which was admitted as case study evidence and recorded the

findings and perceptions on flash disk number two as "Notes from Engen training course – financial fundamentals."

- **PUBLICATIONS AND STUDIES**

The research work necessitated an in-depth review of the annual "retail margin study" conducted by the Small Business Section of the Potchefstroom University. Other publications included a number of Government policy documents and research reports. All these documents were studied to facilitate a greater understanding of the dynamics in the retail fuel business.

An inventory register of all documents, both electronic and hard copies, for the purposes of reference and increasing the reliability was kept throughout the research. The electronic database eventually included the following information: (Detailed listing in **APPENDIX 9**)

- Open ended case respondents interviews
- Working capital questionnaire
- Notes from expert third party discussions
- Respondents tracked changes to draft case study report – one copy
- Consolidated audited financial statements on Exel for financial year ended 2000 with categories split into failed and success retailers
- Researcher observation notes from retail site visits and attendance to training course and workshops
- Other documentary information such as the Potchefstroom study, the SADA-LEC deregulation study, notes from Government workshop on fuel retailers and FRA consultants report on fuel retail franchises in South Africa.

5.12.5 PRINCIPLES OF DATA COLLECTION ADOPTED

To ensure the validity and reliability of the case study evidence the following three principles were adopted:

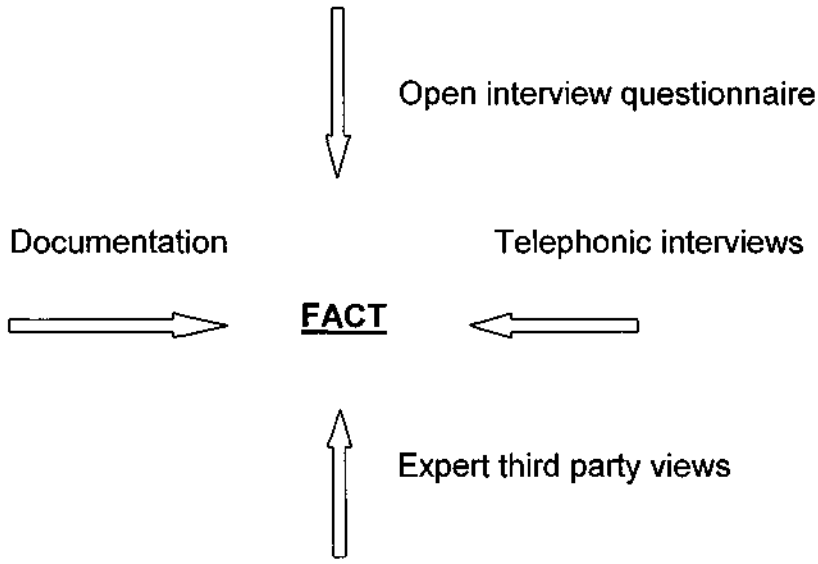
5.12.5.1 USE OF MULTIPLE SOURCES OF EVIDENCE

The most important advantage of using multiple sources of evidence is the development of converging lines of enquiry or triangulation. Firstly, an unstructured interview schedule was used to collect information from fifteen individual retailers. The questions were open ended and resulted in an extensive collection of information. Together with the quantitative information and documentary evidence in the form of financial statements, a convergence was sought in the findings. The intention was to corroborate the same facts or phenomenon, and thus deal with the problem of construct validity. This triangulation can be schematically illustrated as follows:

FIGURE 5.1

CONVERGENCE OF ENQUIRY

MULTIPLE SOURCES OF EVIDENCE



Both the quantitative and qualitative approaches were adopted in the data collection process. The first interviews (that is the first round interviews) were unstructured open - ended interviews. The researcher had to return to the field in spite of the lengthy discussions held in the first round as critical questions around the issue of working capital was not adequately covered in the first round. The second round interviews were conducted telephonically. In spite of the researches thoroughness, the pilot study did not highlight this weakness in the questionnaire.

5.12.5.2 CREATION OF CASE STUDY DATABASE

Yin (2001:101), notes that "…. too often, the case study data are synonymous with narrative presented in the case study report, and a critical reader has no recourse if he or she wants to inspect the raw data that led to the case study's conclusions".

In keeping with case study protocol and to increase the reliability of the case study, different databases were created on both Microsoft word and excel packages. In this way, the raw data collected from the various sources were referenced and available.

Taped recordings were also referenced to each retailer. In this way, any new researcher could access the data at any time. All documentary evidence, with the exception of the audited financial statements was captured in electronic format. Flash disk 1 has all the interview results, flash disk two has all the loan models and due diligence reports and flash disk 3, the other data as detailed in **APPENDIX 9**. A cross – reference was made to each interview and the taped recording by citing a code number on the reports. Lastly, an annotated bibliography of all the documents collected was done.

5.12.5.3 MAINTAINING A CHAIN OF EVIDENCE

This approach was adopted to further increase the reliability of the information in the case study by providing a chain of evidence. The intention was to allow an external observer, the reader of the research work, to follow the derivation of the evidence, ranging from the initial research questions posed to the ultimate case study conclusions.

The report will include citations from the database by citing specific documents, interviews and observations. Each of the reports and taped recordings indicate the date and time of the discussions. This was all done in

accordance with the case study protocol to illustrate that the data collection followed the procedures stipulated by the protocol.

This was in keeping with Yin's (2003:105) recommendation that "...you have therefore to move from one part of the case study process to another, with clear cross referencing to methodological procedures and to the resulting evidence". This is the ultimate "chain of evidence" that is desired. The following diagram illustrates the chain of evidence presented in this research.

FIGURE 5.2

CHAIN OF EVIDENCE OF WHY FUEL RETAILERS SUCCEED OR FAIL

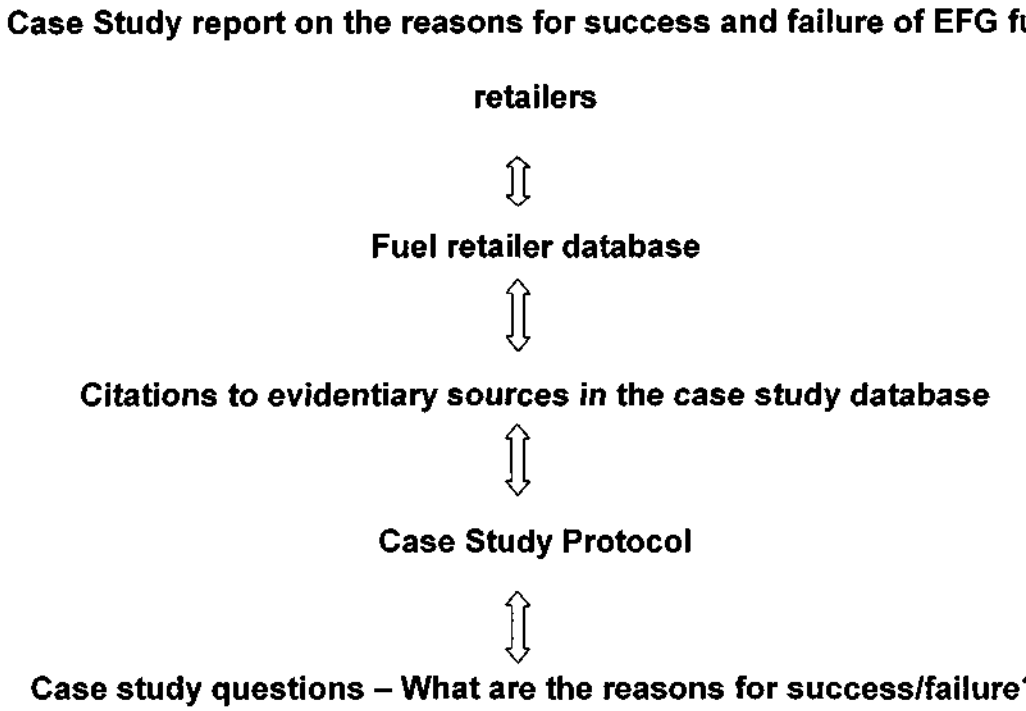


Figure 5.2 illustrates the chain of evidence beginning from the case study questions to the case study report and vice versa. The case study protocol as applied to the EFG case study followed the case protocol and the safekeeping

of all the evidence in both an electronic and manual format. Lastly, the case study report summarised all the findings.

The interviews were deliberately conducted first, before examining any documents to ensure that there would be limited influence by the details of the reports and notes in the interviewing process. The documents presented a kind of "hard evidence" and its review at the end of the process was both prudent and necessary.

Whilst conducting the interviews, the researcher was aware of personal suspicions and reasons for failure and success amongst fuel retailers and made every effort to manage the interview process in a way that did not influence the responses being received. This was of such great concern and the short lesson in the art of interviewing, from the research methodology tutor from the University of South Africa in Pretoria, came into great use.

An open mind was kept and the researcher allowed himself to be educated and briefed on what informant views were for the reasons of failure and success. There was a good mix of failed fuel retailers, successful retailers, expert third party views, observations from on site visits, due diligence reports and audited financial statements. This increased the confidence in the study as the data spread was wide, reinforced with hard evidence type information.

The researcher gradually left the field when it was becoming evident that less and less was being learnt. There was little benefit in interrogating the findings any more, as clear patterns were emerging. Some of these patterns were

tested using quantitative methodology to further confirm the findings of the qualitative work.

The researcher eased his way out of the field as recommended by Bogdan and Biklen (1992:104-105) and only stayed in touch in with the key informants close to his work offices in Pretoria and sent thank you notes to each of the fuel retailers and promised to share the final results of the findings with them once the study was complete. All the data collected from the different sources was then processed.

5.13 EDITING

Editing involves a thorough and critical examination of each completed questionnaire to ensure that all questions have been answered and that the criteria for collecting data have been complied with. The editing was done by the researcher and the criteria of completeness were adhered to. This was done for all primary and secondary information.

5.14 CODING

The construction of the questionnaire had the advantage of being coded in the different categories to make for easy analysis. Coding involves assigning numeric codes to each response, which falls in a particular category. The coding facilitated data capturing and analysis. For the successful retailers codes SFR01 to SFR08 was used. This was a code for successful retail number 1 to successful retailer number eight. The same was applicable to

failed retailers i.e. FFR01 to FFR07 – failed fuel retailer number one to failed retailer number seven. All the question prompts were precoded to facilitate cross case analysis.

Data was collected and analysed from interviews and discussions, documents obtained from site files, on site visits and from the Engen training course curriculum. The constant comparative method of analysis was used to collect the data, group relevant themes within the categories already identified in the research and this resulted in the further reevaluation and categorisation of issues.

The general management themes originally presented in the pilot survey expanded in depth and breadth and generated more reasons for failure and success in the development of the study. Data submitted as case study evidence was coded.

5.15 RESEARCH ETHICS

Due cognisance was paid to the retailers right to privacy or reason for non-participation. This was applicable to all the case participants. Some of the other fuel retailers, in particular SFR3, requested that, his financial statements be consolidated with others and not be isolated and commented upon. These sensitivities were considered.

5.16 THE RESEARCH ENVIRONMENT

All the interviews were conducted personally by the researcher at the respective service station sites mentioned as the sample group. Open-ended questions and observations were recorded as outlined in the research methodology process.

5.17 THE RIVAL THEORY

The rival theory was that fuel retailer success or failure was a function of volume and turnover. In other words, high volume and high shop turnovers were the reasons for success and the opposite were true for failure. Section 6.2.2 provides a test for the acceptance or rejection of the rival theory.

5.18 DATA PREPARATION AND ANALYSIS OF DATA

In conducting the analysis of the data, the researcher was mindful of Yin's (2003:19) recommendation that, "regardless of the choice of strategies or techniques, a persistent challenge is to produce high-quality analysis, which require investigators to attend to all the evidence, display and present the evidence separate from any interpretation, and show adequate concern for exploring alternative interpretations".

The researcher proceeded to do this by providing an overall analytical strategy intended to address the original research problem: What are the reasons for success and failure amongst the EFG fuel retailers? The initial point of

departure was to follow the theoretical propositions that led to this case study. The researcher originally theorised that, by examining management, entrepreneurial, occupational and exogenous factors we would arrive at the possible answers to the research questions. The strategy in the analysis of the data was to seek consensus for this. This theoretical orientation guided the case study analysis.

The researcher then examined the data in light of the rival explanation presented and the strategy was extended to include the testing of the rival explanation for the causes of success and failure amongst fuel retailers. The rival theory presented was that failure or success in the fuel retail business was a function of individual site fuel sales and turnover. In other words, high volume and high turnover retail businesses would always be successful. Does size really matter?

The researcher pursued the data collection to collect evidence about the direct rival theory vigorously, as addressing and rejecting the rival proposition would enhance the confidence in the findings. The following data analysis techniques were considered:

- **ANALYTICAL TECHNIQUES**

In choosing the technique for the data analysis, consideration was given to the pattern matching technique, the explanation building technique, time series analysis, logic models and cross case analysis.

The pattern matching logic did initially seem to be appropriate for the data analysis on hand. Such logic compares an empirically based pattern with a predicted one and when the patterns coincided, internal validity is strengthened. Explanatory building was more suited to explanatory case studies while times series analysis involved single cases examined over time. Neither was suitable for the multiple cases of fuel retailers on hand. The logic model technique involves the matching of empirically observed events to theoretically predicted events. This also presented a possible option but was disregarded in favour of the cross case analysis.

The cross case analysis was used due to its special applicability to multiple case studies. Generally, the technique is used for analysis of two cases but the fifteen cases of fuel retailer data served to further strengthen the findings. Another reason for using this technique was its simplicity – it aggregated the findings across a series of individual fuel retail cases. The synthesis, due to the number of cases under scrutiny, also incorporated a quantitative technique. This was ideal in all circumstances for the purposes of this work. In presenting the data, the individual financial information could be contrasted and compared with the other fuel retailers at a glance.

5.19 PREPARING THE CASE STUDY REPORT

This final aspect of the methodology section will present the format and structure of the EFG case study report and bring the results and findings to a close. This provides a summary of the key evidence to these audiences. This is not the first time that some of these stakeholder interest groups had sight of

the findings – a draft report was circulated in advance of this final report for consideration and critique. For ease of reading, a specific report format was adopted together with a corresponding structure as follows:

- **CASE STUDY AUDIENCE**

Yin (2003:142) recommended that the case report be drafted before the data collection and analysis phase had been completed. There was a very diverse set of possible audiences and while no single report could serve all audiences, the report format made for targeted reading.

Firstly, other researchers would be interested in the methodological issues as well the research conduct that was adopted in the case study. The presentation of the findings without interpretation is the corner stone of a good case study. The findings were presented and the analysis of the evidence followed.

The South African banks would be interested from the perspective of risk analysis of the fuel retailer sector. The Industrial Development Corporation as the providers of capital to EFG would be interested in finding out the reasons for the failure and success amongst the fuel retailers they helped fund. The guarantor to the loans was the German Re-insurance company, Hanover Re. The company wrote off in access of R20 million in bad debts. The researcher hopes that the research findings would be of interest to them. It is also hoped that the oil company's and their training divisions would note the findings and recommendations and thus commission further evaluations on their training

courses to achieve maximum value for the new retailers who enter the industry.

The individual retailers would also use the findings to compare and contrast their individual experiences against that of their colleagues, as the multiple case studies will aggregate the findings – providing a benchmark measure. Failed fuel retailers could also reflect on the reasons for success amongst their successful colleagues, while those that have recorded success will be cautioned about reasons for failure. The fuel retail organizations, like individual oil company dealer councils may want to use the results to inform their retailer members about the findings and perhaps seek to conduct further tests and research.

The Department of Minerals and Energy funded the research work in the last two years and would be interested in the findings to seek support or to commission further research while finalising the regulations for the Petroleum Products Amendments Bill that is being debated in Parliament.

Some findings of the case study, contradicts the Retail Margin Study of the Business Advisory Bureau, which may seek to defend some of their findings. Lastly, and most importantly the report is intended to provide future entrepreneurs an invaluable preview about the fuel retail industry and in this way create the basis for making a well-informed decision and for better preparation.

- **FORMAT OF PRESENTATION**

The specific needs of the audience as indicated above, were the main reason for the choice of the format of the case study report. Firstly, the single case study was not viable as the research dealt with 15 different cases. The researcher then considered the multiple case report of the single case study and the question and answer type presentation where multiple narratives are presented, but this was eventually rejected in favour of a cross case analysis where the information from individual cases were dispersed through each section covering a particular issue. In this way, topics or areas of interest amongst the audience could easily be traced to a section where exhaustive summarised data from all fifteen fuel retailers are concentrated. This approach of providing an account on an issue-by-issue basis was most suited to both hurried readers and those pursuing specific areas of interest, like training.

- **STRUCTURE OF THE REPORT**

Different structures were considered. It was important to arrange the sections, subtopics and other components in an organised way to create a compelling case. The unsequenced structure was clearly not suitable where sections of reporting would have no particular importance. Chronological structures dealing with events over time was also looked at. While the case study examined a group of fifteen fuel retailers from the year 2000 and their economic journey of their businesses to date, concerns about giving disproportionate time to events in the early days and less to the latter days could be a pitfall. Comparative structures were then tested for suitability. The case study is repeated two or more times comparing alternative descriptions or explanations of the same case. The repetitions are intended to illustrate a

pattern matching technique. While this was an option, it was not suitable due to the large number of cases in the study.

The linear-analytic structure was also considered, as it was a standard approach for composing case study reports but this approach seemed most suited for an audience comprised of other researchers and given the wide audience that the report was being addressed to, a more general format was sought. The theory building structure was eventually chosen as the most suitable format for reporting the findings of the previous chapter. Each section of the report progressively illustrated the reasons for failure and success – thus revealing a new part of the theoretical arguments presented.

- **COMPILATION OF CASE REPORT**

The approach recommended by Becker (1986:43-47) was adopted, on how to compile the case report. Becker recommended writing and rewriting, especially in response to other comments received. Attention was focused on the general composition, the problem of whether to leave the case identities anonymous and the review procedure to increase the construct validity of the case study.

Firstly, the researcher started compiling the case study report early in the analytic process as recommend by Wolcott (1990:200) who noted that, "You cannot begin writing early enough." On completion of the literature review section, the methodology and bibliography sections were worked on and sections of the report was completed.

Secondly, the anonymity of the case respondents did not present a challenge as is generally the case in case study approaches. All respondents granted permission to disclose their participation and this resulted in two important outcomes. Firstly, readers had the opportunity to link the findings to other case studies where the same respondents participated. Secondly, the case evidence was more easily available for review and criticism. The report presented cross case analysis and only the aggregate evidence was presented.

Lastly, the researcher focused on the overall quality of the study. In order to validate the procedure, the first draft of the report was circulated to a mix of respondents and third party participants. In some cases, the comments received were exceptional. This review of the report was more than just a matter of professional courtesy as it helped corroborate the facts and evidence collected and analysed from the case respondents and secondary sources.

5.20 CONCLUSION

This chapter described the research methodology, the objectives of the study, covered a description of the case history and explains how the case studies were drawn. It also covered a description of the questionnaire used and how it was administered. Despite financial and time constraints, the method of data collection used required the researcher to conduct all fifteen case interviews together with third party interviews personally. This ensured proper administration and collection of information and justified the imperatives of accuracy, speed and completeness of data, to facilitate cross case analysis.

The chapter also included pre-testing, the pilot study and the data collection method used. Lastly, the format of the report was covered. The next chapter presents the case study evidence and the analysis thereof.

CHAPTER 6

PRESENTATION AND ANALYSIS OF CASE STUDY FINDINGS

6.1 INTRODUCTION

This chapter provides a summary of all the case evidence collected. Data analysis consists of examining, categorising, tabulating and testing both qualitative and quantitative evidence to address the initial propositions or the reasons for failure and success. Specific techniques were used to analyse the qualitative data and this included pattern matching and cross case synthesis of the fifteen cases studied. Thereafter, an analysis of the quantitative data is presented and the results of the two processes are converged to increase the reliability of the findings. Documentary evidence, observations and expert third party views were also incorporated in the case analysis.

6.2 ANALYSIS OF THE CASE STUDY EVIDENCE

6.2.1 RETAILER PROFILES AND COMMITMENT

TABLE 6.1

RETAILER PROFILES

	SFR1	SFR2	SFR3	SFR4	SFR5	SFR6	SFR7	SFR8
Marital status	M1	M1	M2	M2	D1	M1	M5	S1
Sex/Age	M34	F34	M39	M28	M43	M44	F44	F38
Education	Bcom	Phd	Dip	Matric	Dip	Matric	Matric	Dip
Membership:								
Fuel retailer Assn	Y	Y	Y	N	Y	Y	Y	N
Dealer council	Y	Y	Y	N	Y	Y	Y	Y
	FFR1	**FFR2**	**FFR3**	**FFR4**	**FFR5**	**FFR6**	**FFR7**	
Marital status	M2	SI	M1	M1	M1	M2	M3	
Sex/Age	F30	F28	M52	M35	M40	M39	M41	
Education	Dip	Bcom	Matric	Dip	NtC5	B/adm	H/admin	
Membership:								
Fuel retailer Assn	Y	Y	Y	Y	Y	Y	Y	
Dealer Council	Y	Y	Y	Y	N	Y	Y	

Y =Yes; N = No; SFR01 successful fuel retailer 01; FFR01 Failed fuel retailer 01; M1: Married with 1; Sex/Age M34 = Male 34 years old

- **AGE AND FAMILY SUPPORT**

The average age in the failed category was 37 years compared to 38 years in the successful category. There was no evidence to suggest that age is a critical factor for success and failure and the oil company target range of 25-40 years, appears to be an exaggeration of the importance that age plays. The

range in the successful category was from 28 to 44 years while the range in the failed category was 28 to 52 years.

This finding collabourates the results of Hall's (1995:48-62) research, referenced in section 3.5.2 of the UK construction industry where the owners of surviving companies were younger than those of failures. While these finds reinforce each other, it is somewhat surprising – if people gain knowledge, skill and experience as they become older, then they should more capable of running winning businesses.

The perception that younger people are more vibrant and motivated than older people is supported from the findings. This seems logical given the franchised nature of these businesses. Gender was also not found to be a differentiation factor for failure and success.

Zimmerer and Scorborough's (1998:12) views, recorded in section 3.8.3, that entrepreneurs start their businesses between the ages of 30-40 years has found support from the case findings.

Three of the failed retailers operated as husband and wife teams while two such teams were in the successful category. Given the nature of the retail business and the demand for time, family teams should in theory enhance the ability to control the detail in the fuel retail business but there is certainly no evidence from the case to suggest that such combinations have a bearing on success and failure, as suggested by the oil company expert view.

Case respondents in almost all cases operated the businesses themselves with the exception of SFR2 whose workday was managed around looking after her three-month-old baby. The retailer secured the services of a retired police captain to oversee the security aspects of the business and paid him a retainer of R3000 per month.

In the case of SFR3, the retailer trained his brother to operate the site allowing him the time to develop the business. SFR5 regrets that the long hours are "an imposition on family time." In the cases of SFR6 and SFR7, the spouses are actively involved and this worked well. It was observed, in almost all cases that family and spouses actively assisted in the business by purchasing dry stocks and doing general administration.

Even amongst the failed retailers, spouses were often involved. In the cases of FFR1, FFR5, FFR6 and FFR7, the spouses assisted the retailers. There is certainly no evidence to suggest that spouse managed business had a higher success rate or vice versa. The following table illustrates the number of hours spent at the business and the living distance from the retailer's home.

- **TIME SPENT AT BUSINESS**

TABLE 6.2

TIME SPENT ON SITE AND LIVING DISTANCE FROM SITE

SFR1	11/35	FFR1	08/05
SFR2	09/20	FFR2	08/15
SFR3	08/03	FFR3	16/06
SFR4	17/0.5	FFR4	12/1.5
SFR5	13/20	FFR5	8/22
SFR6	09/05	FFR6	15/05
SFR7	11/02	FFR7	8/05
SFR8	08/18		
Average 10.75hours/12.81KM		Average10.71hours/8.5KM	

The evidence reflects that both groups spent an average of 10 hours plus a day on site excluding weekends. This is more than a standard working day of eight hours. The trading hours as required by the franchise agreement is 24 hours. The EFG retailers have in all instances adjusted their lifestyles to be closer to the business and to spend more time on site. This illustrates the quality of commitment made to ensure that their businesses succeeded. In many cases, they purchased homes in the vicinity of the business and transferred their children to nearby schools. While FFR7 was being interviewed, his 7-year old daughter had just arrived directly from school and came straight to the business to have lunch and to do her homework. The idea proposed by to Frese (2000:25) in section 3.5.2, that children of entrepreneurs will get a positive role model of entrepreneurship at an early age appeared possible in the case of FFR7.

The retailer's personal lives are interwoven with their businesses and the need for success is that much greater. In many cases, the respondents agreed that, "the business owns them and that they do not own the business." Kuehl and Lambing (1994:18) noted in section 2.4 that a business can close down for non-financial reasons as described by FFR7. When the business is too much of an intrusion in the entrepreneur's life – they may decide to move on.

The view from the oil company expert that retailers failed due to a lack of commitment is refuted. This was further evidenced from comments received when asked: what would happen to the business if you took an extended holiday?

SFR1 commented that the business would still function, as there would be a manager on site. SFR2 noted that "it will run for two weeks with no problem." SFR3 responded that "the business will collapse – although my brother is here." SFR4 commented that he couldn't leave the site for a peaceful holiday without worrying. He noted that, "I run the site by phone- and that too I am on the phone for 6 hours when away from the site."

SFR5 explained that, "The only time I left the site was when I attended the oil company conference." SFR6 also commented that, "I cannot go away for more than one week" while SFR7 responded that "I will never do it – I cannot trust anyone – although I do have a cousin who stands in for me when I take a weekend off." SFR8 felt that she could take a break although she did not trust anyone because of the good controls in place. Argenti (1984:14) in theoretical

section 3.8 attributes failure to the lack of proper control – in the case of SFR8 proper control provide a sense of comfort.

FFR1 commented that she has never taken a day off – "it is impossible to do so"; while FFR2 responded that, she often went away on weekend trips as her brother was on site. FFR3 acknowledged that there could be difficulties although he had a partner but further commented that, "my partner lacked the passion." FFR4 responded that "the business will collapse if I took a break". FFR5 had a single response, "the business will die." FFR6 also shared this view and noted that, "the business will collapse and that it was not possible to take a break for an extended period." Lastly, FFR7 acknowledged that he has not been away on leave for more than two weeks in the last four years.

The case respondents were probed further and asked in section E1.5 to describe a typical day at their business. In all instances, the case respondents indicated that they arrive at their business early in the morning and that they check the stock levels, bank account balances, housekeeping matters and dealt with staff issues. This was verified by the observations made by the researcher.

In the case of SFR1, sufficient time was spent on the forecourt and "I get involved in my customers lives – I have infiltrated the community well and was therefore able to increase the volumes from 260k liters to 450k liters. This is most certainly a criterion for success." During the observation, the researcher causally approached a fueling motorist who noted the only reason for fueling at the site is that "I am on first name basis with the owner." This "pervasive

influence" of the entrepreneur was identified by Rajagopolan, Rasheed and Datta (1993:349-384), in section 3.5.2, as a winning attribute.

SFR4 arrives at 5am each morning to check that all staff is on site and that they are dressed appropriately and commented that, "I am on the forecourt between 08h00 and 09h00 and between 15h00 to 18h00 daily." SFR5 also arrived at 05h00 together with the morning staff. SFR6 arrived between 07h00 and 07h30 and checks who is on site and watches for "body language from staff" to get clearance on security before entering the business. The routine followed was typical of the other case respondents. This was confirmed during a morning observation visit at the site.

SFR7 also arrived at 7am and followed the normal routine with the exception that, "I bank all cheques – cashiers bank their own money and are responsible if they go short – but the cheques take 7 days to clear and with the cash in transit company this is extended to 10 days."

The Failed fuel retailers followed a similar routine. It was evident that all the case respondents executed similar approaches each day and that the tasks became a tolerance of routine. Typically, retailers arrive very early in the morning, balance shifts, manage the housekeeping roster, place orders and reconcile dry and wet stock. The morning sequences of activities were observed to include the preparation of the day end reports and dip readings before the day began. Johnson's (1999:72) view in section 2.10.4, on franchise uniformity in the accounting systems and controls, was found to be true and relevant.

However, this can be supervised by delegating the repetitive activities. The retail business is about detail and control and if all the retailers are consciously aware of the need to constantly balance and reconcile data, and then what are the factors that differentiate success and failure? Is it really beneficial to spend long hours performing tasks, rather than managing a control system? It is possible to be productive and refreshed each day by spending such long hours on site.

- **EDUCATION AND DRAWING**

The levels of education in both the failed and successful categories were on par. The levels ranged from a basic matriculation to a doctoral degree in chemistry within the successful group. The level of education in the failed group ranged from matric to an honours degree in Public Administration. The case information indicates that a basic matriculation degree is appropriate for fuel retail operations. There is certainly no evidence to suggest that university graduates have a higher success rate although one is tempted to make such a conclusion. There is also no support from the case evidence for Zimmerer and Scarborough's (1998:12) views, as noted in section 3.5.1, that entrepreneurial education at colleges and universities, had any influencing role in the entrepreneur's decision to own and operate a service station. The case reflects the contrary as evidenced by SFR4, SFR6 and SFR7 who only held a basic matriculation.

This is perhaps the case due to the franchised format within which fuel retail businesses operate. Entrepreneurial flare and innovation is muted in the

franchise environment. The expert oil company view that university training in managerial finance is an important contributor to success was not supported from the case evidence as SFR01 and FFR02 both held a commercial degree. Bates (1990:551-559) view, as recorded in the theory section 3.5.2, that entrepreneurs with a college education were more likely to see their firms survive than those less educated is also at odds with the case findings.

However, the case evidence does show that education facilitates good communication and customer orientation. Lastly, Halls (1995:59) view in the same section 3.5.2, that the possession of a degree would not necessarily speed progress up the learning curve, found support in the findings and it can be agreed that the role of education remains an "an open question."

The salaries drawn by the retailers – notwithstanding their education levels were as follows:

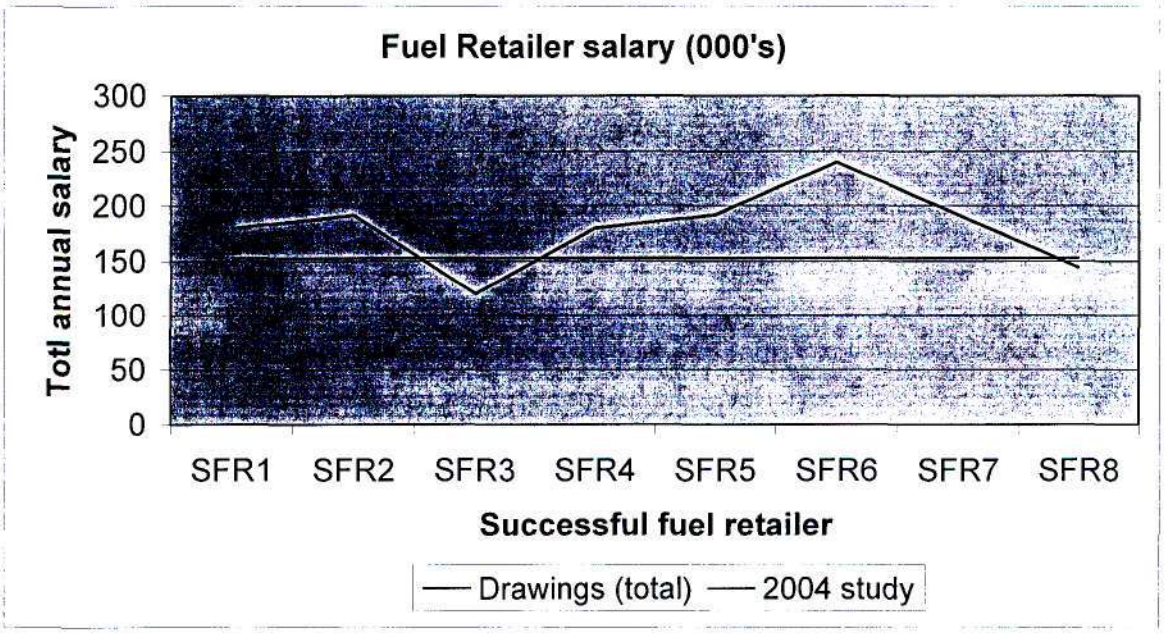
TABLE 6.3

RETAILER DRAWINGS (R000'S PER ANNUM)

SFR	180	FFR1	120
SFR2	192	FFR2	360
SFR3	120	FFR3	120
SFR4	180	FFR4	72
SFR5	192	FFR5	120
SFR6	240	FFR6	120
SFR7	192	FFR7	120
SFR8	144		
Average	180		147

GRAPH 6.1

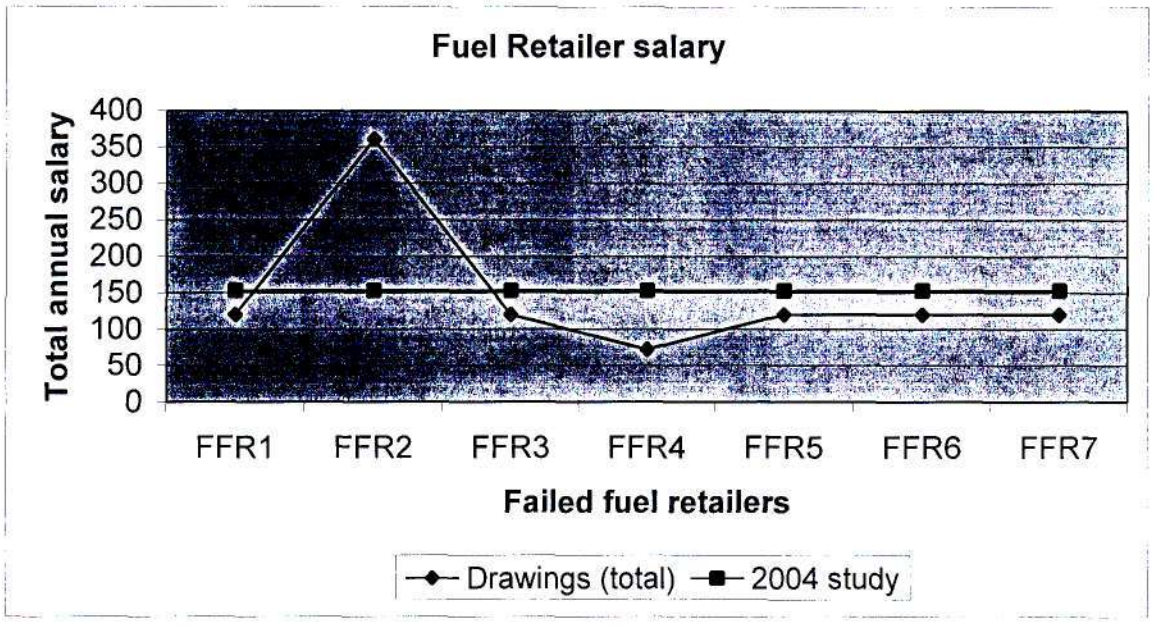
SUCCESSFUL RETAILERS DRAWINGS VERSUS INDUSTRY BENCHMARK



Note: The 2004 study refers to Governments margin study conducted by North West University in 2004

GRAPH 6.2

FAILED RETAILER DRAWINGS VERSUS INDUSTRY AVERAGE



Note: The 2004 study refers to Governments margin study conducted by North West University in 2004

The 2004 Retail Margin Study uses R153 000 as a total salary allocation in keeping with the stipulation that the retailer's salary should be at a level of a deputy director in the public service. This is deemed compensation for fuel related activities and includes salary, pension and medical aid.

The graphs 6.1 and 6.2 illustrate two distinct situations. The average drawings as reported by the successful retailers were R180 000 per annum as a total salary i.e. for the operation of both the fuel and non-fuel business. The average salaries drawn by failed dealers were R147 000 for both the fuel and non-fuel business. However, when comparing the interview responses to the director's drawings to the 2002 audited financial statements the average for failed category was R165 090 and the successful category was R106 018 per annum.

During the observations and documentation review, specifically the goods received vouchers, it was noted that retailers often purchased stock for own use while replenishing trade stock. An examination of the debtor's age analysis also shows that each retailer maintained an account for personal fuel consumption.

While the deputy director in the public service does not take the entrepreneurial risk and is therefore a poor benchmark for a compensation measure, this criterion was used for budgeting purposes by EFG and any excesses influenced the cash flows. The failed category exceeded the threshold by R12 090 (R165 090 – R153 000) and the successful category was under by R46 982.

This optimism and lack of prudence was referred to by Wright (1995:52-53) in section 3.8, who concluded that amongst the reasons for cash flow problems is that too much money is spent on the owners salary – this is the case with most of the failed retailers.

Notwithstanding the market salaries that both cases of retailers would command, particularly SFR02 with a doctoral degree in chemistry, the EFG funding model assumed a drawings on average of R10 000 per month and because the cost budgets were drawn from the retail margin study the upper end of the retailer drawings was allowed. The conclusion that can be drawn is that failed retailers exceeded the drawing levels while the successful retailers under – drew directors emoluments. This finding is supported by the oil

company experts view that, "most retailer fail because of excessive drawings – beyond the ability of the business".

Lastly, case respondents were asked about professional affiliations. The Fuel Retailers Association (FRA) is a professional body that serves the needs of its members – the fuel retailers. They only represent some 30% of the fuel retailers in South Africa. Their mandate is, in exchange for a monthly subscription to serve as an industry representative and to support the fuel retail fraternity. As evidenced by the failed and successful affiliation, membership to the FRA does not in any way influence success or failure contrary to the comments made by its executive during the expert interviews. All failed retailers with the exception of FFR6 were paying members.

6.2.2 OPERATIONS, EMPLOYMENT AND TURNOVER

The following table summarises information from the questionnaire on retailer operations and performance.

TABLE 6.4

RETAILER OPERATIONS

	SFR1	SFR2	SFR3	SFR4	SFR5	SFR6	SFR7	SFR8
Trading hours:	24	24	24	24	24	24	24	24
Customer Offer:								
Fuel	Y	Y	Y	Y	Y	Y	Y	Y
Shop	Y	Y	Y	Y	Y	Y	Y	Y
Carwash	Y	Y	N	Y	Y	Y	Y	Y
QSR	N	Y	N	Y	Y	Y	N	Y
Workshop	N	N	Y	Y	N	N	N	N
Bakery	N	Y	N	N	Y	Y	N	N
Lotto	Y	Y	Y	Y	Y	Y	N	Y
ATM	Y	Y	Y	Y	Y	Y	Y	Y
Site Classification	**Res+T**	**Res+T**	**CBD**	**Trans**	**Res+T**	**Trans**	**Trans**	**Ind**
Persons employed	45	32	21	40	25	45	33	22
Attendants	21	14	12	18	18	15	19	16
Staff turnover	H	H	L	H	L	L	L	L
Volumes (kl pm)	450	295	200	700	300	246	330	280
Budgeted (kl pm)	269	300	210	450	275	307	307	500
Shop sales (Rk pm)	260	422	277	542	300	525	400	260
Budget shop sale (Rk pm)	122	300	159	350	210	264	206	180
	FFR1	**FFR2**	**FFR3**	**FFR4**	**FFR5**	**FFR6**	**FFR7**	
Trading hours	**24**	**24**	**24**	**24**	**24**	**24**	**24**	
Offer								
Fuel	Y	Y	Y	Y	Y	Y	Y	
Shop	Y	Y	Y	Y	Y	Y	Y	
Carwash	Y	N	N	N	Y	N	Y	
QSR	Y	Y	N	Y	N	N	Y	
Workshop	N	N	N	N	N	N	N	
Lotto	Y	Y	Y	Y	Y	Y	Y	
Bakery	N	Y	Y	N	N	Y	N	
ATM	Y	Y	Y	Y	N	N	N	
Site Classification	Res	Shop	CBD	CBD	Res	Trans	Res	
Persons employed	30	42	32	22	16	22	34	
Attendants	24	30	15	17	12	13	18	
Staff turnover	L	L	L	L	H	L	L	
Volumes (kl pm)	300	700	325	320	170	240	360	
Budget volumes(kl pm)	227	500	305	300	220	320	504	
Shop sales (Rk pm)	250	275	340	225	160	155	261	
Budget shop sales (Rkpm)	368	250	175	200	220	328	157	

QSR = Quick service restaurant; ATM = Automatic teller machine; Res = residential;

CBD = central Business district;

Trans = transient or highway sites;

Res+T = Residential transient site;

Shop = shopping Center site;

Ind = Industrial site;

L = low;

H = high

6.2.2.1 TRADING HOURS

As table 6.4 reveals, the trading hours for both categories were in all instances 24 hours. SFR1 responded that there was no need for a 24-hour operation as his was a residential site. The cost of doing business from midnight to early morning represented sunk costs with no proportionate benefit. Staff wages, electricity and additional security had to be paid for while little benefit was gained in terms of turnover generation. The security risk to the business and its staff on duty is at its greatest during this time. The wage cost, calculated for SFR08, as calculated from the wage book was about 10% of the annual wage bill. With the exception of SFR3 and SFR8, all the successful sites have a transient market and had to operate 24 hours.

This is not the case for the failed retailers as only FFR6 served a transient market – the trading hours could be reduced as the hours of trading is a function of the service offer. In the case of farm and industrial sites, there is absolutely no reason for oil companies to impose on the fuel retailer the 24-hour trading requirement. This should be a matter of mutual economic benefit – in the interest of the business.

Each fuel outlet is unique. In the case of SFR6, where the retailer competes with nine other sites within a one-kilometer radius, a 24/7 operation is a competitive advantage, especially as most of the food sales are recorded between 10pm and 3am and the site is located within two kilometers from a casino. In the case of SFR8, the site location is industrial and does not justify the additional operating cost. The fuel retailer reported that, "it was a waste of

money – but I have no choice but to conform." The franchise agreement did indeed stipulate that a standard condition of the franchise is 24-hour trading. During the observation rounds, it was noted that the staff at SFR3 and SFR8 were asleep on duty as the forecourt was deserted at 12pm.

Notwithstanding the fact that fuel outlets are selling convenience and that almost all of the failed case respondents preferred to operate restricted hours, the 24-hour operation requirement by the oil company is an unnecessary operational imposition on the small business owner. Based on the 10% extrapolation using the annual financial statements, the saving for the failed sites would have amounted to R45 629 per annum or a reduction of 16.29% of the average annual trading loss. In spite of the expert oil company view that 24-hour operation enhances the brand and is intrinsic to convenience selling, the cost exceeds the benefit in all cases, and is a contributory factor to failure.

6.2.2.2 CUSTOMER OFFER

The customer offer in all cases included a fuel retail outlet and convenience shop. Bakeries and quick service restaurants were a profit center for both categories and the oil company expert views that they "supplement profit levels" is correct. There is, however, no evidence to suggest that a wider offer differentiated failed and successful sites as suggested by the oil company expert. The oil company expert also confirmed that the oil company reserved the right at company owned sites to extend or limit the offer.

6.2.2.3 WAGE COSTS

It is estimated that the fuel retail business in South Africa employs some 50 000 people. Personnel expenses are estimated to be 50% of the gross operating profit or 20 cents of the value of the fuel margin, according to official government studies carried out by the Small Business Advisory Bureau of North West University in 2004 (Retail margin study 2004). The average weekly wage, including cash benefits and overtime was reported as R358.11 per attendant. The 2002 average was R350.73 and the wage cost factor was 0.072 cents. The wage cost factor per liter pumped is a reflection of pump attendant efficiency and productivity. The average wage cost per liter pumped increased from 0.071 cents in 2001 to 0.099 cents in 2004. The average wage per pump attendant increased from R324.87 in 2001 to R436.03 in 2004. The 2002 average was R350.73.

The wage cost factor amongst the failed retailers was R476.37 while the same average for the successful retailer was R344.78 per week. This was calculated by dividing the annual wage cost, as per the audited financial statements in **Appendix 6** by the number of attendants and then converted to a weekly cost.

The weekly wage book and staff roster was analysed and compared and the wage payouts were confirmed as recorded in the financials. Successful retailers managed the wage costs below the industry average while failed retailers were above the industry average. This finding is consistent with views of Business Date (1996:7), Kuehl and Lambing (1994:222) and Hall (1995:20) views, as reflected in section 3.8.3, showing that poor financial management

can lead to business failure. However, the case finding contradicts the findings of Argenti (1984:14), noted in 3.8.3 where it was found that larger businesses did indeed have a history of losses. The inability to manage the cost component is a contributory factor for failure. Following the wage cost analysis, the staff efficiency was then scrutinised.

6.2.2.4 ATTENDANT EFFICIENCY MEASURE

The successful retailers reflected the following averages in terms of liters sold per pump attendant. This is a good measure to test efficiency.

	SFR1	**SFR2**	**SFR3**	**SFR4**	**SFR5**	**SFR6**	**SFR7**	**SFR8**	**AVG**
Ltrs per att. (Lk)	22	21	17	38	17	16	17	18	21l
		FFR1	**FFR2**	**FFR3**	**FFR4**	**FFR5**	**FFR6**	**FFR7**	**AVG**
Ltrs per att. (Lk)		13	23	22	18	14	18	20	18l

The average liters pumped amongst the successful retailers were 21 000 liters per attendant while the average amongst the failed retailers was 18 000l per month. This was calculated by dividing the volumes by the number of attendants employed. The 2004 industry average as calculated by the North West University study was 21 000 liters per attendant. The successful fuel retailer's efficiency was equal to the country average while the failed retailers had a lower average. The case analysis shows that the most productive attendants were from the successful category while the least productive attendants came from the failed category.

The average number of attendants employed per site according to the North West study (Retail margin study 2004) was 13 attendants in 2004. The case average for failed retailers was 18.4 and that of successful retailers was 16.6. Using the 2004 average wage cost this means that failed retailers were overstaffed by 5 attendants at a cost of R113 360 per annum (5 x 52 weeks x 436.03) and successful retailers were overstaffed by 3 attendants per site at a cost of R68 020 per annum (3 x 52 weeks x 436.03).

The head count on duty corresponded with the staff roster in the attendants change rooms verifying the persons on duty. The expert retailer view was supported by the FRA viewpoint that additional staff had to be employed to ensure constant quality service due to the oil company's mystery shopper programme. The expert oil company view disagreed that there was a need for additional staff to render the standard service expected.

The average number of attendants and the cost allocation were important determinants for the calculation of the current retail fuel margin by government. This means that both failed and successful retailers are above the industry average. The failed group is, however, twice as inefficient as the successful category.

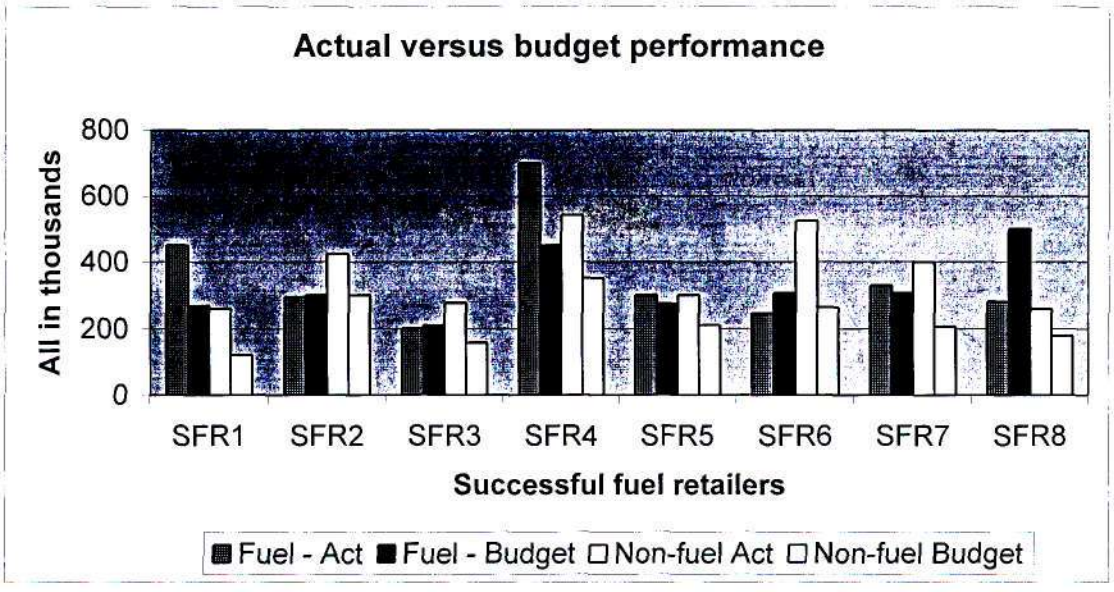
As per the annual financial statements, the average trading loss in the failed group was - R279 866 and the extra wage cost comprised about 40.5% (R113 360/R279 866) of this loss. This inefficiency, while not a clear differentiating factor between success and failure is a contributory factor for failure.

This finding collapses Halls (1995:8) argument presented in section 3.8.1 where he concludes that a company's survival increases positively with its size. A number of the failed retailers had higher turnover numbers than the successful retailers.

6.2.2.5 TURNOVER PERFORMANCE MEASURES

GRAPH 6.3

FUEL AND NON-FUEL TURNOVERS – ACTUAL VERSUS BUDGET SUCCESSFUL FUEL RETAILERS



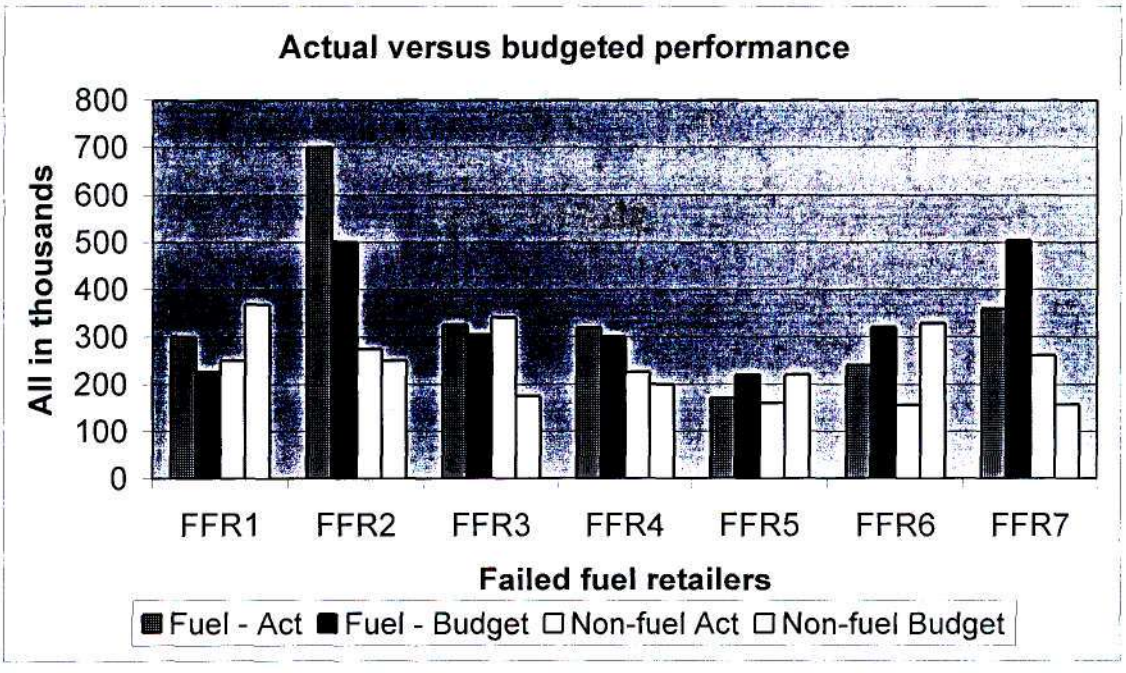
With the exception of SFR6 and SFR8, all cases in the successful category have constantly achieved volume performances above the original budget. The non- fuel performance of fuel retailer SFR6 and SFR8 did not compromise its successful classification. This also weakens the rival theory argument that volume is a critical success factor.

The average volumetric throughput in the successful category was 350 000 litres against a non-fuel average of R373 000 per month. This equates to R1.06 spend on non-fuel income for every one liter of fuel sold. The volume range was 246 000 liters to 700 000 liters while the shop range was R260 000 to R542 000 non-fuel turnover per month. EFG only used 80% of the free cash flow in the business valuation model.

GRAPH 6.4

FUEL AND NON-FUEL PERFORMANCE – ACTUAL VERSUS BUDGETED

FAILED FUEL RETAILERS



Failed fuel retailers FFR5, FFR6 and FFR7 did not achieve their volumetric budgets for fuel. FFR5 and FFR6 also failed to achieve the non-fuel budget. While FFR7 exceeded the non-fuel budget, the aggregate performance was still below the threshold required to support the loan payments. FFR1 exceeded the fuel budgets set but stumbled on the non-fuel targets resulting in an overall failure. While FFR2 exceeded both the volumetric and non-fuel

targets, the retailer still failed. This is also the case with FFR3. The performances of FFR2 and FFR3 exceed the national average – which has been calculated at 17 000 litres for fuel sales as per the 2004 Retail Margin Study. The documentary evidence examined correlated the case respondent's views and was further supported by the graphical information from the back office system.

The average volumetric throughput in the failed category was 345 000 litres as apposed to the successful category of 350 000 litres against a non-fuel average of R238 000 per month. This equates to R0.68 spend on non-fuel income for every one litre of fuel sold. The volume range was 170 000 litres to 700 000 litres while the shop range was R160 000 to R340 000 non-fuel turnover per month. The case study evidence clearly shows that successful retailers did indeed have higher shop sales in relation to fuel volumes than failed retailers.

Statistical analysis from the graphical data from graph 6.3 and graph 6.4 was done to determine whether a strong correlation and equality of means emerged from the data set. This was done using the Pearson-Product correlations.

TABLE 6.5

PEARSON-PRODUCT CORRELATIONS FOR THE SUCCESS GROUP

		Shop Actual	Shop Budget	Fuel Actual	Fuel Budget
Shop Actual	Pearson Correlation	1	(**).879	.423	.226
	Sig. (2-tailed)		.004	.296	.591
	N	8	8	8	8
Shop Budget	Pearson Correlation	(**).879	1	.467	.380
	Sig. (2-tailed)	.004		.243	.354
	N	8	8	8	8
Fuel Actual	Pearson Correlation	.423	.467	1	.455
	Sig. (2-tailed)	.296	.243		.257
	N	8	8	8	8
Fuel Budget	Pearson Correlation	.226	.380	.455	1
	Sig. (2-tailed)	.591	.354	.257	
	N	8	8	8	8
** Correlation is significant at the 0.01 level (2-tailed).					

Due to small sample sizes, the actual size of the correlations was examined. Table 6.5 indicates that the correlation is large and positive between the Shop Actual and Shop Budget. While the correlation between Fuel Actual and Fuel Budget is lower (r= 0.455) and positive, the larger the Shop Budget the larger the Shop Actual tends to be. This correlation is significant in spite of the small sample size.

(Internet 8: www.davidmlane.com/hyperstat/A34739.html);

(Internet 9: www.statsoft.com/textbook/stbasic.html)

TABLE 6.6

PEARSON-PRODUCT CORRELATIONS FOR THE FAILURE GROUP

		Shop Actual	Shop Budget	Fuel Actual	Fuel Budget
Shop Actual	Pearson Correlation	1	-.384	.508	.354
	Sig. (2-tailed)		.395	.245	.436
	N	7	7	7	7
Shop Budget	Pearson Correlation	-.384	1	-.086	-.395
	Sig. (2-tailed)	.395		.854	.381
	N	7	7	7	7
Fuel Actual	Pearson Correlation	.508	-.086	1	.749
	Sig. (2-tailed)	.245	.854		.053
	N	7	7	7	7
Fuel Budget	Pearson Correlation	.354	-.395	.749	1
	Sig. (2-tailed)	.436	.381	.053	
	N	7	7	7	7

Table 6.6 shows a small but negative correlation between Shop Actual and Shop Budget for the failure group. This means that the larger the shop budget the smaller Shop actual tends to be. This correlation is not significantly small (r=-0.384). This also suggests that the budget for the failed category was not achieved resulting in reduced cash flows.

Table 6.5 indicates that the correlation between shop actual and shop budget of successful retailers are 0.879 – showing a strong positive correlation and achievement of the budgeted numbers.

The correlation between Fuel Actual and Fuel Budget is (r=0.749) and positive. It is interesting to note the high correlation between Shop Actual and Fuel Actual (r=0.508). This suggests that a relationship exists between fuel sales and shop sales. Higher fuel sales will yield higher shop sales.

There is a stronger correlation between shop actual and fuel actual in the failed category as compared to the successful category (r = 0.508 versus r = 0.423). In all instances, a positive correlation exists between fuel sales and shop sales justifying the oil company's approach of introducing convenience shops in anticipation of a deregulated market structure. Notwithstanding this, the success group generated a higher ratio of shop sales (R1.06 shop income per litre of fuel sold) than the failed retailer (R0.68 shop income per litre of fuel sold).

Given the correlations found, a statistical analysis of the variances between the actual and budget follows to identify further trends that may emerge between the success and failure groups. The following calculations were made using the SPSS programme.

TABLE 6.7

DESCRIPTIVE STATISTICS FOR SUCCESS GROUP

	N	Minimum	Maximum	Mean	Std. Deviation
Fuel volumes (kl pm)	8	200.00	700.00	350.1250	158.85343
Budgeted (kl pm)	8	210.00	500.00	327.2500	97.35319
Act Shop sales (Rk pm)	8	260.00	542.00	373.2500	116.42134
Bud shopsales (Rk pm)	8	122.00	350.00	223.8750	75.91054
Valid N (listwise)	8				

TABLE 6.8

DESCRIPTIVE STATISTICS FOR FAILURE GROUP

	N	Minimum	Maximum	Mean	Std. Deviation
Volumes (kl pm)	7	170.00	700.00	345.0000	168.79475
Budgeted_(kl pm)	7	220.00	504.00	339.4286	117.53561
Shop sales (Rk pm)	7	155.00	340.00	238.0000	65.30442
Bud shop sale (Rk pm)	7	157.00	368.00	242.5714	78.84131
Valid N (listwise)	7				

TABLE 6.9

DESCRIPTIVE STATISTICS ACTUAL VERSUS BUDGET

Group Statistics					
	group	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**
DIFF fuel volume Act-Budget	**Success group**	8	22.8750	143.66373	50.79280
	Failure group	7	5.5714	112.21090	42.41173
DIFF Shop sales Act-Budget	**Success group**	8	149.3750	61.49318	21.74112
	Failure group	7	-4.5714	120.13722	45.40760

The actual volumes exceeded the budget in both categories. The successful category had a larger positive difference than the failed category. The shop variance is worthy of special note. The success group exceeded the shop budget by about R150 000 while the failure group did not achieve the targeted amount. This is significant given that the success group also achieved a higher gross profit percentage than the failed group. Hall (1995:20), quoted in section 3.8.4, made a similar finding where failures had a lower gross profit margin than successful enterprises.

TABLE 6.10

T – TESTS FOR INDEPENDENT GROUPS BETWEEN THE SUCCESS AND FAILURE GROUPS ON THE MEAN DIFFERENCE

Independent Sample Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Diff act Volume Act vs. budget	Equal variances assumed	.096	.762	.257	13	.801	17.30357	67.33077	-128.15571	162.76285
	Equal variances not assumed			.261	12.867	.798	17.30357	66.17147	-125.80188	160.40902
Diff actual versus budget Shop Sales	Equal variances assumed	3.734	.075	3.189	13	.007	153.94643	48.26686	49.67223	258.22063
	Equal variances not assumed			3.058	8.676	.014	153.94643	50.34408	39.40755	268.48531

Based on the data analysis and assuming equality of variances for the volumes, it cannot be concluded that the means of the differences for the success and failure group differ – in other words volumes does not appear to be a differentiator of success and failure. From this table it is clear that the two groups do not differ with regard to the difference between actual Volume and Budgeted volume (sig. = .801).

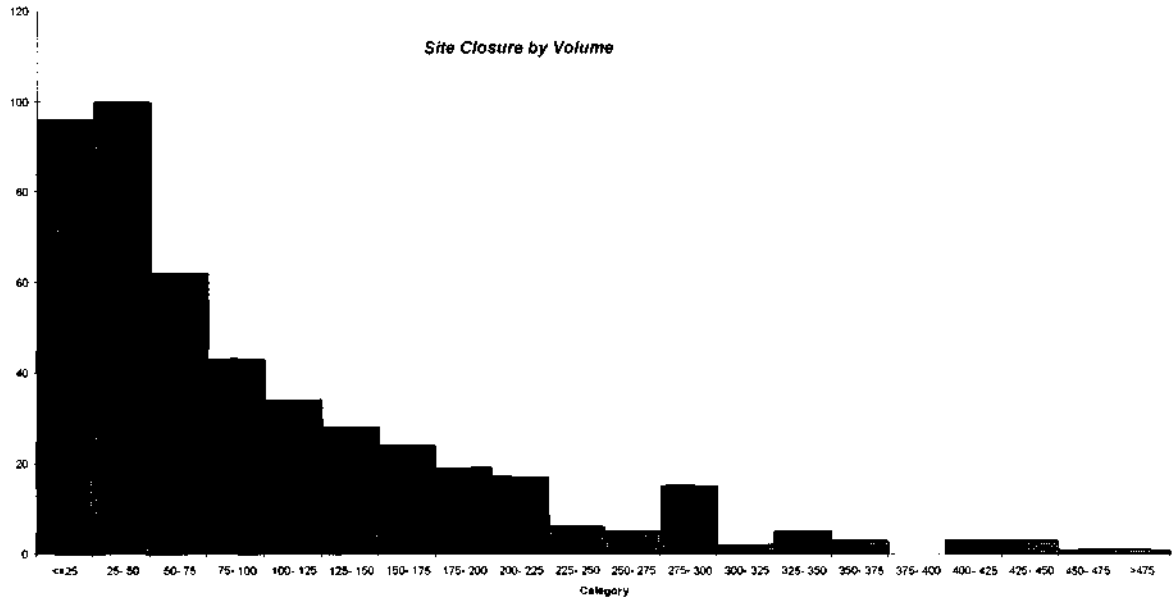
The opposite is true for shop sales. The two groups do differ significantly with regard to the difference between Shop sales and Budgeted Shop sales (Sig. = .007). It appears that in the case of the success group that the shop sales mean was much higher than budgeted mean, while in the case of the

failure group the mean was lower than budgeted mean. Failure to achieve the shop budgets has contributed to failure.

The case evidence also shows that high volume sites like FFR2 and low volumes sites like SFR3 have other drivers for success and failure. Matshamba (2000:1) found similar results.

GRAPH 6.5

SITE CLOSURES 1997-2000



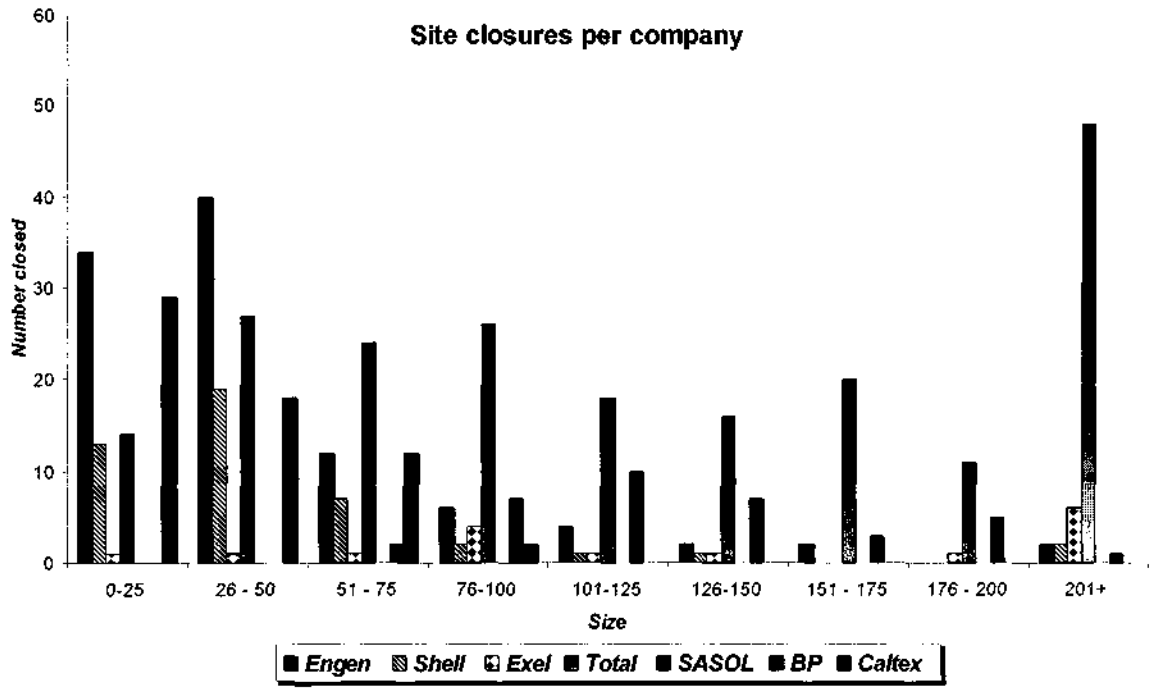
Source: Matshamba (2000): Department of Minerals and Energy

Government investigated the Impact of site size on closures. In order to help with the decisions on the optimal size for the service stations, a relationship of service stations closures correlated with size of the service station was investigated. From the graph 6.5, it is clear that the reasons for closures of sites are more than just the size of the service station. There are clearly more closures in the lower volume brackets but closures of sites that are pumping

more than 200kL per month are significant. It is possible that the primary reasons for these closures are other than financial viability. The graph 6.6 further illustrates this phenomenon. Total Oil closed about 50 service stations from 1997-2000. These were sites located in the rural areas.

GRAPH 6.6

SITE CLOSURE BY OIL COMPANY



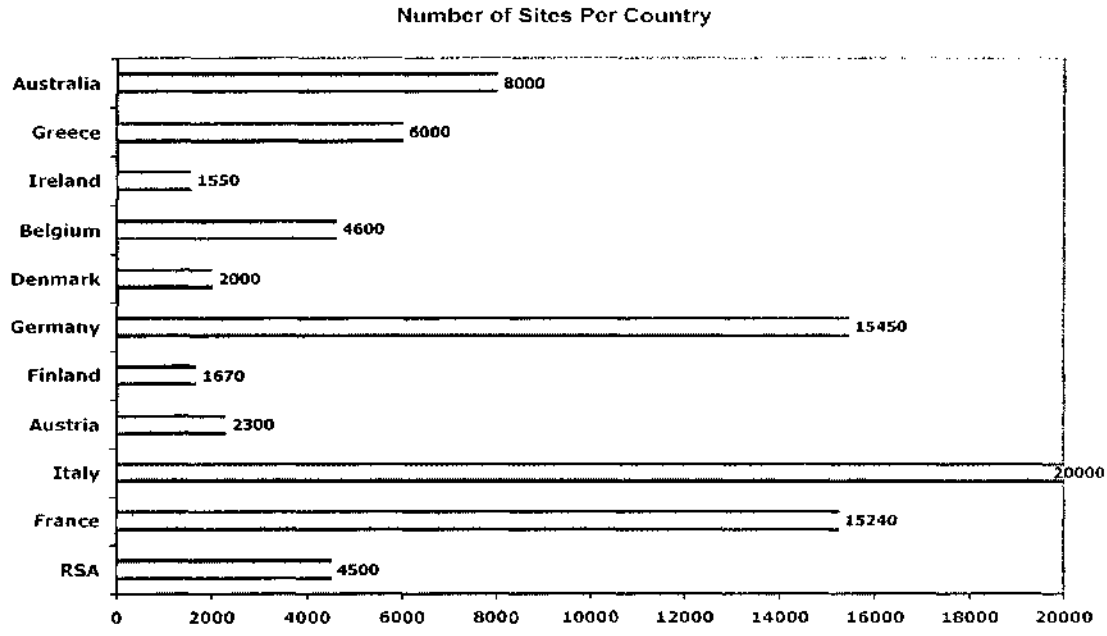
Source: Gumede (2002: Department of Minerals and Energy)

The graph 6.6 indicates that Caltex Oil had the least number of closures while Total Oil had the most. Total Oil also had the most number of service stations in the rural areas. The graph 6.6 also illustrates that a greater number of sites were closed in under 100 000 litres category and that Governments regulation of the industry may have artificially led to an over supply of service stations. The expert government respondent interviewed supported this view.

It also appears that other countries, most of which do not have any government regulation in terms of pricing, have a lot more service stations than South Africa. Notwithstanding the fact that the car population in each of the countries, must be factored in, for valid conclusions to be made, the number of service stations does not, in itself, seem to be a problem.

GRAPH 6.7

NUMBER OF SERVICE STATIONS WORLDWIDE

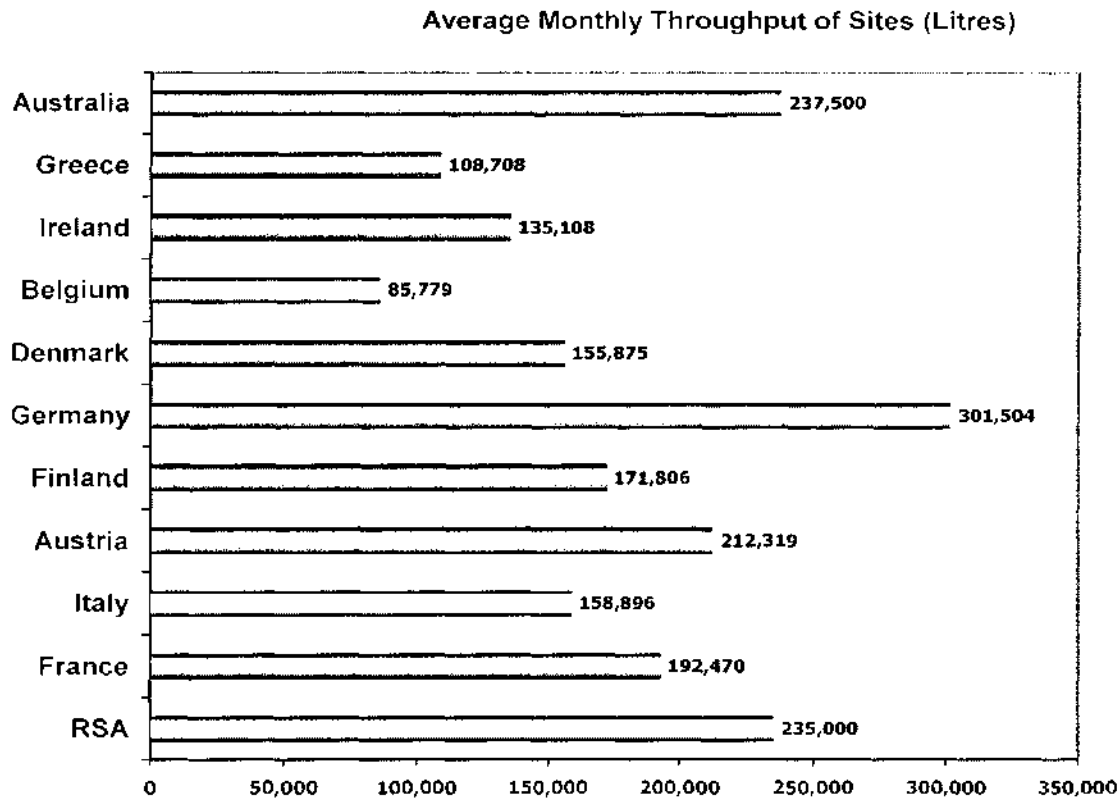


Source: Gumede (2002: Department of Minerals and Energy)

Graph 6.7 shows the number of service stations in the various countries while the following graph 6.8 addresses the obvious question of the size of the retail outlets.

GRAPH 6.8

AVERAGE MONTHLY VOLUMES – A GLOBAL COMPARISON



Source: Gumede (2002: Department of Minerals and Energy)

One part of the rival theory that suggests that volumes are the main reasons for success and failure comes under question from the graph data. The average volume in the failed category was 345 000 litres compared to the industry average of 235 000 litres. This illustrates that sites pumping a higher volume than the country average have failed for reasons other than volumes. Graph 6.8 also shows that, notwithstanding the fact that the regulatory regime may be different in other countries, low volume sites in countries like Belgium do survive. The country results support the EFG case study information in that volumes is not the key driver for profitability.

The data on graph 6.3 and graph 6.4 illustrates the non-fuel turnovers. While the successful category had a higher average than the failed category, a number of failed retailers like FFR3 had higher non-fuel sales compared to SFR1, SFR2, SFR3, SFR4 and SFR5. This further illustrates that higher turnovers does not result in success as suggested by the rival theory.

This finding also contradicts Hall's (1995:8) view that the probability of a company's survival increased positively with its age and size. The effect of size, in terms of fuel sales has no relevance to success and failure.

6.2.3 DUE DILIGENCE AND VALUATIONS

This section summarises the respondents view on the amount paid for their businesses, the due diligence study, basis of the valuation done and whether it constituted a fair price. This section will also report on the sweat equity contribution. Sweat equity refers to personal unencumbered contribution.

TABLE 6.11

DUE DILIGENCE AND VALUATION

	SFR1	SFR2	SFR3	SFR4	SFR5	SFR6	SFR7	SFR8
Price (RM)	1.1	1.2	0.9	2.5	0.9	0.6	1.1	0.6
Valuation	Y	Y	Y	Y	Y	Y	Y	Y
Fair price	N	Y	Y	Y	Y	N	Y	Y
Sweat equity (Rk)	200	200	200	400	119	180	150	110
Percentage (%)	18%	15%	22%	8%	13%	17%	14%	18%
Source of sweat equity								
Savings		Y					Y	Y
Pension								
Family		Y				Y	Y	
Loan			Y	Y	Y			
Previous business		Y						
Due diligence	EFG	EFG	EFG	EFG	EFG	EFG	EFG	EFG
	FFR1	**FFR2**	**FFR3**	**FFR4**	**FFR5**	**FRR6**	**FFR7**	
Price (M R)	1.6	2.0	0.75	1.8	0.42	1.0	2.8	
Valuation	Y	Y	Y	Y	Y	Y	Y	
Fair price	N	Y	N	Y	N	N	N	
Sweat equity (Rk)	60	0	0	0	100	150	100	
Percentage (%)	6%	10%	20%	0%	24%	15%	7%	
Source of sweat equity								
Savings			Y		Y	Y	Y	
Pension		Y				Y		
Family	Y	Y	Y					
Previous business								
Due diligence	EFG	EFG	EFG	EFG	EFG	EFG	EFG	

6.2.3.1 BUSINESS VALUATION

Only SFR1 and SFR6 responded that price for the business was not a fair price while FFR2 and FFR4 thought it was a fair price. SFR1 felt that the price should have been a little lower but could not indicate what that price should

be. SFR6 operated a new to industry site and the projected volumes of the oil company did not materialise and he felt that the price paid was too much. Five out of seven retailers within the failed category believed that their failure was partly due to the "over pricing" in relation to the purchase price.

With the exception of SFR4, all other retailers contributed in excess of 10% sweat equity as per their agreement with EFG. EFG funded the purchase prices using a multiple formula. The range targeted was between 20 and 24 multiplied by the FCF (free cash flow) or the pre-tax net profit. Only 80% of the free cash flow was used in calculating the repayment allowing for a 20% contingency.

Gumede (2002:5) noted that, "it is an open secret that the biggest problem in the retail business is the current gross overvaluing of retail sites. It is not uncommon, in this industry to get a service station that has been running at a loss for a period being sold at premium, therefore commanding a serious goodwill. The same goes for new sites, where the unsophisticated fuel retailer pays upfront key money, the amount of which is based on some projected volumes (which they have no way of confirming) and are also expected to pay significantly high rentals, on overly capitalised property, values of which they had no part in deciding".

Gumede (2002:5-6) poses the question that needs to be asked with respect to the purchasing of a service station: "what in actual fact is the dealer buying when they buy a fuel retail outlet, especially the oil-company-owned service stations. It could be argued that all they are buying are future cash flows and

therefore the value of their transactions should be linked to such cash flows and not to some book value of retailing assets or any other such value".

Gumede (2002:6) further states that, "Compounding the problem is that the contract terms are largely one-sided and do not protect the fuel retailer from unscrupulous sellers and from the oil companies themselves. Clearly, these would be expected to be one sided because the balance of power during the negotiations is largely tilted towards the oil majors, as they hold all the cards, as they have all the information, they own the property, they are the single biggest supplier to the service station, etc., etc." The findings in the EFG case study and the views of Kirby and Watson (2003:189), noted in section 3.9, that the inability to access information is one of the key reasons for failure, largely support these observations made.

The expert oil company view is that due diligence and business valuation are matters for negotiation between a willing buyer and a willing seller. It is perhaps this view that leads to the overpaying by uninformed buyers. Although, the oil company central database contains accurate day-to-day trading data, such information is not made available to the incoming retailer. The FRA concurs that an industry methodology must be developed to prevent the chaos that currently prevails. Government's intention of issuing licenses is a call for such a valuation.

The following illustration indicates the methodology that EFG applied for the valuation of the retail business.

ILLUSTRATION 6.1

EFG BUSINESS VALUATION

Forecourt	400 000l
Margin	39.8 cents per liter (using October 2004 margins)
Shop	R300 000 per month
Margin	28% (using industry target gross profit percentage)
Gross income	R159 200 Forecourt + R84 000 Shop = R243 200
Expenses	80% of Gross profit = R194 560
FCF	R48 640
Valuation	R972 800 to R1 167 360 (using multiple 20-24 times FCF)
80% x FCF	R38 944 was the maximum repayment budgeted over 5 years
Multiple	20 x FCF was a discount rate while 24 x FCF was a premium rate

The key assumptions used in the model were:

- That the retailer would constantly over the five years loan achieve the shop and fuel turnovers;
- The retail fuel margin was fixed and did not allow for government increases thus leaving the retailer in a net benefit situation when margins did increase. There is no record of the retail margins ever decreasing;
- The shop turnover was inclusive of value added tax and exclusive of lotto sales;
- The shrinkage provision was 2% of turnover not gross profit;
- The expenses was benchmarked at 80% of the free cash flow in line with government's approach to retail margin calculation;

- Only 80% of the free cash flow was used as repayment of the loan; and
- The business value was a factor of the free cash flow.

Based on this illustration, the following case valuations were done.

TABLE 6.12

REFRESHED VALUATIONS

	SFR1	SFR2	SFR3	SFR4	SFR5	SFR6	SFR7	SFR8
Budgeted Gross Profit (Rk)	107	158	110	222	123	124	159	111
Budgeted Expenses (Rk)	-79	-117	-83	160	-88	-126	-98	-91
Free cash flow	28	41	27	62	35	-2	61	20
Multiple factor	26	24.62	22	24	25	19	19	24
Business Purchase Price (Rk)	728	1000	589	2000	870	585	1150	600
Actual Gross Profit (Rk)	96	139	48	269	106	55	64	87
Actual Expenses (Rk)	105	145	56	213	94	111	89	123
Variance (Rk)	-9	-6	-8	56	12	-56	-25	-36
Revaluation (@given multiple (Rk))	-234	-147.72	-176	1344	300	-1064	-475	-864
Working capital (Rk)	172	200	160	200	160	225	460	250
Stock (Rk)	400	239	255	200	94	240	290	200
Equity contribution (Rk)	-200	-200	-200	-400	-119	-180	-150	-110
Loan amount (Rk)	1100	1239	805	2000	1005	585	1750	940
	FFR1	**FFR2**	**FFR3**	**FFR4**	**FFR5**	**FFR6**	**FFR7**	
Budgeted Gross Profit (Rk)	160	206	126	171	75	120	192	
Budgeted Expenses (Rk)	115	124	85	94	53	85	120	
Free cash flow	45	82	41	77	22	35	72	
Multiple factor	20	18.9	18	24	24	24	26	
Business Purchase Price (Rk)	900	1550	750	1800	320	1000	1850	
Actual Gross Profit (Rk)	148	218	144	117	57	101	157	
Actual Expenses (Rk)	151	242	161	151	78	131	202	
Variance (Rk)	-3	-24	-17	-34	-21	-30	-45	
Revaluation (@given multiple (Rk))	-60	-453.6	-306	-816	-504	-720	-1170	
Working capital (Rk)	240	300	204	200	200	200	250	
Stock (Rk)	220			200		250	250	
Equity contribution (Rk)	-60	0	0	0	-100	-150	-100	
Loan amount (Rk)	1300	1850	954	1800	420	1000	2000	

The following observations can be drawn from the refreshed valuation table 6.12:

- It was found that the multiple used for the valuation ranged from 18 to 26 and not 20 to 24 as was reported by EFG.
- With the exception of SFR3, SFR6 and SFR7 all other successful retailers exceeded the budgeted expense amount and with the exception of SFR4 all had failed to achieve the targeted gross profit levels.
- In the failed category, all retailers had exceeded the expense budget while only FFR2 and FFR3 had achieved the gross profit targets. Many researchers like Jaggard (2001:14), Cooper and Chew (1996:88-97) and Timmonds (1994:10) referenced in section 3.8.4, concurred that the inability to put a ceiling on cost management will lead to runaway costs and eventual failure.
- The table also indicated that the failed retailers had proportionally larger deficits in terms of decreased gross profits and increased expenses. In the case of FFR7 the shortfall of R45 000 per month was clearly the cause of failure. This finding is similiar to Timmon's (1994:10) results as mentioned in section 3.8 where it was found that the majority of failures resulted from extremely high operating expenses.
- The re-valuation done on the basis of EFG formula supports the expert government view that sites running at a loss still command serious premiums in the market place. Table 6.12 confirms that none of the sites in the failed category has any "goodwill" value as they all have negative cash flows. Only SFR4 and SFR5 have a "goodwill" value.

It can be concluded that the financial retardation would continue to a point of bankruptcy and the Oil Company and EFG would again sell the site to a new retailer using the same valuation methodology – which is indeed, what

happened. Should the new retailer function under the same conditions of debt and gearing then it would be reasonable to assume a similar fate. If the new person purchases the business with little or no gearing then the business outcome could be different.

This highlights the critical reason for failure. The fact that the loans are highly geared, slippages in financial control will lead to failure. Kuehl and Lambing (1994:222), referenced in section 3.8.4, also found that financial slippages, is the primary cause of failure.

Table 6.12 also brings into question the 2004 Retail Margin Study – as the expense budgets are modeled against the study. The benchmark expenses from the Retail Margin Study 2004 do not correlate with the case study findings.

In spite of this, some of the successful sites continue to exist. This was primarily due to the unplanned retail margin increase that retailers received as evidenced from graph 6.11. It would appear that the failed sites – in spite of the bonus margin increases could not meet monthly expenses. The other reason for this is the inadequate working capital provision and sweat equity contribution.

In summary, the valuation model and its assumption were flawed for the following reasons:

- The retail margin study and the retail margins that result from it did not provide for any level of gearing. The EFG model did not adequately

accommodate this in terms of expense trade offs in other areas to ensure that the cash flows were sufficient to service the debt;

- In many instances, the multiple factor differed from the standard ceiling set by EFG of 24 times free cash flow. This resulted in sellers of the retail sites commanding higher prices;
- It seems that EFG was attempting to grow its loan book as quickly as possible. This resulted in poor quality due diligence studies and risk management as was confirmed by the EFG expert third party interview;
- The electronic system developed by EFG as a risk management tool was being developed during the loan rollout phase. This resulted in many versions being tried and tested without a proper system of risk management at inception of the loan;
- The ability to react to the risk management findings seemed limited. The budget over runs could not be contained due to the non-performance of the loans in the first instance;
- Most of the failed retailers did not generate the correct mark up percentages – this should have been a relatively easier slippage to correct. This was the most notable failure of the retailer, Oil Company and EFG;
- The model assumptions were very reliant on the fuel retail margin study by government for its input cost targets – the margin study did not provide for cost of gearing;
- The retailers were not fully apprised of the cost constraints and in many instances exceeded their budgets.

6.2.3.2 CONTRIBUTION TO SWEAT EQUITY

Table 6.11 reflects the various sources of equity contribution. With the exception of FFR2, FFR3 and FFR4, the other failed retailers contributed in excess of 10% sweat equity as per their agreement with EFG. The total loans for both FFR2 and FFR3 were inclusive of the working capital provision of R300 000 and R204 000 respectively. These were in fact term loans and not an overdraft facility, which would have been cheaper. Both these loans were in fact geared 100%. This is an aspect of small business reality, which has not been accommodated in the Retail Margin Study – as the study does not include an expense line item for interest on debt.

In the case of FFR4, FFR6 and FFR7 the business was under capitalised forcing the failure. FFR4 did not contribute the R400 000 sweat equity required and neither did EFG have any corrective mechanism to remedy the situation. FFR6 and FFR7 were also undercapitalised by R300 000 and R250 000 and this laid the foundation for failure from inception.

The findings of Atkin, Chell and Mason (1993:62), referenced in section 3.8.4, was similar. There is a high concentration of failure amongst businesses that are not sufficiently capitalised. Under capitalization in the case of FFR6 and FFR7 was due to initial shortfalls when the business first started

All retailers within the successful category deposited the sweat equity required. The sources of the sweat equity within the failed category were reflected as interest bearing loans. SFR3 and SFR5 were soft loans with no

fixed period of payment. The following section looks at the working capital provision and the impact of the sweat equity contribution. While all case study respondents received loans from EFG, each retailer was required to make a 10% equity contribution. The equity contribution was factored in the loan valuation in calculating the business ability to pay.

Three of the successful fuel retailers used personal savings to fund the equity requirement compared to four of the failed retailers. FFR2 and FFR6 used the proceeds of their pension funds as equity for their new venture. FFR6 took six months to receive the pension payout and this placed a burden on the cash flows. EFG attributed the retailer's failure to this non-compliance although their approach to equity payments in advance of moving into the business was relaxed and variable.

It was interesting to note that SFR3, SFR4 and SFR5 funded their equity investments from other loans – effectively resulting in a 100% geared business, with the junior loan sourced from other institutions at different costs. The loan model made no provision for the servicing of this capital and interest repayment

In the case of the successful fuel retailers, the additional loans had favourable repayment terms. SFR3 obtained an access bond on his father's home (payable over twenty years) and serviced the loan repayments from his drawings not affecting the business cash flows. SFR4 and SFR5 used overdraft facilities from their banks to bridge the equity shortfall. In both these cases, the site performance far exceeded the budget provision and the loans

were serviced easily. Burn's (2001:336) view, in section 3.8. 4, that banks are all too aware of the failure statistics for business start-ups, explain why none of the retailers could obtain a direct bank loan.

FFR4 operated as a taxi site and the loan was made through the taxi co-operative – and not budgeted for in the EFG loan process. This contributed to the sites failure. In the case of FFR6 who used multiple sources of the equity financing (savings, pension (that took six months to be received) and loan) – the business was on shaky grounds from inception. The interviews confirm that this retailer had the most traumatic time managing the finances of the business and the most significant contributor to the situation was the retailer's inability to make the equity contribution as was required, exacerbated by EFG's failure to ensure compliance.

Only SFR1 used proceeds from the previous business to fund the equity requirement. The EFG loan agreement had no stipulation for the 10% sweat equity contribution, explaining the company's inability to act against defaulting retailers. The FRA expert view was that, according to information held at the Association, there were very few cases of successes in highly geared businesses.

This confirms that the failed retailers used more multiple sources of equity financing (suggesting a measure of desperation with the hope that the equity debt would be funded through the business) to secure the business loan from EFG. This was not investigated in the due diligence process and was found to be a contributing factor to failure.

While Hall (1996:56), in section 3.7, questioned the value of investigating this complex relationship of banks and funding as it "provides no valuable insight". The case evidence points to the contrary

6.2.3.3 WORKING CAPITAL

Working capital is an intrinsic part of any business, particularly the fuel retail business as fuel products are cash on delivery products and the current regulation prohibits the sale of fuel products for credit. The following sections review the component of the working capital equation:

- **WORKING CAPITAL PROVISION**

The EFG loan did make provision for a business purchase price and a working capital provision. Table 6.6 reflects the details of the working capital as obtained in the second interview process and from the due diligence records. All successful retailers were adequately provided for. In the case of FFR4, FFR6 and FFR7 the business was under capitalised forcing the failure.

This finding is consistent with the report of Business Date (1996:7) in section 3.8, where it was noted that, "inadequate initial capital will lead to failure". The entrepreneur's efforts are limited to a sole purpose – that is to raise additional funds. This was the experience of all the failed retailers.

EFG had a blanket overdraft facility with ABSA bank, which was secured against a guarantee issued by the Re-insurance company. This facility

covered all the sites, compromising control on a site-by-site basis. The due diligence reports did project the working capital requirements going forward but all the individual case bank accounts reflected slippages.

- **FUEL PRICE INCREASES**

The aggregate effect of the price adjustments for successful retailers on an annual basis was that an additional R9 574 of additional working capital was required. Failed retailers required an additional R8 574. While the EFG model did not provide for the increase and decrease in available cash flows due to monthly fuel price adjustments, the omission had no material effect on success and failure contrary to the FRA view that such impact was great. Price adjustments did cause stock losses and gains.

- **OVERDRAFT LEVELS**

EFG held a view that price adjustments necessitated additional capital and hence a blanket overdraft facility was provided. Table 6.13 details the approved limits against the actual overdraft at year-end from the annual financial statements.

TABLE 6.13

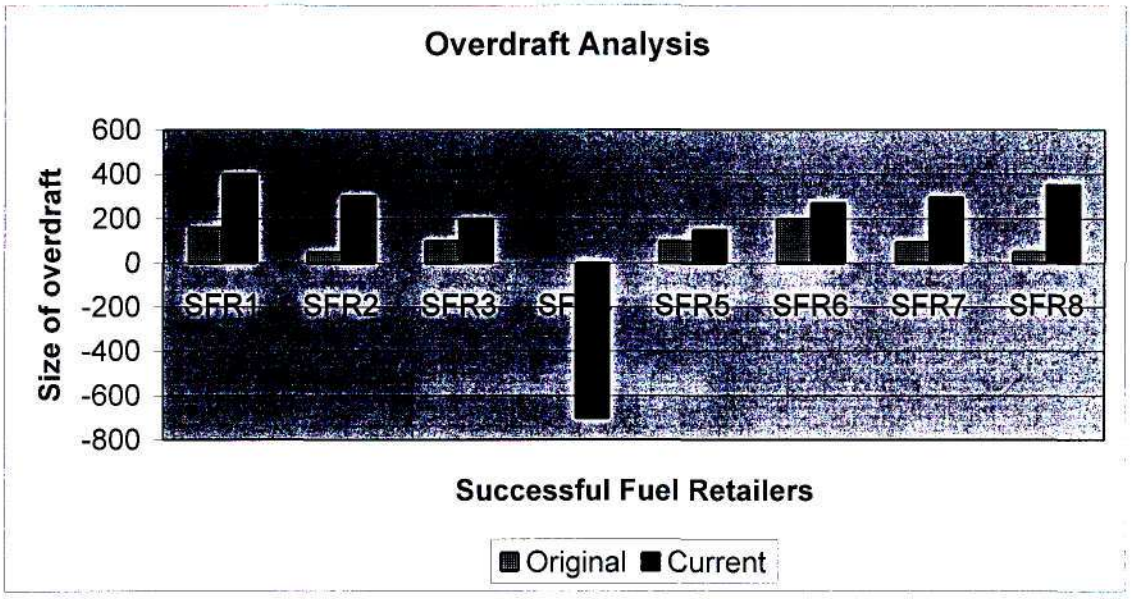
ORIGINAL LIMIT VERSUS CURRENT LEVELS

SFR1 R160 000 to R400 000	FFR1 R150 000 to R300 000
SFR2 R 50 000 to R300 000	FFR2 R200 000 to R700 000
SFR3 R100 000 to R200 000	FFR3 R150 000 to R300 000
SFR4 R000 000 to R700 000+	FFR4 R000 000 to R300 000
SFR5 R100 000 to R150 000	FFR5 R250 000 to R500 000
SFR6 R200 000 to R270 000	FFR6 R350 000 to R500 000
SFR7 R95 000 to R295 000	FFR7 R150 000 to R700 000
SFR8 R50 000 to R250 000	

Graph 6.9 shows that with the exception of SFR4, all the case respondents had a growing overdraft within a twelve-month trading period with no proportionate increase in sales indicating constant and accumulating losses.

GRAPH 6.9

OVERDRAFT LEVELS FOR SUCCESSFUL RETAILERS

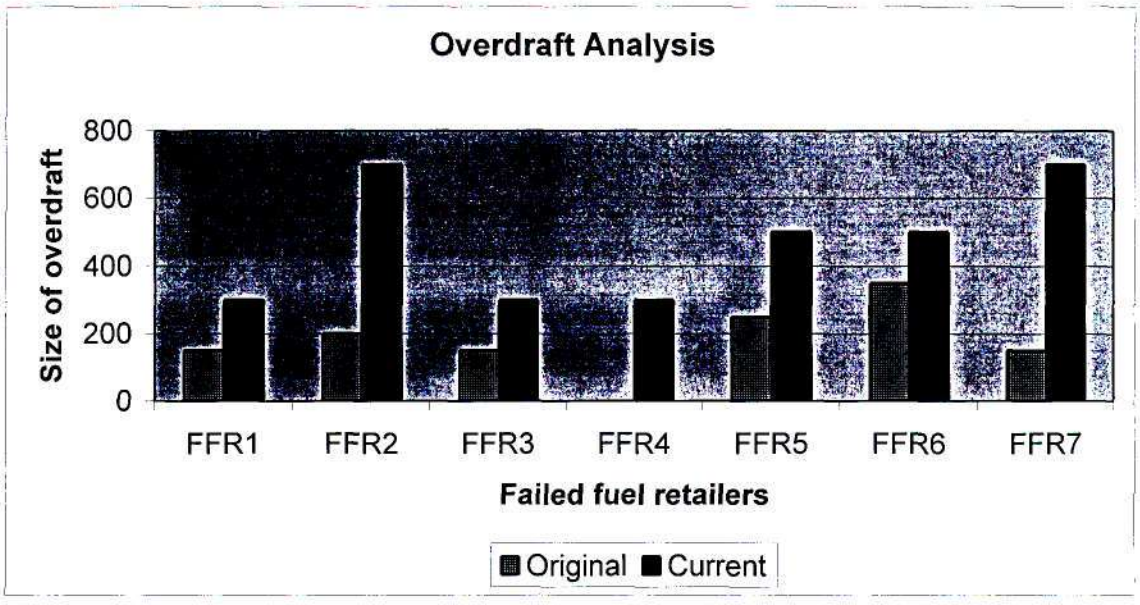


With the exception of SFR4, all other successful retailers showed a gradual increase in the overdraft levels. The respective bank accounts moved backwards from the loan inception implying that the business is incurring costs that it cannot service and it has accumulated cost over runs and overspends in the overdraft. An overdraft is generally used in other sectors as a tax tool as the interest can be written of to tax.

The average overdraft facility amongst the successful retailers was R94k when the loan was issued and this retarded to an average of R158k or R64k more than the base year resulting in a 68% increase in the overdraft amount. This corresponds with the findings from table 6.12 showing actual expenses exceeding the budgeted expenses.

GRAPH 6.10

OVERDRAFT LEVELS FOR FAILED RETAILERS



Failed retailers have all increased their overdraft facilities where the most significant retardation was experienced by FFR2 where the levels disintegrated from R250 000 overdrawn to R700 000 overdrawn against no corresponding growth patterns. The original average amongst the failed dealers was R178 000 increasing to R471 000 – a net increase in overdraft of R293 000 or 164%.

The inability to service the overdraft led to the failure of FFR2, FFR4, FFR5 and FFR6. FFR1 admitted a 50% equity partner in August 2004 and FFR7 restructured the overdraft facilities with a different financial institution. For the purposes of this research both FFR1 and FFR7 have been classified as failures, which are defined in this research as "inability to continue trading".

The case study respondents were also asked to suggest reasons for the state of their bank accounts and whether they had a plan to reduce the overdraft

size to a more manageable level. While EFG provided a blanket facility of R10 million for all sites and individual levels, they did allow the overdraft levels to float according to the expert EFG view, further highlighting the poor control measures in place.

SFR1 responded that, "I do know that the overdraft has increased due to the growth of the business and I do not have an immediate plan to reduce it." The case information confirms this. SFR2 commented that the loan should be a "term loan not an overdraft facility – the overdraft has increased due to the high cost of servicing the loan repayment". SFR3 noted there was no problem with the level of the overdraft facility and while it is his intention to reduce it – there is no immediate plan. SFR4 never had a facility but "took no salary and doubled up on the loan payments."

SFR5 acknowledged that the "overdraft does not bother him – it is only there as an emergency – because of the fuel delivery and I prefer not to have the facility". SFR6 also acknowledges that the overdraft has increased but has no plan to restore it to the original level. SFR7 suggested that, "petrol price increases are hugely responsible for the increased limits". Finally, SFR8 responded that the increase in the overdraft was expected, "I knew that something was happening – most of the cash is used to service the debt – in fact it came to a point where some operational expenses could not be paid - and the site was not growing as expected".

FFR1 noted that the "overdraft grows on you – I have lost all sense of why." FFR2 responded that she received almost daily drops of fuel and the bank

facility was inadequate. FFR3 and FFR4 responded that they had no clear plan to reduce the overdraft nor did they have a clear idea as to the reasons for the increase in the levels. FFR5 responded that he was not able to isolate the reasons for the increase in the overdraft – even with EFG assistance and that, "I had no plan to reduce the level – how do you do that?"

All indications are that the failed retailers were under capitalised and did not manage their debt with any level of prudence. This phenomenon of insufficient capital and mismanagement of debt, was identified as the primary reasons for failure by Chell and Mason (1993:62), in section 3.8.4

FFR6 also had no clear idea as to the reasons for the increase in the level of overdraft and noted that, "The overdraft nearly killed me. I really felt the pressure of the 500k facility and there was one day when the overdraft nearly killed me. I could not understand how it got to that level and my whole world caved in. I wrote a message to say that I was going to quit –commit suicide. I drove around town and could not find any comfort anywhere and felt overwhelmed by the fact that I gave my life, time and career for this business and felt destroyed".

The experience of FFR6 has been described by Kuehl and Lambing (1994:552), in section 3.8, as a classic symptom of failure. Many small business owners are shocked to learn that a very profitable company may consistently be short of cash. The failure to fully grasp this concept leads to the loss of confidence. Frese (2000:91) in section 3.8 also noted that

emotional coping is necessary. There is no evidence from the case to show that the oil company offered any support for the exiting retailer.

Although the franchise support mechanism comes into serious question in instances such as these, the expert oil company view was that they have dedicated business managers for each site.

Overdraft is an efficient and legitimate tax tool when companies make profit. All cases in the EFG case profile incurred cumulative losses. The researcher's perception when interviewing the different retailers, especially those that failed was that the overdraft was like a mystical phenomenon that could not be understood. When the limits were exceeded, the bank would return the fuel debits resulting in a stressful situation for the retailer.

The immediate result of the unpaid debit is that the oil company would place the retailer on hard cash – an absolute certainty that the retailer will fail, as he would not be able to pay for product in advance. This is done in spite of the fact that the oil company holds a guarantee for two drops of fuel.

Notwithstanding the oil company's credit position and its legal rights to secure payment, the general approach to such situations is one of little tolerance in spite of the fact the potential for bad debt is low, so long as the outstanding amount does not exceed the guarantee value being held. The oil company also has to approve the incoming retailer on condition that all monies to the oil company must first be paid.

This is another practice that disadvantages small fuel retailers. The idea of prepayments for fuel drops against a guarantee being held is a double security measure. In other words, the small fuel retailer has to put up a R200 000 guarantee as security in cases of default. This could be used as working capital. The wet stock issue is a significant component of the working capital equation and is discussed in the following section.

- **WET STOCK MANAGEMENT**

FFR7 had during the discussion produced a "load size sheet" from the local depot. The sheet provides a number of permutations of petrol and diesel that the fuel retailer can order. These are the minimum orders and would generally place a cash flow strain on the retailer as he is forced to buy product that he would only sell over a number of days. There is a direct correlation between stock holding and the bank facility.

The lower levels of stock would result in the bank overdraft being within limit. An imposition on the small fuel retailer is the oil company managing its transport economics at the cost of the small business. This imposition is one definite cause of failure in the fuel retail industry. Oil companies receive a service differential fee of 5 cents on every liter to manage the costs of transport.

Government needs to audit this cost, as the perception is that oil companies are profiting from this at the expense of the small fuel retailer. The researcher obtained a delivery schedule sheet from the Engen Wentworth depot as most

of the EFG retailers drew product from this depot. The delivery instruction had a note that read as follows:

"These are the only depot sizes that can be accommodated. All orders not conforming to these quantities will be cut! Please note that the super and unleaded petrol can be swapped with each other but not the diesel".

This is a very restrictive ordering system for product that the retailer is paying for and is indeed an onerous requirement. In any ordinary retailing environment, the wholesaler should supply the product ordered for by the retailer. After all, the retailer is paying cash on delivery for the product against a guarantee held by the oil company, which according to the franchise agreement is the only source of supply.

TABLE 6.14

VEHICLE DELIVERY SIZES 30 000 L SEMI TRAILER

SUPER	ULP	ADO
30 000		
	30 000	
		30 000
24 000	6 000	
24 000		5 000
18 000	12 000	
18 000		10 000
18 000	6 000	5 000
12 000	12 000	5 000

Super = is high octane petrol, ULP is unleaded petrol and ADO is diesel

Source: Wentworth depot delivery schedule, January 2005

The above table 6.14 confirms the size of the imposition. Retailers wanting to order 30 000l, perhaps due to their working capital constraints, would have to take a permutation of products that corresponds with the depots delivery instruction. The table does not accommodate site-specific needs but rather provides a general offer. This restriction would result in the retailer carrying extra product, at additional cost to the business simply to comply with the delivery imposition.

If a retailer turns over 20 000 liters of super, 10 000 liters of unleaded and 5 000 liters of diesel then the above stipulations would at best result in the retailer receiving a reduced delivery (18 000 super, 6 000 unleaded and 5 000 diesel). This means that the retailer would have to re-order at levels when there is still stock underground to avoid running dry. The cost of the "holding" stock is unnecessary and has to be funded by the retailer.

TABLE 6.15

VEHICLE SIZE 35 000 SEMI TRAILER

SUPER	ULP	ADO
35 000		
	35 000	
		30 000
29 000	6 000	
29 000		5 000
24 000	10 000	
24 000		10 000
24 000	5 000	5 000
23 000	12 000	
18 000	15 000	
18 000		15 000
18 000	11 000	5 000
18 000	5 000	10 000

Super = is high octane petrol, ULP is unleaded petrol and ADO is diesel

Source: Wentworth depot delivery schedule, January 2005

The table 6.15 again reflects the restrictions with a larger delivery vehicle. In considering an order of 35 000 litres, retailers have to find the balance between what is required to meet sale projections against what can be supplied by the depot. Retailers turning over higher volumes of a particular product would have to carry additional product, generally diesel, for a longer period than required. This results in cash being sunk into product underground instead of being in the bank – and all this at the expense of the small business owner.

TABLE 6.16

VEHICLE DELIVERY SIZES 38 000 L SEMI TRAILER

SUPER	ULP	ADO
38 000		
	38 000	
		33 000
32 000	5 000	
32 000		4 600
27 000	10 000	
27 000	5 000	4 600
22 000	15 000	
22 000	10 000	4 600
22 000	5 000	9 200

Super = is high octane petrol, ULP is unleaded petrol and ADO is diesel

Source: Wentworth delivery schedule, January 2005

The 38 000 trailer size is generally used by higher pumping sites. Higher pumping sites would have shorter stock turnover cycles. This means that product is ordered and sold quicker. The delivery imposition also places undue financial strain on those larger sites that have product permutations and sales splits that is not accommodated in the delivery regime. A retailer turning over product every three days and requiring product in permutations of say 30 000l super, 10 000l unleaded and 10 000l diesel would have to make stock holding adjustments in a least efficient manner.

Government's failure to properly regulate this imposition has allowed the industry to perpetuate such inefficient delivery constraints on the small retail fuel sector. The monthly price adjustments have far reaching impacts on "holding stock" resulting in monetary gains and losses.

It can be concluded that there is a strong inverted correlation between the stock levels and the bank account. The oil company has a limited risk for non-payment as they hold a guarantee for the two drops of fuel, a rental deposit and opportunity to recover outstanding funds from the new incoming dealer as evidenced from the legal documents reviewed. The delivery regime gives the supplier power in pursuit of greater profits for the oil company and is a contributory reason for failure. The FRA concurred that this was a common cause of cash flow difficulties and eventual failure.

Both successful and failed retailers implemented a standardised wet stock control procedure. Stock was ordered and received and dips were taken to confirm that the correct quantities were received. There was also general

discomfort around the receipt of product – there is no scientific method to confirm that the quantity received was indeed correct and that the truck meter reading had to be accepted as the main checking mechanism. In all cases, the retailers accepted the integrity of the oil company delivery process. The researcher had the opportunity to witness the receipt of product during one of the observation sessions and was confident that the delivery process was acceptable, based on the pump and tank reconciliation done.

Daily sales were reconciled to the pump and tank readings and both classes of retailers executed this daily. It was also a significant finding that fuel purchases, unlike any other known retail product, was purchased from the oil company and paid for without the retailer having physical sight of the product. In many cases, the retailer did not even know the colour of leaded petrol. When respondents were asked, "What was the average variance you accepted without query?" Their responses were as follows:

TABLE 6.17

WET STOCK VARIANCES

FFR1 <100l	SFR1 <100l
FFR2 <250l	SFR2 <50l
FFR3 <150l	SFR3 <100l
FFR4 <20l	SFR4 <300l
FFR5 <100l	SFR5 <100l
FFR6 <300l	SFR6 <50l
FFR7 <50l	SFR7 <250l
	SFR8 <100l

It was noted that all retailers did daily stock takes, reported the wet stock numbers to the oil company third party management for monitoring and managed the stock take process. The oil company adopted hands- on approach to wet stock management. With the exception of SFR2, all other retailers in both categories had no mechanism in place to verify that the dispensed quantity of fuel was indeed correct. SFR2, a trained chemical engineer used a calibrated container, developed by the University of Natal Engineering Division (where she was previously a student) to test the quantities dispensed on the pump to the rand value of the sale.

SFR2 also commented that, "When I buy a box of chocolates you can see it. Fuel is not the same. I have a print out as everything is computerised- but cannot say for sure that it is correct". All respondents confirmed that some variances were expected when stock was received but the levels self adjusted over a few days. Generally, product was received in "sealed parcels" – a predetermined truck size adjusted for temperature. The oil company also controlled the deliveries from their head office in Cape Town and retailers were required to submit daily information on the extranet.

This allowed the oil company to optimise their transport economics at the expense of the small fuel retailer. Fuel distribution depots received a "transport differential" included in the petrol price to fund their operating costs at depots. The delivery combinations as at November 2004 included the following from the Durban based refinery:

TABLE 6.18

WET STOCK DELIVERIES RECEIVED PER MONTH

FFR1 08	SFR1 12
FFR2 16	SFR2 08
FFR3 08	SFR3 04
FFR4 12	SFR4 13
FFR5 04	SFR5 08
FFR6 07	SFR6 06
FFR7 10	SFR7 08
	SFR8 08

The above also indicates the stock turnover rate. FFR1 turns the fuel stock 8 times per month. In other words, the tanks had to be replenished eight times on average per month. The average purchase per week would therefore be:

TABLE 6.19

WEEKLY WET STOCK AVERAGES

FFR1 37 500l	SFR1 38 000
FFR2 44 000l	SFR2 37 000
FFR3 40 000l	SFR3 50 000
FFR4 27 000l	SFR4 54 000
FFR5 42 500l	SFR5 37 000
FFR6 34 000l	SFR6 41 000
FFR7 36 000l	SFR7 41 000
	SFR8 35 000

According to the 2004 Retail Margin study, the average stock turn per annum in 2004 was 76.88 versus 82.02 in 2003. This means that the average delivery size has increased to optimise the oil company transport costs. Depot optimization would mean fewer deliveries of increased quantities. The average of failed retailers per annum was 111 deliveries and the average of the successful retailers is 100 deliveries per annum. The average volume of the successful retailers was 350k while the failed sites averaged 345k liters. While the average throughput for both failed and successful sites are almost identical, the successful retailers received on average 11 drops lesser. An increased frequency of deliveries at the combinations not suitable for the retailer is an imposition that would lead to failure.

SFR5 commented that the oil company should really become your partner in the area that matters – like providing affordable deliveries. This is a normal condition in other retail industries – "oil companies should not dictate and become your partners".

In the case of SFR8 who sold more unleaded fuel than leaded fuel, the delivery combinations placed a constant cash flow burden, as "I have to get leaded petrol due to the order requirements". It is this kind of imposition that contributes to failure in the fuel retail business.

The treatment of stock as consignment stock would resolve the depot economics challenges and simultaneously ease the cash flow burden on the small fuel retailer. The oil companies hold in all cases a "guarantee" for at least two drops of fuel. It appears that the retailer has no ability to control this

key function of the business. The retailer cannot order what is required and has to pay in advance although the oil company holds security for the equivalent of one drop of fuel. This appears one sided and has no commercial basis but is the dictate of the oil company that has resulted in the failure of many a fuel retailer in the past – a viewpoint shared by both the FRA and government expert views.

SFR1 noted that fuel was occasionally delivered by meter-less vehicles and by routers (private transport companies). Oil companies are only required to calibrate these vehicles or to call for certificates annually – and felt that, "such calibrations should be done more than once a year".

SFR1 also indicated that the oil company included in the rental recovery a compulsory third party wet stock management cost at a cost of R226.00 per month. The company conducted variance analysis from electronic information. This is only for the areas that the oil company could potential incur an environmental risk due to leaking tanks that in all cases belong to them. In cases of leaking tanks, as was the case with SFR3, the oil company compensates the retailer on condition that proper records have been maintained (in spite of the fact that daily wet stock control information is sent to the oil company appointed monitoring company). There was no provision for this cost in any of the budgeted cash flows and nor was it identified in the due diligence process.

This requirement does not exist for the dispensing equipment or the pumps and if the pump under or over throws, the implications are significant for both

the motorist and the retailer. There is no regular testing of the dispensing equipment. SFR2 further commented that the training course would have been useful if retailers received a calibrated container to routinely verify that the quantities dispensed from the pumps corresponded with the rand value reading on the pump. FFR6 responded that "the only time I had proof is when the motorists comes in to complain. I can also say that I do not know how the overdraft got bigger and bigger".

FFR7 recalled an incident when a customer queried, "How can you pump 70 litres into a sixty five litre tank?" The retailers first response was that the attendant had manipulated the pump by starting to pump from say R20.00 dispensed from the immediate previous motorist. This was not the case. The pump recording showed that it dispensed 70 litres but the physical quantity dispensed was only 65 litres – at the expense of the motorist.

Could this be the answer to the mystical growing overdrafts? Being intrigued by this finding and phenomena, the researcher arranged to randomly test four retail sites and obtained an assised container and physically tested the unleaded fuel dispensation - the actual litres dispensed corresponded to the reading from the assised container.

The fuel retailer operates from a very disadvantaged position. Orders can only reflect the transport economics of the oil industry, in spite of the transport delivery cost allowed for in the price build up of petrol. Government has a responsibility to investigate the size of the delivery costs and its adequacy to cover the transport. According to expert oil company view, deliveries to city

areas can only be done at night and early hours of the morning due to the fire safety regulation. It is highly improbable that the retailer would be physically present when such deliveries are made. There is no legislative testing of tanks and dispensing equipment – this is only required to be as sized once annually. The retailer cannot influence the stock loss or stock gain situation when prices are adjusted on a monthly basis. The monetary cost of this is not included in the margin study.

Clearly, the whole system needs to be reviewed as the retailer is at a disadvantage to the oil company in terms of delivery sizes, delivery frequency, payment methodology and source of supply. This further illustrates the uniqueness of the fuel retail business.

- **DRY STOCK MANAGEMENT**

Convenience shops are a recent addition to the fuel retail business in South Africa. The convenience industry is not as developed as compared to the United States but has been strategically developed in response to Governments recorded intention to deregulate the industry. The retail convenience business requires specialist retail skills as the product offer has increased from the marketing of one product - fuels at fixed prices - to the sales of over 2000 line items at varying prices. The convenience shops are in direct competition with the corner shops. Kolshorn and Tomecko's (1992:53-56) views as noted in section 3.8.3, that skills must be complemented by other skills such as learning how to be pro-active is relevant here.

The franchisor support in this area is generally limited to increasing turnover and ability to service franchise fee charges. All case respondents reported that a percentage of turnover is charged as franchise fees. In all cases, the number is between 7%-10%. This means that a convenience shop turning over R100 000 would pay between R7 000 to R10 000 per month as franchise support fees. The management of dry stock is important in the fuel retail business – the 24-hour operation is again unique as compared to other retail sectors. When questioned about the frequency of stock takes, case study participants responded as follows:

TABLE 6.20

FREQUENCY OF DRY STOCK TAKES

FFR1 Monthly	SFR1 Rotational/2 weeks
FFR2 Monthly	SFR2 Rolling/1 week
FFR3 Rolling/3rd day	SFR3 Rolling/1 week
FFR4 Monthly	SFR4 Rolling/1 week
FFR5 Monthly	SFR5 Rolling/1 weekly
FFR6 Weekly	SFR6 Rolling/1 weekly
FFR7 Rotational	SFR7 Monthly
	SFR8 Rolling/2 weeks

An analysis of the responses indicates a clear pattern. Failed retailers conducted stock takes less frequently than successful retailers. FFR1, FFR2, FFR4 and FFR5 only conducted stock takes on a monthly basis. FFR6 conducted stock takes on a weekly basis and only FFR3 conducted rolling stock takes and was able to determine the shrinkage value every third day.

This is in stark contrast with the successful retailers. With the exception of the SFR7, who engaged a professional company to do monthly stock takes, all other successful retailers conducted stock takes on a rolling basis with stock value being determined on a weekly basis. SFR1 and SFR8 also conducted rolling stock takes with stock value being determined on a fortnightly basis. In all the instances, the stock take would indicate the size of shrinkage. When asked about the average shrinkage percentages the following was recorded:

TABLE 6.21

AVERAGE SHRINKAGE

FFR1 4.0%	SFR1 1.5%
FFR2 5.0%	SFR2 2.0%
FFR3 1.5%	SFR3 0.5%
FFR4 5.0%	SFR4 1.0%
FFR5 >1.5%	SFR5 1.0%
FFR6 3.0%	SFR6 3.0%
FFR7 2.0%	SFR7 1.0%
	SFR8 4.0%

Again, a clear trend is noticeable. Failed retailers yield a higher shrinkage average than their successful counterparts. The average in the successful group was 1.75% and the failure average was 3.0% compared to the EFG target of 2%. Assuming a R100 000 stock holding at any one point in time – the successful retailer would have to replace the entire shop stock every

100k/1.75 or 57 months. The failed retailer would have to replace the entire shop stock every 33 months.

The failed retailer would have to inject additional capital to cover the stock replacement every 33 months or provide for the loss as a cost of doing business. Hall (1995:14), in section 3.8, referred to this dilemma as "unpredictable emergencies". While shrinkage was more manageable or predictable by most of the successful retailers, it was clearly not predicted by most of the failed retailers.

This is an important difference and is most certainly a differentiating criterion for success and failure. It can be concluded that the ability to manage shrinkage influences success and failure. Both groups of retailers operate the same point of sale and back office system, employ dedicated shop staff and retail the same items as the stock file and range is determined by the franchisor. Individual ability to manage shrinkage is obviously important.

All case respondents also noted that inadequate training was provided for dry stock management. The emphasis on wet stock management was significantly higher than dry stock management. One possible reason was that the oil company was concerned about environmental responsibility, if fuel leaked from underground tanks.

No effort or helping hand is extended on the dry stock management. Oil companies calculate their franchise fees on turnover before shrinkage. This is the most challenging area in the retail convenience business but receives little

oil company support. The oil company's emphasis is on merchandising and pricing – both functions dedicated to generating higher sales and thus higher franchise fees.

In probing the level of support, various comments were received. FFR1 and FFR2 attributed their failure to the franchisor's inability to assist with dry stock management in spite of charging a franchise fee. FFR3 noted that stock management was a "heart and lung" function and it was not forthcoming from the franchisor. FFR4, FFR5 and FFR6 held similar views on the poor level of franchise support.

SFR1 commented that, "the petrol company feels that because they are not supplying you with stock, as in the case of petrol –then it is not their baby." SFR2 concurred and responded that, "oil companies do not provide any support – even if one asks them they cannot provide any support. There is very poor communication. There should be an integrated loop between the oil companies across the brand and the dealers." In essence, SFR2 viewed the challenges in the convenience business as an "industry issue" and that greater benefit could be achieved if dealers and oil companies shared their views across the industry and not operate within an individualistic and brand dedicated style.

While SFR3 commented that, the support was "non existent" SFR5 felt "helpless" and fielded a lone battle in a highly specialised retail business where franchisor support is integral to the success of the venture. SFR4 insisted that, "they have absconded in their responsibility – they levy 8% in the

store and get a decent return on their investment – why don't they have a dedicated team like Pick and Pay does?"

SFR7, unhappy about the level of franchisor support, employs the services of an external third party who conducts monthly stock takes and manages a hidden video camera. The camera is strategically located and the service provider restricts the visuals to the relevant sections and provides all the recordings where shrinkage was noted on one tape. The same company does the monthly stock take and charges R5 000 for the shrinkage management service.

SFR8 responded that the franchisor provided no support and were "bullies – they insist on what merchandise to carry – they are a law unto themselves – I had to buy sandwiches from Johannesburg some 600km away while I could have made them myself!" While SFR8 is clearly the kind of the goal and action - oriented entrepreneur that Borman and Motowidlo (1993:71-98) referred in to in section 3.5.2 – franchises by definition limit entrepreneurial flair.

All case respondents adopted extreme care in managing high value stock items. Such items included red bull drinks, cigarettes, cell phone cards and oils. Such items were generally counted on a shift-by-shift basis. When asked about the physical mechanisms employed to manage shrinkage all respondents referred to the close circuit television and this was verified during the physical observation of the operations. The expert oil company view was that they contract dedicated suppliers to ensure a uniform standard. An

analysis of the stock turnover report revealed a number of items that been on the shelf for over six months.

- **CASH MANAGEMENT**

Fuel retail businesses are generally cash businesses. All retailers do daily banking as was evident from the documentation analysis. In response to the question of shortages and the size of shortages acceptable per shift, the following was recorded:

TABLE 6.22

CASH SHORTAGES

FFR1 <R20	SFR1 <R5
FFR2 <R20	SFR2 <R5
FFR3 <R5	SFR3 <R15
FFR4 <R50	SFR4 <R5
FFR5 <R5	SFR5 <R10
FFR6 <R5	SFR6 <R5
FFR7 <R10	SFR7 <R5
	SFR8 <R1

The analysis of the above indicates that both failed and successful retailers implemented stringent control of cashiers. It is clear that the failure group did have a higher tolerance for cash shortages. SFR08 set R1.00 as a limit while FFR4 allowed R50.00 as the limit. The numbers are numerically insignificant but do reflect the degree of focus that each retail group applies. Successful retailers do have a higher sense of "attention to detail".

- **DEBTOR ANALYSIS**

TABLE 6.23

SIZE OF DEBTORS BOOK AGAINST SECURITY HELD

FFR1 R70k/R0k	SFR1 R150k/R44k
FFR2 R120k/60k	SFR2 R70k/R0k
FFR3 R30k/R0k	SFR3 R40k/R10k
FFR4 R7k/R0k	SFR4 R80k/R30k
FFR5 20k/R20k	SFR5 R300k/R10k
FFR6 R100k/R40	SFR6 R8k/R6k
FFR7 R350/R80K	SFR7 R365k/R200k
	SFR8 R200K/R200K

TABLE 6.24

BAD DEBTS WRITTEN OFF

FFR1 R20K	SFR1 R8k
FFR2 R75K	SFR2 R120k
FFR3 R10k	SFR3 R2.5k
FFR4 R0k	SFR4 R10k
FFR5 R0k	SFR5 R50k
FFR6 R3.5k	SFR6 R0.0k
FFR7 R0.0	SFR7 R17k
	SFR8 R50k

It was also found that failed retailers had further relaxed control in terms of debtors as they only had a 28% cover for accounts receivable as opposed to

successful retailers who had a 41% cover. In both instances, the security held was less than half the size of the monthly debtor's book and both operated in contravention of the law in terms of credit sales of petrol.

The case study evidence lends support to Write's (1995:52-53) findings as noted in section 3.8.4. The extention of generous credit terms and the inability to ensure continuous collection is one of the reasons for cash flow problems and eventual failure. While the successful retailers managed the debtor's books, it appears that the failed retailers have not.

The percentage of bad debts write-off was 15% for the failed category and 2% for the successful retailers. This finding supports Burn's view (1200:380), in section 3.8.4, that while credit sales is an intrinsic part of most businesses, it is the management of debt that more important. The cash flow strain for both categories was largely attributable to the cost of carrying accounts receivables.

The working capital provision did not adequately provide for the debtors. The due diligence file does not have any debtor age analysis for most of the failed debtors. There was also no provision for monetary increases of debtors resulting from fuel price increases. This case finding is similar to the conclusions drawn by. Business Date (1996:7), in section 3.8.4, noting that an over extension of credit will lead to failure.

- **CASH FLOW MANAGEMENT**

The case participants were unanimous in their response that the oil company provides no support, in the form of professional advice and guidance when financial difficulties become evident. Their support structure is limited to protecting the oil company interest and the oil company representative is not trained to advise how to resolve financial setbacks. The expert oil company view agreed that this weakness does indeed exist.

EFG did provide support and as the providers of the capital, it was in their interest to interrogate the reasons for cash flow crunches and to jointly develop a rectification plan with the retailer to prevent a failure. SFR1 commented that, "all you get from the franchisor is what you can and what you cannot do and when you have a problem there is no one that could assist from the oil company".

SFR2 accepts that while there is no such support at the moment, the oil company is in a unique position to facilitate the establishment of a highly skilled team that could step in and minimise the loss when the situation arises.

SFR5 described the situation as a "cash flow fire" and that the oil company was not in a position to send a "rescue team" to identify what the reasons for the cash flow crunch are. SFR7 commented that, "the network manager is useless – I do not need him – he has no business experience and is paid to protect the oil company only. He only serves to police the retailer – and to ask, are the dip points locked?" The responses from failed retailers were similar.

While the oil company as the franchisor is expected to have such expertise – in exchange for the franchise fees charged, a fair amount of responsibility can be placed on EFG and the fuel retailer. EFG attempted to assist by convening monthly management account meetings. This was a feeble attempt given the number of failures that were recorded.

FFR7 noted that the franchisor had no system of management support, "there is no such support- they are not interested – if you fail they get someone else- it benefits them to loose a retailer than to save a retailer".

In order to test the efficacy of the credit meetings the researcher posed the questions in section E2.1 and E2.2, about management accounts and what remedial steps were taken once the management accounts were received. It was interesting to note that with the exception of FFR5, none of the case respondents maintained a cashbook. This is in spite of the fact that all fifteen case respondents had on line access to the bank accounts.

SFR1 responded that he received management accounts when EFG did the accounts and they were generally inaccurate. He often asked the question: "where is the cash gone if the financials reflect a profit?"

SFR2 noted that the financials "are received too late as the business is a dynamic one, and I do the analysis of the financials on my own." SFR4 prepares the management accounts and "goes through the accounts and if something is wrong then we act immediately. Take an example of the phone account – if it is beyond the R6k mark then we investigate. The phone account

is generally higher in my area as there are no radio pads". SFR7 observed that, "most of the cash is absorbed by rent and wages".

FFR1 spent time at EFG in advance of operating her own business and responded that, "the management accounts did not help prevent my situation." FFR2 maintained her own set of management accounts but to no avail. FFR5 reported that he was perplexed about the growing overdraft and was unable to get a clear explanation from EFG, eventually resorting to employing a retired banker and paid him from his other business. FFR5 was forced to exit the business shortly after this.

FFR6 also had regular management accounts prepared and felt comfortable to financially analyse the accounts on his own – "I did study the management accounts and also understood it. I would investigate why some items like packaging was always overstated. I then investigated and found out that the oil company wanted us to use branded plastic packets for the shop and that they were more expensive."

FFR7 responded that he goes through the financials with the accountant, "I look at the stock levels – do you have more stock than you need? An example is the chemicals used in the car wash – if we used more chemicals and the sales were the same as last month, then I will investigate."

EFG prepared the monthly management accounts and submitted the legislative returns. Monthly review meetings were called to correct deviances from the targeted budget. All respondents noted that the financials were

generally inaccurate and that most of the review time was spent on correcting cost allocations without substantive discussions on remedial efforts for cost over runs. It was clear from the respondent interviews that the EFG management accounts review process was a failure. A scrutiny of the minutes of these meetings confirmed the retailer views. This finding is further supported by Kiggundu (1988:169-243), who noted in section 3.8.3, that the lack of accounting and financial management skills affects success negatively.

Both EFG and the oil company performed no independent audit, resulting in retailers using stock purchases to draw goods for personal use from the business. This was found to be applicable to most retailers. On random examination of bulk purchase invoices from Makro and Trade Centre, there were single unit items that were clearly not intended for resale. It was also found that none of the EFG retailers maintained a cashbook – cash flow management was a "mental process" as all the retailers had online access to their bank accounts

Regarding cash flow management and the tools used for its management, as prompted in sections E2.6 and E2.7, none of the retailers had a system of cash flow management but managed the cash flows daily in a variety of ways. SFR1 stated that, "No, you cannot tame the animal. It is a bottomless hole. In 2001, I had to take an advance on my home loan and the R160k that I put in was swallowed. In January 2004 I put in another R120k from my bond ..." I manage my cash flows by deferring expenses, do we need to buy uniforms now? Can we service the compressor next month?"

SFR2 noted, "retail is the only place you can learn cash flow management. This industry is a very unique industry – the difference is that the fuel retail industry is the only industry where you have to pay in advance – and I manage my cash flow continuously in my head". SFR6 stated that, "I could jump off a building to get the cash flow right." Finally, SFR8 reported that "I manage my cash flow by instinct...I worry all the time – will I have enough money?" And, she regretted not having a cash flow tool in place.

FFR1 responded that cash flows are a function of how the oil company processes your order and that the retailer is at their mercy. FFR2 also indicated that she had no tool in place and neither did the oil company – "they just continued to make operating the business increasingly difficult with their unrealistic and non supportative views."

FFR3 commented that, "Yes, cash flow is king – so it is treated royally. I check the inflows from the shop and forecourt and check what payouts have been made. I also looked at the card transactions and cheques issued. This will provide an idea of what is in the bank."

FFR4 and FFR5 reported that they had no system of cash flow management. FFR6 responded that he did have a system of cash flow management, "I tried to interact with the oil company – if today there was debit due of R100k then I would make every effort to ensure that the funds are there. Actually, I spend most of my time "getting cash in." He then went on to explain a banking system instead of a cash flow management system. FFR7 reported that he "mentally work out" the cash flows and that he had no such system.

In conclusion, the failed retailers appeared more helpless and destitute than the successful retailers. The ability to manage cash flows is crucial in the fuel retail business. The general responses to the methodology used illustrates that the case respondents had no reliable tools of cash flow management and that the franchisor and EFG had both failed to provide such a tool.

The general resentment towards the oil company training has its root in this failure. The fuel retail business generates substantial amounts of cash against low margins and the need to manage the cash flows to ensure that the cash is accumulated to meet the next payment for the fuel drop is crucial. The number of different approaches adopted by both categories of retailers indicates that a franchise system does not actually exist. Burn's (2001:39) inference in section 3.8.3 that the influence of training cannot be proved is partially supported from the case evidence.

Cash flow in the fuel retail business is a function of cash sales, credit sales, card sales, wet stock purchases, dry stock purchases, accounts receivable and stock turns. This can be illustrated as follows:

ILLUSTRATION 6.2

CASH FLOW BUILD-UP

A = cash sales

B = credit sales

C = card sales

D = wet stock purchases

E = dry stock purchases

F = accounts receivable deposits

I = cash in bank

J = uncleared deposits

K = uncleared payments

L = increase or decrease in fuel prices

FCF (Free Cash flow) = SUM (A + C + F +I + J) – SUM (B + D + E+ K)

The operational working capital is adequate when the FCF value is the same on both sides of the equation. The (**I**) number has to be at the level that finances the debtor purchases. In other words if the debtor purchases is R3 000 per day, and accounts are collected by the 15th of the following month the cash resources as indicated by **I** should reflect a total of 45 days x R3 000 – that would theoretically will be the previous months debtor collections. The most common error made in the calculation of working capital is the use of thirty days as accounts receivable instead of 45 days as was evidenced from the due diligence report.

It was expected that the respondents would reflect a system that considered all these variables. Focusing on the cash collection daily without regard for the size and frequency of wet and dry stock purchases could result in a cash flow crunch, which would have no bearing on the profitability of the business but could result in business closure.

Due to the size of the wet stock purchases (in excess of R100 000) at a time, the fuel drop size and quantity is crucial and once the initial amount has been set, higher fuel prices must be factored in. Most respondents took comfort in the fact that fuel price increases over time effects the working capital requirements – the **L** factor. The following indicates the impact of fuel price adjustments:

Let us assume that a price increase of 5-30 cents range for a standard 30 000 liter fuel (retail pump price of R4.00) with a three day stock turn and debtors book of R100 000 per month. The increased working capital required would be:

ILLUSTRATION 6.3

IMPACT OF FUEL PRICE ADJUSTMENT

To finance	Fuel purchase	Fund debtors
5 cents +	R1 500	R1 250
10	R3 000	R2 500
15	R4 500	R2 750
20	R6 000	R5 000
25	R7 500	R6 250
30	R9 000	R7 500

Clearly, price increases have a direct impact on working capital requirements. This has not been factored in the EFG loan model nor had it been included in the retail margin study by government. Illustration 6.3 excludes the implications that higher prices would have on bank charges – due to higher turnover with no incremental increase in gross margins. A five cents price increase would require an additional R1 500 working capital plus another R1 250 to fund the debtor.

The quality of a franchisor offer should be reflected in the calibre of its franchisee. The fuel retail industry must take responsibility for the poor training in the financial mechanics of the business – otherwise what is the point of such a stringent recruiting system?

It is advisable that a core competency profile be developed – this could be a research area for another researcher. The current practice of imposing a training regime in isolation of the business realities is detrimental to the retailer. The financial models should cover a working capital analysis sheet – a software driven that shows changes in the working capital.

6.2.3.4 DUE DILIGENCE

It is also acknowledged that failure amongst the historically disadvantaged retailers are higher than the average and most retailers do not get access to up-to-date financial and other important operating information required to make fact-based decisions before the sale is concluded. Gumede (2002)

noted that, "even in cases where such information has been availed, most of these investors have no way of verifying the information that they receive. It is the prerogative of every businessperson to conduct appropriate financial due diligence prior to buying a business but it does not always happen in this sector.

Even when due diligence is conducted, it is performed by the would-be "Black economic funders" who have proved in more than one case not to have the interest of their clients at heart." This observation, although highly generalised does have some truth in it. Most of the EFG retailers, as was evident from the interviews did not conduct thorough due diligence investigations or have access to other funding options.

Van Biljon's (2000:45) recommendation in section 3.6, was that, the first stage of the mentorship process was the due diligence. This would have ensured that the new retailer got involved from the outset and would perhaps have been in a better position to make a more informed decision about continuing with the venture.

Gumede (2002:25), noted that the fundamental problems in the failure of most new comers seems to be primarily related to the lack of disclosure of financial and operating information to new buyers and valuation of service stations. He further suggested that failure was also due to poor financial training, operating and cost management, incorrect valuations and too high gearing.

The question of gearing is a generalization as all EFG retailers were highly geared (90% plus) and half of those highly geared retailers operated successful businesses. Notwithstanding this, Kirby and Watson (2003:68), in section 3.8.4, proved that lowly geared business have a greater chance of success.

All the case respondents indicated that they did not participate in the due diligence study and did not understand the valuation methodology. This lack of understanding the fundamentals around the industry numbers was found to be a hazard in its own right. It would be incumbent on government, because of its regulatory processes, to take a keener interest in this aspect of the fuel retail business due to the knock on effect it has on fuel retail margins.

Almost all the respondents did not understand the due diligence findings and had not had sight of it. This oversight by EFG and more importantly the retailers resulted in a poor appreciation of budget control and risk management. It was evident from the respondents that total reliance was placed on EFGs ability to conduct the due diligence. This could be seen from retailer's shallow appreciation of the dynamics around credit control and funding of the debtors book. In the case of FFR6, every effort was made to increase the fuel turnover by obtaining more account customers without the necessary security. This placed an increased burden on the already cash strapped business eventually leading to the collapse of the business. If the retailer were involved in the due diligence process a better appreciation of the debtor economics would have resulted in a different approach.

It was shocking to discover the hands-off approach of the oil company in the due diligence process. The allegation by SFR7 that, "oil companies do not care – there are thousands of other persons waiting to buy the franchise" can be substantiated by this approach. This view is also shared by Burns (2001:373), in theoretical section 3.8, who concludes that, "this never –ending cycle of start –up and exit is part of the dynamic of small business sector as small business responds to the ever changing marketing place." Franchised outlets are perceived to be safer small business options in spite of the previous holders of the business having failed.

The oil company as the franchisor, had significant institutional memory of the site operations and expertise to add value to the due diligence approach. Their failure to play a more meaningful role in supporting the incoming retailer with certified information and advice has contributed to failure. While the expert oil company view that the responsibility for the due diligence accuracy is the purchasers is accepted, the FRA places the burden at the door of the oil major.

6.2.4 GENERAL MANAGEMENT

This section covers the general management issues of training and support, cost management and concluding statements from the case study respondents.

6.2.4.1 FRANCHISOR SUPPORT AND TRAINING

Chapter four recorded the various advantages and disadvantages of franchising. While the case respondent's views as franchisees varied, there was general consensus on most issues.

Franchisor support emerged as a critical issue amongst the case respondents. All fifteen respondents were critical of the level of franchisor support. SFR1 felt that, "you only take instructions from them, they tell you what to do and how to do it – the oil company is only interested in looking after their own interest – they are there to make money." While this statement may be an opinion, it is perhaps not in keeping with the partnership approach that oil company's advocate. In the ultimate analysis, the franchisor should have developed systems of support in exchange for a franchise fee.

It is obvious that the fuel retailer may not be fully aware that most franchises operate within such parameters. Franchises leave little room for personal style and approach – it has to be a tolerance of routine and the imposition of operating standards.

This requirement of tolerance was noted by Hall (1995:109) and Johnson (1999:72) as reported in the theoretical section 2.10.5. There is little scope for Innovation, and conformity to systems and processes is the hallmark of a good franchising system. There is little opportunity for the entrepreneur to impose his own personality on the business. While SFR1 is clearly aggrieved by the situation, compliance is key for franchise success.

SFR2 noted that support did exist on the shop side as the oil company had a specialist company that assists with the convenience shop. The support on the fuel side was, however, non-existent. This was also the opinion of SFR3 who responded that "truthfully, there is no support. Oil companies only provide training in HSE and merchandising". Again, the idea of support may be varied and misunderstood. Health and safety are critical drivers in the South African fuel retail business due to it's vulnerability to violent robberies.

SFR4 responded that, "I think that it is what you put in – there is no support from the oil company". The approach of self-investment in time and effort within the operating requirements appears to be the approach that should be adopted. In this way, no false expectation is created.

Stanworth and David (1998:56) views, as reported in section 2.10.5, correlates with SFR4 response that the majority of young franchises are typically small scale entrepreneurial ventures facing considerable challenges. Siropolis (1994:144-145), in the same section 2.10.5, described this as a myth. Franchisees like FFR4 are not free to run their businesses as they see fit and entrepreneur influence is limited. Franchisor's do not want their franchisees to improve the way they do business – they often look for persons who understand their systems but do not have any wish to improve them.

SFR6 noted that, "the oil company failed to support new site openings, they have an unsympathetic approach when projected volumes are not met". SFR7 was also very critical of the poor level of support and referred to the oil

companies as bullies – "they have treated some of my friends very badly, if you return a debit then you are placed on hard cash, they are like policemen, they know that if they get you out of the site that there are thousands of other persons waiting to replace you". Here again, a fair degree of subjectivity may have crept in – although there are many examples of the heavy-handed manner in which oil companies treat small fuel retailers.

In comparing the benefits and disadvantages of franchising, as noted in chapter four, the fuel retail business appeared to be different to other franchised businesses in South Africa.

Fuel retail businesses, unlike other established franchises did not have the same ability to raise debt finance. While the fuel retail sites, like other franchises operated within franchise specific accounting systems and controls, most banks viewed retail service stations as high-risk businesses.

Franchisors generally identify potential market areas and establish franchise outlets in those geographic locations to exploit the market opportunities. In most cases, the franchisor secures an order and uses the franchisee to execute the supply function. Consumers are familiar with particular brands of products and services and become brand loyal. A privately owned business has an absolute disadvantage in this respect. Both successful and failed fuel retailers viewed the brand strength as one of the main advantages of operating within a franchise.

However, as would be noted in the following sections the franchisee training programme was not adequate. The success of franchised business is largely dependant on the skills transfer that takes pace between the franchisor and its franchisees. The franchisor provides training and start-up support to ease entry into the business. Such support mechanisms does not exist in the fuel retail sector. The case study findings differed with Stanworth and Purdy (1998:56) view as reported in section 2.10.2. The idea that franchising removes a good part of the risk associated with starting of a new business by providing support and advice during the most trying parts of setting up and operating a small business , was found to be untrue.

As apposed to a one-man business whose ability is limited in influencing suppliers and other service providers, a franchisee is part of a larger network of businesses. Franchisees can therefore demand and secure a wider range of services at lower prices. This could include health care, pension funds, saving facilities and insurance. This aspect of franchise benefits was found to be lacking in the fuel retail sector. Fuel retail sites operated as stand alone units thus reducing the positive benefits that accrue from joint functioning.

It was also expected that the experience and expertise of the franchisor would benefit the individual fuel retailers in times of hardship. This is a critical contributory factor for the success of franchise businesses. The new entrepreneur acquires the valuable expertise and experience of the franchisor. A proven franchise may eliminate many problems that are associated with the initial start-up by assisting with site selection, planning, staff training, opening of business and its consequent smooth running. Prospective franchisees are

thus able to start a business with little or no previous training in a given industry.

While this advantage was highlighted by Johnson (1999:72) and Rodkin (1996:16-18) in section 2.10.4, as a distinct advantage of operating a franchised business, it would appear that the Oil company as franchisor had no role in start-up process of the new retailer. The case study evidence also shows that transfer of skill and the business experience of the franchisor was limited in all instances.

Fuel retailers had limited benefit from such expertise and generally operated as sole operators. Franchisees need support and guidance in their business activities. The franchisor generally provides this kind of expertise to the franchisee on a regular basis. The franchisor did not participate in the operational aspects of the businesses.

In the case of FFR05, the retailer incurred substantial monetary losses, as he did not know that the fuel prices on the card machine must be changed monthly for price adjustments. This resulted in the retailer charging the old reduced fuel prices. In chapter 2, section 2.10.1 Kuehl and Lambing (1994:110) defined a franchise as an arrangement by which the "process" could be used by the franchisee. There was no evidence of such a process from the case information and this failure contributed to the demise of FFR05.

The disadvantage of franchising was more pronounced in the fuel retail sector. All retailers complained of the loss of independence. While conformity to the

franchisor's system is critical if consistency amongst franchisees is to be maintained, the 24-hour trading hours and rigorous imposition of national franchise standards in all trading areas lead to the loss of income. The control exercised by the franchisor to regulate the provision of a service to the motorist leaves little opportunity for the retailer to impose his own personality on the business. While this is acceptable within a franchised format, the idea of mentoring as indicated in theoretical section 3.6 was not amongst the interventions employed by the oil company.

The capital costs for the construction of a fuel retail outlet can be exorbitant. While the franchisor has a stepped fee structure in exchange for not providing any guarantees of success for the franchisee, the initial payment for the business is based on future cash flows that may never be realised.

While the non-profit initial fee and slow-to-accumulate royalties may in the short term place a financial constraint on the franchisor, there was no evidence from the case information to suggest that the franchisor was at a financial disadvantage. This was due to the license fee and turnover fee charged.

The turnover fee was based on total sales and prejudices the franchisee as a significant composition of total sales comprised low margin items like pre paid phone cards.

The basic assumption that the franchisor has all the requisite expertise and skills became a serious point of contention, especially amongst failed retailers.

This finding correlates with Johnsons (199:72) finding as reported in section 2.10.5. The failure to fulfill the expectations of the franchisee led to a strained relationship between the failed retailers and the oil company.

The nature of a franchise relationship places a call for equal effort by both parties. The franchisee's expectation of huge profitability in the initial stages was not realised and it was found that this strained the franchisor and franchisee relationship.

The benefits of franchising in the fuel retail sector seems limited to the oil company using franchised insignia and visuals, have dedicated franchised support systems and brand specific advertising. While Kuehl and Lambing's (1994:113) ideas in section 2.10.4 on the benefits of instant recognition were supported by the case study evidence, Cross's views (1994:2-4) that the benefit of association is only valid if the franchisor's responsibilities are met found greater support.

The expert oil company view conceded that the level of support is not at the desired level,nor was there any feedback or recognition, the importance of which was highlighted by Rauch and Frese (2000:15), in the theoretical section 3.5.2. and reinforced by Burns (1998:28), in the same section, who referred to money as a "badge of achievement". There is no evidence from the case information showing that any kind of feedback mechanism existed.

An analysis of previous occupation and training was done to get a clearer perspective on the need and level of training.

6.2.4.2 OCCUPATIONAL EXPERIENCE AND TRAINING

None of the case respondents in the failed category had any retail industry experience while four of the eight retailers (50%) in the successful category did. SFR1, SFR4, SFR6 and SFR7 had previous fuel retail experience. SFR1 responded that previous experience in the industry is critical as, "you would know the tricks of the trade" and SFR4 also agreed. This was reinforced by SFR7 who commented that, "experience would be a great help – the problem is that you would get no help when on site." SFR7 responded that previous experience is essential and recommended a kind of "buddy system" for those who do not have previous experience.

Is previous experience then a criterion for success? While, Bates (1990:4) noted in section 3.8.1 that previous knowledge of operating a business lowered the degree of uncertainty about costs, the value of previous experience, based on the case findings remains an open question. The fuel retail business operates as a franchise and a solid training programme should be sufficient preparation for operating a fuel retail site. Hisrich and Peters (1998:72) views, recorded in section 3.8.1, that industry experience is of paramount importance,does ring true for at least 50% of the successful retailers.

TABLE 6.25

PREVIOUS OCCUPATION AND LENGTH OF SERVICE

FFR1	Admin clerk (3 years)
FFR2	Municipal Accountant(2 years)
FFR3	Insurance Manager (12 years)
FFR4	Accounts Executive/Teacher (0.7 years)
FFR5	Motor mechanic (16 years)
FFR6	Municipal manager (5 years)
SFR1	Fuel retailer (3 years)
SFR2	Corporate Engineer (2 years)
SFR3	Teacher (17 years)
SFR4	Retail Business manager (1 year)
SFR5	Teacher (15 years)
SFR6	Fuel retailer (2 years)
SFR7	Fuel retailer (5 years)
SFR8	Medical technologist (6 years)

It would also appear that, from the occupational backgrounds reported, that fuel retailers in the EFG case study have been accepted from varied backgrounds ranging from the public service to education. SFR2 holds a doctoral degree in chemical engineering while FFR5 had a technical qualification in motor mechanical repairs. FFR2, FFR6 and FFR7 had commerce and administration degrees but failed nevertheless. Is education then a criterion for success? It would appear not.

However, the case study findings collabourate the research results of Glas (1996:389-423), as noted in section 3.5.1, who stated that entrepreneurs came from various social groups like former employees of middle and large state owned enterprises and former top and middle managers. Only SFR6 and

SFR7 had same industry backgrounds, all other retailers came from government and management positions.

There is also partial support from the case study findings for Maslows, Hertzog and Vrooms theories of motivation – displaced managers and young professionals, if unfulfilled in their current jobs will seek to be self-employed for greater fulfillment.

The length of time spent in previous occupations and age varied amongst the case respondents. It would appear that the length of time spent in the previous occupation would be on par to the time that the same persons would spend on the fuel retail site. Nothing conclusive can be derived from the previous occupation, age, experience or educational qualifications, although successful retailers did have more experience.

Three out of the eight successful retailers had previous fuel retail experience. SFR1, SFR6 and SFR7 had all spent an average of 3 years as fuel retailers. The same three retailers have an additional of six, twenty- four and eight years experience respectively. In the case of SFR6, previous experiences had definitely come to the fore. The fuel outlet he operated had failed to achieve the projected volumes and the retailer made every effort to develop the non-fuel income of the business in spite of the oil company's reservation whether it would succeed. The site now does the highest non-fuel income in the network. Given the repetitive nature of operations in the retail fuel business – a longer training period and on site training is the best preparation for success as opposed to previous experience.

The case evidence from the successful retailers lends support to Bruederl, Presisendoerfer and Ziegler's (1992:227-242) finding, noted in section 3.8.2. The is no significant difference of failure and success between those entrepreneurs who had business specific experiences and those who had none.

6.2.4.3 TRAINING AS ADEQUATE PREPARATION

The case respondents had unanimously agreed that the oil company training is not adequate preparation to operate a fuel retail outlet and suggested, based on their on-site experience, a number of items for inclusion when developing a master training curriculum. The Oil Company stipulates that training is a prerequisite before one-steps unto a site, giving the impression that the course is adequate preparation.

Admittedly, training always has value – but incomplete and superficial training could lead to serious consequences. Worst still, is the creation of false confidence in the minds of new fuel retailers about their level of competence when leaving the training courses.

There was complete agreement as to the contents of the course. The course included basic financial control, stock management, health, safety, and the point of sale system. There was also complete agreement that the course is grossly insufficient for the purposes it may have been designed for. No person coming out of the oil company-training course is in a position to operate a fuel

retail outlet. In the case of FFR5, who did not attend the course at all, the disadvantage is exponentially increased. The largest portion of his losses was incurred in the first six months of operations – thus making recovery impossible. The course would have alerted him to the potential pitfalls but not provided responsive and preventative strategies.

SFR2 also noted that the training could have been condensed to one week and that it did not elucidate the real problems in terms of running the site – it was a "snap shot" while SFR4 acknowledged that the course "did help a bit". SFR5 had arranged to spend two months on site prior to taking over the operations on his own and found this to be immensely useful.

SFR7 commented that she thought that the course was, "a worthless waste of money – you cannot in two weeks train a person to operate a service station". She was also of the view that she could employ an accountant to prepare financials and budgets and that there should not be an official training course – there should only be a one month on site training programme.

SFR7 concluded that she had learnt "a lot on her feet". Previous experience or proper training was key in managing this unique business of controls – otherwise it would be a "shock to the system." She further described her on site experience and training as doing a "living MBA".

The oil company disqualified FFR1 due to the lack of "experience". She then worked for about six months at EFG managing some of the site operations and was later allowed to operate her own business. The problem with this

approach was that the training was not site specific – her hands-on experience was obtained from the fuel only operation and the business she eventually purchased included a convenience shop, bakery and fast food. FFR2 commented that the training did not prepare her for the "ordeal on site".

FFR3 regrets not having the opportunity to physically train on site and notes that, "experience is the best teacher – I should have been given the opportunity to physically run the site for three months before taking over the operations". He further describes the oil company training course as a "crash course" and not adequate. Very little on the course was about the inherent risks in the business.

FFR4 responded that the course was too "theoretical" and that practical experience or on site training was important.FFR6 noted that, "oil companies" are removed from the people who are providing a "life to their image" – the courses are conducted by people who have never run sites – and there was even a person who failed at his site and was now providing training to others.

Professional and site specific training is key to success and clearly, the current training is inadequate, especially when persons from varied non-retail backgrounds enter this specialised industry. The suggestion by Ellermen (1999:25-35), in section 3.8.3, about the need for the entrepreneur to learn those skills specific to his or her environment has found relevance in the case study findings

All case respondents noted that no "refresher" courses were offered. There was no "evaluation" of the course training on site once the retailers took ownership of their respective outlets. SFR1 recommended that the "mechanics of the entire business should be explained – from the layout of stock to the disruption of supplies" Attention should be paid to the life blood of the fuel retail business which operates on a cash basis – "there was nothing in the course that crystallised this for us".

SFR2 commented that training is not sufficient "in the way that it is handled" – this is exasperated by the failure of the oil company to do on the job evaluation. I do not have a commercial background but I have learnt, by being on site that "cash is king." SFR4 made an observation that training should provide a preview into the life of a retailer – "if you think that you can keep office hours then you are doomed to failure." His point is that such an observation cannot be appreciated from a theoretical class room training course.

SFR6 also commented that he was requested by the oil company to provide computer point of sale training to a new dealer only to discover that the prospective dealer was completely computer illiterate. Due to the intensity and backlash towards the perceived poor training, the researcher set out to investigate the training offer independently from the case respondents and spoke to the national sales manager of the oil company, Mr. Keith Pinn, who facilitated access to the course materials. After studying the training manuals and speaking to the training manager, the researcher concurred with the case respondents. The actual training programme is attached as **APPENDIX 10.**

Firstly, the course structure is too general and does not deal with site-specific requirements as these differ from business to business. The rationale for hosting such courses in Cape Town, at excessive costs, is not clear – one would expect that the training should be more provincially accessible allowing retailers to obtain "refresher training" and be able to contact the training center in the first few months of operations with on site difficulties. The training schedule is scanty at best, light on key financial matters and is clearly not adequate for on site operations.

The course does not allow for any evaluation – except for trainees comments on the course presentation on the last day of the training. It appears that these comments – from apprentice and naïve retailers who are uninformed about the practical operating realities of the business – may be taken as an endorsement of a quality training offer.

Clearly, an evaluation of the training benefits, months after the course can only be qualified if those trained retailers are re-interviewed – even telephonically. Such a review mechanism does not exist and is the fundamental cause of failure in the learning process. Retailers are also required to pay about R40 000 for the training. It would seem that training is seen as an "income stream" rather than a preparation programme for small business.

Government allows oil companies to own one site per province for training and even relaxes the vertical integration provision, allowing the oil company to take both the retail and wholesale profits. The rationale was to facilitate the training

process. This was not evident in the oil company approach. It is even more concerning to note that there is no training facility in the biggest market of Gauteng that serves about one third of the total network. The world banks advisor, Ellermen (1999:25-35) pointed out in section 3.8.3, that the "entrepreneur should learn those skills that allow him or her to deal with the the environment on his or her own terms". The case results show no evidence of such support.

The training does not have an external affiliation with professional training bodies established in South Africa, like the Sector Education Training Authorities. A retailer can be on site for twenty years – and never see the inside of a training room after the initial orientation. There is no site-specific training.

The financial curriculum was of specific interest to the researcher. The researcher was concerned to note the diminished status that financial management occupied on the wider training curriculum. As clearly shown on **APPENDIX 10**, the crux of financial management is non-existent. Cash flow planning, cash management tools, business valuation models, pricing theory, the development and execution of a shrinkage policy, working capital provision and case study of failed retailers are not covered. There is sufficient reason to believe that the training offer is almost a "public relations course to highlight the branding and visual standards" of the franchise. The fact that all EFG retailers – trained within the last four years – did not know the difference between a gross profit percentage and mark up percentage is an indictment on the oil company training course. Kiggundu (1988:169-243), noted in section

3.8.2, that the of accounting and financial management skills affects success negatively – the case analysis has produced strong evidence to support this view.

The conclusion is that the training course is the first link in the spiral towards failure, and could become the first area of remedial care, due to the following reasons:

- The course work is too general and not site specific. Consider the anecdotal information from the pilot case – the business generated electricity card sales for R1.2 million per month. Controls and processes was not covered, contributing to the retailers inability to manage the cash flows and eventually losing half the sales to the local Spar due to this;
- The oil company and the incoming retailer places heavy reliance on the outgoing retailer to affect a handover. The oil company staff arrives only on the actual day of takeover to verify the stock numbers. This is a fundamental flaw in the process. Such a critical responsibility cannot be placed in the hands of someone eager to exit the system and in most cases is disgruntled with the oil company. This handover should form part of the practical demonstration of training;
- The training sequence is incorrect. New incoming dealers may not understand or conceive in their minds what a dip stick or mechanical meter maybe. The course makes the assumption that the incoming retailer is familiar with site operations. A site orientation programme in advance of attending the formal courses would have been more appropriate;

- The business is fundamentally about controls, stock management and cash management. Less than 50% of the course is dedicated to this;
- The case respondents confirm that they have left the course with a false sense of understanding the fundamentals of the business – only to realise on site that the challenges are beyond their immediate ability or stage of development;
- Practical training is an important prerequisite – an apprentice type approach accompanied by a "buddy" system. The best option would be to shadow the existing retailer for at least two months on a full time basis. The oil company has complete legal control over this;
- The training materials must include the tools of the trade – MS Excel models for cash flow management, a calibrated container to measure that pumps are not overthrowing or under throwing and administrative and financial ability to accurately compile and submit legislative returns;
- Valuation of business and due diligence checklist should again be part of the hard core training curriculum; and
- No refresher training and evaluation of training is done. The development of human skills is the highest form of empowerment. A review and evaluation mechanism would go a long way to ensuring sustainable training.

It was also interesting to note that a trained retailer within one brand (say Caltex) would have to under go training again if the retailer switches to another brand (say Engen). The retailer would have to go through the whole process of training although the operational requirements are identical. Is this perhaps a captive market for generating income? Market intelligence and company policy

would require different points of emphasis but not complete orientation about operating a retail fuel site. A teacher trained as an educator should be able to teach at any school.

The case respondent's views and the evaluation of the training curriculum justify a review of the training courses offered. This is pivotal to the research question on the reasons for success and failure. It could be argued that the case included a fair split between failure and success and that both failed and successful retailers attended the same training courses.

Whilst this may be valid, the case responses clearly illustrate that successful retailers had more experience than failed retailers and that it was their previous experience that provided a solid grounding for success. Franchises should by definition have developed systems and processes.

Kuehl and Lambing (1994:110) in section 2.10.1, referred to a "process" capable of supporting the new business entrant. It would appear that such a process did not exist and contributed to the failure.

The quality of training was found to be a critical success factor. There should also be a good basis for support and compliance.

A good example to substantiate this is the pilot case examined in the early stages of this research work. The fuel retailer operating a fuel outlet at the in the greater Johannesburg area was visited by a senior member of the oil company retail team who was on his way to a meeting in Johannesburg. It was

in the morning after a long weekend and the shop stock levels were low and needed replenishment. The Retail manager insisted that the retailer's lease be terminated and that the site should be vacated. The reasons given were "breach of operating standards – stock levels not adequate."

The oil company then put in an offer to buy the site and bidded the lowest price amongst eight offers received by EFG. The difference between the oil company offer and the highest offer received was R1.5 million. The oil company also informed the evicted retailer that they would frustrate any new purchaser, as the oil company has to approve the incoming retailer! The researcher has found that this kind of dealing is prevalent in the retail business and is one of the causes of failure. There is no organ of state that currently deals with any of this. The costs of litigation for the small fuel retailer against a giant oil company has on many occasions resulted in the retailers surrendering to the impositions of the oil company. The industry needs an ombudsman or arbitrator.

The sentiments from successful retailers are in tandem with the views expressed by the unsuccessful retailers. FFR1 considered the oil company as "not principled and inflexible" when it came to problem solving. FFR2 was evicted from the site for inability to pay for wet stock and remains very aggrieved by the methodology adopted by the oil company. There was no room for discussion or arbitration. The retailer has approached the courts for relief and the matter is still in the judicial process – some two years later.

FFR3 noted that, "I feel that I speak for all fuel retailers when I say that oil companies do not have an assistance plan." FFR5 responded that "they were never there when I took over the site. They have done everything wrong – all the other way around. I was put into the site with no help from the oil company. So, from day 1, I was on a wrong footing and doomed for failure."

The most scathing responses came from FFR6 who commented that, "I am sorry to say that oil companies do not know how to run a business – many things that take place on site – they are informed by the retailer. Their employees or network managers cannot add value – as they will talk about ordinary things like cleanliness – not substantive business issues – value in them visiting the site is minimal".

The views of a proven franchise concept, by Trutko, Trutko and Kostecka (1993:7) as noted in section 2.10.5, can be supported from the case evidence. They noted that the development of a business from a proven concept through to the sale of its first franchise is typically a long expensive and risky process for the franchisor. All indications are that a functional business model did not exist as indicated by FFR6. Johnson's (1999:72) view that the ultimate risk lies with the small business owner is supported by all the case participants.

Lastly, FFR7 noted that, "If I say very badly– it will be an understatement. Oil companies do not care about their retailers." The researcher acknowledged that failed retailers who have exited their businesses must feel aggrieved about their experiences and that some of their comments are laden with emotion and sensitivity. Notwithstanding this, the aggregation of the comments

leads one to believe that the price regulated status has led to some degree of exploitation and that there is an urgent need for government to implement a basis of fair play.

The relationship management or a retailer's failure to manage that relationship is one of the contributing factors of failure. The retailer would be under fear of the lease being terminated and this approach undermines the spirit of the national objectives of growing and developing small business. Clearly, the oil company support is inadequate. The oil company representative should be trained and skilled to administer financial and operational care when the first sign of difficulty manifests, to prevent the ultimate failure that so often results, due to the inability of the retailer and the oil company to read the symptoms in good time. Both the categories of failed and successful sites have sophisticated computer systems and the information is available online to the oil companies.

Johnson's views (1999:72) as recorded in section 2.10.4, that it is in the interest of the franchisor that the franchisee is successful is questionable given the case study evidence,. particularly the views of FFR7. There was no evidence to show that a remedial plan or management support as interventions in times of crisis ever existed. This is in spite of the good accounting systems and controls - failed retailers received little support.

This inability is the root cause of failure. The oil company is in a position to verify the value that a fuel outlet is being traded for, have historical sales and performance details, they conduct interviews and pre-qualification tests and is

therefore in a very strong position to ensure that the right jockey is on the horse, that the retailer is properly trained and that an oversight role that is normally expected from the franchisor is indeed in place. Sadly, the support from inception to on site functioning is poor resulting in "forced failures" of many small businesses. There was no evidence from the study to support the finding of the British Franchise Association (1996:2), as noted in section 2.10.1, that the probability of success is five times greater as a franchisee than a comparable start up venture.

6.2.4.4 GROSS PROFIT AND MARK UP

The researcher sought to identify differences in approach and acumen in the area of financial management and hoped that this would further contribute to the search for the differentiating factors for success and failure. It was clear in the interview process that the case respondents were helpless when it came to understanding and rectifying a spiraling over draft. It was also clear that the oil company training on the mechanics of financial understanding was not acceptable for the size and scope of the fuel retail business. The training schedule attached as **APPENDIX 10**, did not address this issue.

In attempting to address the research questions, the researcher conducted a test to qualify the retailer's appreciation and understanding of financial management by posing a simple question as noted in section E2.1, what is the difference between a GP and a markup? The responses were unexpected.

None of the case respondents was able to clearly differentiate between a gross profit percentage and a mark up. SFR3, SFR5, SFR7 and SFR8 responded that "I do not know," while SFR1 attempted to explain what a gross profit is – "gross profit is actual profit less expenses" and partially explained that a mark up is, "by how much you increase the cost price".

SFR2 suggested that the "gross profit is what you are selling versus the cost price – the gross profit must reflect the percentage." While this is partially correct, it does not clearly differentiate between the two and is reflective of a poor understanding of such a basic yet fundamental concept in the fuel retailing business. SFR4 suggested that a mark up is what you are marking up while a gross profit is what you are making – if mark up is 40% then gross profit percentage is 33%". SFR6 responded that a "the gross profit is what your cost was versus the retail price – and a margin is when you add on say 10% to the cost".

FFR1, FFR2, FFR6, FFR7 responded that they did not know while FFR3 suggested that "a gross profit is a percentage expressed on what profit you have made from the item. The mark up is what you have put the price up by to make the selling price." While the response is partially correct, the latter could also read as the gross profit is what you have put the price up by to make the selling price.

FFR4 suggested that "gross profit percentage is expressed in terms of the selling price and the mark up is the percentage by which you mark up the product to get the selling price." While the first part of the response is concise,

the latter part could also mean that the gross profit is the percentage by which you mark up the product to get the selling price.

Finally, FFR5 responded that, "markup – take the cost and add a percentage – and the gross profit is without taking expenses."

The researcher's perception when posing the question to all case respondents was that they were doubtful about the clear difference, although they checked pricing on a daily basis. The system would reflect that a gross profit percentage is the profit over the selling price expressed as a percentage and the markup is the same profit over the cost price expressed as a percentage. A loose grip on this is reflective of poor training and shallow understanding. The loose grip and shallow understanding is more prominent amongst the failed fuel retailers. It can therefore be concluded that failure to apply the different costing would result in lower margin income and could lead to failure. After all, the EFG loan model was based on future cash flows earned from targeted gross profit amounts.

The researcher had the opportunity to address the national retail dealer council in June 2004 and requested support and input for the research work from the leading retailers. One retailer got up and responded that there was no need to research such a question – "the only reason why retailers fail is due to the lack of understanding of what a mark up is – they under price and therefore do not make profits." The retailer was partially correct in his analysis.

The following table 6.26 reflects the actual gross profit and mark up percentages achieved in each of the case respondent sites.

TABLE 6.26

GROSS PROFIT PERCENTAGE AND MARK UP

FAILED RETAILERS

	Gross profit %	Mark up %	Offer
FFR1	11.44	12.92	Shop, forecourt, bakery
FFR2	7.91	8.59	Shop, forecourt, bakery, Food
FFR3	10.77	12.07	Shop, forecourt, bakery
FFR4	9.44	10.42	Shop, forecourt, Fast food
FFR5	7.96	8.64	Shop and forecourt
FFR6	7.73	8.37	Shop, forecourt, bakery
FFR7	8.91	9.78	Shop, forecourt, fast food
Average	9.09	10.00	

TABLE 6.27

GROSS PROFIT AND MARK UP PERCENTAGE

SUCCESSFUL FUEL RETAILER

	Gross profit %	Mark up %	Offer
SFR1	7.99	8.68	Forecourt, shop
SFR2	12.40	14.16	Forecourt, shop fast food
SFR3	10.81	12.12	Forecourt, shop
SFR4	11.84	13.55	Forecourt, shop
SFR5	8.41	9.18	Forecourt, shop
SFR6	12.19	13.89	Forecourt, shop, fast food
SFR7	8.74	9.58	Forecourt, shop
SFR8	8.55	9.36	Forecourt, shop
Average	10.24	11.41	

The above table provides very significant data analysis. The gross profit margins and mark up is fixed by government regulation for petrol sales. The only variable gross profit and mark up percentages would come from non-fuel sales. The target gross profit for the convenience shop is 28%, the fast food about 57% and the bakery 60%. Only FFR5 operated a shop and forecourt only in the failed category whilst all successful retailers operated forecourt and shop only with the exception of SFR2 and SFR6. It is important to recall at this time that almost all retailers had difficulty in clearly differentiating between gross profit and mark up percentages. The ratios were calculated as suggested by Bragg (2002), Fisher (1993), and Ramsden (1998).

Firstly, the successful category mostly offered a forecourt and shop service only. The failure category had a more complete offer. This required greater management and a broader skills base. While it cannot be concluded that successful retailers had a "bread and butter" offer compared to the failed retailers – the differences is indeed very noticeable. Is it possible that the successful category were successful due to the limited offer and thus remained focused while some of their failed counterparts had too many income streams to manage, allowing inefficiency to creep in?

For the category that only offered shop and forecourt, the average gross profit and mark up percentages were 7.96 and 8.64 in the failed category respectively. The successful category yielded 9.39 average gross profit percentage and 10.41 average mark-up percentage. This is a significant finding. The successful retailers generated a higher average gross profit and mark up than their failed counterparts.

The failed retailers who offered forecourt, shop and bakery yielded an average gross profit percentage of 9.98 and mark up of 12.12 percent. None of the successful retailers operated a forecourt, shop and bakery combination.

The average gross profit and mark up for the full offer was 8.76 and 9.59 respectively in the failed category. In the successful category, the same averages were 12.30 and 14.02 percent. Again, this clearly illustrates that a significant difference was found in both categories. The total average in both categories differed significantly. The successful category yielded an average of 10.24 and 11.41 gross profit and mark up percent overall while the failed

category yielded a 9.09 and 10.00 percent overall. Incorrect gross profit and mark up was found to be a significant contributor to success and failure and was not covered in detail in the training course. The targeted gross profits were not achieved in the failed category. Halls (1995:20) findings, as reflected in section 3.8.4, also showed that failures had a lower gross profit margin than successful enterprises.

Both the oil company expert view and the fuel retailer Association highlighted that non- achievement of the targeted gross profits leads to under pricing and the consequent inability to generate sufficient free cash flow. While the averages in both table 6.20 and 6.21 indicate that successful retailers generated higher gross profits, within the targeted range, it is important to statistically confirm this due to the small number of respondents considered.

6.2.4.4.1 STATISTICAL TESTING FOR MEAN DIFFERENCES

A parametric test is a test that requires a parametric assumption, such as normality while a nonparametric test does not rely on parametric assumptions like normality. As the assumptions of normality might not hold in the current study, both the parametric and nonparametric statistics are calculated.

According to Salkind (2000:173) in doing parametric tests, a t-test is a commonly used test to measure the significance of the difference between two means of two independent, unrelated groups. The "Independence" is defined by Rosnow and Rosenthal (1999:331-334) when the results in one group are not influenced by the results in the other group. Theoretically, the t-test can be used even if the sample sizes are very small as is the case in this research.

In considering the non-parametric test, the Mann-Whitney provides a test of the *difference between two independent groups*. It does not specifically test for differences between two means as does the t-test, but it tests the null hypothesis that the two groups sampled from populations with identical distributions. Clayton (1985: 289) mentions that this is a popular alternative to the t-test.

Test statistics such as the t-test, are used to tell the researcher about the true state of the population – through making inferences from the sample. Field (2005:31) explains that there are two possibilities in the real world (in the actual population):

- there is, in reality, an effect in the population, or
- there is no effect in the population

Field (2005:31) further explains that although there is no way of knowing which is the true situation, one can decide which of the two is more likely by looking at the test statistic and the associated probability (p-value).

A general decision rule is set against which the p-value is evaluated when deciding whether the observed effect in the sample is also true for the population. For the current study this is 0.05. Therefore all p-values less than 0.05 are considered as an indication of an effect in the population.

The tables below presents the results form the parametric t-test and the nonparametric test.

TABLE 6.28

T- TEST FOR THE DIFFERENCES IN INDEPENDENT GROUPS

	t	p-value
Gross profit %	-1.08	0.301
Mark up %	-0.78	0.449

It would appear that none of the differences is statistically significant. The lack of significant results is not surprising as it is well known that significance is a function of sample size. The Mann-Whitney U test results for differences between success and failure groups confirm the t-test results. Statistical significance is, however, a function of sample size, with the smaller groups it is understandable that few statistical significant results would be found. The practical effect sizes needs to be computed as indicated below.

TABLE 6.29

MANN-WHITNEY U TEST FOR DIFFERENCES IN INDEPENDENT GROUPS:

SUCCESSFUL VERSUS FAILED RETAILERS

	Mann-Whitney U	Z	p-value
Gross profit %	17.	-1.27	0.203
Mark up %	20.	-0.92	0.355

In situations like this (small sample sizes) one should compute effect sizes. In the Table 25 below the t statistic was converted to Cohen's d using the formula: $d = 2t$ (df) as suggested by Rosnow & Rosenthal (1996:331-340).

TABLE 6.30

COHEN'S d FORMULA

	Failed retailers Mean	Successful retailers Mean	t-test	p-value	Cohen's d
Gross profit %	9.17	10.12	(1.08)	0.301	(0.56)
Mark up %	10.11	11.07	(0.78)	0.449	(0.41)

Cohen (1988:25) hesitantly defined effect sizes as "small, *d* = .2," "medium, *d* = .5," and "large, *d* = .8", stating that, "there is a certain risk inherent in offering conventional operational definitions for those terms for use in power analysis in as diverse a field of inquiry as behavioral science"

Although Gross profit % and Mark up % was not significant, Cohen's d shows medium effects for all three these variables. The differences between failure and success are still important from a practical point of view. Therefore, failed retailers had lower gross profits and mark ups than successful retailers. The researcher then proceeded to question various aspects of controls and administration.

6.2.4.5 CONTROLS AND ADMINISTRATION

This section was included in the interview to identify whether variances existed in style and approach to controls. When asked about the frequency of price and gross profit checks, the following responses were received:

TABLE 6.31

FREQUENCY OF PRICE CHECKS

FFR1 Monthly	SFR1 When new stock is received
FFR2 Monthly	SFR2 Weekly
FFR3 Fortnightly	SFR3 Daily at random
FFR4 Never	SFR4 When new stock is received
FFR5 Monthly	SFR5 When stock is received
FR6 Three times a week	SFR6 Daily
FFR7 Daily	SFR7 When stock is received
SFR8 Weekly	

It is evident from the above that the failed retailers did not conduct price checks as frequently as their successful colleagues did. In the previous section, it was also found that there was a very loose appreciation of the concepts of gross profit and margins. It can conclude that successful retailers are successful due to their diligent approach to retail convenience marketing.

TABLE 6.32

FREQUENCY OF GP CHECKS

FFR1 Monthly	SFR1 When new stock is received
FFR2 Monthly	SFR2 Daily
FFR3 Daily	SFR3 Daily
FFR4 Hardly	SFR4 When new stock is received
FFR5 Monthly	SFR5 When stock is received
FR6 Daily	SFR6 Daily
FFR7 Daily	SFR7 Computer is set to default margin
	SFR8 Weekly

Again, a clear pattern was found. Successful retailers conducted gross profit checks more frequently than their failed counterparts did.

TABLE 6.33

FREQUENCY OF DRY STOCK ANALYSIS

FFR1 Monthly	SFR1 Monthly
FFR2 Monthly	SFR2 Weekly
FFR3 Fortnightly	SFR3 Twice weekly
FFR4 Not too often	SFR4 Daily
FFR5 Did not do this	SFR5 Daily
FR6 Regularly	SFR6 Monthly
FFR7 Monthly	SFR7 Monthly
	SFR8 Monthly

Failed retailer's analysed stock information like stock turnover, top sellers, dead stock and fast moving stock less frequently than the successful retailers. The analysis of dry stock is an important aspect of retail convenience marketing. In order to get a clearer grip on the issue of stock management, the researcher queried the existence of the stock control system of two difficult stock items, namely newspapers and empty bottles.

TABLE 6.34

CONTROL SYSTEM FOR NEWSPAPERS AND EMPTY BOTTLES

FFR1 No such system	SFR1 I have such a system
FFR2 Never occurred to me	SFR2 Counted on every shift
FFR3 I do not have this in place	SFR3 I have this on my stock file
FFR4 No reconciliation done	SFR4 Balanced on every shift
FFR5 Yes, I had a system	SFR5 No I have no system
FRR6 No control in place	SFR6 Probably the only area I do not check
FFR7 Yes, I have a system	SFR7 Count as they come in
	SFR8 Yes, I do have a control system

The comments illustrate that successful retailers have a stronger grip of stock control for empty bottles and newspapers than failed retailers. In some cases like in FFR3 – no such system existed. These are high shrinkage areas and no or little control provides an indication of a "hands off" approach.

6.2.4.6 FINANCIAL MANAGEMENT TOOLS

When asked what financial management tools were used the following responses were noted:

TABLE 6.35

FINANCIAL MANAGEMENT TOOLS IN PLACE

FFR1 No management tool	SFR1 Used EFG system
FFR2 Used EFG budget system	SFR2 I used Pastel accounting
FFR3 No such tools used	SFR3 I used Excel spreadsheets
FFR4 Combination of budget/actual	SFR4 Budget and expense analysis
FFR5 EFG system	SFR5 No tools used
FFR6 No tools	SFR6 No such tools
FFR7 No tools	SFR7 Used EFG system
	SFR8 No such tools

The EFG system was an online risk management tool. Retailers were required to complete the daily cash and cheque payouts together with daily fuel and non-fuel sales. The system only enhanced recording efficiency and had no in built intelligence to flag incorrect gross profits or markups. Both failed and successful retailers depended heavily on the EFG system as a safety net for managing cash flows and the failed dealers experienced the bitter consequences of relying on an electronic system with little understanding of the theoretical dynamics. It was interesting to note that only SFR2 used an external system – the pastel accounting package. It is inconceivable that the oil company did not develop a cash management software programme as part

of the training course. This would have assisted greatly in identifying in advance the potential of cash flow crunches that would eventually lead to failure.

The point of sale and the back office system are stock and cash management tools. A useful embellishment would have been the linking of such data to a daily management account. FFR3 noted that there is a need for some type of management tool and the general findings support this view.

6.2.4.7 LEGISLATIVE RETURNS

This question was asked to test the retailer's spectrum of understanding the regulatory aspects of the business.

- **VALUE ADDED TAX RETURNS**

With the exception of SFR2, no other retailer processed VAT returns on their own. While it is accepted that this is generally an accountant's responsibility, the "hands off" approach is definitely a disadvantage from a management perspective. It is also accepted that the VAT completion issue was not a differentiating factor for success and failure. In order to test the researcher's suspicion that an accountant would not accurately complete the return consistently, the VAT returns for SFR3 was recalculated and found that a variance existed in the calculations as the accountant did not factor – and would not have known – that the retailer had increased the sub lease rental recovery to the workshop tenant.

The illustration is included to substantiate the researcher's view that while retailers adopted "a hands-off" approach to the administration of the VAT return a careful scrutiny was required due to the cash flow implication of value added tax.

When questioned about other legislative returns like unemployment insurance and skills levy similar responses were received. It is not the researcher's suggestion that such administration should burden the retailer but that the retailer should fully understand the mechanics and methodology to prevent future litigation and to have a better grip on business issues.

6.2.4.8 STAFF DEPLOYMENT

In the course of the interviews, the question of staff deployment was raised. The 2004 Retail Margin Study indicated that 50% of the gross profit of fuel outlets was applied to wages. This was an area of "efficiency" that warranted scrutiny. The responses were noted as follows:

TABLE 6.36

FORECOURT AND NON-FORECOURT STAFF

FFR1 15/6/21	SFR1 21/19/40
FFR2 40/12/52	SFR2 14/18/32
FFR3 15/17/32	SFR3 12/9/21
FFR4 17/5/22	SFR4 18/22/40
FFR5 12/4/16	SFR5 18/7/25
FFR6 10/6/16	SFR6 15/30/45
FFR7 18/15/33	SFR7 19/14/33
	SFR8 16/4/20

The successful retailer had employed on average (excluding temporary workers) 32 people while the failed retailers had employed 27 people. This is in spite of the fact that, on average, failed retailers had a wider convenience offer that their successful colleagues. The actual non-fuel averages reflected the same position – failed retailers employed on average 9 people for the non-fuel business while successful retailers employed 15 persons. Nothing intelligent could be gathered from the information. While it was empirically confirmed by Philips and Kirchoff (1989:65-74) in section 3.8.1, that the survival rate was greater in companies that had an absolute growth in employees, the case evidence doe not support this finding.

6.2.4.9 WAGES AND SALES MATCHED

All retailers operated different shifts. When asked whether the wage cost pattern reflected the sales pattern, the following responses were received:

TABLE 6.37

WAGES AND SALES MATCHED

FFR1 No, did not arrange	SFR1 Yes, patterns match
FFR2 Never occurred to me	SFR2 Wages, match sales
FFR3 No, high all the time	SFR3 Hour by hour sales match wages
FFR4 No	SFR4 wages matches sales
FFR5 Never thought of this	SFR5 Wages match sales
FFR6 Yes, patterns match	SFR6 Do not match
FFR7 No, carry higher wages	SFR7 Matches
	SFR8 Do not know, never did the analysis

The responses from the two categories were very clear. Successful retailers organised shifts to service the business needs during peak times and slack times and therefore the wage pattern is correlated with the sales pattern. With the exception of SFR5 and SFR8, all successful retailers were matched. The non-fuel staff allocation for SFR6 was twice that of the fuel allocation. This is proportionate to the gross profit earned in both areas.

Failed dealers were poorly matched and in the cases of FF2 and FFR5, this "never occurred to them." We can safely conclude that the management of manpower costs is a differentiating factor for success and failure. The Monthly management accounts would not reflect this but a monthly operational plan would detail this.

6.2.4.10 TIME SPENT ON ADMINISTRATION

TABLE 6.38

TIME SPENT ON ADMINISTRATION

FFR1 50%	SFR1 10%
FFR2 60%	SFR2 20%
FFR3 75%	SFR3 10%
FFR4 40%	SFR4 10%
FFR5 100%	SFR5 15%
FFR6 40%	SFR6 10%
FFR7 50%	SFR7 30%
	SFR8 10%

It is evident from the above table 6.38 that failed dealers spent on average more time on administration than their successful counter parts. One conclusion that can be drawn is that successful retailers delegate the administration (not an income producing activity but a serious control issue) or have dedicated persons managing the administration. The general responses confirmed the on site observations of the researcher.

6.2.4.11 TIME SPENT ON BUSINESS DEVELOPMENT

TABLE 6.39

TIME SPENT ON BUSINESS DEVELOPMENT

FFR1 0%	SFR1 >10%
FFR2 5%	SFR2 40%
FFR3 10%	SFR3 80%
FFR4 0%	SFR4 50%
FFR5 >20%	SFR5 <10%
FFR6 60%	SFR6 15%
FFR7 <10%	SFR7 0%
	SFR8 20%

It is clear that successful retailers spend more time on business development than their failed counterparts. This is a significant difference between failed and successful retailers. Lastly, all respondents commented that they did keep abreast of business issues in the industry and the most common sources of information was from the internet, newspapers, Fuel Retailers Association and rarely from the oil company representatives. It was also interesting to note that none of the respondents commented on government's new licensing dispensation or the looming deregulation of the industry. It was observed that successful retailers and their staff appeared enthused in their daily working environment.

6.3 EXOGENOUS FACTORS

In examining the causes for failure and success, the exogenous variables were also examined. SFR1 commented that reason for his success is "me". SFR2 responded that, "there were no extra ordinary happenings but my success can be attributed to hard work and controls." SFR4 commented that, "I do everything – nothing is too menial and I control everything." SFR6 responded that, "rigorous staff selection is key to success." SFR7 concurred with the SFR6 viewpoint and noted, "one thing is the staff- this is a huge part of the success. I have incentives in place for the top three attendants who served most cars. I have also taken out life policies for my staff- they have the power to ruin your business and are actually a bigger threat than the oil companies".

SFR8 also responded that, "I am successful because of my investment in time – I have the drive to succeed and want to make it work- this required serious sacrifices on my part, including a salary sacrifice for at least eight months".

FFR1 stated that, "I was undercapitalised from the beginning – and thus one thing led to another hence my failure". FFR2 apportioned direct responsibility to the, "dysfunctional support of the oil company – they engineered my failure as they wanted me out".

FFR3 responded that, "there were two reasons for my failure. Firstly, the lack of support from the oil company, as I was ignorant and helpless in some situations and did not know what to do. Then there is the financial difficulty or

a lack of working capital and I could not see how I was getting into difficulty. I feel if I knew the reasons then I could react and if I had more knowledge then I would have been successful". FFR4 was very definitive and stated that, "inability to manage cash was the reason for failure".

FFR5 noted that, "I was not making money –the gearing was wrong-when I look at it now – if one goes into business with the wrong gearing – you are bound to fail. Things got worst and I put in R500k into the business over the R400k that I borrowed."

The experience of FFR5 has been described by Cressy and Olofsson (1997:87-96), in section 3.8.3, who noted that the main reason for increased capital requirements is the rising expenses, leading to more debt and higher gearing.

This also proves the postulation proposed by Kirby and Watson (2003:68), in section 3.8.4, who found that there is a correlation between insufficient capital on one hand and the susceptibility to crisis on the other hand. The case study evidence fully supports this finding.

FFR6 held a similar view, "The financial provision was correct and although I was refinanced twice through the oil company, the operational budget was still not correct and EFG/Oil company budgets were wrong twice".

Lastly, FFR7 responded that although he failed initially due to insufficient awareness and training about what to expect in the retail business, it is clear

that successful retailers achieved their respective positions of success due to their hard work and perseverance, extraordinary sacrifice and careful staff selection and appointment.

Failed retailers on the other hand blamed their failures on poor financial planning, inadequate training from the oil company, inability to manage cash flows and insufficient orientation about the retail fuel businesses. While the reasons for success and failure in the EFG case example vary from individual to individual, a common underlying theme surfaces in the case of successful retailers. They are obviously more vigilant about their financial prowess whilst failed retailers sink into cash flow quick sand with no ability to wriggle out again. Training and financial astuteness appear to be the two levers that could steer one out of financial difficulty or provide a pre-emptive basis to guard against the cash flow crunch. The other exogenous variables examined were:

- **RETAIL MARGIN ADJUSTMENTS**

Government approves a margin adjustment annually based on the outcome of the retail margin study. This increase was not factored into the EFG model and represents an additional source of income to the retailers.

TABLE 6.40

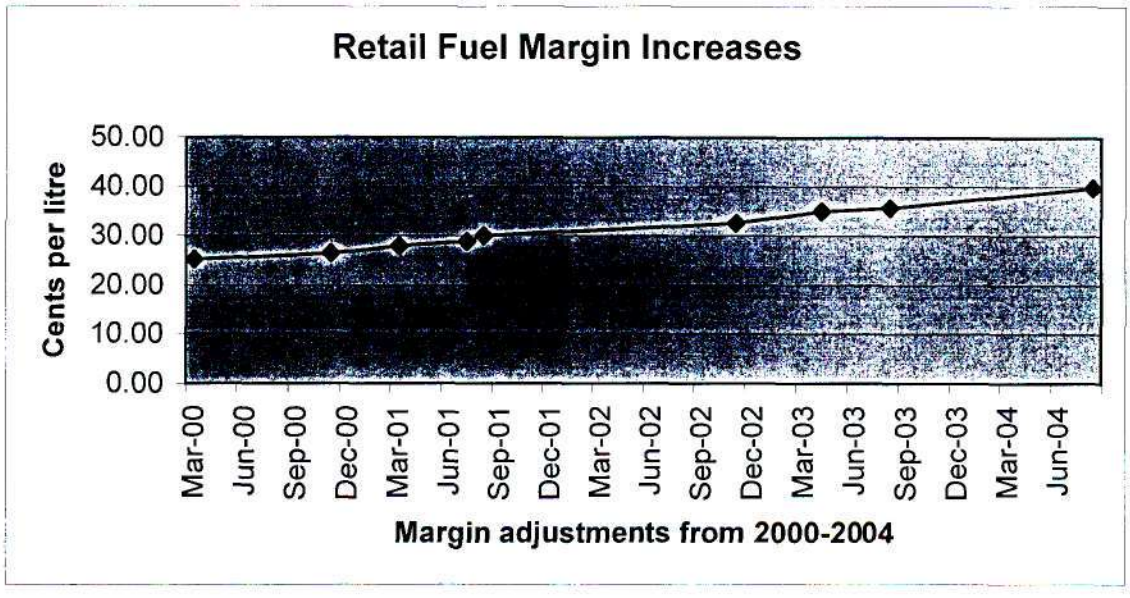
RETAIL MARGIN INCREASES

DATES	CENTS PER LITER
Mar-00	25.20
Nov-00	26.50
Mar-01	28.00
Jul-01	28.90
Aug-01	30.00
Jun-02	31.20
Nov-02	32.60
Apr-03	35.70
Mar-03	36.80
Aug-04	39.90

Source: Department of Minerals and Energy, Website January 2004

GRAPH 6.11

RETAIL MARGIN INCREASES



The graph 6.11 illustrates that retail margin increases have been steadily increasing since March 2000. EFG retailers had access to higher margins compared to the original provision in the budget. The projected income was calculated on a margin income of 25.2 cents per litre. The actual margin in 2004 was 39.8 cents a litre or an accumulative increase of 14 cents. This is equivalent to R14 000 for every 100k litres. While the margins are adjusted to accommodate for increased operating costs, the net effect is that higher volume sites benefit more from retail margin increases.

- **EFFECTS OF MONTHLY FUEL PRICE ADJUSTMENTS**

The EFG case respondents did indicate that the monthly price adjustments affected their cash flow planning and was a contributor to their failure. The failed and successful retailers were subjected to the same price movements and this was not found to be a strong differentiating factor for success and failure. The following illustration does, however, indicate that the monthly price movements did affect profitability. Neither the EFG budget projections nor the government margin study incorporated these monthly movements.

TABLE 6.41

EFFECT OF MONTHLY FUEL PRICE ADJUSTMENTS

Date of price change	Price	Avg stock	Avg stock	SFR	FFR
	RSA cents	SFR	FFR	Price effect	Price effect
07 March 2001	10	41625	37285	4163	3729
01 April 2001	18	41625	37285	7493	6711
02 May 2001	10	41625	37285	4163	3729
06 June 2001	14	41625	37285	5828	5220
04 July 2001	-5	41625	37285	-2081	-1864
01 August 2001	-26	41625	37285	-10823	-9694
05 September 2001	-7	41625	37285	-2914	-2610
03 October 2001	12	41625	37285	4995	4474
07 November 2001	4	41625	37285	1665	1491
05 December 2001	-21	41625	37285	-8741	-7830
02 January 2002	8	41625	37285	3330	2983
06 February 2002	6	41625	37285	2498	2237
Net effect	**23**			**9574**	**8576**

Source: Fuel price changes Central Energy Fund, Website January 2005

Almost all EFG retailers complained that the higher fuel prices had a negative effect on working capital provision. The average delivery size of 41 625 litres was used to calculate the actual affect on working capital for successful fuel retailers and an average of 37 825 litres for failed fuel retailers. The aggregate annual effect of price adjustment for petrol 93 was 23 cents. The highest price increase was 18 cents and the highest decrease was twenty-six cents. The successful retailers had to provide for an additional R7 493 for the highest

price increase as recorded in April 2001. The failed fuel retailers corresponding increase in working capital needs were recorded as R6 711.

The range of increases and decreases expressed as a percentage of turnovers was found to be insignificant. The affect of the price increase on every R1 000 000 of turnover for successful retailers was 0.75% while the same average for failed retailers was 0.67%. In other words, the price adjustments did not place a serious enough burden on the cash flows that it could be isolated as a significant differentiating factor for success or failure. The aggregate affect of the price adjustments for successful retailers on an annual basis was that an additional R9 574 of additional working capital was required. Failed retailers required an additional R8 574. While the EFG model did not provide for the increase and decrease in available cash flows due to monthly fuel price adjustments, the omission had no material effect on success and failure.

The price adjustments did have a very significant impact on profitability. While the aggregate affect on working capital was only R9 574 and R8 574 for successful and failed retailers respectively, the affect on profitability was found to be significant. Fuel price adjustments, especially when prices fell, resulted in stock losses for the retailer.

This stock loss was quantified using the margin of 32.6 cents as at February 2002. Based on the average stock levels, successful fuel retailers incurred an average loss of R13 569 and failed retailers an average loss of R12 154. This stock loss was not accommodated in the EFG loan model and represents a

significant loss of profit. The official government margin study also failed to provide for this stock loss thus rendering the margin study inaccurate. This also means that the retailer had to endure the loss with no ability to manage the situation due to the delivery regime in place by the oil majors.

- **FLUCTUATIONS OF INTEREST RATES**

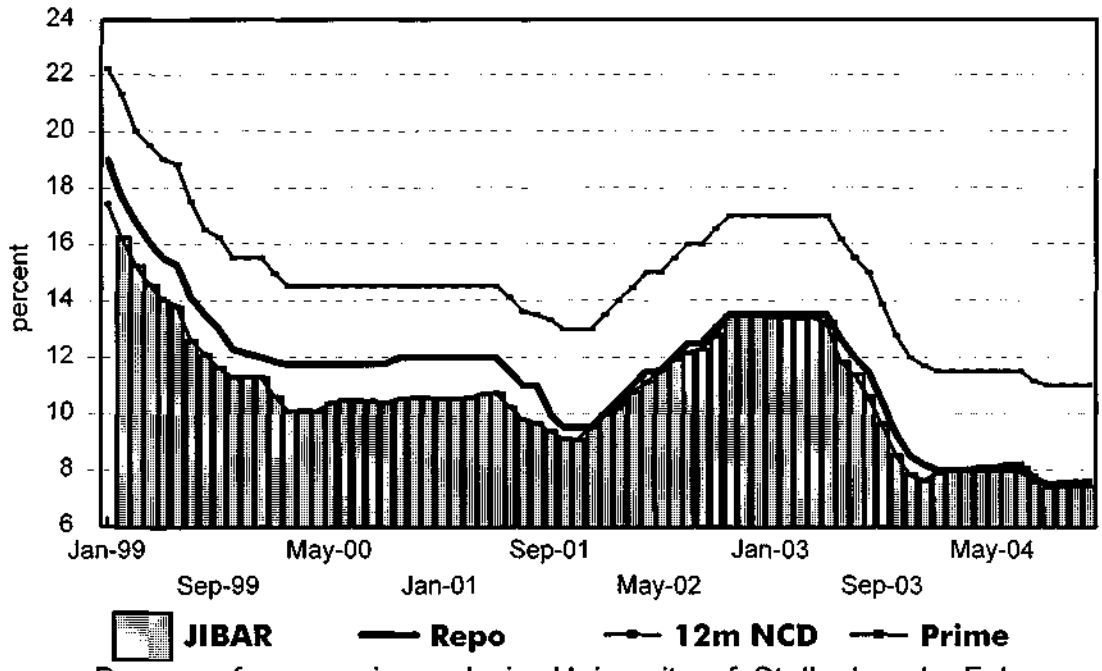
This was incorporated in the analysis due to the high level of gearing. Retailers had no control of the rates in spite of the interest and capital holiday that EFG negotiated in the first year.

GRAPH 6.12

MONEY MARKET INTEREST RATES

Let us also consider the interest rate affect for the case respondents. Firstly, both successful and failed retailers have been subjected to the same interest rate movements. The following graph provides details on interest rate movements.

MONEY MARKET INTEREST RATES: 1999/2004
(monthly averages)



Source: Bureau of economic analysis, University of Stellenbosch, February 2005

The graph illustrated a uniform movement of the prime rate with the Johannesburg Interbank Exchange rate and the Reserve banks repo rates. The period under review for the case study respondents was between February 2001 and February 2002. The graph 6.12 illustrates that interest rates were steady between the months of May 2000 to September 2001. There was a general increase from January 2002 till July 2002 with interest rates flattening between October 2002 and April 2003.

Most case respondents entered the loan redemption cycle in the first half of 2002. The structure of the loan provided for a capital moratorium in the first year where only the interests costs were serviced. This moratorium only provided a cash flow relief and the EFG retailers were required to service the full cost of the debt with capital and interest after the first year. The graph also illustrates an increase of about 400 basis points of the prime rate in the first six

months of the loan period and then settling at a higher level for the next six months.

While the rates did fall sharply between April 2003 and October 2003, the audited financial statements used in the case study analysis was for year ended 2002. None of the retailers responded that the increasing interest rates were responsible for their failure. None of the EFG retailers responded that the rising interest rates were a reason for failure and again the increasing rates were applicable to both the failed retailers and successful retailers. The interest rates, although significant in considering the factors of differentiation between success and failure, cannot be isolated as the key reason for failure.

The case evidence almost reflects the views of Kuehl and Lambing (1994:20), recorded in section 3.9.2, who described as a myth that business failures are high during recessions and low during good economic times. Their assertions that most small business failures is not caused by the economy, a bad product or high interest rates but by owners incompetence and lack of experience has found some support from the case evidence.

6.4 GENERAL

The researcher included in the questionnaire a last opportunity for the respondent to provide a "philosophical" overview of their experience in the retail fuel business. The intention was to gain insight into their deeper thoughts and feelings – and to move the discussion away from the hard - core finance and managerial issues. This was an attempt to get their "last thoughts" on the

matter. When asked whether they enjoyed the business the following were noted:

TABLE 6.42

WORK SATISFACTION

FFR1 No	SFR1 Yes
FFR2 No	SFR2 Not anymore, thrill is gone
FFR3 No, I am very frustrated	SFR3 Yes
FFR4 I did until relationship strained	SFR4 Yes, I do very much
FFR5 No, made no money	SFR5 Yes
FFR6 No, I never did	SFR6 Yes, although not enough time
FFR7 Yes	SFR7 Yes
	SFR8 Yes, now I do

It was clear from the responses that failed retailers did not enjoy their businesses as much as the successful retailers did. The researcher also enquired whether the case respondents would exit if the opportunity to expand to another site were present or whether they would expand to another site and why such a decision was not taken. SFR1 stated that "I am in no hurry to move on – I am chasing the financial shadow – need to make up all I put into the business and would definitely want to expand to another site".

SFR2 responded that, "I need to sort out some personal things and will then look for a smaller business – so I would exit and am not looking to expand to another site". SFR3 stated that, "If a better opportunity came by then I would consider exiting but would like to expand to another site – and would not want

to leave right now as I enjoy the business" SFR4 had a similar position, "No, I enjoy the business and do not want to exit – rather I would like to expand to another site".

SFR5 noted that his business was really taking off and that he has no plans for exiting. SFR6 stated that, "I cannot exit as I have financial commitments but would like to expand to a low income area". SFR7 stated that she was comfortable at the moment and had no reason to contemplate an exit and would most certainly want to expand to another site. Finally SFR8 stated that there was no need to exit at the moment and would like to expand to another site.

Failed retailers held a distinctive different view to the question of exiting the business and expansion. Firstly, FFR1 indicated that she was trying to exit for the last year and is held hostage by the oil company and does not want to have anything to do with fuel retail outlets. The oil company has not approved the different potential buyers she had presented to them.

FFR2 observed that, "the oil company worked me out on trivial reasons as they wanted to appoint someone else to operate the site – I do not want to expand to another site and would have preferred to exit on my own terms and conditions and not be forced out". FFR3 stated that, "I would exit if I had the opportunity – but I cannot as I need to pay off my car and house. I would consider expanding to another site". FFR4 responded that, "I would have exited before I was forced out but the low possibility of settling all the debt kept me in the business. I would have expanded to another site".

FFR5 also noted that, "I was trying to get my money back so I stayed on until I sold and would have considered moving to another site if it made money". FFR6 stated that, "I could not leave because of the financial exposure – I did not want to desert the business. I would not expand to another site". FFR7 responded that he would exit if he could sell the business at the right price and would not consider expanding while the current site is not stable.

When evaluating the comments that the retailers submitted it was clear that, in the case of failed retailers, the objective to exit sooner was pursued vigorously but only if the failed retailer had the opportunity to recover the investment made. The situation is best described as "passing on the snake". The sale of such a business to a new retailer had the potential of a similar fate as long as the new retailer was not sufficiently trained and familiar with the operational and financial realities of the fuel retail business. He is destined to become a failed statistic in a long chain of hopefuls, with the oil company as a disinterested onlooker. It is this phenomenon that requires urgent intervention by the regulators. These businesses must be valued at the correct price and the new retailer must be fully trained to operate that business.

The comments of the successful retailers were not surprising. Success is based on the desire to expand and grow and all the successful retailers indicated that they not only enjoyed their businesses but also wanted to expand to other sites. To obtain further expressions in this area, retailers were asked if they would recommend the retail business to a friend.

TABLE 6.43

RECOMMENDATION TO A FRIEND

FFR1 No	SFR1 Yes, if geared correctly
FFR2 No	SFR2 Never - need to be there 24/7
FFR3 No	SFR3 Yes
FFR4 No	SFR4 Yes
FFR5 Never!	SFR5 Yes
FFR6 No	SFR6 No, only to my enemy
FFR7 Not to a weak person	SFR7 Yes, but will inform them
	SFR8 No, I will be afraid for them

The responses as summarised above are a serious rebuke for the industry and stakeholders. Failed retailers, understandably so, have a strong personal bias against the industry that has failed them. Successfully retailers were mildly disposed to the industry with a few strong exceptions. In order to probe their responses further the next question was posed: What advise would you offer to the oil company, government and other stakeholders?

SFR1 responded that, "Government must have more control and for too long Government has left the industry to do as it pleases and oil companies have realised this and they therefore have been taking advantage and gaining more control – The Oil company should provide support, be more understanding and less of a policeman and more of a partner.

The call made by SFR1 was acknowledged by Kirby and Watson (2003:191), in section 3.9., who noted that the unstable and unreliable legal framework for

the development of small business stunts small business development and success.

SFR2 responded strongly that, Oil companies as the franchisor sees itself as the be all and end all. They have unlimited freedom to do as they will. This is monopolistic. The dealer is at the receiving end – you cannot buy what you want, you must take what they ask you. Only the economics of the depot is considered not the retailer and so there is no partnership. Regarding Black Economic Empowerment, government has not done enough to make sure that the mechanisms are robust or to ensure sustainability, especially access to finance. If they had a mechanism then one would not need an EFG.

Then there is this idea of paying upfront for product and needing a guarantee. As retail industry goes this too is unique. These requirements have outlived the industry and there needs to be a change. Government has introduced subsidies to look after other industries. We have small margins and very onerous requirements.

The oil industry should take the opportunity of establishing a rescue team. This is to ensure sustainability, especially when a dealer is in trouble – when it is no fault of his own like in the case low volumes against projections. Southway Motors is a good example. There is massive construction work and he is still being charged the same rentals. This is not a "partnership approach" actually we are "not in business together" – you are a retailer and I am the oil company."

SFR3 noted that, "Government should reduce the levy drastically due to the improved efficiency of the South African Revenue Service". SFR4 responded that, "Government should make sure that oil companies train people properly and the oil companies should provide lots and lots of training covering finance and labour issues. The fuel industry is more about loyalty to yourself and you have to put everything into it".

SFR5 urged Government to play a greater role, "From one oil company to the next it is a monopoly – this needs to be changed. The fuel payments methodology is another great disadvantage as they have direct access to your bank account. The oil company needs to examine their rental structure – I am paying R46k a month to them". SFR6 responded that, "Government should look at the wage situation, attendants have a key role in the success of the business and the dealer margins should be big enough to ensure a reasonable wage. There is also too much adjustment in the fuel prices. Oil companies should not build too many sites around each other – look at Phoenix highway – three new sites have been built there in the last year".

SFR7 stated that, "The oil companies should sell the land to the dealers. The oil company is in the property business not in the oil business. If you pay a R1M for the retail outlet, you are only paying for goodwill as no asset is being bought. Government should also get all the dealers to join the Fuel Retailers Association. They have the expertise at looking at these things – together with them the dealers can make a good intellectual group".

SFR8 noted that, "Government should make sure that Oil companies should not focus on their own commercial interests only. They should not just take and take and take and must be committed to giving something back. Why shouldn't fuel deliveries be on consignment? They could even look to stagger payments – can even add to my rental."

FFR1 stated that, "Oil companies are bullies and their staff are simply dedicated to protecting the oil company's interests. The network managers are poorly trained and do not understand the fundamentals of business. I seriously doubt that the network manager would be able to run the site if I handed him the keys. Government has a responsibility to intervene in this skewed industry and normalise it like other industries."

FFR2 also commented that, "Government as the regulator has a greater role to play – not just managing fuel prices. The Oil companies are exploiting their dealers and the dealer council bodies have no ability to represent us, in fear of reprimand at their own sites. An independent third party needs to examine the rental structure and operations – actually government should commission such a study."

FFR3 commented that, "Government should appoint a watch dog body or an ombudsman and the oil company should allocate resources to the site by using a specialist group of advisors and specialist financial persons to intervene – they should not just be interested in the graphics of the site. I would also advise retailers to self- develop themselves before undertaking the retail business. Lastly, I wish somebody would develop a risk management

programme for the management of cash flows and financials. It must be a predictive approach then I will know in advance when I am heading for trouble."

FFR4 advised that, "Government should not trust oil companies – what they tell you and what happens is different. They also gave figures – wrong figures to EFG. The price paid was therefore not right. The oil companies because they are so big – they should look at individuals – they must also consider the dealer – not only themselves. I lost R500k – you should never take everything at face value. I was cheated by the representative of the oil company. They do this 9/10 times – I have also heard things – I cannot believe what they would do to make a quick return. Why don't you as a researcher do a tally of dealer changes – see how many, why? – people are passing on their failures – so you have failure in perpetuity with the oil company as a disinterested third party."

Longenecker and Moore (1991:13-14), in section 3.5.2, has referred to start-up risk. FFR4 has invested his life savings and guaranteed the bank loans and is clearly aggrieved by the failure. The emotional stress of coping with failure was increased as the entrepreneur identified so closely with the venture that the "business failure was seen as a personal failure".

FFR6 commented that, "When Black economic empowerment individuals are appointed, the sponsors must report line by line to government – why can't oil companies have an in-house financing mechanism for empowerment?"

Finally FFR7 advised that, " Government needs to intervene especially for small emerging black businesses – without the help of Government many more would fail – many black entrepreneurs have failed and the system is designed that black people will not succeed as each person must find funding and hence high gearing. Oil companies need to know that they are not treating dealers as their customers – not treating them as partners – how would they? Look at their policy of paying cash before they receive stock – this affects dealers in a significant way – because you have to have money that you would recover – if you have to pay R130k for a drop of fuel it would take about three days to sell the product and you have already paid for it.

Before receiving my order, I must place my order for the next drop. The supporting mechanism is also weak. The network manager support is very weak. Oil companies do not want to pay qualified and experienced people. They employ people who have very little experience – they become more stretched and cannot provide retailers with quality support. In some cases, you do not the see the network manager for six months – unless you are in trouble. Is this a partnership? There is also very little flexibility – if you are not on the automatic stock replenishment system – you are not on their preferred customer list"

The word tables in the cross case analysis relied strongly on the argumentative interpretation and comparison. The evidence was presented followed by cross case analysis from multiple sources of information. The interpretation was then included as a separate item. This will allow the readers to make their own conclusions.

6.5 CONCLUSION

This chapter summarised the findings from multiple sources of evidence. This included interviews, documentation, observations and expert third party views. The case results were first presented in order to facilitate independent assessment of the case evidence and were then followed with a detailed analysis.

The startling findings were at variance with conventional views on the reasons for failure. The results showed that age and education was of little relevance. The ideal of franchisor support was not evident and resulted in the lack of confidence in the franchise system. Training was highlighted as a burning issue, while the effect of exogenous factors like petrol price increases and interest rates was limited. The following chapter presents the case report.

CHAPTER 7

THE CASE STUDY REPORT

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

The purpose of this study was to identify the reasons for the success and failure of fuel retailers in the Republic of South Africa. The primary purpose was to conduct a detailed case study analysis and to extract evidence from the case information to support the findings. There is ample case evidence, from the case study suggesting reasons for success and failure.

7.2 CONCLUSIONS FROM THE CASE STUDY EVIDENCE

South African financial institutions have historically been the bankers to large corporations that dominated the economy. Providing start up capital and assessments to small business is not part of the institutional memory and skills set of bankers in most South African banking institutions. This is exacerbated by the fact that bankers have difficulty in providing small quantities of capital profitably.

It was for this reason that private individuals could not easily access capital to purchase retail outlets. Most black entrepreneurs did not have sufficient collateral to raise loans on the money market. The EFG system was seen as a welcome intervention to facilitate the financing needs of would be empowerment retailers. The financing mechanisms used the future free cash

flows of the business as security. This was possible as retail margins were set by government and one could with reasonable accuracy; through a target costing approach determine the free cash flow on a monthly basis. The case study findings were as follows:

7.2.1 FUEL RETAILER PROFILES

Age, gender, family teams, professional affiliations and education were found to have no influence on success and failure due to the franchised nature of the industry. It was found that the average age in the failed category was 37 years while the average age in the successful category was 38 years. There was no evidence to suggest that age was a critical factor for success and failure and the oil company target range of 25-40 years appears to be an over exaggeration of the importance that age plays.

Three of the failed retailers operated as husband and wife teams while only two such teams were in the successful category. Given the nature of the retail business and the demand on time, family teams should in theory, enhance the ability to control the details in the fuel retail business, but no evidence emerged to suggest that such combinations had any bearing on the research proposition.

Professional affiliations were also not a differentiating factor in the research dilemma. While affiliations to professional bodies allowed fuel retailers to enhance their understanding about current issues and challenges facing the

industry- it was not a factor that played an influencing role in differentiating success and failure.

The levels of education in both the failed and successful categories were on par. The levels ranged from a basic matriculation to a doctoral degree in chemistry within the successful group and from a matric to an honours degree in Public Administration in the failure group. There was no evidence to suggest that university graduates have a higher success rate although one is tempted to make such a conclusion in a general sense.

7.2.2 CUSTOMER OFFER DOES NOT DIFFERENTIATE SUCCESS AND FAILURE

The range of offer in the case study did not influence success and failure. It did not matter whether a retail outlet had the complete offer of a forecourt, shop, quick service restaurant and carwash or not. The imposition of full trading hours without due regard for economic return was an important discovery. The franchise agreement stipulated, without regard for need or cost that the retail outlet must operate on a twenty-four hour basis. The expense allocation in terms of wages, electricity and security represented a sunk cost with no proportionate benefit.

Although no economic reason exists for some farm, urban and industrial sites to be burdened with such compliance, all retailers complied out of apprehension of the oil company. While image, brand and convenience are important considerations for the oil company, the rigidity is indicative of the

level of control that the industry has developed over the past fifty years over the small fuel retailer.

7.2.3 WAGES IS A SIGNIFICANT COST COMPONENT

The fuel retail business in South Africa employs some 50 000 attendants. Total manpower cost for forecourt activities are estimated to be 50% of the gross profit (fuel only), according to official Government studies carried out by the Small Business Advisory Bureau of North West University in 2004. The case study average was recorded as 38% of total gross profit illustrating that non-fuel income is a significant generator of profit.

Although a substantial portion of the retail margin is applied to wages, the general level of pay is hardly a living wage. The study did find that failed retailers paid R487 per week and successful retailers paid R344 on average to their attendants against the industry average of R350. Successful retailers demonstrated a greater capability in managing the wage cost item.

The ability to manage this cost line was found to be a differentiating factor for success and failure. This report does not in any way suggest that the minimum wage levels should be ignored – on the contrary, it is the management of the shift labour costs that leads to effective wage cost management.

7.2.4 TURNOVERS AND VOLUMETRIC PERFORMANCE

It is generally believed that higher volume at the fuel retail businesses is the only criteria for success. This perception, as presented by the rival theory was disproved from the EFG case study evidence, as the failed category yielded a higher average volume than the successful category. While there is no doubt that the higher volumes would enhance the probability of success, there was no evidence to show that low volumes sites are doomed to failure. Only two of the failed retailers failed to achieve both the fuel and non-fuel targets and this contributed to their failure.

This confirms that while high turnovers and volumetric performances increase the probability of success – these variables are not the only determinants for success and failure. The case evidence shows that high volume sites like FFR2 and low volumes sites like SFR3 have other drivers for success and failure. International experience shows that Belgium had an average of 87 000l as compared to Germany's 300 000 l and that both operated in non-regulated markets.

The South African industry average was 173 000l as compared to the case study average of 345 000l for failed retailers and 350 000 l for successful retailers. This equated to R0.68 spent on non-fuel income for every one liter of fuel sold. The volume range was 170 000 litres to 700 000 litres, while the shop range was R160 000 to R340 000 non–fuel turnover per month. There was no evidence in the case study findings to support the rival theory that

higher volumes and increased shop turnovers were a pre-requisite for success.

In evaluating the reasons for the failure of the non-performing sites, a number of issues must be noted. The EFG model was flawed in that the impact of inflation on general expense items was not factored in over time. While this is true, neither was the increased margin that government approved in consequent months. Using the base year as 2000, the margin increased from 30 cents to forty cents or a net increase of 10 cents. This increased portion of the margin would have generated additional gross profit against the fixed cost structure and would have compensated for the inability to meet the original projection. It can therefore be concluded that with the exception of FFR7, all other failures were triggered by reasons other than inability to meet the budgeted projections.

While countries like Germany, Austria and Australia have higher averages of fuel sales per month, other countries like Greece, Italy, Belgium and Ireland have averages of only 108k, 158k, 85k and 135k respectively – and all below the South Africa average of 173k. Clearly, regulation and liberalization of market prices does play an influencing role.

It also appears that other countries have a lot more service stations than South Africa. Notwithstanding the fact that the car population in each of the countries must be factored for valid conclusions to be made, the number of service stations does not in itself seem to be a problem. This also collapses

the rival theory that volumes and turnover are key determinants for success and failure.

7.2.5 THE RSA OIL INDUSTRY FAILS THE SMALL FUEL RETAILER

Franchisor support was highlighted as a burning issue from all fifteen case respondents. The general view was that the oil company simply looked after their own monetary interest at the expense of the small fuel retailer. The researchers view was that the retailer was not fully aware that most franchises operated within such parameters. Franchises leave no room for personal style and approach – it is a tolerance of routine through the imposition of operating standards.

There was total concurrence on the poor quality of service from the network manager who called on the business. Retailers complained that the network manager added no value to their business, in terms of quality advice and expertise as could be measured by increased sales and profits. Retailers did not see the network manager as a business consultant as they believed that they themselves possessed on average, greater know-how and problem solving capability.

In many cases, retailers viewed the visit as a courtesy call and relied on expert third parties like their accountants for quality advice. The approach of self - investment in time and effort within the operating requirements appeared to be

the approach that was generally adopted. The case evidence did reflect a heavy handed approach at times.

It must be noted that, failed retailers who have exited their businesses must feel aggrieved about their experiences and that some of their comments were laden with emotion and sensitivity. Notwithstanding this, the aggregation of the comments leads one to believe that the unregulated industry status has led to some degree of exploitation and that there is an urgent need for Government to implement some basis of fair play.

The support from inception to on site functioning is average resulting in "forced failures" of many small businesses. The EFG support mechanism also failed on many occasions. The initial valuations and premium payment to sellers just to place empowerment dealers on site were indeed a disservice to the cause of black economic empowerment. The aggregate information held between the oil company and EFG was sufficient to provide sound risk management support. The stand-alone approaches of the both companies weakened the retailers' fight for survival – from inception to on site operation.

7.2.6 FAILURE TO PERFORM DUE DILIGENCE CHECKS LEADS TO FAILURE

The study found that due diligence checks was a significant consideration that influenced success and failure. It was found that amongst the successful retailers the due diligence checks were understood and that the financials, risk assessment, valuation and business sustainability issues were well conceived.

The opposite was true for failed fuel retailers. The majority of the failed retailers did not understand and made little effort to have the due diligence findings understood even after being on site for two years. This was one of the causes of their failure as entrepreneurs. A good foundational understanding would have led to a pre-emptive approach to business management.

It was also found that the valuation model was not understood by both categories of retailers. The price paid for the business was excessive in some instances and the working capital requirements were understated in most. This created a cash flow crunch that eventually led to a debt trap – the servicing of debt beyond the financial ability of the business. This occurred in spite of the risk management system implemented by EFG to manage the cash inflows and outflows.

Both the categories of failed and successful sites had sophisticated computer systems and the information was available online to the oil companies. The oil company is in a position to verify the value of the site, have historical sales and performance details, they conduct interviews and pre-qualification tests and is therefore in a very strong position to ensure that the right jockey is on the horse, that the retailer is properly trained and that an oversight role that is normally expected from the franchisor is indeed in place. The case findings suggests otherwise.

Another evident reason for failure was the management of debtors and the minimising of its effects on cash flows. In the failed category, it was found that private individuals used service stations as a mini bank. The average debtor's

cover in the successful class was 41% as compared to 28% in the failed category without proportionate working capital cover.

The information management system of the oil companies did not facilitate the due diligence process. In all cases, it was found that the source of data and information was from the exiting fuel retailer – the seller. This is in spite of the fact that the all the cases under examination were fully franchised outlets. The oil company had complete access to the turnover gross profit report, depot delivery routines, no stock movement reports, trading area information, competitor development intelligence, business call reports compiled from monthly meetings and other general information that is important for the due diligence process.

The case evidence reflects that, with the exception of the turnover information no other information was provided for the due diligence study. This led to a distortion of the numbers by EFG and a consequent overcapitalisation of the loan. The seller had no interest or legal obligation to provide material information. A scanty due diligence and verification exercise was a contributory reason for failure.

7.2.7 VALUATION OF BUSINESS

It was found that no fixed or accepted methodology for the valuation of service stations existed in South Africa. This has led to exploitation by business agents attempting to get the highest price and thus a higher commission and to sellers looking to recoup losses from trading activities. The oil industry

response until recently was that of a bystander. The incoming retailer becomes the victim due to the unique nature of the industry.

It appears that the biggest problem in the retail business is the gross overvaluing of retail sites. It is not uncommon to have a service station that has accumulated a trading loss to be sold at a premium hence commanding excessive goodwill value. The same goes for new retail sites as the poorly informed purchaser would pay upfront "key money", the amount of which is based on some projected volumes, which in many cases would never be achieved.

It was also interesting to note that while government had a predetermined methodology for the calculation of the wholesale margins through the marketing petroleum activities return, no effort has been made to formalise the returns of the fuel retailer. The failure to establish such a valuation mechanism has contributed to failure and exploitation of the fuel retail small business.

The EFG valuation model was generally well accepted but poorly understood. While the multiple of free cash flow method is a common way of valuing businesses, the EFG valuation methodology was flawed due to the following reasons:

- The requirement of a 10% sweat equity contribution was not strictly applied. In most cases the initial sweat equity formed part of additional borrowed funds thus resulting in a 100% geared loan with no provision in the cash flows for servicing of the additional debt;

- Many of the retailers had to make dramatic lifestyle adjustments and were not able to live on the reduced income in comparison to the incomes previously earned. Some ventured out to jointly operate their fuel outlets and other businesses like supermarkets, butcheries, real estate, mining and motor mechanics. All retailers in the failed category maintained other economic interests and lost grip of their businesses, leading to loss of control and ultimate failure. The EFG model did not make provision for an adequate level of drawings;
- In many instances, EFG operated on a push-pull basis. It was found that there were two forces at work. Firstly, there was an urgency to get the loans out and secondly there was the concern that the seller will not sell thus leaving EFG with no business income. This led to premium payments and payments greater than the multiple of twenty four times the free cash flow – at the expense of the retailer;
- It was also found that all debtor collection days were assumed to be seven days from date of statement. The general collection days ranged from 7-30 days displacing valuable cash flows;
- The loan evaluation process did not involve the new retailer at all levels of the due diligence investigation, compromising the quality of buy-in and placing total reliance on the EFG system;
- The interest costs of bank overdraft facilities was excluded thus overstating the free cash flow and increasing the loan repayment amount;
- The provision for shrinkage was standardised at 2.0% of turnover. This was found to be a very optimistic number as the actual shrinkage amongst the failed category was 3.0%;

- The aggregate gross profit margins targeted were too optimistic- especially with shop target margins of 28%. Failed retailers achieved an average of 8.76 % versus the successful category of 12.30% for both the shop and forecourt. The reduction in gross profit percentages reduced the free cash flow amount;
- It was also found that the budget provision for all consequent years did not factor in wage and other variable cost increases on a realistic basis;
- The monetary loss due to fuel price adjustments was not included in the budget or the working capital amount resulting in stock adjustment losses being absorbed into the gross income and thus decreasing the free cash flow;
- Fuel price adjustments and its consequent effect on profitability due to stock losses was ignored in the valuation process, resulting in overpayment of goodwill, on average of R250 000 more based on the EFG cash flow method. This resulted in additional debt servicing costs through overpayment on the purchase price;
- The retail margin study and the retail margins that result from it did not include any gearing. The EFG model did not adequately accommodate this in terms of expense trade offs in other areas to ensure that the cash flows were sufficient to service the debt;
- It seems that EFG was attempting to grow its loan book as quickly as possible. This resulted in poor quality due diligence studies and risk management;
- The working capital provision was inadequate in most cases;
- The electronic system developed by EFG as a risk management tool was being developed during the loan rollout phase. This resulted in many

versions being tried and tested without a proper system of risk management at inception of the loan;

- The ability to react to the risk management findings seemed limited. The budget over runs could not be contained due to the non performance of the loans in the first instance;
- Most of the failed retailers did not generate the correct mark up percentages – this should have been a relatively easier slippage to correct. This was the most notable failure of the retailer, the Oil company and EFG; and
- The retailers were not fully apprised of the cost constraints and in many instances exceeded their budgets.

While the preset margins and target costing approach would in theory provide a good basis for budget planning, the case study evidence reflected a state of poor control as evidenced by the financial results.

7.2.8 INADEQUATE TRAINING

The development of human skill is the highest form of empowerment. Given the legacy of apartheid and its consequent implications on the black entrepreneurial class, training must be used as the intervention to better position black economic empowerment. There is a general lack of integration of entrepreneurship into education at all levels of the South African system.

Many people have become successful entrepreneurs with little formal education. This is largely due to contact with family members who have small

business ventures and this serves as a stepping-stone to develop entrepreneurial capacity.

The general training programme was found to be inadequate and the use of the same weak foundation for the empowerment retailers, operating under much more stringent conditions given the level of the gearing, was one of the contributors to the failure of the EFG retailers.

Respondents reported that they viewed training as a key determinant in the functioning and successful execution of their daily business activities. It was found that the oil companies viewed training as a formal requirement and that no effort was made beyond the initial training to revisit the fuel retailer for refresher training. The implication is that fuel retailers approved ten years ago may not be subject to further training with the same intensity as was originally done when they first started operating their businesses.

The training was found to be so brand specific that a Caltex trained retailer wishing to operate an Engen site would have to undergo the whole Engen training course to be approved. There was also no reliable assessment of the training except for the evaluation and comments of the trainees - who at the time were new to the industry. Training was viewed as a necessity for *taking over* the site and not as preparation for *operating* the business.

Retailers viewed the training as a snapshot approach and expensive compared to the benefits obtained. There were no hands on or apprentice type approach and in many cases actual on site operations was a challenge. The

course structure and content, the excessive costs and the scheduling of courses only when an economic number of trainees were available compromised the national effort to develop and skill entrepreneurs. The course does not allow for any evaluation – except for trainees comments on the course presentation on the last day of the training. No independent third parties are consulted. It appears that trainee comments – from apprentice and naïve retailers who are uninformed about the practical operating realities of the business – may have been taken as an endorsement of a quality training offer.

It was also found that the training costs for a particular oil company was as much as R70 000. Notwithstanding the cost recovery that is required, it would seem that training was developed as an "income stream" rather than a preparation programme for small business. Government permits oil companies to operate one site per province for training and to absorb both the retail and wholesale profits to fund this initiative. This is not evident from the case findings. It is even more concerning to note that there is no training facility for the EFG retailers in the biggest market of Gauteng – resulting in retailers bearing huge travel and accommodation costs to travel to Cape Town for training. This effectively shut the door on refresher and additional training.

The training did not have an external affiliation with professional training bodies established in South Africa like the Sector Education Training Authorities. A retailer can be on site for twenty years – and never see the inside of a training room after the initial orientation. There is sufficient reason to believe that the training offer is almost a "public relations course to highlight the issues of branding and visual standards" of the franchise. The fact that all

EFG retailers – trained within the last four years – did not know the difference between a gross profit percentage and mark up percentage is an indication on the quality of franchise training in the oil industry.

The case respondent's views and the evaluation of the training curriculum justify a review of the training courses offered. This is pivotal to the research question on the reasons for success and failure. It could be argued that the case included a fair split between success and failure and that both failed and successful retailers attended the same training courses.

While this may be valid, the case responses clearly illustrate that successful retailers had more experience than the failed retailers and that it was their previous experience that may have provided a solid grounding for success. Franchises should by definition have developed systems and processes. The quality of training is a critical success factor.

7.2.9 MONTHLY PRICE ADJUSTMENTS

Almost all EFG retailers complained that the higher fuel prices had a negative effect on working capital provision. Based on average delivery sizes, the range of increases and decreases expressed as a percentage of turnovers was found to be insignificant. The aggregate annual effect of price adjustment for petrol 93 was twenty-three cents. The highest price increase was 18 cents and the highest decrease was twenty-six cents. The successful retailers had to provide for an additional R7 493 for the highest price increase as recorded in

April 2001. The failed fuel retailers corresponding increase in working capital needs was recorded as R6 711.

The effect of the price increase on every R1 000 000 of turnover for successful retailers was 0.75% while the same average for failed retailers was 0.67%. In other words, the price adjustments did not place a serious enough burden on the cash flows that it could be isolated as a significant differentiating factor for success and failure. The aggregate effect of the price adjustments for successful retailers on an annual basis was that an additional R9 574 of additional working capital was required. Failed retailers required an additional R8 574. While the EFG model did not provide for the increase and decrease in available cash flows due to monthly fuel price adjustments, the omission had no material effect on success and failure.

While the aggregate effect on working capital was only R9 574 and R8 574 for successful and failed retailers respectively, the effect on profitability was found to be substantial. Fuel price adjustments, especially when prices fall results in stock losses for the retailer.

This stock loss was quantified using the margin of 32.6 cents as at February 2002. Based on the average stock levels, successful fuel retailers incurred an average loss of R13 569 and failed retailers an average loss of R12 154. This stock loss was not accommodated in the EFG loan model. The official government margin study also failed to provide for this stock loss thus rendering the margin study inaccurate. This also means that the retailer had to

endure the loss with no ability to manage the situation due to the delivery regime in place by the oil majors.

7.2.10 CASH IS KING

The study found that good cash management was an integral part of success. The single largest item of cash outflow were for fuel drops and unlike other retail businesses that generally obtained credit terms for product or discount settlements for early payments, retailers had to pay cash in advance. An absolute condition of the franchise agreement was that retailers had to provide a guarantee for at least two drops of fuel while signing a direct debit authority giving the oil company full access to the business bank account. The uniqueness of the industry and imbalance of power between the giant oil company and the small business retailer is clearly illustrated in this example. The oil company operated on a zero risk basis passing on the burden of risk and the expense of advance payment to the small operator.

The EFG model used the cash flows generated as security and the inability to generate the required levels or to cap the level of expenses often resulted in an accumulation of the deficit in the bank overdraft. This was found to be a general phenomenon amongst the failed retailers. The EFG system of risk management failed to address the situation at inception, eventually leading to the retailer's failure. In many of the failed cases, it was found that EFG simply increased the overdraft levels instead of isolating the problem, to solve the cash flow crunch and in that way condemned the retailer to eventual failure.

Although the EFG model was based on cash flows, the mitigation of risk and ability to manage the cash flow generation was almost non-existent. EFG failed the retailer in their attempt to manage the cash flows. The inability to take action at the critical junctures of non-compliance resulted in an embellishment of the problem until the business could no more carry the burden of servicing not only the original loan debt but also the monthly accumulated trade loss.

The credit meeting notes indicated that the risk management ability was weak and that credit management staff did not have a complete appreciation of the operation of the business they were tasked to credit manage. One particular new site retailer, Malvern convenience Centre had purchased a closed circuit television system to enhance the security of the business but paid for the system in cash.

This led to a substantial unbudgeted cash outflow resulting in an immediate cash flow crunch. Instead of EFG investigating why the oil company failed to install the security system on a new site, as was the standard practice or negotiating to covert the purchase to a lease agreement, they simply re-adjusted the budgets. This readjustment coupled with the oil company failure to achieve the projected volumes and shop turnovers eventually led to the retailer's failure, both of which had little to do with the retailer.

It was also found that the management of accounts receivable was a key variable in the cash flow equation. Although the granting of credit against unsecured deposits was noted in the due diligence report, EFG failed to

administer the risk at inception but rather allowed the seller to transfer the debtors book with the exposure – and was paid for the unsecured volume through the multiple of free cash flow methodology applied.

The EFG model used monthly cash flows for servicing debt but ignored the account receivable collection dates. In the case of FFR7, the collection period was sixty days. The cost of carrying the debtor's book, the collection period and provision for bad debt was not provided for in the budgeted cash flow projections.

It was also found that the shrinkage provision in the convenience shop was under-budgeted. The provision of two percent of non-fuel turnover represented an industry average for experienced and well trained retailers. The expectancy imposed on new empowerment retailers with no or little retail experience of the same targets was found to be unreasonably optimistic. The average shrinkage numbers reported in the failed category was 3% and the successful category was 1.75%. The 3% shrinkage number illustrated that the entire non-fuel stock holding would have to be replaced every 33.3 months while the successful retailer would only need to do this every 57 months.

EFG provided for 2% shrinkage or total stock replacement every fifty months. The failed retailer would have needed to make this provision 17 months earlier – a good explanation for many of the failed retailers exiting within the first year.

It was also found that the wet stock management system imposed by EFG and the oil company worked in all circumstances in terms of reconciling purchases

and sales. The oil company developed a system of central reporting for wet stock data. This provided for a third party analysis and an early warning system for stock variances. This system was incapable of dealing with short deliveries or pumps overthrowing.

It was also found that none of the EFG retailers maintained a cashbook. Many relied on "mental calculations" and bank statement analysis to manage the cash flows. The totality of the cash flow management effort comprised of looking at the bank account and "back of a cigarette box" calculation. While this approach had merit, complete dependency on this approach, as the only source of information was short sighted.

7.2.11 IMPOSITION OF DEPOT ECONOMICS

The composition of fuel prices in the Republic of South Africa is a transparent process. Refinery gate prices represent a true import parity pricing system known as the basic fuels price. Government also determines the wholesale price by aggregating the balance sheets and the profit and loss accounts of all the marketing companies. The "zone differential" covers the cost of transport from the refineries to bulk depots while the "service differential" covers storage costs and transport costs from the depots to the service stations.

It was interesting to note that the oil majors have not queried the size of the service differential with the same intensity as they do with the wholesale margins nor has government reviewed this on a regular basis although the transport differential has been growing over the years to fund the operating

costs at depots. Depots have been rationalised and a number of joint depot operations are in place whereby oil companies share the depot infrastructure and costs. At the time of the compilation of the case study report, the rand equivalent of the service differential was 5 cents or a 30 000 litre fuel drop was expensed at R1 500. This could be for a delivery R50km from the refinery gate.

Oil companies have managed to successfully impose delivery constraints to optimise their transport economics. In other words the oil company presets the delivery sizes and combinations that the small fuel retailer can order thus imposing the order size without due consideration for the retailers ability to pay for the product and need to hold such a level. It was also found that deliveries were controlled for the whole country from the Cape Town head office to further strengthen the control. Retailers have no control over this imposition.

7.2.12 STOCK MANAGEMENT

It was found that both the successful and failed retailers implemented similar wet stock control systems. Retailers did daily stock takes, reported the wet stock numbers to the oil company for monitoring and managed the stock take process. The oil company took a hand's on approach to wet stock management. The main pillars of the control system were based on the integrity of the oil company delivery system.

Retailers placed heavy reliance on the truck meter reading and the accuracy of the dispensing equipment. Unlike any other retail product, the retailer buys

and sells fuel without having sight of the physical product. Oil companies are required by the Trade Metrology Act to annually calibrate the pumps to ensure that it does not under throw or over throw. In spite of the best control mechanisms, only a physical test using an assised container would reveal any discrepancies. The distribution of such test containers on the training course would have been very useful gesture by the oil company.

The delivery of "sealed parcels" or deliveries that are fully loaded for a particular retail site and adjusted for temperature was seen as a great improvement from the retailer's perspective. Notwithstanding this, oil companies still used router transport to deliver product and retailers continue to view this with suspicion.

7.2.13 GENERAL MANAGEMENT

While the findings showed that both failed and successful retailers implemented stringent control over cashiers, it was clear that the failure group did have a higher tolerance for cash shortages than the successful retailers did. It was found that the SFR08 set R1.00 as a shortage amount while FFR4 allowed R50.00 as the limit. The numbers were numerically insignificant but did reflect the quality of focus that each retail group applied.

The case study evidence indicated that the failed retailers did not conduct non-fuel price and gross margins reviews as frequently as their successful counterparts did. Failed retailers also analysed stock information like stock turnover, top sellers, dead stock and fast moving stock less frequently than the

successful retailers. It was also found that failed retailers had further relaxed control in terms of debtors as they only had a 28% cover for accounts receivable as opposed to successful retailers who had a 41% cover. In both instances, the security held was less than half the size of the monthly debtor's book and both operated in contravention of the law in terms of credit sales of petrol. The percentage of bad debts write-off was 15% for the failed category and 2% for the successful retailers.

This had a direct bearing on the size of working capital required and bank overdraft. The failed retailers showed an increase on the original limits of 240% while the successful category increased by 172% over the same period. While it is conceded that the increase in the overdraft levels was due to other excesses, a substantial portion was absorbed in funding unsecured debtors. The value of debtors in real terms increased over time due to increasing fuel prices. Successful retailers did have a higher sense of "attention to detail."

The case study evidence also showed that the EFG retailers did not have a firm hand in the compilation of management accounts or the return of legislative information. With the exception of SFR2, no other retailer processed VAT returns on his or her own. While it is accepted that this is generally an accountant's responsibility the "hands off" approach is a disadvantage from a management perspective.

It was found that there was limited or no transfer of skill in some areas. It would be difficult for the retailer who has little understanding of how value added tax is calculated to analyse the VAT reconciliation information supplied

by the accountant. This general approach was similar with other legislative returns like unemployment insurance, motor industry bargaining council returns, skills development levy, workmen's compensation and joint service board levy. It is not the researcher's suggestion that such administration should burden the retailer but that the retailer should fully understand the mechanics and methodology to prevent future litigation and to have a better grip on the business issues.

The failed category of retailers did not manage critical cost components like wages. Successful retailers organised shifts to service the business needs during peak times and slack times and it was found that the wage pattern was largely correlated with the sales pattern. Failed dealers were poorly matched and in some cases, this "never occurred to them." The management of manpower costs was found to be a strong differentiating factor for success and failure.

It was evident from the case information that failed retailers spent on average more time on administration than their successful counter parts. Successful retailers delegated the administration (not an income producing activity but a serious control issue) to key personnel while maintaining an oversight role. They were thus able to spent about thirty percent of their time, more than twice the 15 % effort by failed retailers on business development.

7.2.14 RENTAL AND FRANCHISE FEES

The size of the monthly recoveries by the oil companies is worthy of special note. It was found that the average oil company recovery for franchise fees and rental was an average of 20% and 24% of gross profit for the successful and failed categories respectively. This means that for every R1.00 of gross profit earned in the successful category the oil company retains 20 RSA cents.

This appears to be excessive and could justify some expert's view that "retailers are glorified managers for the oil company." The excessive recoveries also indicate that the oil company takes 100% of the gross profit every five months. Most of the real estate that belongs to the oil company is "old real estate" as only about fifty new sites are built in the county every year. It can be concluded that oil companies view their real estate assets as key income areas. Oil companies also benefit twice when margins are adjusted. Firstly, wholesale margin increases are earned and when the regulators grant retail margin adjustments, real estate recoveries are increased as the margin is linked to the rental formula.

The capital costs for the establishment of the retail asset is substantial. This is particularly true given the oil industry approach to commendable safety and environmental care in their approach to retail property development. The franchised shop infrastructure differentiates the different oil brands and has provided convenience to the South African motorists. The oil company, as the franchisor is entitled to fair compensation for the risk of capital and marketing expertise.

There must, however, be a reasonable approach to cost recovery. Oil companies own four in ten sites that generate sixty percent of the volume. One can therefore conclude that the best and most productive sites belong to the oil companies. In many cases, "gold platting" takes place whereby retail sites are built at excessive cost and the oil company seeks to recover this through the rental and franchised income. The goodwill recovery for new to industry sites appears to be a further recovery by the oil company for the investment made.

7.2.15 FRANCHISE AGREEMENTS

It was found that the contract terms generally had short-term obligations. The EFG retailers all received five-year leases while other industry retailers received the standard thirty-six month lease. It is inconceivable to imagine that a partnership and business relationship could flourish under such a short duration. It was found that the retailers would comply with all franchisor requirements mainly out of fear that their leases would not be renewed on expiry. This is not at all conducive for the nurturing of small business. This is the ultimate form of control that the oil majors have over small business retailers.

Compounding the problem is that contract terms are largely one-sided and do not protect the fuel retailer from unscrupulous sellers and from the oil companies themselves. Clearly these would be expected to be one sided because the balance of power during the negotiations is largely tilted towards

the oil majors, as they have control of all the information and systems, they generally own the property, they are the single supplier to the service station and they would have to approve the new incoming retailer. The South African competition Authorities have to date not challenged this practice.

It was commendable for the oil company to grant five-year leases to all the EFG retailers in line with the conditions of loan repayment to the IDC. Most retailers preferred a longer-term repayment period matched to a longer-term lease, as this would have eased the cash flow burden.

7.2.16 FINANCIAL MANAGEMENT

The case evidence illustrated the need for good financial skills. It was apparent that successful retailers had better financial planning and analysis skills than the failed retailers of managing key cost components like wages, shrinkage and gross margins. The funding model was based on future cash flows and the under achievement of the gross profit and markups has in all instances contributed to poor financial results. The successful retailers did, however, yield higher mark up percentages.

The failure of EFG to produce accurate and punctual management accounts exasperated the situation. This compromised the risk management process and stalled the implementation of remedial plans resulting in the accumulation of "slippages" to a point of no return. The training system did not provide quality financial training further disadvantaging the retailer.

7.2.17 OCCUPATIONAL EXPERIENCE

According to the Global Entrepreneurship Monitor 2001 South African Executive Report, 40% of start up businesses is in the retail, hotel and restaurant sector. A possible reason for this high number is that employees in these industries, once having acquired the requisite skills, ventures out on their own.

The retail fuel business has evolved over the last decade from a fuel business to a sophisticated convenience centre offering fuel, convenience shopping, bakery, fast food and car wash. Clearly, the skills base required to support such a wide retail offer is above the average of other small business ventures.

While it was found that none of the retailers in the failed category had any previous retail experience, only 50% in the successful category did. The remaining fifty percent in the successful category did, however, have superior academic skills including a doctoral degree in engineering, a medical technology degree and an education degree.

It was found that previous experience in the industry was critical, as "you would know the tricks of the trade." While the case study evidence supported the view that previous experience does play a significant role for success, training and up-skilling, especially within a franchised environment was more relevant. Franchisor support should compensate for the lack of such experience. The fact that none of the failed retailers had any previous experience while half in the successful category does again raise the question

about the quality of training offered by the oil majors as both groups were exposed to the same training curriculum. SFR7 recommended a kind of "buddy system" for those who do not have any previous experience. This is supported given the serious gaps that exist in the current training courses.

7.2.18 LIFE STYLE ADJUSTMENT

The case study results showed that the EFG retailers spent on average 11 hours a day on site. It was also found that successful retailers spent more time at their businesses than failed retailers did. In all instances, the small business retailers made significant lifestyle adjustments to ensure the success of their businesses. On average the retailers stayed within 12 km from their businesses implying that, in most cases, they have moved homes, transferred children schooling and had to adjust to new social settings. This is reflective of the quality of commitment that the EFG retailers made.

In many cases, the respondents agreed that, "the business owns them and that they did not own the business" The research evidence also revealed the extent and imposition on personal lifestyle. It was found that the business operated in all cases twenty-four a day seven days a week making it necessary for the retailer to be on call all the time. Retailers had limited leisure time.

Lastly, it could be concluded from the case study evidence that the reward received for the level of sacrifice was inadequate. The Northwest University study used R153 000 retailer drawings per annum for the calculation of the

retail margin. This was benchmarked to a deputy director level salary in the public service exclusive of other benefits like pension and medical aid. Notwithstanding the fact that the retailer would have made other drawings and that the drawings was only for the forecourt activities, the compensation was found to be low relative to other small business ventures of a similar capital structure.

It was found that the average drawings amongst the successful retailers were R180 000 per annum as a total salary i.e. for the operation of both the fuel and non-fuel business. The average salaries drawn by failed dealers were R147 000 for both the fuel and non-fuel business. This fell short of the fuel only average of R153 000. It can therefore be concluded that excessive drawings was not a cause for failure in the failed category.

The rationale for the use of a deputy director's salary in the margin calculation, still, remain unclear. A deputy director in the public service does not take the entrepreneurial risk, does not have to manage labour and people, does not have to work 11 hour days, does not have to make significant lifestyle adjustments on the scale that a fuel retailer does and was therefore found to be a poor benchmark for use as a compensation measure. Entrepreneurial return on investment is perhaps a more acceptable benchmark for reward.

Clearly, the fuel retail business imposed a severe restriction on the retailer's time. There are long hours, seven-day weeks, low margins, high personal risk to life and sometimes an average return on investment. Retailers making the

decision to operate retail sites have the right to full disclosure of information and quality support starting with adequate training.

7.2.19 THE RETAIL BUSINESS IS ABOUT CONTROL

The research found that the fuel retail business was about control – the control of cash, the control of both wet and dry stock and the control of expenses. Good control was found to be a springboard for success while poor control was found to be the reason for failure. The implementation and execution of control measures was found to be a key determinant in the success category. The training courses did not provide sufficient training in this area – to the detriment of the retailers.

Each fuel retailer had a specific type of control system. The control process was not an item on the oil company training schedule. Small retail business is about the ability to manage the "controlled" aspects of the business. This required no ingenuity or entrepreneurial flair – just a tolerance of routine. The loosening of control was the first slip towards failure. While the franchisor had a limited participation in the areas of control, they had a better infrastructure of persons and systems to affect and support such control.

The loss of control amongst the failed retailers in the area of dry stock management was evident in the case study analysis while the implementation of control systems amongst the successful retailers contributed to success.

7.2.20 REGULATORY REFORM

All fuels sold in South Africa were imported before 1954. The demand for fuel increased after the Second World War to the extent that South Africa developed its own refining industry. The industry evolved from the legacy of apartheid, characterised by clandestine operations and a veil of secrecy to its current march to a more transparent and liberalised industry.

The purpose of regulations was to ensure consumer protection, social balancing in terms of security of supplies and to prevent monopoly control being exercised. Government's efforts to police these controls have not been entirely successful. While the fuel retail sector continues to be regulated by government in the form of price control and the prohibition of vertical integration and self-service, slippages have crept into the system that would require government's urgent intervention.

Firstly, the linking of retail margins to the rental formula by oil companies is tantamount to vertical integration. The retail margin study uses an average rental recovery and whenever margins are increased for the retailer there is an adjustment to the rents being charged leading to further dominance by the oil company over the small fuel retailer. This compromises both governments and the small fuel retailer's ability to create a successful small business sector.

Secondly, the case evidence revealed an imposition of depot transport economics on the small fuel retailer in spite of a service differential allowance in the price build up. The small retailer is forced to receive uneconomic loads

and to prepay for it. In many instances, was evident that the combinations would result in some products like diesel at residential sites, being carried for longer periods due to the slow stock turns.

Thirdly, it was found that retailers provide diesel products to the oil company customers through their forecourts at reduced margins. The cost to dispense a litre of diesel to the oil company customer is the same as dispensing a liter of petrol to a member of the public. Oil companies take 48 hours to refund the retailer while the retailer paid in advance for the product. The average margin received by the retailer for this transaction was found to be substantially lower at seven cents a liter versus the retail margin potential of about 40 cents a liter. While the retail margin study separates this out in the final calculation it fails to capture the cost of servicing this transaction in terms of the liquidity of the business. This places a disproportionate burden on the small retailer.

Oil companies also recover goodwill costs for new service stations built based on projected volumes. Their investment decisions are based on the recovery of a lump sum capital amount. The sites are often "gold plated" and the new retailer bears the cost of this in the goodwill recovery. Government's intention through the regulations to ensure efficiency and low fuel costs are compromised leading to an increased burden being placed on the motorist. While efforts are made to prevent advertising and promotion at service stations to keep fuel prices down, the more critical and substantial breach of regulations have gone unnoticed.

The case study evidence also indicated that new sites commanded a goodwill price with no trading history. In cases where the oil projections exceeded actual performance the cost of the shortfall was borne solely by the retailer.

The introduction of convenience shops and bakeries has led to a further concentration of power in the hands of the oil majors. Retailers are forced to buy from specific suppliers, to carry unreasonable stock levels with no assistance to manage the shrinkage levels and to maintain stringent brand standards.

7.3 RECOMMENDATIONS

Based on the case study evidence, the following recommendations are proposed:

7.3.1 SIMPLIFY THE COMPLIANCE ENVIRONMENT

The imposition of regulations and laws on the small retailer was found to be too onerous and should be brought in line with global best practice of simplifying the working and compliance environment. This is particularly true for the different municipalities, which impose a joint service levy based on turnover. The retail fuel industry generates high turnovers against low gross margins and any imposition of levies on turnover prejudices and unfairly burdens the retailer with a disproportionate burden as compared to contributions from other sectors of the economy. This archaic requirement needs to be revisited.

The EFG model required that all retailers operate as proprietary limited companies thus forcing each of the retailers to conduct statutory audits as required by the companies act. The closed corporation format would have served the same purpose. The margin study does not provide for market related audit fees.

7.3.2 ESTABLISHMENT OF A CENTRAL TRAINING UNIT

It is recommended, given the inadequate levels of training in the industry that a central training board be established. This is relevant given government's drive for a greater participation of black economic empowerment. Training provided at present by the oil industry assumes a "normal" human resource environment when in fact it is not. The retailer training should be administered by one of the SETA's (Sector education training authority) and be accredited by the South African Qualifications Authority.

This would elevate the need for quality training and ensure sufficient preparedness by this small business sector. This would also prevent exploitation by oil companies of new retailers in terms of the excessive training fees imposed at a location and time convenient to the oil company only. The current oil company training is very brand specific and does not adequately address the key fundamentals of financial management and administrative care.

It is further proposed that government regulate the practical aspects of training through the allocation of training sites on a regional basis but not under the jurisdiction of the oil company. These training sites should have a special board comprising members of the dealer council, members from the South African Petroleum Industry Association as representative of the oil company, officials from the department of labour, representative from the fuel retail organization, members from the franchise council of South Africa and a representative from organised labour. The regional sites should be administered as "labouratory sites" and be identified with due consent from government to prevent the industry from holding key retail sites for profit rather than training.

Based on the case findings, the existence of such a centre would have reduced the number of failures for the following reasons:

- The training would be a continuous improvement programme;
- The certification of the course would necessitate relevant training; and
- The course curriculum and structure would be more "preparatory" than "information" as is currently the case.

7.3.3 ESTABLISHMENT OF A LABOURATORY SITE

It is further recommended that a "labouratory site" be established to provide hands on practical apprentice type training. This experiential type training should form the main part of the Sector Education Training Authority training curriculum. Prospective retailers should spend adequate time on such a site to understand the demands of the business and to be practically trained in the

areas of controls, cash flow management, retail convenience marketing and stock management. This approach would enhance the retailer's theoretical understanding of the retail business in a "live" situation.

This would also give the retailer the opportunity to reflect and make an informed decision on whether this type of business is really what he or she wants to be involved in. The labouratory site should be operated independently from the oil company due to their historical approach to training and should ideally be operated by the fuel retailer association body or motor industry federation due to the extensive intellectual capital and expertise that exists amongst its members. Successful retailers can be used to develop specific skills amongst other retailers. This approach would expose role models to the retailer network. The suggested mechanism would generate sufficient cash flow from the retail margin income to fund the training.

Such a site should also be accessible to all fuel retailers for refresher and other specialist training. There should not be any restriction, as is currently the case, where a retailer would have to wait for the scheduling of an oil company training course, which is planned according to the economics of the number of trainees. Training and trainers should be constantly available to the retailer. The suggested network of retail sites managed and operated by retailer bodies through a broad based board structure would be the ideal solution to the poor state of training that currently exists.

It is also envisaged that these provincial labouratory sites would service the training needs of pump attendants and cashiers. There is no such

infrastructure currently. The industry relies on the informal provision of training by the oil companies and private companies to service this need. The involvement of the Sector Education Training Authority would ensure that a market driven training programme is implemented. This should include adult basic education training, literacy classes, basic computer training and other life skills that make training meaningful.

Government cannot rely on the private sector or the Liquid Fuels Charter to force a change as the Charter does not include attendants. The Petroleum Products Amendments Bill 2005 is the only opportunity that government has to address the serious gap that exists on the human resource front. Training must be a key-qualifying requirement of the licensing dispensation.

It must be noted that the majority of the persons employed as attendants and cashiers are from the previously disadvantaged background. Apartheid education resulted in a vast number of these individuals, missing out on the education opportunity. According to the Global Entrepreneurship Monitor 2001 South African Executive Report, only one in four black adults had a tertiary education as at 1996.

It is strongly recommended that government use the licensing dispensation that is due for implementation in 2006 to correct the human resource deficit. This would create the opportunity for poorly educated attendants and cashiers to improve the quality of their lives. Failure to do so will condemn them to be locked into an industry with no scope of economic advancement and with a high probability of job loss in a deregulated environment. This initiative would

allow attendants and cashiers to be absorbed into the mainstream economy when government deregulates the industry and removes the prohibition of self-service.

7.3.4 INDUSTRY VALUATION METHODOLOGY

Government's approach of target costing falls short of an enabling environment without due regard for the economic realities confronting retailers. Empowerment retailers will only increase participation and ownership through geared funding mechanisms and the non provision of debt service costs in the retail margin study is self-defeating of government objectives as stated in the Draft White Paper of achieving a 25% participation level by historically disadvantaged South Africans by 2010.

A pre-requisite for the incorporation of geared finance into the retail margin is the development of an industry valuation model. The valuation model should seek to ensure an adequate return on investment for the entrepreneur. The model should seek to prevent the creation of regret capital through gross over pricing of retail outlets. Such a valuation model will stabilise the industry and facilitate more informed decision taking by potential and future participants in the small retail sector.

This model should over time replace the retail margin study, as government would have at its disposal real numbers of the industry as a whole as opposed to a sample of the total industry. Every purchase and sale of a retail fuel outlet should be subjected to the valuation model test. While it can be argued that

government's role is one of an economic regulator and that valuation methodologies would fall outside of its sphere of control, in cases where market failure exists, intervention is necessary. The non-fuel input cost variables must be provided by the franchisor –the oil company.

This approach would also ensure that the decision on the appropriateness of making the investment and the level of investment is in the hands of the investor. New participants in the industry would have a better chance of survival and the aggregate result would be that a more efficient investment in the retailing network is maintained. The model that is most accepted by bankers for funding of businesses is the net present value model.

7.3.5 APPOINTING AN INDUSTRY OMBUDSMAN

The research findings coupled with other retailer experiences begs the appointment of an independent third party person to arbitrate between the gigantic oil company and the small retail business owner. The organs of the state in terms of the judiciary functions could also serve the same purpose but the cost of engagement in terms of time and finance is prohibitive for the small fuel retailer.

The general view in the fuel retail industry is that it is a futile exercise to legally challenge the oil company due to their size. It was found that most retailers eventually surrendered to the will of the oil company. A number of the EFG retailer's experienced the same demise in spite of EFG's plea to the oil company. The small business sector of the industry makes a significant

contribution to the economy. The capital cost of owning a retail outlet is large by small business standards and the current communication infrastructure like the dealer council bodies and retailer associations have limited successes in conflict resolution in the past.

While no evidence of wide scale exploitation by oil companies exist, the case sampled within the EFG case study have revealed some extremely contentious findings in approach and heavy handedness. The Petroleum Products Amendment Act 2005 provides for arbitration and such an intervention would provide a fair and just environment for small retail business to thrive.

It is therefore recommended that an ombudsman office be established to serve this need. The funding of the office of the ombudsman can be obtained through a levy placed on the licenses that government intends issuing.

7.3.6 ORDER ON DEMAND

The purchase of fuel is the largest single item of purchase in the fuel retail business. The size and frequency of the drop is generally determined by the oil company to optimise transport economics. This has an unintended consequence of placing a cash flow burden on the small fuel retailer.

The legal basis for the imposition of the cash -on -delivery basis from any of the legislation that governs the South African petroleum industry could not be referenced in documentation reviewed. It is recommended that government

and the oil industry agree that no legal basis exists for an archaic norm that has evolved over time and adjust the processes in place.

The rationale of holding a deposit equivalent to two drops of fuel and imposing cash on delivery system is unclear and prejudices the small fuel retailer. The retailers receives no compensation for the loss of the market related income from sinking deposits in unproductive assets and has little control on the size of the fuel drop in terms of quantities. The oil company owns the tanks and controls the delivery routine.

It is recommended that an order on demand mechanism be considered as a resolution. This would save the retailer on working capital costs funded through the bank, as the stock in the tank would be a real time cost relative to sales.

The depot economics is not market sensitive as the distribution is designed to optimise haulage without regard to actual demand. The inefficiencies are underwritten by the fuel retailer due the delivery schedules in place. The retailers subsidises market distribution "corrections" by reselling to "oil company customers" at reduced margins on cash on delivery basis.

The benefit of such an intervention is substantial for the retailer and a win –win situation could be recorded as the entire system is then market sensitive. This would mitigate, as evidenced by the case study findings, against failure. It is only under these conditions that the current onerous requirements of the oil company can be justified.

7.3.7 REAL ESTATE RECOVERIES AND FRANCHISE FEES

The capital costs for the establishment of the retail asset is substantial.This is particularly true given the oil industry approach to commendable safety and environmental care in their approach to retail property development. The franchised shop infrastructure differentiates the different oil brands and has provided convenience to the South African motorists. The oil company, as the franchisor is entitled to fair compensation for the risk of capital and marketing expertise.

There must, however, be a reasonable approach to cost recovery. The case study evidence reflected on average that the oil company received at least 20% of the gross profit as compensation for capital and expertise. Oil companies own four in ten sites that generate sixty percent of the volume. One can therefore conclude that the best and most productive sites belong to the oil companies. In many case "gold plating" takes place whereby retail sites are build at excessive cost and the oil company seeks to recover this through the rental and franchised income.

It is recommended, based on the EFG case experience, that government conduct an independent review of the rental recoveries as the retail margin is calculated inclusive of the rental recoveries. In other words, government increase of retail margins result in higher monopoly rental recoveries for the oil companies at the expense of the motorist. The franchise fee for non-fuel income was found to be reasonable and incentive based.

7.3.8 RETAILER PROFILE

The case study evidence indicated the degree of uniqueness that exists in the retail industry. The perceptions of service stations as massive cash cow businesses are prevalent and widespread. Many retailers would have chosen other small business sectors had they been well informed at inception.

This perception, although not entirely false, has created false hope in many instances leading to the destruction of confidence and loss of capital. It is recommended that the oil company develop a profile of an ideal franchise retail operator. This could take the shape of a gap analysis model measuring key variables of management, occupational experience and the entrepreneur. Any prospective retailer could then know in advance his or her shortcomings and be pre-skilled in the areas requiring improvement rather than becoming a failure statistic.

The case study information approach is not suitable for profiling such a retailer. Individual oil companies would have a sufficient sample size in their respective networks to prepare such a profile. This objective could be advanced through further research, using a quantitative methodology thus ensuring greater generalization.

7.3.9 MULTIPLE SITE OWNERSHIP

Many franchisors are opposed to individuals owning more than one retail business. The evidence from the case study information shows that a sufficient number of the successful retailers would prefer to expand to other sites. It is recommended that the oil company investigate the possibility of reviewing their policy on multi-site ownership programmes.

The greatest advantage of such an approach would be that retailers would expand their income generating ability to capitalise on opportunities that require the same skills and they could reduce the aggregate costs by rationalising the management structure, as it would enhance general success in the retail sector small businesses.

7.3.10 DEVELOPMENT OF A CASH FLOW MANAGEMENT TOOL

The management of cash flow was found to be a critical success factor. It is recommended that the franchisor consider the case evidence and investigate the possibility of developing a software programme modeled around the current point of sale system that provides a daily cash flow management tool. This would enhance the retailer's ability to manage a critical area of the business and remove unnecessary stress and anxiety that was so strongly communicated in the interview process.

7.3.11 REGULATORY REVIEW

The industry is currently in legislative limbo resulting in exploitation of the small fuel retailer. There are a number of practices in the industry that run contrary to good business practice. It is therefore recommended that government conduct independent research into these practices and seeks to implement a fair and just regulatory regime. The investigation should include the following:

- Rental recoveries
- Delivery and load restrictions
- Training
- Vertical integration breaches
- Possible quarterly petrol price adjustments
- The relaxation of cash on delivery
- Possible consignment stocks

7.3.12 THE NEED FOR FURTHER RESEARCH

This research work was conducted through a qualitative approach limiting the case findings to the subject sites. The findings cannot be generalised to a greater population of service stations in the Republic of South Africa. The case study findings do, however, provide a strong basis for further research work on a quantitative basis as the groundwork has been established through the case study findings. Other researchers could begin with the qualitative finding encompassing the recommendations made above.

7.4 EXEMPLARY CASES

Yin (1990:146-151) recommends that a case study report should be "exemplary." The report attempted to capture this as follows:

- The individual cases were unusual and of general public interest as it presented two issues of current importance. Firstly, funding of black economic empowerment as required by the Liquid Fuels Charter 2000 and secondly, the report processed case study data on the regulative aspects of the industry proposing recommendations for consideration by policy makers;
- A sense of completeness was achieved in that the collection of information and its analysis had reached an analytical periphery – further findings and investigations were of decreasing relevance. The critical pieces of information was collected and analysed and the rival theory proposition that success and failure was a function of turnover was sufficiently dispelled. The collection of data was done over a four-year period during which time the industry was going through a legislative metamorphosis. This enhanced the quality of the study as this research provided another view to the raging debate in the fuel retail industry;
- The design of the case study assisted in dealing with personal bias. Different perspectives were entertained. This included viewpoints from industry stakeholders, government officials and retailers both within and without the case study; and
- The report and its recommendations are engaging in the sense that it represents the actual experiences of a group of retailers. Readers of this

research could compare and contrast their own life experiences against the case evidence.

7.5 CONCLUSION

This chapter presented the case study report. The key findings were presented followed by a set of recommendations. The report summarises the cross case findings and it is hoped that quantitative researchers would expand on and test the findings of this case using the qualitative results as a good starting point. Firstly, the findings were aggregated into a general body of information and then classified into reporting areas followed by the recommendations.

There was sufficient evidence from the research findings to nullify the rival proposition that success and failure of fuel retailers was a function of sales and volumes only. The case study evidence supported the research proposition that the reasons for failure and success were due to factors other than size.

The 47% per annum failure rate recorded in the study was attributed to a number of factors from both within and outside the control of the fuel entrepreneur. While gender, education levels and age were not found to be critical success factors, the ability to manage the key components of target costs was critical. The management of manpower costs and the efficient application thereof was found to be the most significant variable in the cost build up and differentiated successful and failed retailers.

There was also evidence of substantial imposed costs from both the regulatory environment and the franchisor. The monthly adjustment of fuel prices had an impact on working capital and generally resulted in net stock price losses. Both these variables were not factored into the calculation of the retail fuel margin resulting in the understating of the true costs. The loose regulatory environment with outdated legislation also marginalised the fuel retailer.

It was also found that the oil companies optimised their fuel delivery regimes at the expense of the small business owner through the automatic replenishment system of wet stock controlled through a central ordering system. While wet stock control mechanism was in place for the fuel business, the non-fuel business received limited support for stock and shrinkage management.

The franchise agreements reduced the entrepreneur to a worker status in spite of the individual time, capital investment and lifestyle adjustment. The limited lease tenure and exorbitant franchise recovery costs placed an additional burden on the fuel retailer while allowing the franchisor to optimise the benefits of real estate ownership along the value chain.

The case study evidence also supported the retailers view on the inadequate level of business support and training. This was an important finding and negatively influenced the quality of the due diligence checks and business valuation. In many cases, the budgeting was optimistic with little or no recourse for remedial action leading eventual failure.

Finally, the research objectives included an examination of the causes of business decline and to propose a turnaround strategy to create viability and profitability. The primary objective was to identify the reasons for failure and success of fuel retailers and to make recommendations to reduce the failure rate. Predictive financial indicators that herald business decline have been identified together with trends and patterns about management. The study findings correlate with the international findings of the Global Entrepreneurship Monitor (2005:17), where South Africa ranked 25 out of 35 compared to 20 out of 34 in 2004.

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APPENDIX 1

THE CASE HISTORY

RETAILERS FINANCED BY THE ENERGY FINANCE GROUP (EFG)

1. INTRODUCTION

This section provides a brief history of the small business fuel retailers financed by the Energy Finance Group (EFG); the retailers that are the subject of scrutiny in this case study. The history of the EFG as a company, it's functioning, financing methodology and the management of the loan book is provided. The site identification, candidate selection and loan criteria is also discussed. The researcher has obtained express consent to disclose the nature and details of the company and support functions for the purposes of this research. This Appendix will illustrate that each fuel retailer was afforded an equal chance of success and the loan and management of the loan was the same in all circumstances. In spite of this uniformity in approach, almost half the fuel retailers failed.

2. BACKGROUND TO THE ENERGY FINANCE GROUP

The shareholders of EFG were Engen, who owned 40% of the company and appointed one director to the board, Eikos Risk Application owned 10% with no board representation and the balance of the 50% was equally held between five private individuals.

The company was established from a need to fund fuel retailers due to the significant financial barriers that existed for prospective fuel retailers, especially the black economic empowerment retailers. The head office was situated in Derby Downes in Westville and the company employed 40 people in its credit risk, insurance, information technology and operations divisions.

Wholesale funding was obtained from both the Industrial Development Corporation and Gensec bank. The funding was secured against a reinsurance guarantee issued by Hanover Re to the Industrial Development Corporation and Gensec bank. The company had signed agreements to fund Shell, Engen, Caltex and Exel fuel retailers. Based on the respective market shares – this funding arrangement would have applied to 75 % of the fuel retail businesses in South Africa at the time. The case study only covers the Industrial Development Corporation funded loans and not Gensec bank so as to ensure that clear reasons for success and failure amongst the original group of EFG retailers were clearly identified.

The signed agreements allowed EFG to take cession of the shares in the funded companies should a default occur. In other words once a dealer has failed, EFG together with the oil company would appoint a caretaker retailer until another funding arrangement was concluded. This would represent a failed site. The initial loan from the Industrial Development Corporation was R25 Million.

EFG had also secured preferential arrangements with ABSA bank and all funded sites were required to bank with ABSA. A blanket overdraft facility,

against another guarantee of R10 Million issued by Hanover Re was also in place. This meant that EFG funded sites could access working capital facilities from ABSA bank through a special arrangement with EFG.

Only the original loans from the EFG loan book were considered as the funding structure, cost of capital and other material terms differed substantially between the Industrial Development Corporation and Gensec Bank. Actually, the Gensec funding structure could indeed represent another case study profile for a future researcher. The original loans, that are those from the original Industrial Development Corporation loan book, were considered most appropriate as they represented the original and oldest loans on the EFG loan register thus providing a greater amount of data and in the case of successful sites, more meaningful analysis. This criterion was used to include and exclude cases from the multiple case analyses.

3. THE FUNDING MECHANISM

The company was set up in 1999 and began operating in 2000 to provide niche financing to service station entrepreneurs on a cash flow funding basis. EFG raised the capital from the Industrial Development Corporation then on-lent the funds to prospective service station owners at a margin agreed to by the Industrial Development Corporation. Traditionally, loan by financial institutions to small businesses is given on a risk adverse basis by the bank. Small business fuel retailers had to have sufficient collateral to raise loans to purchase a business. This collateral could include property, other liquid assets and in some cases, the funding institution takes an equity stake in the

business. Service stations are franchised businesses and the franchisor or the oil companies concerned own all the physical assets of the business.

This is especially true for service station operators as the only asset that the small business entrepreneur owns is the share in the "goodwill" or brand. All other assets on site, from pumps and tanks, to shop equipment are owned by the oil company. When purchasing a service station, the retailer has simply prepaid for the future cash flows. This claim to the future cash flows is generally for the duration of the franchise agreement. In the EFG case, the lease duration was five years. This means that the loan was a five- year loan.

In other words, the oil company generally grants a five- year lease and the cash flows generated in those five years become the future value of the business. There is no guarantee for perpetuity in the lease conditions although this is not generally a problem.

In some cases, the small business fuel reseller owns the property but these are generally smaller sites that offer limited convenience to the motorist – none of the EFG sites fell into this category. The reasons for failure and success would be the same for either an oil company owned and leased site or for a fuel retailer owned and operated site. This is due to the regulated nature of service stations in South Africa. Profit margins are set by Government and are the same for both categories of service stations.

The EFG funding model used future cash flows as security and lent funds against the future earnings. All loans were paid into a Proprietary limited

company and the shares were ceded to EFG as security and in the case of inability by the fuel reseller to make loan repayments EFG would then exercise its option to take cession of the lease and then appoint a new dealer. The Proprietary limited structures also required that all annual financial statements must be audited. This proved to be useful in this research, as all the subject business had audited financials for the 2002 year. The reason for using the 2002 financials was that at the time of doing the research, most 2003 information was not available. In some cases, where fuel retailers had exited the sites before this date, the last financials were used.

EFG also provided insurance and financial support services to its clients. According to the loan register, the original R25 Million from the IDC was applied to fund the purchase of the following 21 service stations:

THE ORIGINAL LOANS FUNDED BY THE INDUSTRIAL DEVELOPMENT CORPORATION

SFR01	FFR01
SFR02	FFR02
SFR03	FFR03
SFR04	FFR04
SFR05	FFR05
SFR06	FFR06
SFR07	FFR07
SFR08	FFR08
SFR09	FFR09
SFR10	FFR10
	FFR11

Source: EFG Loan Register 2003

4. THE BUSINESS AND RETAILER IDENTIFICATION AND THE LOAN PROCESS

Twenty- one (21) loans were issued from the original IDC batch. There were eight (08) successes and seven (07) failures. Six of the subject sites could not be included for analysis as explained in the later sections. Note the definition of failure provided in section2.3. Failures refers to the "financial inability to continue operating" the business or in this case the inability to service the loan repayment.

The decision to adopt a case study approach is further explained as follows. Willing buyers and sellers transacted and EFG facilitated the funding. The basis of the funding was the use of the future free cash flows as security. The free cash flow generated was determined using historical information and discounted by applying 80% of the free cash flow only.

Once a deal has been identified, EFG risk management staff would conduct a due diligence on the business. This included volume and turnover performance for the last two years, an analysis of the operating expenses, a review of the debtor's age analysis and a trading area analysis. Once the free cash flows have been determined, the numbers are inputted into a standardised EFG valuation model. The model calculates 80% of the free cash flow and multiplies it by a factor ranging from 20-24. A multiple of twenty represented a discount price and a multiple of 24 represented a premium price. This can be illustrated as follows:

Illustration

Valuation of Business

Gross profit	R100 000
Less: Expenses	R 50 000
Free cash flow before tax	R 50 000
Discounted value of business	20 x R50 000 or R1000 000
Premium value of business	24 x R50 000 or R1200 000

The loan repayment for both the cases was calculated at 80% of R50 000 or R40 000. Once the credit committee approves the valuation and an initial interview is conducted with the applicant, from details completed on the EFG application form, then a request is made to the oil company for the approval of the candidate. The oil company, to either approve or decline the candidate then applies the normal process requirements. This involved a panel interview; the preparation and presentation of a business plan and if the candidate is successful to this point, then attendance to a formal training programme is mandatory.

EFG also developed a custom designed risk management programme that all fuel retailers were trained on by the EFG in-house training department. This involved tracking the daily cash flows and expense management. The EFG management accounting team would prepare monthly management accounts and meet with the retailers to implement corrective plans when expenses exceeded the budgets.

The oil company also required a fuel guarantee for at least two hundred thousand rand to cover two fuel drops in case of a returned payment. EFG issued an insurance guarantee to cover this. The following table summarises the loan process:

LOAN AND OIL COMPANY REQUIREMENTS

EFG Loan application	New applicants completes form providing personal and financial details
Site identification	The prospective retailer brings privately negotiated deal to EFG and Oil company
Oil company franchise application	Standard Oil company requirement ensuring credibility and ability checks
Oil company interview and testing	New retailer is subject to testing for "acceptance" as retailer. Retailer then presents business plan to oil company
EFG and fuel retailer due diligence study	EFG and prospective retailer conduct a detailed study of business (Finance, debtors, expenses etc.)
Oil company training course	Retailer then attends the training course at an average cost of R40k on aspects of retailing including safety and security
EFG system training	Retailer trained on specially developed system called BCS (Branch Control system). This provides direct on-line link to EFG of the fuel retailer bank account, daily banking, shift reconciliation, wage reports etc.
Payment of sweat equity	All applicants were required to make a 10% payment
EFG loan valuation model	EFG calculates the "value" of the business using the free cash flow as the basis. In other words, all loans were based on a multiple of free cash flow (20-24). In essence, this means that all loans were subjected to the same valuation formula.
Budgeted Income statement	EFG and retailer agree the expense items for the duration of the five year loan
Fuel guarantees	Oil companies require a fuel guarantee of R200k which is issued through an insurance guarantee from an EFG subsidiary company called Garagesure
Legislative requirements	EFG Management accounting team together will the retailer attended to VAT, tax registration etc
Stock take and working capital requirements	On the day of takeover the wet and dry stock level is verified and the working capital requirements finalised and a facility is provided to the dealer
Insurance and risk management	All other insurance is secured through EFG risk and an operations Risk management team monitors on a daily basis the cash flows
Monitoring and performance	Retailer and EFG meet monthly to review

5. EFG CASES AS EXEMPLARY CASES

The above table illustrates that the funding was done on exactly the same basis for each new business. The loan sizes may have been different depending on the size of the cash flows generated but each entrepreneur had the **same or equal opportunity** to make a success of their small business venture yet many failed. It is this phenomenon that needs to be researched. What are the differentiating factors for success and failure amongst the EFG fuel retailers?

These were all private entrepreneurs who were only required to place a ten percent equity deposit for the acquisition of their fuel outlets. The valuation model used the same methodology for determining the value of the business. If the free cash flow was R50 000 then the value of the business was determined by multiplying the free cash flow by a multiple of 20 to 24. In this example, using the multiple of 20 the value of the business was determined as R1 million. The loan repayments were determined on cash flows and were the same percentage for all funded sites.

It must also be pointed out that EFG had funded sites against cash flows and not only on volumetric performance. In other words free cash flows were used as a decision criteria and not volumes pumped or turnovers recorded.

The overall results of the twenty-four entrepreneurs placed in these businesses are that more than half of them had failed, as per the definition of the failure provided in chapter two. This number is from the loan records of the

company. EFG, in the case of failure would take a cession of the shares, which was held as security, and then refinance a new entrepreneur at the same service station following the same conditions that was applicable to the previous failed entrepreneur. The funding again was based on a due diligence, valuation of the business and the loan had to progress through all the criteria as listed above. It must be pointed out that a particular site may be financed more than once over a period of time thus possibly giving more than one failure. If this happens in the case of say five sites, the number of failure observation would be increased. For the purposes of this research work, such re-financed sites were excluded, as they would have new retailers operating them. Only the original failures were considered.

Only loans issued from 2000 to 2002 was reviewed. The statistics of failure from the same population has convinced the researcher that a case study approach was the best methodology to pursue the research question - the causes of failure and success amongst small businesses in particular small fuel retailers.

This particular phenomena is the basis of the research as to why small business fail or succeed, in this case fuel retailers, given the standardised financing and training provided. Are there other reasons or attributes of the entrepreneurs that triggered success and failure and what are these reasons? The research seeks to identify the reasons for success and failure within a targeted group challenged by similar circumstances.

6. CONCLUSION

This Appendix provided an insight into the case history. Fuel retailers with equal chances of success and failure within a supported environment had different outcomes in terms of success and failure. The ingredients for a good case study analysis are thus presented in the uniformity of the process and standardization of the loans approval requirements. The good split between failure and success – from the actual records also further strengthens the approach adopted.

The background to EFG was also provided together with the loans and management process adopted. All businesses funded from the original Industrial Development were listed and reasons for uniquely qualifying them as part of the multiple case study was also provided. The discussion ends with a qualification of the case study – in that all applicants had an equal chance of success and failure. It is under these circumstances that a detailed in-depth case analysis could be done in pursuance of the research question: what are the reasons for failure and success amongst fuel retailers?

The basis and conditions of the loan was the same in that:

1. Loans were given to private entrepreneurs who were only required to place a 10% equity deposit for a loan repayable over five years;
2. The valuation of the site and due diligence procedures were exactly the same for each fuel retailer;

3. Valuation was a function of free cash flow. In another words the value was determined as a factor of free cash flow. If, for example the profit was R20 000 per month then the value was determined as 20 times the free cash flow (R20 000 x 20 = R400 000);
4. Each of the fuel retailers had undergone the same training courses by the oil company and the finance company covering the same curriculum;
5. Attendance to the training courses was a pre-requisite before taking over the service station business;
6. All the fuel retailers banked at the same commercial bank with same cost of capital;
7. Each fuel retailer was subjected to an interview and had to prepare a business plan for approval by both the oil company and finance company;
8. Each service station business was operated as a proprietary Limited Company and was therefore legally required to conduct statutory audits. This allowed the researcher to use the financial statements for further quantitative analysis to seek support for the qualitative findings;
9. The funding was not based on volumes but on cash flows generated. This disregarded the obvious finding that low volumes will result in failure or high volumes would generate higher successes – indeed a rival theory that success or failure is a function of volumes has been included;

All the loans were issued in 2000 financial year. The total sample will be included for the period as this again negates any externality effects. In other words, all service stations within the observation period would have been

exposed to the same factors such as interest rate shocks (if this occurred), high fuel prices, labour disruptions etc.

APPENDIX 2

TABLE SHELL OF DATA TO BE COLLECTED

A. Background Information	Responses
A1. Marital status	
A2. Age	
A3. Level of education	
A4. Other courses or educational programmes	
A5. Professional membership	
A6. Local dealer council membership	
B. Details of the service station operation	
B1. Trading hours	
B2. Customer offer	
B3. Recommended hours	
B4. Site classification	
B5. Franchisor support	
B6. Employment	
B7. Staff turnover	
B8. Average volumes	
B9. Average non-fuel income	
B10. Computerization	
B11. Computer literacy	
C. Financial information	
C1. Reason for owning service station	
C2. Purchase price of business	
C3. Purchase price includes	

C4. Business valuation	
C5. Fair price	
C6. Funding	
C7. Sweat equity	
C8. Source of private funds	
C9. Effective Interest rate	
C10. Option to fix the interest rate	
C11. Due diligence study	
C12. Due diligence highlights	
D. Occupational information /Previous Experience	
D1. Previous occupation	
D2. Length of time in previous occupation	
D3. Decision for leaving	
D4. Length of time in service station	
D5. Expectations achieved	
D6. Previous service station experience	
D7. Necessity of experience	
D8. Oil company training	
D9. Training curriculum	
D10. Training duration	
D11. Training as precondition	
D12. Refresher training /re-skilling	
D13. Most valuable part of the training	
D14. Opinion on franchise training	
D15. Course as sufficient preparation	

D16. Staff received similar training	
D17. Valuation of franchisor training	
D18. Most important aspect of training	
D19. Most important computer skills	
D20. Level of personal computer skills	
D21. Level of expertise on franchise system	
E. Management information	
E1. General	
E1.1 EFG/oil company requirements	
E1.2 Review of requirements	
E1.3 Hours in workday	
E1.4 Living distance from business	
E1.5 Typical day	
E1.6 Level of personal management	
E2. Finance	
E2.1 Difference between GP and mark-up	
E2.2 Monthly management accounts	
E2.3 Corrective mechanism	
E2.4 Financial skills	
E2.5 Financial analysis	
E2.6 System of cash flow management	
E2.7 Type of cash flow management system	
E2.8 Regular bank reconciliation	
E2.9 Cash book	
E2.10 Franchisor management support	

E2.11 Kind of support from franchisor	
E2.12 Online access to your bank account	
E2.13 Overdraft	
E2.14 Original limit	
E2.15 Plan to reduce the overdraft	
E2.16 Monthly drawing	
E3. Wet Stock	
E3.1 Regular tank dips	
E3.2 Type of wet stock mechanism	
E3.3 Oversight of stock take process	
E3.4 Frequency of wet stock reconciliation	
E3.5 Variance tolerance	
E3.6 Processing of stock discrepancies	
E3.7 Pump and tank reconciliation	
E3.8 Pumps assise	
E3.10 Frequency of fuel drops?	
E3.11 Notable variances for stock receipts	
E4. Dry stock	
E4.1 Frequency	
E4.2 High -value items	
E4.3 Acceptable shrinkage percentage	
E4.4 Source of shrinkage	
E4.5 Physical receive of stock from suppliers	
E4.6 Shrinkage control mechanisms	
E4.7 Rectification if outside the tolerance	

E4.8 Average loss	
E4.9 Franchisor support	
E4.10 Shrinkage control policy	
E5. Cash management	
E5.1 Cash shortages	
E5.2 Acceptable level	
E5.3 Cash deposit fees	
E5.4 Response and reaction	
E5.5 Sufficient insurance	
E5.6 Daily banking	
E5.7 Average banking time	
E6. Controls and administration	
E6.1 Frequency of shift balancing	
E6.2 Who balances shift reports	
E6.3 Recourse when shifts did not balance	
E6.4 How often were price checks done	
E6.5 How often GP's checked	
E6.6 Understanding of markups	
E6.7 Back office administration- frequency	
E6.8 Dry stock analysis (stocks turns etc)	
E6.9 Staff time sheets	
E6.10 Credit card transactions/ reconciliation	
E6.11 Daily payout analysis	
E6.12 Other controls (empty bottles etc)	
E6.13 Who does stock takes	

E6.14 Debtors book	
E6.15 Average collection period	
E6.16 Do you have 1-1 security deposits?	
E6.17 Percentage of credit sales	
E6.18 Average bad debt write-off pa	
E.7 Management information	
E7.1 Monthly financial statements	
E7.2 Financial management tools	
E7.3 VAT reconciliation	
E7.4 Legislative returns	
E7.5 Management of your wage payouts	
E7.6 Number of people employed	
E7.7 Staff organogram/ positions in business	
E7.8 Number of shifts operated	
E7.9 Weekend/ staff shifts reflection of sales patterns	
E7.10 Implications if take you an extended holiday	
E7.11 Time spent on administration	
E7.12 Time spent on business development	
E7.13 Keeping abreast of business issues	
E7.14 Source of information	
E8. Human resource	
E8.1 Staff training/retraining	
E8.2 Type of training	
E8.3 Service providers	
E8.4 Use of the CHIETA learner ships	

E8.5 Staff literacy levels	
E8.6 Programme for staff development	
E8.7 Spend training and development	
E8.8 Retailer work time spend on staff training/development	
F <u>Exogenous Variables</u>	
F1 Exogenous factors that has contributed to your current situation	
F2 Interest rates/economic shocks	
F3 Union activity	
F4 Increase in franchisor costs	
F5 Major shifts in turnover	
F6 Other	
G. <u>General</u>	
G1 Enjoy business	
G2 Exercising option to exit	
G3 Reasons for not exited	
G4 Recommendation to friends	
G5 Expansion to another site	
G6 Expectations	
G7 Opinion on level of franchisor support	
G8 Suggested changes/recommendations to Government, Oil Industry, motorists etc	
G9 Final thoughts	
G10 Copy of research work	

APPENDIX 3

LETTER OF INTRODUCTION

22 June 2004

To whom it may concern,

This short note serves to introduce Mr. R Singh as one of my doctoral students completing research work into the reasons for the failure and success of small businesses with specific reference to fuel retailers in the Republic of South Africa. Ultimately, by means of this case study approach, it is hoped that we would be able to identify and document answers to such questions as: What is it that make some fuel retailers successful and others not – given the fact that fuel retailers operate within a franchised environment and within Government regulation? What can be leant from successful retailers and what can be done to reduce the risk of failure in general?

This letter is directed to the selected EFG fuel retailer. I would like to thank EFG and the different oil companies for their co-operation in this important study. I would also like to thank those individual retailers for their time, experience and patience in responding to the interviews. Your cooperation is most essential if the case studies are to successfully guide and support the final findings of this research. On behalf of the University of Kwa-Zulu Natal Graduate School of Business, I wish to express my gratitude for your assistance. Should you wish to receive the results of this research, the researcher will be glad to make the necessary arrangements.

Yours Faithfully,

Professor A Bhattacharya

Head of school of Entrepreneurship, UKZN

APPENDIX 4

OPEN ENDED QUESTIONNAIRE 1

Respondent Sheet

Service station	Reference
Retailer	
Date of interview Email Telephone	

A. BIOGRAPHICAL INFORMATION

A1. Marital status

A2. Age

A3. Level of education

A4. Other educational programmes undertaken

A5. Professional membership (FRA)

A6. Member of local dealer

B. SERVICE STATION OPERATIONS

B1. Trading hours

B2. Business offer (Car wash, shop, lotto, and fuel pumps, etc.)

B3 Need to be 24 hours

B4. Site classification (urban, rural, CBD, transient)

B5. Franchisor support structure

B6. Number of people employed

B7. Staff turnover/retention period

B8. Average volumes by grade

B9. Non-fuel turnover

B10. Business computerization

B11. Computer system competency

C. **FINANCIAL INFORMATION**

C1. Reason for getting into service station business

C2. Price paid for business

C3. Inclusion of the purchase price

C4. Valuation of business

C5. Fair price?

C6. Business funding

C7. Size of sweat equity

C8. Source of own funds

C9. Interest rate on signing the loan agreement

C10. Option of fixing and floating rates

C11. Die diligence study

C12. Key findings of duel diligence study

D. **OCCUPATIONAL INFORMATION/EXPERIENCE/TRAINING**

D1. Previous occupation

D2. Length of time in previous business/job

D3. Reason for leaving

D4. Length of time in the service station business

D5. Expectation/need for achievement fulfilled

D6. Previous service station experience

D7. Necessity of previous experience

D8. Oil company training

D9. Training curriculum

D10. Duration of training course

D11. Training a pre-requisite

D12. Refresher training after the inception training

D13. Most Valuable part of training

D14. Through practical experience / weakness in training

D15. Training as sufficient preparation

D16. Other members receiving similar training

D17. Other training offered

D18. Franchisor evaluation of training over a period of time

D19. Most important aspect of training in the service station

D21. Competency with computer system

E. **MANAGEMENT FACTORS**

E1. **General**

E1.1 Specific management requirements from EFG or the oil company as pre-requisite to site operation

E1.2 Relevance of management requirements given current situation

E1.3 Time spend on site

E.14 Living distance from site

E1.5 typical day at business

E1.6 management of the entire operation

E2 **Financial management**

E2.1 Difference between GP and mark-up

E2.2 Monthly management accounts

E2.3 Implement of corrective mechanism

E2.5 Analysis of financials

E2.6 Cash flows management

E2.7 Cash flow management system

E2.8 Bank reconciliation

E2.9 Cashbook

E2.10 Franchisor financial management support

E2.11 Kind of financial support from the franchisor

E2.12 Online access to your bank account

E2.13 Overdraft

E2.14 Original limits

E2.15 Plan to reduce the overdraft

E2.16 Monthly drawing

E3 **Wet Stock management**

E3.1 Regular tank dips

E3.2 Wet stock mechanism in place

E3.3 Management of stock take process

E3.4 Frequency of wet stock reconciliation's

E3.5 Average variance accepted

E3.6 Processing stock discrepancies

E3.7 Pump and tank reconciliation

E3.8 Pumps dispensing of correct quantities

E3.10 Frequency of fuel drops

E3.11 Notable variances when stock was received

E4. **Dry stock management**

E4.1 Frequency of stock takes

E4.2 Treatment of high-value items

E4.3 Size of acceptable shrinkage percentage

E4.4 Receiving of stock

E4.5 Shrinkage control mechanisms in place

E4.6 Actions when stock take results out of tolerance

E4.7 Franchisor support

E5. **Cash management**

E5.1 shortages

E5.2 Acceptable levels

E5.3 Cash deposit fees

E5.4 Action taken about bank fees

E5.5 Insurance cover

E5.6 Banking frequency

E6. **Controls and administration**

E6.1 Frequency of shift reports balanced

E6.2 Person responsible for shift balancing

E6.3 Recourse to unbalanced shifts

E6.4 Frequency of price checks

E6.5 Frequency of GP checks

E6.6 Frequency of back office administration

E6.8 Frequency of dry stock analysis

E6.9 Card transaction methodology

E6.10 Daily payout analysis sheet

E6.11 Controls of empty bottles, newspaper etc

E6.12 Total reconciliation

E6.13 Debtors book

E6.14 Collection period?

E6.15 Security (1-1 or other)

E6.16 Percentage of credit sales

E6.17 Average bad debt to date

F. **GENERAL MANAGEMENT INFORMATION**

F1. Monthly financial statements

F2. Financial management tools used

F3. VAT reconciliation

F4. Other legislative returns (Skills levy, UIF)

F5. Management of wage and salary payouts

F6. Number of persons employed

F7. Employee participation in various sections of business

F8. Number of shifts in operation

F9. Weekends/ shift and wage patterns

F10. Extended holiday/implication for business

F11. Time spent on administration

F12. Work time spent on business development

F13. Keeping abreast of business issues

F14. Source of business information

G **HUMAN RESOURCE**

G1. Staff on training

G2. Kind of training

G3. Providers of training

G4. CHIETA Learner ships

G5. Staff literacy

G6. Programmes in place for staff development

G7. Percentage of wage/salary bill spent on training

G8 Personal time spent on training and development

H. **EXOGENOUS VARIABLES**

H1. Exogenous factors that have contributed to your current situation (interest rates, union increases for staff, sharp increases in franchisor costs, major shifts in volumetric performance)

H1. Reason for current situation

I. **GENERAL**

I1. Enjoy this business

I2. Option to exit

I3. Reasons for not exiting sooner

I4. Would you recommend this business to a friend?

I5. Expand to another site

I6. Advice to different stakeholders for the betterment of the fuel retail business (Government, Industry, motorists etc)

I7. Final comments

APPENDIX 5

OPEN ENDED QUESTIONNAIRE TWO

1 WORKING CAPITAL ANALYSIS

1.1 Calculation of original working capital amount

1.2 Inclusion of capital and non capital items

1.3 Consideration for stock turns

1.4 Consideration for fuel price adjustments

1.5 Consideration for no margin increases

APPENDIX 6

CONSOLIDATED FINANCIAL INFORMATION

	FFR01	FFR02	FFR03	FFR04	FFR05	FFR06	FFR07	Average	SFR01	SFR02	SFR03	SFR04	SFR05	SFR06	SFR07	SFR08	Average
Income Statement																	
Sales	15,551,051	33,034,567	16,021,945	15,102,319	4,320,416	15,618,054	20,620,135	17,181,212	14,204,106	13,358,409	4,734,082	27,274,117	14,712,333	5,366,938	4,381,750	12,180,578	12,026,539
Cost of sales	13,772,237	30,420,715	14,296,030	13,677,119	3,976,664	14,411,549	18,783,409	15,619,675	13,069,150	11,701,410	4,222,156	24,043,792	13,475,389	4,712,503	3,998,835	11,138,559	10,795,224
Gross Profit	1,778,814	2,613,852	1,725,915	1,425,200	343,752	1,206,505	1,836,726	1,561,538	1,134,956	1,656,999	511,926	3,230,325	1,236,944	654,435	382,915	1,042,019	1,231,315
Other Income				330	2,763		35,303	5,485	16,524	7,720	56,259		46,474	14	10,129		17,140
Interest				330	2,763		35,303	5,485	481	7,720	9,459		886	14	64		2,328
Sundry income									16,043		46,800		45,588		10,065		14,812
Total Income	1,778,814	2,613,852	1,725,915	1,425,530	346,515	1,206,505	1,872,029	1,567,023	1,151,480	1,664,719	568,185	3,230,325	1,283,418	654,449	393,044	1,042,019	1,248,455
Expenses																	
Accounting fees	18,350	25,049	15,350	18,000	7,500	18,000	21,350	17,657	18,000	19,311		19,606	18,276	18,000	6,000	18,000	14,649
Advertising	20,148	9,596	10,817	85,904	2,517	18,528	11,085	22,656	12,077	5,967	1,054	1,215	1,039	13,655	2,207	2,108	4,915
Amortisation	50,000	77,500	36,750	41,250	10,625	50,000	92,500	51,232	37,500	41,667	17,909	120,000	43,110	22,500	14,375	30,000	40,883
Auditing remuneration	9,350	8,750	8,000	6,750	7,500	8,000	7,800	8,021	6,750	8,750	6,750	8,750	6,916	6,750	3,450	6,750	6,858
Bad debts	10,714	1,738	2,491	48,040		22,779		12,252		84,729	1,450					49,140	16,915
Bank charges	33,261	173,128	69,698	91,430	19,364	78,395	82,001	78,182	25,420	37,229	18,366	155,295	81,963	38,157	9,224	60,050	53,213
Cleaning	8,826	1,385	29,219	16,605	1,256	11,286	15,443	12,003	13,599	3,593	2,375	14,582	3,298	20,168	1,280	7,285	8,273
Computer expenses		20,503	17,963	313	692	3,949	17,123	8,649	632	1,428	392	155	5,510	968		2,586	1,459
Delivery expenses	18,715		12,728	17,935		17,215		9,513	6,645	16,296	9,568	14,797	9,237	1,011	2,543	16,151	9,531
Depreciation	5,186	20,394		12,685	3,490	14,823	13,886	10,063	9,233	3,550	1,025	26,469	4,608	29,303	1,873	10,734	10,849
Directors emoluments	209,338	324,492	148,147	72,579	59,726	158,268	183,082	165,090	128,359	95,072	49,600	149,012	68,443	174,955	36,080	146,626	106,018
Donations	2,496	3,345	500		10	2,399	71,500	11,464	840	3,328	540	875	2,610	5,000	50		1,655
Electricity and water	59,335	135,499	101,185	65,472	15,372	69,236	375,916	117,431	53,745	62,284	27,327	79,676	42,617	54,866	14,739	73,726	51,123
Empowerment fees		35,919					17,342	7,609	31,817	43,365	22,808	61,281		19,500	40,833		27,451
Entertainment	1,138	1,536		780				493	47	2,351	434	263		243	422	58	477
General expenses	34,771	5,606		2,833				6,173	5,814	16,794	619	175		11,467	9,149		5,502
Insurance	26,163	37,408	31,304	31,485	10,534	30,296	27,571	27,823	23,214	24,811	11,328	45,158	28,147	26,309	6,066	28,768	24,225
Interest paid	171,839	289,173	248,768	225,472	28,130	181,003		163,484	120,525	115,174	52,701	313,596	144,319	67,407	63,667	146,620	128,001
Legal expenses	1,500	17,083	5,000		13,960		11,818	7,052	13,184	13,846	14,418	4,264		11,897	12,651		8,783
Levies paid	41,595	54,615	24,821	42,365	6,439	28,473	28,379	32,384	23,307	44,410	11,448	61,226	21,597	38,634	8,461	21,700	28,848
Loan guarantee fees	22,208		37,500		8,400	20,001	74,667	23,254	64,854	40,372	23,050	58,368	20,100	19,525	17,500	32,339	34,514
Loan raising fees	41,567		6,817		4,200		8,400	8,712	8,300	3,717	4,025	1,656	8,982	2,925	8,750	119	4,809
Packaging	6,349	42,293	8,494	6,249	823	23,663	18,555	15,204	2,501	19,138	2,344	19,710	1,892	29,719	1,515	13,531	11,294
Postage	973		356	27	30	77	2,113	511	4	2,065	257	707	220	413	415	212	537
Printing and stationery	14,811	12,128	11,509	7,450	4,378	10,243	20,039	11,508	8,399	7,779	4,634	15,714	5,039	9,825	4,300	5,342	7,629
Protective clothing	3,409	6,109	3,717	2,525	5,975	9,044	7,081	5,409	11,983	13,173	5,811	22,409		11,004	10,088	2,294	9,595
Rentals	439,075	532,343	440,069	376,425	91,705	294,279	499,595	381,927	244,630	356,355	172,280	516,559	200,119	229,813	95,087	283,400	262,280
Repairs and maintenance	31,047	30,485	24,952	9,077	10,118	18,353	35,594	22,804	25,568	21,442	3,952	51,585	15,989	25,466	9,964	12,060	20,753
Risk management fees	53,062	80,167	35,113	62,404	6,889	41,194	75,000	50,547	30,656	23,231	10,062	101,205	41,017	12,919	25,937	38,217	35,406
Salaries		51,104	50,400	720				14,603	35,420	76,323	34,846	65,250		59,535	4,594		34,496
Security	39,769	40,697	28,662	57,896	10,353	19,289	34,692	33,051	23,687	17,618	9,837	31,879	51,888	37,658	4,600	50,257	28,428
Staff welfare	10,928	35,575	21,810	838	7,260	2,744	1,054	11,458	2,315	22,613	936	14,219	3,060	3,280	2,480	2,141	6,381

Subscriptions	2,175	19,664	687	2,198	469	4,785	1,995	4,568	3,270	3,799	541	1,303	2,722	1,751	194	4,035	2,202
Telephone and fax	34,721	51,950	39,852	43,082	9,353	33,374	30,490	34,689	15,631	19,221	10,034	62,487	21,198	27,148	4,612	29,008	23,667
Training	10,271	1,793	800	948	500	2,642	5,588	3,220		4,825	23,117	693		6,377	2,979	3,354	5,168
Wages	383,525	763,243	462,685	460,586	119,223	377,800	626,981	456,292	251,013	461,078	119,723	510,016	268,156	292,377	106,773	374,775	297,989
Total expenses	1,816,615	2,910,270	1,936,164	1,810,303	466,791	1,570,138	2,418,640	1,846,989	1,258,939	1,736,704	675,561	2,550,155	1,122,072	1,330,525	532,858	1,471,386	1,334,775
Net profit before tax	-37,801	-296,418	-210,249	-384,773	-120,276	-363,633	-546,611	-279,966	-107,459	-71,985	-107,376	680,170	161,346	-676,076	-139,814	-429,367	-86,320
Balance Sheet																	
Assets																	
Non Current Assets	955,383	1,621,241	862,618	975,192	483,197	1,125,850	2,045,162	1,152,663	779,319	971,755	734,801	2,604,604	820,731	963,835	1,189,448	751,302	1,101,974
Equipment	13,716	58,069	28,944	27,612	40,472	47,714	64,058	40,084	53,495	11,155	15,038	344,604	8,826	195,779	22,611	28,661	85,021
Intangible assets	941,667	1,375,625	676,812	775,156	414,375	920,833	1,688,125	970,370	712,500	958,333	698,456	2,260,000	811,905	577,500	1,135,625	557,500	963,977
Deferred tax		187,547	156,862	172,424	28,350	157,303	292,979	142,209	13,324	2,267	21,307			190,556	31,212	165,141	52,976
Current Assets	491,851	480,254	512,046	340,445	415,260	504,892	548,495	470,463	551,820	715,826	258,584	1,164,379	264,683	180,992	758,372	123,347	502,250
Inventories	310,618	264,387	197,607	82,848	232,419	208,499	305,718	228,871	322,570	264,639	183,939	299,213	136,607	152,267	280,790	96,317	217,043
Trade and other receivables	180,511	172,690	268,215	155,230	46,217	279,268	205,065	186,742	222,032	179,743	46,488	77,220	124,729	8,402	323,462	16,324	124,800
Bank	722	21,120	9,613		118,134	184		21,396		271,444	20,157	714,486		736	114,310		140,142
Value added tax		22,057	36,611	102,367	18,490	16,941	37,712	33,454	7,218		8,000	73,460	3,347	19,587	39,810	10,706	20,266
Total Assets	1,447,234	2,101,495	1,374,664	1,315,637	898,457	1,630,742	2,593,657	1,623,127	1,331,139	1,687,581	993,385	3,768,983	1,085,414	1,144,827	1,947,820	874,649	1,604,225
Shareholders account and liabilities																	
Shareholders deficit	-75,760	-709,360	-476,072	-639,384	-91,734	-494,770	-888,109	-482,170	-93,755	-69,338	-85,869	446,515	26,110	-485,500	-108,401	-458,190	-103,554
Share capital	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
Accumulated loss	-75,960	-709,560	-476,272	-639,584	-91,934	-494,970	-888,309	-482,370	93,955	-69,538	-86,069	446,315	25,910	-485,700	-108,601	458,390	34,333
Non Current Liabilities																	
Long term borrowings	947,456	1,378,855	1,064,263	757,712	421,584	733,333	2,261,129	1,080,619	739,759	1,275,251	830,927	1,883,673	560,885	681,332	1,590,885	584,921	1,018,454
Current Liabilities	575,538	1,432,000	786,473	1,197,309	568,607	1,392,179	1,220,637	1,024,678	685,135	481,668	248,327	1,438,795	498,419	948,995	465,336	747,918	689,324
Current portion of long term borrowings	297,917	423,958	157,443	343,750	145,354	250,000	386,428	286,407	190,208	176,622	111,488	640,061	285,312	119,139	242,232	235,000	250,008
Trade and other payables	142,413	304,329	96,365	228,730	70,000	281,336	273,662	199,548	123,795	305,046	52,862	522,057	72,396	88,183	223,104	172,615	195,007
Bank overdraft	135,208	703,713	525,615	435,939		596,645	436,837	404,851	371,132		83,977		75,844	741,673		326,053	199,835
Short terms loans payable			7,050	188,890	353,253	264,198	123,710	133,872				276,677	64,867			14,250	44,474
Total shareholder deficit	1,447,234	2,101,495	1,374,664	1,315,637	898,457	1,630,742	2,593,657	1,623,127	1,331,139	1,687,581	993,385	3,768,983	1,085,414	1,144,827	1,947,820	874,649	1,604,225

APPENDIX 7

INTERVIEW DIARY

INTERVIEW TWO – UNSTRUCTURED OPEN ENDED INTERVIEWS

Failed retailers (FFR 01- FFR 07)

FFR 01	16 July 2005
FFR 02	17 July 2005
FFR 03	18 July 2005
FFR 04	01 October 2005
FFR 05	04 October 2005
FFR 06	20 July 2005
FFR 07	06 October 2005

Successful Retailers (SFR 01-08)

SFR 01	15 August 2005
SFR 02	24 July 2005
SFR 03	15 July 2005
SFR 04	26 July 2005
SFR 05	27 July 2005
SFR 06	28 July 2005
SFR 07	22 September 2005
SFR 08	05 October 2005

INTERVIEW THREE

EXPERT THIRD PARTY INTERVIEW

Energy Finance Group

ETPI 1 Mr. Grant Fincham, Financial Director, Durban 18 May 2005

ETPI 2 Mr. Andrew Watson, Director, Durban 19 May 2005

Industrial Development Corporation

ETPI 3 Mr. Abel Malinga, 17 May 2004

Engen Petroleum

ETPI 4 Mr. David Chiat, Area Manager, Engen House Durban 20 May 2005

ETPI 5 Mr. Lenny Chetty, Area Manager, 20 July 2005, Engen House 21May 2005

Fuel Retailers Association

ETPI6 Mr. Peter Morgan, CEO, Johannesburg, 11 November 2005

Government

ETPI7 Mr. T Burger, Director of Petroleum Regulation and Gas, Department of Minerals and Energy, Pretoria, 10 June 2005

Other

ETPI8 Mr. Monison Sookay, Retailer, Durban 22 July 2005

ETPI9 Mr. Colin McClelland, director South African Petroleum Industry Association

APPENDIX 8

FUEL RETAILER COMMENT'S TO CASE STUDY REPORT

Dear,

Kindly find attached a draft copy of the case study report. You would recall at out interview and our consequent discussion that I had promised to send you the draft report. Kindly peruse and comment as you see fit. I would prefer if you use track changes on MS Word, as it would allow me to focus on the areas that you have raised.

How to use Tracked changes:

- Open the document from the email I have sent
- This would be a word document.
- Then go to TOOLS – TRACK CHANGES – HIGHLIGHT CHANGES
- Make sure that all three options are chosen. They are: Track changes while editing, Highlight changes on screen and highlight changes on printed document
- Then email the tracked changed document to me.

If you have difficulty in opening the document or using track changes please email me back and we could through the document together. Your assistance and patience this far is very much appreciated.

Best Wishes,

Manny Singh

APPENDIX 9

DETAILED LISTING OF RECORDS

Electronic files

File name	File location
Consolidated MS Exel spreadsheet AFS	Flash disk1 d:AFS.xls
Interview records	Flash disk2 d:Interviews.doc
Interview 2	Flashdisk2 interview2.doc
Due diligence reports	Flashdisk1 d:DD.xls
"Notes from supplementary readings"	
"legal"	Flash disk 2 d:legal.doc
"Notes from observations	
"operational"	Flash disk 2 d:operations.doc
"Notes from Engen training course	
"financial fundamentals"	Flash disk 2 d: training.doc
Researcher observation notes	Flash disk 2 d:observation.doc

Manual files

Annual Financial statements

Researcher notes from EFG site files and field notes

Voice recordings of interviews

Use digital sequence

Document list

Due diligence report reference

SFR01 – SFR08 Complete loan valuation, due diligence and budget report

FFR01 – FFR07 Complete loan valuation, due diligence and budget report

RRN 01 Researcher reading notes from legal files "legal"

RRN02 Researcher reading notes from observations and site visits "operations"

RRN 03 Researcher notes from review of Engen training course "financial training"

APPENDIX 10

OIL COMPANY TRAINING CURRICULUM

Practical Retailing Skills Programmeme

Week 1 – Service Station

DAY 1 MONDAY 8TH NOVEMBER 2004

Purpose	Duration
Orientation/History	1.00 hours
Retail Market Overview	1.00 hours
Legal's and Rent	2.15 hours
Retail Appearance	1.00 hours
Dealer Councils	1.00 hours

DAY 2 TUESDAY 9TH NOVEMBER 2004

Purpose	Duration
Operating Controls	2.00 hours
Operating Controls	2.15 hours
HSEQ	2.00 hours
Practical Training Briefing	0.15 hours
Practical Duties	3.15 hours

DAY 3 WEDNESDAY 10TH NOVEMBER 2004

Purpose	Duration
Criteria test	0.45 hours
Fuels & Lubes Overview	1.15 hours
Operating Analysis	2.00 hours
Operating Analysis	2.45 hours
Practical Duties	3.15 hours

DAY 4 THURSDAY 11TH NOVEMBER 2004

Purpose	Duration
Criteria Test	1.00hours
Products	1.00 hours
Service Station Structure and Staff Analysis	1.45 hours
Staff Analysis continued	2.30 hours
Engen Brand	1.00 hours
Practical Duties	2.30 hours

DAY 5 FRIDAY 12TH NOVEMBER 2004

Purpose	Duration
Robbery Prevention Awareness	2.00 hours
Managing People	1.30 hours
Managing People	1.45 hours
Managing People	1.30 hours
Managing People	1.30 hours

DAY 6 SATURDAY 13TH NOVEMBER 2004

Purpose	Duration
Labour Relations	3.00 hours
Labour Relations Act Continued	0.45 hours
First week wrap up	0.15 hours

Practical Retailing Skills Programmeme

Week 2 – Convenience

DAY 1 MONDAY 15TH NOVEMBER 2004

Purpose	**Duration**
Introductions	0.30 hours
Convenience Market Overview	1.00 hours
Engen's Marketing Strategy	1.15 hours
Bakery	1.00 hours
Alternate Profit Opportunities	1.00 hours
Practical Duties	4.20 hours

DAY 2 TUESDAY 16TH NOVEMBER 2004

Practical Duties Dealer / Back Office	0.90 hours
Financial Management	2.00 hours
Financial Management	2.45 hours
Financial Management	2.30 hours
Financial Management	0.15 hours
Practical Duties	1.30 hours

DAY 3 WEDNESDAY 17TH NOVEMBER 2004

Practical Duties Dealer / Back Office	1.30 hours
Merchandising	4.30 hours
E Commerce	1.00 hours
CSC Presentation	0.45 hours
Site Visits Merchandising exercise	1.48 hours

DAY 4 THURSDAY 18TH NOVEMBER 2004

Practical Duties Dealer / Back Office	1.30 hours
Purpose	**Duration**
Operational Procedures	2.00 hours
Operational Procedures	2.45 hours
Operational Procedures	1.30 hours
Operational Procedures	0.15 hours
Practical Duties Stock Take	5.00 hours

DAY 5 FRIDAY 19TH NOVEMBER 2004

Purpose	Duration
NACS – Feedback	1.00 hours
Community Involvement	1.00 hours
Dealer Business Plan	1.15 hours
Promotion – Practical	1.00 hours
Promotion – Practical	1.30 hours
Course evaluation & wrap-up	0.30 hours