

No need to gobble at Famous Brands

By [Stafford Thomas](#)

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For restaurant and fast food industry players locked in a battle for the consumer's shrinking wallet, survival of the fittest has real meaning.

"There's übercompetition out there," says Famous Brands' CEO Kevin Hedderwick.

"I've never seen such bizarre behaviour," says Hedderwick, pointing to examples such as up-market seafood restaurants offering breakfast, and aggressive pricing on an unprecedented scale. Retailers are also muscling in on the fast food market, he adds.

In the six months to August, intense competition and muted consumer spending put the brakes on Famous Brands' headline earnings per share (HEPS) growth, which came in at 8.7%, its lowest increase in three years.

A quick recovery in the restaurant and fast food market, which depends heavily on middle-income consumers, appears to be wishful thinking. Already burdened by debt, consumers are now being hit by rising inflation and lower wage increases. Stats SA reports that average monthly earnings of permanent workers in May rose 5% compared with May 2010, a far cry from average increases of 15% in 2010 as a whole.

Opening the Home of Shisanyama

Famous Brands is not sitting back. In a quest for new opportunity it has turned to the untapped lower-income market with the launch of its Blacksteer Home of Shisanyama (BHS) brand. "There are 20m people in the LSM 3-6 segment," says Hedderwick. "Individually they don't have a lot to spend but the market's volume is enormous."

BHS's menu is basic and includes pap, meat, chicken, burgers and chips. The focus is on affordability, with prices per item under R20. Scope for growth will be limited primarily by availability of suitable sites, says Hedderwick.

BHS, which has just opened its first outlet, is not the only new brand in Famous Brand's line-up, which is led by what Hedderwick terms its "gorilla brands" - Steers, Wimpy, Debonairs Pizza and Mugg & Bean. Added in the past 12 months are Keg and O'Hagan's pubs and niche sector plays Milky Lane and Juicy Lucy. These four are well-known brands in need of a facelift, which they are receiving. Also new in the line-up is Giramundo, a small venture acquired in 2010 that fills a gap in Famous Brands' collection: peri-peri grilled chicken.

With its rapid brand expansion Famous Brands has outmanoeuvred Spur. A leader in the franchise game, Spur is in sore

need of a new growth driver to supplement its core brand, Spur Steak Ranches, which is at a point where expansion is limited by its large footprint in major urban areas. Spur's other major brand, Panarottis Pizza Pasta, is competing in an overtraded sector, concedes Spur MD Pierre van Tonder.

Investing in growth

Investors looking for super growth in the food franchise sector may be eyeing Taste, which after a feeble start following its 2006 listing burst into life in the six months to August, lifting its HEPS 50%.

A key growth driver in the immediate future looks to be Taste's new unit supplying its food franchises, Maxi's, Scooters and the recently acquired St Elmo's. The unit kicked in in the latest half year with sales of R18m and an operating profit of R1,4m. Management promises bigger things from the unit in the second half of the year.

Considering Warren Buffett's advice to avoid companies that do not have at least a 10-year listed track record, ultra-smallcap Taste seems best left to the speculatively inclined.

For those with a smaller risk appetite, Famous Brands looks like first choice in the sector. But with consumer spending on a knife edge, there is little incentive to rush in and buy.

Source: Financial Mail

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