

Granadilla Swimwear: Finding opportunity in times of crisis

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Case summary

Learning outcomes: The main learning outcomes that can develop from this case are as follows. These have been articulated for an approximately 90-min class discussion. Opportunity identification in times of crisis: at a macro-level, the case serves to illustrate the nature of identifying and exploiting opportunities in times of crisis. In particular, it shows how an agile small team and quickly respond to need and develop a sustainable and scalable business. Pivoting the business model: the case raises an interesting and important debate as regards what constitutes a “pivot”. While the classical interpretation would be a change in direction without a change in strategy, this case within the context of Covid-19 challenges this definition. Resource use and allocation: The case illustrates well how existing resources, networks and skills can be used in a very different business venture to alleviate immediate cash flow needs and potentially build another business venture.

Case overview/synopsis: This case study explores how two Cape Town-based entrepreneurs, Josh Meltz and Adam Duxbury, responded to the Covid-19 crisis and the subsequent lockdown in South Africa. The pair had built a successful swimwear brand – Granadilla Swimwear – and two other businesses: a function venue and a kombucha brand sold at a well-known food market. As the Covid-19 lockdown took effect, the entrepreneurs saw not only declining revenue in their food and function venue business but were about to enter a six-month period of negative cash flow on their seasonal swimwear business. The entrepreneurs saw an opportunity to deliver food boxes of fresh fruit, vegetables, bread and other staples within the Cape Town metropolitan area. Their kombucha brand had a ready-made food processing and handling facility (including cold storage) and existing relationships with customers, suppliers and other vendors at the food market gave them ready access to a range of locally produced food products available immediately and on consignment. Meltz & Duxbury quickly launched an online shop and started marketing via Instagram. Within 48 h, they were delivering food boxes, with little risk and upfront capital investment. As the lockdown continued and other competitors entered the market, the team wondered at the longevity of the pivot and whether this was a business that would sustain itself or whether it was just a short-term fix for their immediate cash flow problems.

Complexity academic level: Undergraduate and postgraduate

Subject code: CSS: 3 Entrepreneurship.

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Granadilla Eats – an online food ordering and delivery services and a spinoff the success swimwear brand Granadilla Swimwear was launched in South Africa during the covid-19 pandemic. The business launched and grew quickly, but as the lockdown eased and competitors entered the market, the entrepreneurs – Josh Meltz and Adam Duxbury, wondered at the longevity of their idea and its sustainability beyond the current crisis. Was Granadilla Eats a once-off opportunity or did this business have a competitive advantage to become another successful venture in the entrepreneur’s stable of brands?

Background

Meltz and Duxbury, two Cape Town-based entrepreneurs, saw and capitalized on an immediate opportunity post the breakout of covid-19 to build their business. Meltz and Duxbury had started a successful and well-established swimwear brand called Granadilla in 2015. Granadilla takes its name from the granadilla iced lollyⁱ that is ubiquitous on South African beaches during the summer months. The swimwear brand initially focused on men’s boardshorts and soon followed with bikinis for women. The brand is fun, trendy and a little irreverent. Granadilla Swimwear is a South African brand that focusses on supporting local designers and creative artists; the entrepreneurs had a deep social conscience, launching the Granadilla Swimming Academy in partnership with local swimming instructor Arafat Gatabaziⁱⁱ, a young refugee to South Africa, who turned his life around through focusing on swimming.

Ever the entrepreneurs, . Meltz and Duxbury had over the past few years expanded their business interests to include a roof top function venue in Cape Town and a kombucha brand called Sunn. The kombucha was sold at the Oranjezicht Food Market – an exceptionally popular weekly food fair located at the Victoria & Alfred Waterfront, a world class multi-use facility built adjacent to the Cape Town harbour.

The duo had just completed their 2019/2020 summer season with Granadilla Swimwear when the covid-19 crisis hit the world and South Africa. While planning for the next swimwear season was still to start, they saw an immediate opportunity within the current crisis and South Africa’s hard lockdown to pivot their business to selling fresh fruit, vegetables and other food staples. . Meltz and Duxbury had experienced an immediate drop in sales of kombucha as the food market had closed during the lockdown; the same applied to the function venue. As seasonal swimwear sales were more than six months away, they looked for a quick opportunity to pivot their business and generate revenue. The closure of the food market has affected dozens of other small businesses and food vendors, so . Meltz and Duxbury decided that this might be an opportunity – to continue the sale of kombucha, keep revenue flowing for their business, and help and support other small businesses that were struggling to survive during the covid-19 hard lockdown in South Africa. This gave rise to Granadilla Eats – a web-based food ordering and delivery service providing boxes of fresh fruit, vegetables, bread, pasta and soft drinks.

Building a Partnership

Meltz & Duxbury were childhood friends, spending many summer holidays together on the Durban south coast and in Cape Town; the friendship that formed on the beach as children, found its way back there with their quirky swimwear brand. Duxbury had studied law and economics at the University of Cape Town, followed by a career in management consulting in Dubai, Johannesburg and Singapore specializing in telco's and the digital economy. While he remained involved with Granadilla Swimwear and their various ventures, Duxbury was also working with Yoco – an innovative South African fintech startup as their Chief of Staff. Meltz studied economics in Edinburgh and came from a well-established 'clothing family', leaning on a legacy of almost 50 years with the Meltz clothing brand – a well-known name in clothing imports and factory (outlet) stores. As Meltz says – '... I learned through osmosis; I guess I got some of that in my genes'. Meltz had returned to South Africa from the UK in 2015 when he started Granadilla Swimwear; Duxbury joined a year later. Both the entrepreneurs had seen the value in this lifestyle business - they were having fun, building a clothing brand and keeping their eyes and ears open for new opportunities. As the 2019/2020 summer season came to an end and the pair prepared themselves for a period of negative cashflow through the winter with their swimwear brand, covid-19 hit South Africa.

Covid-19 in South Africa

The first South African covid-19 case was diagnosed on 5th March 2020. South Africa's 'patient zero' had traveled to Italy, returned on the 1st March and been diagnosed 4 days later. As cases grew during the month of March, the South African Health Ministry began taking proactive steps by shutting down mass gatherings such as sports events, music concerts, theatres and cinemas. The population was encouraged to remain indoors and self-quarantine and while no lockdown regulations were in place, there was a noticeable shift in social and economic activity. On March 15th, 2020, the South African President declared a national state of disaster, and this was followed 11 days later by a national lockdown. The initial lockdown period closed the South African borders, restricting all but essential internal travel and transport, and reduced economic activity to that which was regarded as an essential service (banking and financial services) and basic food retail. E-commerce activity was also severely restricted, with a limited basket of goods available for sale online. Schools were closed, as were universities, and all restaurants, bars and taverns were instructed to shut. The lockdown coincided with the first South African death from covid-19. This lockdown period, implemented to give the State sufficient time to capacitate the healthcare facilities that would be needed once the virus peaked in the country, was gradually eased against a risk-adjusted 5-stage framework. By end April, certain social activity was returned (daily exercise) and retail and e-commerce (apart from certain exceptions) was also reopened. A month later, on 1 June 2020, the lockdown was again eased, with schools reopening, albeit under strict social distancing guidelines, and much of the manufacturing sector returned to work. While the availability of goods and services had

remained constants through the lockdown period (apart from the universal demand for toilet paper!), there was an increase in demand for home delivery of basic products in order to limit social contact and ensure continued social distancing. The lockdown was met with criticism in the country, with actuarialⁱⁱⁱ predictions that the enforcement of a 'hard lockdown' would cost countless more lives in the long-term as livelihoods were affected by reduced economic activity and opportunity, and as the country grappled with having to choose between saving lives and keeping an already struggling economy alive.

Growth in e-commerce

South Africa was not alone in counting the economic cost of covid-19. While locally the Johannesburg Securities Exchange saw a 6% drop on a single day of trade in March post the onset of covid-19 in the country^{iv}, the food retail sector remained buoyant given the ongoing demand for basic foodstuffs. Retail in general suffered in South Africa^v and globally; venerable brands such as J. Crew and Nieman Marcus had filed for bankruptcy protection^{vi} since the start of the pandemic. E-commerce however had seen massive growth; Forbes^{vii} reported that year-on-year growth in e-commerce orders in Canada and the United States rose by 129%, with revenue growth up 68% as of mid-April 2020. Categories such as home goods, active apparel and toys grew alongside essential goods such as food and personal care products^{viii}. Demand for e-commerce had grown across Africa, and in many ways the onset of covid-19 has spurred the sector across a number of product categories including e-commerce, banking and online learning^{ix}.

Making the Move

Against this backdrop, Metz and Duxbury had launched their online business, a new venture within their stable of brands and ventures, but one that promised to keep them afloat until the summer months once again brought demand for Granadilla Swimwear. The entrepreneurs had breathed a sigh of relief at the timing; '... had this happened in September or October or November we would be sitting with an enormous amount of inventory on our balance sheet which we have to finance each year', said Duxbury. He recounted how he woke up one morning, soon after lockdown restrictions had been announced and realized that trading across all their ventures - swimwear, function venue and the kombucha brand sold at the food market were about to grind to a halt. He called Meltz, recognizing that other traders at the food market would be in the same predicament, and suggested they move quickly to start delivering online – providing a channel to market for their products and those of their fellow market traders. They reached out to the organizers of the Oranjezicht Food Market asking what was being planned to support vendors with online sales; some plans were afoot, but nothing was definite or confirmed. Meltz & Duxbury decided it was opportune to get to market ahead of any potential competition. Using their existing food production and packing facilities where they produced kombucha, they bought \$500 of fruit and vegetables, packed these into boxes and started marketing via Instagram. They made use of their Granadilla brand and website and

their logistics partners already engaged through the Sunn kombucha brand. Meltz & Duxbury were conscious of how fortunate they were with their various brands; Duxbury reflected that '... Sunn really is the key which unlocks this whole opportunity because had we just been a clothing brand with a dusty warehouse, we wouldn't have been able to be processing food in a sanitary environment'.

Their Sunn brand was equipped with a 40-foot cold storage unit, a full sanitary food processing facility and staff used to work in this environment. Within 48 hours, Granadilla had delivered its first box of fresh fruit and vegetables. The team went, according to Duxbury, from 'selling swim shorts with bananas on them to selling bananas'. The team quickly approached other traders at the Oranjezicht Food Market who had overnight lost their income and their route to market and were now likely to be holding stock they couldn't sell. They took non-perishable goods on consignment from various traders and quickly added these to their website catalogue and their food box deliveries. In some cases, Granadilla was able to stock products from small businesses that stocked their kombucha; Kleinsky's Bakery, a very popular Cape Town eatery and bagel bakery had to shut during the lockdown and was now looking for a channel back to market. They saw this as an opportunity with a former supplier now turned customer in Granadilla Eats. Duxbury's sister, Hannah, joined the team; she had great experience in this area, and in many ways was the de facto CEO of the operation.

While the response to Granadilla's food boxes was very positive, demand was somewhat erratic. Duxbury & Meltz put this down to general uncertainty, especially in the early days of the South African lockdown, with many unknowns and fears regarding food security and delivery. This made forecasting a challenge, especially in a business that had perishable products. The unpredictability of business demand meant that the pair kept very close to customers and their needs during the lockdown period. The focus on the customer had given them some advantage; as delivery lead times from established South African grocery chains grew longer (in some cases two weeks), Granadilla stuck to their 48 hours turnaround, and in some cases could deliver to central Cape Town suburbs within 24 hours.

Next Steps

The business had sustained itself, and despite Meltz & Duxbury taking 100% pay cuts and reducing wages by 30% in the swimwear and event venue businesses, they found growth in the food businesses and even managed to employ a few additional staff. This had been precipitated by a need to essentially become an online grocery store; as customers increased their demands and as small traders and producers approached the team to stock products, they increased their range and capacity.

Meltz & Duxbury saw great potential with their online business; while competitors large and small were building online grocery stores and the delivery times dropped as other players

became more efficient and customer focused, Duxbury observed that '... with swimwear, when other players come on to the market we get nervous, but with this business the market is so big we can really pick a niche'. As the market and their business matured through the lockdown period, the team found their niche in only stocking locally produced product from small businesses. This meant not stocking certain popular imported products, but the team believed that this strategy would pay off with customers who were intent on supporting small businesses, especially during this covid-19 period.

The venture remained cash positive and Meltz & Duxbury continued to see demand for their food boxes. Customers started enquiring from outside the Cape Town metropole; in one emblematic case, a 92-year old living in an outlying suburb of Cape Town had a box ordered for her by her granddaughter living in Johannesburg. When it came time to order another box, the genteel customer insisted on ordered herself. She phoned Meltz and asked for a box to be delivered, offering to pay by check or cash; getting her to order online and pay with a credit card was simply not possible. In the end the team delivered her box personally and accepted the cash, citing a desire to remain relevant to customers and focused on their needs, especially during this time of lockdown.

With the pace of growth, change and scale increasing each day, Meltz & Duxbury wondered again at the longevity of their idea as the South African lockdown levels began to drop and as some semblance of normality returned to trading and economic activity. Would this pivot be the foundation of a whole new business venture for the Granadilla team, or would this just be the sustenance they needed to get them through to the next summer season and another run of Granadilla swimwear?

ⁱ A 'lolly' (or sometime 'lollie') is a South Africa delicacy sold usually during summer and often at the beach. It is a form of fruit popsicle; it is essential frozen fruit juice on a stick.

ⁱⁱ Arafat Gatabazi is the first black person to complete the Robben Island to Cape Town open ocean swim.

ⁱⁱⁱ <https://www.dailymaverick.co.za/article/2020-05-05-actuaries-warn-ramaphosa-of-a-humanitarian-disaster-to-dwarf-covid-19-if-restrictive-lockdown-is-not-lifted/>

^{iv} <https://www.moneyweb.co.za/news/markets/bloodbath-like-the-jse-hasnt-seen-in-10-years/>

^v <https://www.fin24.com/Companies/Retail/edcon-on-its-last-legs-goes-into-business-rescue-20200429>

^{vi} <https://www.businessinsider.com/pandemic-complicates-retail-bankruptcy-process-liquidation-sales-2020-5?IR=T>

^{vii} <https://www.forbes.com/sites/louiscolumbus/2020/04/28/how-covid-19-is-transforming-e-commerce/#7d6e95833544>

^{viii} <https://www.cio.com/article/3538777/covid-19-thrusts-e-commerce-into-the-spotlight.html>

^{ix} <https://africa.com/covid-19-is-speeding-up-the-digital-economy-in-africa/>