COMPETITION COMMISSION OF SOUTH AFRICA

In the matter of

ONLINE INTERMEDIATION PLATFORMS MARKET INQUIRY
PUBLIC INQUIRY (OIPMI)

held at

DTI Building
Sunnyside and virtually via MS TEAMS

on

15 November 2021

PANEL: *James Hodge – Chairperson*
And Doris Tshepe

TECHNICAL TEAM

Itumeleng Lesofe	*CCSA Internal Team*
Tshegofatso Radinku	*CCSA Internal Team*
Siphosethu Tetani	*CCSA Internal Team*

COMPANY: FAMOUS BRANDS

Gauteng Transcribers
Recording & Transcriptions

PROCEEDINGS ON 15 NOVEMBER 2021

Famous Brands – Represented by: Terry Boardman / Heather Irvin

CHAIRPERSON: Good afternoon and welcome to the afternoon session of the third week, first day of the third week of the public hearings into the online intermediation platforms market inquiry. This afternoon as I indicated earlier, we start with Famous Brands. I am sure all South Africans will recognise those brands and then after that we have Expedia who were unable to make the first week when we dealt with travel and accommodation.

So I would like to welcome Mr Terry Boardman who is the Managing Executive for Leading Brands for Quick Service Restaurants and Ms Celeste Appollis, the Group Company Secretary and Head of Legal for Famous Brands. Welcome to the virtual hearings and as I indicated earlier, I am very happy to use first name terms.

MR BOARDMAN: Thanks, James. Appreciate it.

CHAIRPERSON: I am joined by my fellow panel member, Ms Doris Tshepe, and also some of the Technical Team who you may have had interactions with or at least members of your company. Terry, I believe you have a presentation, so I am going to let you put that up and take us through it.

MR BOARDMAN: Thanks, James. I will get straight into it. Let me just bring it up quickly. If you could just indicate when you see it.

CHAIRPERSON: Yes, we can see it.

MR BOARDMAN: Oh, it has started from – just hold on a sec. Technical issues here. Let us just start from the beginning, not from the end. Perfect, okay. So ja, obviously introductions have already been made. So I head up the leading brands portfolio in terms of QSR and specifically home delivery and online falls within my department, so that is why I will be taking you through the presentation today in terms of some context around Famous Brands, but importantly as well getting into some detail around our own online platform and capability, as well as talking to third party and some forward viewpoints that I would like to kind of end off with.

So kicking off just in terms of the introduction for those that do not know who Famous Brands is. I mean, we are a branded food services business operating, mainly franchised business but also have a master licence and company owned restaurant portfolio. So just in terms of how our business is made up for those that perhaps do not understand that Famous Brands actually is an integrated business model that comprises of three pillars across these disciplines, brands, manufacturing and logistics. And specifically what I am going to kind of orientate the discussion around today is obviously our brands and in that – in our branded portfolio we have 2813 restaurants trading across South Africa, in the A&E markets, as well as in the UK. So quite an extensive portfolio in terms of brands. I will however for this session be focussing just on obviously the South African context that we have in play at the moment.

So just to give a little bit of insight in terms of how our business is structured from a brands perspective, really it is broken down into two disciplines. Quick service restaurants and casual dining restaurants are kind of two portfolios that play out within our brands and that is structured around our leading brands portfolio which is the bulk of our branded network and the quick service component of our leading brands portfolio is Steers, Debonairs Pizza, Fishaways and Milky Lane. And then forming part of the casual dining component of this portfolio leading brands is Mugg & Bean and Wimpy.

And then we do have signature brands which is generally our brands that we have either wholly owned or joint venture partnerships with and you will see the brands like Mythos, Lupa Turn ‘n Tender, Salsa, Vovotelo and Fego Caffe as well as Coffee Couture really do form part of our wholly owned portfolio here and orientated all around the casual dining space. You will see brands like Paul are joint venture and under licence, as well as you will see House of Coffees and NetCafé are forming under licence agreements in terms of how we operate those particular businesses.

And then in the other portfolio we have our branded joint venture with Mr Bigs in Nigeria, which is a quick service portfolio up in Nigeria. And then you will see there is a retail portfolio as you can see right at the bottom with the likes of Aquamonte, Baltimore, TRUFruit and Gold Seal. So that just gives a little bit of context in terms of how the portfolio looks and gives you context in terms of this integrated approach we have to our business.

I think importantly for this hearing is really to give context to everyone that is watching at the moment and to the panel around what channels we participate in in the market across all our brands. And from the Famous Brands' perspective, I mean not all brands participate in these areas I have defined the main channels across the group. There are obviously subsets within these channels, so I will talk to a couple of examples when I get to it, but right now these are the main channels that we participate in.

Sit-down as you can see at the top being one of our key channels and really orientated around our casual dining restaurant business. We then also have own delivery as a channel and this is more orientated and aligned across our quick service restaurant channel, however it does translate into some of our casual dining restaurants as well. Collect is a key channel that has kind of come to light and seen quite a bit of growth especially during COVID and you can well understand that obviously less contact has driven that particular growth in that channel and there are subsets of collect. So collect is an example, as I said, which would be orientated around instore collect but might also orientate around curb side collection as an example. So there are subsets in terms of channels that sit under these main channels.

We then have third party as a channel that we obviously participate in across our brands. We then also have counter which is really orientated more around the walk-in consumer and is focussed on really the takeaway part of our business. And then a smaller portfolio of ours but is a growing one at this point in time and links back into the convenience aspect and demand from consumer is around drive-thru as a key channel. And here again this is not brand specific. It kind of washes across a number of our brands but mainly focussed around QSR at this point in time. So that is just a little bit of context in terms of the channels in terms of which we participate.

Just in terms of giving some context and I suppose a little bit of a history lesson here in terms of our own online channel. Online ordering was launched within the Famous Brands Group in 2010, so we have been in it for some time and in fact if you look we were first to market in terms of online ordering and app ordering within the South African market. This was really driven, I mean, being a customer-centric, customer focussed business that obviously focus around growing our brands by being in tune with the customer, online ordering was launched really in terms of the growing move to mobile and specifically web ordering at that point in time, but we saw mobile as a key opportunity and this was added as an additional channel over and above our at that point the only channel available for ordering was telephonic.

Just highlighting some of the challenges that one faced around establishing one’s own online channel, especially in the early stages. One of the key challenges that came out was slow customer adoption and here I think anyone getting into this space or in fact exploring any new channel to the consumer needs to understand that generally customer adoption is a journey and takes some time. So really one of the earlier challenges was really to get customers to adopt and kind of start participating on that particular channel.

Internet access in the early days was a massive challenge both at restaurant level and still remains a challenge to date in terms of some of our outlying restaurants in certain geographies. So internet access is obviously critical in order to make online as a channel work and that still remains a challenge to date. I think coming out of 2010 and even more so I suppose today, you know, the cost of data is still a hot topic and still a barrier for consumers in terms of interacting on the channel. So, you know, cost of data for consumers is still a barrier at this point in time, still a challenge.

What is important to understand in terms of own online channel is the cost to support and develop it in the initial stages is a barrier to a large degree, because the adoption as I said earlier on in terms of the consumer is fairly slow, so you are really investing ahead of the curve and kind of linking into the trends that consumers are kind of progressing towards and there is an investment ahead of the curve in terms of these type of investments.

What is not spoken about often is around the fact that generally technology moves fairly quickly, so there are costs associated with replatforming the online ordering channel that one might develop. And as an example from a Famous Brands' perspective with our partners we have had to replatform our online ordering channel three times over the last call it 20 years that it has been in play and that is even accelerated even more so now that technology tends to move a lot quicker than it did 10/15 years ago.

One of the biggest challenges with any channel but more specifically online is there is no physical presence in the marketplace, so you know, staying top of mind in terms of acquiring customers onto the channel as well as managing churn is an ongoing challenge that needs to be managed very closely and carefully. A key kind of challenge and I suppose when I talk to the cost a little bit later on, you will see marketing of the channel and staying top of mind in terms of driving consumer demand and consumer participation in the channel is critical. So marketing of a channel is both a cost and a challenge in order to get consumers to adopt to using the channel.

And then for us as a franchise business or predominantly a franchise business we obviously have to go and enable technology across all our restaurants and as you can well imagine, taking our franchise partners along that journey in terms of enabling all the technology, both software and hardware that is required in order to effect online ordering is quite a journey and quite an investment on both parties, both our franchise partners and ourselves through the process.

Balancing this slide off with some of the costs that are associated with own online ordering capability is we know there have been a lot of instances online ordering is kind of subject to last mile in terms of driving demand for consumers, so consumers are looking for last mile delivery, so online ordering is subject to that. And I suppose like anything the costs associated with last mile we are not talking to in this specific instance, but if you look at the technology every order that comes through the online platform has an order processing fee that is associated with it and that is obviously to facilitate all the technology that is required to get that order down to a restaurant.

There are also platform licence fees that are in place and this is specifically fees around things like geolocation licence fees, fees around reporting, fees around bandwidth and redundancy, etcetera that are put into place to support the platform. Other key costs specifically are around promoting on the online space. So generally to get adoption as we well know you have to go and promote quite actively with consumers to get them to trial the service and there is costs associated in terms of promoting online either through activations or through promotional activity that will drive consumer change in behaviour.

The other element around our business specifically associated around cost is obviously building up competencies and skills, both at a central perspective, at a brand perspective and that is around particularly upskilling people within the organisation to be able to manage online, to understand how it all ends together. And that translates right down to our franchise partners who have to upskill their managers, upskill their staff to be able to deal with technology and obviously a new channel from that perspective. So we have found that there has been a lot of investment around building up those competencies and skills, both centrally within the group but also right down to restaurant level.

Another key component that is associated around costs is around capacity and I did highlight the fact that, you know, last mile is critical in terms of driving online sales. So from a capacity point of view obviously servicing the consumer with last mile is key, but we have also referred to the capacity that needs to be invested in terms of the volume growth that tends to come through online. So there is an ongoing cost that is associated in terms of building capacity to handle specifically peaks at month end, etcetera that kind of push through huge volumes from a capacity point of view.

The other costs associated and these are specifically the costs associated around what the brands need to invest in orientated around marketing these particular channels to get adoption and to obviously establish the brand as a brand that participates in this particular channel and keeping it top of mind so that when consumers are thinking about a particular brand, that they realise there is an opportunity for them to interact on online.

Another key cost component is to continue to grow the database and this is an ongoing kind of commitment and this is through customer relationship management or through direct marketing to that consumer that is on the database. So, you know, growing the customer database and maintaining it really does come with its own associated costs. So I hope that gives a little bit of insight in terms of our own online channel capability, challenges and costs.

I would like now to talk a little bit around multi-homing which has come up as I think a key subject in the inquiry and here just to highlight in terms of how Famous Brands interact and participates in terms of third party platforms. I mean, all our brands can participate on one or more third party online platforms, so it is from a brand perspective. I will go into a little bit of detail now in terms of how that plays out.

Probably the one kind of condition that this does orientate around is that we do approve which third party platforms we participate on and that is done through ensuring that they meet minimum criteria that we have set out in terms of participation, but I will get into a little bit of detail towards the end, just giving you a little bit more insight there. Participation on third party online platforms is quite clearly subject to whether that service is represented in a certain geography and as you well know, we have lots of brands that trade across the geography of South Africa and not all third party platforms do service all the geographies in terms of which we trade in.

There are no exclusive arrangements with any one third party online platform. So from Famous Brands' perspective there is no exclusive arrangements with one third party platform. Very importantly, we are a franchise business and our franchise owners are not mandated to participate. So they have the ability to choose to participate on third party platforms, whether it be one or two or none and the choice is theirs in terms of participation and they obviously have the ability to make that choice in terms of what is best for their business.

And into the last point which is quite a key point. What we continue to do from a Famous Brands' perspective and we have the resource in terms of our own delivery portfolio that is housed within QSR leading brands, is to continue to assess and trial other third party platforms in order to see if we can reach new consumers. This, as I said earlier on, is subject to the criteria that we have set out and it specifically is orientated around how those platforms are able to represent our brands and more importantly to service our customers that want to buy into our brand and product on that platform. So those trials and assessments are ongoing in terms of looking at other third parties that may be able to participate with us.

Just to give a little bit of insight, and I am sure this is well known, as we know from a COVID-19 impact point of view on the Famous Brands' business and our restaurants and our franchise partners, as we know May 2020 was opened up for delivery only due to lockdown restrictions and to a large degree this really did drive online adoption and accelerated it quite considerably. So that was a big drive for us, which leads me to my next point which is really around the fact during May 2020 up until January 2021 we saw within our business a doubling of volume specifically on third party online platforms versus prior year. I think what is important to note here is generally this did come from the onboarding of more restaurants and from the third party platforms' expansion geographically into new territories as well.

We know that sit-down in this particular period of May through to January and in fact even during the course of the middle of this year the sit-down channels were impacted due to restrictions, but more importantly as well the consumer, you know, health concerns still remained a barrier throughout the period and that seems to be changing. When I get to the forward view you will see that there is a bit of a shift in terms of how the consumer is feeling from a health concern.

From our counter channel or counter channels, we have been down on feet or volume and up on spend. So people have been coming in less often, but spending more with us and obviously counter is a key channel for us in terms of our takeaway and our QSR business and does quite significant volumes. And during COVID-19 the consumers were obviously shifting to more low contact channels like counter, online, etcetera.

Just in terms of giving some flavour and a forward view in terms of how we see the future playing out within our sector, is we believe that the customer will return to sit-down and counter channels and we are starting to see that happen already. We do anticipate that they will still visit us less often and spend more and there is some kind of pent-up I suppose demand for and – I suppose for consumers to kind of connect on a personal and a physical level. So we see sharing occasions are also growing within the market over the short to medium term.

There is no doubt that we see remote convenience continuing to grow and convenience overall for consumer will continue to grow into the future. We do anticipate that online platforms in terms of their growth they had since COVID-19 launched an acceleration that I mentioned earlier on will start to slow and we – and specifically here from a like-on-like basis, restaurant on restaurant we see that growth slowing significantly and most of the growth likely coming through new geographies and expansion and onboarding of more restaurants rather than like-on-like.

From a channel mix and split perspective and if we look at our business specifically, we do not see this returning to pre-COVID levels. And here we see the mix and the split across all the channels kind of remaining the new baseline, although we do see sit-down and counter as we said returning to a large degree. But in terms of the actual split that was there pre-COVID, we do not see that remaining as is and we do see shifts happening across all our channels.

And that really brings me to the end in terms of what I just wanted to give from a context point of view and hopefully I can now answer some questions. I am going to get out of the presentation if you do not mind so I can see everyone clearly and then happy to take some questions. Thanks.

CHAIRPERSON: Thanks, Terry. And before we start the questions, I am sure you have been reminded that we are in public session, so do not traverse any confidential information. Can I start with basically where you left off and how the mix and split will change? Now I do not – we do not necessarily need the exact for each restaurant, but I mean can you give us a little bit of flavour for quick service restaurants which I assume is your area how that mix – how you think that mix has changed? I mean, you have said more counter, more maybe online, less contact, but is it possible to give us some sense of the mix between in-dining, counter which is takeaway and online?

MR BOARDMAN: I am probably not able to give the exact split from a percentage point of view because I think that would kind of give away in terms of I suppose the competitive aspect. But I mean, if I could answer that from the perspective in terms of where do we see the growth coming in certain channels, I mean there is definitely growth starting to play out in terms of I suppose the rebalancing across sit-down and counter. So that is coming back to similar levels that it was pre-COVID, although as I said earlier on, customers are coming less but spending more. So there is a little bit more indulgence, there is a little bit more around bringing groups of people together, enjoying each other's company. So there is a shift in terms of that particular need from a consumer point of view to connect and we see that kind of playing up to similar levels as we said, less frequent but obviously spending more.

We continue to see the fact that, you know, channels like drive-thru which is around convenience, home delivery, online and even third party will continue to enjoy support. And what we do see happening though is probably a little bit of a pull back on the growth that those particular channels have seen over the COVID period, which was really driven by to a large degree health fears and restrictions. So ja, we do not see that returning back to or seeing the same growth potential that it had over the period. We see that slowing down to a large degree and other channels growing and balancing out. So I hope that answers the question to some degree, James.

CHAIRPERSON: Ja, no and I think it helps just orientate us, because obviously also COVID has been such a major event in all our lives that sometimes there is a question whether we can compare the pre-COVID period to the post-COVID if there will be such a thing. But as I understand you, there is going to be a little bit of a shift, a new baseline. We cannot just look back at that period. I mean, I just wanted to... [intervenes]

MR BOARDMAN: Ja, I suppose just to kind of I suppose clear up a little bit. I mean, we do not see a fundamental shift in terms of the mix once, you know, COVID starts to subside. So I think just to reinforce that, that the shift in channel is not fundamentally going to change to such a degree that it kind of turns on its head if that makes sense.

CHAIRPERSON: No, that does and I think many of us are very grateful that we are back in in-dining and experiencing some friends' company. I mean, on that, you know, we have sort of been presented with these ideas of the customer journey almost, you know, how do I end up on dining versus delivery versus counter and it seems there are many customer journeys and I as, well, a fan of some of your brands, you know, sometimes I am ordering takeaway and picking up from the counter, sometimes I am dining in, sometimes I am ordering delivery and they are not mutually exclusive. But I mean, in your business how do you understand these sort of consumer journeys? Maybe if you could give us insight, because you must think about them I am sure.

MR BOARDMAN: Ja, so I mean critically for us, as I said during the presentation, is we are consumer-led. So, you know, a lot of the research and trends that come out and understanding our consumer in terms of what their needs are, are vitally important. And as I said, you know, we do invest a little bit ahead in terms of making sure that we are there for the consumer where they want to shop, when they want to shop. So that is an ongoing process strategically that we apply to all our brands and not all of them, as you know, are able to leverage into participate in those consumer needs. But where we are able to we obviously strategically put plans in place in order to participate.

I think the key here coming out of what we have seen over the years is not anything but the sum of the parts. The fact is the consumer has choice. They have lots of choice at this point in time. They are – if any brand thinks that they are in the driving seat at this point in time would be mistaken. If anything you are in the passenger seat and you better strap in and enjoy the ride.

So in a lot of instances consumer needs are driving the demand in terms of where they participate, but as I said, it is the sum of the parts that really adds up to – you know, to the overall business being successful, because you have to participate in many of those channels and as many I suppose of the choices that the consumers want to make in terms of how they want to interact with you. So it is not a one size fits all to a large degree. So I hope that answers the question.

CHAIRPERSON: Ja, I think it – I mean, I suppose the way I have been trying to think about it and maybe you can just give your view, but there will be times I want to pick up at the counter and so you have to have that service. There will be times I want to sit in, you need that service and there will be times I want to deliver, delivery to my home. So if you are not there, you are not part of my decision and you may lose to another one. So my state of mind maybe in one of those three and you need to offer all three or four if you are going to contest for my service compared to another chain, you know.

MR BOARDMAN: That is 100% correct. And that is our view is to participate and, as I say, if the customer wants to make a choice is to be available to them on as many channels as we can be.

CHAIRPERSON: And so I suppose if drive-thru is one you flagged as potentially, you know, growing that, maybe you invest a little more just to make sure you have more presence. But that would seem then the sort of way you are approaching it, the way you have highlighted all the different ways that you interact with the consumer.

MR BOARDMAN: That would be correct, yes.

CHAIRPERSON: Terry, I mean, I was interested in your slide around all the costs and challenges of setting up your own platform and, you know, we have obviously had the benefit of interacting with many restaurant chains and platforms themselves, but I mean I get a sense that much like you have indicated, I mean setting up on-demand last mile delivery is not easy. It maybe seems easy when we bang into an app, but getting food out within a certain amount of time from a restaurant near my location with the right order is a massive challenge and I think you have indicated that. I mean, if I can just understand, I mean I think Debonairs and Steers have their own apps and online ordering. I mean, do you have it for all your quick service restaurants that you listed?

MR BOARDMAN: Well, the majority of our restaurant chains and even in the casual dining space do have apps. So in fact the whole leading brands portfolio has apps, has web, has other channels like ordering ahead, loyalty that are built into those apps. So ja, we have participated and built capability around specifically being in the online digital world, because the customer at this point in time as you know is between physical and digital and they are kind of migrating and moving between both of those worlds continually. So ja, we participate on all our leading brands with apps and web ordering and, as I said, other elements as well.

CHAIRPERSON: So that is what I just want to understand. If you have got the capabilities, what is the purpose of using the third party platforms for you as Famous Brands?

MR BOARDMAN: Probably the best way for me to articulate this, James, would be to articulate it in terms of what traditionally restaurants have not really participated in or been very good at understanding is, you know, what FMCG is kind of all around and what retail is all around. So if I kind of refer and use the analogy of bricks and mortar is, you know, if you are not on the shelf you do not participate in those retailers and that is really the view that we have taken in terms of how do we be available to the customer. And as I say, you know, if you are customer-led you have got to make those decisions in terms of how do you put your product on the shelf.

So third party aggregators for us is not about us, you know, trying to I suppose do anything but tap into a consumer that is shopping in that particular space and we have taken a little bit of a retail view in saying that we want to have our products on the shelves. It is not so much about brand building or, you know, brand awareness or any of that, because our brands are established and we have done that job on our own, but what we do want to be is in the consideration set of the consumer where they shop.

And I suppose like anything, you know, the principles about how you would if you were a bricks and mortar retailer and you were trying to negotiate with – you know, putting product on your shelf, there would be, you know, kind of an agreement in place in terms of how that would look, what the terms and conditions would be, you know, what space you would get, etcetera and that is kind of how we view it and how we negotiate around it is almost with a retailer mind set. We want to be on the shelf. We want to be available to the customer. The customer is shopping there and how do we then manage that strategically in the long term.

CHAIRPERSON: Ja and I mean that would be my understanding that if those platforms are drawing customers and those customers are ordering on those platforms, if you are not there you are not contesting for that order against McDonalds or Burger King in the case of Steers. I mean, is that right that the customers are there so you want to be on the shelf much like the retailer?

MR BOARDMAN: Ja, that is absolutely correct, James. That is right.

CHAIRPERSON: I mean, can I just ask about also trying to get customers to your platforms, because if I looked at your challenges and costs, I mean, the one thing that comes up almost repeatedly in a few places is marketing. So online promotion, marketing and you talked a bit about making yourself top of mind, trying to retain the customer. So how important is marketing in this whole online delivery world?

MR BOARDMAN: Well I think it is critical and I suppose the challenge with online is, you know, physical presence is easy if somebody is driving down the road and seeing you every single day and they are aware of you, but in an online space as soon as you turn off the taps in terms of reminding the customer around the service and the offer, you know, they are not going to remember that that service is available to them. So it is an ongoing I suppose uphill kind of struggle in terms of staying top of mind and it is a continual investment on the basis that you have got to keep investing behind it.

And I think it is also – it is not just around the investment part, but it is around, you know, kind of what occasions you are going, how you are resonating with the consumer. So there is also that aspect in terms of, you know, really connecting with the consumer. Solving their problems at the end of the day is quite critical in terms of really getting breakthrough.

So it is not only cost investment. There is also lots of sweat and capital put in from that point of view to get consumers to buy in. It is one thing to spend money, but if the consumer does not buy into it, it is really just a waste. So we spend a lot of time, you know, trying to understand what the consumer needs are and trying to solve for them, give them the solution and make it easy for them to make the decision. So that takes a lot of time and energy and investment.

CHAIRPERSON: And so I suppose, you know, what we have observed at least is in the online channels, and this is maybe not unique to delivery, but online marketing becomes important. I think promoting online was one of your points, be it Google or other channels. I mean, is that what you have also found? Because I assume, look, before the online world you would be on TV, you might have some billboards, you might have other advertising means sort of above the line so to speak I think. I mean, is there a different focus in the marketing spend?

MR BOARDMAN: That has been coming for years, James, in terms of the shift to digital and social. So, you know, from a mix perspective, I mean TV still remains the biggest channel for us to kind of reach our customer, but when you are trying to talk about specific occasions or where the customer is in the digital space you have to have a digital presence and, as I said, you have got to invest behind that.

So we have seen the investment in digital and social marketing increase significantly probably over the last five to six years as it has kind of shifted. And as you need to connect and engage with the consumers in terms of where they are, the importance of that has grown over time.

CHAIRPERSON: Just in terms of directing consumers, I mean our sense, and that is what I would like your input on is, you know, an aggregator or third party platform aggregating across many restaurants I suppose has the advantage of advertising for a much bigger audience than a single group or a single chain, so potentially able to spend more in these channels and catch the sort of eye of the consumer. I mean, maybe if you could give me your sense from one of the – as Famous Brands and a few of the chains that you have.

MR BOARDMAN: Probably the best way would be for me to kind of put this across would be the fact that there is always going to be space for consumers to deal direct for a number of reasons. I mean, one, the brand owns the customer experience end-to-end. So there is accountability end-to-end for the consumer. And in a lot of instances, I mean, in those branded apps, you know, we offer additional value to our consumers in terms of both product offering, promotions, loyalty, etcetera.

So there are reasons for them to participate direct if they so choose, but I think like anything there is a space for consumers to – you know, not to be loyal to a single brand and to kind of shop across a portfolio of restaurants or products. So I think that has become the way of the world, but I mean there is still a need to a large degree for consumers to be able to interact directly with brands and to experience those brands end-to-end in terms of the entire experience, as I said, both from how it is kind of displayed, you know, what is available to them, what added value do they get by interacting directly with the brand. And as I said, looking after their experience end-to-end is in control of the brand when they have their own apps, online presence.

So I think it is important to have both to be honest. I think consumers tend to shop around. Where they love a brand and they are loyal, we see it on our platforms and then they – you know, they are very loyal and they love the brand and they fancy the brand. So, you know, they want to be able to connect with that brand on a singular basis rather than kind of on the basis of shopping around and have no loyalty.

CHAIRPERSON: Ja, and I mean you are probably right. I suppose, you know, we had an earlier discussion, this was more property, that a lot of consumers want the variety and then will make the choice. And I suppose when you are on the platform and now if you ended up choosing let us say Steers, I may not jump out of that platform to go and order directly on your app because I went in with the variety. I mean, is that also a fair comment? Because variety seems to also play a role with consumers and that is why they are popular.

MR BOARDMAN: No, absolutely and I think I highlighted it earlier, I mean the consumers do want choice, so there is an element of that. But as I said earlier on, you know, where customers are loyal and they know they can get directly and they feel like Steers, they go direct, you know, in terms of that particular fan buying into the brand, buying into the experience.

But I think what we have got to understand is there is – you know, the brand generally in the consideration set for consumers is fourth down the chain in terms of how they consider. So I mean, first consumers will decide, you know, how they – you know, what the occasion is that they are looking to service, so whether it is feed the family, you know, friends night out, etcetera. So they look at the occasion first and then they look in terms of how do I want to interact to access that particular need from an occasion point of view. And then it might kind of move into do I go online, do I go through drive-thru, do I go to store to collect. So that is the next consideration that needs to be made in the chain.

And then it gets to cuisine, you know, what does everyone feel like. You know, do you want chicken, do you want burgers, do you want pizza, etcetera. So it then gets orientated around that. And the last choice is okay, we have chosen pizza, you know, what is the brand that meets our needs and has the value, the offer, etcetera. So brands tend to be quite I would say far down the chain in terms of consideration if you take that kind of customer journey into account.

CHAIRPERSON: Ja and I think that was probably the customer journey I was looking for earlier, but that definitely helps just to understand I suppose the funnel or some people call it. I just want to go to your interactions with these third party platforms and maybe just start with the sensitive issue of commission fees. I mean, I just want to understand, you know, first of all how negotiable are these when you join and how negotiable are the increases each year?

MR BOARDMAN: So I think importantly, I mean, commissions are always going to be a hot topic. You know, no one really wants to pay commissions to any degree, no matter what the value of that commission is or what degree that commission is set at. I suppose the challenge around negotiation is there is – you know, everything is negotiable to a point in time. I mean, the approach that we take with third party and in fact with all our vendors and suppliers is trying to understand what a fair deal looks like. I mean, we are not in it to be cheapest in market, but what we are looking to is understand the fairness in terms of those applicable commissions.

And we do have the luxury of understanding specifically the total cost of ownership of, as you well know, online delivery, etcetera. So I mean, we have our own view in terms of, you know, what the costs associated with and like anything those negotiations are based with that in mind and what we are looking for is a sustainable model in terms of the long term. I suppose the challenge that we have with all I suppose the third party platforms currently is that there is no long term commitment to those commissions.

So whatever is negotiated at a point in time is never in the long term and importantly we also do not know, you know, what the cost drivers are in those particular business, because they have not been I suppose shared with us in terms of what those cost drivers are. So it makes it very difficult when you are in a strategic partnership, which is what we see third party as, like we see many of our other strategic partners, to drive the consumer need and obviously their requirements is how these commissions determine for the future I suppose is the big question for us. And right now, I mean I suppose like anything a fair deal is, you know, where both parties are slightly unhappy and where we are currently is we are slightly unhappy, as I am sure the third party platform operators are as well.

CHAIRPERSON: But I understand your point being that you have not negotiated fees that apply in the long run. It is a fee for a year and then it is changed and your uncertainty is where is this going. Is that right?

MR BOARDMAN: Well that would be 100% right. I think that has probably been raised many – on many occasions in terms of, you know, where is the end game here in terms of fees. And as I said, you know, we've got agreements in place, but those agreements are for a period of time, but I suppose like anything I think what is on everyone's mind is, you know, what do those fees look like for the future.

And as I said, we understand the total cost of ownership, so we know what is fair and I suppose that is what the negotiations all around is ensuring that the fees are fair and sustainable for all parties. So we try and take that approach, but look, we do not have long term agreements and in fact I do not think any of the third party platforms out there have entered into long term agreements with vendors out there as far as I am aware.

CHAIRPERSON: And just from what we have been, you know, reading in the press and like, I mean, some of that commission is going to be put into a menu price, which makes sense and some of it may be absorbed. I mean, we can obviously go online with your platforms, but I would rather just ask. I mean, do you absorb some of it and put some into price? I mean, consumers should expect to pay a little more to get delivery to their door.

MR BOARDMAN: No, that is correct. I mean, we have quite a balanced view. I think as I kind of alluded to earlier on, we try and take a fair approach in terms of the consumers got to understand they probably need to pay a little bit more for the service in that space. But importantly as well, you know, we do not want to push pricing to the degree that the volume and the value is not there. So we are trying to balance that across the board.

And importantly as well, we are a franchise business. So what is very important to us is looking after the profitability and the sustainability of our franchise partners. So, you know, we are kind of balancing it across what the brand needs are in terms of driving volume and presence on a particular platform, but also we are balancing it against the consumer and we are balancing it against our franchise partners. So merely those three stakeholders are considered in terms of how we determine pricing and how we share those costs and the rewards that come out of [indistinct 00:53:57] in that particular channel.

CHAIRPERSON: And I think you have raised an important point, I mean, your franchise partner, because they are invested in that store and that is their sole business and so the profitability, etcetera affects them as individuals. Just so I understand, so would it be that if your brand is represented on one of these platforms, you have sort of got a price nationally, it is not the franchisee determines the price, but obviously in determining that price you might have engaged the franchisees just around where the balance lies?

MR BOARDMAN: No, absolutely. I mean, we do determine pricing from a brand and a national perspective, so it is not determined by franchise partners. But importantly we have a National Franchise Forum for each of our brands. So we engage with those franchisees that have been voted in by their peers onto that council, onto that Franchise Forum to input into specifically profitability and how we manage that business model.

So it is very engaging from that perspective and as you can imagine, lots of robust debate around, you know, how do we balance between consumer and the franchise partners' needs and profitability. So ja, very robust and very thorough. But that keeps us in check, it keeps us honest and keeps the balance in play at the end of the day. So ja, that is our approach to handling that dynamic.

CHAIRPERSON: Ja and you cannot have unhappy franchisees, otherwise they may leave.

MR BOARDMAN: Not at all, ja.

CHAIRPERSON: Terry, can I just ask, I mean, the other factor obviously going into that is what are the commission fees, so how you balance what you absorb, what you add to the menu. You know, if you had a kind of 10% commission fee you may look at that and balance differently to if you had a 30% fee for instance. I mean, would that be fair as well?

MR BOARDMAN: No, that is absolutely fair. But I suppose like anything, you know, when you are looking in terms of, you know, what is a fair fee, you know, we also look at it from the point of view that if the fee is too low, specifically we have seen some fees in the marketplace with some third party platforms that are not sustainable, you know. You know the cost to kind of to operate end-to-end both the technology stake as well as the last mile and those fees cannot sustain the long term.

So there is also that instance where we know some of those fees are probably just about buying market share rather than sustainable. So we are not going out for the cheapest. We are going out for what we believe is sustainable and fair in the marketplace at this point in time.

CHAIRPERSON: Sure. I mean, I suppose my question was just if you – well, I am not going to ask you your fee, but you know if you had to pay 5 – 10% more, you might I would assume put more on the menu price, maybe as a proportion of the total fee?

MR BOARDMAN: We might have to if the fees continue. I mean, someone has got to pay for it at the end of the day. It cannot only be the franchise partners. So they have to be shared, as I said, across generally the three parties. Brand to some degree fund some of the stuff. Franchise partners fund part of it and obviously the consumer would have to have their equitable share of those costs.

CHAIRPERSON: I mean, as I understand the sort of initial value proposition from a third party platform was we are going to bring you some incremental customers and so maybe we look at it on an incremental gross profit margin basis. I mean, is that still the case or has COVID changed that for you?

MR BOARDMAN: Well, I suppose the principle around incremental is that you never had it before and once the baseline is kind of built in, you know, that becomes the norm. So for the first couple of years it might be incremental and then it gets baked into your business model and becomes the new baseline as I kind of referred to in my presentation.

So incremental does not really apply from that degree. It becomes about how do you access a particular consumer in my view point rather than this view of incremental. It is if the consumer is shopping there, how do you participate really would be the lens that I would place on that versus incremental. Incremental initially nice to have, but as things settle and as it becomes the new baseline it is no longer incremental in my view.

CHAIRPERSON: Ja and I think we have had a few responses from chains kind of saying that, you know, ja it is taking away from over the counter or – so as a proportion of the business it is changing. It is no longer just incremental. It might cannibalise a bit.

MR BOARDMAN: I mean, cannibalisation is one aspect, but I suppose like anything, you know, COVID has, as I said, accelerated some of those shifts in particular channels because of health concerns or restrictions. So it would be difficult to look over the last period and say it has fundamentally shifted the mix because of anything but COVID driving that. And as I said, we are starting to see the balancing across the channel mix in terms of sit-down and counter coming back.

I think the important part, James, here is just to understand that like any channel or any part of a business, you know, brands and even individual operators need to invest around the channels that they want to grow and have their customers participate in. So, you know, we look at it from the perspective of well, you know, if a particular channel is down and there has been no investment from a brand or an individual to try and, you know, drive that particular channel and third party are doing all the hard yards in terms of driving awareness and, you know, trying to get customers to participate on that channel, we must not be surprised if there are shifts naturally because consumers have been kind of marketed around a new channel and no one is doing anything about anything else. So ja, I think we are not spectators in this particular event. We have the ability to participate and influence the consumer as well by putting up our hand for what is available to them.

CHAIRPERSON: I mean, we did get a response from some of the platforms that, you know, this is a small part of the overall pie and therefore I suppose it is not going to affect margins that much the commission type fees. I mean, can I just get a sense from your side, you are probably looking at quick service restaurants with all the channels and they may have different economics behind them, but I mean is what happens in third party delivery relevant for your margins and something you keep track of?

MR BOARDMAN: Well, I think like anything we do not take anything like channels but seriously and we address our business very strategically in terms of how we manage all channels no matter how big or small they are. To a large degree, I mean, focussing on the profitability aspect around channels, because not all channels are created equal and there is different cost structures related to certain channels.

So as an example, I mean, collect is quite a favourable channel because the spend tends to be a lot higher and the customer is doing their own logistics in terms of coming and collecting. So from that perspective, you know, not all channels are created equal. What we try and do is really understand, you know, what the margins look like at a transactional level across those channels and really ensure that there is enough margin to ensure sustainability for our franchise partners in their model.

But as I said, it is a sum of the parts. So the mix is key and how you influence that mix and how you promote other channels to perhaps counteract the shift in a particular channel because it has been on the decline because it has not been focussed on, etcetera is what we try and drive strategically. So it is a combination of some proactive approach, some strategic approach to how we manage channels, but importantly we have a very clear understanding of what a like-on-like kind of apples with apples comparison is in terms of how those channels are created differently and how we manage it. So we have got a very clear view in terms of how we manage those channels, because they are not created equal [indistinct 01:03:35].

CHAIRPERSON: Thanks, Terry. I have just got a few more questions because we have our next participants joining us virtually. But I just wanted to discuss the negotiations. I mean, as you said, it is a negotiation. It is a relationship. Let me maybe just ask our guest. Jean-Phillipe, I do not know if you can – alright, the Technical Team... [intervenes]

MR MONOD DE FROIDEVILLE: Hi.

CHAIRPERSON: Hi, Jean-Phillipe. We are just finishing up with another participant, so I do not know if you want to just put your camera off for now and your mic on mute and hopefully we will be with you quite shortly. But apologies for the... [intervenes]

MR MONOD DE FROIDEVILLE: Will do.

CHAIRPERSON: For taking a little extra time. Sorry, Terry. So, I mean, negotiation is about what are the different parties bringing and the value and finding that deal space, I suppose. I mean, you do have a lot of franchisees as I understand from your presentation. Is it a predominantly franchisee business?

MR BOARDMAN: It is predominantly franchise. That is correct, yes.

CHAIRPERSON: But just in that negotiation, you know, you cannot commit your franchisees, but I would presume, you know, if you are looking for a better commission you are going to at least have to give a commitment how you can bring them on board. Because if there is absolutely nothing there, why give you a better price or better terms. So maybe if you can just talk us through almost how one at least brings those franchisees on board if that is the negotiation you are trying to enter into.

MR BOARDMAN: I think foremost we engage, as I said, with our National Franchise Council with these type of decisions. So we bring all the facts to the table in terms of where we are in the negotiation and how we are going to manage the particular channel or the vendor. And that applies not only to third party, it applies to all the decisions we make that impact their particular business model and bottom line. So we are very cognisant of getting their input through the process.

As I said earlier on, those discussions will be robust because we are trying to balance the consumer need as well as what the brand strategically is trying to deliver on, you know, in the short to long term. But I think importantly, you know, those negotiations are almost agreed with our National Franchise Forum around the principles of how do we manage it and what the impact to them is. So there is buy in upfront before we do a final kind of sign off on those agreements and we take our franchise partners along the journey with us.

So it is not a mandated we go off and negotiate and send them the rates and say good luck. You know, there is an active participation on their part as well in terms of input into it as well as how we manage those channels from a marketing point of view, from an offer point of view, from a pricing point of view. So that is all taken into consideration to ensure as I have said all along sustainability is key for our business and our franchise partners. They are our route to market and they are very important to us, so very important that we engage with them around these decisions.

CHAIRPERSON: Ja and that would be my understanding as you say when you go to National Franchise Council that you want to bring them along. So they have bought into this and hence they should support it, otherwise they are in the good luck situation as you put. Is that right?

MR BOARDMAN: That is correct, James.

CHAIRPERSON: And you did mention – sorry, I do not know if you came back to it. You said you do approve which third parties you participate with. There were some minimum requirements and you said you might come back to this, but I do not think you did. I mean, maybe if you could just give us some insights for that and whether that is also part of the National Franchise Council sort of discussion.

MR BOARDMAN: So I mean, as I said, the QSR leading brands portfolio has housed in it a Home Delivery Department that obviously has some expertise and we are obviously getting enquiries and engagements from many other third party platform providers. We are only listed with two currently, but I mean over the last couple of years we have engaged with many of the other third party providers out there.

And we do assess them across a couple of criteria. I mean, one of the key criteria is obviously the platform user experience. So we assess that as a starting point in terms of how our brand would be displayed and what our customers would go through in terms of interacting on that particular platform. We do look at aspects like their ability to offer agile and effective menu management capability. Very importantly their geographic kind of spread. You know, do they service our brands and our portfolio to a large degree. So there is the geographic presence consideration. As well as, you know, what have they got in place in terms of – because a lot of it, as you know, is orientated around the last mile component around driver training, support in terms of query support.

And then what we tend to do, James, is to go into a physical trial with these providers once they have met some of that prelim assessment in terms of meeting those criteria is we will then put them into a trial and we will then see what the customer rating kind of performance is. You know, are they able to generate sales for those particular outlets and those brands. You know, what type of support are they offering our franchise partners around queries, etcetera. So we get feedback from our franchise partners. We get feedback from our franchise partners in terms of how their driver performance is in terms of, you know, the standard that is being applied in terms of driver performance.

Ja and that is really the basis in terms of how we make some of those assessments and based on that we will then make the assessment whether we are going to pursue them. Because I mean, probably the one thing that is not spoken about or understood clearly here is, you know, when you have a strategic partnership with any of your vendors and specifically third party, it does cost money from an effort and energy point of view in terms of the Brand Teams managing that, as I said, the Home Delivery Department managing that relationship. I mean, we have monthly and quarterly reviews with these strategic partners, both third party and other.

So there is investment of people's time and energy in terms of how do we manage that platform or how do we manage that relationship strategically. So this is not an autopilot, you know, you put them on the platform and you hope for the best. We actively manage those relationships and when there is any issues that arise that is kind of forwarded through our National Franchise Forum, we table that with them, we address it, we work through those issues with them.

So it is active management on an ongoing basis which takes time and effort and energy from lots of people across the business and that is why we are very selective in terms of who we bring on board because it is about an investment in time and energy and strategic partnership should be about that. They should be about a commitment to each other in terms of developing the business in the long term. So I hope that gives you some colour.

CHAIRPERSON: Ja, no it definitely does and based on that colour, I mean I suppose you are trying to protect your brand and so, I mean, I would presume you would not give a franchisee carte blanche to join whoever they want. You want to be part of that. As I understand that is what you are saying. You want to assess from Head Office... [intervenes]

MR BOARDMAN: Yes.

CHAIRPERSON: ...and ensure that it fits. I mean, just my last question. I mean, I am sure you are aware we heard from some quite sort of localised let us say delivery platforms last week and a few had challenges from Eskom in getting to us. But are you looking just for national partners, I mean, or is there a role for local?

MR BOARDMAN: There probably is a role for local if they can I suppose display that they are tapping into consumer that we are not tapping into. The luxury that we have is that we do have our own capability. So to a large degree, you know, we are servicing many of the markets that nobody, you know, has even got on their radar currently.

So if you are going to look in terms of or geographic spread across the South African landscape and in terms of how we are servicing those markets, you know, for someone to come along and say I can do, you know, third party when we say well we are doing a great job where we are and unless they can tap into a new consumer and as I say consideration, because the consumer is shopping there and that is where the need is, it is unlikely that we would look at it at this point in time.

That being said, I mean what we are open to and what we continue to do is have an open door around assessing any platform out there that approaches us and in a lot of instances trialling them and seeing, you know, if they can deliver on what they promise.

CHAIRPERSON: Alright, Mr Boardman. Let me just check with my other panel member and Technical Team. I think those are all the questions we have. I thank you for coming and giving us some of your valuable time to get some of the insights. So, sorry I am getting some feedback here. So Mr Boardman, thank you very much for your time and I wish you all the best. I know it has been a brutal period for the restaurant industry. I am glad that your franchisees are still on their feet and hopefully things improve. So all the best for the upcoming festive season.

MR BOARDMAN: Ja, thanks. Appreciate the wishes and all the best with the rest of your inquiry and best of luck to all of you. Thank you.

CHAIRPERSON: Thanks, Mr Boardman. And now if I can invite Mr Jean-Philippe Monod if I have got that right.

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41 Alexandra Road,
Irene Centurion
TEL: 012 941 0587 FAX: 086 742 7088
MOBILE: 066 513 1757
info@gautengtranscribers.co.za
www.gautengtranscribers.co.za