

Kevin's Kitchen and Sports Bar

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Case summary

Learning outcomes

This case study provides students with the challenge of advising a small restaurant reeling under the impact of the Covid-19 crisis in South Africa. In the process, they must use their analytical skills combined with tools derived from value-based management theory to develop a revised business strategy for the owner.

Case overview / synopsis

Agility in any business in modern times is essential to survival – and this is particularly so for small, entrepreneurial enterprises that lack the history and resources to survive dramatic changes in the operating environment. A small restaurant in the coastal holiday village of Port Alfred, South Africa is managing to deliver a reasonable return for its owner, a former corporate financier from Johannesburg. The Covid-19 crisis requires a fundamental rethink of business strategy to ensure a future for the business.

Complexity academic level

This case study is ideal for a module in entrepreneurship for delegates in a diploma, undergraduate or postgraduate degree.

Keywords

Employee commitment/motivation, Intention to leave/employee retention,

Entrepreneurship, Financial modelling/forecasting, Marketing

When Kevin Smith opened his restaurant, Kevin's Kitchen and Sports Bar, at 06 hours on 1 July 2020, the day after the lockdown was lifted, the first thing he did was to make himself a coffee. A strong one. Taking a pad and pen from his office, he sat down at one of the tables to take stock of just where his business stood [...] and whether there was any chance it could survive.

The beginning

Five years ago, Kevin had held a middle-management position with a major bank; however, after seven years in a financial institution, he was frustrated. He had to accept that corporate life was not for him and neither was Johannesburg. Kevin resigned and moved to Port Alfred, his favourite seaside resort town. Small enough to free him from the claustrophobia of the big city yet big enough to have business potential. He had always dreamed of being his "own boss" and decided it was now or never, so he sold his house, settled the mortgage and headed for the coast with R850,000 (US\$50,160) and his dreams in his pocket [...]

The South African economy faced numerous challenges – high levels of unemployment, massive inequality of wealth distribution, a weak trade balance and fragile currency. While most industries were struggling, the tourism and related hospitality sectors were widely regarded as areas of potential growth [1].

Kevin had always been something of a lover of fine food (and more to the point a fully trained chef) – and an avid sports fan – so deciding on what sort of business to start was something that came easily. However, wary of making a decision based purely on his interests, Kevin undertook a basic analysis of the opportunity.

During his many holidays in Port Alfred on South Africa's "Sunshine Coast" in the Eastern Cape Kevin had tried out just about every eatery in town. Most were typical sports bars serving standard pub grub – hamburgers, fish and chips, etc. They always seemed really busy and in his view, ego aside, none really impressed him. In particular, there was not a single restaurant that offered more refined menus and in particular Asian cuisine – Kevin's speciality. His basic analysis seemed to tick all the boxes – well, most of them anyway:

As far as skills were concerned Kevin was both a competent chef and his career in finance and management meant he was well-equipped to run the financial side of a restaurant. He had also had some experience in management and was confident that training up a good support team would be easy. At the same time, he recognised weaknesses as far as the overall management of a business was concerned. With finance being his core competence, he had to accept that he was weak when it came to strategy, marketing, networking and so on, but he reckoned he could learn these along the way.

In terms of the potential market, Port Alfred was a bustling resort and restaurants all seemed busy. During a recent holiday, when the idea had first come to him, Kevin had conducted a preliminary analysis of potential market segments. He realised that there were numerous categories; holidaymakers like himself – obviously an ideal segment (being on holiday is not about chores like cooking) but obviously a very seasonal segment.

As far as residents were concerned, Port Alfred had a population of around 30,000, so this also represented a fair, though not substantial, segment. Many of these were retirees. Driving round town Kevin counted at least five large retirement villages. The residential population was complemented with a student population. Dutch Hospitality University, Stenden, had a satellite campus in Port Alfred. While he was not sure of the enrolment, they certainly made their presence felt around town.

The Eastern Cape is the heart of the malaria-free game reserve industry so numerous international tour busses passed through town on a regular basis, year-round. With the increased interest from Asia, many of these tours represented a potential market for his speciality, he reckoned.

Finally, Port Alfred is situated halfway between Port Elizabeth and East London and was a popular stopover for salespeople. Kevin also established that most preferred bed-and-breakfast accommodation to hotels so would need somewhere to eat dinner.

Having completed his analysis of the potential market, Kevin turned his mind to competition. While the town had numerous restaurants, Kevin felt that his inclusion of Asian cuisine, as well as other gourmet meals beyond the standard burger-and-chips type menu, could give him a competitive edge – both with locals and tourists.

With all of this in mind, Kevin was convinced that he should take up the opportunity. While restaurant equipment is pretty costly, finance was available and rentals seemed reasonable and as far as supplies were concerned Port Alfred is in the heart of a substantial agricultural industry so Kevin's only concern was availability of speciality Thai ingredients, but he was certain he could make a deal with one of the farmers to run a small crop of Bok Choy, lemon grass, etc., for him.

Kevin found good premises in the centre of town with good passing traffic and other eateries nearby. He took some time thinking of a name. He wanted to let the market know that live sport would be available for viewing and also that his menu was more upmarket. Kevin's Kitchen and Sports Bar seemed to do the trick.

His sole marketing exercise (beyond good signage) was to convince the local newspaper, Talk of the Town, to carry a short piece on "The new chef in town".

In terms of his earlier analysis, Kevin soon realised that analysis and speculation are inexact sciences; experience is exact. Over the next five years, Kevin's Kitchen and Sports Bar had fared reasonably well. His set-up debt to the bank had been settled, and his cash flow covered costs adequately, leaving him with a *reasonable* profit and thus personal income.

Kevin felt the need to revisit his earlier analysis and review how things were going. Holiday-times were great and he garnered around 72% of his business over these periods. Out of season, though, was a challenge, with occupancy around 25% – hardly enough to balance the books. As far as the locals were concerned, while he established a reasonably loyal local client base (most of were from the more affluent segment of the population), it just was not big enough. While some of the Stenden students popped in for a beer – particularly when

European football was on – they seldom ordered food. Kevin was not sure why but guessed that disposable cash (all students received a limited monthly allowance) was the challenge and the couple of cheap, fast-food franchises probably picked up this opportunity. He also realised that few had vehicles so walked everywhere, and this might have some effect on their unwillingness to wait for a restaurant meal in the evenings.

Kevin’s greatest disappointment was that, while the international tourist busses passed through town on a regular basis, they simply never disgorged their passengers at Kevin’s Kitchen and Sports Bar – and Kevin did not know why.

Had Kevin done a more in-depth analysis of the retirees, he would have learned that most of the retirement villages had their own kitchens, offering basic but highly affordable meals to residents. Most restaurants, Kevin soon realised, offered “pensioners” specials’ evenings with a limited menu of budget meals. These appeared to be well received as they provided a welcome break from the tedium of the in-house kitchen and the excitement of an “evening out”.

Travelling business-people provided him with reasonable custom, but Kevin was certain it could be much bigger, given the huge B&B industry in town. Kevin did some research and realised that he probably got clients from around 5% of the B&B clientele so was clearly missing out.

Kevin’s hope that his Asian cuisine offering would give him a really strong edge proved unrealistic – Asian dishes represented only some 20% of orders. He regularly drove past his competitors out of season and reckoned he was probably on par, at best, with their occupancy. In a moment of honest self-reflection they were probably doing better, he had to accept.

As far as capex and management were concerned, Kevin had covered his set-up costs, managed cash flow effectively and had developed a strong team around him. However, while Kevin’s Kitchen was surviving it was not making him the sort of cash he would need to find a buyer when he was ready to retire. In reality his net profit per annum was less than Kevin had earned as a salary, which came with a degree of security, benefits, etc. His previous years’ income statement told the story well enough [...] (Exhibit 1). On the positive side, Kevin’s financial acumen, combined with the much lower cost of living in a small town, meant that his savings were healthy.

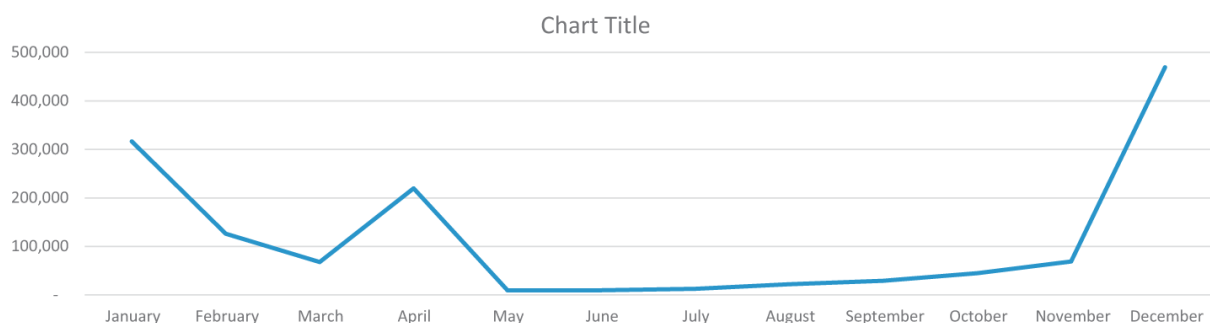


Exhibit 1 . Kevin’s Kitchen and Sports Bar 2019

At least one thing was easy – identifying the challenge. Out-of-season cash flow was the killer. Once the holidaymakers left, so did some 70% of business. “Smoothing” cash flow was doable. One benefit of the restaurant industry was that customers paid cash while suppliers were paid on terms – some as long as 120 days – and Kevin leveraged this as much as possible. While this helped to a degree Kevin realised that he simply had to do something to boost out-of-season sales. That was mandatory – and that was *before* Covid-19.

Covid-19 in South Africa

The pandemic hit SA later than northern hemisphere countries and its reaction was faster and more extreme than any other country, with one WHO expert declaring that South Africa was “in many respects, showing the way”. The first confirmed case was on the 1 March 2020 and total lockdown was announced on the 23rd with 402 confirmed cases and no deaths [2].

Lockdown confined all citizens to their homes (no jogging, no walking the dogs, etc.), other than for provisions and medical care. Only essential goods could be bought (not even alcohol or tobacco products could be purchased).

Subsequent statistics were positive. Twenty-three days into lockdown, cases were just over 3,000 and deaths 52. The relatively low fatality percentage (under 2%) was an anomaly, though could be related to testing criteria and South Africa’s the comparatively low population age profile (with a median age of 27.6 compared to Europe’s 43.1).

The structural challenge

South Africa’s political history bequeathed it the most unequal society on earth, with a substantial proportion of the population living in overcrowded and under-resourced conditions in which the notion of social distancing or isolation are simply out of the question. Should the virus flare up in these areas control would be almost impossible. Equally problematic was its health-care system. For the middle class, private sector health services were world-class, to the point where it was a popular destination for American and European elective – particularly cosmetic – surgery. For the disadvantaged sector of society, though, health care was woefully inadequate – over-crowded and under-resourced.

The trade-off dilemma

Before the pandemic, the economy was already on its knees, following a decade of mismanagement and outright theft by the authorities. Unemployment was running at some 30%. With the advent of the pandemic, anticipated growth rates collapsed from around 1% to minus 6 and unemployment would inevitably soar. The dreadful trade-off faced by the government was that of saving the economy versus saving lives. Some argued that failing to save the economy could ultimately result in more deaths than Covid-19 [...]. Paradoxically, it was widely argued that the only solution to the employment situation in the country lay in small businesses like Kevin’s – and these had been hardest hit by the lockdown [...]

Pondering on this, Kevin realised that the pandemic would already have affected every component of his business – from market segments, to finances, to suppliers.

Announcement of the lockdown

The announcement was something of a body-blow to Kevin – as it was to all non-essential businesses. Only three days' notice was given and Kevin had little time to prepare. One critical challenge Kevin faced was what to do about his staff. While his credit rating was excellent and Kevin could have taken a loan to keep his staff on, he realised that there were two weaknesses in this:

1. He had no idea how long the lockdown would last (the initial three weeks seemed optimistic, particularly given the country's structural challenges) so committing to paying his staff throughout lockdown would expose him to serious financial risk.
2. While his business was surviving, it was not thriving and Kevin had no idea of what the post-lockdown period would look like – or even whether he could survive.

Given this, Kevin had no option but to take fairly serious steps.

- *Rent.* Kevin negotiated a moratorium on his rental – rent would accumulate and had to be paid off over the 12-month period after lockdown.
- *Food* and beverage suppliers. Kevin managed to negotiate a similar moratorium on outstanding payment due.
- *Staff.* Kevin realised he had to make some distinction here. Over the five years, he had trained up an excellent sous chef, Thabo, who had become a highly valuable asset. The rest of staff, sadly, were easily replaceable so Kevin undertook to keep Thabo on full pay for the duration of the lockdown, with a maximum commitment of six months. The balance of his staff he paid for the month in which lockdown started, after which they would have to resign or take unpaid leave. He did, however, promise that if they were still available after lockdown they would still have a job with him.
- *Stock.* All of his fresh produce was donated to staff and the balance to the local soup kitchen.

After the lockdown

While South Africa had been lauded for its swift lockdown, which turned out to be the longest of any country, it ended in a time of serious crisis. Economic pressures forced the lockdown to end while infection rates were soaring and the country's health system buckling under the weight of admissions – and in this regard the Eastern Cape was faring worst. Restaurants were allowed to open their doors (though not sell alcohol) on the first of July when a total of 159,333 cases were confirmed, and daily infection increases were running at close on 10,000 and climbing [3].

Before things had been challenging but Kevin had kept his head above water. The lockdown, though, posed an entirely new set of challenges. Kevin's only comfort, small though it was, was that his competitors were in the same position as he and, in time, customers *would* return (in fact, given the agony of prolonged isolation Kevin hoped they would literally flock for their first outing in ages). However, the lifting of the lockdown was phased. In the current stage, he could reopen as before, but restrictions still remained on alcohol sales,

social distancing (which limited the number of customers he could seat), and provincial cross-border travel within the country and on international travel. The only exception to the cross-border restrictions were certain categories of businesspeople, given the nature of their work. In addition, given that the infection rates were still on a steep upward curve, Kevin knew many clients would be loath to frequent his restaurant.

Kevin took a long, hard view of where he stood. One option was to simply throw in the towel and return to Johannesburg and corporate life. He hated the thought but realised it was an option. The second option was to carry on but Kevin realised that if he were to do this he would have to completely revise his original business plan and essentially create an entirely new business model and strategy and with the phased lifting of the lockdown this would have to encompass two phases itself – an initial “survivalist” strategy while dependent on local clientele only and a growth strategy once cross-border and international travel bans were lifted.

Acknowledgements

This Case Study has been published as part of a special section of short cases in Emerging Markets Case Studies, entitled “Managing in a Crisis: Lessons from the Covid 19 crisis” in partnership with Gordon Institute of Business Science, University of Pretoria.

Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision-making. The authors may have disguised names; financial and other recognizable information to protect confidentiality.

Notes

1. <https://www.gov.za/about-sa/tourism>
2. <https://health-e.org.za/2020/03/23/lockdownsa-ramaphosa-announces-sa-lockdown-to-curb-covid-19-spread/>
3. <https://sacoronavirus.co.za/2020/07/01/update-on-covid-19-01st-july-2020/>