

TASTE HOLDINGS

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A MATTER OF TASTE

*Taste Holdings manages franchises,
developing efficient and customer-
focused brands tailored towards
South Africa's discerning diners
and consumers of jewellery*

A *chacun son goût*, or so they say—to each his own taste. Taste has a dual meaning in both French and English: it refers either to the relish of food or to the sense of style possessed by the discerning. As such it is a neat name for the JSX-listed company that has its origins back in 2000 with the founding of the well known Scooters Pizza, a brand that really took off in South Africa where it is now the second largest pizza delivery chain, with 131 outlets. The other kind of taste is central to the jewellery trade, separating beauty from bling: the group's jewellery division is focused on the 29-year-old NWJ chain of stores that now has 87 locations and is the fastest growing jewellery business in southern Africa.

Even before Carlo Gonzaga and his father Luigi started Taste Holdings they were both experienced franchisees in the food sector, owning four franchises in the Durban area. Law graduate Carlo was chairman of the Franchisee Council for three years and during this time won Marketer of the Year, and the Franchisee of the Year awards twice. Now CEO of Taste Holdings, he understands this business from the bottom up.

Taste has wasted little time over its short history. It was always the plan to grow aggressively, both organically and by acquisition, says Carlo Gonzaga, and the track record so far is remarkable. In April 2005 it acquired Maxi's, a chain of breakfast and lunch restaurants that has now grown to 72 outlets. In 2010 it added St Elmo's, another pizza brand but aimed at a different market



Scooters Pizza store

from Scooters. Concentrated in the Western Cape, St Elmo's Woodfired Pizza is a sit-down, casual dining proposition as opposed to the home delivery model represented by Scooters. There are no international brands to contend with in the South African pizza market: the market is entirely dominated by native brands and among these Scooters and St Elmo's are entirely complementary: you can have them both side-by-side in a small town, according to Gonzaga.

The group has delivered growth every year since its foundation—11 full years of expansion, with annual revenues increasing to R752 million in 2011. "Taste has expanded through a combination of acquisitions and organic growth," says Gonzaga, "but the key factor can be summed up in two words: vertical integration." Taking control of the supply chain, as far as practicable, from manufacturing through distribution through to customer service can drastically reduce the cost of these operations and synergies between the businesses can be exploited.

Take the jewellery division: NWJ is the third largest jewellery chain in South Africa, and the only one with a claim to be vertically integrated. From its Durban factory and distribution facility, employing in all about 180 people, NWJ internally sources some 40 per cent of the product it sells, giving it an



Staff at Buon Gusto central kitchen facility in Cullinan

advantage in flexibility and competitive lead times. All products are procured and styled in-house and distributed to the franchisees and managed stores on the company's own fleet of vehicles. "We are going to continue to focus on vertical integration in the medium term," promises Gonzaga. "One important reason for that is to make the businesses simpler to run from the franchisees' perspective: having one supplier coming to your back door is a lot more attractive

and easier to manage than having to deal with 20!"

While every single one of the food division's businesses is franchised, 23 per cent of the jewellery stores are directly owned and operated by Taste Holdings. "Franchisees usually do a much better job of running service businesses than retail owners," he says. Food outlets are the ultimate service business. However in the right circumstances it is better to run a retail business as a managed store under corporate ownership, he believes. "On

**R752
MILLION**

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Taste Holdings' annual
revenues, 2011

the jewellery side of our business we often find that the stores we own do better than the franchised ones."

In a high value business like the jewellery trade, a greater level of capital needs to be tied up in stock. This can put excessive strain on a franchisee, he says, and is better handled at group

level, with a strong balance sheet. But even in jewellery, circumstances alter cases: while he foresees that a core group of company stores will be retained in the future, the hybrid model will always work well. In the last analysis, a franchisee usually looks

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NWJ jewellery

after the customer better than a manager, Gonzaga believes.

In the financial year ending in 2011, jewellery revenues increased by 4.5 per cent to R243 million; NWJ won the *Daily News* Readers' Choice Best Place to Buy Jewellery Award; and it added 10 new outlets.

The growth in jewellery sales could be called robust under the economic circumstances, but it is modest when compared with the 11 per cent group turnover increase over the same period to R750 million. By 2014, though, the board has set itself the task of doubling these earnings. In the face of continued uncertainty in the jewellery market this will have to come mainly from food sales—and these will be helped by the St Elmo's acquisition, whose full-year earnings will only begin to show from 2012. But its main boost comes from another acquisition.

From February 1, Taste Holdings became the owner of 220 fish and chips outlets. Fish is the fourth largest fast food category in Africa and expanding rapidly. It has grown considerably over the last five years, during which time The Fish & Chip Co has become an established brand, with strong marketing ties to the South African football fan base through an association with Bafana Bafana player Siphiwe Tshabalala. It is arguably the largest chain by number of outlets and the market leader in the takeaway fish category.

The purchase price of R66 million included all assets of The Fish & Chip Co including stock, trade debtors, the distribution centre and any payments made in advance to secure new stores still to be



NWJ Sterling gents' watches

opened. It is an excellent fit within the group, since it is 100 per cent franchised and because the concept works just as well in the low-income townships as in the middle class and tourist locations. The pattern of spending may differ, with more people spending less per head or fewer spending more depending on income, but the level of takings per location is comparable across the board. Additionally more than half the existing franchisees have more than one store—it has become a great catalyst for

entrepreneurship at a local level.

If the company has a unique selling point, it is low prices combined with high quality, and its insistence on sustainable sourcing of fish. The problem for fish restaurants has often been one of consistency. That is why the fish, mainly hake, is all from sustainable stock. The principal supplier of fish is Sea Harvest, which is certified by the Marine Stewardship Council (MSC), the world's leading certification and eco-labelling programme for sustainable

“ONE THING THAT ABSOLUTELY DRIVES OUR BUSINESS IS HAVING GOOD SOLID BRANDS”

seafood. The raw material is supplied graded to size and it couldn't be fresher because it is caught, de-skinned, de-boned and individually quick-frozen at sea on Sea Harvest's factory ship the *Harvest Lindiwe*. The involvement of Tshabalala is a bonus: the much loved footballer and role model for the youth of South Africa, who scored the first goal of the 2010 World Cup, is an ambassador for the company—and his

involvement has brought in other soccer players who want to invest in a good and socially responsible business.

The takeover will bring in additional sales in excess of R300 million, and Gonzaga sees a massive potential in the brand. "One thing that absolutely drives our business is having good solid brands. Whatever the efficiencies you may be able to achieve through vertical integration, at the end of the day it is all

"THE FISH & CHIP CO IS THE LARGEST BUSINESS OF ITS KIND IN THE COUNTRY AND A MARKET LEADER. ITS GROWTH POTENTIAL IS HUGE"



Fish And Chips outlet at Alberton City Shopping Centre



Fish And Chips outlet interior

about selling people something they really want—whether it is pizza, a cappuccino or fish and chips." In a business that stands or falls by creating and managing brands, Taste Holdings' latest acquisition ticks all the boxes, he adds. "The Fish & Chip Co is the largest business of its kind in the country and a market leader. Its growth potential is huge: we see it growing from 220 outlets to somewhere between 400 to 600 outlets in the coming five years."

Many future stores, whether belonging to The Fish & Chip Co or Taste Holdings' other brands, will be beyond the borders of South Africa. Gonzaga has set his sights firmly on expansion into Africa, though he appreciates the difficulty of reaching out

into new territories with unfamiliar ways of doing business and challenges relating to infrastructure, lines of distribution, currency exchange and the like. Nevertheless, he hopes to be established in two new African countries—not including Namibia and Zimbabwe, where Taste Holdings already has a presence—by the end of 2012.

Every acquisition is accompanied by integration costs, and The Fish & Chip Co will be no exception. But these are quickly offset by the savings inherent in vertical integration and taking control of the value chain, he says. There are more 'moving parts' in the food supply chain than in non-perishable stock like jewellery, and there will no doubt be some

Fish And Chips outlet at
Broadacres Shopping
Centre, Fourways

The FISH & CHIP Co

Traditional English - style food

The FISH & CHIP Co
Traditional English - style food

ways in which the requirements of the fish and pizza businesses can be synergised. Currently there are four separate offices and manufacturing locations for pizza premixes in Johannesburg, and an office and training centre in Cape Town—as well as a factory that produces mixes, spices and toppings. The only major operation still outsourced by the group is packaging.

Some rationalisation of the manufacturing and distribution facilities can be expected, he says; meanwhile, the group is targeting its carbon footprint and aiming to reduce its energy consumption by 20 per cent by changing to energy-efficient lighting, signage, air conditioning and cookers. The more the number of franchises in the group increases, the greater the opportunity for offsetting the anticipated rise in energy costs.

Taste has a fantastic track record to date, but just look at some of the targets it has set itself in the near term: “Last year, we said we wanted to double our earnings in three years. One year in, I think we will get to that target. The main objective in 2012/2013 is to engage with some of the growing African markets; at the same time, I expect to open 100 Fish & Chip Co outlets and I do believe we will make another acquisition in that period. We have substantial opportunities to grow the business: we have a good model and it is scalable.” **BE**

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