

Restaurant

Businesses You Can Start
BYCS001 · December 2013

Introduction

This guide outlines how to start up a restaurant in South Africa. It tells you about the training you will need, the regulations that will apply to your business (including laws on health, safety and employment), and the likely costs involved. It also discusses trends that affect the restaurant business, and suggests ways to promote this type of business. Finally, it gives you several sources of further information.

Setting up a restaurant means first deciding what type of food to serve. South Africa has plenty of 'traditional' dishes of its own, and has long been a fertile market for cuisines from India, Italy, Greece, France, China and Japan. This exposure has grown in the last decade, and will continue as the country has become home to thousands from other African countries.

When choosing your niche, also give thought to the atmosphere you plan to create. For example, your restaurant may be aimed at an upmarket clientele or special occasion dining (with higher prices reflecting the whole experience), or it may be an everyday, comfortable local bistro (a small restaurant with simple food and maybe even live entertainment) that people visit on a regular basis.

Are you suited to this type of business?

Experience of working in or managing a restaurant is not really a prerequisite for this business, but it will be very helpful when it comes to organising your supplies, budgeting, pricing your menus, and generally reducing the risk of the whole enterprise.

Good humour is essential. Restaurateurs must be able to communicate with a wide range of people, from staff to customers, and you should be able to cope with highly pressured and sometimes difficult working conditions without losing your head. A cheerful outlook despite setbacks will influence the atmosphere of your entire business and ensure customers enjoy their meals in friendly surroundings.

You will need plenty of stamina. Restaurants often begin preparations in the morning and work until late in the evening. Many new restaurateurs find themselves on duty for very long hours until the business is well established; only then can reliable staff be taken on to allow you some days off.

You'll need a keen interest in food and cookery - this is often the reason that entrepreneurs start up their own restaurants. Some choose to experiment with their own dishes, others specialise in their own regional or national cookery, while many decide to watch out for and respond to the evolving trends.

It will be useful to have some experience in running a small business, doing basic administration, and managing other people. A talent for marketing and customer care, and a head for figures, will give you a good foundation for the administrative side of your business.

What formal training do you need?

The law does not require any particular training or qualifications to run a restaurant, but there are food hygiene and safety regulations that apply to you. Some training in these issues - for yourself and your staff - will help you comply with these regulations, and in the end will improve the quality of your business.

There are a range of courses that earn you a diploma or certificate in the hospitality field. These include:

- National Certificate in Food & Beverage Services (NQF4)
- National Diploma in Food & Beverage Management (NQF5)

Other sources of training include:

- The Tourism, Hospitality and Sport Education and Training Authority (Theta) about certified training providers in your area.
- The website of the South African Chefs Association also has a useful list of trainers, categorised by region so that you can find one near you.
- A useful resource for finding a variety of training courses is the website www.skillsportal.co.za; it is regularly updated with courses on offer from a range of training companies around the country.
- Contact the Tourism Enterprise Programme about training opportunities; it has regional offices in the main centres.
- The Institute for Hospitality Education (SA) offers courses from City & Guilds International (certificate and diploma) in the hospitality industry, where you can work and study at the same time.

Who are your customers likely to be?

The customers you can attract to your restaurant will vary, depending mainly on:

- the type of food served;
- your prices;
- your location; and
- the market sector you are aiming at.

Customers might include one or more of these groups (decide early which group or groups you want to focus on - this will help you build your business with a target market in mind):

- High-earning individuals or families with plenty of disposable income but not much time, so they eat out often; this customer group includes the growing number of single-parent householders, as well as dual-income family groups.

- In some urban locations, business people with expense accounts are an important customer group for lunchtime business and evening meals. The value of this market often goes up and down, depending on how well businesses are doing in the economy.
- Tourists are important for many restaurants in the major tourist cities such as Cape Town and Durban, but also in popular rural destinations in places like the Garden Route, the Ukhahlamba Drakensberg Park and Mpumalanga province.
- Working women - married women who work still do most of the household chores, so eating out means one less task to do. Price will be an important factor for them when they choose a restaurant, as well as the quality and healthiness of the food.
- Children can influence the choice of where a family eats. The burger franchises target this group heavily in their marketing, and you could do the same if you plan to open a family-focused eatery.
- 'Grazers' are a group who choose to eat 'on the hoof' (on the run), largely ignoring the traditional convention of three meals a day. Convenience plays a large part in this group's choice of venue.
- If you are in an area where there are retired people with lots of disposable income and time to spare, you will find they are a great market for leisurely day-time meals and teas. Research shows that this group tends to eat out during the day as a leisure activity.

Who will you compete against?

Your competition will come mainly from other restaurants in your area. This doesn't necessarily mean that you need to set up your business in a place without restaurants. In fact, restaurants often cluster together so they can take advantage of high-traffic spots, where potential customers might be looking at prices and menus before deciding where to eat.

Also, municipalities will usually zone certain streets for licensed premises, so that residential areas are 'protected' from businesses that stay open late at night.

The restaurant industry in South Africa is a busy sector with a range of players. There is scope for successful enterprises to be started and run by families or individuals; these often build on a particular ambience and relationship between owner and customer. There is also a range of local and international franchise brands which have grown strongly in recent years; these include steakhouses (like Spur, Black Steer and Mike's Kitchen), seafood restaurants (like Ocean Basket, Fishmongers and Cape Town Fish Market) and pizza restaurants (like Panarottis, Debonairs and St Elmos).

There is also a range of popular fast-food outlets - like Wimpy, McDonalds and KFC - that you will have to compete with for customers.

Indirect competition will come from supermarkets selling 'heat-and-eat' food that people can pick up on their way from work, to enjoy in the comfort of their own home.

See www.ananzi.co.za to research competitors in your immediate area. Other useful sources of market information include the Franchise Association of Southern Africa (www.fasa.co.za).

What are the key issues affecting the market?

There are over 8,000 tax-registered businesses in South Africa that serve food and beverages, according to SA Statistics; in terms of income, about half of these are restaurants and coffee shops. So starting up a business as a restaurateur is to enter a very competitive market.

You should be aware of the success of franchise restaurants, and understand why these have done well. A franchise operation pays close attention to:

- branding (building on what customers feel comfortable with)
- food safety (customers know that franchise outlets' standards and procedures are watched closely by franchisors)
- popular dishes and recipes (customers like knowing what they're going to get)
- realistic pricing (a franchise chain is familiar with what customers are prepared to pay, and what prices an outlet needs to survive)
- good financial management (this gives franchise outlets a better chance of success than the average 'stand-alone' business).

And as these franchise restaurants will be some of your main competitors, you need to be prepared to give your customers at least as much as a franchise brand would - and then add something of your own. Competition means having to advertise appropriately, for instance, and to find ways of making customers as comfortable with you as they are with a national brand. This requires innovative and cost-effective ways of building customer relationships and loyalty.

A practical issue being faced by all restaurants is security. Being open at night - often in suburban streets without the security facilities of a mall or centre - has made restaurants targets for criminals of different sorts. Access to both the restaurant itself and the parking area needs to be carefully managed, and you need to budget for the appropriate systems. In this environment, diners will always choose places where they feel more secure.

There are early signs that South Africa is following some countries abroad in becoming more aware of food options for health or allergy reasons. Restaurants and their staff need to become sensitive to these needs and preferences (such as nut-free, gluten-free and dairy-free dishes), especially as foreign tourists make up a good proportion of diners.

The catering industry often uses young, mobile recruits as waiters and support staff, so the turnover can be high and it is difficult to retain skills. The skills development levy now allows businesses to get subsidised training from agencies accredited by their relevant Sector Education and Training Authority.

When planning to start a restaurant, remember that the market goes up and down during the year, with people spending a lot more money in restaurants during December than they do, for instance, in August.

How can you promote this enterprise?

Here are a few important ways to make sure that people know about you:

- Find a location that has plenty of passing trade. While it is important to build your business by word-of-mouth (happy customers telling their friends about you), a good location is one where passers-by can see and remember you.

- Once you have settled into a working routine and your staff are familiar with their jobs, invite a food critic from your local paper to come and have a meal. A good review will help boost local interest.
- Make sure you are listed in relevant food and restaurant guides. There may be places where you can do this for free, but budget a regular amount to pay for a listing; start with those guides that target your suburb/region, then try those for the city as a whole (if you're in Johannesburg or Cape Town, for instance).
- Advertise in publications that your target audience reads regularly. Local 'knock-and-drop' newspapers (usually distributed weekly for free through the suburbs) offer reasonably priced advertising space. Also target public facilities in your area, like libraries, schools and theatres - using their noticeboards and media.
- To stand out from the crowd, restaurants often choose an exclusive image or theme and apply it to their decor, staff uniforms, crockery and cutlery, and menus.
- You could promote your restaurant to different audiences, depending on the time of the day. Your daytime and evening menus could be adapted accordingly, with daily specials to vary the usual menu.
- Special offers can be used to boost trade during slack times, with mid-afternoon discounts for students and pensioners, and special children's menus offered to attract families. Christmas is a crucial time for most restaurants; corporate parties are good business on their own, but also introduce your restaurant to potential new customers who may return during the year.
- You can become a member of the Southern Africa Tourist Services Association (www.satsa.com), to assure customers that certain standards are being maintained.

What start-up costs can you expect?

Your premises will be one of your main costs, and will vary depending on the type and size of restaurant you plan to open, as some restaurants may require special equipment, and the amount of interior decoration or structural alterations will vary. Talk to the environmental health officer at your local municipality for advice about what changes you need to make to the building.

When fitting out the kitchen area, you will need to budget for non-porous work surfaces for food preparation (postform is a cheaper alternative to granite), and at least one large industrial fridge-freezer for storing cold foods (from about R12,000). Industrial ovens and hobs are at least R2,500, and an extractor system for about R12,000. The cost of kitchen equipment such as knives, pans and chopping boards varies enormously according to quality, but you should allow for several thousand rand. A caterers' coffee machine will be at least R3,000.

The Restaurant Association of South Africa has a list of approved suppliers on their website (www.restaurant.org.za); this is a useful place to start if you want to price equipment and foodstuffs from credible suppliers.

Your monthly rates and rental costs will depend on the size of your restaurant and the area in which you are located. Telephone and electricity will also be significant overheads.

You will also need to budget for the costs of employing staff: wages as well as contributions to the skills fund, workmen's compensation fund and unemployment insurance fund. Also consider costs of security and insurance - including public liability cover.

What are the legal issues to consider?

The information in this section will just give you a starting point; you should get legal advice from a professional before making important decisions that might have legal implications.

Registering your business

One of your first decisions when starting a business will be whether to operate as a sole trader (under your own name) or register the business under its own name (as a partnership, co-operative or company). To make this decision, you must first understand the benefits and disadvantages of each option.

For more information on this, you can talk to the Companies and Intellectual Property Commission (CIPC) on 086 100 2472 or go to their website (www.cipc.co.za).

Paying taxes

You need to pay income tax on your earnings as an individual. If you run your business as a sole trader, then all your business earnings will be regarded as your personal earnings - and you have to pay tax on that. If your business is registered as a company or cooperative, then the business has to pay tax on its profits.

You also need to deduct Pay As You Earn (PAYE) from your employees' salaries, and pay this to the South African Revenue Services (SARS).

Talk to SARS to find out how to register yourself, your employees and your business as tax payers. You can phone the national call centre number at 0860 12 12 18 or visit the SARS website at www.sars.gov.za.

If your turnover is more than R1 million per year, you must charge your customers value-added tax (VAT) on your products, and pay this VAT over to SARS regularly. Contact SARS to register as a VAT 'vendor' and to learn how to fill in a VAT return.

To explain this process to small businesses, SARS has published a 'Small Retailers VAT Package'. Contact your local SARS office for a copy, or download it from the SARS website; go to www.sars.gov.za and click on 'All Forms' in the left hand column, then scroll down to 'Small Retailers VAT Package'.

Employment regulations

If you have anyone working for you, you must register as an employer for Unemployment Insurance (UIF) and Workmen's Compensation. Speak to the Department of Labour or visit their website at www.labour.gov.za, which has a number of useful guides on these topics.

Minimum wage

All businesses in the hospitality sector (hotels, guest houses, restaurants, taverns, fast food shops, contract caterers, etc) must pay their employees at least the minimum wage for this sector.

- If your business has ten employees or less, then the minimum wage that you must pay is R2415,86 per month (R557,55 per week or R12,39 per hour).

- If your business has more than ten employees, then the minimum wage that you must pay is R2692,74 per month (R621,45 or R13,81 per hour).

This rate applies to the year between 1 July 2013 and 30 June 2014, and is published in the Sectoral Determination 14 (Hospitality Sector) in terms of the Basic Conditions of Employment Act, by the Department of Labour.

Environmental health regulations

As a business that serves food and drink to the public, you need to comply with laws that ensure your food is safe and your premises are clean. Department of Health regulations (in particular, Number R.494 of 2002) say you must have a Hazard Analysis and Critical Control Point (HACCP) system to ensure that all food is handled and served without risk to customers' health. You then need a certificate (valid for one year) from a certifying body before you can start trading.

For more detail on this, read the regulation (download this from the Department of Labour's website at www.labour.gov.za) and talk to your local municipality for more details.

You should also be aware of these laws:

- Foodstuffs, Cosmetics and Disinfectants Act 54 of 1972 (as amended by the Foodstuffs, Cosmetics and Disinfectants Amendment Act 32 of 1981) is to control the sale, manufacture and importation of foodstuffs, cosmetics and disinfectants. In terms of this Act, which addresses the manufacture, labelling, sale and importation of foodstuffs, the Department of Health requires that all foodstuffs are safe for human consumption. Changes to the Act are expected, in terms of a Bill currently making its way through Parliament.
- Tobacco Products Control Act 83 of 1993 prohibits smoking in a public place (like your coffee shop) but allows you to set aside part of your shop for smokers - provided that you comply with the regulations on how to do this (download the relevant legal notice at www.info.gov.za/gazette/regulation/2000/21610c.pdf).
- The hygiene of foodstuffs is covered by the National Health Act of 2003, while hygiene requirements at ports and airports (including vessels and aircraft) are addressed by the International Health Regulations Act, 1974.

Business licences

The Business Act No 71 of 1991 is a national law that governs the issuing of trading licences (there are no longer any local by-laws on licences). Schedule 1 of the Act lists the businesses for which you need a licence, and these include:

- Businesses that provide food - you need a licence to sell or supply meals, take-aways or perishable foodstuffs
- Hawkers - if you are a hawker selling food and meals, which you take from place to place or sell from a vehicle, you need to have a licence.

Before you can get a business licence, your premises need to be checked by an environmental health officer (from your local municipality or metropolitan council) before a health certificate can be issued. During this inspection, the health officer will check the following aspects of your business, among others:

- Sinks and tables in the food preparation area (these should preferably be of stainless steel, which is easy to clean and does not easily harbour dirt and bacteria)

- Ceilings, walls and floors (for cracks where bacteria might breed)
- Ventilation and lighting (to avoid damp and dark)
- Storage facilities like fridges and deep freezers (to ensure everything operates at the right temperatures - bacteria thrives between seven and 65 degree Celsius)
- Clothing and equipment (such as headgear, overalls and gloves) to be worn by staff who prepare or handle food

No restaurant, cafe or shop can sell prepared food to the public until they have a health certificate. Contact your local municipality and speak to the Environmental Health Department about the steps that you need to take to comply with requirements.

Liquor licences

If you plan to serve alcohol in your restaurant, you need to apply for a liquor licence at your local police station or through the Liquor Board in your province. Search the internet for the contact details of the liquor board for your province.

Consumer protection

The Consumer Protection Act gives more power to consumers to challenge the quality of the product or service they have been sold - and establishes a National Consumer Commission to investigate and prosecute businesses that abuse consumers. The law is wide-ranging and needs to be understood by every business - especially those selling to consumers (rather than businesses). The topics it covers include quality, safety, contracts, marketing, labelling, guarantees and general business conduct.

The National Consumer Commission has some useful information about how businesses must treat consumers fairly; read more on its website (www.nccsa.org.za).

Further information

The Federated Hospitality Association of South Africa (Fedhasa) is one of the main trade associations in the hospitality and tourism sector. It works to promote the industry and represent the interests of members. Businesses that could benefit by being members of Fedhasa include hotels, restaurants, caterers, self-catering accommodation establishments, bed and breakfasts, guesthouses, taverns and conference venues.

PO Box 1986
Randburg
2125

0861 333 4272
0861 112 337
info@fedhasa.co.za
www.fedhasa.co.za

The Institute for Hospitality Education (SA) offers courses and exams from City and Guilds International, an international provider of work-related qualifications for various industry sectors. By doing courses with the Institute, learners can earn the International Certificate, Diploma or Advanced Diploma in the hospitality industry. The courses allow learners to work and study at the same time.

PO Box 52153
Waterfront
8002

021 425 8469
021 425 8468
info@ihesa.co.za
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The Restaurant Association represents and promotes the restaurant industry, and provides members with information on support and training for professionals and workers in this sector.

PO Box 568
Douglasdale
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011 705 2897 / 011 705 2054
086 690 1979
wendy@restaurant.org.za
www.restaurant.org.za

The South African Association for Food Scientists, Technologists and other Professionals serves the food and allied industries, providing its members with valuable networking and knowledge-sharing events and publications. It promotes education and professionalism as well as an appropriate legislative structure in the industry. The association runs the Food Advisory Consumer Service (visit <http://www.foodfacts.org.za/> or telephone 012 428 7122 between 8 am and 12 noon).

031 368 8000
031 332 5709
info@saafost.org.za
www.saafost.org.za

The South African Chefs Association is a professional association with about 2000 members in five branches. These members can be found in various catering activities, from staff restaurants to in-flight catering.

PO Box 291305
Melville
2109

011 482 7250
011 482 7260
info@saca.co.za
www.saca.co.za

The South African Music Rights Organisation (SAMRO) arranges permission for you to play recorded music in your restaurant.

08611 72676
086 674 6592
customerservices@samro.org.za
www.samro.org.za

The Culture, Arts, Tourism, Hospitality and Sports Training Authority (Cathsseta) is the Sector Education and Training Authority (SETA) established under the Skills Development Act for these sectors. Its main function is to help raise the skill levels of those employed (or wanting to be employed) in these sectors.

PO Box 1329
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Cnr Rivonia Road & Katherine Street
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0860 100 221 (call centre) or 011 217 0600 (switchboard)
011 783 7745
info@cathsseta.org.za
www.cathsseta.org.za

The Tourism Enterprise Partnership helps small and medium-sized enterprises in the tourism sector to grow by linking them up with new markets and customers, arranging training, and facilitating technical assistance. It works with 'direct tourism enterprises' (such as tour operators, travel agents, crafters, small hotels and Bed and Breakfasts) and 'indirect tourism enterprises' (which are not tourism businesses themselves but supply goods or services to tourism organisations).

PO Box 1650
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3rd Floor Travel House, 6 Hood Avenue, Rosebank

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info@tep.co.za
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Websites and magazines

The Food and Beverage Reporter is South Africa's widest-circulating magazine to the food processing, beverage and packaging industry in southern Africa.

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Hotel & Restaurant is a monthly business trade magazine for the accommodation, food service and alcoholic beverage industries in Southern Africa. The magazine also publishes the annual Alcoholic Beverage Review each October, and a Buyers' Guide every January.

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