

**FRANCHISING AS AN OPERATIONAL STRATEGY BY JAVA
RESTAURANTS WITHIN NAIROBI CITY COUNTY**

BY

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DECLARATION

I hereby declare that this Research Report is my own original work and has not been presented by anybody for the award of any degree.

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Approval

This Research Project has been submitted for examination with my approval as university supervisor.

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DEDICATION

First, I wish to dedicate this project to the Almighty God ,my source of strength, wisdom, knowledge, understanding and sufficient grace throughout this program and on his wings I have managed this far. I also dedicate this work to my family and friends who have encouraged me all the way and made sure that I give this project all it takes to finish that which I started.

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ABBREVIATIONS

MNEs: Multinational Enterprises

SMEs: Small and Medium-sized enterprises

CBD: Central Business District

ECP: Emerging Capital Partner

ABSTRACT

Franchising is a business strategy for penetrating in international markets. It is mostly observed in the service and retailing enterprises. Franchising is said to be a distribution of independent business relationship which don't only allows sharing of brand identification but also gives a strong marketing and distribution network. Franchising involves a contract agreement between two participants that is the franchisor and the franchisee. Thus, there is no standard franchising contract. This project focused on Java Restaurants and how they use franchising as an operational strategy which had not been done before. This study therefore was done to fill this gap. The study focused on one major objective: to determine the essence of franchising as an operational strategy by Java restaurants within the Nairobi city county. This was a case study. Primary data was collected through the use of an interview guide. Content analysis was used in cross examining the responses in order to arrive at relevant conclusions. The findings of this study were, Java House adopts the franchise strategy in all its outlets. Franchising as a strategy enables the company to gain competitive advantage in the market by using other strategies like product development, cost leadership, differentiation, market development etc. Market competitiveness is achieved by nature of the product, nature of the market, capacity of the franchisor, capacity of the franchisee and the rules and regulations of the host country. Several respondents reported that they would actually use franchising if they were to start their own businesses, which shows evidence that they are actually in support of franchising as an operational strategy by businesses. However, they cited that there is heavy taxation and procedures in forming the business which poses as the main challenges facing Kenyan franchises. The study also established that strategic training is recommended to top management and all employees in the fast food franchises in order to enhance their performance especially in terms of uniform production.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Franchising has been a concept used as an entry mode by various international participants. This is true as in the case Java restaurant which has its base in Iowa, but which has come up with a number of establishments in Kenya. Tara Cronbaugh being the founder, who first developed coffee passion and the need to open a coffee house. These establishments are mostly concentrated in Nairobi as the capital of Kenya. Java is just one of so many other organizations that have used franchising to boost their brand. According to Kenya commercial country guide (2017), franchising has increased its popularity with brands including; KFC, Pizza Hut, Domino Pizza, Coldstone Creamery, Art café etc. Franchising is also said to be more popular in the hospitality industry, clothing and even in real estate.

Franchising is a business strategy for building a presence in international markets (Bashel,2010). It is a distribution network of independent business relationship that not only allows sharing of brand identification, but also provides a strong marketing and distribution system. Franchising is based on a mutual agreement between two parties that is the franchisor and the franchisee. Companies usually opt for franchising various reasons which include: for easier penetration, to enhance their production, to venture into new markets or to increase their expertise levels (Bashel, 2010). According to Holmes &Lofstrom (2003), franchising has expanded rapidly in the last 5 decades and is estimated to account for more than a third of the world's retail sales.

In recent years, there has been an upsurge of fast food franchises setting up in the Nairobi with the aim of bringing international food quality standards. The market that is growing fastest in Kenya is the middle class comprising of about 2 million people who can be defined as those with high disposable income. Nairobi, Kenya's capital is a cosmopolitan city that is considered to be a market that is a trendsetter for the country.

Using franchising as a platform, Nairobi Java House Limited has managed to stabilize and grow in the competitive hospitality industry by use of some strategies which attracted more customers both Kenyan locals and foreign customers. At first, it aimed to satisfy only the expatriates but as it expanded the focus also changed to attracting the nationals too. It offers extensive breakfast, lunch menu and also dinner with available snacks throughout. It has managed to beat its competitors by its fair prices, standard quality of food and quality service. This has enhanced the growth and stability of the restaurant thus achieving its set corporate goals.

1.1.1 Concept of international business

According to Hill (2008), international business refers the exchange of goods and services, technology, capital and knowledge at a global level. This entails transactions across borders between two or more states. There are three major participants in international business including; the focal firm which is the initiator of international business transaction which entails the MNEs and the SMEs. There is also the distribution channel intermediary as another participant which is a specialist firm providing logistics and marketing services in the international supply chain. Lastly, the facilitator is another participant which provides legal procedures, custom clearance and market research.

Sampson Quain (2018) feels the need to understand the activities that take place in international business that creates attraction of other organizations to enter the industry.

They include; Import/Export, Licensing, Foreign Direct Investment and Joint venture.

International business environment also has factors/forces which can affect business activities both positively and negatively .They is classified into micro and macro depending on the location where the factors exist. They include; Political, Legal, Economic, Socio-cultural, Technological, Natural and Demographic. All these factors are useful to the success of a business in the global markets.

1.1.2 Entry modes in international business

Entry modes are channels in which an organization can use to penetrate and settle into a new foreign market (Root, 1994). These entry modes include; Exporting, Management contracts, Franchising, Joint ventures, wholly owned subsidiary, Mergers, Contract manufacturing. There is no one mode that is universally preferred above others; rather, appropriate entry mode decisions should be made based on careful consideration of the organization's objectives and circumstances. Foreign market entry mode decisions are basically determined by company and target market factors such as: the company's goals, its international experience, resources within and capacities, investment risk, government necessities, socio-political environment, way in to local knowledge and partners and ease of access to capital and other resources.

These modes are used by organizations to help them come up strategies also termed as methods employed in attaining the set targets and objectives. The strategy adopted by an organization is a main pre-determining factor as to whether the organization will prosper or tumble down (Jayabalan,2009).

The strategies enable proper alignment of the available resources so as to maximize the efficiency at the minimal possible cost. In addition, if well-chosen and implemented, the strategy will be able to give the company competitive advantage thus an upper hand against its competitors. Thus the strategy formulation ought to be highly prioritized by any particular management so as to avoid insolvency and collapsing of organizations (Jayabalan, 2009).

1.1.3 Franchising as an entry mode in international business

International franchising involves an agreement done in a contract basis same as licensing, where the franchisor gives its business trademark to the franchisee for transacting its products or services. In exchange, the franchisee gives a token to the franchisor (Malhotra, 2003). The low capital associated with this mode of entry majorly favors SMEs, and is specifically attractive to small and micro enterprises (Wach, 2012). A franchise agreement benefits the franchisee with means to the franchisor's equipment, business plan, training, trademark/brand name, the functioning and management. It also imposes restrictions/guidelines on how the franchisee may use the franchise (Mpfung&Chigwende, 2013). Franchising is said to be at minimal risk and accelerated form of foreign market entry mode since it has already made it in the market.

Franchisee typically has needed knowledge from within hence it allows simultaneous entry to as many global markets. The franchisor is guarded from possible risks associated with foreign market functioning (Mpfung&Chigwende, 2013). However, there are other shortcomings that the franchisor will possibly have to deal with, such as: legal arguments with the franchisee, following up on the achievements of the franchisee, maintaining the

standards of the franchisor's image/brand quality, and the risk of the franchisee becoming a future threat in terms of competition (Wach, 2012).

The interests that comes with franchising are seen to outweigh the attached risks and hence it is the best foreign market entry and growth mode (Hoy & Stanworth, 2003; Cavusgil et al., 2008; Decker, 2013). Well known examples of successful franchises include, Java, KFC, McDonalds, Subway, and Dominos. These brands managed to aggressively expand their operations internationally using the franchise base in a way that no other possible market entry mode would have enhanced their growth and stability.

1.1.4 Fast food industry in Kenya

According to Kwate (2008), the hospitality industry, and in particular fast foods, plays a vital duty in the economy. This is seen through the coming up with opportunities where people are employed in the formal and informal sectors thus boosting the society economy wise. A fast food industry entails restaurants that serve fast foods cuisine and has minimal table service, also known as a quick service restaurant. Fast food is well known because the food is very affordable, easy to get, and very tasty. However, fast food is often made with less costly ingredients like fatty meat, purified grains, and added sugar and fats, instead of nutritious ingredients such as lean meats, whole grains, fresh fruits, and vegetables. They are said to be very affordable and available in that it is easy and fast to order. They are sold in a packaged form for a customer as takeout/takeaway. Popular fast foods restaurants in Nairobi include; Chicken inn, Galitos & KFC (Kwate, 2008).

The success of these firms makes competition struggle as they boast of huge customer fan base, powerful marketing strategies, consistency in quality and service, whereas the new

firms, have anonymity, poor marketing and advertising platforms, weak resource base and international knowledge privy to infiltration in global market.

Established franchises have the resources required for deterring new players from entering the market place such as pricing promotions (Data monitor, 2010). The rise and success of these of these fast food industry, can be attributed to the increase pace of urban population, and need for cheaper and quick options for meals. The population is also driven by the slow and demanding individuals in need of door to door step delivery. According to John (2017), the international fast food market share and trend will increase due to urbanization of the general populace and popularity and easy access, online ordering and emerging economy.

1.1.5 Java restaurants in Nairobi city county

Java House which was initially known as Nairobi java house is a chain of coffee houses it's headquarters at ABC place in Nairobi Kenya. Kevin Ashley and Jon Wagner were the founders of Java Coffee House back in 1999. Java is just one the unique places where one can acquire and enjoy find "export-quality "Kenyan coffee brewed and served in the region. It had its first outlet at Adam's arcade along Ngong road which commenced in 1999. By October 2016, java restaurant grew and expanded to 44 other locations across the country. According to Java CEO Ashley, java brand has grown and recently opened other branches in neighboring Uganda and will soon be targeting Rwanda. In 2012, private equity firm emerging capital partners (ECP) became shareholders in java which enhanced rapid growth and expansion of the business. More stores are opening up in Nairobi and venturing in Kenya as well as planning an entry into Rwanda (NJAGI, 2017).

The java CEO also reported that in the initial days, two thirds of java consumers were not Kenyans and affluent Asians, but currently the outlet mostly attract a Kenyan crowd. Ashley believes that some foreign firms which attempted to do business in Kenya over the last 15 years did not succeed due to the fact that they failed to embrace Kenyans as customers. The foreign companies don't look down on the ability to withstand the economy, but they underrate the Kenyan consumer. Java came up the policy of only African and Kenyan management at every level. Currently it is proud of employing 1,200 African staff with the CEO Ashley as the only non-East Africa. This has contributed significantly to Kenyans embracing the java brand.

Ashley advises that concentrating on the market that is well aware of was among the determinants that promoted the well doing of the coffee chain. In Kenya Java's business is fully ventured in the big city of Nairobi where most of its branches are based. Instead of undertaking risks outside Kenya at the start, java decided to put concentration on the Nairobi market. This action helped to limit management and logistics challenges.

1.2 Research problem

Franchising is a business strategy used to create an existence of a firm in the global market. This is mostly observed in the service and retail industry. Franchising can also be referred to as a network distribution of independent business relationships that provides a strong root for business growth, stability and expansion, but also provides a strong marketing and distribution system as well as sharing a brand identification which, according to Johnson (2005) & Thompson (1989) whichever strategy a firm decides to use, the result is to make it stand out and to attract many customers towards its products and services because of the practicality they perceive it has.

For one thing, buying a franchise lets you start up under fairly safe conditions, with a proven model for running a company and a permanent support team (Johnson et al., 2005, Thompson et al., 1989).

An organization profits from name recognition without having to come up with its outlook in the selling area, and it can be under its self management given it complies with the expectations put by the franchiser. However there are shortcomings. The cost of buying and maintaining a franchise can be giant, and one must get along the franchiser's laws, even when you dispute with them. The franchiser keeps on a huge dispense of authority concerning the franchisees. For instance, if one has a fast-food franchise, the franchise contract will mostly select the food and beverages one should offer; the ways said to keep, assemble, and give out the food; and the prices one will impose. Moreover, the contract will determine how the building will resemble and how they'll be kept (Johnson et al., 2005, Thompson et al., 1989).

Nairobi java house was created in Kenya in 1999, and has been growing and expanding since then around Nairobi city and even in other towns and countries around East Africa. Competition has set in for the last few years where other coffee houses emerged e.g. art café thus giving java a stiff market, but java has maintained its standards and services hence it still has stable market. Due to the encroachment of its market share by other players, Java had to apply some strategies franchising being one of them in order to gain competitive advantage. A study found out that the strategies that Nairobi Java House adopts to achieve competitive advantage include: differentiation, product development, product pricing, market development, market expansion, diversification and cost

leadership strategy. By effectively using franchising as a strategy Java has managed to stand out over and above its rivals in the restaurant industry.

A number of studies have been done to show how franchising has played a role in helping organizations penetrate foreign markets. According to Hackett (1976), companies choose to use franchising as it eases some of the risks that arise from market conditions in the host country. Baena (2012) carried out a study on master franchising as a foreign market entry mode with a focus on the Spanish franchise system. She wanted to determine how market conditions may constraint entry modes choice in the Middle East Nations. The conclusion was that franchising is preferred because it provides the flexibility and economies of scale to worldwide operations. Ruiz (2014), studies franchising: A choice of entrepreneurship in the Honduran fast food industry and concluded that extensive research, flexibility to accommodate cultural differences and a well training program would result to success of fast food franchises. The conclusions drawn from these studies cannot be applied to other parts of the world without further research because market conditions differ in different parts of the world.

Locally, a number of studies have been conducted on franchising as well. Achola (2016), researched about franchising as a market entry strategy by Kentucky fried chicken into Kenya. The objective of the study was to establish the factors that influence the application of franchising as an entry strategy by KFC, which she explained how franchising as a strategy enables a company to gain competitive advantage. Bumbua Ndeto (2013) did a research on the factors affecting the performance of franchisees in the fast food industry in Kenya, which he dealt with both external and internal factors that affect performance of franchises in Kenya. Gitonga (2003) did a

study on the application of Porter's generic strategies framework in the hospitality establishments in Nairobi.

Although so much research has been done in the fast food industry and hospitality as well in Kenya, none seem to have focused on franchising being an operational strategy by restaurants that have enabled organizations like java to grow and stabilize in the market, hence this project therefore aims to answer the question; what is the essence of using franchising as an operational strategy by Java hotels in Kenya?

1.3 Research Objective

The objective of this study was to determine the essence of franchising as an operational strategy by java restaurants within Nairobi City County.

1.4 Value of the study

This study will generate useful information for the government and other players which may be used to make policies that are beneficial to all players in the hotel industry. The government will also address and improve on the existing policies and lapses in rules and regulations that pertain to hotel industry.

This will be a market intelligence case study which could benefit hotel service providers to understand the main strategy that helped in the growth and stability of Java hotels in Kenya. This will also assist the companies to improve on the required product attributes and market positioning.

Scholars and researchers with a similar field of study would benefit greatly from the findings which can help them to further their research. Empirical testing and generalizability of study will be done by the researchers and further theories formulated

in research based on the data collected. The research could provide a useful frame work for future research regarding more strategies to boost the hotel industry.

The study will also provide opportunity to Java hotels service providers to monitor and evaluate their services and those of their competitors in order to continue benefiting from the competitive advantage.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter reviewed existing literature on franchising as an operational strategy by fast food organizations. It also reviewed on theories that aim to explain international franchising concept.

2.2 Theoretical foundation

This section presented the theoretical foundation and review of the study. There are several theories that explain franchising. However, this study focused on two theories including; the Agency theory and the Resource Scarcity theory.

2.2.1 The Agency Theory

This theory is among the many that explain franchising. It is based on the concept where an organization is hired by one firm to give a service. In this scenario, the firm acts as the franchisor and the organization represents the franchisee. This showcases the aspect of principle and agent relationship. It is termed as an agency relationship because the (agent) is authorized by the (principle) to carry out some tasks on its behalf (Fatma&Jensen, 1983). This theory has an assumption that the principle (franchisor) and the agent (franchisee) have different desires thus making the relationship a success. This means that there will be no competing motives. Franchising puts into place the interests of the principle(franchisor) and the agent(franchisee) which means that there would be no much need to closely monitor a greater likelihood for high performance from the agent(Lafontaine,1992)

The incentive for the franchisor is the management fee/royalty that comes out of the relationship being successful. For the franchisee, the business needs to be profitable due to the capital and skill input. The franchising concept brings in a fact that there is minimal need for the franchisor to follow up on the franchisee as the franchisee has direct interest in the well doing of the business. The franchisee has already exposed itself to the possible risks by provision of capital and royalty fees. The franchisor also benefits as its risks are reduced as it would be the responsibility of the franchisee in case any profits or losses occur in the business (Lafontaine, 1992).

2.2.2 The Resource Scarcity Theory

This theory states that some companies use franchising as an operational strategy and a way to secure capital for business which in this case it's gotten from the franchisee. Some companies result to turning into franchising as a way of getting capital for business (Oxenfeldt&Kelly,1968).The franchising representation expects that the franchisee pay a certain fixed amount of fee as initial capital to be part of that franchise and an agreed royalty fee after in return for the support offered by the franchisor. This theory thus refers franchising as a strategy for business growth, a way in which an organization can use to minimize financial struggles and also how it can deal with challenges in management (Carney &Gedajlovic, 1991).

The resource scarcity theory also suggests that franchising is adopted as an operation strategy as it fills the gap of awareness of the market and experience in the foreign markets. There are certain resources that need to be focused on if a firm wants to grow and develop in the foreign markets, these include; acquiring quality management, knowledge of the local market and capital (Khan, 2014).The franchisor is able to benefit

from the local market knowledge and experience that the franchisee has about the new market. Franchisees are basically firms that have operational experience in the host country thus they have considerable awareness of the environment of the business which makes it easier for them to adapt easily. This is one main area that the franchisor lacks. The franchisor and the franchisee have a mutual relationship and the franchisee basically contributes the market knowledge (Cate & Murphy, 1976). In exchange, the franchisee gets the brand, tools and support needed to put up the franchise in the host country.

Various franchising studies have also summarized that franchising reduces the period a franchisor would use in choosing outlet managers and other aspects of human resources (Oxenfeldt & Kelly, 1968). This theory has a few limitations as many specialists put across that it's only a temporary solution to scarce resources in the new markets.

Analysis of the scarcity resources states that, after many years, when the outlets no longer have capital issues and have proper awareness of the local market, they will embark on their previous way of fully owning and running the companies (Oxenfeldt & Kelly, 1968). This is however countered by the fact that if franchising was simply a method to overcome financial challenges, then several franchisors like Java houses, KFC, MacDonalds would have withdrawn their assets from their franchisees but this has not been the case since most franchisors have long term agreements with their franchisees.

2.4 Franchising as an operational strategy

An operational strategy involves a detailed plan which sets forth objectives, goals, plans, resources and policies that will guide the activities of international business (Root, 1994). Organizations should be aware of the importance of setting the right strategies to enable it

penetrate and stabilize in the international markets. A strategy a company uses has a major effect on the organization as it can also destroy it. Some aspects a company uses like permits needed and resource required are used to determine which strategy to use in this case, franchising (Alon, 2006).

There are several quality indicators for success and excellence of franchise business which include; The ability to innovate the product or the manufacturing process, a central quality of customer service which can attract high competitive advantage, a high level of quality service that can point out a different and innovative use of the product to the customer, ability to stimulate new behaviors and can increase market demand. It is important for franchises to follow the total quality principles, (Paola Orlandini, 2013)

2.4.1 The essence of franchising as an operational strategy

Franchising is seen as a way of establishing business growth and it is majorly channeled towards helping companies leverage their expansion. Franchising is about giving assistance to companies which have inadequate capital resources. According to Mark Siebert (2005), companies choose to franchise rather than buying the company because, it is a huge challenge to come up with a successful set up for business, franchisors expand easily due to the establishment of a head start in the market and also existing franchise companies attract candidates quickly because they have a demonstration in the market already for the sale of their franchises. Franchising offers a long term commercial relationship in which the company (franchisor) offers the right to use their brand and company design, reputation and technologies. The franchisee also owns the company and invests in it which will pay an agreed amount in return. This benefits an organization in growth and stability.

In addition, Rick Grossmann (2016) explains that, franchise companies give a structure for starting up, running and growing a business. Indeed, a successful franchisor will give the entire framework in which the business was built. Franchisors normally come up with detailed operations manuals and training programs for their franchise owners that cover marketing, operations, accounting, technology and other areas that are particular to the business model. These efficiencies are designed to enable franchise owners to earn more and spend less time and effort than otherwise would be required to open and operate a similar business on their own.

There are primary benefits for most companies penetrating the franchising environment which include; capital, quick growth, good management and risk reduction. (Mark Siebert, 2015). It is easy for a company to establish itself without fear of such factors as someone has already worked on establishing and developing a good reliable system and probably the risks have already been taken care of. For a franchisee like Java restaurant, enjoy the support given by the franchisor in training, setting up of the business, using its well-known trademarks and brand names, a manual explaining on how to run the business, advertising and promotions already done so the risk of the business not developing is too low.

Franchising can also be beneficial to a manager who wants a loan to boost the business; it's easier connecting to a bank as they like associating themselves with big brands, the franchisor. However, Fran City (2015) points out a setback on the franchisors that developing network for franchise is quite costly in terms of capital and time management, and also recovering of investment takes time as franchisees have to be waited to give back the agreed amount as returns.

To the franchisee, it doesn't get to enjoy the profits alone as they have to be shared with the franchisor; also it's very hard to make changes to the business to respond to the market or growing of the business because a franchise is not flexible by nature.

2.5 Empirical studies

A couple of studies have been carried out on franchising in the hotel industry which include; Eisenhardt (1994) who studied the effect of franchising on the fast food industry. This study concluded that franchising has a major role in making an Organization achieve its competitive advantage in the hotel industry.

Contrary to that, Dennis & MacConnel (2003), did a study and discovered that the right selection of an entry mode to the foreign market is very important in changing the fast food sector. According to Walton-Roberts & Hierbert, (1997) the role of franchising in managing business among Indo-Canadian entrepreneurs supported the fact that the use of technology and internationalization are the main factors of the growth and stability of franchise business.

In addition, factors affecting franchises in the hotel industry in the United States was another research conducted by Wheeler (2006). The outcome of this study showed that the government regulations and bureaucracies are the major challenges facing the growth of franchises in the United States. Capital cost was discovered not to be a challenge.

According to Banerjee & Duflo (2008), franchises around the world have gained strength in the 21st century because of people's urge for entrepreneurship and the ability to form a franchise. They stated that most franchisees run activities mostly because of the low capital requirements and the goodwill associated with renowned brand names.

Factors affecting the performance of franchises in the fast food industry in Kenya was a study done by MumbuaNdeto. In conclusion, the study looked at product/service of the firm, firm networks, country risk in terms of political/economical, market size and competition intensity as the factors that mainly affect franchise performance (MumbuaNdeto, 2013).

Mary Achola (2016) tackled a research on franchising as a market entry strategy by Kentucky Fried Chicken in Kenya. She found out that franchising was the best model of international business entry by KFC, however some challenges were discovered which include; the high fee imposed by the Kenyan government in form of tax and other legal requirements.

The influence of competitive advantage strategies of performance of international fast food franchises in Kenya was another study conducted by (Wendy,2017) She concluded that cost factors affect the performance of the organization in terms of revenue, customer satisfaction and competitiveness of the organization.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used for this study. It highlights the research design, data collection method and data analysis.

3.2 Research design

The study used a case a study as its research design. According to Cooper and Schindler (2016), a case study is a powerful research methodology that combines individual and sometimes group interviews with record analysis and observation. It is used to understand events and their ramifications and processes. Mugenda and Mugenda (1999) describe a case study as an in-depth investigation of an individual, group, institution or phenomenon. A case study approach is suitable to determine the essence of franchising as an operational strategy by java restaurants.

3.3 Data collection

The qualitative nature of the study was based on primary and secondary data so as to obtain all the relevant information. (Mugenda and Mugenda, 2008) refers primary data as particulars the researcher collects from respondents while secondary data are facts collected from other sources like records and documents. The primary data was collected from top management including; the procurement manager, the food and beverage manager, the human resource manager, the brand manager, the roastery manager and the branch manager at the head quarters, ABC place Nairobi. Secondary data was obtained from the previous industry reports and online journals.

The study used an interview guide to collect the primary data which was performed through personal interviews to all the respondents. Further investigation was also done to get additional information when presiding over the interview guide.

3.4 Data analysis

Data analysis refers to the process that begins as soon as data is collected and ends at interpretation stage (Kothari, 2004). The type of data that was collected for the study was qualitative nature and therefore was analyzed using content analysis. According to Nachmias and Nachmias (1976) content analysis is a system where the content of the text develops the root for getting the inferences and conclusions in regard to the content. Berelson (1971) refers content analysis as a finding for the objective, systematic and quantitative description of manifest content of communications. It measures the semantic content in response to open-ended questions.

Content analysis was used to make analysis of the in-depth qualitative data that was collected through the interview guide to gain the goals of the study through description and classification of the facts brought about by the study and the responses from the respondents. This involved a thorough analysis of the data collected from the respondents and systematically and objectively identify particular and common information that was related to the occurring trends. It was also used to explain the phenomena and how the concepts relate with each other as indicated from responses from the interview guide.

CHAPTER FOUR: DATA ANALYSIS, RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The study aimed at explaining the research question: What is the essence of franchising as an operational strategy by java restaurants within Nairobi city county? The study used a case study research design so as to have a clear in-depth understanding of the objectives.

From the data collected, java restaurants are all under the management of Java House which is seen to operate in a very competitive environment and thus having several other players competing for the same market and resources. The study showed that the company engages mainly in franchising as an operational strategy which has had a huge impact in making the it successful and stable. As stated above, franchising not only allows sharing of brand identification but also provides strong marketing and distribution system. As a franchise basically, it had to employ some major strategies to be used in the outlets which entail; product differentiation, product development, product pricing, market development, market expansion, cost leadership.

4.2 Java restaurants environment

There has been no significant change in terms of innovation in the restaurant industry in Kenya, but it is evident that there has been transformation and change in the customer base, service levels, and food quality. The customers notorious in the restaurant industry are the middle class earners, who demand for higher standards from the industry in terms of food and service for value for money.

The customer expectations and demands have transformed the industry such that the industry players are called more to deal with customer needs as opposed to the customer taking what is offered to them.

The industry has been changed by more and more people opting for restaurants for various other reasons which include but not limited to; working away from home, fast lives that limit a chance to make a home cooked meal and increased disposable income which increases the spending power. These reasons have led to the change of the industry as having restaurants as a convenience to many as opposed to a reservation for the rich.

The industry has experienced competition in different levels for the different players. The restaurant industry is divided into four unspoken and unidentified categories which serve different clientele and thus getting competition in the different levels. These levels include; fine dining which is said to be for the high class and its usually high priced, the casual dining level which is considered to be for the middle class as it has achievable prices, the fast food level which is also said to be for the middle class and the kiosk level which is said to be for all. Java restaurants are categorized at the casual dining level which competes on different levels that can earn an edge for any player. These include; food quality, great service, product consistency and affordable great experience. This category entails restaurants that compete on the platform of an experience package.

Java restaurants receive direct competition from other restaurants on different levels. They include; Dormans Coffee House where coffee beans and coffee drinks are concerned but not on other offers. Art café is another major competitor, it offers breakfast, lunch and dinner menu, coffee beans and drinks and an ultimate experience

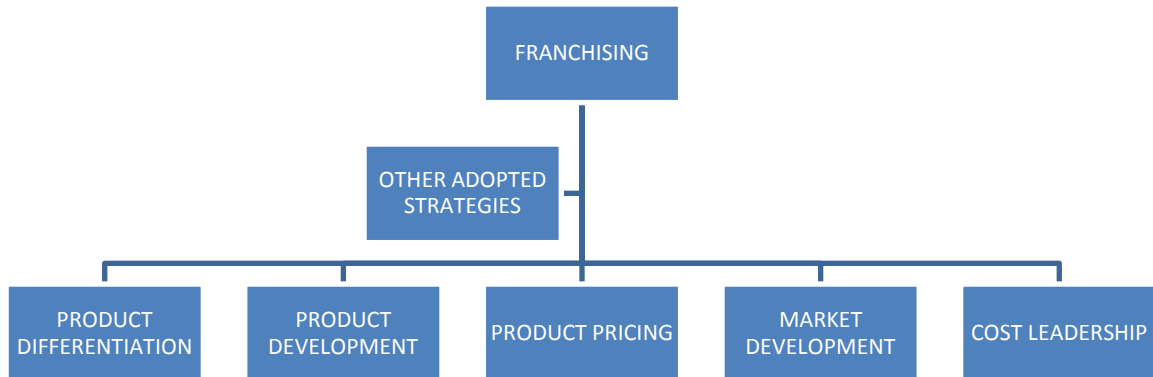
just as Java House does. However, the prices at Art café are higher than those at Java House thus giving it an advantage.

4.3 Franchising as an operational strategy adopted by java restaurants

Java restaurants have positioned themselves by using franchising as an operational strategy in terms of branding, product pricing, and product offering that fully meet the expectations of the target market and understanding customer needs. The company has also considered itself as very fast growing and thus plans for extension and opening new outlets outside Nairobi and ensuring that there is consistency and usage of local suppliers for most of their products and materials.

Java House has managed to maintain its consistency of its products as it source for the best raw materials and has a maintained a good relationship with its suppliers. It has done this by ensuring timely payment of the supplies. This has gained the company a mileage with the suppliers of goods and thus is able to access even scarce products as a priority company, and has even allowed suppliers to trust and offer goods even on credit terms if need be. Being a franchise therefore, the company has adopted some strategies that has made it stand out in the competitive environment which has led to its success. They include; differentiation, product development, product pricing, market development, market expansion, and cost leadership.

Figure 4.1: Franchising adopted strategies by java restaurants



Source: Researcher, 2018

4.3.1 Product differentiation strategy

In reference to the brand manager, branding is a key important aspect for any company such as Java House which operates as a franchise. They have appreciated that branding is not the company logo or even the company products but that which creates a difference between you and others. Java House has branded itself as a package offered to their customers. According to him, branding is really what your customers and others know about you.

Java House prides itself on its products and not just the coffee as it's widely recognized for but it chooses the best coffee from its suppliers to ensure that the customers get the best in terms of its products and buys the best local raw materials for all its menu dishes. This ensures consistency in what the customers get that is reliable and that has value for their money.

The company therefore offers a package that presents itself as home away from home in the restaurant, a destination for a whole family meal, and a meeting place both for business and pleasure.

Java House has recognized that brand is about people, how they feel and the value they get. It has therefore invested a lot to get the package that it presents to the customers through how the restaurants looks like physically, great décor to create a warm natural feeling from art that is locally made which raises the ambience of each outlet with or without an outside sitting, locally available raw materials for their products, competitive salaries for their staff which brings in loyalty for there is no exploitation and that the staff are passionate about their jobs thus giving the best services, it invests in time to go to coffee sellers and select the best coffee berries and raw materials for the best products and it has tagged fair prices on the products.

Java House also recognizes the clientele it attracts is well versed with the current technology and thus in 90% of the outlets they have the WIFI internet connection at no extra cost. Thus it ensures that a wide variety of customers who may be in need of internet can visit the restaurant, eat, feel at home and work at the same time. These services attract customers as they know what to expect when they get to any Java House outlet, standard food quality, good service, fair prices, internet connection. All these services are found in all outlets thus giving Java House a preference by customers. Some competitors serve alcohol thus losing the family set up, some offer good food but poor service. This has helped Java stand out by its standard way of operations.

4.3.2 Product development strategy

According to the food and beverage manager, java restaurants try as much as possible to offer healthy menu that's why after every six months the menu is revised ,some products are removed, others are added while others are re- introduced from the old times. The company always listens to its customers and try as much as possible to satisfy their needs in the best way possible.

For a healthy image, the company has oftenly changed its offering like ensuring that they use healthy ingredients like the deep fried products, which are usually done using sunflower oil which is cholesterol free, it also offers fruit salad in its menu for those who would wish to substitute with french fries, it has also managed to increase variety of green salads over time. This product developments or changes are done mostly when the customer preferences change or they get a complaint so they try out something in the recipe or change it a little to give a better product. Some products don't sell so they end up being removed completely, sometimes new customers in the market requesting for a different product, also a positive or negative response to a product influences product development.

Java restaurants have the popularity index which they use to gauge which products sell the most and which ones sell the lowest. This helps them know exactly which products to remove from the menu and which ones to add or adjust. They also use the guest comment review to see which products the customers enjoy the most to avoid removing such products from the menu.

4.3.3 Product pricing strategy

Java restaurants are said to be casual dining restaurants thus keep their prices affordable mainly to the target market which is the middle class. This ensures that anyone from the middle class going up is capable of dining at java restaurants. This is because of the world class quality of food and service thus accommodating all. The company has ensured a customer sees their value for money for the package they offer especially through the extras given.

According to the human resources, when Java House is set side by side to market requirements in terms of money, it looks at competitor prices so that they manage to put their prices somewhere under them and as well put the value the bundle they give as a guide as well as raw materials, overhead costs, worker's returns and cost of goods sold. They ensure no aspects of the package is compromised and thus charge fairly on best quality in the industry, passion for what they sell and reasonable positioning .The industry competitors end up being higher in pricing between 5-20%.

4.3.4 Market development strategy

The middle class are always said to be the market influencers or the economy influencers but they usually have a challenging taste for the restaurant industry. If a company is able to meet their needs, it never fails. They are known for trying out new things and thus can be a major success point for any restaurant business. Java House has been in existence for 19 years now and it targets the middle class which is a growing economic class in Kenya. It is literally taking over the Kenyan economy and growing steadily day by day. This is the target market that is ready to spend and is constantly going to spend time and feed outside.

The company therefore has always been ready to take care of this market and thus goes further squeezing the margins a bit in case there is encroachment of market share by competitors. The company having a middle class as its main target, has ensured that the menu is capable of taking care of their customers entirely and thus the aspect of new market development.

The company's management has come up with a main menu that mostly takes care of the adult customers but has also with time come up with a kid's menu which ensure that the kids are well factored in especially in the portions that they are served, the food is also child friendly. While waiting for food to be ready and served, the kids are provided with coloring pens to color on the menu page with the different provided shapes and it also has puzzles which keeps the children busy as they wait. This has ensured that customers with children feel comfortable as their children are taken care of.

4.3.5 Cost leadership strategy

As stated by the procurement manager, the company sources for the best suppliers and those that they can negotiate prices especially for the raw materials. This ensures the prices of the final products by the company are kept affordable for the target market and below those of the competitors.

Since the company looks to provide the customers more value for their money by putting together good to excellent product characteristics at a low prices than its competitors, they aim to get the lowest costs and prices as seen with the competitors giving goods with comparable attributes, thus the need for cost leadership.

The company goes ahead to offer best services and includes extras like the WIFI internet access, great décor to enhance the ambience, homely family feeling and thus creating a value for money experience.

4.4 Ability to access factors of production

In relation to accessing some factors of production, Java House seeks to be situated in buildings where they can manipulate the space to have the company required look. This therefore means that they target malls and shopping centers mostly as they are coming up. It is usually very challenging to acquire space at the Nairobi Central Business District but Java House was privileged enough to have a few outlets. There are still more offers everywhere else around the city to be taken advantage of. The management is therefore tasked to either take the space or not. Mostly, the management will assess the business feasibility in an area, survey the area and ultimately make the decision of whether or not to take the offer. Due to the famous brand appearance there are many skilled people who look to work for the company and thus in terms of labor, the company is well catered for and easily recruits skilled and unskilled staff to train internally.

The company has been surviving by ensuring that the profits made by existing branches are well distributed and thus taking care of capital to start up more outlets. Moreover, the business got an investment offer in 2012 by an American Group by the name Emerging Capital Partners and this has been a major boost for the business which gave the management the motive of building at least two branches every quarter a year with the aim to go outside Nairobi.

4.5 Challenges faced by java restaurants using franchising as a strategy

There are some challenges that Java House is facing as a franchise; lack of staff training and growth is one of them which slows down the performance of java restaurants. Among the current staff, half of them are those that have been with the company for many years. These have grown through the years and the system and thus by now have gotten to a point of no more growth. Training such staff becomes a difficult task since they are not necessarily open to change yet the company's management is constantly involved in product development. These staff members seem to be dragged along into the future by the company, yet their personal growth seems to have stopped and therefore affect their performance which ultimately affects the customers' experience .

Secondly, there seem to be other restaurants opening around java restaurants and targeting the same market which poses a huge challenge. This sometimes happen whereby the new restaurants open so close to the company's outlet and fix lower prices. This causes a split of market share and a down trend on business as some customers always prefer low cost products which are almost the same as the one offered at the other restaurant. As the management of the company tries to do market development, the new restaurant stands in the gap of expansion hence posing a challenge of making new market and also making the existing market smaller.

Another challenge is consistency of products across all the outlets. Being a franchise, the company has to have all its outlets selling the same products, having the same menus including the ones outside Nairobi. This means that the customers expect same products in all of them in terms of prices and taste.

This affects brand positioning and the management has to ensure that the brand details are well adhered to, to avoid having difference across the different outlets.

4.6 Measures to counter the challenges faced

Java House has put in measures to manage and counter the challenges it goes through in the industry. The company managed to undertake investment to bring on board training programs and put aside a training budget for all staff but especially the staff whose performance was recorded in any performance review as poor. This ensures that all staff who are not growth oriented are given a knowledge challenge. This also ensures that all the time, the company is able to implement product development strategy with ease by the fact that all staff are trainable and the implementation of a new product would always turn out perfect and as expected.

The challenge brought by the new restaurants opening around Java House outlets, has been countered by having the staff treat customers as kings. Market share encroachment means that there is little business hence the outlet is not busy. According to the human resources, the staff ensures that since there is less work, they give the best service and food quality. This leads to the maintenance of the brand as it is known and help up high by many. This being the case, the customers who could have left to try other restaurant brands come back.

The challenge of keeping consistency on food, beverage and service in check across all the outlets, has been countered by ensuring that the staff are constantly trained in order to ensure the food, beverage and service are not compromised at any point. The management has also come up with the idea of processing the products at a common

place to ensure common feeling and look then they are distributed to the outlets, the only thing the outlets do is to finish the cooking process on order. This also ensures that the suppliers deliver at one place and thus all the products are the same since the supplier of each product is one. The management has developed a good relationship with several other suppliers so that if one fails, the company has a fall back plan.

4.7 Discussion of research findings

Java House has managed to conquer the market by using franchising as an operational strategy as explained in the study. However, the company had to adopt other strategies which were made effect in all the outlets thus its product consistency, standard food quality and best service.

It is very evident that that Java House adopted Porter's cost leadership strategy as well as differentiation strategy. According to Porter (1980) a company that uses cost leadership strategy ensures they produce at the lowest cost than competitors and minimizes costs of every element of the value chain. Java House is seen to import machine but fabricate them from the country to ensure that the costs are not going over and above by having the import companies fabricate the machines since they already have major cost on importation. The company does not fully rely on cost leadership as a strategy since this would not work fully as they do not offer standard products which have little differentiation as what happens in large businesses as stated by Robinson et al (1997).

The company therefore adopted differentiation as another strategy. This strategy as explained by Porter (1985) requires an organization to have effective upper hand that will enable it to give buyers or customers with an item uniquely profitable to them. With

differentiation, a company is able to give a good or service of seen of higher value to the customers with a premium price. Java house has used this strategy as the needs and preferences of its customers are diverse and thus cannot be met by a standard product. This is seen by the way the company has not just provided its customers with their products but have gone ahead and created a home away from home environment in their restaurants through their décor that brings in the ambience and tranquility.

Java House also engages Ansoff's product development strategy. It entails meaningful change of existing or coming up of new but complementing goods to be sold to existing customers, through already successful channel. It is well used in the company as we see how it changes the menu every six months. According to food and beverage manager, the company engages in product development especially from the information they get from the customers on product change or modification desired. To meet this customer need, every time the menu is changed, new menu items are introduced and others are modified.

The company from the results of the study prices its products to an affordable level by its target market which is the middle class. The company management ensures they offer a package as opposed to a product that spells out the value of money. In this case, as per Porter's cost leadership and differentiation strategies, the company ensures that it offers the best products as premium prices in the industry. To set their prices, they observe the cost of raw materials, overhead costs, staff salaries, cost of goods sold, and most importantly the competitor's prices. These prices ensures that they set their prices well enough to make a profit but below the rivals to win the market share. Franchising ensures that all the price play outs are made effective in all the outlets.

The company also made use of Pearson and Robinson (2006) market development. As seen in the study, in times of market encroachment by competitors the management is ready to squeeze the margins to be able to take care of its customers and keep them. This move usually earn the company more customers as the company highly depends on word of mouth advertisement and with such experiences, the existing customers end up bringing others. The company therefore market the existing product very well to the existing customers who end up becoming a channel of advertising and distribution and thus market development.

Java house using franchising as an operational strategy enabled the organization to stay in line with its goals thus all the outlets growing together, making profits that adds on the company capital to enable it open new outlets. However, Java House does not seem to have been faced by the challenges of inertia as hills and jones (2001) puts it and therefore is able to take care of this challenge. A company is said to be faced by inertia when it finds it difficult to change its strategies and structures in order to adapt to the ever changing environment.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the results of the research objectives outlined in the first chapter of the study. The section also covers the summary of the answers to the research question, conclusion of the study and recommendations. This chapter also suggests areas for further research.

5.2 Summary

The objective of the study was to determine the essence of franchising as an operational strategy by Java restaurants in Kenya. The study found out that franchising has boosted the growth and expansion of the company in the country due to the operations that all the outlets must adhere to. This is in terms of branding, product development, market development, pricing, among others. All these have led to standard food quality, best service and affordable prices which make Java restaurants stand out in the market.

The respondents admitted that their brand name sells a lot hence they have no choice other than to offer the best. They said that they have other players who serve the same meals as they do ie breakfast, lunch and dinner but they feel it is not just about the food and beverage one is served as a customer, but more of the experience that goes with the services, ambience, tranquility and value for the money. Consistency in all these result to customer loyalty and word of mouth advertisement.

In regard to franchising as an operational strategy, the respondents mentioned that the company has branded itself in a unique way as compared to other franchises which has given it leverage. It was observed that the company relies so much on word of mouth

advertisement and therefore when a new outlet is opened in whichever area, it already has a market hence no need for other ways of creating awareness. The company is also well known for its best quality coffee but has diversified into food and beverage as well as desserts. The set up of their restaurants and décor is appealing, the ambience inviting and tranquility capturing. If you visit any outlet the feeling is exactly the same hence making it a preference by many customers. Going to a new place and trying out a new restaurant is a bit uneasy as opposed to going to the one you know.

Java restaurants have their mission set to ensure that customers leave having had a great experience. From the respondents, it is evident that the company sets its prices having considered a number of factors which include the cost of raw materials, over head costs, the margins to create and most importantly their competitor prices. This makes the management to ensure that at all times they keep the prices of the products at a lower level than the competitors. These prices are used in all the outlets. When a new one is established it adopts the same prices, hence customers find it easy to even budget as they know how much exactly to spend on a meal or coffee in whichever outlet they choose to dine in.

As a franchise operates, all the outlets grow together. The management makes a decision that is turned into effect in all the outlets. Java restaurants have diversified in a way as seen in their menu. Java House was originally best known for selling only coffee which was the idea when it was formed, but it has gone to food, beverages and pastry products. They have on occasion introduced health products for the health conscious customers thus showing the product development pattern. Going in all the outlets all these can be observed hence making Java restaurants much preferred place to be for its customers.

Above all these, there are some challenges that Java restaurants experience operating as a franchise as identified by the respondents. Lack of proper product development due to untrained staff and have stagnated in growth. Since the products have to be uniform in all the outlets, it is hard to train all the staff so as to produce the exact same product. Also, other restaurants are trying to copy what Java restaurants have in order to appear almost the same especially in terms of the décor color to confuse the customers thus threatening market development and encroachment on the current market share. However, the company is able to counter all these problems by ensuring that all staff members are reviewed on performance and the required necessary trainings conducted to ensure uniformity especially during product development. It has also ensured that it has maintained the great experience for customers and value for money aspect to allow for market development and especially to avoid market encroachment by competitors.

5.3 Conclusions

From the data gathered, this research concludes that java restaurants have grown and stabilized in the market by using franchising as an operational strategy which has led their leading position in their area of operation and generally the hospitality industry, restaurants in particular.

The study also concluded that, for java restaurants to be successful in operating as a franchise, there were various particular ways of doing things that the company had to employ in all the outlets strictly for it to succeed including; differentiation, diversification, cost leadership, product development, product pricing, market development and market expansion. It is however encouraged that, for any company to

succeed and beat its competitors it has to employ several strategies in its way of operations which that particular company can exploit the best.

The study was also able to conclude that franchising as an operational strategy has been very effective in a way that over the years, if well monitored and the ability of the company management to read their environment then the company will be able to continually be the best of the best and will maintain its position as the market leader. Also, a company placed in the hospitality industry or any other industry, should be ready to put in their best by choosing the best operational strategy to use to enable perform better than the competitors. It should know their strength and weaknesses by all means to be able take advantage of opportunities and definitely minimizing on the risks associated in the industry and thus eventually succeeding. The company should know their target market, their product offering, their prices as compared to itself so as to narrow down to the best strategy to use.

From the study, it can be concluded that some companies use franchising as an operational strategy and a way to secure capital for business which in this case is secured from the franchisee as stated in the resource scarcity theory by Oxenfeldt & Kelly,(1968).In the study we observe that all the outlets make profit that they pay back to the management to enable it expand the business. In addition, it is observed that there is the principle and agent relationship as in the case of java restaurants. Java House is the principle and the all the java restaurants are agents which are expected to perform specific duties as required by the principle. It is observed in the study that all the outlets serve a specific and similar function in the market. They serve the same menu, offer standard food, have similar prices, have the same décor, share the same brand name etc.

This is explained in the agency theory by Fatma & Jensen (1983).Market development and product development are strategies that were explained by Pearce and Robinson (2006) which have been used in the study that Java restaurants adopted for its success as a franchise.

Finally, the study observed that, any company applying any strategy for it operations, it has to face some challenges which some include; untrained staff, coming in of new restaurants which are competitors aiming for the same market, lack of growth, product consistency etc. The company has to find a diligent way of handling the challenges as they can bring it down unexpectedly.

5.4 Recommendations

From the information collected, it is vital for the company to maintain its standards and at all times be consistent around its outlets to maintain its brand, counter competition and also maintain its position in the market. Due to its level of popularity, to manage to take care of its customers effectively, it would be important for the company to increase its speed and expansion and maintain the franchise rules for consistency purposes.

Java restaurants are growing rapidly in the market which is a clear indication of expansion of the industry and especially the coffee restaurants. This indicates the overall growth and thus a challenge for the policy makers to develop policies that will foster growth and healthy franchise business among the existing players and possible new comers.

The licensing bodies like the City Council and the Ministry of Tourism should be involved in ensuring that there are more measures for any player to start a restaurant

business. This is to ensure that new restaurants business being set up, are up to standard in terms of its product, hygiene and ability to stay in the market.

5.5 Limitations of the study

This study was carried out in Java House and the results brought forward were specifically for this particular company. This is a disadvantage in the hospitality industry and even the restaurant sector alone as it cannot be generalized. This is seen as in the case of the respondent answers, which they only refer to the case of Java restaurants and may not be the same for other restaurants or other companies in other sectors.

The use of interview guide as a tool for data collection posed a limitation on itself as it aimed to approach specific respondents in the head office which some were not available for the interviews, others requested for time rescheduling which was not favorable with the time limit for data collection, this resulted to some of them not being interviewed.

5.6 Suggestions for further research

This study focused on java restaurants which is one of the players in the coffee restaurants that use franchise as an operational strategy. A similar study should be done targeting the rest of the coffee franchises so as to bring comparison between them which will help in identifying their areas of strength applied for their success in the market.

Further research should be done by use of survey as a tool for collecting data which will involve other respondents in the outlets to give their views about the success of the business. Also the hospitality industry has some businesses that are not franchised hence it will be good to know how they are succeeding in business.

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APPENDICES

APPENDEX 1: Research instrument

Introduction letter



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DATE 14.11.2018

TO WHOM IT MAY CONCERN

The bearer of this letter KLARONWA..... O.KWELIOTIHE..... NAIROBI


Registration No. Dell 8200712015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


PROF. JAMES M. NJIHIA
DEAN, SCHOOL OF BUSINESS

APPENDIX 11: Interview guide

1. What do you think is the major transformation in the restaurant industry in Kenya that is brought about by franchising as your operational study?
2. What is your sense of competition in the industry?
3. Who are your major competitors in the industry?
4. How do you think Java House has positioned itself in the face of competition?
5. How has Java House branded itself in the market?
6. Does branding benefit your organization in terms of standing out in the market?
7. In regards to your products, do you change them to improve on current product or bring new ones?
8. How has java managed to maintain its standards all these years?
9. What is your view on your current product prices as per industry standards?
10. What challenges are you facing in your quest to achieve your business goals?
11. Looking at franchising as an operational strategy, what are some of the benefits that Java House has gained so far?
12. Has the company ever diversified into other businesses other than the current?
13. What challenges are you facing while trying to open new outlets in other cities?