

The Spinach King's social enterprise scaling experience during and post Covid-19 pandemic

Anastacia Mamabolo

Gordon Institute of Business Science

mamaboloa@gibs.co.za

Case summary

Learning outcomes: Analyse a social business model; explain the scaling motives in a social enterprise; identify and defend scaling strategies in a social enterprise; and use the social enterprise scaling barrier model to evaluate factors that contribute to scaling failure and suggest ways to address the identified barriers.

Case overview/synopsis: Lufefe Nomjana, a Cape Town-based social entrepreneur, decided in 2011 to launch a social enterprise that promotes an affordable but healthy lifestyle by baking and selling spinach bread at a low cost. Nomjana combined a for-profit business venture with the social aspect of providing healthy products at a cost people can afford. When the lockdown was implemented in South Africa in March 2020, he still grew his business despite the strict restrictions. Inspired by the growth of the enterprise, in August 2020, and at the height of the national lockdown necessitated by the Covid-19 pandemic, Nomjana decided to open a company-owned outlet in Johannesburg miles away from the Cape. However, the launch of this company-owned outlet was not successful. The failure of the Johannesburg outlet left him with a dilemma, as he had planned to scale up his enterprise into other cities in South Africa. Launching his business in Cape Town had not been a challenge, but he struggled to launch outlets of his social enterprise outside of the Western Cape Province.

Complexity academic level: Social Entrepreneurship, Commercial Entrepreneurship and Business Management at the Postgraduate Diploma and Masters level.

Keywords: Social enterprise; Entrepreneurship; Value creation

Introduction

Lufefe Nomjana, a social entrepreneur at heart, decided to launch a social enterprise that promotes an affordable but healthy lifestyle by baking and selling spinach bread at a low cost. Thereby, Nomjana combined a for-profit business venture with the social aspect of providing healthy products at a cost people can afford. Spinach is used as the basic ingredient for producing bread, muffins, juice, protein shakes, and smoothies. Nomjana had launched his business in 2011 prior to the outbreak of the Covid-19 pandemic. When the lockdown was implemented in South Africa in March 2020, having selected a product range that could enhance people's health, he still managed to grow his business despite the negative impact of the lockdown.

Inspired by the growth of the enterprise, in August 2020, and at the height of the national lockdown necessitated by the pandemic, Nomjana decided to open a company-owned outlet in Johannesburg. This metropolitan city is situated 1 397,8 km (868,5 miles) from Cape Town, where he was based. Despite his previous success in the Cape, the launch of this company-owned outlet in Johannesburg was not successful. Therefore, on 10 December 2020, Nomjana reviewed his plans for the year ahead and found himself in a dilemma. He assessed the challenges that lead to the unsuccessful opening of the Johannesburg outlet, and then decided that he had to explore other strategies to deal with those identified challenges. The set-back he had experienced led to him questioning his scaling approach, as he had planned to scale up his service offerings and expand his business into other cities in South Africa.

Background to the Spinach King

Based in Gugulethu,¹ Lufefe Nomjana established Espinaca² Innovations in 2011, and due to the success of his enterprise, he was soon affectionally referred to as the Spinach King. The purpose of his business venture was and still is to raise awareness of healthy and affordable food by offering nutritious bread and other food products made with spinach as a key ingredient. Nomjana observed that his community had adopted unhealthy lifestyles and eating patterns, which contributed to chronic illnesses among many in the community. He decided to research various foodstuffs and discovered that spinach is a superfood that possesses vital nutrients and can be used as a base for baking bread. Nomjana decided to start his bread-baking business with a R40 (2 USD) investment to buy spinach from the local farmers and bake the first loaf of bread. His neighbour lent him an oven, where he was able to bake 24 loaves of bread per day. In the early stages of the business, he had no access to any infrastructure to sell his bread. Therefore, Nomjana was forced had to handle his sales on a door-to-door basis to acquire customers.

In 2012, Nomjana had graduated from the Raymond Ackerman Academy in Entrepreneurship Development. Thereafter, he employed an additional four employees to work in his new business. Using his experience and what he had learned at the Academy, and with the help from his employees, he was able to scale up the business to produce 120 loaves of bread per day. As the demand for the bread was growing and more loaves had to be produced, walking around the community to sell his product was becoming a major challenge. He then bought bicycles for himself and his employees to distribute the bread. In 2014, Nomjana's contribution to his community was noticed by the South African Breweries, who presented him with an innovation award and prize money, which enabled him to open his first formal bakery. In the same year, Nomjana received recognition from Forbes Magazine for having launched an innovative concept in Africa. Nomjana also received recognition as the 2015 Entrepreneur of the Year, sponsored by the Western Cape Premier's office.

Through Nomjana's hard work, the prize monies he had received, and a partnership he established with Virgin Active, he was able to open his Spinach King Food Café and Bakery in the Khayelitsha³ mall, selling more than 200 loaves of bread per day (See Exhibit 1 and 2). Spinach King then expanded its product range by adding spinach-infused muffins, sandwiches, and smoothies.

¹ Gugulethu is a township in the Western Cape, South Africa and is situated 15 km from Cape Town. Gugulethu is a Xhosa name for pride.

² Spanish noun for spinach.

³ Khayelitsha is a township in the Western Cape, South Africa. It is a Xhosa name for new home.

In 2017, he was approached by two entrepreneurs, one based in Cape Town and another in Amsterdam, who wanted to buy a franchise outlet. The Dutch student, who was in South Africa on an MBA exchange programme, was fascinated by the spinach bread concept and pursued a franchise business opportunity that he wanted to launch in the Netherlands. Despite the fact that Nomjana was unsure how such an endeavour was going to function and whether it had any chance of success in a foreign market, Nomjana took the risk, and it paid off. The franchise outlet paid him royalty fees every six months.

Fast forward, in December 2020, Nomjana had opened four stores in and around Cape Town and was supplying more than 80 retailers in the Western Cape and Gauteng Provinces (See Exhibit 3). Nomjana added three more cafés (Makers Landing, Philippi Village and Mutual Park) and a centralised bakery in the Western Cape. Out of the four stores, the Khayelitsha branch was the best performing outlet. Since the branch was located in a township, the spinach bread was sold at an affordable price. Based on such attractive pricing, Nomjana attracted many customers. Also, this store operated seven days a week, while some of the branches (especially the Makers Landing branch) mainly opened on weekends.

In June 2021, Spinach King's human capital had grown, with more than 30 employees working for him in the spinach stores and bakeries. Nomjana designed a lean executive committee supported by himself as the CEO, an operations manager and two general managers, one based in Cape Town and another one in Johannesburg. He also appointed store managers in each outlet, including the bakeries, supported by a baker and a cleaner. Exhibit 3 shows Spinach King's organisational structure.

Distribution and Suppliers

Spinach King procured spinach from the local farmers in the Western Cape. Nomjana also designed some of the outlets in the Western Cape (Khayelitsha and Philippi village outlets) in such a way that they had spinach gardens that contributed to their supply chain (See Exhibit 3). As for some of the ingredients, he sourced gluten-free yeast from the United Kingdom, and bought brown rice and tapioca flour from Thailand.

Nomjana introduced a dual distribution model, focusing on direct sales through the company-owned cafés and wholesale selling to various retail outlets. The stores were designed in such a way that they can produce 30% and also serve as outlets for direct customer sales. The remaining 70% of the products were produced by the centralised bakery. Since he supplied stores in the Western Cape and Gauteng Province, he decided to buy small commercial vehicles (bakkies) to help with the distribution. However, the demand grew beyond his production and distribution capacity. Spinach King then partnered with one of the leading national logistics companies distributing bread in the Western Cape and Gauteng. By the end of December 2020, Nomjana was distributing and selling more than 1500 loaves of bread per day.

Nomjana then reviewed his supply chain strategy again and decided that he wanted to find ways of empowering some of the local farmers within the Spinach King's supply chain. He had realised that there was food insecurity in the Cape Town and Western Cape region, and especially in the many townships, justifying the need for partnerships with small-scale farmers. In December 2020, he introduced the farmers to the retailers he supplied with his spinach-induced bread. Since he had developed a good marketing strategy and was popular on social media, most retailers desired to partner with his social enterprise. Once he had signed a contract with one of the leading retailers for his own products, he then negotiated with them to

allow these farmers to supply them with their vegetables. The value chain enhancement was an opportunity that gave the farmers direct access to these retailers.

Following these new contracts being in place, he opened a new division in his business that helped the commercial farmers within their supply chain to access the retailers. After the successful negotiation with the retailers, the demand for the vegetables grew beyond these farmers' capacity to meet the growing demand. For example, a retailer that had multiple outlets in a province would order 5,000 bunches of spinach and 3,000 cabbages per day. Therefore, Nomjana reached out to the Western Cape's Government Department of Agriculture to obtain a small and medium enterprises database, because he intended to work with specialists to equip the suppliers (SMEs) with business competencies and thereby enhance their market access.

Successes and challenges during Covid-19

In December 2019, just before the onset of the Covid-19 pandemic crisis in South Africa, Spinach King had experienced some fiscal distress, which had been caused by several factors, among them the negative impact of loadshedding⁴ and an increased inflation rate. Fortunately, Nomjana received an investment of R20,000 (1,400 USD), which helped improve the cash flow of his business. However, when the lockdown restrictions were officially introduced on 27 March 2020, Nomjana was forced to close all the outlets that had a walk-in café. Because of this set-back that was forced upon him, he changed the strategy of the social enterprise and maximised his business-to-business strategy. During March, April, May, June, and July 2020, the business was performing exceptionally well because of the strategy having been adapted to the new and challenging environment with its regulations and restrictions.

Nomjana proudly described the enterprise as a business ahead of its time, based on its focus on promoting a healthy and affordable lifestyle products, offering healthy and fresh products at an affordable price. One factor that contributed to the business's success was that during the pandemic, people were becoming more health-conscious, and wanted to exercise, and boost their immune systems by consuming nutritious food. This trend was driven by the community's fear of falling ill by being infected and not immune enough to resist the virus. Being a healthy product range also helped to position Spinach King as one of the essential service businesses and this classification allowed Spinach King to operate during the lockdown, selling bread to retailers.

One of the original flagship shops was situated in Pinelands Mutual Park, Cape Town, where he operated the business in partnership with one of the leading insurance companies to establish an outlet at their head office park. The outlet was serving almost 6,000 staff members within the business hub and had about 3,000 walk-ins. While Nomjana was starting to enjoy the benefits of the new venture, in April 2020, the outlet was severely affected by the strict Level 5 lockdown⁵ and had to be closed as all sales stopped, because people were forced to work from home. However, Nomjana did not give up. Three months later, he opened another company-owned outlet in Philippi village. This store turned out to be an excellent investment and contributed to the sustainability of the business.

Nomjana's survival strategy during the first lockdown levels was based on his acceptance that a business model must remain dynamic and agile. His focus was therefore placed on

⁴ Phased availability of electricity during peak usage times

⁵ Alert Level 5 indicates a high Covid-19 spread with a low health system readiness. <https://www.gov.za/covid-19/about/about-alert-system>

strengthening the production and distribution aspect of the business model. Nomjana also employed robust marketing strategies, advertising his essential products. Whenever the Spinach King was delivering the products to a certain store, they recoded the delivery of their products and praised that store, which caused much attention being drawn to that store and therefore people were attracted to shop there – and also bought Spinach King’s bread. The business broke the sales record and maintained the upward linear sales performance from March until July during the lockdown.

Launching a company-owned outlet in Johannesburg

By August 2020, Nomjana had built up a lot of financial reserves and decided he was ready to take the risk to open an outlet in Johannesburg, in the Maboneng Precinct⁶. When he launched the outlet, it operated seven days a week, just like any other commercial business. Nomjana already had some contracts with retailers in Johannesburg for his products, making the expansion decision was a natural transition. However, considering the impact of Covid-19, and the lack of his knowledge of the Johannesburg consumer and the buying trends there had a negative impact on the Johannesburg venture, and this resulted in cash-flow shortages. This was a serious challenge for the business, as one of the outlets (Pinelands Mutual Park) that could have been generating a positive cash flow to support the Johannesburg outlet launch, was closed. In September 2020, after the Johannesburg outlet launch, Nomjana realised the full extent of the impact on his business caused by Covid-19. He was not aware that sales in some of the Cape Town branches declined in August 2020.

While Nomjana was faced with the potential closure of the Johannesburg outlet, he was also forced to re-plan his expansion and his overall business strategy. He applied for Covid-19 relief funds, but never received any cash injection into the business. He decided to use his own resources as far as possible and had to leverage his limited resources to produce and distribute his products to the retailers in Johannesburg. Since the Johannesburg outlet was not generating any revenue and had to be financially supported by the other outlets based in the Cape, these outlets were also starting to experience financial stress. Fortunately, in October 2020, the Western Cape outlets started picking up sales again, thus improving the cash flow of the entire business. However, the Johannesburg store’s business activities declined, leading to the closure of the branch just two months after the launch.

Another problem Nomjana had faced when he tried to expand into the Johannesburg market was the absence of an outlet where he could bake the bread. He was, therefore, forced to ship frozen bread from the Western Cape stores to the Johannesburg outlet. Nomjana explained that the gluten free bread they produce could last for six months in a frozen state. Since the bread was not freshly baked, some customers were hesitant to buy it, as the major consumer benefit had been that the bread was healthy and fresh. He then decided to bake the bread at the Maboneng Café, but that approach did not work out. Nomjana decided to rather focus on the café in Maboneng, and open a bakery in Melville⁷, Johannesburg to focus on the retailers within his distribution chain. This was one way of easing the pressure on the Cape Town bakery responsible for 70% of the bread production.

Nomjana also invested a significant amount of money and other resources into the marketing activities of the outlet. He implemented unconventional marketing strategies to enhance the

⁶ Maboneng is a Sotho word meaning “place of light”. It is a mixed-use community with a combination of residential apartments with studio, retail and art-centred space.

⁷ Suburb in Johannesburg famous for its bohemian culture, situated 11 km (7 miles) from Maboneng.

visibility of the brand, he advertised the outlet, went to the taxi ranks to sell his products, did some online marketing, and recruited several celebrities to become associated with the brand. He believed that having good brand ambassadors was going to result in immediate returns on his investment. He realised that it was challenging to advertise the business, and he had to educate the consumer market about a healthy lifestyle. Despite all these efforts, there were no immediate financial returns, and this resulted in the cash-flow shortage.

Nomjana admitted that it had been a mistake to open up an outlet with resources from the business's cash-flow. He employed personnel who assisted him with the marketing campaigns, but as these employees were new to Spinach King, he had to first educate them about the brand and his vision. The additional staff members added to the cost structure of Spinach King. Considering the new market and the social orientation of the business, all employees had to understand the nature and mission of the business and how it was positioned in the market.

The way forward

Despite the set-back experienced with his original launch in Johannesburg, in January 2021, Nomjana re-opened the outlet in Johannesburg. However, since then, the store serves customers on weekends only and does not have a bakery. He sources all bread from the Melville bakery. Unlike the manner in which he had operated before, there were two significant aspects that he closely guarded in January. He decided that he had to establish clear priorities. The first priority was to ensure that all the businesses in Cape Town continue to operate successfully. This was directly linked to his second priority, which was that all employees' jobs were kept safe. Another priority was that he had to focus on reducing the Cape Town branches' financial backlogs in an effort to address the financial imbalances caused by the launch and unsuccessful operation of the Johannesburg outlet a few months earlier.

From last year's experience, he learned to apply resilience and patience. He also learned to take better researched and calculated risks, despite the potential lucrative promises of new opportunities. Also, he observed that it was essential to thoroughly research and assess an opportunity, so that he would be able to know when to move or retreat. Around August 2021, he was invited by another leading retailer in KwaZulu-Nata⁸ to supply spinach bread. Thus, the future looks promising.

⁸ South Africa's costal province with beaches and mountains. It is situated 1 595 km (991 miles) from Cape Town

Exhibit 1: The first Spinach King outlet in Khayelitsha



Source: Courtesy of Spinach King

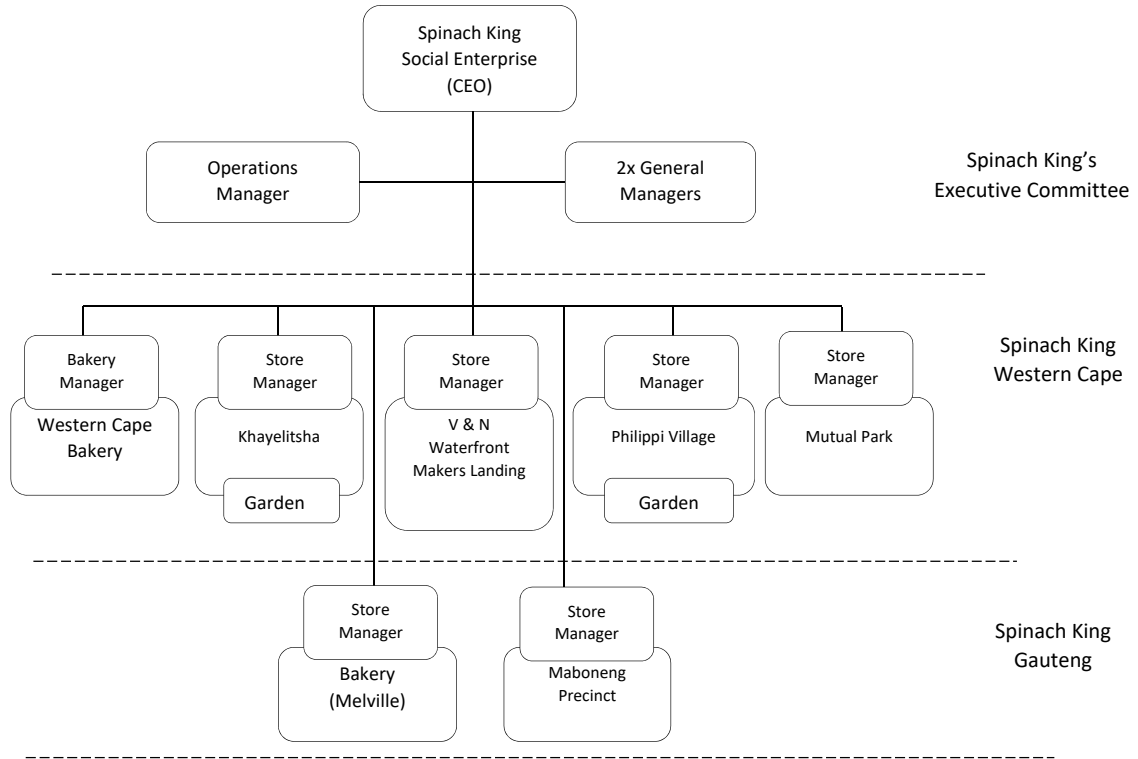
Exhibit 2: The Spinach Bread



Source: Courtesy of Spinach King

Exhibit 3: Spinach King's Organisational Structure

Figure 1



Source: Author's analysis of Spinach King's organisational structure