

**UNIVERSITY OF SWAZILAND**  
**FACULTY OF COMMERCE**  
**DEPARTMENT OF BUSINESS ADMINISTRATION**  
**MAIN EXAMINATION PAPER**  
**DECEMBER 2016**

---

---

**TITLE OF PAPER : SERVICES MARKETING**

**COURSE CODE : BA 327**

**TIME ALLOWED : THREE (3) HOURS**

---

---

**INSTRUCTIONS:**

1. TOTAL NUMBER OF QUESTIONS IN THIS PAPER (6)
2. SECTION A IS COMPULSORY
3. ANSWER ANY THREE (3) QUESTIONS IN SECTION B
4. THE MARKS TO BE AWARDED FOR EACH QUESTION ARE INDICATED ALONGSIDE THE QUESTION.

**NOTE:**

MARKS WILL BE AWARDED FOR GOOD COMMUNICATION IN ENGLISH, AND FOR ORDERLY AND NEAT PRESENTATION OF WORK. FURTHER MARKS WILL BE AWARDED FOR USE OF RELEVANT EXAMPLES.

**SPECIAL REQUIREMENTS: NONE**

**THIS PAPER SHOULD NOT BE OPENED UNTIL PERMISSION TO DO SO HAS BEEN GRANTED BY THE INVIGILATOR.**

# **CHESA NYAMA CHOKES AS DINERS LOSE APPETITE**

## **FAST-FOOD FRANCHISE HAS SEEN 7% OF ITS OUTLETS CLOSE**

Fast-food franchise store Chesa Nyama is losing its appeal with South Africa consumers, having closed 21 stores since last year.

Owned by JSE-listed Gold Brands Investment, Chesa Nyama has shut shops in Gauteng, KwaZulu – Natal and Free State.

The group has also bought back seven of its franchise stores in Gauteng since the beginning of this year.

Gold Brands Chief operations officer Stylianos Nathanael acknowledged that Chesa Nyama's popularity had stalled. "In a five-year cycle, you've got your first two years of growth and the third year it peaks and in the fourth year it declines. We are now in our fourth year."

He said the closed outlets represented 7% of its stores in South Africa and neighbouring countries.

Gold Brands CEO Praxia Nathanael, his wife, said three of the stores had closed because their leases came to an end. Some had closed because they were not being run by the owners.

"We now encourage our franchisees to run their own operations rather than being manager run, and are finding that this is making a big difference," she said.

One Chesa Nyama franchisee who did not want to be named said the bank they had been working with to finance the operation, Nedbank, was now reluctant to provide loans because it felt the brand's outlets have a high risk of failure.

Nedbank declined to comment in detail but said: "The franchisee has to comply with the Nedbank franchising criteria in order to access funding"

Morne Cronje, head of franchising at FNB, confirmed that the bank did business with Chesa Nyama but said he could not comment on the performance of clients.

But in general, "for our business models, the financial performance of the franchisor is extremely important and so is the history of the franchisee", he said.

"We put emphasis on the performance of the franchisor, because it's safer to fund a franchise than to fund a non-franchise start-up.

“In franchising you are in business for yourself, but not by yourself, so you’ve got the support of the franchisee network.”

This year, Cronje said, FNB had received about 400 applications from people wanting to run various franchises and had approved close to 75% of them.

Stylianos Nathanael said: “We continue to see strong demand from applicants for Chesa Nyama stores.

The pace is maybe not as high as one or two years ago, but that is normal because of our higher base of stores.”

The township-style fast-food brand was a winner with consumers when it opened its first store in 2012 and it then embarked on an expansive growth strategy. But the expansion may have been overambitious.

Its rival, Shisa Nyama, started with a single store in Midrand in 2007 and became a franchise operation two years later. The company opened 28 stores but now has 19.

Shisa Nyama operation manager Fathima Cele said the reason for the drop in the number of store is that people who have come in do not understand the business different divisions.

Shisa Nyama has three divisions: a food trailer truck; an express store, which is the most popular and competes with Chesa Nyama; and a lounge set-up which is more social and has space for a DJ.

“They (franchisees) get into the lounge set-up and they had to close down because they did not understand the set-up” she said.

“We don’t have as many stores as Chesa Nyama and it’s done deliberately; the vision of the brand is not **Investors must be pricing in anticipated tougher earnings times ahead** to flourish to a point where we can’t service it.”

Shisa Nyama stores are mostly in kwaZulu-Natal, but there are a few elsewhere in South Africa and in Botswana, Lesotho and Swaziland.

According to results for the 12 months to end-February, Gold Brands added 64 Chesa Nyama stores, compared with the target of 84 new stores during the period, which is listed on the JSE in February last year.

In its maiden results, Gold Brands reported headline earning of 10.25c per share, reflecting annual compounded growth of 41% since 2014.

Chesa Nyama is the biggest contributor to the group’s revenue.

Orin Tambo, an investment analyst at Intellidex, said “Investors are generally concerned that the low-end segment of the market – Gold Brands key market – is struggling and, in many cases, worsening.

Investor must be pricing in anticipated tougher earning times ahead for fast-food and restaurant stocks in general.”

Gold Brands’ competitors appealed to middle- and higher- income earners, who tended to be more resilient to economic shocks.

“Gold Brand lacks the track record. It has to prove itself to get into that league,” said Tambo.

But Gold Brands still has plans to expand to the US, to appeal to South Africans living there, a strategy that it hope will boost profits.

“It would definitely be good”, Stylianos Nathanael said of the US plan. “We’ve got the look and feel I’m confident.” But he admitted a major marketing drive was needed to restore Chisa Nyama’s position in the South African market.

He said the group would spend R13-million on a three-month campaign “to take brand forward (and) get that excitement back into Chesa Nyama”.

Palesa Vuyolwethu Tshandu and Lutho Mtongana. Sunday Times. Business Times. August 21,2016. Page 4.

#### SECTION A

- Q.1 Why are the Fast – Food franchise stores closing down in several areas ? (15 marks)
- Q.2 The competitor (Shisa Nyama) also has had stores closing too. Discuss the reasons. (10 marks)
- Q.3 What is your opinion on Gold Brands plan to expand into the US market. (10 marks)
- Q.4 Do you think the Chesa Nyama brand could be successful in Swaziland ? Why ? (5 marks)

#### SECTION B

- Q.1 For many years Business Schools and Companies concentrated / focused on physical products ie. manufactured products. However over the last two to three decades it has been realised that services are more important. Discuss the reasons with the use of relevant examples. (20 marks)
- Q.2 One of the major differentiators between physical products and services is the simultaneous production and consumption of services. Discuss the resultant implications of this characteristic. (20 marks)
- Q.3 Discuss with examples the major factors that influence the rate of success for service companies. (20 marks)
- Q.4 What are the negative effects that a company may experience as a result of ethical misconduct within the company. (20 marks)

Q.5 Consumer decision making is a process not an event. Discuss the process with the use of relevant examples. (20 marks)