

Convenience drives consumers' appetite

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From global expansion and weighty investments in manufacturing capability to the entrance of Burger King, SA's fast-food industry is an engine of growth and the future prospects of its players look good.



Image courtesy of Grant Cochrane / [FreeDigitalPhotos.net](#)

The prevalence of a cash-rich and time-poor phenomenon spurred by rising affluence among SA's middle class has led to a greater utilisation of quick-service dining over formal restaurants and preparing food at home, despite macroeconomic conditions.

There is no doubt that retailers are feeling the pinch in SA as disposable incomes come under pressure, but those in the quick-service restaurant segment are being affected to a lesser degree as consumers favour convenience and value over cost.

Carlo Gonzaga, CEO of Taste Holdings, the owner of Scooters Pizza, St Elmo's and Maxi's, says: "Food is not a luxury and quite honestly it is cheaper to eat fast food than it is to eat supermarket food in many cases."

Similarly, Kevin Hedderwick, CE of Famous Brands, the company behind Mugg & Bean and Wimpy, says the high number of double income families in SA means no time to cook, "so they're (consumers) on the move, on the go, looking for a food service solution that offers value."

Spur Corporation's promotional prowess has paid off. It posted a 35.3% rise in first-half profit, boosted by offerings like "bottomless ribs & buffalo wings" and "kids eat free on Wednesday".

Last year, a study from market research firm Analytix BI said despite increasing costs eating into local consumers' pockets, SA's appetite for fast food is growing steadily, and the growth in the popularity of fast food was attributed to "deliberately" large portions at low prices that appeal to consumers' desire for value for money.

"Food service in the country can only grow. In emerging markets, for every 1% growth in gross domestic product, there's a 2% growth in food service," Hedderwick says.

Food service groups are increasingly investing in the back-end of their businesses.

Instead of sourcing from thirdparty suppliers, a firm's distribution leg will make things like sauces, cheese and bread to sell to their franchises at a more competitive price, ultimately supporting the overall franchise model.

Absa Investments analyst Chris Gilmour says that Famous Brands' "kitchen" and franchise side were complementary.

"There are very different profit margins between the two. What you lose on the margin on one, you more than gain on the other side. It's all part of a big diversification which has really been the key to the success of this company."

Apart from aggressive expansion plans for SA's market, local restaurant groups are casting their nets further afield. Nando's operates in 26 countries through 1,010 outlets in locations as far as Fiji, Singapore and Bangladesh. Its international restaurants are typically larger than its local ones and cost \$1m-1.5m to develop.

Famous Brands is taking Debonairs Pizza to India and Steers to the UK. It will also add 55 restaurants in the rest of Africa this year. "These markets are becoming more westernised and what they're looking for is to gravitate away from so-called street food into formal food," Hedderwick says.

The South African market as a springboard to other emerging African countries is also piquing the interest of global brands.

Burger King, which opened in Cape Town this month, aims to take "a big chomp" out of SA's R17bn fast-food market, according to Hassen Adams, chairman of Grand Parade Investments, which owns 85% of Burger King SA.

KFC Africa MD Doug Smart says the entrance of the global giant was good news. "Customers will be interested to try out new offers, and then compare them to what they know, and ultimately settle down to a new equilibrium. They will typically raise their expectations of the sector, and all players in the sector will have to continuously improve their game, or lose market share."

He said YUM Restaurants International, the owner of the KFC, Taco Bell and Pizza Hut dining chains, would definitely like to bring the Pizza Hut brand to SA.

"We're evaluating and doing a lot of research. The timing of what we do with it will depend on the results of what we find. This is one of our unusual markets in that we have nearly 700 KFCs in SA and not one Pizza Hut," Smart said.

Source: Business Day

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