

Johannesburg: Africa's hotspot



Chadi Chidiac, managing partner of PROTOCOL hospitality management and consultancy gives insights on the South African F&B industry

The demand for restaurants and other food service businesses in general is rapidly growing across Africa and South Africa in particular, with its capital Johannesburg counting a population of 9.6 million with, according to the International Monetary Fund (IMF), a GDP of USD 7,900 per capita. The city's lifestyle is the key driver behind the demand for food service businesses such as fast food outlets and dine-in restaurants. On

average and according to the Johannesburg Index of Buying Power (IBM), Johannesburg's residents enjoy a higher standard of living compared to that of people living in South Africa's other major cities.

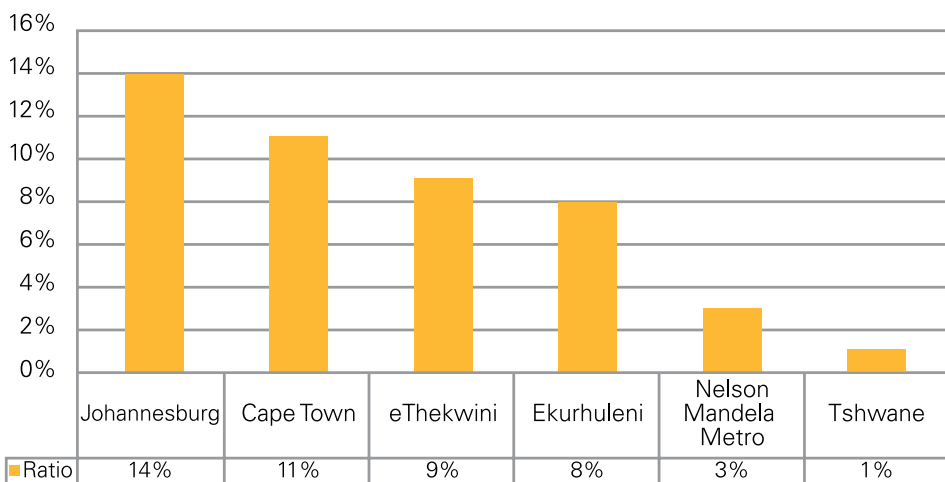
The macro spectrum

Compared to other cities, particularly Cape Town, eThekwin, a metropolitan municipality that includes the city of Durban and

surrounding towns, and Nelson Mandela (greater Port Elizabeth), Johannesburg is ahead, with its markets growing faster and, on average, wealthier inhabitants. Measuring the index of buying power (IBP) as a percentage of the national total, Johannesburg's IBP is 0.14, indicating that 14 percent of demand for goods and services emanated from Johannesburg. The second largest consumer market is Cape Town, with 11 percent. In comparison, eThekwin commands only 9 percent, Ekurhuleni 8 percent, Nelson Mandela Metro 3 percent, and Tshwane 1 percent.

Per capita purchases in the retail sector in 2013 have shown exponential growth over the past ten years in virtually all areas. Due to reasons of convenience, eating out has become a growing and popular trend in Johannesburg. This trend is still in its early stages and is bound to expand further. The South African restaurant and fast food market is, according to a report by Euromonitor, worth more than USD 2.5 billion every year. Let's explore the interesting opportunities in this market and find out how people can inaugurate something that will afford opportunities for financial profit.

IBP Indicator



Trend

Current value growth was stronger in 2012 than within the previous year. This was due to consumers gradually resuming their spending and treating themselves to frequent affordable and good quality meals out. Rising costs for food and fuel also resulted in vastly increased unit prices, which in turn increased value growth. Nevertheless, with consumers still watching their pockets, many establishments increasingly offered lower priced items, reducing spend per transaction itself.

Competitive landscape

SpurCorp, a restaurant company in South Africa, continued to lead the full service restaurants (FSR) in 2013 with its Spur Steak Ranches, Panarotti's Pizza and John Dory's chains. Spur Steak Ranches was the leading brand in South Africa with the fastest growth rate – with an increase shown by six outlets in 2013, compared to the previous year. Ocean Basket is the second leading restaurant brand, with, as in the SpurCorp annual report, Panarotti's Pizza ranked third in 2013.

Market supply

A recent study, executed by PROTOCOL in late 2013, revealed that, out of around 5,675 restaurants in South Africa, Johannesburg housed 681 of the finest units in the country; including different concepts offering diverse type of cuisine, such as the Saxon, an International restaurant, or the Café del Sol, which has been dubbed as the '...finest Italian place in town as well as the most elegant and chic' grill houses, for meat lovers, are according to a ground report undertaken by PROTOCOL among the highest quality places in South Africa. Fast food or quick service restaurants (QSR) are basically the most common type of restaurants in the city right now. Upscale versions of KFC and MacDonald's cater to the higher-income segment of the market.

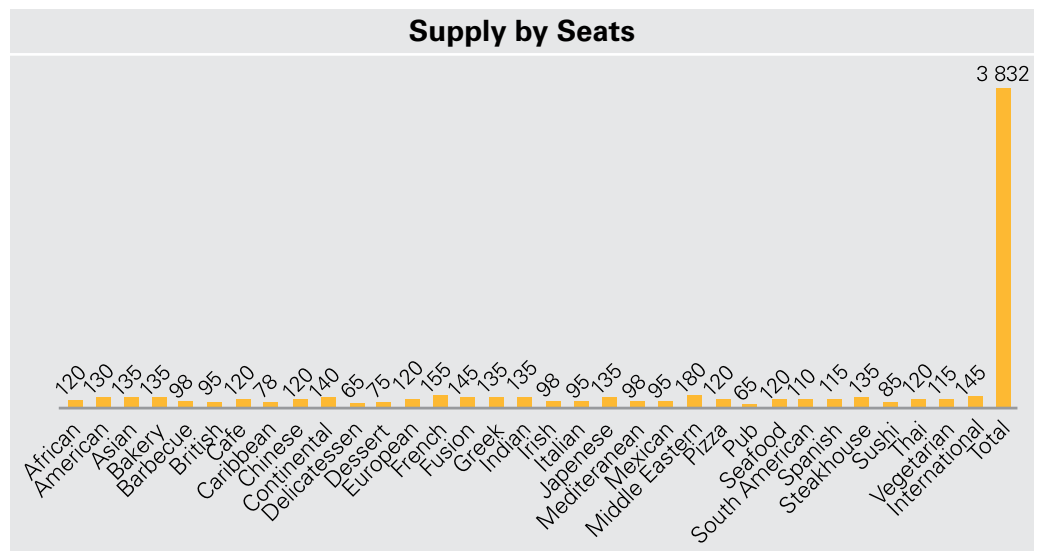
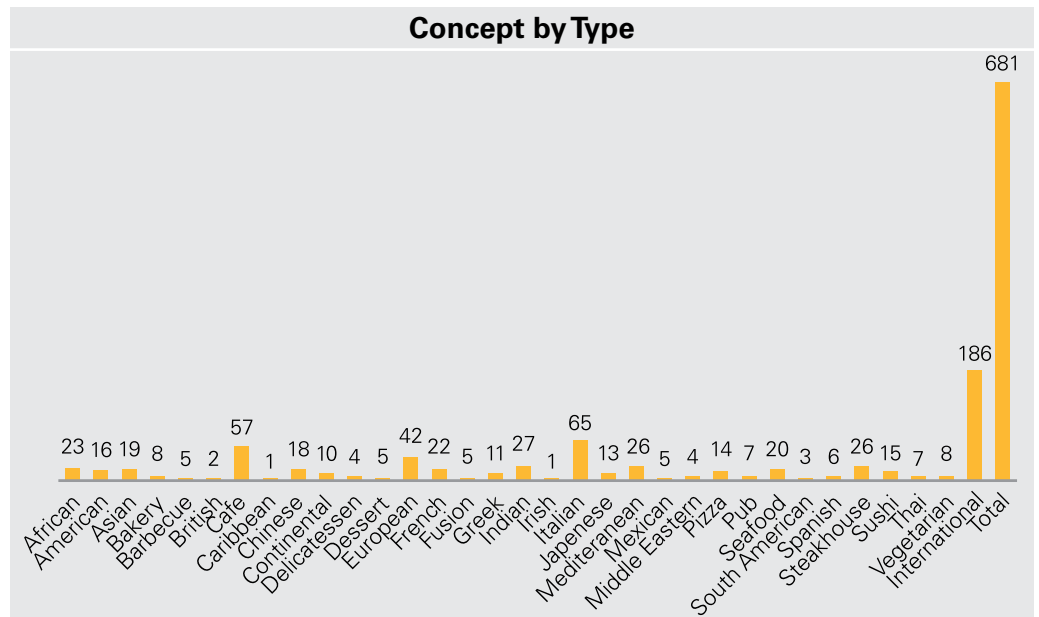
The top range of the restaurant business targets the elite and people who do not mind paying for a superior dining experience with expensive meals. Such businesses are full service restaurants that offer the best in food, service and atmosphere. They are also the highest priced type of restaurant to be operated and can be capital intensive to initially set up. Such restaurants usually have specific, dedicated meal courses, with highly trained and professional waiters and experienced staff. With fine dining restaurants, a lot of attention must be given to detail. The atmosphere of such restaurants usually features elaborate and exquisite furniture, lighting, layouts and tableware.

Desmond Mabuza, the first black man to own and operate fine dining restaurants in South Africa said: "The restaurant business in Johannesburg is a very dynamic industry. You get to meet and socialize with different people on a daily basis, and no day is ever alike." His restaurants, Signature and Wall Street, are situated in Johannesburg, Africa's richest and most economically active city.

Investment cost

Investing in the food and beverage business in South Africa can be a rewarding decision,

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considering the following figures as standard estimates for a 160 seater upscale operation - bearing in mind that every South African Rand equals US 0.094 dollar.

This excludes tax as well as wet works, (plastering, tiling, flooring, etc). These numbers are based on current prices but can vary according to the type and quality products used. Franchise groups work on a per square meter charge of between R9, 000.00 (USD 847.00) and R14, 000.00 (USD 1,300.00) per m².

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Description	Avg Cost
FFE	R 250 000.00
SOE	R 75 000
Kitchen Equipment	R 675 000.00
Storage	R 75 000.00
Sound & Light	R 75 000.00
Dinning Room Equipment	R 80 000.00
Signage	R 95 000.00
Shop Fitting	R 525 000.00
Sub-Total	R 1 850 000.00