



Date: **24th November 2024**

Business Reference: **36643**

About the Business:

## **Well known Coffee and Retail Chain - 9 Stores in the Western Cape**

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The business has a sit-down and takeaways section but no deliveries are done in the Malls or areas where they operate. The business is retail only and a breakdown of sales by category is given in the attached management accounts. It is not possible to separate Take Away from Sit Down as they form one revenue from two categories Biscuit\cakes and Served Drinks.

# Well known Coffee and Retail Chain - 9 Stores in the Western Cape



Sector: **Food**

Asking Price:

**R 1,000,000**

Monthly Profit:

**R 108,702**

Asset Value:

**R 2,615,488**

Stock Value:

**R 2,900,000**

Yearly Net Profit :

**R 1,304,424**



# Business Report

## Fully describe the business's activities?

This well-known brand, consists of 9 Coffee Shops located in the Western Cape, in well known Malls. Each Branch has its own branchmanager and a highlevel strategic direction is needed from the new owners.

## How does the business operate on a daily basis?

The retail units trade dependent on the shopping center trading hours, however opening times are normally 1 hour before the center opens to take advantage of takeaway sales to shopping center staff. Except for Cake and Biscuit stock, ordered directly from suppliers, the shops order stock twice weekly from the holding companies warehouse ( will be discussed with buyers.)

They have a point-of-sale system for customer transactions. The POS is updated as necessary from the Head Office ( Holding Company), to manage range and pricing and at the end of day it will send an email to head office giving sales data, cash up data and any variances.

Figures are updated daily on the head office accounting system, so at head office, they know daily sales and stockholding. The shops are managed by a designated manager, with one exception - either one or two full time assistants, plus casuals as and when required.

## What Advertising/Marketing is carried out?

Google, Facebook, Instagram and on the various shopping Centre's webpages.

## What competition exists?

Many competitors exist in the coffee shop sector.

Many online stores also sell accessories, and many products are also sold by manufacturers on platforms like Yuppiefchef, @home, Take-a-lot etc.

Competition has always existed; you have to mitigate against it.

## How could the profitability of the business be improved?

Concentration on high margin products, coffee, tea and served drinks.

More regular reviews of pricing, ranging and more involvement by senior management, which is currently not 100% focused on the retail business.

## Give a breakdown of staff/ functions/ length of service?

- Shop 1:

Manager - 10/10/2005

Shop assistant - 01/09/2018

- Shop 2

Manager - 01/03/2015

Shop Assistant - 01/06/2014

- Shop 3

Manager - 01/08/2004

- Shop 4

Manager - 01/02/2009

Shop Assistant - 02/06/2017

Shop Assistant - 01/07/2018

- Shop 5

Manager - 09/05/2005

Shop Assistant - 01/07/2020

- Shop 6

Manager - 14/02/2014

Shop Assistant - 07/09/2016

- Shop 7

Manager - 09/09/2013

Shop Assistant - 01/03/2023

- Shop 8

Manager - 01/02/2013

Shop Assistant - 01/03/2014

- Shop 9

Manager - 30/10/2015

Shop Assistant - 01/12/2022

## Do any have management potential?

Management is made up of employees who have been working for their respective coffee shop long term and have earned their positions based on their work performance and merit.

## How involved is the Owner in running the business?

Less than needed, as the main operation and source of income of the current holding company has a different core focus than retail.

This is also the reason for the sale.

They are in essence a manufacturer with a wholesale supply to the retail-and hospitality trade.

The Retail Coffee Shops is not their focus and the shops can excell under new ownership.

## When does the current lease end?

Lease ending dates per shop varies and are as follows:

- Shop 1 - 31-03-2026
- Shop 2 - 30-06-2026
- Shop 3 - 30-11-2026
- Shop 4 - 31/08/2024 - Monthly rental (No fixed contract in place)
- Shop 5 - 31/08/2026
- Shop 6 - 30/09/2028
- Shop 7 - 31/08/2026
- Shop 8 - 30/11/2027
- Shop 9 - 31/08/2024 - Monthly rental (No fixed contract in place)

## What are the trading hours?

Trading hours per shop varies as per the malls.

## What are the main assets of the business?

Shop fixtures, stock and coffee making equipment and stock.

NOTE: The Business will be sold with all physical assets and store stock of around +- R 2,5mil ).

All other stock will be negotiated with the sellers as to :

- a) Leave stock as consignment stock OR
- b) Bulk sale stock for the sellers benefit

## Strengths?

■ Brand - established > 55 years ago, has operated in both the Wholesale and Retail space for close to 60 years, and have in that time built up a customer base of many loyal customers.

■ Range - The shops offer customers the most extensive range of Coffee from more than 20 countries of origin, plus coffee blends developed over time, a range of tea unequalled in South Africa covering more than 180 Tea varieties, and a range of coffee and tea accessories that satisfy most customers' needs.

■ Distribution (Supply Chain) - The central distribution center based in Cape Town and a new Head Office will have to be found but currently a bi-weekly delivery and stock availability, the daily update of sales by product, ensures that stock on hand is known on a daily basis, so that any shortfalls can be addressed.

■ Staff - Many of the staff have been with the Company for many years - they know the products, they have relationships with their customers, they know what is expected from them, and are loyal to the Company.

■ Location - The shops are located in major Shopping Centres and are positioned as close as possible to anchor tenants.

■ Competitive Advantage - Being an importer of both green coffee and tea, and a coffee roaster, takes away sourcing from a third party within SA, which means their retail pricing is hard to beat, and the sit down and takeaway pricing is very hard to beat. The holding company will continue to roast for the buyers, if wanted.

■ Back-Up Power - In December 2023 investment in Invertors and Batteries at 5 stores were done. 4 stores have back-up power supplied by the shopping Centre, so future load shedding will have no impact on the ability to trade, other than one shop, where it was thoughts that the expense would not be justified by the return.

■ On-Line Presence - the Web Shop has been active since 2010, and offers the opportunity to build on this sales channel, plus develop an omni-channel marketing approach to the retail business.

## Weaknesses?

█ General - The retail operation has, following the Impact of Covid, been neglected in the past four years. The brand has lost 90% of its wholesale business and as such funds generated by its retail operation were diverted to keeping the rest of the business operating. Money was not available to invest into stock nor uptake of the shops. This was corrected in 2022 with the sale of the Wholesale business to a well known coffee roasting brand, followed by the sale of the Retail business also in June 2023, which allowed them to commence on rebuilding the retail operation. This has led to the 53% increase in Net Profit on last year, however, this has left them on the back foot, as stock levels are still not optimum and shops have lacked investment in upgrades, it is a work in progress.

█ Management - Too little senior management time is spent on store operations. This responsibility currently sits on one person who is also responsible for the old wholesale operation, plus ensuring sufficient production at the coffee facility, stock replacement, and distribution, thus insufficient time is spent on day-to-day store visits.

█ Promotional Activity - Needs to be more focused to assist in rebuilding the Brand and supporting those stores needing special attention in growing its turnover.

█ Training & People Development - In recent years too little resources have been allocated to staff training and ensuring succession plans to replace ageing Store Management, this has to be the focus in the next 12 months, but will require investment.

█ Investment in Stores - It is going to take time to correct the past four years off no or little investment. A planned approach has commenced, with some minor revamps being done to address the immediate concerns, but it is going to take time and money to carry out all the necessary upgrades.

## Opportunities?

█ General - The fixing of the weaknesses as listed above gives a massive opportunity to rebuild the business and add significantly to the turnover.

█ On-Line Presence - while being active in this space since 2010, the business has in recent years not applied its mind to a direction in what it wants to achieve, has allocated very little resources to it, has not understood the power of social media, nor developed a strategy of integration of the online space with the brick & mortar space, be that Omni-channel or multi-channel. Fix this, bring the management of this space in-house as to their current reliance of "so called specialist" could greatly increase turnover and at the same time lower costs.

█ New Stores - There are ample opportunities to increase the Company footprint in the retail space, unfortunately a far too conservative approach has always been present within the previous management and many opportunities have been missed. This can be corrective with a more aggressive approach, but this needs capital, and a management team that are prepared to take risks.

█ Tea - Quality loose tea is a scarce commodity in South Africa, where Coffee is a crowded space, Tea is not, as the online sales testify. It is a massive opportunity, with correct marketing, to really drive revenue.

█ Range - the business was always known for its range of imported bone china crockery and in 2019 it added R1 million plus revenue to the business, but required an investment in stock that in recent years current management was not prepared to make, as stock turnover was too slow. This can easily be resurrected, but capital is needed.

## Threats?

█ General - The retail space is not for the faint of heart, it has always been easy to lose direction - to not pay attention to detail, to not give customer service, to not have stock availability, to not invest in keeping stores upgraded, the list as to what you can do wrong is endless.

Currently one only has to look at Pick n' Pay to see how you can, with wrong decisions, mess up a good business.

There is always someone waiting to "eat your lunch", you just have to be aware of what your competitors are doing, plan a response and implement it, even in the short term it costs you margin. If you do not react, you are dead in the water, wait too long to react you are equally dead in the water. In the retail environment you always need to be on top of your game.

█ On-Line Presence - All you can do here is the best you can, a small company cannot hope to take on the likes of Takealot or Amazon, etc, their marketing budgets dwarf the turnover, throwing money at the likes of Google ad-words is in my mind - fruitless.

They will always have more money to spend than you have. The best way to deal with this threat is to consider the points already raised under opportunities - do what you do, and do it well.

## What is the reason for the sale?

The Current Owners, bought the business because it had a good customer base in the hospitality space. They thought the shops would be a nice to have, but have learnt that this has become a distraction to their main operations and source of income, which is the manufacturing of Roast & Ground Coffee for the retail- and hospitality trade.