Case 18

Nando's International: Taking chicken to the world

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Late in the day of 27 April 1997, Robert Brozin, chairman and chief executive officer of Nando's International, reflected with satisfaction on the successful listing of Nando's South Africa on the Johannesburg Stock Exchange (JSE). One rationale for the listing had been to insulate Nando's flourishing South African operations from the capital costs and losses that could follow from the restructuring and planned expansion of Nando's international operations. Brozin's international management team was confident that the global infrastructure and the strategic policies that had been developed would allow countries in which Nando's conducted business to reach 'critical mass' by the year 2000. Beyond 2000, international growth and profitability were expected to increase exponentially.

Nando's had been growing rapidly and performing well in its home market. The benefits of reaching critical mass in South Africa were beginning be felt. In February 1997, the turnover of the South African operation had reached R 218 million (In April 1997, US$1 = R 4.44), and the 1995 loss had turned into a net income of almost R 9 million (see Exhibit 1). Brozin believed that Nando's success in South Africa was based on their strong culture and the skills developed over the past ten years. He pondered: Will we be able to transfer our corporate culture and high level of skills worldwide, or would we be better off focusing our efforts at home? Have we chosen the right countries to enter? Can we find the right partners and the finance to achieve our global vision?

Origins and expansion in South Africa

Brozin, B.Com (Wits), was the entrepreneur who created the Nando's concept. His staff saw in him a highly creative visionary who enjoyed working with people. His management style and personality reflected a passion and enthusiasm for all aspects of the business. In 1987, Fernando Duarte introduced Brozin to a humble Portuguese restaurant in the Johannesburg suburb of Rosettenville, and to their succulent, spicy, flame-grilled chicken. Duarte, a personal friend, was born in Oporto, Portugal. His family moved to South Africa, where he trained as an audio technician.

Brozin had no background in the food industry, but felt that there was great potential in marketing both the product and the Portuguese dining experience – the warm colours, the lively music, and the friendly and warm ambience. Despite being warned by bankers and analysts that the fast food sector was unprofitable, due to too many players, Brozin was undaunted. As he recalled, 'we had the vision to take this chicken to the world.'

Brozin and Duarte bought the restaurant for about R 80 000, and immediately started planning the expansion of a chain of outlets, first to the Portuguese community in Johannesburg, then to the rest of South Africa, and internationally. The more effort they put in, the more rewards appeared. The fast food industry worldwide looked only for reasonable quality. Brozin wanted to provide both top quality and speed.

Growing from the single restaurant in 1987, Nando's expanded to four outlets in 1990, one in Portugal, and the other three in Johannesburg. In doing so, Nando's redefined service levels for the industry in South Africa. In 1991, to finance rapid expansion, Brozin partnered with the South African-based Hollard group. Each new outlet was operated as a separate company, and the business functioned on a joint venture basis, with the Brozin/Hollard partnership retaining a controlling interest. This structure, however, soon proved to be unwieldy and inefficient. A re-structuring process in 1995 led to the joint venture partners being bought out by Nando's. By this time there were 45 outlets in South Africa and an additional 17 in other southern African countries (Namibia, Botswana, Zimbabwe and Swaziland).

By 1997, Nando's South Africa (including the common monetary area) had grown to encompass 117 stores. The pressure from international competitors, however, began to increase in South Africa after 1995 (see Exhibit 2), raising questions about Nando's future competitive position and growth prospects at home.

Corporate culture

Brozin was aware of the key role that Nando's culture played in all of Nando's activities. This culture was reflected in an easy management style, particular partner selection criteria, and an informal approach to staff in general, and was deeply ingrained in all of their operations. In 1996, Jane Hume was appointed Human Resources Executive. A well-spoken, vibrant, blonde Australian in her mid-thirties, Hume had worked with Nando's on a consulting basis since the early 1990's. She saw her role as 'chief custodian' of Nando's culture, with a vision of Nando's 'to be the best . . . not the biggest . . . the best quick food chain in the world'.

Nando's mission statement and values embodied their culture. The mission was expressed in terms of 'The Nando's Experience' which Nando's strove to give each customer (see Exhibit 3). Underlying this mission was a belief that Nando's was not just about chicken. Nando's five core values, which became an internal mantra, were pride, passion, courage, integrity, and family.

Nando's encouraged an entrepreneurial spirit and the taking of 'ownership'. Head office set the parameters and guidelines, but the Patraos (store managers) ensured that the stores embodied Nando's values. The corporate culture was also disseminated through a 'Covenant', which was distributed to all stores (see Exhibit 4).

The management philosophy at Nando's reflected a view that occasional failures were valuable learning experiences. Brozin summed up the attitude:

> Our nature is one of 'ready, fire, aim'. If we miss the bulls-eye with the first shot, we'll hit it with the next shot. Early on, Brozin saw an opportunity to differentiate Nando's from its competitors by providing superior service. Service delivery was thought to follow from and build upon the strong internal culture at Nando's.

Application of the culture influenced staff selection and training, as well as career and performance management. These human resource functions were largely up to the Patrao. The downside of the resulting cultural homogeneity was that there was little opportunity for dissenting views to emerge.

At head office level, selection and training of key staff was a lengthy process. Senior managers were sent frequently on international courses and to conferences to expose them to the latest international trends. The importance placed on imparting their culture to new hires could place Nando's under pressure to socialize people rapidly in the event of strong international growth. It also meant that senior management could be spread very thin in turbulent times.

Nando's believed in giving staff members the opportunity to improve themselves. However, being a rather flat organization, management and senior management level promotions could present a problem.

Advertising

From the outset, Brozin identified the importance of marketing as a key factor in Nando's strategy. In 1992, he hired Josi McKenzie as director of Nando's marketing efforts. Young and vibrant, McKenzie had extensive experience with an international advertising agency before she joined the company.

Partly due to limited budgets in the early years, Nando's developed a unique and irreverent style of external communications. This irreverence allowed them to stand out from their more conservative competitors and to achieve greater effects at lower cost. Nando's advertising was rooted in a deep understanding of the local psyche and sense of humour that would be difficult for outsiders to acquire. It may also be difficult for Nando's to acquire such a deep understanding in foreign markets.

McKenzie explained Nando's approach:

> Our marketing efforts focus on establishing our distinctiveness. We identified adventurousbrand building as a core component of our strategy. Our advertising has always been provocative, topical and interesting, generating public comment and debate.

Nando's managers believed strongly in the power of their brand name and focused much of their energy on building brand equity. The Nando's brand was positioned above their mass-market counterparts in the minds of consumers, with premium prices and aspirational messages.

Over the years Nando's won many marketing and advertising awards in South Africa and abroad, including several Loerie Awards for press, television and outdoor mobile units campaigns, a London International Advertising Award, and an International Advertising Festival Award in Cannes. (for examples of Nando's advertising, see Exhibit 5). Nando's marketing also extended to the community level where each store was encouraged to be involved in local promotions that supported the community, whilst at the same time promoting the Nando's image.

Going abroad

Nando's African initiative began with an outlet in Swaziland in 1991. Later, outlets were opened in Namibia, Zimbabwe, Botswana and Mauritius. Further international expansion followed in response to requests from new operators. By early 1997, 46 Nando's operations had been established in eight countries outside the South African monetary union, including Australia, the United Kingdom, Canada, Israel and Portugal (see Exhibit 6). With the exception of Zimbabwe, however, none of the foreign markets was profitable. Brozin reflected on Nando's initial international expansion:

> Several people who had emigrated from South Africa approached us about taking Nando's to Australia, the United Kingdom, Canada and Israel, on a franchise basis. The move wasn't successful at all. We went in with people that were working with very tight capital constraints, inexperienced in the food industry, and not committed to the Nando's philosophy or the Nando's way. Admittedly, too, we probably gave them the wrong kind of support.

Toward the mid-1990s, entrepreneurs from southeast Asia began to show interest in Nando's. One influential Hong Kong businessman, representing a major food chain, was particularly serious. He loved the product and the Portuguese ambience, but made it clear to Brozin that Nando's did not have the infrastructure to handle a global expansion successfully.

Meanwhile, the South African operations had grown and the structure was becoming increasingly difficult to manage. Brozin realized that this called for a change in approach.

Formation of Nando's International

In 1995, Nando's International was formed to leverage international business. Nando's South Africa, the flagship of the organization, had its own strong management structure, and it was considered necessary to do the same on the international side.

Mike Denoon-Stevens, an engineer with an MBA, joined Nando's in 1995 as a group development strategist. He had previously been managing director of various companies. He was made directly responsible to Brozin for the formulation and monitoring of global strategies, and the development of systems, models and manuals. At the same time, international responsibilities within Nando's were realigned into clear areas of responsibility (see Exhibit 7).

Denoon-Stevens' challenge was to give Nando's the infrastructure necessary to make the new international strategies effective. Drawing from Nando's South African resources (see Exhibit 8) a team was assembled. The combined skills ranged from operations, restaurant design, retail expertise, marketing, and human resources, to finance, information technology, communications, entrepreneurship and strategic planning.

Denoon-Stevens and the international team spent more than two years building models, writing operational, training and marketing manuals, and putting an international information technology system in place. They used these new methodologies to restructure and re-focus the existing markets in Australia, the United Kingdom, Canada and Israel.

When exchange controls began to relax in South Africa in the mid-1990s, Nando's bought out the existing overseas franchisees. Nando's then took a direct equity holding in those countries. The international management team saw this change in ownership as providing the basis for accelerated growth towards critical mass and country profitability. It would, at the same time, allow rapid implementation of the new global infrastructure. The global infrastructure, in turn, would facilitate the ongoing global strategic process and provide optimal support for the 'Nando's Way' internationally.

Nando's had no intention of tackling McDonald's or Kentucky Fried Chicken, which had 20 000 and 10 000 outlets respectively world-wide, but they did want to remain the best in their niche internationally.

Challenges

One of the biggest challenges for Nando's was seen as how to retain their culture and values while expanding abroad. As Jane Hume related:

> My key task is to keep our culture burning within the expanding South African and global context. We want to be global but local, big but small, and decentralized with central reporting and control. Above all, we must retain our close family centred culture, our core values, in the process of globalization, yet adapt to very different cultures.

A second challenge for Nando's lay in how to build critical mass in foreign markets. Stores overseas had to begin with simple store marketing, just as South African stores did when Nando's began. In most countries, people were not familiar with Portuguese food, and their advertising had to be a lot more educational than was the case in South Africa. Nando's wanted this education to be done with the same tone, fun and irreverence that was typical for the brand at home.

Recognizing the potential pitfall, however, McKenzie noted that no attempt was made to translate humour from South Africa to other countries.

> They have to find their own level of humour. It is very much a cultural thing. Their advertising should be topical. Only they know the burning issues in their country, the areas that would attract most attention. But it must be packaged in the Nando's way.

It was assumed that humour and irreverence were sound positioning strategies worldwide.

By 1997, only Australia had started creating national brand awareness, by putting up strategically placed billboards. Zimbabwe used South African developed promotions, including television advertisements. In the United Kingdom nothing had been done on a national basis. Consideration was being given to what could be done on a limited budget in the London area only.

McKenzie felt that it was better for the overseas countries to begin marketing at the store level as it taught them more about the people in the country and allowed them to build on a solid base. It helped them to develop the necessary instinctive feel for the market, which only comes through an absolute knowledge of the local environment.

Two of the manuals that were given to the stores worldwide were marketing manuals. They were very much 'do it yourself' kits. The manuals contained Nando's concept of marketing, their six Ps (people, product, personality, promotion, public relations and place), and Nando's brand, product and marketing vision. One volume dealt with local marketing, including a section on new store openings. Customer care was also covered. McKenzie stressed, however, that these were guidelines. In each country, each Patrao was expected to adapt marketing creatively to the local circumstances as long as it remained true to Nando's core values – the culture, the product and the brand.

The international management team believed that Nando's culture was 'transportable,' and saw their basic values as universal. They believed that Nando's could cross country boundaries, although such transfer was recognized to be easier in some countries than in others. What was less clear was the extent to which Nando's could obtain as deep an understanding of the local consumer psyche in different countries as it had at home. Jane Hume elaborated:

The basic rule is remain true to the culture, the product, and the brand. Beyond that we 'glocalize' – we have got to meet the needs of the local market. As we expand further into totally different cultures, I expect that the manifestations of Nando's culture, the way Nando's culture is interpreted in other countries, will differ. The challenge is to remain true to the core.

Structures, models and systems

To aid in planning, Denoon-Stevens developed two tools: a Store Model and a Country Model. When looking at a new country, an initial feasibility study was done and certain assumptions were made, for example, the price at which the chicken could be sold whilst still remaining competitive and the expected growth rate in the market. The cost price of chicken, rentals and labour costs were particularly critical. The individual Store Model (see Exhibit 9) was basically a pro forma income statement, detailing sales, cost of sales and all operational expenses based on the above assumptions.

In order to judge the feasibility of opening stores in a particular country, Denoon-Stevens would first look at a break-even situation and second at an EBIT of 12%. He recognized, however, that a model was only as good as the assumptions. While the uncertainties and risks in the countries where Nando's had already been for several years were seen as relatively small, going into new countries would put pressure on management to prove that their judgement was right. The bottom-line for Nando's lay in how many chickens they needed to sell per day. From experience they found this number to be around 100.

The Store Model formed an integral part of the Country Model. This consisted of three sections. First the assumptions were shown. The second part presented a typical individual Store Model projected over 4 years, starting with a loss in year one, break-even in year two, and gradually increasing in profitability. Finally the number of stores from years 1 to 10 was consolidated.

Nando's Group Finance Department used the Country Model to prepare a 10-year cash flow forecast. The results made it clear that Nando's was in a long-term business, and that it was of key importance to achieve critical mass. Denoon-Stevens defined critical mass as the number of stores needed in a certain country to support a regional head office and, in addition, to show a profit. The number would differ from country to country, but would usually be between ten and fifteen stores. One of the most important factors in achieving critical mass was sufficient finance.

Listing on the JSE and restructuring

Prior to listing Nando's Group Holdings (NGH) – the South African operation – on the Johannesburg Stock Exchange, a new holding company, Nando's International Holdings (NIH), was formed. NIH held 54% of Nando's Group Holdings (NGH) – the balance being made available to former joint venture partners and members of the public. NIH also held 100% of the international operations unit, Nando's International (NI), which was responsible for global activities, and Nando's International Investments (NII), the international 'banker' (see **Exhibit 10**).

The main purposes of the share offer and listing were to facilitate restructuring of the group and to increase its capital base. The restructuring had become necessary in order to insulate the South African operation from potential losses that could be incurred during the international expansion. The Brozin and Hollard groups, together with the international partners, were to procure the funding for NII, and thereby enable the expansion of Nando's internationally. NGH would have a 30% participation in the net royalties flow from NI, to compensate NGH for the exploitation of Nando's intellectual property (name, brand, design of store, operating procedures etc.) outside South Africa, giving NGH an upside on international operations.

The listing was deemed to be a success, with the offering 25 per cent over-subscribed. Listed at R1.00, Nando's share price peaked at R 1.80 shortly after listing, and then settled around R1.25.

The Nando's International management team, were confident that the international infrastructure they had put in place, and the ongoing strategic planning process, had crystallized into a tangible medium-term plan in 1996, and would allow Nando's countries globally to achieve 'critical mass' by the end of the year 2000. After that, they expected international growth and profitability to explode exponentially, with concomitant benefits flowing through to NGH.

Nando's based the new financing system on equity participation with their partners. The per centages differed, depending on the partners and legislation in particular countries. Only in very few countries, particularly where the size of the operations would make shared equity holdings unprofitable for the partner, was financing through franchising seen as preferable.

Nando's International developed two agreements with prospective partners: a Master Franchise Agreement and a Shareholder's Agreement. The Master Franchise Agreement governed the brand integrity, the obligations of the new venture, and the fees that had to be paid up front and on an ongoing basis. These fees were for using the name and Nando's intellectual property, for training and for the support of the international infrastructure that Nando's had created. Fees and royalties varied from country to country depending on its market size and potential. A Master Franchise Agreement could demand as much as US$ 1 million for a large country, and require a royalty fee of up to 6% to be paid. The Shareholders Agreement covered the usual financial and legal obligations and rights of the partners, encompassing the number of board members, policies on gearing, pre-emptive rights on each others' shares in case of a buyout, voting powers, rules regulating dissolution and others.

International structure

To ensure optimal functioning of the global operations, the international team developed an organization structure, involving separate divisions for mature countries, developing countries, and research and development. A mature country would typically have at least 12–18 stores with a full head-office structure (i.e., a chief executive, and finance, marketing, operational and human resource executives). A mature market would typically have been functioning for at least three to five years, and employees would fully understand the Nando's Covenant and its application. Only South Africa, Zimbabwe, the United Kingdom and Australia fell into this category. In the future, Nando's International anticipated providing only strategic guidance and motivational support to these countries. All other countries were classified as developing, including the new markets Nando's would go into and those that did not yet have a full head-office structure. The latter included Canada, Israel, Portugal and most African countries.

Denoon-Stevens explained:

> We need to put a lot of energy into these countries. They have to go through a longer training period to fully understand the Nando's culture and the Nando's Way.

The third division of Nando's International was research and development. R&D was intended to cover the complete spectrum of the business from marketing, to global industry trends, incentive schemes, new technology, new products, store design, and IT. Research would generally be done at the country level, so that there would be a practical arena to test things, but all results would be for the use of the whole global family. Nando's International would keep in touch with global trends and advise the countries accordingly.

The heads of each country were regarded as a critical part of Nando's International's management team. Although 90 per cent of their time was devoted to their own country, country heads also had a responsibility towards the global operation.

In their early years, Nando's communications had been highly informal and personal. While this had been effective for a small organization, global growth mandated a new approach. The risk, however, was that Nando's would lose the personal touch.

Denoon-Stevens saw an International Communications System as a key factor to ensure an optimal global operation. He developed an Intranet system, 'The Nando's Ring of Fire,' to facilitate such communications in the future. The system is structured very much like an organogram. Each functional head of Nando's International will use a page, covering about ten different disciplines, such as finance, operations, marketing, human relations, store design, information technology, purchasing and retail. The functional executives in each country will use sub-pages. The chief executive, heads of countries and senior strategic members of Nando's International will use their pages to communicate internally. Library pages were envisaged to contain the best of Nando's advertisements, the Creed, Nando's Covenant, important specifications and other relevant information. Denoon-Stevens related:

> There used to be duplications, due to lack of communications between the different countries. It is hoped that this new system will create tremendous synergies in areas ranging from how to sell Nando's chicken from caravans in a sports stadium, to fighting bacterial disease, exchanging special recipes, and videotaping store design. Each discipline has a bulletin board to discuss current projects and exchange information. An audit sheet will add control and assist each country head to improve communications.

The Nando's International top managers were also committed to frequent informal, personal meetings with the country heads and local managers.

Choosing partners

The choice of the right international partners was recognized as being of crucial importance to the success of Nando's International. The local partners would run the business at the country level, with the local Patraos taking on the responsibility at store level.

To date, partner selection had been a very haphazard process. Brozin expanded on how prospective partners were identified:

> Some approach us, some we approach. Third parties, such as stock brokers or merchant bankers will come to us suggesting a good partner. Frequently foreigners who have enjoyed eating in our restaurants approach us. We speak to everybody. Any contact could present an exciting opening.

Nando's had established criteria for the selection of international partners from this wide pool, but little though had been given to actively soliciting new partners with specified characteristics. Most important to them was shared values and culture. The second key issue was financial strength. The partners had to be able to hold out until critical mass was reached, which could take up to three years. The third criterion was the partner's networking ability within their local society, and the fourth was commitment.

As Denoon-Stevens explained;

> This business is eighteen hours a day, seven days a week, fifty-two weeks a year. You never stop. When you are not making any profit for three years, you are under great pressure. You need commitment and focus. Knowledge of the industry is not essential, expert staff can always be employed.

Nando's International saw their competitive advantage in the fact that they were selling an experience, not just a product. They saw their strengths in a focus on a single business, their flexibility, their culture and their outlook on people. In their view, in a world of high technology, anybody can make a chicken as good as the rest; the difference was going to be in the people doing it.

Entering Southeast Asia

Nando's vision was to have 800 stores worldwide by the year 2005. The critical question that the Nando's International team began to grapple with in 1996 was in which countries to locate these stores. Nando's key decision criteria for market selection were: (1) chicken must be an acceptable food; (2) consumers must like spicy food; (3) the Nando's Experience must be acceptable to the country's lifestyle; (4) the country must be English speaking; at least to the extent that Nando's can easily communicate with the partners and local management; and, (5) the right partners must be available.

The team agreed in 1996 that Southeast Asia appeared to offer the ideal new markets for Nando's to enter. Brozin felt that there was a definite pull towards southeast Asia:

That market jumped at us. A lot of our Australian, London and South African customers come from southeast Asia. A number of businessmen from southeast Asia approached us. We did a lot of research. These countries are great chicken eaters and they love spicy food – the most successful Kentucky Fried Chicken operation is in Malaysia.

It was felt that if they wanted to take on the world, the Pacific Rim was a very good place to start in 1996 – it was a fast growing market, and the product was right for that market. Considering their limited resources, the Pacific Rim seemed like a good place to find partners with sufficient finance. There was also generally no problem with English, and Nando's felt comfortable with the eastern family business culture.

Nando's did not feel ready for the United States, the home of fast food restaurants. They felt that they lacked the resources, the experience and a sufficient understanding of the market. They were, however, determined to tackle the United States at a later stage.

Latin America also appeared to Nando's executives to be a tough market in which to operate, particularly due to the language differences. McKenzie suggested that Nando's would probably consider Latin America once they had established themselves in the United States.

The Nando's International management team saw Europe as a mature market, expensive to operate in, and with a lot of red tape. Language barriers also made it a more difficult market for Nando's to enter. Nevertheless, they considered creating a hub in London and eventually breaking into the European market from there. They recognized the value of regional expansion and consolidation as an essential way to create synergies. In the same vein, further expansion in the Middle East was considered for the future.

Brozin and Denoon-Stevens felt confident that their requirements were met in Southeast Asia, in particular in Singapore, Malaysia and Indonesia (see Exhibit 11). Others were not so sure, and felt that applying different criteria could result in different country choices and/or different partners.

Nevertheless, by early 1997, the negotiating process in Singapore and Malaysia was already quite advanced, while Indonesia was to follow later. Nando's saw these markets as the first professional new country openings. Denoon-Stevens and Brozin felt assured that all of the newly developed methodologies and strategic criteria had been applied successfully throughout the process.

In the early 1990s, an agent from Singapore had approached Brozin in London on behalf of the wealthy Kua family, whose interests at that time were mainly in the property sector. Negotiations began in mid-1996. After several visits to Singapore, and meetings with the Kua family, Brozin and Denoon-Stevens felt that a final agreement could be signed following the listing of Nando's South Africa on the JSE.

An intensive two-month training period for Singaporean management and key staff was anticipated before the opening of the first store towards the end of 1997. Nando's would download their culture, systems and methodology, as well as their extensive marketing, people and operational skills. Before and after the opening, South African operational staff would assist in Singapore for a few months. A total of 20 stores was anticipated, under a full franchise agreement, to ensure profitability for the Kua family. With property rental rates in Singapore at the time being very high, however, the Kua family felt that they could not select an 'A-rated' site for the first store. It was also decided to simply open the doors to business, without any preceding promotions.

In Kuala Lumpur, Malaysia, Nando's also went into partnership with a family that had no food or retail business experience. Negotiations began in late 1996, with the process running parallel to that in Singapore. Signing the final agreement was anticipated for early 1998, and the first store was expected to open in mid-1998. Compared to Singapore, there were several important differences in Malaysia. In Malaysia, Nando's would participate directly with a 30 per cent equity stake (the maximum foreign share holding that was allowable). Due to a much larger population, the potential in Malaysia was seen as 150 stores. An 'A-site' was chosen for the first store, and initial promotional activities were planned. Nando's International decided to intensify the training before the opening and provide more operational assistance in the first store in Kuala Lumpur. A South African manager would help run the store for the first year.

April 1997

Brozin's thoughts went back to the strategic decisions that Nando's International's management team had made in 1996. Considering the unprofitable position of the international operations and the exciting growth in South Africa, one possible option would have been to concentrate on South Africa and abandon international activities. Growing competition from international players coming into South Africa would certainly put a strain on Nando's home base.

Brozin, Denoon-Stevens, McKenzie, Hume and Sacks, however, all felt that this would not only have been against Nando's original global vision and their entrepreneurial style, but that it would have been detrimental for Nando's South African operations. It was the international exposure, they believed, that forced them to look at the latest trends in their business world-wide, helping them to be proactive, and confident in meeting the increasing foreign competition in South Africa.

Another option would have been to first consolidate the existing international markets, before venturing into new countries. Growth without such consolidation could put the entire international plan in jeopardy. The Nando's International management team, however, felt that the spirit of Nando's was expansionary, and that their character and style were entrepreneurial. The risk of failure was discounted in the excitement level in the group. Continuous innovation, they felt, was what kept Nando's dynamic and encouraged their flexibility. Sacks made the point: 'It is the global experience that gives us credibility, confidence and continuity. We could easily saturate one, or even several markets. We can't saturate the world'.

Denoon-Stevens expanded on the same issue:

> In this world today you can no longer be just local. If your vision is to grow, in our kind of business, there will sooner or later be a saturation point in any market. There must be ongoing stimulation and motivation for the people; they must also be able to grow.

The mood at Nando's head office in Johannesburg in April 1997 was jubilant. Everything looked just right, and the international team felt that 'this chicken is going to fly and conquer the world!' Nando's had decided to first consolidate the existing countries and those beginning in Southeast Asia, in Singapore, Malaysia and Indonesia, before going into any other new ventures, except if a really propitious opportunity should arise. Nevertheless, Brozin felt apprehensive, and could not help wondering:

Should we have remained only in South Africa and consolidated our existing international markets or was it the right decision to go into southeast Asia at this juncture? Do we have what it takes to make it work?

Discussion questions

1 Why are Nando's International service personnel also called Boundary Spanners?

2 Why is culture important to Nando's?

3 Nando's have a very strong international brand. How has advertising and brand identity helped them achieve their success?

4 Despite being an international organization, Nando's still has a local feel – how have they achieved that?

5 Consider yourself to be the Marketing Manager for a Service organization. That elements of Nando's success would you include in your strategy for moving your organization onto the Global scene?

Exhibit 1: Nando's Group Holdings: Financial information (R 000)

Income Statement

	Year ended February				
	1997	**1996**	**1995**	**1994**	**1993**
Turnover	218 261	181 989	123 492	63 494	30 998
Operating income/ (loss) before interest	17 855	14 313	2 109	2 335	(792)
Net Interest paid	3 826	4 604	3 420	2 391	1 497
Operating Income/ (loss) before taxation	14 029	9 709	(1 311)	(56)	(2 289)
Net income/(loss)	9 119	6 311	(1 311)	(56)	(2 289)
Attributable to outside shareholders in subsidiaries	484	262	240	(33)	–
Pro forma earnings Attributable to ordinary shareholders	8 635	6 049	(1 551)	(23)	(2 289)

Balance Sheets

	Group 1997	Group 1996	Company 1997	Company 1996
CAPITAL EMPLOYED				
Total ordinary shareholders' funds	35 053	2 307	31 888	9
Convertible loans	29 960	61 840	29 960	61 840
Outside shareholders' interests	356	218	–	–
Deferred taxation	436	218	–	–
Long-term liabilities	11 225	10 413	–	–
Total capital employed	77 030	74 996	61 848	61 849
EMPLOYMENT OF CAPITAL				
Fixed assets	54 849	38 649	–	–
Trademarks	66 603	66 603	–	–
Investment in subsidiary	–	–	62 542	62 542
Total fixed assets	121 452	105 252	62 542	62 542
Current assets				
Inventory	6 391	4 187	–	-
Trade Debtors	4 246	2 712	–	–
Other debtors and prepayments	7 296	7 007	–	–
Bank balance and cash	460	1 501	–	–
Total current assets	18 393	15 407	–	–
Current liabilities				
Trade creditors	16 914	12 646	–	–
Other creditors and provisions	15 026	20 388	689	688
Current portion of long-term liabilities	4 981	1 987	–	–
Taxation	3 218	669	5	5
Bank Overdraft	22 676	9 973	–	–
Total current liabilities	62 815	45 663	694	693
Net current liabilities	44 422	30 256	694	693
Total employment of capital	77 030	74 996	61 848	61 849

Exhibit 2: Major players in the fast food business in South Africa (1997)

Pleasure Foods	
Wimpy	224 outlets
Juicy Lucy	45
Mac-munch	6
Steers	
Steers	202
Blockbusters	45
Mighty Pies	15
Spur	
Spur (National)	170
Panarottis	32
King Foods	
Bimbo's	36
Chicken Licken	275
King Pie	260
Nando's	117 (including common monetary area countries)
Pie City	120
Mochachos	60
Foodgro	
Black Steer	43
Flame Diners	11
Max Frangos	3
Don Group	
Guiseppe's	9
Pepsico	
KFC	290
Pizza Hut	28
McDonalds	15

Source Fast Foods and Family Restaurants, March 1997.

Exhibit 3: Nando's experience

We will take you on a journey,
your own voyage of discovery.

You will come to discover how
special it is to belong to the Nando's family

You will experience our traditional
hospitality, warmth and fun.

Your senses will be fired with the
unique products and taste of Portugal –
all prepared with pride and passion.

And here, you will be touched by
the magic that is the Nando's Way.

Exhibit 4: Nando's covenant

This covenant is the binding promise that is made by all Nandocas to uphold and protect the beliefs and procedures that have made Nando's what it is, and will determine what we can become.

Only by being true to the Nando's Covenant can we create the magic that is the Nando's Way – this is our guide to delivering the Nando's Experience.

Our People

Demonstrate your commitment to the Nando's Creed

The values of Pride, Passion, Courage, Integrity and most of all Family must be reflected in every aspect of managing your Nandocas.

This extends to the recruitment, the selection, the placement and particularly the induction of personnel. Every Nando's University course will embrace these values.

Create and nurture a communications culture

Open and honest two-way communication is mandatory to realize the empowerment of all Nandocas.

Implement formalized human resource information and personnel systems

To nurture the Nando's culture a relevant Human Resources plan encompassing manpower planning, Personnel role definitions, sound Industrial Relations and an IT data base must all be implemented within a realistic budget.

Commit to your own personal development and the development of your Nandocas

An investment in our people through training and development is the most powerful investment of all. Only through the growth of you and your Nandocas will Nando's grow.

Use the Nando's University to provide a framework for the training and upskilling of all – every Nandocas has the right to fulfil his individual potential.

Our Marketing

Position the Nando's brand as aspirational

Nando's is positioned above other mass market value driven brands. This must be reflected in all ways:

- Our menu always has as its main focus, Nando's core product – flame grilled Portuguese style chicken in lemon and herb, mild or hot peri-peri.
- Any new menu must enhance the Nando's Experience.
- In every country Nando's is competitively priced, but to keep our aspirational positioning we are always priced above our competitors.
- Nando's promotions give our customers added value, never discounts. Added value is given through side items – never core products.
- Our media usage is aspirational and we are always first with new and innovative media buys.

- Nando's natural packaging enhances the Nando's Experience to our customers. It is always made of biodegradable food quality paper, card or plastic and bears the Nando's emblems, brand identity and Escudo promise. Any eat-in packaging must enhance the Nando's Experience.
- Store design, decor and staff uniforms contribute to Nando's aspirational brand image – these must conform to the Nando's specifications.
- Nando's stores are always located exactly where our customers expect to find them – in convenient, but upmarket areas and premises.
- Our service levels set us apart from the competition – they must be consistently high and measured regularly by customer care and mystery shopper programmes.

Apply the Nando's Brand Identity

- Remain true to the core values of the Nando's brand to manifest our personality, attitude and heritage in all communication.
- Consistently apply the advertising look and style, pay-off line, colours, logo and other elements that make up the Nando's corporate identity to build global brand recognition.
- Focus the advertising message to core product combined with brand intrinsics and balance of flavour range to establish Nando's peri-peri flame grilled chicken as the premium brand in all markets we enter into.

Commit to Ongoing Brand Building

- A brand building strategy, local marketing strategy, community involvement strategy (with a social responsibility aspect) and an internal marketing strategy with clear cut objectives will form the basis of a solid marketing plan.
- Brand building the Nando's Way needs a committed marketing budget – this is made up of a % of projected sales allocated to a central fund. This should never be less than the accepted international norm.
- Marketing effectiveness measures the success of the marketing plan. Use the dimensions of net sales relative to budget, customer counts, ticket averages, menu mix, effect of promotions and new product introductions on sales to assess how you stretch $1 into $3.

Our Stores

Enhance the Nando's experience through your 'Casa'

- Adhere to the specifications for store design, decor and accessories they all have an important role in creating the Nando's magic.
- Match your internal colours and store decor to Nando's internationally recognized look – this will build global brand recognition.
- Ensure all external signage is as per specifications in the Nando's manual.
- An instantly recognizable menu board and menu offering are key to creating the Nando's Experience use the menu board concept and layout as specified.
- To protect the brand integrity all store concepts, layouts and finishes must be approved by Store Development.

- To uphold the high quality of our food all kitchen equipment used must be as specified. Ensure that the space in meterage allocated to the location of any new store is suitable.

Our Operations

Ensure that the methods and procedures of preparation and cooking Nando's food conform to our high standards

- Follow our current best practices recommendations using the specified equipment and products.
- Achieve the quality service standard that Nando's demands by not dropping below the minimum recommended staffing levels.
- Ensure the quality and presentation of all food meets Nando's famously high product standards – remember the Escudo is on everything you serve.

Set the Industry Standards

- Make sure that the quality revolving around your Place, People and Product meet the set criteria we have all agreed upon.
- Take the local industry requirements into consideration as well as the criteria for Nando's safety standards and practices.
- Conduct all micro testing and product analysis according to Nando's agreed standards. Use only Country Head approved suppliers.

Follow the Right Procedures for New Product Development

- Test any new products developed in your country with NI Operations to ensure hygiene and quality production methods and procedures.
- Ensure that any new product complements our core product and adds to the Nando's Experience.

Our Reporting Systems

Provide comprehensive monthly financial, operational and marketing data by keeping your information systems up-to-date and up-and-running

- Apply the Nando's World Standard for the capture of basic data and supply of reports.
- Set up systems that enable the NI to access your data

Ensure that an Annual Strategic Business Plan and Budget is Agreed Upon

- Set realistic, but challenging goals.
- Ensure that the allocated responsibilities are accepted by both parties.

Guarantee the Smooth Operation and Communication within the Nando's Global 'Family'

- Install Nando's own Back of House (BOH) and Point of Sale (POS) software into each store to form the basic platform for data collection and control.

Exhibit 5: Examples of Nando's advertising

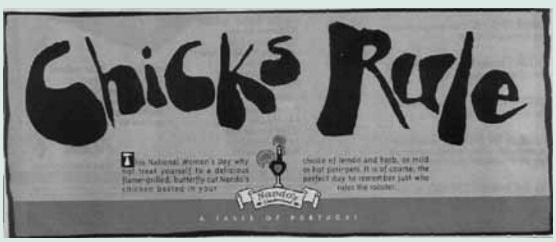

Exhibit 6: Nando's International – Store locations (April 1997)

Country	First store opened	Number of stores
Australia	1991	13
Botswana	1993	3
Canada	1994	6
Israel	1993	4
Mauritius	1995	3
Portugal	1989	1
United Kingdom	1992	6
Zimbabwe	1993	10
Total		46

Exhibit 7: International responsibilities (1997)

R. Brozin (Chief Executive Officer)

South Africa
United Kingdom
Australia

F. Duarte (Director)

Africa
Portugal

M. Denoon-Stevens (Director)

Pacific Rim
Canada
Israel

Exhibit 8: Functional infrastructure (1997)

Marketing (J. McKenzie)

Human Resources (J. Hume)

Operations (J.M. Bloch)

Trading (J.C. Datt)

- non-food
- clothing
- kitchenware

Retail (A. Yannoukos)

- sauces
- marinades
- dressings

Finance (L. Perlman)

Information Technology (outsourced)

Exhibit 9: Store model (example)

~ NANDO'S INTERNATIONAL - NEW COUNTRY INITIAL FINANCIAL FEASIBILITY ~

THEORETICAL MONTHLY INCOME STATEMENT

Date : Nov 1997

US$

UAE

LOCAL INPUT

INVESTMENT :-	Equipment	125,000
	Ste Works	150,000
TOTAL	US$	275,000

	Qty	Description	Rate	Unit	% of Sales	Nando's INTL Dubai
SALES		SALES to Achieve an EBIT of :		0.0%	100%	37,549
COST of SALES			35%		35%	13,142
GROSS MARGIN		Targeted Gross Profit	65%		65%	24,407
OPERATING EXPENSES:			65%		65%	24,407
Fixed Costs		Percentage of Sales	2%	@ 12% EBIT	2.6%	970
Semi Fixed Costs			4%		4.0%	1,502
Management	1	Manager	1,400	per mth	3.7%	1,400
	2	Asst.Mgrs.	1,100	per mth	5.9%	2,200
Labour	14	Crew	500.00	per mth	18.6%	7,000
Incentives:- Mgt.			2.5%	of EBIT	0.0%	0
Staff			1.0%	of Sales	1.0%	375
Group/Royalty Charges		Percentage of Sales	5%		5.0%	1,877
Advertising&Prom		Percentage of Sales	5%		5.0%	1,877
Rent	250	square metres	9.33	per sq.mtr.	6.2%	2,333
Depreciation		Average over 8 years	2,865		7.6%	2,865
Utilities :- Water	200	Kilo Litres	0.50	per K/ltrs	0.3%	100
Gas	1,200	Kgs. (LPG)	0.86	per Kg.	2.7%	1,032
Electricity	12,500	KiloWatt Hours	0.04	per KWh	1.3%	500
Other		Percentage of Sales	1%		1.0%	375
EBIT		TARGET =	0.0%		0.0%	0

CONSIDERATIONS

ASSUMED :-		*REQUIRED SALES QUANTITIES TO ACHIEVE AN EBIT OF: -*		0%	*RETURNS : -*	
Chicken - Selling Price	8.80	CHICKENS/DAY	57	?????	Cash ROI (per year)	13%
Burger - Selling Price	3.31	Vegetarian/DAY	72	?????		
		ACTUAL CHICKEN COST of SALES :-				
		ACTUAL COS =	23%	OK as less than average target		

Exhibit 10: Corporate structure

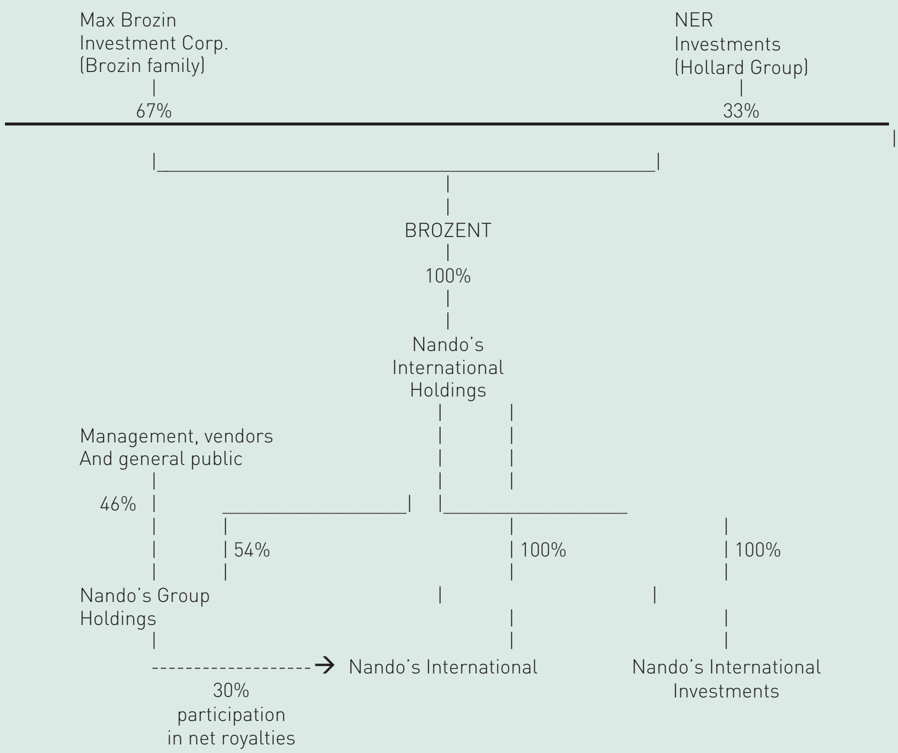

Exhibit 11: Southeast Asian Markets (1996)

Singapore

Singapore had an open economy with strong service and manufacturing sectors, and excellent international trading links derived from its historical connections. Singapore enjoyed extraordinarily strong fundamentals and had key attributes of a developed country, such as high productivity, a good infrastructure, applied technology, capital investment and labour discipline.

Malaysia

During the late '80s and early '90s, expansion into export-orientated electronics and electrical machinery was the chief vehicle of growth. Malaysia had made significant changes in the area of deregulation and reducing tariff barriers, to encourage investment and promote exports. During the period 1988–1995, Malaysia's annual GNP growth rate averaged 8.5 per cent, inflation and unemployment were low, and investors were ebullient about the country.

Indonesia

Indonesia had long been praised for its sound macroeconomic management and spectacular growth. For thirty-two years President Suharto appeared to provide the country with strong and stable leadership. For three decades it averaged a GDP growth rate of 6 per cent annually. With industry as the primary driver of growth, Indonesia's manufacturing sector had expanded and agriculture had steadily increased.

Key economic indicators (1996)

Country	Area square km	Population million	GDP $billion	GDP Growth rate percentage	Inflation rate percentage	Unemployment rate percentage
Singapore	647	3.5	86	6.0%	0.9%	1.70%
Malaysia	329750	20.9	98	8.4%	3.5%	2.60%
Indonesia	1919440	212.9	225	7.8%	7.9%	3.20%
South Africa	1219912	42.8	123	3.0%	8.9%	33.00%

Notes

This case was prepared by Dr. Liesel de Blois, with Professor Saul Klein. This case is not intended to demonstrate ineffective or effective handling of an administrative situation; it is intended for classroom discussion only.