THE INFLUENCE OF SALES COMPARISON APPROACH ON THE ACQUISITION OF FRANCHISED PETROL FILLING STATIONS IN NAKURU COUNTY, KENYA

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Abstract

Majority of the filling stations in the country are franchises, the brand having being developed by the parent oil company, therefore, the investor has virtually no obligation to develop the brand and the products. Investors, however, lack information on how much a brand is worth; the brand is an intangible asset and the valuation is subjective. Acquiring a filling station requires a substantial amount of capital for the franchise to authorize one to be a dealer of their products as well as operating capital. Sales are not guaranteed despite the marketing done by the franchise owner and dealers have to contend with unpredictable customer preferences and location constraints. In several cases, the returns fall below the investments, hence, leading to cash flow constraints. As a result, some franchised petrol filling stations in Nakuru County are now experiencing serious cash flow problems, and these have made it difficult for them to meet debt obligations to their bankers. Consequently, an increasing number of these franchised petrol filling stations are now faced with receivership and foreclosure threats from their bankers. This study sought to examine the influence of sales comparison approach on the acquisition of franchised petrol filling stations in Nakuru County. The study results revealed a weak, positive and statistically insignificant relationship between sales comparison approach and the acquisition of franchised petrol filing stations implying that the adoption of sales comparison approach in valuation does not influence the acquisition of franchised petrol stations. The study recommended that the firm considers the similarities in the petrol stations when evaluating a petrol station.

I.Introduction

Despite the petroleum industry often being viewed as lucrative, owning operating a filling station is seldom simple and involves several risks and challenges to the investor. Over the last ten years, the number of fuel stations both in the British and Polish market has been declining. For instance, in the UK, the number of fuel stations declined from more than 9,900 in 2005 to less than 8,600 (nearly a 14% decrease), while in Poland, the total went down from over 6,800 in 2005 to 6,479 at the end of 2014 (nearly a 5% decrease). The main reasons for this situation are the increasing costs of compliance with environmental regulations and strong competition among fuel retailers (UK PIA 2015). According to National Oil Corporation of Kenya (2015) the challenges that the petroleum industry faces include inadequate and aged petroleum infrastructure that provides only a maximum 10 days of operational stocks cover, lack of strategic petroleum stocks, petroleum infrastructure concentrated only on the southern part of the country leading to massive trucking of products, inadequate retail petrol station outlets - only 1,600 stations to serve a population of 44 million Kenyans which is approximately equivalent to South Africa's Gauteng province alone with an area of 18,178 km2 and population of 10 million. Still, locally, the KenolKobil website lists a total of 14 petrol filling stations as open for dealership in Kenya including Kobil Milimani in Nakuru County. This is an indicator of the high turnover in the industry.

Majority of the filling stations in the country are franchises, the brand having being developed by the parent oil company, therefore, the investor has virtually no obligation to develop the brand and the products. Investors, however, lack information on how much a brand is worth; the brand is an intangible asset and the valuation is subjective. Acquiring a filling station requires a substantial amount of capital for the franchise to authorize one to be a dealer of their products as well as operating capital. Sales are not guaranteed despite the marketing done by the franchise owner and dealers have to contend with unpredictable customer preferences and location constraints. In several cases, the returns fall below the investments, hence, leading to cash flow constraints. As a result, some franchised petrol filling stations in Nakuru County are now experiencing serious cash flow problems, and these have made it difficult for them to meet debt obligations to their bankers. Consequently, an increasing number of these franchised petrol filling stations are now faced with receivership and foreclosure threats from their bankers.

Another influence potentially affecting valuations in business combination is the changing structure of corporate land holdings. The increasing realization that property is an asset to be pro-actively managed has implications for both tenure and valuation. For assets value to be useful during acquisition, the target companies have been found not to have followed a regular depreciation, replacement and revaluation policy. The reasons for using this method is that it can be used as a starting point to be compared and complemented by other analysis. Where large investment in fixed assets is required to generate earnings, the book value could be a critical factor especially where plant and equipment are relatively new. Therefore, it is evident that that apart from cashflow challenges, other liabilities exist which if not factored during the acquisition, may give misleading information on the property's net worth.

Mwangi (2012) researched on factors that influence relocation of Multinational Oil companies based in Kenya to other countries and found that major reasons that led to the exit was shrinking profit margins. Chege (2012) focused on challenges of strategy implementation for firms in the petroleum industry in Kenya and found that the major challenges were technology, resource allocation, job responsibilities, prioritization, organization structure, values and resistance to change. However, the key question that remains to be addressed is how do these valuation factors affect the acquisition of petrol filling stations? Previous studies on asset valuation and acquisitions have not focused franchised petrol filling stations in Kenya. This study therefore was set to assess the sales comparison approach influence on acquisition of franchised petrol filling stations in Nakuru County.

II.Research Objective

To determine the influence of sales comparison approach on the acquisition of franchised petrol filling stations in Nakuru County.

III.Research Question

What is the influence of sales comparison approach on the acquisition of franchised petrol filling stations in Nakuru County?

IV.Literature Review

In arriving at the market value, a subject property needs to be compared with an appropriate number of comparable properties for the similarities and the dissimilarities. The types of properties that are amenable to the treatment by comparison method as suggested by various authors are residential (Rodgers, 2001; Dennis & Pinkowish, 2007), investment (Wincott, 2002), industrial (Ellsworth, 2001; 2002), mining (Healy & Berquist, 2000), contaminated

land (Patchin, 1999), vacant land (Guidry, 2003), telecommunication corridor (Bucaria & Kuls, 2002) and office properties (Wincott, 2001; Clendaniel, 2005). Rodgers (2001) proposes that valuers can apply a systematic grid-adjustment process that employs specific percentage or dollar-amount adjustments, highlighting that this approach emphasizes the individual comparable sales as the most meaningful units of comparison called "property-to-property comparison". Williams (2004) observes that adjustments for the numerous of dissimilarities between a subject property and its comparables can be made on a dollar or a percentage basis.

A competitive market analysis (CMA) is the estimation of the value of a property by comparing it to similar properties in the same area that have been recently sold. If a comparable property is superior to the subject property to which it is being compared, then a negative or minus adjustment is made to take the comparable property from that superior position down to an equal level equal to the subject property. If a comparable property is inferior which it is being compared to the subject property, then a positive adjustment is made. The market itself determines whether the item is superior or inferior.

Buyers of franchised petrol station in Africa favor asset deals because it allows them to amortize any intangible assets or goodwill acquired in the deal when computing taxable income (Wheatley, 1998). Further, any fixed assets acquired in an asset deal are written up to fair market value, allowing for full depreciation of the value of these assets for tax purposes. In a stock deal, the buyer takes a carryover tax basis in the business' assets (Singh, 2012). As a result, it is not uncommon for the acquired fixed assets, intangible assets and/or goodwill to have little or no tax basis, resulting in little or no depreciation or amortization expense for tax purposes. Therefore, it is more beneficial for a buyer to structure a transaction as an asset deal when there are fully depreciated fixed assets or intangible assets associated with the transaction. Market price matter whenever an asset is being sold. Most times after financial years have ended, petrol station prices have been found to hike in price.

Noor Hana Asyikin Nor Hanapi (2002) found that valuers in Malaysia considered the "tenure" as the most important factor or first rank to adjust in applying comparison method. Basically, in Malaysia there are two types of tenure namely freehold and leasehold interests. Theoretically, the best comparable properties were the properties that have the same tenure as the subject property. Among other significant factors that the valuers attributed as the elements for adjustment are; the transaction and financing terms; transaction date; location and physical characteristics; economic characteristics; land use or zoning; size; and topography. In particular, all the suggested factors were perceived as agreeable to the respondents as the elements for adjustment process in comparison method.

V.Research Methodology

The study used descriptive survey research design. The study targeted 70 recently acquired and operational franchised petrol filling stations in Nakuru County. From these, the accessible population comprised of the owners, management and investors. Local asset valuers in the area were also involved in the study. This could bring the entire population accessible to the study to 130 persons. Since the target population of this study is sufficiently large to warrant to use of random sampling methods.The overall sample size was first calculated using the formula proposed by Yamane (1967) since no population parameters were available.

The formula is shown below;

$$n = N/{1 + N(e^2)}$$

$$n = \frac{130}{1 + 130(0.05)^2}$$
$$= 98$$

Where N is the population and e = 0.05 is the level of precision. Therefore, the sample size at 95% confidence level was 98 respondents.

The sample size was then allocated into various according to their relative sizes in the target population as shown the sampling frame as shown in Table 1.

Table 1: Spreading the Sample across the Study Area

Category	Population size	Sample Size
Management	70	53
Petrol Station Proprietors	45	34
Asset Valuers	15	11
Total	**130**	**98**

Descriptive analysis was done using means and standard deviations to describe the basic characteristics of the population. Inferential statistics involved the use of Pearson's Product Moment correlation and multiple regression models to determine the nature of the relationship between the variables.

VI.Research Findings and Discussions

Descriptive Analysis

This section is in line with the first study objective which sought to establish the perceptions on the influence of sales comparison approach on acquisition of franchised petrol filling stations in Nakuru County. Table 2 shows the statistical results in details.

Table 2: Descriptive Statistics for Sales Comparison Approach

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
The firm assesses the value of comparable properties when making a petrol station acquisition	43.0	32.9	16.5	7.6	0.0	4.11	.947
The firm considers the similarities in the petrol stations when evaluating a petrol station	40.5	46.8	8.9	3.8	0.0	4.24	.772
The firm considers the location and physical characteristics of the comparable properties	36.7	25.3	24.1	11.4	2.5	3.82	1.130
The firm considers the transaction date when the comparable property was sold or leased	35.4	32.9	21.5	10.1	0.0	3.94	.992
The firm considers the size of the comparable property with respect to the new property before acquiring the same	24.1	34.2	24.1	16.5	1.3	3.63	1.064

From Table 2, the findings of the study established that the participants strongly agreed (mean = 4.11; Std. dev = .947) that the acquiring firms often assess the value of comparable properties when making a petrol station acquisition and also concurred (mean = 3.94; Std. dev = .992)that the firms consider the transaction dates when the comparable property was sold or leased. However, with regards to property size, the respondents largely agreed (mean = 3.63; Std. dev = 1.064) that the firm considers the size of the comparable property with respect to the new property before acquiring the same while a significant number of the respondents remained neutral. Besides, the study revealed that while a significant majority of the respondents agreed (mean = 3.82; Std. dev = 1.130) that the firm considers the location and physical characteristics of the comparable properties, a number of the participants remained neutral while others expressed contrary opinion.

Correlation Analysis
This section outlines the results of correlation analysis between Sales Comparison Approach and Acquisition of petrol stations (Table 3). The findings were interpreted and discussed accordingly.

Table 3:Correlation between Sales Comparison Approach and Acquisition of Franchised Petrol Filling Stations

		Acquisition of Petrol Station
Sales Comparison Approach	Pearson Correlation	.204
	Sig. (2-tailed)	.071
	N	79

*. Correlation is significant at the 0.05 level (2-tailed).

The study results revealed a weak, positive and statistically insignificant (r=0.204; p>0.05) relationship between sales comparison approach and the acquisition of franchised petrol filing stations. The analysis implied that the adoption of sales comparison approach in valuation does not influence the acquisition of franchised petrol stations.

VII.Conclusion of the Study
The study results revealed a weak, positive and statistically insignificant relationship between sales comparison approach and the acquisition of franchised petrol filing stations implying that the adoption of sales comparison approach in valuation does not influence the acquisition of franchised petrol stations.

VIII.Recommendationsof the Study
The study recommended that the firm considers the similarities in the petrol stations when evaluating a petrol station.

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