

**KAPAI NEW ZEALAND:
EAT YOUR GREENS!**

Dr Helen Tregidga
Auckland University of Technology
School of Business and Law
Private Bag 92006
Auckland 1142
New Zealand
Tel: (64) 9 921 9999
Fax: (64) 9 921 9990
helen.tregidga@aut.ac.nz

Professor Kate Kearins
Auckland University of Technology
School of Business and Law
Private Bag 92006
Auckland 1142
New Zealand
Tel: (64) 9 921 9999
Fax: (64) 9 921 9990
kate.kearins@aut.ac.nz

Dr Eva Collins
University of Waikato Management School
Private Bag 3105
Hamilton 3240
New Zealand
Tel: (64) 7 838 4083
Fax: (64) 7 838 4356
evacolln@waikato.ac.nz

Subject Areas: Entrepreneurship; Small Business; Other (Sustainability)

KAPAI NEW ZEALAND: EAT YOUR GREENS!



Figure 1: Kapai Owners, James Irvine and Justin Lester

Two energetic young Kiwis¹ came home from overseas to start a business. By August 2007, the well-traveled 28 year olds, James Irvine and Justin Lester (see Figure 1) had opened their second salad store in downtown Wellington, and had plans for more. They wanted to establish Kapai New Zealand as a “leading nationwide retailer of healthy fast-food” (Kapai New Zealand, 2007a, p.4).

The idea of going into business together had been a long-time dream for these soccer-playing mates from school. James, a geography graduate, took care of Kapai’s day-to-day operations. Justin, a qualified lawyer, retained his day job for a property management company and worked after-hours on business development. Proud of their national heritage and having learned from their overseas experience, the Kapai boys wanted to grow a strong New Zealand business they could take to the world. They had little doubt that the Kapai salad store business concept was good enough – but were debating how they should continue to roll it out, with whom, how fast and where next?

Developing a distinctly New Zealand business concept

James and Justin came up with the Kapai salad store business concept in August 2004. They adopted the name Kapai, a term originally used by New Zealand’s indigenous Maori, and now in more common use among New Zealanders, meaning ‘good’, ‘well done’. The name Kapai evoked a relaxed national attitude to things, suggesting everything will be ok. James and Justin’s hope was that everything would be ok - if people ate healthy food, presented by a business that really did have their and the country’s interests at heart.

The Kapai boys had returned to New Zealand, aware of a gap in the market. Their business plan pointed to:

the lack of healthy, reasonably-priced food in the New Zealand market. We recognized that while New Zealand culinary restaurant and café trends had changed dramatically over the past decade, the fast-food market had largely remained stagnant. At home New Zealanders had access to and were making use of some of the freshest, highest quality produce in the world. But within our

business districts the healthy options were restricted, at best. We sought to change this by bringing some hearty greens into the mainstream fast-food market (Kapai New Zealand, 2007a, p. 3).

Justin had worked in downtown Wellington and knew what was available, “and it was pretty much stodge.... You can get sushi, and outside of sushi there wasn’t a lot on offer.” With James, he wanted to “create a New Zealand iconic food outlet” that was both healthy and unique. Justin reflected:

We’ve got McDonalds and Subway and we’ve got what the rest of the world’s got. Great - but not that interesting. Whereas with Kapai, rather than mimic what other people are doing, we wanted to create something of our own.

Kapai was based on the values of great food which was made in New Zealand for New Zealanders (see Figure 2).

Figure 2: Kapai Values

Values

Kapai values determine the way our stores are operated. To ensure the ongoing success of Kapai we focus on the following:

Great Food

Our primary concern is the health and the welfare of New Zealanders. We aim to promote healthy living and fitness by increasing awareness amongst all New Zealanders of the value of eating real food produced in our own backyard. Our definition of real food is pretty basic in that we require it to be sourced from the earth and grown conventionally.² We will use our best efforts to supply only local products that are produced without chemical or genetic modification.

We also consider it fundamental to provide our products at prices that are accessible to all persons. We believe that wholesome food is not a commodity to be enjoyed only by a select few; instead it has to be available to everybody.

Made in New Zealand

Kapai recognises the distinct employment, economic, environmental and social benefits of buying locally made products and services and will endeavour to do so wherever we can.

For New Zealanders

We believe there is no greater measure of success than the worth an organisation is able to create within the community. For this reason we will use our resources to contribute to our immediate living environment.

Kapai adopts socially responsible business practices that recognise the value of community return and will:

- Aim to return a portion of net profits to the local community
- Aim to be a socially responsible employer
- Promote sustainable environmental practices

(Kapai New Zealand, 2007a, pp. 6-7)

The Kapai concept involved a New Zealand identity, a social consciousness, and an environmental awareness.

Kapai’s New Zealand image and cultural identity was evident in the name and logo which incorporated the native flora of a ‘koru’ (see Figure 3) or “unfurling fern frond symbolizing new life, growth, strength and peace” (Wikipedia, 2007). The Kiwi version of DIY (do-it-yourself)³ was an important attribute of the business. During his travels, Justin had thought

about what made up New Zealand culture: “You think of Maori, and the All Blacks [national rugby team], sheep, clean, green environment, and outdoors-living.” But he felt there was more: “a New Zealand cultural renaissance going on, where people are proud of their New Zealand identity.” He and James wanted to do something good for New Zealand and New Zealanders.

Figure 3: Kapai Logo



Social consciousness was inherent in Kapai’s effort to “move away from processed, high-fat content foods towards freshly made and nutritious products.” Kapai provided healthy and delicious food that also met convenience needs. For James, the emphasis was on “providing good quality and affordable products that are quick and easy.” Along with offering a healthy alternative to ‘traditional’ fast-food at an affordable price, the Kapai boys were keen to support the local community through buying locally, being good employers, connecting with their customers, and giving to local causes. Kapai’s business plan stated the aim:

to maintain moderate pricing at all times. Kapai wishes to be accessible to all walks of life. No single menu item shall cost more than the minimum wage hourly rate⁴ for an adult (Kapai New Zealand, 2007a, p.11).

With a lot of Kapai’s prices ending in 95c – and New Zealand having phased out its 5c coin – cash transactions were rounded up, with the 5c bonus going to the Karori Wildlife Sanctuary, one of the Kapai boys’ favorite local places. According to James, “it’s a great spot ... we wanted to give back and do something that we’re proud of and our friends and employees are proud of.” Promotional material for the wildlife sanctuary sat prominently on store counters.

James and Justin also wanted Kapai to be environmentally responsible but Kapai did not have any formal systems in place to assess environmental performance. As James stated, “We love nature, both of us ... love the outdoors. So we’re trying to be environmentally friendly.” They were feeling their way and had not sought outside help on the environmental side.

Also, like many other New Zealand business-owners, James and Justin saw that an important element of the Kapai brand, particularly if they were to successfully take the Kapai concept to the rest of the world, was New Zealand’s clean, green image.⁵ Justin noted:

Basically we want to make as small an impact on the environment as we possibly can, so that by developing Kapai we’re not adversely affecting our wider environment, or nature, so whether it be, for example, having biodegradable packaging, recycling, having a zero waste policy and other things like using environmentally friendly cleaning products to lessen our impact.

Armed with a business concept, a set of values and an enthusiasm for healthy living, James and Justin set out to bring “some hearty greens to the mainstream fast-food market” (Kapai New Zealand, 2007a, p. 3).

Store location, decor and layout

Rolling out the stores

James and Justin lived with their respective partners in Wellington, and had picked that city's central business district as the location for Kapai's first salad stores. As New Zealand's political capital, and reputedly also its cultural capital (Wellington City Council, 2007a), Wellington boasted a regional population of nearly 450,000 in 2006 (Wellington City Council, 2007a). The city itself had favorable demographics. Unemployment was considerably lower than the national average of 7.5%. A greater percentage of the population than the national average was working age, earning on average considerably higher than the median income. A high proportion identified as professionals (Statistics New Zealand, 2001).

Kapai's business plan noted "visibility, foot traffic and surrounding population [as] key drivers for determining the likely success of a site" (Kapai New Zealand, 2007a, p.8). Considerable thought had been given not only to location, but to getting the first store up-and-running as a model for those to follow. Kapai's first store opened in October 2006. It was centrally located in the basement level of Lambton Square, a small mall with access from Wellington's main shopping street which boasted the highest pedestrian count in the country (Katipo, 2003). The area was dominated by commercial office towers and government offices.

The second downtown Wellington store opened less than a kilometer away in August 2007. The location in the Willis/Bond Quarter of the city was the second busiest street in the city, also home to a large number of businesses and "somewhat limited in its choice of eateries in comparison to other areas of Wellington" (Kapai New Zealand, 2007a, p.8). There were plans for another downtown store, a little further along in the Manners/Cuba quarter, identified as having the highest weekend foot traffic in Wellington, and at fifth place during the week (Kapai New Zealand, 2007a, p.8). This area attracted fewer professionals and already had many eateries. James and Justin chose their sites carefully, but the reality was that New Zealand city centers had many other cafes and restaurants, including fast-food outlets. They were banking on there being none quite like Kapai.

This idea of something different and the potential to get in early with an exciting new business opportunity appealed to one of Kapai's customers who approached James and Justin about taking on a franchise. Franchising had always been on the Kapai boys' minds as a good way to grow the business fast without the need to take on a lot of debt. The approach had come a little early, however. According to Justin:

We said 'We're not ready to franchise yet, we don't have an ops manual, we haven't necessarily documented everything that we do.' And they said, 'we'll run with what you've got' - and away they went. And so they've been in relatively close contact; they're taking a lot upon themselves to get up and running. And they've had retail experience in the past, and they're doing a fantastic job of it so far.

The first franchise store was to be located in Westfield's Queensgate shopping centre about 15km from Wellington's CBD in Lower Hutt City, the largest mall in greater Wellington. This shopping center had around 8 million customer visits per annum to its more than 140 retailers including its major retail anchors

With two stores now running, a third planned, plus the first franchise due to open in September 2007, the Kapai boys were extremely busy. Justin was writing the operations manual at nights. And, they were finding one of the best times to talk about business was before and after their soccer training and matches. While franchising involved a lot of up-front work for them, they thought that it would ultimately leave James free to undertake more of a general management role and Justin to concentrate on more strategic matters.

Styling the stores

Kapai's two stores had a distinct décor based on the Kapai boys' interpretation of a New Zealand environmental theme. For James, the subtle greens and browns were inspired by New Zealand's landscape – and linked to the salad product as well: "our fertile pastures where the vegetables are grown." Natural timbers featured in the decor. For Justin, there was "quite an earthy feel to the store." The colors, the name Kapai, the logo and slogans on the walls, the staff's brown T-shirts incorporating the koru design all contributed to this feel. The customers "love the colors, and they love the furniture, its smooth and funky lines – they just love seeing something different," commented James. The plan was to use similar décor in Kapai's future stores, with perhaps a twist here and there.

The stores had a large menu board above the servery counter where all the salad ingredients were on view. Cold beverages were available for self-selection from an adjacent fridge. Fairtrade coffee was available for pick-up at the end of the salad line. The emphasis was on simple, fresh and largely unprocessed ingredients, served without undue fuss or packaging.

The first store had its own customer seating area, for around 20 people. Regular café-style tables and chairs as well as more comfortable lounge style seating were available. Daily newspapers and Kapai newsletters were on hand. The overall ambiance was a cross between a fast-food outlet and a regular café. The second store was located in a food-court which had its own seating. The majority of customers across both stores were take-away customers. Store opening hours were 8am-4pm Monday to Friday and 10am-2pm on Saturdays for the first store, and an hour less each day for the second in its start-up phase.

Menu choices and prices

James and Justin crafted the Kapai menu with the aim of developing food which was both nutritious and fast. Salads were the main fare on the Kapai menu (see Appendix 1). James noted the emphasis on "giving the customer control ... DIY, do-it-yourself salads so the customer can choose exactly what goes in, and knows exactly what they're getting."

The salad base was a choice of mesclun, baby spinach, cos lettuce, or rocket (also known as arugula) lettuce. There were 22 'regular fillings' (e.g., roasted pumpkin, cucumber, field mushrooms, and sundried tomatoes), 8 'gourmet fillings' (e.g., chili chicken, honey ginger beef, and grilled bacon), and 11 dressings (e.g., lime, chili and soy, balsamic, and blue cheese and chive). Customers could combine these as they liked, with prices starting at \$NZ6.50⁶ for a small salad. Alternatively, they could choose an advertised salad, or 'Kapai Favorite.'

For larger appetites, Kapai allowed customers to have a choice of salad in toasted pidé bread. Prices for these started at \$6.95. Kapai also offered soup served in a freshly-baked hollowed bread bowl, and breakfast food options to cater for the early pedestrian crowd. The soup choice, priced at \$6.95, was designed as a salad alternative for the cooler winter periods. Breakfast included honey hotcakes, yoghurt and fruit and muesli. Also available were juice, coffee and a range of teas.

Along with DIY, other Kapai values influenced the menu. The salads were served in biodegradable potato pack containers while the bread-casings were entirely edible. For take-aways, bread bowl soups were wrapped in paper, and brown paper bags were given on request. Coffee was served in cardboard cups, as recyclable cups were not readily available in New Zealand.

Operations

Management and staffing

From the beginning, James and Justin took on different roles. As General Manager, James focused on getting the first store up-and-running. He had since hired a manager for the first store, and was busy getting the second store fully operational. He spent time sourcing ingredients, cooking and preparing food in the new offsite kitchen, and managing staffing. Justin, as Business Development Manager, concentrated on strategic development. He noted sometimes the day-to-day reality was a bit different: “I do payroll and invoicing and the like as well, but more focusing on growing the company as quickly as we can.” James saw this arrangement as working well:

We really liked the idea of working together, and still do. We complement each other quite well. Justin is very much an ideas sort of man; I’m sort of more at-the-coalface, getting things done. So we balance each other well.

It had been tricky at first making sure they had the right number of staff to deal with the increasing customer numbers in the beginning months, until customer numbers settled. But staffing was now “quite stable” and James was extremely happy with the Kapai employees.

I think we attract people who are young, and vibrant. They are into healthy food, and into the outdoors and are well-educated. I think they just sort of like what we’re doing and I think they see it as being quite a funky sort of place as well.

Many Kapai staff were university students wanting part-time work. They suited Kapai, which needed flexible staff willing to work short 2-4 hour shifts over the busy lunch period. Justin felt that “the vibe at Kapai stores often attracts the type of people we want” and also noted that “a lot of new staff come via word of mouth – through other satisfied staff members.”

Getting supplies

In line with the Kapai values, social responsibility and environmental awareness were considered when getting supplies. Kapai sourced many of its products from within New Zealand. “Where we can, we try to support local,” James said. However, he did have to balance this aim at times with his desire for quality.

Like 90% of it is local, but then there’s the odd thing, like at the moment, it’s very difficult to get decent New Zealand tomatoes, so there’s some tomatoes over from Australia, but you just can’t really not do that.

Getting quality produce required James’ constant attention “because of the large amount of greens we have.” He considered that Kapai had established a good relationship with a local produce supplier, and recognized that new relationships with other suppliers would likely be needed when the business grew into different regions.

Drinks available at Kapai were also sourced with a social conscience. Fairtrade coffee was chosen. Preservative-free fruit juice was made by a small producer, just north of Wellington. As Kapai was its only major customer of bottled juice, it supplied the juice in glass bottles with Kapai labels. James and Justin were satisfied with these arrangements but were unsure how long this producer could continue to supply the amount of product that Kapai required. The producer would either need to grow with Kapai or the Kapai boys would have to investigate other suppliers of preservative-free, and even possibly organic beverages.

Sourcing biodegradable packaging for the salads had not been straightforward. The packaging was originally obtained through a supplier from a Malaysian company. It was difficult to ensure continuous supply. With the Kapai boys wanting to support local suppliers and reduce the miles behind their product in an age of increasing food miles consciousness,⁷ an international company was not their first choice. As James stated “there’s a New Zealand place called Potatopak who we wanted to go with, but the containers didn’t have any lids, which is kind of crucial for us.”

With the third store on the way, Kapai had reached a capacity where it was feasible for Potatopak to produce potato-based containers and lids for Kapai. Working with a small local producer had once again resulted in opportunities for Kapai. It now had a reliable supply of biodegradable containers and, as the lids had been made for Kapai, its logo was embossed on the top of the container. Getting these economies of scale helped Kapai’s finances as well.

Money matters

While traveling and working overseas, James and Justin had each managed to save some money which helped finance their first store. They were equal partners in the business, and had two smaller shareholders, each with a 5% share. With James and Justin doing a lot of the set-up work themselves, they had also reduced the amount of start-up capital needed. At their stage of life, establishing Kapai was a relatively big investment.

The first Kapai store performed better than originally forecast (Kapai New Zealand, 2007, p. 11). The location had proved effective, at times exceeding 300 customers a day. On average, customers spent \$8.82. Earlier in 2007, monthly turnover figures were approximately \$63,569 with around \$10,806 of that being profit (Kapai New Zealand, 2007, pp. 10-11). James drew a salary as a company employee; Justin did not.

The business plan outlined a number of operational assumptions developed by researching industry best practice (see Figure 4) and Kapai’s own financial analysis.

Figure 4: Restaurant and Cafe Cost Structure 2005⁸

Item	%
Salaries and wages	28.17
Food and beverage purchases	32.80
Other purchases and operating expenses	22.12
Rent and rates	6.41
Depreciation	3.78
Interest and indirect taxes	2.01
Total costs	95.29
Operating profit before tax	4.71

These functioned as a guide to the set-up of future stores and a means to assess the performance of existing stores. Operational assumptions were:

- Rent costs should account for no more than 12% of turnover;
- Stock and raw materials will account for no more than 33% of overall costs;
- Staff costs should account for no more than 30% of turnover;
- Daily store customer numbers should reach 200 people at a minimum; and
- Average customer sale will be no less than \$8.30 (Kapai New Zealand, 2007a, p. 12).

Attracting customers

Marketing was another DIY affair for Kapai. Its business plan stated:

We do not intend to use paid advertising campaigns in the media as we believe that any benefits are disproportionate to the costs. We believe that there are more effective ways to advertise, such as guerrilla advertising that draws attention to the store in the store's vicinity through antics, art and innovative ideas (Kapai New Zealand, 2007a, p. 10).

It was difficult to know what antics the pair had in mind – but they had been clever with their wall art (see Figure 5). The walls and cabinets of the stores were sparingly decorated with Maori proverbs and quotes from early New Zealand settlers. These had attracted attention in the news articles on Kapai.

Figure 5: Kapai Wall and Cabinet Art Samples⁹

I like the kind of country where the little man is King.

When the belly is full the talk is good.

The Kumara does not speak of how sweet it is.

James and Justin had done several newspaper, magazine and radio interviews. Their plan was “to gain exposure in all forms of the media through our exuberance, vitality and unique ideas” (Kapai New Zealand, 2007a, p. 4).

Getting customers involved was another Kapai strategy. A monthly competition for best salad combination invited customers to further develop the ‘Kapai Favorite’ menu. A Kapai newsletter covered relevant global and New Zealand issues, along with recipes and events.

Kapai’s website came up at the top of many keyword searches,¹⁰ was professionally presented and contained information targeted mainly at customers such as menus and basic nutritional content. The website had “received more than 130,000 hits and 2,000 visitors within the first six weeks of opening” (Kapai New Zealand, 2007a, p. 4) and continued to attract good patronage.

Fast-foods and salad stores in New Zealand

Justin saw Kapai as “an alternative fast-food to fish and chips, hamburgers, pizzas and the like.” Kapai was a new entrant operating in the established fast-food industry and the emerging salad store segment. It was just a tiny business up against some major competition.

The fast-food industry

Whether the actual food was good for them or not, approximately 50% of New Zealanders regularly consumed fast-food (The Food Industry Group, 2006, p. 16). ‘Branded’ fast-food stores could be found throughout the country, and small owner-operated outlets were also popular.

Burger chains dominated New Zealand’s fast-food landscape. McDonalds golden arches could be seen in all major cities and many towns. McDonalds New Zealand boasted 139 stores, with 19 in the Wellington region (McDonalds, 2007a). Burger King, another franchised chain, had 67 stores throughout New Zealand (Burger King, 2007). Burger Fuel, a gourmet burger store, had 21 New Zealand stores (Burger Fuel, 2007) and was quickly expanding since listing on the New Zealand Stock Exchange. Wendy’s Old Fashioned Hamburgers had yet to expand beyond Auckland. Other burger offerings came from smaller branded stores and locally-owned operations, including from fish and chips shops in virtually every city and town.

Other major fast-food segments included pizza and to a lesser extent, chicken. Restaurant Brands was a prominent company in the New Zealand fast-food industry in both these segments. It operated Pizza Hut, KFC and Starbucks, in New Zealand. Pizza Hut had 101 stores throughout the country (Restaurant Brands, 2007). Other big competitors in the pizza market included Dominos with 65 stores (Domino’s Pizza Enterprises Ltd, 2007, p.3) and New Zealand-based sensation, Hell Pizza with 67 stores (Hell Pizza, 2007). Competitors to Restaurant Brand’s 86 KFC restaurants (KFC, 2007) included Oporto’s six Auckland stores (Oporto, 2007) and countless smaller chicken joint operators.

Then there were the fish and chips and pie segments of the industry. Both were traditional Kiwi favorites linked to New Zealand’s British heritage. The vast majority were single owner-operated businesses. Notable exceptions were LJS Seafood Restaurants with 15 franchised fish and chip outlets in shopping malls, and Jesters Pies (Jesters Pies, 2007), a franchise based on healthier pies, expanding throughout the country.

These mainstream fast-food offerings of burgers, pizzas, fried chicken, fish and chips, and pies faced expanding competition from food-courts, ethnic restaurants and take-away bars (The Food Industry Group, 2006, p.16). Many of these alternatives catered for the more health-conscious convenience buyer. In city centers, sushi bars were common, as were sandwich stores. Subway, the world’s largest submarine sandwich franchise, had obtained a big market presence with 193 outlets in New Zealand (The Food Industry Group, 2006, p. 16). Subway was located in cities and large towns as well as in rural towns positioned on major highways. Subway’s menu was made up of a range of sandwiches and salads. On a smaller scale, but with multiple channels Wishbone targeted health conscious convenience buyers with a gourmet sandwich selection and ready-made meals including salads (Wellington City Council, 2007b). Wishbone had quickly grown to 9 stores in Wellington and 3 in Auckland (Scoop, 2006), predominantly in busy CBD areas. It planned to open more stores, in other New Zealand cities (Unlimited, 2004), and internationally. Wishbone also

supplied ready-to-heat meals to supermarkets and in-flight catering for New Zealand's national airline, Air New Zealand.

The 'health conscious' consumer was beginning to be taken notice of, by a variety of players.

Health concerns and industry responses

With more than 50 per cent of New Zealand adults being overweight or obese, and this percentage doubling between 1977 and 2003 (Stuff, 2007), diet and health was a major concern reflected in national health policy and the promotion of healthy eating guidelines.

Many major fast-food chains had made attempts to 'balance' their menus with a range of salad products, low fat mayonnaise, diet drinks and water (The Food Industry Group, 2006, p. 16). However, 'healthy' offerings on most menus were limited with KFC offering only one salad priced at \$7.00. McDonalds had revamped its menu adding a range of salads (\$6-\$8), deli rolls (\$5-\$6), cereals and yoghurts, fruit snacks and beverages (McDonalds, 2007b). Nutritional and allergy information was available on most of these fast food chains' websites; sport and community sponsorship and social marketing programs were also part of these companies' health and social campaigns.

Many customers still did not routinely make healthy fast-food choices. LJ Seafood admitted its healthier options – such as grilled not fried, battered or crumbed fish, and its salad offering were not really profitable items as yet (Lord, 2007). Despite the efforts of fast-food chains and others, there was still work to be done to make the words "fast-food" and "healthy" go together.

Salad store competitors

Like Kapai, others had noted that gap in the market. Many cafés now provided salads, both eat-in and take-away. And while Kapai had been the first mover in the fast-food salad market in Wellington, other New Zealand entrepreneurs had the same idea.

Auckland, New Zealand's largest city and its commercial capital, was home to fast-food salad stores, Saladworks and Toss. Each had two stores. Unlike Kapai, Saladworks and Toss had chosen stand-alone stores (as opposed to food-courts or malls), but were similarly placed in relation to high pedestrian counts and proximity to office buildings. Their menus also featured house and DIY salads, soup, breakfast items and a range of beverages. Saladworks was lower priced on some items (salads ranging from \$6.50-\$7.00) and had received a number of accolades.¹¹ Toss, with salads priced at around \$9.50-\$10, had a comprehensive on-line ordering and delivery system but did not yet have nutritional information available for its products. Neither business had an environmental or social focus beyond providing an alternative to high-fat fast-food. Toss's menu included several 'less-healthy' items such as chocolates and cookies. Saladworks and Toss had not publicly indicated plans for expansion.

Reload started out as a coffee and juice bar. In 2005, it introduced a salad menu creating what it called a 'HEALTH.fuelstop.' Reload now had two stores in Dunedin and two in Christchurch, and was set to launch in Singapore and China in 2007 (Reload,2007). According to its website, "Reload is New Zealand's most innovative fast-food outlet. Reload prides itself on offering something unique in the fast-food industry" (Reload, 2007). While salads were a key menu item, juice options were prominent. Health supplements could be added with Reload suggesting the addition of Wheatgrass to juice in order to 'drink your greens' (Reload, 2007). Reload stores were situated in street-front locations and in malls and

food-courts. The company aggressively promoted expansion through franchising. Reload had extensive franchise information available on its website and featured in the Franchise New Zealand magazine.

Between these salad store companies and other one-store businesses, salad stores had begun to establish a presence in at least four major New Zealand cities. An Australian-based franchise Sumo Salad was also looking at entering the New Zealand market (Franchise, 2007). The question was which company would grow to capture the biggest share of this emerging market.

The economics of taking Kapai forward

Profit margins were often hard to achieve in café and fast-food businesses. The Kapai boys knew that a close eye on overheads and other costs was essential. They recognized that the operational assumptions in their business plan needed to be considered further, especially with their plans to franchise and the need to offset franchise costs and ensure a profit for both Kapai and franchise owners. Similar fast food franchises in New Zealand ranged from around \$100 000 to \$350 000.¹² James and Justin were deliberating the price of a Kapai franchise.

Getting the right locations was key. However they came at considerable cost. Kapai's operational assumptions set a maximum rent cost of no more than 12% of turnover, noting rent as a major expense and indicating the preference for good locations. Rent prices in central Wellington were averaged \$800-\$2,600m², with similar prices in Auckland. Other locations such as Whangarei, Hamilton, Tauranga, Christchurch and Dunedin carried a much lower price tag (averaging \$400-1,000m²), according to property industry sources. James and Justin wondered whether the maximum rent cost could be reduced to 8-10% bringing it more in line with the industry norm,¹³ while still locating stores in the prime real estate positions required to meet their other operational assumptions. Or perhaps they should take a risk on the higher rents being offset by turnover.

Stock and raw materials, as with all food operators, also represented a big expense for Kapai. The fluctuating cost of produce between seasons needed to be considered, although it could potentially be minimized in the future through agreements with some suppliers to set a standard price across the entire year. Supporting local produce growers could limit the economies of scale Kapai could achieve through expansion.

Menu item prices and staff costs were also important. Kapai's social responsibility included an aim of having no menu item priced higher than the current minimum wage. Could prices be sustained and ensure future profitability for both Kapai and franchisees or would they need to be increased to offset franchise fees? Would staff costs be able to be reduced from a maximum of 30% in other locations? These were just some of the issues the Kapai boys needed to consider as they looked at opportunities for growth.

Opportunities for growing Kapai

James' and Justin's long term objectives for Kapai included it becoming "New Zealand's signature fast-food outlet with stores across New Zealand, an iconic brand that New Zealanders are proud to call their own" (Kapai New Zealand, 2007a, p. 5). Both were keen for the business to grow.

We have put significant effort into the development of the Kapai brand to distinguish us from competitors and create a concept that we and our customers

are proud of. ... Through our marketing and physical environment we have also positioned ourselves as a uniquely New Zealand alternative amongst retail food operators, which we believe will offer us a significant advantage in the domestic market (Kapai New Zealand, 2007a, p. 2).

James reflected: “It was always the idea to go bigger, although you have to take steps, one step at a time, and basically the first store, we saw that as being our first step, but then our aim was to have three stores open within a year. And we’re going to achieve that.” The current business plan pointed to a further “5 - 10 stores nationally within the next three years” ... and noted seeking strategic partners “to work with to grow the business and ensure its continued success” (Kapai New Zealand, 2007a, p. 2). Beyond that the plan was silent.

The priority was to finalize the operations and franchise details for the new Queensgate franchise operation and get that store and the third Kapai store up-and-running effectively. Then, the Kapai boys intended to actively seek people interested in both master franchises for different areas, or single store franchises. Justin noted:

We’ll actually put up on the website if people are interested in franchising, they should contact us; we’ll start advertising locations where we want to set up Kapai stores ... such as Christchurch, larger towns and cities in New Zealand, initially. We’ve got people quite keen to do something in Queenstown ... it would work quite well, because you’ve got that fast moving public, a lot of tourists eating and they want something different as well. They don’t want to go to McDonalds. Yes, Christchurch and Auckland, Hawkes Bay, Palmerston North perhaps.

James mentioned a preference, too, for the bigger centers for future stores but was also hopeful that they would get into “the likes of Invercargill and Blenheim.” They had a lot of contacts, even a mate in London who was keen to try the idea out there at a later stage. They were keen on having at least one international store within the next five years.

There needed to be some research done on which New Zealand cities and towns to take Kapai next (see Figure 6) – and also internationally in places like London or Sydney where there were a lot of expatriate New Zealanders. Decisions needed to be made on general locations. Should Kapai focus on space in food-courts or malls, or stores in city center or suburban blocks, or stand-alone stores, maybe even mobile outlets? In terms of specific locations there would have to be a strong eye kept on rent levels. The Kapai boys felt that the opportunities were there, but they needed to move ahead of other competitors in getting the best locations.

Figure 6: Main New Zealand Urban Area Populations

City (by geographical position north to south)	Population
Auckland Region	1,074,507
Hamilton	138,792
Tauranga	95,694
Rotorua	52,608
Taupo	20,310
Napier	54,537
Hastings	59,139
New Plymouth	47,763
Wanganui	39,423
Palmerston North	72,681
Wellington	292,530
Nelson	53,688
Blenheim	26,550
Christchurch	334,107
Queenstown	8,538
Dunedin	107,088
Invercargill	46,305

(Statistics New Zealand, 2006)

Meanwhile, there were plenty of other things to think about. Maybe the Kapai menu could be altered by adding or deleting ingredients and product offerings. There were some product line extensions that could boost sales. Healthy food items such as a range of condiments had been considered. Clothing (e.g. the brown staff t-shirts featuring the logo or some variation), salad bowls and servers were other ideas. Catering for office lunches was an option too – it was advertised on the website but had only moderate take-up of one or two orders a week.

The Kapai boys also wondered whether their premises could be made to work outside breakfast and lunch times. Options for the stores included providing quick take-home salads for commuters after work, opening later for dinners, or especially for community groups or other meetings. They could even rent out their kitchen.

Another possibility was to move more into organics. James and Justin thought their customers sometimes saw their business as more organic and more environmental than it perhaps was. Because of the limited supplies of organic produce available locally, going wholly organic was not going to be easy and the boys wondered if it could end up causing more problems if they could not consistently deliver on it. There was an option to buy key supplies in bulk and redistribute them. This approach might have worked for the disposable wooden forks and biodegradable cups available overseas, but which were simply not economic right now in the small quantities Kapai needed.

And then there were all the other great extension ideas the pair had for the Kapai brand.... But it was early days, and would-be investors were not falling over themselves yet. James and Justin were also keen to decide on the model they wanted to use to expand before pursuing further enquiries.

Updating the business plan and moving forward

James and Justin recognized Kapai as having a bit of a first-mover advantage in Wellington at least. But they didn't necessarily think that advantage would last long, or exist everywhere.

James acknowledged, “There was room for competition – but we’re just trying to stay ahead of them in terms of rolling out ours as quickly as we can.” It was time to update Kapai’s business plan to provide important details on where the business should go next, when, and with whom it might partner. There was also the problem for the energetic yet time-strapped Kapai boys of deciding which of their ideas they should hold on to or let go of.

The Kapai boys saw franchising as the way to grow faster as they “don’t have to be actively involved on site doing all the nitty gritty work for each store,” according to Justin. “It’ll be alright if things keep going to plan, but one never really knows,” he said. For James, opening stores throughout New Zealand and then taking Kapai international was the ultimate goal – but “whether or not it happens is another story.”

James and Justin were examples of what had been referred to as New Zealand’s brain-drain generation – skilled graduates leaving the country to travel with many never returning. However, they *had* chosen to come home and settle with, as James put it, “better skills and different ways of looking at things.” Would their mix of skills and ideas be good enough to help them stand out in a market awash with global fast-food giants, established local players and emerging salad store competitors? There was an issue about how they could grow the business while still holding true to the Kapai values and maintaining work-life balance. James and Justin wondered how they could enhance Kapai’s environmental and social responsiveness without detracting from potential franchisee interest. Whatever options they chose, they needed to not only be good for business, but to stay true to its Kiwi spirit and to be practicable as well.

Appendix 1: Kapai Menu



SALAD

DO IT YOURSELF SALADS

- 1 Choose up to **7** regular salad fillings Lge \$7.50
Sml \$6.50
- 2 Add optional gourmet filling Lge \$1.50 Sml \$1.00
- 3 Add dressing... **eat** extra regular filling .50c

PUKU

FILL YOUR OWN PUKU

- 1 Choose up to **7** regular salad fillings \$6.95
- 2 Add optional gourmet filling \$1.00
- 3 Add dressing... **eat** extra regular filling .50c

KAPAI FAVOURITES

	SALAD	PUKU	SALAD	PUKU
The Greek Olives, feta, cucumber, tomato, red onion, cos lettuce and dressing	Lge \$7.50 Sml \$6.50	\$7.50	Lge \$7.95 Sml \$6.95	\$7.95
Roasted pumpkin and pine nuts Roasted pumpkin, couscous, cucumber, red onion, pine nuts, mesclun and dressing	Lge \$7.50 Sml \$6.50	\$7.50	Lge \$8.50 Sml \$7.50	\$8.50
Roasted kumara, feta and cashew Roasted kumara, cashews, coriander, feta, tomato, rocket and dressing	Lge \$7.50 Sml \$6.50	\$7.50	Lge \$8.50 Sml \$7.50	\$8.50
Falafel and cottage cheese Falafel, cottage cheese, tomato, grilled capsicum, mesclun, pumpkin seeds and dressing	Lge \$7.95 Sml \$6.95	\$7.95	Lge \$8.95 Sml \$7.95	\$8.95
Bacon, roasted potato and parmesan Bacon, roasted potato, parmesan, chives, egg, baby spinach and dressing	Lge \$7.95 Sml \$6.95	\$7.95	Lge \$8.95 Sml \$7.95	\$8.95
Honey ginger beef and grilled capsicum Honey ginger beef, grilled capsicum, field mushrooms, red onion, mesclun and dressing	Lge \$7.95 Sml \$6.95	\$7.95	Lge \$8.50 Sml \$7.50	\$8.50
Grilled chilli chicken, blue cheese and walnut Grilled chilli chicken, blue cheese, walnuts, capsicum, baby spinach leaves and dressing	Lge \$8.50 Sml \$7.50	\$8.50	Lge \$8.50 Sml \$7.50	\$8.50
Lemon herb roasted chicken Lemon herb roasted chicken, sundried tomatoes, crispy noodles, thyme, cucumber, mesclun and dressing	Lge \$8.50 Sml \$7.50	\$8.50	Lge \$8.95 Sml \$7.95	\$8.95
Smoked salmon and avocado Smoked salmon, avocado, croutons, cos lettuce, dill and dressing	Lge \$8.95 Sml \$7.95	\$8.95		

BREAKFAST

Check instore for kapai breakfast options

SMOOTHIE

Breakfast, Banana, Berry, Sprulina or FeiJoa \$5.00

Protein boost extra \$1.00

KAPAI JUICE

Kapai seasonal juices
Apple, Kiwifruit, Orange, Blackcurrant \$3.00

COFFEE / TEA

<p>Coffee Flat white Latte Cappuccino Long black Short black Sml \$3.00 Lge \$3.50 Mochaccino Hot chocolate Sml \$3.50 Lge \$4.00 extra shot .50c soy .50c</p>	<p>Black teas English breakfast Earl grey blue flower Chai Green teas Sencha Tokyo time Fabulous FeiJoa Berrylicious</p>	<p>Tisanes Herbifl Peppermint Red african tree Turkish apple Kawakawa fire Specialty Jasmine dragon pearls</p> <p style="text-align: center;">All \$2.50</p>
---	---	---

SOUP

Served in Kapai's very own freshly baked bread bowl

Kapai's range changes daily
Check the chalk board instore for the day's selection

Pumpkin & Parmesan
Curried Kumara
Roasted Pepper & Tomato
Creamy Tomato
Creamy Pumpkin
Roasted Tomato & Garlic
Leek & Potato
Country Vegetable \$6.95

SQUARE MEAL

Available before 11:30am and after 2pm

Salad & juice/water	Sml \$8.95 Lge \$9.95
Puku & juice/water	\$9.95
Soup & juice/water	\$8.95

*Add \$1 for salmon square meal

DRESSINGS

- Lime, chilli & soy
- Honey mustard vinaigrette
- Balsamic
- Aioli
- Spicy lemon
- Roasted garlic & ginger
- Blue cheese & chive
- Herb & garlic
- Mango & chilli
- Parmesan & hazelnut
- Thai coriander & lime

eat your

GREENS

BNZ Food Court
State Insurance Tower
1 Willis St
Ph: 04 4991021

Lambton Square
180 Lambton Quay
Ph: 04 4724220

www.kapaisalads.co.nz

(Kapai New Zealand, 2007b)

References

- Bell, C. (1996), *Inventing New Zealand: Everyday myths of pakeha identity*. Auckland: Penguin.
- Burger Fuel. (2007). Store Info. www.burgerfuel.com Accessed 1 November 2007.
- Burger King. (2007). Locations. www.burgerking.co.nz Accessed 1 November 2007.
- Domino's Pizza Enterprises Ltd. (2007). Annual Report 2006-2007.
- Franchise Business. (2007). Buy a Franchise. www.franchisebusiness.co.nz Accessed 30 October 2008.
- Hell Pizza. (2007). Stores: Hell Hole Locations. www.hell.co.nz Accessed 1 November 2007.
- Jesters Pies. (2007). About Jesters. www.jesters-pies.co.nz Accessed 1 November 2007.
- Kapai New Zealand. (2007a). Kapai New Zealand Business Plan. (*Confidential document made available to authors and quoted with permission*).
- Kapai New Zealand. (2007b). Menu. www.kapaisalads.co.nz Accessed 13 September 2007.
- Katipo, (2003, December 5). *CafeNET Lambton Quay Extension Launched Today*.
- KFC. (2007). KFC Store Location. www.kfc.co.nz Accessed 1 November 2007.
- Landcare Research. (2007). Landcare Research Manaaki Whenua www.landcareresearch.co.nz
- Lord, S. (2007). Healthy Eating Franchises Offer Fresh Options. *Franchise New Zealand*, 15(3), 5pp. Available at www.franchise.co.nz/article/view/414 Accessed 20 October 2008
- McDonalds. (2007a). Inside McDonalds. www.mcdonalds.co.nz Accessed 14 November 2007.
- McDonalds. (2007b). Our Food. www.mcdonalds.co.nz Accessed 14 November 2007.
- Oporto. (2007). Oporto Home Page. www.oporto.co.nz Accessed 1 November 2007.
- Reload. (2007). Reload Home Page. www.reloadhealth.com Accessed 31 October 2007.
- Restaurant Brands. (2007). Company Profile. www.restuarantbrands.co.nz Accessed 1 November 2007.
- Saladworks. (2007). Saladworks because. www.saladworks.co.nz Accessed 1 November 2007.
- Scoop, (2006, October 4). Wishbone onboard at Wellington Airport. www.scoop.co.nz/stories/BU0610/S00057.htm Accessed 7 December 2007.
- Statistics New Zealand, (2001). *Wellington City Community Profile 2001*. www2.stats.govt.nz Accessed 11 September 2007.
- Statistics New Zealand. (2006). www.stats.govt.nz Accessed 2 November 2007.
- Stuff. (2007, November 1). Obesity, inactivity 'strongly linked to cancer', www.stuff.co.nz Accessed 1 November 2007.
- The Food Industry Group, (2006, October). 2nd Annual Report to the Minister of Health
- Unlimited, (2004, September 15). The Woodward Group (Wishbone) www.unlimited.co.nz Accessed 7 December 2007.
- Wikipedia, (2007), Koru. www.wikipedia.org/wiki/Koru Accessed 11 September 2007.
- Wellington City Council, (2007a). *About Wellington*. www.wellington.govt.nz/aboutwgtn/glance/index.html Accessed 11 September 2007.
- Wellington City Council. (2007b). Innovation Capital, Cuisine – Wishbone www.wellington.govt.nz/aboutwgtn/innovation/details/wishbone. Accessed 7 December 2007.

¹ The term 'Kiwi' is often used nationally and internationally to refer to a New Zealander. It is perhaps the most prominent and widely-known way in which the New Zealand people gain a sense of identity through drawing on nature (Bell, 1996).

² Justin explained the term 'conventionally' referred to food "grown naturally, without modification or any processing."

³ The Kiwi DIY mentality refers to the tendency of New Zealanders to have a go at doing things themselves rather than paying an expert to do something for them. There is a resultant sense of pride in the personal achievement that this brings.

⁴ The minimum wage in New Zealand in 2007 was \$11.25 an hour.

⁵ The phrase “clean and green,” while its accuracy is debated, is often heard when talking about New Zealand’s natural environment. While many New Zealand businesses and industries leverage off this image (e.g. the tourism and dairy industries), it is arguable as to how many businesses and industries really add substance to the image through activity and action.

⁶ In August 2007, \$NZ1 was valued at approximately 0.5 Euro and around US 70 cents.

⁷ Food miles (the distance food travels from the place of its production to the consumer) is a topic of international debate and an issue receiving significant attention in New Zealand due to its potential trade implications for exporters. For further information and a New Zealand perspective on the topic (see Landcare Research, 2007).

⁸ Figures are derived from Statistics New Zealand and were obtained from The Restaurant Association of New Zealand. Statistics are an amalgam of data from all sorts of operations (e.g. a la carte, buffet, over the counter service and table service) and are provided to indicate industry averages. Individual establishments could vary significantly from these figures. The authors thank an anonymous reviewer for suggesting this table.

⁹ Kumara is New Zealand’s native sweet potato.

¹⁰ Google New Zealand keyword searches with which Kapai New Zealand features either first, or on the first page of results, include ‘kapai’, ‘eat your greens,’ and ‘salad bar’.

¹¹ Awards included the New Zealand Herald on Sunday 2006 #1 Gourmet Health Food Take-away and New Zealand Retailers Association Top Shop 2006 Award (Saladworks, 2007).

¹² Two fast-food salad store franchises were listed on the Official Directory of the Franchise Association of New Zealand website. Reload Salad and Juice Bar franchise was listed in the \$100,000-\$250,000 category while Sumo Salads was priced higher at \$300,000-\$350,000 (Franchise Business, 2007).

¹³ Industry averages are identified in Figure 3, which indicate rent and rates to be 6.41%; arguably, a more realistic target for Kapai New Zealand is 8-10% due to the nature of the operation and the location requirements (i.e. high pedestrian count and visibility).