

**PROSPECTS AND CHALLENGES OF FRANCHISING PHARMACIES IN GHANA:  
A CASE STUDY OF PHARMACEUTICAL WHOLESALERS AND RETAILERS IN  
THE BRONG AHAFO REGION**

KNUST

BY

**Mensah, Edwin Agbeko**

**PG 3071709**

**A Thesis submitted to the Institute Of Distance Learning, Kwame Nkrumah University  
of Science and Technology in partial fulfillment of the requirements for the degree of**

**COMMONWEALTH EXECUTIVE MASTERS OF BUSINESS ADMINISTRATION**

**APRIL, 2012**

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## DECLARATION

I do solemnly declare that this submission is my own work towards the CEMBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text. All errors and omissions are my sole responsibility.

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## ABSTRACT

Franchising is an agreement between two legally independent parties that gives one party the right to market a product or service using the trademark of another. Franchising as an entry mode for businesses seeking to expand their operations is fast gaining grounds in developing countries. The main objective of the study was to find out the prospects and challenges of franchising pharmacies in Ghana using pharmaceutical wholesalers and retailers in the Brong Ahafo region as case study. Forty (40) questionnaires were administered to forty selected pharmacies in the region. Statistical Package for Social Sciences (SPSS) was used for the analysis. From the research it was observed that difficulty in getting access to capital was a major problem hampering the expansion of pharmacies in the region. This reason cuts across from the setting up a new facility to threatening its survival. The research found that the franchising strategy that can be considered include assessing the financial position of potential franchisees, and a strategy geared at enhancing survival and success rate of franchised pharmacies. It came to light that majority of respondents would want to adopt franchising as a business strategy; however there is the need to increase their knowledge about the system. The research was able to synthesize potential problems that will affect franchising. It came to light that getting a pharmacist to register a new facility was crucial, since without them no approval can be given for the operation of a new facility by the pharmacy council. The legal issues about the franchise system and the financial risk that may be involved were identified as potential problems. The study therefore recommended to financial institutions in the region to readily extend credit to pharmacies, the need to increase awareness about franchising as a business strategy and the posting of more pharmacists to the region.

## DEDICATION

This work is dedicated with love to the following persons: My lovely and supportive wife Mrs. Evelyn Mensah, Our beloved child Edwin Agbeko Mensah Jr., My father, Mr. Francis Kwasi Mensah, My mother, Mrs. Monica Doe Mensah, My siblings: Freda, Dominic, Gertrude, Eugene, and Desmond.

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## ABBREVIATIONS/ ACRONYMS

A.D	-	Anno Domini
CEO	-	Chief Executive Officer
CFPM	-	Centre For Pharmaceutical Management
EFF	-	European Franchise Federation
FAWA	-	Franchise Association of West Africa
FDD	-	Franchise Disclosure Document
GDP	-	Gross Domestic Product
GFA	-	Ghana Franchise Association
GNDP	-	Ghana National Drug Program
GSMF	-	Ghana Social Marketing Foundation
GSMFEL	-	Ghana Social Marketing Foundation Enterprise Limited
IFA	-	International Franchise Association
KNUST	-	Kwame Nkrumah University of Science and Technology
LCS	-	Licensed Chemical Seller
MOH	-	Ministry of Health
NGO	-	Non Governmental Organization
OTC	-	Over-The-Counter
PPP	-	Purchasing Power Parity
PSI	-	President Special Initiative
SME	-	Small and Medium Scale Enterprise
SPSS	-	Statistical Package for Social Sciences
WFC	-	World Franchise Council

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

Access to healthcare remains a major challenge in Ghana, particularly in the rural regions. The Ministry of Health estimates that only 45% of rural households, compared to 92% of urban households, have access to a health facility, meaning they are within an hour's travel to a public or private facility by any means of transportation Joel & Julia (2008).

The majority of Ghanaians with access to a health facility receive care from public or non-profit entities which account for 48% and 9% of all facilities respectively. As is common in our healthcare delivery, the subsidized care at these facilities is far from free. In addition to the lost wages associated with long queues at public facilities, public sector stock outages mean that patients frequently must pay for their own medicines at private sector pharmacies. In fact, public facilities typically do not have in stock 32% of essential medicines, which are out of stock 37% of the time on average Management Sciences for Health (2008). In some cases, patients may be able to get their prescriptions served at private pharmacies when drugs are unavailable at public facilities, but 90% of Ghana's 1,200 registered pharmacists practice in urban areas Management Sciences for Health (2008).

For the present, many Ghanaians without access to formally trained health providers rely on licensed chemical sellers (LCS) and pharmacies for treatment. Generally, LCS do not have formal healthcare training and self-finance small-scale family run drug stores. The Ghana Pharmacy Council authorizes licensed chemical sellers to dispense non-prescription drugs. LCS and pharmacies must apply annually for an operating license from the Council as stipulated in the Pharmacy Act 1994 (489). There are over 1,600 pharmacy outlets, both retail and wholesale, and about 8,000 chemical retail sellers. Some 75% of the retail pharmacies are located in Accra, Kumasi, and Secondi-Takoradi, which together have access to less than 30% of the population. This indicates the very small coverage of the country by retail pharmacies and hence the heavy dependence on chemical sellers by our rural folk. In over 60% of the cases, rural chemical sellers are first-line providers of medicines Gyansa-Lutterodt (2009).

Faced with the challenges of extending their reach to the rural parts of the country, difficulty in assessing capital to expand their business and a reluctance to franchise their businesses due to little knowledge about franchise operation, the Ghana Social Marketing Foundation (GSMF) started CareShop after building a nine-year history as one of Ghana's most successful family planning and social marketing non-profit organizations. GSMF's branded contraceptives have long been among the bestselling brands in 6,000 retail outlets across the country. Although GSMF was able to recapture some of its costs through product sales, it wished to diversify its revenue sources through a new, for-profit subsidiary, Ghana Social Marketing Foundation Enterprises Limited (GSMFEL). Given that GSMF already had good relations with thousands of licensed chemical sellers, it made sense that GSMFEL's first

program, CareShop, would build upon that professional network Joel & Julia (2008). Conversion franchising being the process of appropriating independent licensed chemical sellers into the CareShop network plays a central role in the CareShop strategy. Over three years, CareShop successfully integrated over 270 shops into its franchise network, making CareShop one of the largest drugstore franchises on the continent. As the franchisor, GSMFEL was to be the exclusive supplier of each franchisee's over-the-counter (OTC) drug products. Through bulk purchasing, the franchisor would benefit from volume discounts, then sell the products back to the franchisees at normal wholesale prices. The margin between the discounted cost and the wholesale price was to be enough to fund both CareShop operations as well as generate a profit back to the parent Non-Governmental organization (NGO), GSMF. In the words of Joel & Julia (2008) stated that "no other growth strategy can touch the speed, reach, or cost-effectiveness of franchising when it comes to creating a standardized service experience across a broad geography". The low capital intensity for the franchisor, combined with an ability to scale rapidly made franchising appealing to GSMFEL as a way of standardizing individual chemical shops in a relatively unregulated environment.

Unlike McDonald's, however, CareShop chose not to seek entrepreneurs to build their own stores from a "green field". Instead, CareShop offered existing LCS the opportunity to renovate their stores and business practices to become CareShop franchisees in a process known as conversion franchising.

For the franchisor, conversion franchising held several advantages over “green field” strategies. Firstly, it is legally simpler for the entrepreneur. It takes an average of eleven procedures over forty-two days (compared to 6 days in the USA) to establish a “green field” business. Secondly, conversion would reduce the capital requirements since all targets already had functioning shops. Third, conversion ensured that the franchisees already had at least some business sense because most converts had years if not decades of prior experience in managing their own business. Fourth, converting a large number of retail outlets helped CareShop to diversify its own risk across multiple outlets, demographics, and geographies. Finally, conversion allowed CareShop to appropriate immediately a pre-existing knowledge and customer base. Each conversion target already had a substantial clientele, and had a valuable local knowledge of patient treatment-seeking behavior. This knowledge base would be helpful in serving those patients more efficiently.

For the franchisee, CareShop presented the opportunity to improve their income while maintaining their autonomy. Ninety-five percent of LCS own their outlets, and of these, 60% rely on the shop as their sole source of income GSMF (2003). Improving the profitability of the store, therefore, is a very strong incentive. While many LCS acknowledged that they might increase profitability through outside assistance, the vast majority (72%) indicated that they would not consider operating their businesses with a partner, primarily because they could not afford to share the profits. The CareShop franchising model, on the other hand, appealed to 76% of respondents as a way to capture outside help in improving their profitability, even at the expense of some autonomy GSMF (2003).

For the customer, CareShop symbolizes a trusted, consistent, high level of service at the point of sale as well as a trusted product supply chain. GSMFEL's conversion strategy was the key to its rapid growth.

Conversion consists of three interrelated activities that take place over several months. Franchisees must be recruited and trained, sign a franchising agreement, and renovate their stores according to the franchise guidelines. GSMFEL's franchising strategy resulted in improved supply chain by reducing the time spent by chemical sellers in purchasing medicines in a deeply fractured supply chain and the benefit of training. The main objectives of GSMFEL's operations are to procure and deliver drugs, monitor and evaluate franchisees, and build franchisee loyalty. Though GSMFEL prescribes a set of procedures to all CareShop owners, the franchisor must maintain a delicate balance with franchisees. While GSMFEL wishes to impart a standardized experience across all CareShop outlets, it must also respect the wishes of the franchisees to maintain some elements of their own operating style. The three main components of the GSMFEL prescription are sales and inventory management, product promotion, and patient referrals. GSMFEL has largely left product mix and pricing to the discretion of franchisee.

This research among other reasons was triggered by a speech delivered at the 2006 Annual General Meeting (AGM) of the Pharmaceutical Society of Ghana (PSGH) for pharmacists in Tarkoradi, where the then minister for Trade, Industries and President Special Initiative (PSI), Honorable Mr. Alan Kyeremanteng made a statement to the effect that for efficient

management and operations of pharmaceutical businesses in general especially those in the distribution and retailing sector, consideration can be made about franchising in order for them to extend the reach of operations to other locations without necessarily having to incur investment cost. He further added that pharmaceutical businesses with good brand names and reputation can franchise their operations to various locations and in turn receive royalties from franchisees.

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The aim of this research is to explore the prospects and challenges of franchising pharmacies in Ghana using pharmaceutical wholesalers and retailers in the Brong Ahafo region as a case study.

## **1.2 STATEMENT OF THE PROBLEM**

Sustainable access to affordable, quality medicines is an important component of health care but in many African countries it continues to be limited. Commonly reported problems include poor supply chain management, pilfering of stock, insufficient human resources and limited financing resulting in chronic stock-outs McCabe (2009). In resource-poor settings where public sector services are unable to meet the demand for services, the private (e.g. pharmacies) and voluntary sectors are increasingly being called upon because the supply and distribution of medicines are a fundamental aspect of the success of any health system and disruptions to the supply of medicines have an impact on the availability, cost and quality of medicines available to patients McCabe (2009).

The challenges identified above necessitated a comprehensive review of the pharmaceutical sector in 1994 that identified a number of major problems within the sector. Principal among these were that many pharmaceutical businesses in Ghana including manufacturers, wholesalers and retailers had not been able to extend their reach to the rural parts of the country, found it difficult in assessing capital to expand their business and a reluctance to franchise their businesses due to little knowledge about its operation and prospects MOH (2002). The review process resulted in the formulation of a master plan for the pharmaceutical sector that formed the basis for the setting up of Ghana National Drugs Program (GNDP) in 1997. The overall objective has been to strengthen the pharmaceutical sector in order to ensure that all inhabitants in Ghana have access to essential drugs that are safe, effective, and affordable, of good quality and that are rationally used in both public and private sectors MOH (2002).

The objective of providing quality, accessible and affordable health care to all residents in Ghana has been a major challenge confronting the country since independence. The heart of the problem is the ineffective distribution of health care personnel and facilities especially pharmacists and pharmacies MOH (2002). It is against this background that this study wishes to examine the prospects and challenges of franchising pharmacies as a way of increasing their coverage, increasing access to medicines and pharmacists in Ghana.

I have chosen pharmacies in the Brong Ahafo region because i work as a superintendent pharmacist in one of the pharmacies in the region which is trying to adopt franchising as an expansion strategy.

### **1.3 OBJECTIVES OF THE STUDY**

The main objective of this research is to explore the prospects and challenges of franchising pharmacies in the Brong Ahafo region of Ghana.

Specifically, the study attempts to:

1. Identify the problems associated with extending pharmacy coverage in the Brong Ahafo region.
2. Assess franchising strategies that can be adopted to extend the coverage of pharmacies in the Brong Ahafo region.
3. Explore the prospects of adopting franchising as a market entry strategy for selected pharmacies in the Brong Ahafo region.
4. Assess the challenges associated with franchising selected pharmacies in the Brong Ahafo region.

### **1.4 RESEARCH QUESTIONS**

The study would be guided by the following research questions:

1. What problems are associated with extending pharmacy coverage in the Brong Ahafo region?

2. What franchising strategies can be adopted to extend the coverage of pharmacies in the Brong Ahafo region?
3. What are the prospects of adopting franchising as a market entry strategy for pharmacies in the Brong Ahafo region?
4. What challenges are associated with franchising pharmacies in the Brong Ahafo region?

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### **1.5 METHODOLOGY**

The research was conducted in the Brong Ahafo region targeting some selected proprietors and superintendent pharmacists of pharmacies in the region. This target group responded to a questionnaire designed in consultation with practicing managers of the industry. A pre-testing of the questionnaire was conducted in some selected outlets in the Sunyani municipality before it was revised to avoid inapplicable questions, ambiguous wording and inappropriateness. After pre-testing the questionnaire and further revisions, the survey questionnaire was produced in a final form and used to collect data. Data collected was analyzed using Statistical Package for Social Sciences (SPSS) and the results presented using various statistical tools.

### **1.6 SCOPE OF THE STUDY**

The study would target forty pharmacies in the Brong Ahafo region known in the region to be wholesalers and/or retailers of pharmaceutical products. The performances of these

businesses in terms of sales have been impressive over the past two years. It is therefore of utmost importance to assess the prospects and challenges of franchising these businesses. Since collection of data would be restricted mainly to the forty selected pharmaceutical businesses, the findings of this study may be generalized to cover only these businesses. The generalization of the results of this study to other groups with similar characteristics should be done with caution and extensive analysis and comparison.

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### **1.7 SIGNIFICANCE OF THE STUDY**

The franchising industry in Ghana is still relatively immature despite its long history. The practice is limited to only a few businesses in the country because of the little knowledge on how it functions, its benefits and how it is financed Otu (2006). It is my view that this research though limited to the pharmaceutical industry will help businesses in Ghana to gain more insight into franchising to expand their businesses. This research will also help the government and policy makers to plan appropriate business strategies for improved healthcare access and delivery.

The pharmaceutical industry in Ghana has had a tremendous impact on the quality of healthcare. The study can benefit pharmaceutical businesses in Ghana and specifically those in the Brong Ahafo region by enhancing their knowledge about franchising, enabling them to consider franchising as a business strategy, and reap franchising benefits such as extending geographic reach, accessing capital and harnessing entrepreneurial incentives Peterson et al (1990).

The study will serve as a secondary material or source of information to students and researchers in Kwame Nkrumah University of Science and Technology (KNUST) and other universities who are interested in doing further studies in this area. The research would be very helpful to my organization as it is considering franchising as a market entry strategy in extending its reach in Ghana and beyond. It is therefore my considered opinion that this study would fill the vacuum on franchising as a method of operation in the retailing of pharmaceutical products in Ghana.

### **1.8 LIMITATIONS OF THE STUDY**

Time and other resource constraints did not make it possible for the research to be done in the whole of Ghana. The study targeted forty out of the forty-five pharmaceutical wholesalers and retailers in the Brong Ahafo region because the other five facilities are newly opened and thus would not have a deeper insight into pharmacy operations in the region. The study did not also include chemical shops.

### **1.9 ORGANIZATION OF THE STUDY**

The study is organized into five chapters. Chapter one focused on the background to the study, problem statement, objectives, significance of the study, limitations and scope. Chapter two is the literature review on the topic which considered the history of franchising, franchise business models, impact and benefit of franchising whilst chapter three was devoted to the methodology to be followed in gathering responses for the survey. The research methodology included the population, sampling techniques, methods of data

collection and the research instruments employed. Chapter four provided detailed analysis of data collected and presentation of information with the aid of quantitative and statistical models. The fifth chapter covered the summary of the whole project work, findings, conclusions and recommendations.

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## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

When a firm or company is considering entering a new market, the question arises as to the best means of achieving it. There are a lot of entry modes open to it and each has its advantages and disadvantages, and managers of the firm need to know and consider these carefully when taking a decision on which type of mode to use. Some of these entry modes are exporting, licensing, franchising, turnkey contracts, manufacturing, contracts, joint ventures and wholly-owned subsidiaries Hoffman (1991). Franchising being an entry mode is an organizational strategy chosen by managers in order to compete in industries in the retail trade and service sectors that require highly decentralized operations at a chain of multiple sites Michael (1999). Transactions between the franchisor and the franchisee are similar to those between two independent firms (market transactions) in legal aspect. However, under the formal franchise contract, the franchisor has most of the management control (even when the contract is not complete) over the behavior of the franchisee. The relationship between the franchisor and the franchisee is almost the same as that between a firm and an employee under incomplete contract Rubin (1978).

#### **2.2 OVERVIEW OF THE HISTORY OF FRANCHISING**

To explain the evolution of the franchise organization, which expands its chain with the notion of mixed ownership, one can apply theories with regard to risk sharing, capital raising, and monitoring and control aspects. Franchising originated in the United States in the 19th

century with companies like Singer, Coca Cola and Western Union. More than a hundred years later, franchising in the US created 18,121,595 jobs which account for 13.7 percent of all private-sector jobs PricewaterhouseCoopers (2004).

During the 1990s in the United States franchising became the most popular method of expanding commercial retail stores quickly with limited capital risk Bradach (1998). Characterized by locally owned outlets which deliver services according to a standardized model, franchises such as McDonalds, Starbucks or The Body Shop have become ubiquitous in all developed and many developing countries. A number of factors have made franchising a successful business model: new store expansion can be accelerated because much of the investment capital and many of the management decisions come from local franchise owners, distribution of fixed costs across many outlets provides economies of scale in purchasing and advertising which only large networks can provide, and the financial risks and rewards associated with local ownership assure that franchise operators will work hard with a lower level of supervision than would be needed in a company-owned chain of stores Montagu (2002).

Hollowell (2007) traced the origins of franchising back to the middle ages (400 A.D. – 1500 A.D.). He makes reference to the fact that at that time, it was an accepted practice for local governments to offer important persons, even high church officials a license granting them the right to maintain civic order and to make special tax assessments. Courts or lords could also grant rights to others to operate ferries, hold markets, and perform the business activities. The licensee (or franchisee) would pay the licensor (franchisor) a specific fund

from the tax revenues collected or assessments made and in return receive military or other forms of protection.

Queen Isabella of Spain probably used (invented) a franchising system when she awarded Christopher Columbus a “franchise” in 1492 to develop travel and trade with the new world.

It is fascinating that from the new world, franchising would be introduced and re-established in the 20<sup>th</sup> century Hollowell (2007).

Additional progress was made during the early 19th century in England when tavern and pub owners, while experiencing financial hardship, turned to brewing companies for financial assistance. The tavern and pub owners in return for financial assistance were required to purchase all of their beer from that specific brewer.

In the United States, franchising developed in the 1850's when the Singer Sewing Machine Company formed a franchise in 1851. In order to distribute his machines outside of his geographical area, and also provide training to customers, Singer began selling licenses to entrepreneurs in different parts of the country. His effort, though unsuccessful in the long run, was among the first franchising efforts in the U.S. Daszkovski (2009).

In the late 1889, Robert Metzger was the first franchisee of Ford. Before him, Fords were sold directly from the manufacturing plant Hollowell (2007).

A slightly later, yet much more successful, example of franchising was John S. Pemberton's franchising of Coca-Cola. Early American examples include the telegraph system, which was operated by various railroad companies but controlled by Western Union, and exclusive agreements between automobile manufacturers and operators of local dealerships Naz Daud (2007). In his article “*History of franchising*” Naz Daud (2007) commented that modern

franchising came to prominence with the rise of franchise-based food service establishments. This trend started as early as 1919 with quick service restaurants such as A&W Root Beer. In 1935, Howard Deering Johnson teamed up with Reginald Sprague to establish the first modern restaurant franchise. The idea was to let independent operators use the same name, food, supplies, logo and even building design in exchange for a fee. Tom Sangers (2008) in his article "*A brief background of franchising*" added that the growth in franchises picked up steam in the 1930s when Howard Johnson started franchising motels. He also added that the 1950s saw a boom of franchise chains in conjunction with the development of America's Interstate Highway System. Fast food restaurants, diners and motel chains exploded. In regards to contemporary franchise chains, McDonalds is arguably the most successful worldwide with more restaurant units than any other franchise network. In 1933, the modern franchising model really took off when people started franchising fast food establishments. Motels also started franchising around that same time, and between the two they took various countries by storm Sangers (2008).

According to Sangers (2008) there were both fast food and motel franchises all over the world and people enjoy them because they are familiar and feel safe. As more highways were built and people could travel from place to place more easily, individuals started franchising more kinds of stores, because they were easier to get to and they were "along the way" instead of being out in the middle of nowhere. In 1955 Ray Kroc took over a small chain of food franchises and built it into today's most successful fast food franchise in the world, now known as McDonald's. McDonald's currently has the most franchise units worldwide of any franchise system.

According to the Franchise Association of South Africa (FASA) (2006) although modern-day franchising originated in the USA, the concept is well established in South Africa. The history of its local pioneers can be traced back to the mid-1960s when George Halamandaris established Steers and a number of other brands. During the 1970s, other sectors entered the franchise arena and today, franchising is used as the preferred vehicle for expansion by companies active in fields as diverse as automotive products and services, food, entertainment and leisure activities, home maintenance and repairs, business services and retailing.

In Ghana, multinational oil marketing companies, automobiles and accounting firms are examples of pioneers in franchising. The multinational oil marketing companies started by establishing branches which were later offered as franchises. Apart from the multinational oil marketing companies most of the other franchises cater to the high income groups and do not serve the majority of the population. Ghana is the first West African country to form a franchise association in 1998 with Mr. Paul Takyi as president and Mr. John Kojo Quartey as chairman. The association applied to the world franchise council (WFC) for membership in 2000 but the application was denied because it did not meet the council's membership requirements. The Ghana Franchise Association (GFA) then applied to join the Franchise Association of West Africa (FAWA) in 2002. The application and the GFA died with the founder Paul Takyi in 2002 Otu (2006).

### 2.3 CONCEPTUAL VIEW OF FRANCHISING

The International Franchise Association (IFA) (2009) has defined franchising as a “contractual relationship between the franchisor and franchisee in which the franchisor offers or is obliged to maintain a continuing interest in the business of the franchise in such areas as know-how and training; wherein the franchisee operates under a common trade name, format or procedure owned by or controlled by the franchisor and in which the franchisee has made or will make substantial capital investments in his/her business from his/her own resources”.

The European Union commission (2010) gave one of the most compassing definitions of a franchise concept and a franchise contract in their regulations. According to this a franchise “is an assembly of rights of industrial or intellectual property, concerning brands, firms, industrial designs and models, copyright, know-how or patents meant to be exploited for selling products and performing services by final users’. The same European Union community regulation defines a franchise contract to be “an agreement by which the franchisor grants another person called the franchisee the right to exploit a franchise in exchange for a direct or indirect financial compensation.

For the European Franchise Federation (EFF) (2009) the term “franchising” dates back to the post-Middle Ages or “Modern Times” and in that context referred to the granting, generally by a king or higher authority, of a right for instance to do commerce in a context in which this right is usually reserved to the higher authority, or to develop or colonize a territory which belonged to the State. The EFF goes further to explain that franchising has grown

internationally, and the term “franchise” has been adopted to indicate a business system composed of a brand name, a "system" or format implying the distribution of a product and/or service through a network. This system replicates itself with every new business partner (franchisee) that invests and becomes another member of the network. Interestingly, as cultures, market and social conditions differ many aspects of business format franchising differ too. The term "franchising" in business evokes: brand name, replication of a system, expansion and network. The franchise network as used by the EFF is made up of the franchisor and franchisee's that he/she has selected, all bearing the same branding, the symbol of the network's identity and reputation.

Barbara Beshel (2010) in her book “*An introduction to franchising*” also defines a franchise as an agreement or license between two legally independent parties which gives a person or group of people (franchisee) the right to market a product or service using the trademark or trade name of another business (franchisor) or the franchisee the right to market a product or service using the operating methods of the franchisor or the franchisee the obligation to pay the franchisor fees for these rights or the franchisor the obligation to provide rights and support to franchisees.

From the above definitions and many others reviewed from literature franchising can be narrowed down to the fact that it comprises a contractual relationship between a franchisee (usually taking the form of a small business) and a franchisor (usually a larger business) in which the former agrees to produce or market a product or service in accordance with an

overall ‘blueprint’ devised by the franchisor’ Stanworth et al (1995). The concept of creating a valued brand for goods or services and extending the reach of that brand by leasing the right to use it to private individuals became widespread in the food and hospitality services in the United States during the first half of the 20th century and grew quickly from the early 1950s (Justis & Judd, 1989; Milgrom & Roberts, 1992).

## **2.4 FRANCHISE BUSINESS MODELS**

According to Barbara Bushel (2010) there are two main types of franchising: the product distribution and business format franchise. Product distribution franchises simply sell the franchisor’s products and are supplier-dealer relationships. In product distribution franchising, the franchisor licenses its trademark and logo to the franchisees but typically does not provide them with an entire system for running their business. The industries where you most often find this type of franchising are soft drinks, automobiles and gasoline. Some familiar product distribution franchises include Coca-Cola, Goodyear Tires and Ford Motor Company. Although product distribution franchising represents the largest percentage of total retail sales, most franchises available today are business format opportunities.

Business format franchises, on the other hand, not only use a franchisor’s product, service and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals. Business format franchises are the most common type of franchise.

Barbara Bushel (2010) makes reference to the “USA Today’s” report that the ten (10) most popular franchising opportunities are in the industries of fast food, retail, service, automotive, restaurants, maintenance, building and construction, business services and lodging. Apart from these two broad categories, Anderson (2008) identifies other types of business arrangements. He argued that because so many franchisors, industries and range of investments are possible, there are different types of franchise arrangements available to a business owner. He first identifies the single-unit (direct-unit) franchise, as an agreement where the franchisor grants a franchisee the rights to open and operate one franchise unit. This is the simplest and most common type of franchise. It is possible, however, for a franchisee to purchase additional single-unit franchises once the original franchise unit begins to prosper. This is then considered a multiple, single-unit relationship. He also identifies the multi-unit franchise system which has two components namely Area development and Master franchise (sub-franchising).

A multi-unit franchise is an agreement where the franchisor grants a franchisee the rights to open and operate more than one unit. Within this multi-unit is the area development franchise. Under an area development franchise, a franchisee has the right to open more than one unit during a specific time, within a specified area. For example, a franchisee may agree to open five (5) units over a five year period in a specified territory. The franchisor grants the franchisee exclusive rights for the development of that territory. Secondly, there is the master franchise agreement. A master franchise agreement gives the franchisee more rights than an area development agreement. In addition to having the right and obligation to open and operate a certain number of units in a defined area, the master franchisee also has the

right to sell franchises to other people within the territory, known as sub-franchises. Therefore, the master franchisee takes over many of the tasks, duties and benefits of the franchisor, such as providing support and training, as well as receiving fees and royalties.

In Ghana, both the product distribution and business format franchises are practiced, however they are different franchise arrangements that have been identified. Micro franchising as is the practice by Fan milk Ghana limited has been identified as a way of contributing to the structural poverty reduction in Ghana Keizer (2008). Another franchise arrangement that has been adopted by the Ghana Social Marketing Foundation (GSMF) is the concept of conversion franchising. According to Fairbourne (2007) micro franchising is preferred for small businesses whose start-up costs are minimal and whose concepts and operations are easily replicated. It involves the systematizing of microenterprises to create and replicate turnkey businesses for the poor.

This research will focus on business-format and standalone franchises because its process focus makes this structure relevant to retail pharmaceutical business.

## **2.5 CONCEPTUAL DEVELOPMENT**

The conceptual basis for this paper lies in the domain of agency theory. Previous studies utilizing agency theory have focused predominantly on corporate governance Schleifer & Vishny (1997). It has also been applied to topics such as retail sales compensation, supplier-distributor relationships Lassar and Kerr (1997) and to franchising in the domestic market Brickley & Dark (1987).

The advantages of using agency theory to explain many of the aspects of the franchisor-franchisee relationship parallel at least two of those cited by Lassar & Kerr (1997) in their application of agency theory to the manufacturer-supplier relationship. These advantages are firstly, that agency theory incorporates realistic behavioral assumptions such as the presence of bounded rationality and the potential for opportunism and goal conflict, all of which are present in the franchisor-franchisee relationship. Secondly, agency theory is appropriate because it focuses on the economic motives operating within a relationship, which are risks and incentives. A third advantage not cited by Lassar & Kerr (1997) but particularly significant in retail franchise context is its emphasis on the importance of the information transfer process, the information asymmetry problem and associated monitoring costs.

### **2.5.1 AGENCY THEORY**

The agency theory is based on the concept of the principal-agent relationship. In this relationship, principals represent individuals, or groups of individuals, who are in control of a set of economic functions or assets in some form of ownership or property rights. Day-to-day controls of these functions or assets have been delegated, by the principals, to agents, who operate them on their behalf Jensen and Meckling (1976).

The agency theory explanation for franchising is that monitoring costs for the central corporation to assure quality will be high compared with the localized benefits. Sales occur through local outlets, and therefore depend to a great extent on local effort in addition to price and advertising. Because local effort is difficult to monitor in the context of service delivery, it is often more efficient to localize incentives and align managers' goals with

organizational goals and franchising then becomes one method of accomplishing this. Financial constraints on corporate expansion are often put forward as the basis for the creation of traditional commercial franchises (Oxenfelt & Kelly, 1969; Hunt, 1973). While this was disputed by Lafontaine & Slade (1996), there is little doubt that there is significant cost savings to social franchising programs in expanding service delivery points through fractional franchises, although the same savings might not appear in a stand-alone franchise. In fractional franchise programs, local franchisees contribute a large amount of pre-invested capital in terms of facilities, staff and pre-enrolled clients. This allows for large savings during expansion and a corresponding fast track up to scale for beginning franchises. There are non-financial costs associated with fractional franchising, particularly brand confusion arising from parallel distribution of both franchised and non-franchised goods and services. For a retail or standalone franchise, these costs must be weighed against the benefits indicated by both agency theory and investment savings.

## **2.6 FRANCHISING AND LICENSING**

Murphy (2010) the chief executive officer (CEO) of franchise foundations in his book *“business opportunity expansion options”* asks whether there is a difference between franchising and licensing of a business. He also goes further to ask whether a license business model really differs from a franchise business model. He states that the starting point in the analysis is to consider the legal aspects, then the business aspects. A franchise always includes a license of the brand and operating methods, along with assistance (training, an operations manual, etc.) or support (providing advice, quality control, inspections, etc.). He stresses the point that a license that is supposedly "not a franchise" but contains these

elements stated above, is a disguised, illegal franchise with significant legal ramifications and risk. Murphy (2010) concludes in his book that many individuals and corporate organizations get confused about the two terminologies and asked for such entities to specify clearly what contract they are entering into to avoid legal tussles.

According to Pat Upton (1985) author of *“Make Millions in the Licensing Business”*, licensing is "the practice of allowing a manufacturer (also called the licensee) to affix or associate the idea, character, design, or other representation owned by another (licensor) to his products". In the most basic terms, licensing is the legal act of granting rights to a certain property in exchange for payment. Although licensing is often referred to as an industry, many experts claim that it is actually a marketing tool or concept. Examples of licensing arrangements according to Upton (1985) can be found in a wide variety of products and services. For instance, as you might wear a sweatshirt bearing an NFL logo, purchase a child's sleeping bag with a cartoon character on it, or relax on bed sheets or other home furnishings by Ralph Lauren. As more companies—from Fortune 500 ones to startup companies—incorporate licensed products into their lines, licensing has become the marketing strategy of the future, as Vanessa L. Facenda (1999) wrote in *“Supermarket Business”*. Some of the benefits a company might gain from licensing include increasing its revenues with a minimum of expenditure, exploiting its technology, and opening new markets for its products and services.

## 2.7 LEGAL ISSUES IN FRANCHISING

In her book *“An introduction to franchising”* Barbara Bushel (2010) wrote that a good relationship between the franchisor and franchisee is critical for the success of both parties. Since franchising establishes a business relationship for years, the foundation must be carefully built by having a clear understanding of the franchise program. Unfortunately, she added that understanding the legal language of franchising can be daunting. The advice of an experienced franchise attorney should be sought to help a prospective franchisee understand the legal issues and to protect them from making costly mistakes. Franchising is governed by federal and state laws that require franchisors to provide prospective franchisees with information that describes the franchisor-franchisee relationship.

The main franchising legal documents are:

The franchise disclosure document (also known as the FDD). The purpose of the FDD is to provide prospective franchisees with information about the franchisor, the franchise system and the agreements they will need to sign so that they can make an informed decision. In addition to the disclosure part of the document, the FDD includes the actual franchise agreement as well as other agreements the franchisee will be required to sign, along with the franchisor’s financial statements. The FDD is designed to give the franchisee some information they need in order to make an informed decision about investing in a particular franchise.

By law, a franchisor cannot sell a franchise until the franchisor has presented the prospective franchisee with a Disclosure Document. According to Barbara Beshel (2010) fourteen (14)

states in America require franchisors to register their FDDs with the state or to notify them that they will offer franchises before they begin to conduct any franchising activity in the state. The FDD includes information about the franchisor, the company's key staff, management's experience in franchise management, franchisor's bankruptcy and litigation history, initial and ongoing fees involved in opening and running the franchise, required investment and purchases, territory rights, responsibilities of the franchisor and franchisee, and other franchisees in the system with contact information. Receipt of the FDD is governed by the "14-day rule." This is a cooling-off period in which franchisors must give prospective franchisees 14 days to think about their decision before they are allowed to sign the franchise agreement.

### **2.7.1 THE FRANCHISE AGREEMENT**

The franchise agreement is more specific than the FDD about the terms of the relationship between the franchisor and franchisee. The franchise agreement includes information about: the franchise system, such as use of trademarks and products, territory, rights and obligations of the parties: standards, procedures, training, assistance, advertising, etc., term (duration) of the franchise, payments made by the franchisee to the franchisor, termination and/or the right to transfer the franchise.

The franchise agreement is the legal, written document that governs the relationship and specifies the terms of the franchise purchase. A prospective franchisee should closely review the franchise agreement and consult with a professional advisor, like an attorney or an accountant, before making a final decision.

## **2.8 OPERATIONALIZATION OF FRANCHISE SYSTEMS**

According to Quinn (1998) once a company has chosen to employ franchising as an entry mode and the decision has been made on the form the franchise operation should take, the major issues the firm is concerned with are uniformity of offering and quality control. A fundamental consideration in both cases is that of monitoring.

### **2.8.1 FRANCHISE CONTROL**

A major point of concern for franchisors is the issue of control over franchisees Swerdlow & Chasel (1990). It seems reasonable to assume that the head franchise company will relinquish some degree of control when executing its operations, regardless of the type of franchise agreement employed to enter new markets. With master/area franchising or joint venture franchising a high degree of responsibility for the local market operation is transferred to the master franchisee or business partner. Additionally, when the franchisor deals directly with the local market franchisees themselves, the difficulties in managing such operations from a distance, especially once the number of franchisees increases, inevitably leads to further control loss.

Theoretically, agency theory would posit that this potential for the loss of control is provided for in the franchise contract through fees and royalty payments, the aim of which is to decrease potentially high monitoring costs. In sectors such as retailing, however, where significant amounts of intangible assets exist and are accentuated even further in international markets, such costs would be even higher. Nonetheless, while the franchise contract is in place to maintain control, standards in practice may prove difficult to maintain.

## 2.9 IMPACT AND BENEFIT OF FRANCHISING

The success rate of franchised business in comparison to standalone business is often mentioned when praising the concept. After seven (7) years, 91% of franchised businesses are still in operation, in comparison to 20% of individual new start-ups in the United States and this goes to show the advantage of franchised businesses compared to individual start-ups Franchise USA (2008). Investment in a franchise lasts longer than in individual businesses. An increase in the number of franchise concepts stimulates the Small and Medium sized Enterprise (SME) sector. A good reason for national policy makers to stimulate the development and roll-out of franchises concepts Franchise USA (2008).

Another argument that speaks for the concept is the positive relationship between GDP per capita and franchising. Magleby (2006) an expert on micro-franchising, states that there is a direct relationship between the degree of penetration of the franchise business model and the level of economic prosperity in that country. He collected his statistics from the National Franchise Associations of the respective countries and compared them to the GDP per capita. He stated that in the United States with a GDP per capita of \$41,800 has 15000 franchise operations, Spain with \$25,100 ; 2500, and Malawi \$600 ; 5 all have GDP per capita and franchise operations respectively. His argument was debunked by Welsch (2004) who admitted that though there could be a relevant correlation between GDP per capita and franchise operations, he felt the correlation could be more appropriate by comparing the number of franchised operations with purchasing power parity (PPP). He further added that it would be more important to use GDP per capita PPP when ‘considering an emerging’ market in order to analyze the real cost of living.

From the perspective of the franchisor the main advantage of franchising is the shared motivation for success of both him and the franchisee. Franchisees have invested in a business and are therefore more likely to maximize revenues through (administrative) efficiency and protection of the franchise brand. At the same time both parties are motivated to minimize operational costs Dianne et al (2006). In sum, both strive for the highest efficiency and profit. They both gain from a good reputation and strong brand name Keizer (2008).

Another important advantage for the franchisor is the required investment by the franchisee for the acquisition of the franchise or outlet. The franchisee and franchisor share the risks of an expanding business. For the franchisor it means that it can overcome the sometimes problematic acquisition of scarce capital. Without this capital some businesses would not be able to grow as fast as they do with franchising. Franchising is therefore a method to rapidly expand business Keizer (2008).

For the franchisee, buying into an established franchise system with a proven track record results in less risk compared to starting a business from scratch. Both parties have a strong vested interest in the success of the brand and customer satisfaction Franchise USA (2008). The investment costs for the first franchise are relatively high, and are made by the franchisor. All the following franchises require smaller investments than the first franchise, making it interesting for potential franchisees.

Another advantage of franchised businesses compared to stand alone businesses are the benefits of being part of a larger franchise system. This enables franchisees to share knowledge and best practices. Being part of large systems allows franchisees to profit from a larger buying power in the supply chain. The third advantage of being part of a system is that the costs of branding and marketing of the franchises can be shared. Franchising allows small businesses the efficiency of big business and therefore greatly increases the small business owner's chances of survival Dickle (2005). The motivations of becoming a franchisee from the perspective of the franchisee are measured empirically by Peterson & Dant (1990). The most popular advantages resulting from their study are training provisions, greater independence (more than being an employee) and established name. Lower development cost (less cost and time than independent business) and better investment (less risk than independent business) received moderately positive support Peterson & Dant (1990).

The benefits of franchising as a means of expanding a business are twofold. One, it involves low capital investment by the franchisor as the capital used to expand the network comes from franchisees. Two, by franchising the business, the franchisor places the expansion of his/her business in the hands of people who are motivated to make it work. Having invested what in many cases are their life savings in a franchise, franchisees will strive to make the business successful. Their livelihood depends on it.

By using the franchisees' capital, the franchisor is able to establish a large number of outlets in a short period of time. Rapid expansion can be achieved without incurring the overheads and costs associated with opening company-owned outlets. This brings benefit to both the

franchisor and franchisee as it helps build consumer recognition quickly and establish the franchise Sandler (2010).

The cost of expansion for the franchisor is usually limited to the cost of franchisee recruitment, training and assistance prior to opening. Franchisees invest their own equity and borrowed funds in premises, equipment, fixtures, furnishings, inventory and the working capital necessary to establish a franchise unit. The only cost to the franchisor is that of the overheads not met by the franchisee's initial franchise fee.

The return on investment is much higher for businesses that expand through franchising. Because there is less capital employed, the franchisor's profits are generated on a much lower capital investment. Although the revenue from franchised units is less than that received from company-owned outlets, a higher percentage of the revenue is profit Yamyollia (2004).

Franchising also allows for the business to expand without spreading managerial resources across too many business units. A business owner may wish to keep his/her own operation small and tightly run. Operating more than a few outlets can drain business resources. A franchise system requires less management than a company owned chain of outlets. Hiring, training, motivating and retaining competent staffing are all functions handled by the franchisee, not the franchisor.

Businesses choose franchising as a means of expanding their enterprise because of the ambition and energy of owner operators and sometimes - especially in the case of small, one-person enterprises - because the service provided by the franchise is very demanding and needs the extra attention of an owner manager. The owner manager is usually more motivated and effective than a salaried manager because he or she has a vested interest in the business Sandler (2010).

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Franchising has added attraction for expanding a business into foreign markets particularly those that are different, as most foreign markets are, to the franchisor's home market. By using indigenous franchisees, the franchisor is tapping into local business knowledge which may prove beyond his or her capability to obtain otherwise. People who know the local scene well deal with legal and cultural differences more easily than an overseas company executive would Yamyollia (2004).

## **2.10 FRANCHISING CHALLENGES**

As with any investment there is always a certain amount of risk associated with starting a business. There are some pitfalls specifically relevant for franchising and for a comprehensive analysis of franchising they should be mentioned. Many of the problems are centered on disputes between an (incompetent) franchisor and franchisee. Many countries have disclosure laws in place that require franchisors to provide all the essential information before signing the franchise contract. In spite of these disclosure laws there is evidence of abusive practices found in legal cases around the world Steinberg et al (2004). Other disadvantages of franchising are the rigidity of the system, the costs of purchasing the

franchise and subsequent royalties. But these risks associated with franchising have not stopped the continued expansion of franchise systems worldwide; apparently the advantages outweigh the risks.

Duffy (2008) identifies poor performance by other franchisees as a factor that can impact on the reputation of the whole franchise system and therefore adversely impact on franchise businesses. He also identifies lack of communication/assistance or poor management of the franchisor that can adversely impact on franchised businesses.

## **2.11 FRANCHISING IN AFRICA**

Franchising is not new in Africa. Coca-cola has been in Africa for about 70 years, the first franchise was opened in Johannesburg in 1928. Franchising still works for Coca-cola, in 2006 the company grew by 6%. According to Alex Cummings (2007) president of the Africa group of the Coca-Cola Company, this growth is 'attributable to the improving economic climate in the continent.

Today franchising is gaining interest and is growing at a high pace. The speed and cumulative acceleration of supermarkets on the African continent for instance, is surprising Weatherspoon (2003). South African Shoprite, for example, has over 1220 stores in 15 African countries and has shown impressive growth rates. Shoprite Holdings has reported turnover growth of 21.7% and a trading profit growth of 42.2% for the six months to December 2007 Shoprite (2008).

The telecommunications, transportation, education, fast-food and health care sectors in Africa are also known to have used the franchise business model Anydiegwu (2006). At a seminar hosted by the Joint African Institute in 2006 presentations were held on the 'burgeoning' franchise activities in Morocco, Egypt, Nigeria, Kenya, Ghana and Botswana. The expected economic growth gives room for business to grow, and franchising is a suitable mechanism to capture this growth and potential Anydiegwu (2006).

Africa currently accounts for an estimated seven percent of all retail business fed through the franchise sector and although it lags far behind most countries, it proves, quite categorically, that the potential for growth is unlimited in Africa. As franchising becomes saturated in developed countries, the emerging markets like the Far East, South America, Eastern Europe and Africa become fertile grounds for franchising to take root Saunders (2002). The small business sector, and franchising in particular, is without doubt the answer to unemployment and has proved worldwide to be the job creator of the future. Given that franchising has a strong spin-off job creation factor between 1.0 and 1.5 additional jobs for every one franchise employee, the estimated current job creation potential in South Africa, in direct and indirect jobs is in the region of 600,000. With a concerted effort by all stakeholders, franchising opportunities in Africa could have more than 1,000,000 people employed by the year 2003 Saunders (2002).

Acknowledged as the "global ambassador of small business", franchising can become the business model that can contribute wealth, growth and stability to the African continent. Consequently, Africa is considered the new frontier in franchising and in this context; South

Africa is ideally positioned as the frontline to the entrepreneurial potential of Africa. It is also widely recognized that South Africa is the springboard for potentially explosive growth into Africa and the stark reality is that the broader African economies cannot grow in isolation as the continent's future is inextricably linked to South Africa and the example that it sets.

## **2.12 FRANCHISING IN GHANA**

A framework by Ilan Alon (2006) has been used to evaluate Ghana as a potential market for franchising. World Bank statistics show that 48% of Ghanaians live in cities compared to a 35% urban population for Africa in general World Bank (2005). For potential international franchisors this is an advantage because it is easier to distribute products in urban areas. The Ilan Alon framework multiplies the urban population by the per capita income spent on services, which is adjusted to savings and PPP. The result is the total urban income spent on services. The calculations showed that there is a market for international service franchisors in Ghana of more than 10 billion PPP international dollars.

The framework shows that in 2005 there was a market for international service franchisors in Ghanaian cities of \$10.45 billion PPP in current international dollars. Although it was not as large as the 20 emerging markets in the Ilan Alon article, where the urban markets are between \$510 billion in Brazil to \$29 billion in Thailand, the average income spent on services and adjusted to savings is higher in Ghana (\$990) than it is in China (\$843) and India (\$941). Because of the size of the markets in those countries the total urban market for services is much larger. When Ghana's 2008 GDP PPP per capita is used the figure is \$1193 per capita for Ghana, which also compares favorably to the 2005 Indonesia level (\$896). In

2008, the Ghanaian market for international franchisors is \$12.6 billion PPP using the GDP and population level of 2008 and the other indicators at the 2005/2003 level.

From the assertions above it can be concluded that there is a large market for international franchisors in Ghana, and it is growing at a fast pace Alon (2006).

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### **2.12.1 SOCIAL FRANCHISE IN GHANA**

In Ghana there is no known information available of a franchised pharmacy, however in April 2002, Ghana Social Marketing Foundation (GSMF) founded CareShop as the first project of GSMF's wholly owned for-profit subsidiary, Ghana Social Marketing Foundation Enterprises Limited (GSMFEL). The CareShop is a franchise of licensed chemical sellers (retailers of over-the-counter drugs) designed to improve the quality, accessibility, and affordability of essential medicines across Ghana on a for-profit basis. The CareShop uses market forces to improve health outcomes across the country and seeks an alignment of interests across franchisors, franchisees, and patients.

### **2.13.2 CARESHOP FRANCHISE IN GHANA**

As noted by Joel & Julia (2008) in their research "improving access to essential drugs through conversion franchising" they commented that no other growth strategy can touch the speed, reach, or cost-effectiveness of franchising when it comes to creating a standardized service experience across a broad geography. In a typical "business format franchise," an individual entrepreneur uses her own capital to establish a new branch of the franchised

chain. McDonald's, for example, has over 31,000 virtually identical restaurants spread across more than 100 countries. Low capital intensity for the franchisor, combined with an ability to scale rapidly made franchising appealing to GSMFEL as a way of standardizing individual chemical shops in a relatively unregulated environment.

Unlike McDonald's, however, CareShop chose not to seek entrepreneurs to build their own stores from a "green field." Instead, CareShop offered existing LCS the opportunity to renovate their stores and business practices to become CareShop franchisees in a process known as conversion franchising.

For the franchisor, conversion franchising held several advantages over "green field" strategies. First, it is legally simpler for the entrepreneur. It takes an average of 11 procedures over 42 days (compared to 6 days in the USA) to establish a "green field" business. Second, conversion would reduce the capital requirements since all targets already had functioning shops. Third, conversion ensured that the franchisees already had at least some business sense because most converts had years if not decades of prior experience in managing their own business. Fourth, converting a large number of retail outlets helped CareShop to diversify its own risk across multiple outlets, demographics, and geographies. Finally, conversion allowed CareShop to appropriate immediately a pre-existing knowledge base and customer base. Each conversion target already had a substantial clientele, and had a valuable local knowledge of patient treatment-seeking behavior. This knowledge base would be helpful in serving those patients more efficiently.

For the franchisee, CareShop presented the opportunity to improve her income while maintaining her autonomy. Ninety-five percent of LCS own their outlets, and of these, 60% rely on the shop as their sole source of income GSMF (2003). Improving the profitability of the store, therefore, is a very strong incentive. While many LCS acknowledged that they might increase profitability through outside assistance, the vast majority (72%) indicated that they would not consider operating their businesses with a partner, primarily because they could not afford to share the profits. The CareShop franchising model, on the other hand, appealed to 76% of respondents as a way to capture outside help in improving their profitability, even at the expense of some autonomy.

For the customer, CareShop symbolizes a trusted, consistent, high level of service at the point of sale as well as a trusted product supply chain.

CareShop franchisees pay an initiation fee of GH¢15 or approximately \$15. In addition to the initiation fee, CareShop owners must cover the costs of store renovation and a portion of their training expenses. Renovation costs represent the bulk of conversion costs and could run into the hundreds of dollars depending on how extensively franchisees choose to renovate their stores Joel & Julia (2008).

Over CareShop's five-year history, it has made great progress in building its network and business, but has also faced formidable challenges. Today, its network of 276 franchisees continues to operate, but the franchisor, GSMFEL, has failed to turn a profit. GSMFEL is at a critical juncture between being overtaken by the many inherent and operational challenges of

running a chemical seller franchise, and leveraging its experience and innovative business model to capture significant market opportunities. GSMFEL has revolutionized the way that its 276 franchisees practice business and serve their customers, yet has not been able to translate their value add into a profit stream.

#### **2.14 OVERVIEW OF THE PHARMACEUTICAL INDUSTRY IN GHANA**

In Ghana, the pharmaceutical sector comprises of producers of drugs, wholesalers, distributors, retailers and consumers. According to the Centre for Pharmaceutical Management (2003) the pharmaceutical market in Ghana on the demand side was worth about 90 million United States dollars (US\$) in the year 2001. The size of the pharmaceutical industry was estimated by Seiter & Gyansa-Lutterodt (2009) to be of the magnitude of US\$300 million in terms of sales for both locally and imported pharmaceuticals in the year 2008.

Within this market, the government of Ghana is a major player, both as a regulator of the market and as a buyer involved directly in the wholesale and supply of drugs and healthcare services. The private sector wholesale market is often to be an important player in the sector. However, its role and functions beyond narrow commercial interests are not well known. The private sector wholesalers are clearly an important part of the supply chain from the pharmaceutical producers to the ultimate consumers of drugs and other pharmaceutical products Annum et al (2010).

The current number of pharmaceutical manufacturers – including those also engaged in importation, wholesale or other areas of the supply chain – is between 25 and 30. Seiter and Gyansa-Lutterodt (2009) outline the structure of the pharmaceutical wholesale market in the year 2008. They indicate that about 150 companies are licensed or registered national or regional wholesalers of pharmaceutical products. Further, about 60 companies act as importers of pharmaceutical products and they sell these products to local distributors based on their own networks. Seiter & Gyansa-Lutterodt (2009) report that the total number of businesses involved in active drug import and distribution is between 200 and 300. These numbers are similar to those of registered wholesalers of pharmaceutical products in Ghana for the year 2000 as reported by Centre for Pharmaceutical Management (2003). Given the moderately high economic growth of Ghana over the last 25 years, the local pharmaceutical market has become increasingly attractive for both wholesale and retail suppliers. Local producers account for about 30% of market share with the remaining 70% share supplied mainly by Indian and Chinese pharmaceutical firms (Seiter & Gyansa-Lutterodt, 2009; Buabeng, 2010).

In principle, a retail pharmacy in a small-localized area can act as a wholesaler for local chemical sellers or local clinics and hospitals Seiter & Gyansa-Lutterodt (2009). This means that potentially pharmaceutical wholesalers can run into several hundreds given the number of districts and local council areas in Ghana and the dominance of one pharmaceutical retailer in a given area, especially for remote parts of the country. Therefore, from an economic analytical viewpoint, the pharmaceutical wholesale market in Ghana has a monopolistic competitive market structure on the supply side; that is, the market is

characterized by many sellers who distinguish themselves from each other through branding and selective advertising.

## **2.14 PROBLEMS FACED BY THE PHARMACEUTICAL INDUSTRY IN GHANA**

A comprehensive review of the pharmaceutical sector was undertaken in 1994, which identified a number of major problems within the sector. Principal among these were inappropriate use of drugs, poor procurement, storage and distribution practices, inadequate financial management systems for drugs, leading to erosion of capital of the revolving drug funds and inappropriate quality assurance. The review further identified that wholesalers and retailers of pharmaceutical products had not been able to extend their reach to the rural parts of the country, found it difficult in assessing capital to expand their business and a reluctance to franchise their businesses due to little knowledge about its operation and prospects. For most of these wholesalers and retailers their inability to expand have mainly been as a result of regulatory requirements by the pharmacy council, getting a pharmacist to superintend their facilities especially in the other regions in Ghana apart from Greater Accra and Ashanti, and their inability to attract the right staff and training them MOH (2002). These problems resulted in the formulation of a master plan for the sector that formed the basis for the setting up of the Ghana National Drugs Program (GNDP) in 1997.

## **2.15 CONCLUSION**

This chapter reviewed the history, conceptual view, benefits and challenges of franchising businesses worldwide and narrowed it down to Africa and Ghana. It also reviewed the

CareShop social franchise concept adopted by GSMF for licensed chemical shops in Ghana and concluded with an overview and problems facing the pharmaceutical industry in Ghana.

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## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter explains the various methods used in collecting data for the study. This was a case study approach that required an in-depth analysis therefore the tool used was a questionnaire.

#### **3.2 RESEARCH DESIGN**

To make the study reliable three phases was used as design: preparation, fieldwork and analysis. Forty out of forty-five pharmacies in the twenty-three districts in the region were selected. The five excluded facilities were newly opened and would have little knowledge and experience in the industry and the district in which they operate. The total population was purposively selected and it comprised of either the superintendent pharmacist or the proprietor of the facility making up to forty people. A questionnaire to collect primary data was prepared; the objective of the research was explained to respondents and then administered to them. The research required respondents to choose from a variety of responses from a questionnaire. Since these responses would have to be tallied and tabulated to determine the frequency of responses, a quantitative technique was used in the analysis of the data.

### **3.3 POPULATION OF THE STUDY AREA**

The total population of the study area is forty-five (45) pharmacies. These represent the total number of pharmacies in the region that have been licensed by the pharmacy council to engage in either wholesale only business or to do both wholesaling and retailing of pharmaceutical products.

### **3.4 SAMPLE SIZE AND SAMPLING TECHNIQUE**

A sample size of forty (40) facilities representing approximately 88% of the population was earmarked for the study. The sample of forty comprised of either pharmacy proprietors and/or pharmacists who have registered these outlets. The five (5) pharmacies excluded from the sample were newly opened and is the opinion of the researcher that these newly opened facilities would have little experience in the industry and the locality in which they are operating to be able to give accurate feedback for the research. The researcher employed a non-probability sampling technique in the survey. This sampling technique (purposive sampling) was used to select the pharmacies in the Brong Ahafo region. This technique was adopted because the intention is to gain insight into franchising of pharmaceutical businesses and it is only practicing managers and pharmacists in that industry who are in a good position to provide the right feedback for the research, hence the need to select pharmacy proprietors and/or superintendent pharmacists registering these facilities.

### **3.5 SOURCES AND TYPES OF DATA**

The type of data that was gathered included background information on pharmacy business, information on the pharmacy business challenges, franchise strategies, franchise proposition

and franchise challenges. Data collected was qualitative. There was however one quantitative data on the number of years the pharmacy has been in operation.

The study made an extensive use of both primary and secondary sources of data. The primary data was collected by way of information gathered from administering the survey questionnaire. Secondary sources of data such as academic journals, textbooks, published magazine, reports and the internet was consulted in the reviewing of the relevant literatures on the study. These constituted the basis for the literature review of the study.

### **3.6 RESEARCH INSTRUMENT AND METHOD OF DATA COLLECTION**

A comprehensive survey questionnaire was designed in consultation with practicing managers in the pharmaceutical industry. A pre-testing of the questionnaire was conducted in some pharmacies in the Sunyani municipality before the questionnaire was revised to avoid inapplicable questions, ambiguous wording, and its inappropriateness. After the pre-testing and further revisions, the survey questionnaire was produced in a final form and used to collect data.

Pharmacy proprietors and/or pharmacists who have registered these facilities responded to the questionnaire. The data collected was analyzed. In all forty (40) questionnaires based on the objectives of the study was administered. The questionnaire was both closed and open-ended type. The questionnaires were personally administered using the “personal-contact”

approach where respondents were approached personally and explained to in detail about the survey, including its purpose, the meaning of the terms and what is expected of them.

### **3.7 DATA PRESENTATION AND ANALYSIS**

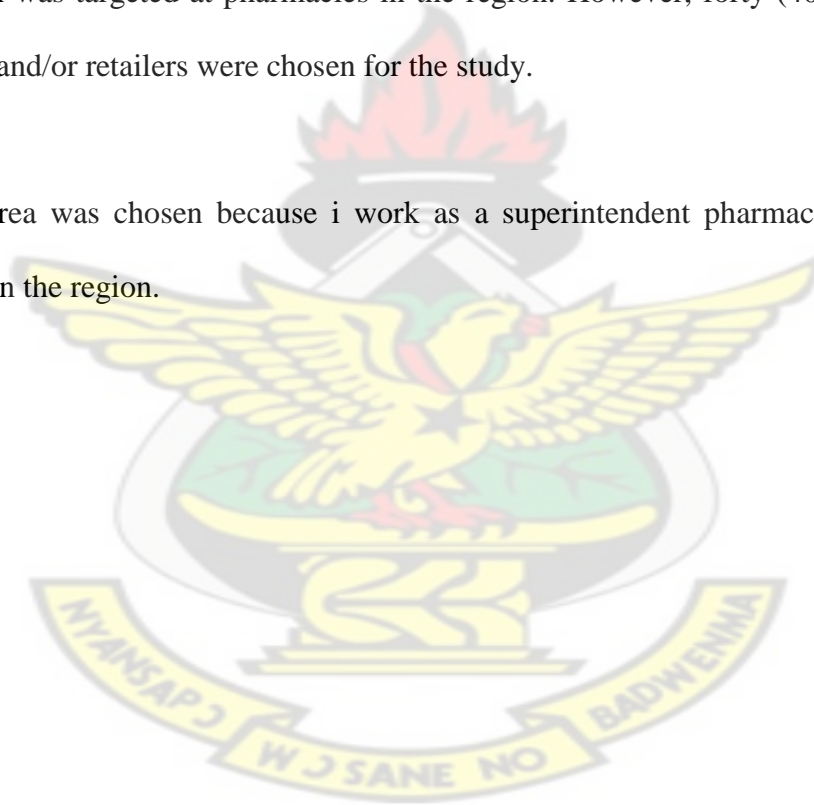
Due to the nature of the responses that were solicited from respondents, a quantitative method was employed in the analysis of data of the study. Quantifying the responses of respondents allows for easy presentation, description and analysis. Statistical software called Statistical Package for Social Sciences (SPSS) was used to summarize responses. Frequency distributions, percentages, tables and descriptive statistical tools such as bar and pie charts were generated with the software and used to evaluate the research on the prospects and challenges of franchising pharmacies in the Brong Ahafo region based on the research questions. The primary data from the field is presented in tabular, graphical and narrative forms. In analyzing the data, the researcher compared the percentage of responses to each question to draw conclusions as to what respondents generally agreed on. In other instances the use of the pie and bar charts were employed to show trend in responses.

### **3.8 PROFILE OF THE STUDY AREA**

The study was conducted in the Brong Ahafo region. The region was created on the 4<sup>th</sup> day of April 1959 by the Brong Ahafo Act No. 18. The Act defined the area of the region to consist of the Northern and the Western part of the then Ashanti region and included the Prang and Yeji areas that before the enactment of the Act formed part of the Northern region. The region has a territorial size of 39,557 square kilometers and is the second largest region

in the country. The population of the region is 1,815,408, accounting for 9.6% of the country's total population with a population density of 45.9 persons per square kilometer. The region has only slightly more males than females, with a sex ratio (males to 100 females) of 100.8. The region has a tropical climate and a double maxima rainfall pattern. Agriculture and related work is the major occupation in all districts, accounting for 66.4 % of the region's economically active population. The region has 23 administrative municipals and districts, 37 town councils, 24 constituencies and 2292 polling stations Ghana Statistical Service (2010). The research was targeted at pharmacies in the region. However, forty (40) pharmaceutical wholesalers and/or retailers were chosen for the study.

The study area was chosen because i work as a superintendent pharmacist in one of the pharmacies in the region.



## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1 INTRODUCTION

This chapter is devoted to the presentation and analysis of the data collected for the research. The information is summarized by the use of descriptive statistics, especially the use of frequency distribution presented in tables, bar and pie charts. The analysis is based on the questionnaires retrieved from the field

#### 4.1 DESIGNATION

**Table 4.1 Designation of respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Proprietor	11	27.5	27.5	27.5
Pharmacist	14	35.0	35.0	62.5
Both	15	37.5	37.5	100.0
Total	40	100.0	100.0	

**Source:** Field survey data: June, 2011

Table 4.1 above shows the designation of the respondents from the survey. Out of the 40 respondents, 11 were proprietors of the facilities, 14 were superintendent pharmacists who have registered to supervise the day-to-day running of the facilities and 15 respondents were

both proprietors and pharmacists. This goes to show that 37.5% of pharmacies in the Brong Ahafo region are actually owned by pharmacists.

#### 4.2SECTION A: BACKGROUND INFORMATION ON THE FACILITY

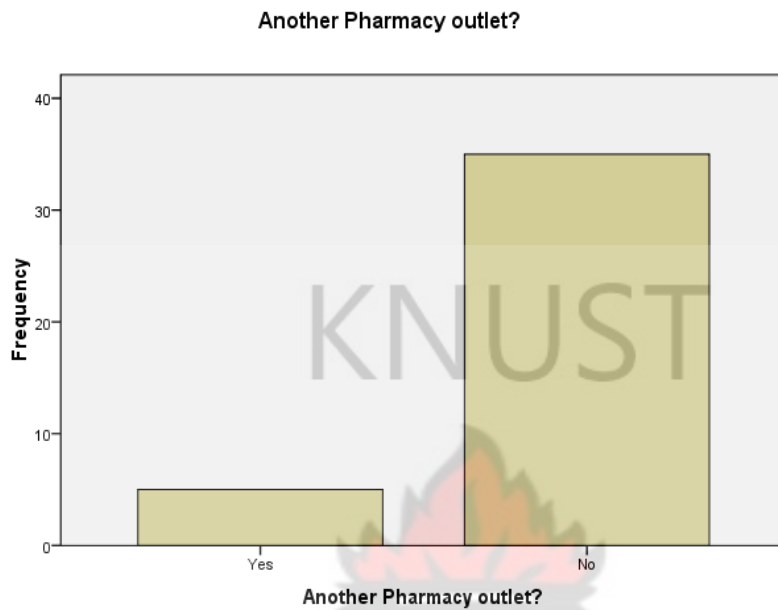
**Table 4.2 Years in operation**

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 2 years	7	17.5	17.5	17.5
From 2 years to less than 5 years	12	30.0	30.0	47.5
From 5 years to less than 10 years	10	25.0	25.0	72.5
10 years or more	11	27.5	27.5	100.0
Total	40	100.0	100.0	

**Source:** Field survey data: June, 2011

The above table from the study shows the number of years of operation of pharmacies in the Brong Ahafo region. Seven (7) of them have been in the business for less than 2 years, twelve (12) have spent between two (2) to five (5) years, ten (10) pharmacies have been in business between five (5) to ten (10) years, and eleven (11) in over ten (10) years. The trend has revealed that a high number (about 21) of the pharmaceutical businesses in the region have been in business for over five (5) years and this represents a cumulative percentage of 52.5%.

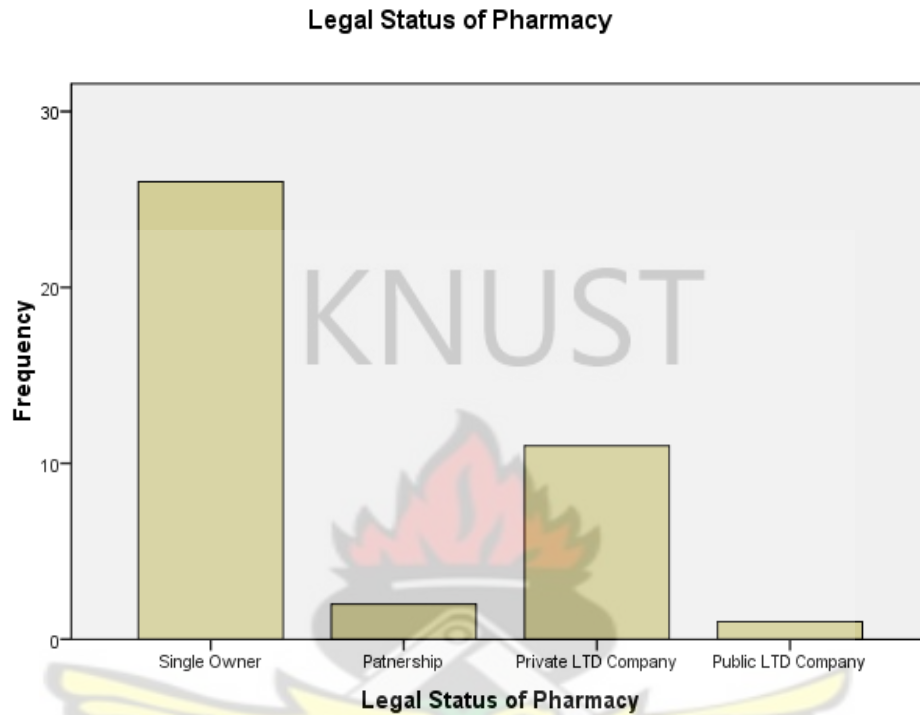
**Figure 4.1 Another pharmacy outlet**



**Source:** Field survey data, June 2011

Figure 4.1 above shows the response from respondents on seeking to find out whether or not they have other outlets in the region or country. Thirty-five (35) respondents representing 87.5% indicated that they do not operate another facility located anywhere in the region or country whilst the other five (5) do.

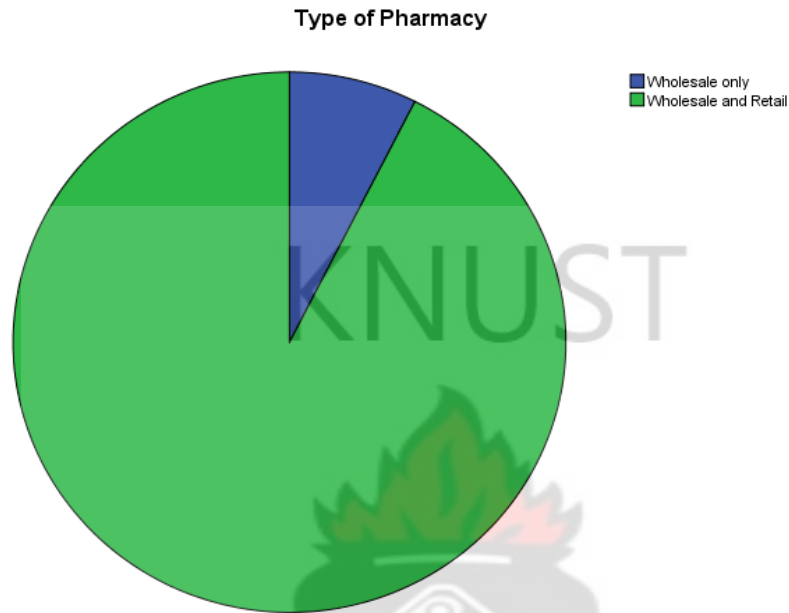
**Figure 4.2 Legal status of pharmacy**



**Source:** Field survey data, June 2011

Figure 4.2 shows the chart on the legal status of pharmacies in the region, the results received indicates that twenty-six (26) facilities are owned by a single individual and represents the highest percentage of 65%, five (5) are partnerships between two (2) or more individuals, eleven (11) are private limited companies and one (1) a public limited company. Further information gathered from interviewing respondents showed that even though 26 facilities are owned by a single owner, they are all registered entities with business registration certificates from the registrar generals department.

**Figure 4.3 Type of pharmacy outlet**



**Source:** Field survey data, June 2011

Thirty-seven (37) facilities in the Brong Ahafo region are registered to operate as wholesale and retail, whilst three (3) facilities are operating as wholesale only facilities. No pharmacy in the region has been registered to operate on a purely retail basis according to the survey.

### 4.3 SECTION B: BUSINESS PROBLEMS

**Table 4.3 Challenges in setting up pharmacy**

Variable	legal requirement		Getting a pharmacist		supply chain		staff & training		Capital		location	
	F	%	F	%	F	%	F	%	F	%	F	%
1	12	30	1	2.5	1	2.5	1	2.5	17	42.5	8	20
2	5	12.5	7	17.5	1	2.5	4	10	12	30	11	27.5
3	6	15	11	27.5	8	20	3	7.5	4	10	8	20
4	4	10	8	20	13	32.5	6	15	5	12.5	4	10
5	7	17.5	6	15	9	22.5	12	30	1	2.5	5	12.5
6	6	15	7	17.5	8	20	14	35	1	2.5	4	10
Total	40	100	40	100	40	100	40	100	40	100	40	100

**Source:** Field survey data, June 2011

Notes:

- F = Frequency
- % = Percentage
- 1 – 6 = Difficulty faced in setting up pharmacy
- 1 = Most difficult challenge
- 6 = Least difficult challenge

The study of the challenges faced in setting up a pharmacy in the Brong Ahafo region revealed that capital constituted the greatest challenge for most pharmacies in the region having a percentage of 42.5%, whilst only 2.5% accepted that to be their least challenge. This result goes to buttress the results of the comprehensive review of the pharmaceutical sector in

1994 that identified access to capital as a major challenge facing pharmaceutical businesses in Ghana.

**Table 4.4 Current challenges affecting pharmacies**

	Responses		
	N	Percent	Percent of Cases
Legal Requirements	1	1.4%	2.5%
Getting a Pharmacist	4	5.5%	10.0%
Supply Chain	15	20.5%	37.5%
Staffing & Training	16	21.9%	40.0%
Capital	32	43.8%	80.0%
Location	5	6.8%	12.5%
Total	73	100.0%	182.5%

Source: Field survey data, June 2011

The data presented in table 4.4 above shows the responses of respondents to the current challenges affecting their business. 43.8% of the respondents are having problems raising the needed capital for efficient operations of their outlets. Overall obtaining capital to run the operations of pharmacies in the region constituted the highest challenge currently facing pharmacies in the region. This reason is also in agreement with the results of the review of the pharmaceutical sector that identified access to capital as a challenge to business expansion.

**Table 4.5 Threat to Pharmacy survival**

Variable	legal requirement		Getting a pharmacist		supply chain		Staffing & training		Capital		Location	
	F	%	F	%	F	%	F	%	F	%	F	%
1	7	18	4	10	5	13	3	7.5	20	50	1	2.5
2	4	10	5	13	4	10	9	22.5	10	25	8	20
3	5	13	11	28	9	22.5	8	20	2	5	5	13
4	13	33	3	7.5	6	15	8	20	1	2.5	9	22.5
5	8	20	8	20	7	18	9	22.5	1	2.5	7	18
6	3	7.5	9	22.5	9	22.5	3	7.5	6	15	10	25
Total	40	100	40	100	40	100	40	100	40	100	40	100

**Source:** Field survey data, June 2011

Notes:

- F = Frequency
- % = Percentage
- 1 – 6 = Threat to pharmacy survival
- 1 = Most threatening factor
- 6 = Least threatening factor

Overwhelmingly, 50% of respondents believe capital is the most threatening potential for the survival of their pharmacy business, whilst 15% believed it to be the least threatening factor. 2.5% of respondents indicated that the location of their premises have the potential of threatening business survival, whilst 25% believed that it could not be the case. From table 4.5 above, it can be deduced that capital (50%) poses a threat to pharmacy business survival.

**Table 4.6 Problems associated with expansion**

	Responses		Percent of Cases
	N	Percent	
Legal Requirements	4	5.5%	10.0%
Getting a Pharmacist	5	6.8%	12.5%
Supply Chain	12	16.4%	30.0%
Staffing & Training	7	9.6%	17.5%
Capital	36	49.3%	90.0%
Location	9	12.3%	22.5%
Total	73	100.0%	182.5%

Source: Field data, June 2011

The research determined to find out from respondents what they consider as hampering the expansion of their facilities. The results are as summarized in table 4.6 above: 49.3% of respondents believe the problem has to do with lack of funds, 16.4% indicated the problem is to do with the supply chain system, 12.3% believe it is a location issue, 9.6%, 6.8% and 5.5% of respondents indicated that the problem is to do with staffing and training, getting a pharmacist and legal requirements respectively. The above results further buttresses the MOH (2002) report about the difficulty in getting access to capital as hampering expansion of the sector.

#### 4.4 SECTION C: FRANCHISE STRATEGY

**Table 4.7 Expansion strategies**

Variable	Franchise		Joint venture		partners		sole proprietor		Acquisition		Merger	
	F	%	F	%	F	%	F	%	F	%	F	%
1	9	22.5	8	20	12	30	6	15	2	5	3	7.5
2	6	15	11	27.5	10	25	9	22.5	3	7.5	1	2.5
3	14	35	6	15	5	12.5	5	12.5	3	7.5	7	17.5
4	5	12.5	3	7.5	8	20	3	7.5	9	22.5	12	30
5	2	5	11	27.5	4	10	9	22.5	6	15	8	20
6	4	10	1	2.5	1	2.5	8	20	17	42.5	9	22.5
Total	40	100	40	100	40	100	40	100	40	100	40	100

**Source:** Field survey data, June 2011

Notes:

F = Frequency

% = Percentage

1 – 6 = Expansion strategy

1 = Most favorable strategy

6 = Least favorable strategy

On the type of expansion strategy that pharmacy businesses in the Brong Ahafo region would want to adopt: 22.5% of respondents would adopt franchising, whilst 10% believe it is their least favorable approach. 20% of respondents indicated that they would adopt joint venture, whilst 2.5% believe it is a least favorable approach. Partnership had the highest favorable

rating of 30% from respondents, whilst 2.5% of the respondents believe it is least favorable. Whilst 15% of respondents believe that sole proprietorship is the way to go, 5% and 7.5% believe it is acquisition and merger respectively. However, acquisition received the highest least favorable rating of 42.5%, followed by merger (22.5%) and sole proprietorship (20%).

**Table 4.8 Important strategic consideration**

Variable	Legal requirement		Getting a Pharmacist		supply chain		staffing & training		Capital		Location	
	F	%	F	%	F	%	F	%	F	%	F	%
1	9	22.5	3	7.5	4	10	1	2.5	20	50	3	7.5
2	5	12.5	10	25	4	10	1	2.5	10	25	10	25
3	4	10	8	20	5	12.5	3	7.5	3	7.5	17	42.5
4	8	20	5	12.5	11	27.5	9	22.5	1	2.5	4	10
5	9	22.5	11	27.5	7	17.5	6	15	5	12.5	2	5
6	5	12.5	3	7.5	9	22.5	20	50	1	2.5	4	5
Total	40	100	40	100	40	100	40	100	40	100	40	100

**Source:** Field survey data, June 2011

Notes:

F = Frequency

% = Percentage

1 – 6 = Strategic consideration

1 = Most important strategic consideration

6 = Least important consideration

The table above gives an analysis of respondents view on what they consider as important strategic decision to be considered if they decide to franchise their business entity. Overwhelmingly, capital representing 50% of the respondents constituted the most important strategic factor, with 2.5% indicating it to be the least. 7.5% of respondents suggested location as the most important factor, with 5% believing otherwise.

**Table 4.9 Key success factors of a franchise**

Variable	Reputation		Experience		Risk		Financial		Legal	
	F	%	F	%	F	%	F	%	F	%
1	5	12.5	11	27.5	7	17.5	12	30	5	12.5
2	7	17.5	13	32.5	3	7.5	11	27.5	6	15
3	15	37.5	12	30	5	12.5	4	10	4	10
4	7	17.5	1	2.5	14	35	10	25	8	20
5	6	15	3	7.5	11	27.5	3	7.5	17	42.5
Total	40	100	40	100	40	100	40	100	40	100

**Source:** Field survey data, June 2011

Notes:

F = Frequency

% = Percentage

1 – 6 = Key success factors of a franchise

1 = Most important success factor

6 = Least important success factor

Respondents were asked to determine which factors they consider as key in ensuring the success of a franchise. 30% of respondents indicated that the financial position of a business constituted the most important success factor, whilst 7.5% indicated that it was the least most important. This assertion is in agreement with the research by Magleby (2006) which noted a key franchise strategy revolves around assessing the financial position of potential franchisees.

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**Table 4.10 Reason for franchising**

	Responses		
	N	Percent	Percent of Cases
Increased survival rate	38	63.3%	95.0%
Cost sharing	5	8.3%	12.5%
Large buying power	9	15.0%	22.5%
Knowledge sharing	3	5.0%	7.5%
Best Practices	5	8.3%	12.5%
Total	60	100.0%	150.0%

**Source:** Field survey data, June 2011

The opinion of respondents was sought for what could be their strategic reason for franchising their business. 38 respondents (63.3%) indicated the main reason to be the

increased rate of survival of franchises. This assertion buttresses that expressed by Dickle (2005) that in franchising due to the shared motivation, success rates and survival are high.

**Table 4.11 Advantageous reason for franchising**

Variable	High success rate		Rapid business expansion		Shared risk		Greater commitment		employment opportunity		economic growth	
	F	%	F	%	F	%	F	%	F	%	F	%
1	20	50	9	22.5	5	12.5	6	15	4	10	2	5
2	6	15	10	25	9	22.5	3	7.5	1	2.5	5	12.5
3	5	12.5	5	12.5	11	27.5	4	10	6	15	1	2.5
4	4	10	2	5	5	12.5	14	35	9	22.5	5	12.5
5	2	5	5	12.5	8	20	8	20	10	25	10	25
6	3	7.5	9	22.5	2	5	5	12.5	10	25	17	42.5
Total	40	100	40	100	40	100	40	100	40	100	40	100

**Source:** Field survey data, June 2011

Notes:

F = Frequency

% = Percentage

1 – 6 = strategically advantageous reason for franchising

1 = Most advantageous reason

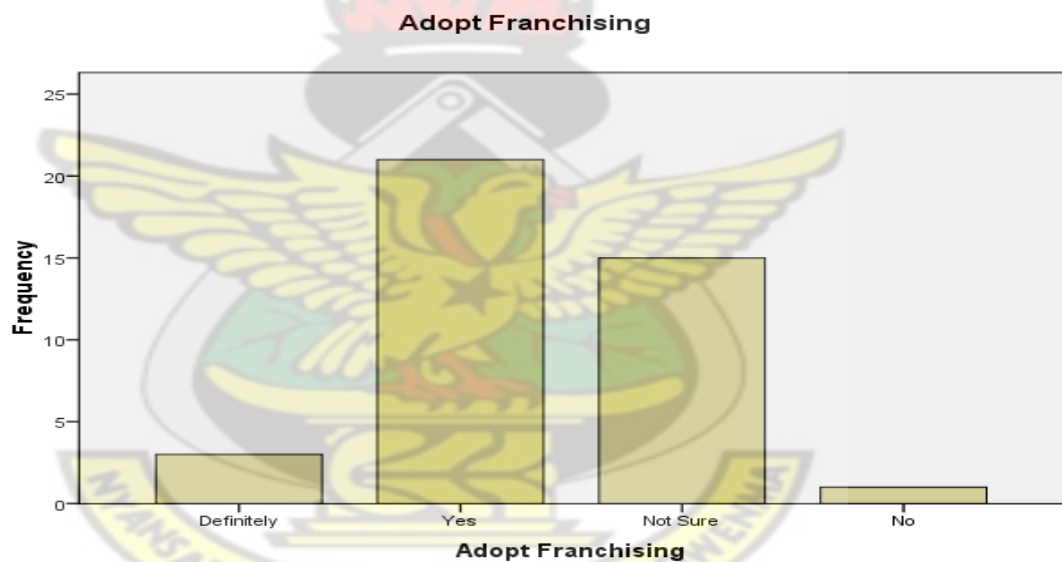
6 = Least advantageous reason

Table 4.11 above shows respondents' reason for what they consider to be a strategically advantageous reason for franchising a pharmacy business. 50% of respondents believe the

most strategically advantageous reason for franchising a pharmacy business is due to the high success rate, this is followed by rapid business expansion 22.5%, shared risks 10% and economic growth 5%. Dickle (2005) also believes that the shared motivation in a franchise leads to a high success rate.

#### 4.5 SECTION D: FRANCHISE PROSPECTS

**Figure 4.4 Franchise adoption**



**Source:** Field survey data, June 2011

7.5% of respondents would definitely adopt franchising as a market entry mode in expanding the coverage and reach of their outlets in the region. 52.5% of respondents responded yes to adopting franchising, 37.5% are not sure whether to adopt franchising and 2.5% would not adopt franchising.

**Table 4.12 Approach to franchise**

	Frequency	Percent	Valid Percent	Cumulative Percent
Franchise an Existing chemical shop	11	27.5	27.5	27.5
Franchise an existing pharmacy	22	55.0	55.0	82.5
Put up a new facility	7	17.5	17.5	100.0
Total	40	100.0	100.0	

**Source:** Field survey data, June 2011

27.5% of respondents believe the easiest approach to adopt in franchising their business is to franchise an existing chemical shop, 55% indicated that the easiest approach would be to franchise an existing pharmacy and 17.5% believe the easiest approach is to put up a new facility and franchise it.

**Table 4.13 Norm in franchise agreements**

	Responses		Percent of Cases
	N	Percent	
Royalties	35	47.9%	87.5%
Initiation fee	7	9.6%	17.5%
Full Disclosure	4	5.5%	10.0%
Compliance to rules	24	32.9%	60.0%
Long Term Contract	3	4.1%	7.5%
Total	73	100.0%	182.5%

**Source:** Field survey data, June 2011

Table 4.13 above summarizes the responses from respondent on their view concerning what they would insist on and accept in a franchise agreement. 47.9% of respondents agreed that they would accept royalties from franchisees, 9.6% agreed that there should be the payment of an initiation fee, 5.5% indicated that in a franchise agreement there should be full disclosure, 32.9% indicated the importance of compliance to rules and 4.1% agreed that franchises should be long term contracts between the parties involved.

**Table 4.14 Important to a franchise system**

	Responses		
	N	Percent	Percent of Cases
Standards	9	13.2%	22.5%
Operating Procedures	23	33.8%	57.5%
Support	16	23.5%	40.0%
Level of Control	11	16.2%	27.5%
Termination Clauses	7	10.3%	17.5%
Duration of Contract	2	2.9%	5.0%
Total	68	100.0%	170.0%

**Source:** Field survey data, June 2011

Respondent's views were picked on what they consider to be important in a franchise system. 33.8% believe having proper operating procedures is important, 23.5% agree that there should be a support system, 16.2% indicated that they should be some level of control in the system, 10.3% indicated the importance of termination clauses in franchise contracts, whilst 2.9% believe the duration of the franchise is important and should be stated. Generally, respondents agreed that for any franchise system to operate there should be laid down operating procedures and support. This assertion is shared by Murphy (2010).

**Table 4.15 Support to a franchisee**

Variable	Advertising		Financial		Staffing & Training		Inventory	
	F	%	F	%	F	%	F	%
1	2	5	30	75	4	10	6	15
2	21	52.5	4	10	3	7.5	10	25
3	12	30	4	10	2	5	22	55
4	5	12.5	2	5	31	77.5	2	5
Total	40	100	40	100	40	100	40	100

**Source:** Field survey data, June 2011

Notes:

F = Frequency

% = Percentage

1 – 4 = Level of franchise support to be provided

1 = Most preferred support

4 = Least preferred support

In table 4.15, respondents were asked what they would provide as support to a franchise business. 75% of respondents indicated financial support as what they would provide most for a franchise; this is followed with inventory 15%, advertising, staffing and training having 10% respectively. 77.5% of respondents indicated staffing and training as their least preferred support, followed by advertising 12.5%, financial and inventory having 5% respectively.

**Table 4.16 Key to a franchise arrangement**

Variable	Franchise disclosure document		Operation manual		Franchise agreement	
	F	%	F	%	F	%
1	13	32.5	14	35	13	32.5
2	15	37.5	18	45	7	17.5
3	12	30	8	20	20	50
Total	40	100	40	100	40	100

**Source:** Field survey data, June 2011

F = Frequency

% = Percentage

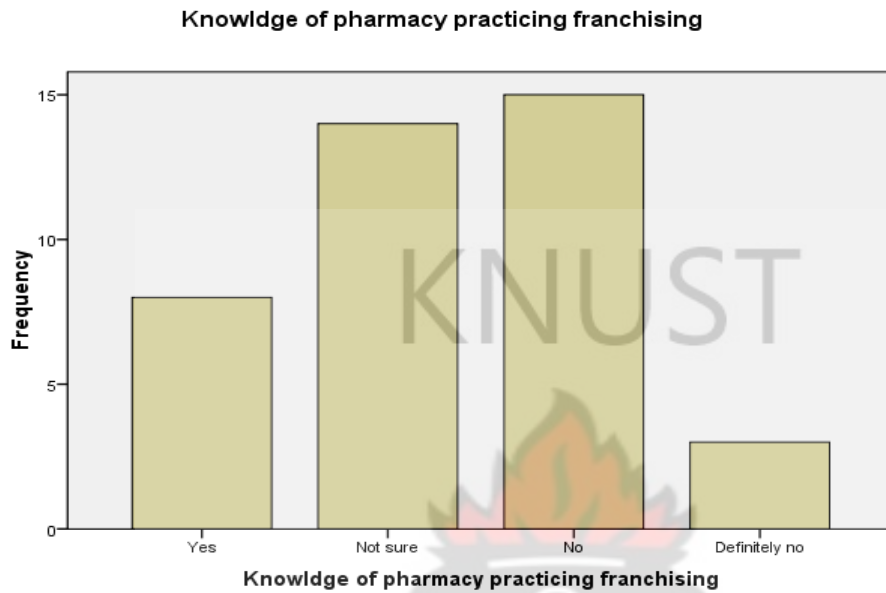
1 – 3 = Level of importance in a franchise agreement

1 = Most important factor

4 = Least important factor

In table 4.16 above, respondents' opinion was gathered as to what they consider as key in any franchise document. 35% of respondents believe the operations manual constitute the most important document in any franchise arrangement, whilst 50% of respondents agree that the franchise agreement is the least important document to consider.

**Figure 4.5 Knowledge of Pharmacy practicing franchising**



**Source:** Field survey data, June 2011

The figure above represents respondent's response on whether they know any pharmacy or different business entity in the region that is practicing franchising. 20% of respondents are aware of franchise operations in the region, 35% are not sure of such operations, a majority of 37.5% do not know about franchise operations in the region, whilst 7.5% said definitely no.

#### 4.6 SECTION E: FRANCHISE CHALLENGES

Table 4.17 Facility challenges in franchising

Variable	Legal requirement		Pharmacist		Supply chain		Staffing & training		Capital		Location	
	F	%	F	%	F	%	F	%	F	%	F	%
1	6	15.0	12	30	1	2.5	2	5	10	25	3	7.5
2	1	2.5	9	22.5	1	2.5	1	2.5	12	30	15	37.5
3	3	7.5	5	12.5	8	20	2	5	9	22.5	14	35
4	12	30	5	12.5	14	35	3	7.5	1	2.5	4	10
5	14	35	4	10	5	12.5	15	37.5	4	10	2	5
6	4	10	5	12.5	11	27.5	17	42.5	4	10	2	5
Total	40	100	40	100	40	100	40	100	40	100	40	100

Source: Field survey data, June 2011

F = Frequency

% = Percentage

1 – 6 = Level of challenges

1 = Most difficult challenge

6 = Least difficult challenge

From table 4.17 above it can be inferred that 30% of respondents believe getting a pharmacist would be the most difficult challenge to be faced in franchising a pharmacy in the Brong Ahafo region, this is followed by capital 25% and legal requirement 15%.

**Table 4.18 Challenges that can make franchising unattractive**

	Responses		Percent of Cases
	N	Percent	
Managing from a distance	14	20.0%	35.0%
Loss of Control	7	10.0%	17.5%
Monitoring costs	11	15.7%	27.5%
Operational Support	8	11.4%	20.0%
Legalities	30	42.9%	75.0%
Total	70	100.0%	175.0%

**Source:** Field survey data, June 2011

Respondents' view on what potential challenges they envisage would make franchising unattractive in the region are summarized in table above. 42.9% of respondents believe the legal issues associated with franchising would make it unattractive to them. 20% of respondents would not want to manage a franchised business from a distance, 15.7% would not be attracted if there are costs associated with monitoring, 11.4% are afraid of the operational support they are to give and 10% believe there is some form of loss of control which makes the strategy unattractive to them.

**Table 4.19 Legal problems between franchisor/franchisee**

	Responses		Percent of Cases
	N	Percent	
Lack of full Disclosure	5	6.8%	12.5%
Terms of Agreement	20	27.0%	50.0%
Fees payment	14	18.9%	35.0%
Poor communication	3	4.1%	7.5%
Renewal/termination clause	30	40.5%	75.0%
Lack of flexibility	2	2.7%	5.0%
Total	74	100.0%	185.0%

**Source:** Field survey data, June 2011

Table 4.19 above summarizes respondents' view of potential legal problems that can emanate from the franchisor/franchisee relationship. Renewal and termination clauses (40.5%) was viewed by respondents as that which can pose potential problems in a franchise agreement, whilst the lack of flexibility (2.7%) was viewed as that which can pose problems the least.

**Table 4.20 Risk in a franchise system**

Variable	Financial		Operational failure		Loss of control		Reduced profit	
	F	%	F	%	F	%	F	%
1	30	75	5	12.5	3	7.5	2	5
2	3	7.5	9	22.5	19	47.5	7	17.5
3	5	12.5	24	60	7	17.5	6	15
4	2	5	2	5	11	27.5	25	62.5
Total	40	100	40	100	40	100	40	100

**Source:** Field survey data, June 2011

F = Frequency

% = Percentage

1 – 4 = Level of risk in a franchise system

1 = Most important risk

4 = Least important risk

Table 4.20 above summarizes the opinions of respondents on what they consider to constitute great risks in a franchise system for pharmacy operation in the Brong Ahafo region. 75% of respondents believe financial risk constitute the most important risk whilst 27.5% of respondents believe loss of control constitute the least risk.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 INTRODUCTION

This chapter is concerned with the summary of findings, conclusions and recommendations on the study “**prospects and challenges of franchising pharmacies in Ghana; a case study of pharmaceutical wholesalers and retailers in the Brong Ahafo region.**”

#### 5.2 SUMMARY OF FINDINGS

The main objective of the study was to explore the prospects and challenges of franchising pharmacies in the Brong Ahafo region. Franchising, as a form of business expansion has achieved great success in major parts of the world, significantly in the developed countries. As improving access to quality, efficacious and affordable medicines has become the goal for health in developing countries like Ghana, franchising as an entry mode is gaining grounds in newly emerging markets. The pharmaceutical industry is growing in the country and is regarded as a fertile field for future expansion as more pharmacies are springing up daily. The question is that would franchise work well in this particular industry in Ghana?

The research sought to find answers to the above question by exploring the current problems associated with extending pharmacy coverage, franchise strategies that can be considered in extending pharmacy coverage, prospects of adopting franchising as a market entry strategy and the potential problems that would be associated with franchising pharmacies in the

Brong Ahafo region. The findings have been summarized under the respective objectives below.

**Problems associated with extending pharmacy coverage in the Brong Ahafo region:**

The variables that were selected under this objective were legal requirements, getting a pharmacist, the drug supply chain, capital, location, staffing and training. These challenges are considered by practitioners of the industry as problems hampering the setting up of pharmacies in Ghana. However, it came to light from the survey that getting access to capital was the major problem hampering expansion of pharmacies in the region. This problem was also identified to be the major issue when pharmacies are being set up and the same problem is threatening the survival of facilities in the region. The issue of rent plays high on the capital argument because most landlords in the region require at least ten years rent advance if the facility is to be opened as a pharmacy. The issue of fixtures and fittings, payment of staff including the pharmacist and the payment of creditors of medicines all involve the intensive injection of money and this is hard to come by for most pharmacy operators in the region. The above result goes to buttress the findings in a report presented after the pharmaceutical sector was reviewed in 1994 which identified access to capital as a major problem in the sector MOH (2002). A similar research by McCabe (2009) identified startup capital as a major problem in the drug supply chain and leading to the unsustainable access to medicines in some developing countries.

**Franchising strategies that can be adopted to extend the coverage of pharmacies in the Brong Ahafo region:**

Analysis of the results of the survey indicates that franchising is the second most preferred entry mode to partnership in the Brong Ahafo region. However, the survey revealed that for respondents that are willing to adopt franchising, a key strategy for success is to explore the innovative ways of obtaining financial support from financiers. Because the access to capital challenge has been identified as a problem in the sector it becomes an important franchise consideration. Secondly, accessing the financial position of potential franchisees before including them in the network was identified as an important franchise strategy for success. Potential franchisees should be able to demonstrate that they have the financial strength to be a member of the franchise network. It was also unveiled from the study that the preference for franchising is because of its increased success rate and its ability to enhance the survival of businesses. Therefore building a good reputation for their facility, improving the financial position and gaining industry wide experience are considered as key franchise strategies. This assertion is in tandem with researches done by Magleby (2006) and Dickle (2005). From literature, Magleby (2006) believes that in franchising due to the shared motivation for success, an important franchise strategy such as building a good reputation and having financial might are key ingredients to success. Dickle (2005) also believes that in franchising there is the sharing of risks and knowledge which can increase financial stability and ultimately leads to its higher success rate.

**Prospects of adopting franchising as a market entry strategy for pharmacies in the Brong Ahafo region:**

The study discovered that whilst majority of pharmacies in the region were established through partnerships, the general assertion is that majority of respondents would like to adopt franchising as a market entry strategy in order to help to expand their businesses. This assertion is based on the fact that majority of respondents did prefer franchising of an existing pharmacy other than a chemical shop. They believe that this is easier because the existing facility would have had some knowledge and experience in the industry and this would increase their success rate in a franchise. Respondents had the conviction that certain aspects of franchising make its adoption a good one. They indicated that they would accept royalty payments from franchisees, institute franchise operating procedures, provide financial support to potential franchisees and ensure that key to any franchise arrangement is an operations manual to guide the operations. Secondly, the success of the conversion franchising that was achieved with chemical shops by GSMFEL makes respondents believe that franchising can work with pharmacies too. Joel and Julia noted in 2008 that franchising improves the drug supply chain by reducing the time spent by chemical sellers in purchasing medicines and the benefit they derived from training. Respondents believe that since conversion franchising of chemical shops offered the advantage of simplicity, reduction in capital requirements because all targets are already functioning, the franchisees already having some business sense and local clientele knowledge these benefits can be translated to pharmacies.

### **Challenges associated with franchising pharmacies in the Brong Ahafo region:**

The study was able to unearth challenges than can arise if pharmacies are franchised in the region. The key variables that were earlier identified to be problems in the sector were presented to respondents. Surprisingly, the problem of getting a pharmacist to register franchised outlets was considered to be the biggest challenge. All pharmacies in Ghana should be registered and superintended by a pharmacist according to the *Pharmacy Act 1994* (489). Respondents believe that since franchising would eventually lead to opening of additional outlets, getting a pharmacist to register the facility would be difficult. Currently, the Brong Ahafo region has fifty-two pharmacists with 70% of that number in Sunyani. Hence the opening up of new facilities outside the Sunyani municipality can pose a challenge to most proprietors in terms of the availability of the pharmacist to supervise the facility. Another problem that respondents identified could be problematic is the legal issues involved in a franchise contract. Majority are afraid that they could be tossed into legal battles with franchisees on issues bothering on renewal and/or termination clauses, terms of the agreement, how much royalties to be paid and disclosure issues. The legal challenge identified in the survey is corroborated by Steinberg et al (2004). They observed that, among the few franchise challenges, the majority of the problems are centered on legal disputes. They observed that in spite of disclosure laws there is evidence of abusive practices mostly by an incompetent franchisor or franchisee.

### **5.3 CONCLUSION**

Though there was a comprehensive review of the pharmaceutical sector seventeen years ago, the major problem of access to capital in expanding pharmacy operations is still a major challenge today. Though majority of pharmacies in the Brong Ahafo region have been registered as wholesale/retail and are between 2 – 5 years old, 87.5% of them do not have sister or affiliate facilities due to lack of capital to expand and the inadequacy of pharmacists in the region.

Even though majority of pharmacy owners want to adopt franchising due to its benefits there is largely a lack of knowledge about the concept and its operation. However, potential franchisors agree that for such a system to operate well there is the need to provide support to franchisees whilst the franchisors are willing to accept payment of royalties.

Even though franchising has a positive outlook for pharmacies, there are not enough pharmacists in the region who would be available to register the new franchised facilities. There is also the legal issues that would have to be explained well and the financial risks that would be involved.

### **5.4 RECOMMENDATIONS**

Since access to affordable, quality medicines is an important component of healthcare in Africa and since stocks of medicines supplied by the state-run medical stores are reported to be below recommended minimum stock levels in Ghana, there is the need to expand access to medicines through private pharmacies by providing this sector with support in terms of

capital to enable the expansion of operations. It is therefore recommended to banks and other financial institutions to extend credit at low interest rates to persons and businesses especially pharmacies that are interested in accessing them.

Furthermore, since the private sector is touted in Ghana as the engine of growth, wholesalers/retailers of pharmaceutical products need to be educated in emerging areas of business growth such as franchising. This would require that the pharmacy council in their training programs include areas that would involve a discussion as to how to adopt franchising as a business expansion strategy.

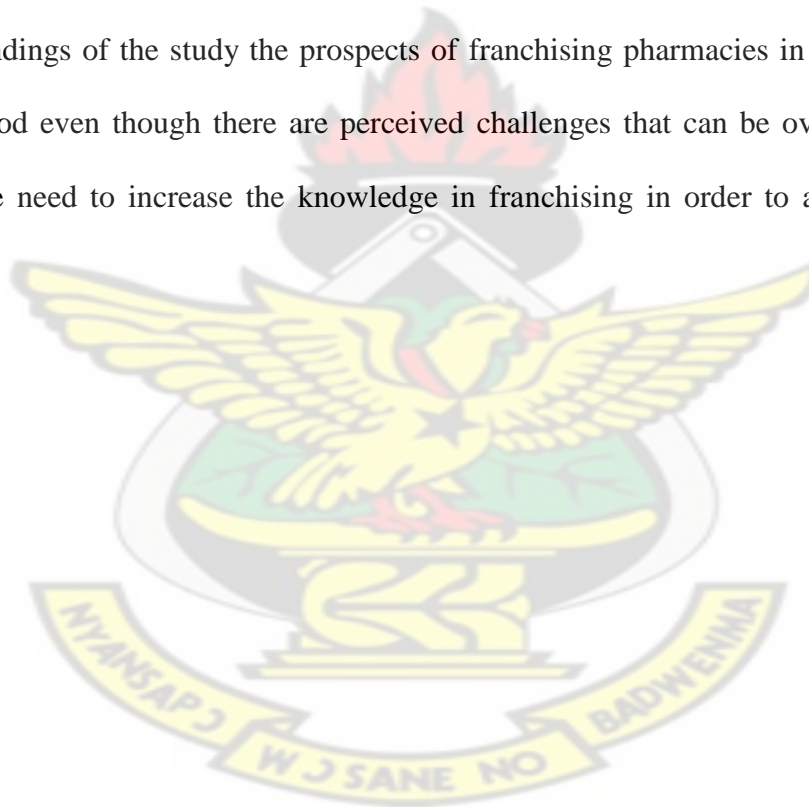
In line with the above recommendation there is the need for operators of pharmaceutical businesses to take it upon themselves to upgrade their knowledge and possibly engage the services of legal advocates in negotiations involving franchising before accepting to join.

Pharmacy operators should make it a point to analyze the benefits versus costs involved in a franchise system. They should decide whether to be a franchisee or to stay independent. The most important consideration is the comparison between the conditions and the benefits of both systems. The validity of the brand, the right-target market and the suitable packages of operation for the particular franchisee are crucial to their survival and future growth.

There is the need for more pharmacists to be trained and posted to the Brong Ahafo region. This is the only way to support and enhance our healthcare delivery and also support expansion initiatives by pharmacies. The Ministry of Health can endeavor to provide certain incentive packages to pharmacists who would want to accept posting to deprived areas. Improving franchising in Ghana should start from the very beginning by reforming the ownership system and creating a management model.

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From the findings of the study the prospects of franchising pharmacies in the Brong Ahafo region is good even though there are perceived challenges that can be overcome. There is therefore the need to increase the knowledge in franchising in order to access its benefit.



# KNUST



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**APPENDIX**

**QUESTIONNAIRE**

**PROSPECTS AND CHALLENGES OF FRANCHISING PHARMACIES IN GHANA;  
A CASE STUDY OF PHARMACEUTICAL WHOLESALERS AND RETAILERS IN  
THE BRONG AHAFO REGION**

The purpose of the questionnaire is to assist the researcher to conduct a study into the prospects and challenges of franchising pharmacies in Ghana with focus on pharmaceutical retailers and/or wholesalers in the Brong Ahafo region as part of a requirement for an Executive MBA studies at the Kwame Nkrumah University of Science and Technology (KNUST) institute of distance learning (IDL).

We assure you of our confidentiality in the responses offered. Thank you

Designation:

Proprietor ( )

Pharmacist ( )

Both ( )

**SECTION A: BACKGROUND INFORMATION ON THE FACILITY**

1. Please indicate how many years the pharmacy has been in operation. (Tick one box)  
Less than 2 years ( )      From 2 years to less than 5 years ( )  
From 5 years to less than 10 years ( )      10 years or more ( )
2. Do you have another pharmacy outlet located anywhere in the region or the country?  
Yes ( )      No ( )
3. Indicate below the legal status of the pharmacy. (Tick one box)  
Single Owner ( )      Partnership ( )      Private Ltd Company ( )  
Public Ltd Company ( )  
Other ( )      Please specify.....
4. Indicate the type of Pharmacy outlet. (Tick one box)  
Wholesale only ( )      Retail Only ( )      Wholesale and retail ( )

**SECTION B: BUSINESS PROBLEMS**

5. Please indicate in order of difficulty the challenges faced in setting up the pharmacy.

Rank on a scale from 1 to 6 with 1 being the most difficult challenge.

Legal requirements ( )      Getting a pharmacist ( )      Supply chain ( )

Staffing & training ( )      Capital ( )      Location ( )

Other ( )      Please specify.....

6. Your facility haven been in existence till date, please indicate present challenges affecting business performance. (Tick as many)

Legal requirements ( )      Getting a pharmacist ( )      Supply chain ( )

Staffing & training ( )      Capital ( )      Location ( )

Other ( )      Please specify.....

7. Rank in order of importance if any of the under listed problems have the potential of threatening the survival of the pharmacy business. Rank on a scale from 1 to 6 with 1 being the most threatening factor.

Legal requirement ( )      Getting a pharmacist ( )      Supply chain ( )

Staffing & training ( )      Capital ( )      Location ( )

Other      Please specify.....

8. Which of the problems below do you consider as hampering the expansion of your pharmacy business? (Tick as many)

Legal requirement ( )      Getting a pharmacist ( )      Supply chain ( )

Staffing & training ( )      Capital ( )      Location ( )

Other      Please specify.....

9. Please indicate if there are any other peculiar business problems that are affecting your business operation.

.....  
.....  
.....  
.....

## SECTION C: FRANCHISE STRATEGY

10. As a pharmaceutical business entity that might be considering expanding into other parts of the region, rank in order of preference which of the strategies below you are likely to adopt. Rank on a scale from 1 to 6, with 1 being the most preferred.

Franchising ( )                      Joint venture ( )                      Partnership ( )  
Sole proprietorship ( )              Acquisition ( )                      Merger ( )  
Other ( ) Please specify.....

11. Please indicate in order of importance what you consider to be of important strategic consideration if you decide to franchise your facility in Brong Ahafo. Rank on a scale from 1 to 6, with 1 being the most preferred.

Legal requirement ( )              Getting a pharmacist ( )              Supply chain ( )  
Staffing & training ( )              Capital ( )                      Location ( )  
Other ( )                      Please specify.....

12. Which of the factors below are of key consideration to you and your business in ensuring the success of a franchise? Rank on a scale from 1 to 5, with 1 being the most preferred.

Reputation ( )                      Experience ( )                      Risk involved ( )  
Financial position ( )              Legal issues ( )  
Other ( )                      Please specify.....

13. In your opinion what strategic reason would you have in franchising your business? (Tick as many)

Increased rate of survival ( )              Cost sharing ( )              Large buying power ( )  
Knowledge sharing ( )                      Best practices ( )  
Other ( )                      Please specify.....

14. Which of the factors below do you consider to be a more strategically advantageous reason for franchising your pharmacy business? Rank on a scale from 1 to 6, with 1 being the most preferred.

High success rate ( )              Rapid business expansion ( )              Shared risks ( )  
Greater commitment ( )              Employment opportunity ( )              Economic growth ( )

**SECTION D: FRANCHISE PROSPECTS**

15. Please indicate if you would want to adopt franchising as a market entry mode in expanding the coverage and reach of your pharmacy business. (Tick one)

Definitely ( )                      Yes ( )                      Not sure ( )  
No ( )                      Definitely no ( )

16. Please indicate what you think in your estimation would be the easiest approach to adopt in franchising your business. (Tick one only)

Franchise an existing chemical shop ( )      Franchise an existing pharmacy ( )  
Put up a new facility ( )

17. Would your business insist on and accept which of the following that is a norm in most franchise agreements. (Tick as many)

Royalties ( )                      Initiation fee ( )                      Full disclosure ( )  
Compliance to rules ( )      Long term contract ( )

18. Please indicate below which among the following you consider to be important in a franchise system. (Tick as many)

Standards ( )                      Operating procedures ( )                      Support ( )  
Level of control ( )                      Termination clauses ( )                      Duration of contract ( )

19. Please which of the following you would provide as support to a franchisee business. Rank on a scale from 1 to 4, with 1 being the most preferred.

Advertising ( )                      Financial ( )                      Staffing & Training ( )  
Inventory ( )                      other ( )                      Please specify.....

20. Please indicate in other of importance, which of the following below you consider as key in any franchise arrangement. Rank on a scale from 1 to 3, with 1 being the most important.

Franchise disclosure document ( )                      Operations manual ( )  
Franchise agreement ( )

21. Do you know of any pharmacy outlet or a different business entity in the region that is practicing franchising?

Definitely ( )

Yes ( )

Not sure ( )

No ( )

Definitely no ( )

### SECTION E: FRANCHISE CHALLENGES

22. Please indicate in order of preference what you consider to be the challenges that would be associated with franchising your facility in the region. Rank on a scale from 1 to 6, with 1 being the most preferred.

Legal requirements ( )

Getting a pharmacist ( )

Supply chain ( )

Staffing & training ( )

Capital ( )

Location ( )

Other ( )

Please specify.....

23. Please indicate from the list below challenges that would make franchising unattractive to you in the region. (Tick as many)

Managing from a distance ( )

Loss of control ( )

Monitoring costs ( )

Operational support ( )

Legalities ( )

24. What potential legal problems can emanate from the franchisor/franchisee relationship if you decide to franchise the business in the region? (Tick as many)

Lack of full disclosure ( )

Terms of agreement ( )

Fees payment ( )

Poor communication ( )

Renewal/termination clauses ( )

Lack of flexibility ( )

25. Which of the following below in your estimation would constitute great risks in a franchise system for your pharmacy business in the region? Rank on a scale from 1 to 4, with 1 being the most preferred.

Financial ( )

Operational failure ( )

Loss of control ( )

Reduced profit ( )

26. Please indicate if there would be any other peculiar challenges that you consider would be a challenge to franchising pharmacies in the region.

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## LIST OF PHARMACIES

NAME OF PHARMACY	LOCATION
1. Tyco-City Pharmacy	Abesim – Sunyani
2. Ernest Chemist	Sunyani
3. KAMA Health services	Sunyani
4. Ohani Pharmacy	Estate – Sunyani
5. NaviPharma	Sunyani
6. Mack Hubert Pharmacy	Sunyani
7. Vineal Pharmacy	Sunyani
8. JilPharma	Sunyani
9. GreenLight Pharmacy	Sunyani
10. JoeBennett Pharmacy	Sunyani
11. Mabea Pharmacy	Sunyani
12. Manuel Pharmacy	Sunyani
13. Vicdoris Pharmacy	Sunyani
14. Mossay Pharmacy	Sunyani
15. Obise Pharmacy	Sunyani
16. Senti chemist	Sunyani
17. Prisben Pharmacy	Bechem
18. Hellen Pharmacy	DuayawNkwanta
19. Ahenkro Pharmacy	DormaaAhenkro
20. Jogani Pharmacy	DormaaAhenkro
21. Jenark Pharmacy	Berekum
22. Libaws chemist	Berekum
23. Enapak Pharmacy	Berekum
24. Koraseman Pharmacy	Drobo
25. Ossaemma Pharmacy	Sankore
26. Jochris Pharmacy	Goaso

<b>NAME OF PHARMACY</b>	<b>LOCATION</b>
27. Barliza Pharmacy	Goaso
28. Lightway Pharmacy	Techiman
29. Diamono Pharmacy	Techiman
30. Kasapa Pharmacy	Techiman
31. Host Pharmacy	Techiman
32. EffahFordjour Pharmacy	Techiman
33. Donatus Pharmacy	Techiman
34. Prokelvi Pharmacy	Techiman
35. Mic-Caeser Pharmacy	Techiman
36. A K Global Pharmacy	Nkrankwanta
37. Aduanaba Pharmacy	Kintampo
38. Aduanaba Pharmacy	Nkoranza
39. Kwaapons Pharmacy	Atebubu
40. Scab Pharmacy	Wenchi

