



Go small to grow big

OBC Chicken expands franchise formats to grow footprint

OBC head office gives franchisees the flexibility to run their own stores under the franchise guidelines and offers ongoing advice on recommended selling, operational procedures and financial controls.

By LAURA DURHAM

For thousands of lower income consumers in township communities, OBC Chicken is *Ekhaya Lenkukhu* ('home of chicken'). In fact, it has become the home for consistently good value, quality products and great service thanks to the successful franchise model of the business where entrepreneurs are given the power to grow their retail operations.

Small stores, big business

Soon, for an estimated R400 000, franchisees will now be able to join the OBC Chicken family of stores with the new format of container stores available from February next year. "We will be taking the guys out of cardboard box spaza shops and zooming them into big business," says Robbie Capazorio, marketing franchise manager at OBC Chicken.

He explains that the new concept will be a mini store made using two containers next to each other. Although still in the planning and costing stages, the Department of Trade and Industry (DTI) is also showing interest in the project. It will give entrepreneurs in the townships the opportunity to own and operate their own small-scale retail operation with preferential buying power and added support from OBC head office.

The upsurge of foreign shop owners in townships is a big issue for South African spaza shop owners as retail space is already congested. Capazorio says the reasons that these foreign traders are so successful is because they are customer focused, are always searching for the best price and they have no Plan B. "In every country, immigrants are prepared to work harder – but I believe foreign traders' pricing strategy will come under pressure with current competitiveness in the retail environment," he says.

"I think there's going to be a big change in the retail market," he adds.

Franchise offering

OBC offers three store formats to franchisees: The standard OBC Chicken store (usually around 500m²), OBC Shesha, which is more of an express store and soon,

Store: OBC Chicken

Location: National

Format: Franchise

Size: OBC Chicken (average 500m²), OBC Express ± 300m²), OBC Container (2x20-foot)

Tills: 6 on average

the container stores. Out of the almost 50 stores nationally, eight are corporate owned – the rest are franchises.

Capazorio would like to see two new stores opening each month next year, including stores converting from an independent outlet to the OBC brand. He says that independents are keen to convert to OBC for a number of reasons: "They receive the brand support, superior buying power, constant supply of product, effective marketing and a unique product range in terms of chicken, some of which is not available to those outside the OBC family."

The OBC Shesha store in Kempton Park is an example of a successful conversion. Capazorio says the owners have seen their turnover doubling since converting to OBC Shesha.

OBC has over 20 years experience in the retail business, having started in the late 1980s by a Portuguese family. "In the late 80s when everyone was running away from South Africa, we were running into the townships," laughs Capazorio.

Almost two years ago, the business was bought by Fourie's Poultry Farms (Pty) Ltd,

which is a leading poultry producer in the country. He says that having this strong backing and being able to share the high quality Chubby Chick chicken ranges with their customers has had a very positive impact on the stores' popularity. OBC is also very cautious about site selection – just because there are lots of consumers on the street, doesn't mean they will come into the store.

Head office gives franchisees the flexibility to run their own stores under the franchise guidelines and offers ongoing advice on recommended selling, operational procedures and financial controls. Many of these independents had never conducted regular stock takes before joining OBC but completing the mandatory process of a monthly stock take soon starts to pay off. "With the lessons of the recession behind us, retailers need to now, more than ever, be in total control of the business," comments Capazorio. Being a franchise model means that store operators are using their own cash – so financial discipline is of utmost importance.

Home of chicken

Chicken remains 50-60% of OBC's business and it is seen as a destination category in the stores, says Johan van Wyk, national buyer at OBC. Every single part of a chicken



The OBC Shesha store in Kempton Park is an example of a successful conversion, with the owners seeing their turnover doubling since converting to the OBC brand.

is sold and used, including traditional walkie talkies, IQF chicken, soup cuts (bones) and entrails. OBC's cold storage facility in Johannesburg distributes all of OBC's chicken, meat products and perishable extensions to the stores across the country. Capazorio says cold storage manager, Miguel de Freitas, and his team work hard to produce one-touch products. This means that many products are already packaged

by the time they reach the store, which cuts down on staff, stock holding and reduces the level of wastage.

The fresh chicken will be on the shelf for only a few days before it gets frozen. This is as OBC's distribution centre can deliver to most stores at least twice a week, replenishing the store with fresh products. "We do believe that chicken is something our competition will always battle to beat us at – we are the chicken kings," says van Wyk.



OBC has introduced a range of frozen convenience meals, which customers can then get heated by a staff member before leaving the store and enjoy the wholesome meal on-the-go or at the seating area outside stores.



New territory in dry goods

OBC has traditionally concentrated more on chicken and related perishable products but it is important that the brand caters for their customers' grocery needs as well. OBC has joined Elite Star Trading Group, which has given them much greater bargaining and buying power. These savings are then passed on to the franchisees, giving them a better competitive edge.

"I believe OBC has entered into a new era of offering value-for-money to our extremely price sensitive customers. Our stores offer a basic range at a competitive price," comments van Wyk.

Lower income customers like OBC's are very brand loyal because they cannot afford the risk of trying a different product from

the one they know. "The term 'Fong Kong' arose out of the township when products let people down. Our consumers understand quality and are more discerning than most," says Capazorio.

OBC also has a range of house brand products, with the rice, oil and baked beans being good quality alternatives to the category leaders. He says that house brands continuously show an increase in sales.

He says they have a very hands-on approach with suppliers, making sure they visit stores regularly. "Shelf space is an expensive commodity, so if the rate of

sale of a product does not justify the space allocation, we give suppliers the chance to rectify it but if it doesn't work, we take it off the shelves," he says.

They work on a Just in Time (JIT) stock basis, with stores keeping a recommended four days worth of stock in the back. As part of the franchisee application, each applicant undergoes a credit review and dependent on that, they may be given a credit line with which to buy stock. "Because of the continuous supply from our distribution centre (DC), we don't need to keep high volumes of stock in-store," he explains.



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The non-perishable DC is also based in Johannesburg and DC co-ordinator, Quinton Sungaram says there are plans to move to a bigger premises along with the cold storage facility to accommodate the growing demand.

A wider offering

The large format and new generation stores have added a home meal replacement (HMR) offering to their customers. This gives the retailer a service department that can generate opportunities for higher gross profit than just the traditional offering. In those stores that have limited space for the HMR offering, OBC has introduced a range of frozen convenience meals. Customers simply buy a frozen tub – choice of either beef curry, chicken curry or mala magodu (beef intestines) at an affordable price – and get it heated by a staff member before leaving the store. Add a cold drink from the store to that and customers can then enjoy a wholesome and tasty meal as they go about their busy lifestyles.

Most stores offer airtime and prepaid electricity. Social grants are paid in some outlying stores for the last six years and have a high number of benefactors coming to the stores over the month end period, which certainly boosts trade. "If prices are right and service levels of a high standard, they will purchase from you," says Capazorio, "and most times, they will spend a large portion of their social grant at the store."

Tight controls

All retail stores need tight controls at the door and most stores have surveillance cameras in place. Capazorio says shrinkage is reduced through regular stock takes to identify 'hot spots' and checking slips at the door.

Community promotion

Although there is no formal social responsibility programme in place, franchisees do get involved with their communities in one way or another.

OBC works hard to promote their stores and leaflets and local media advertising work very well, with many customers



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shopping off the promotion pamphlets. They are also piloting an sms, Facebook and Twitter marketing campaign and Capazorio says this is doing surprisingly well. They have also upgraded the website recently (www.obcchicken.co.za) which provides step-by-step instructions on how to apply for a franchise, galleries of store openings, product promotions and more.

Business challenges

Like any business, cash flows will always be important but in recent years the increasing operational costs are more of a concern. The rising price of electricity, for example, is one of the reasons that OBC operators are sticking with bread and confectionery from suppliers rather than investing in in-store bakeries. They have also put various electricity control measures in place, such as using self-regulating units to manage defrost cycles and energy demand spikes.

The economy may still be tough, "but those that have used the time to clean up their act will start to reap rewards," says MD, Tony da Fonseca. Regardless of these challenges and the increased competition in the emerging market retail space, OBC has great plans for the future. He says expanding into the Eastern and Western

Cape is on the cards and head office is also contemplating cross-border options.

"Under the OBC umbrella, there is still a lot of space for 'independents' to operate quite competitively as aside from having leaner operations with fewer overheads, franchisees are encouraged to retain that entrepreneurial spirit that makes them the success that they are."



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In-store ATMs draw feet and social grants are paid in outlying stores, which makes for a busy month end period.