

Carlo Gonzaga

CEO, TASTE HOLDINGS

Company background:

Founded: June 2000

Activity: Franchising Consumer brands in the fast food and QSR sectors

Branches: 170

Franchisees: 140

Employees: 47 Direct (3300 indirect)

Listed: 21 June 2006

Turnover: over R35m (System wide sales R370m)

Profile background:

Carlo Gonzaga is the CEO of Taste Holdings Limited, a consumer-brand holding company that franchises its brands in the Fast Food and Quick Service Restaurant (QSR) sectors.

Carlo studied at the University of Natal where he obtained an LLB degree, and upon finishing, immediately became a Debonairs Pizza franchisee with his father in December 1996.

In 2000 Carlo left the Debonairs Pizza group and founded Scooters Pizza. Scooters Pizza has become the leading pizza delivery chain on the continent in just six years and the second largest chain by units, with over 115 outlets.



*Whatever you do, or dream you can, begin it.
Boldness has genius and power and magic in it.*

– WOLFGANG VON GOETHE –

SIYA: Carlo, you are the CEO of Taste Holdings, a company that owns the Scooters Pizza and Maxi's brand. I want us to start from the beginning. Can you tell me the background to your company – when and how did it start?

CARLO: Taste Holdings was listed in June 2006. That was following a decision taken in February to create Taste Holdings, as a holding company for Scooters Pizza and Maxi's and then list the company.

If I can jump back a significant step, my dad and I were Debonairs pizza franchisees from 1996 to 2000. We sold our stores in 2000 and after selling them I started looking for something to do. I was going to get into black hair care cosmetics but as you can see my knowledge of the consumer would definitely not have been direct knowledge. We continued looking for other opportunities and that is how Scooters Pizza started. We ran like the wind for the first five years and had a lot of growth at that time. On average we opened one store every 22 days and this went on for about six years. In April 2005, we decided to buy Maxi's, a 23 store restaurant chain. We had taken a long time thinking about the idea of a multi-brand business and it culminated in the purchase of Maxi's in April 2005. That was the start of the multi-brand business that we are looking to extend at the moment. After a successful year of the Maxi's business and the integration of this acquisition we decided to list to raise more money to grow the business through more aggressive acquisitions than we could if we remained a private company. That was the main reason for listing. Taste Holdings was specifically

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created as a vehicle for listing and for it to be the holding company of the Scooters and Maxi's brand.

SIYA: Where and when did the interest in the fast food business start?

CARLO: I don't know. I did a law degree at the University of KwaZulu Natal. I thought I would put my law degree to good use and go work as a game ranger at MalaMala. That was going to happen the March of the year after I finished university. Instead what happened was that my dad bought a Debonairs pizza outlet in December of the year I finished university. I thought I could help out and work for a little while at the store since I had experience working in bars and restaurants, mainly as a barman.

SIYA: So one can say that you had some experience in the service business that you gained during your university days.

CARLO: Yes, very much. I was at Law School but I didn't really go to lectures very much because I also ran a bar. The bar was called Side Bar and I ran it for two years. It became so contrived that we even had intercoms in the lecture halls so you could take notes in the bar.

SIYA: No ways!

CARLO: It was wonderful! So yes, I've always been in the service type of business to some degree but mainly on the bar side of things. When my dad bought the Debonairs Pizza store I enjoyed and loved the challenge that came with it. I started helping him out while I was waiting to go to MalaMala and work as a game ranger and after about two months I realised that I was enjoying working at the pizza store. I asked my dad if he could sell me 25 percent of the business and he did. So yes, he sold me the share and I had to pay for it. That was the start and the little company that we had ended up owning four stores. I absolutely loved it. It wasn't the making pizza part of it that I loved but it was the business side of it. I was 22 then and I can say that was when our little pizza adventure started.

We were at the right place at the right time with the Debonairs pizza stores.

At that time it was enchanted territory for everyone. We projected to do a R90 000 turnover that first month. In the second month we did R167 000. None of the other Debonairs stores had ever done R167 000. We sat there thinking what we were going to do. We didn't know how to make pizza fast enough; we didn't know how to do this and that. It all sort of came intuitively, managing the flows and fixing one bottleneck after the other. It became a pattern and it was quite pioneering for us at that time. We were the first people to bring mechanical dough rollers into the country. Luckily my dad was good

I've never had to apply for a job before. The last job I applied for was when I applied to work at the KEG in Glen Ashley. That must have been around 1990 or 1989. I got to run the bar at Law School because I was late for a Law Students Council meeting.

enough to let me make some mistakes by myself. I stuffed up a lot of things but also tried a lot of other things that worked fantastically well.

I've never had to apply for a job before. The last job I applied for was when I applied to work at the Keg in Glen Ashley. That must have been around 1990 or 1989. I got to run the bar at Law School because I was late for a Law Students Council meeting. I got there and all the other portfolios had been assigned except for the fund raising portfolio. I laughed and the first thing that came to mind then was running a bar. It was fun and far easier than organizing concerts and soccer events.

SIYA: You mentioned something interesting. You said that it was not so much about making pizza but about the business side of things.

Sometimes you find people who work for companies, for example the guys who make pizza in your business, saying, "I'm good at making pizza so I might as well start my own pizza-making business." Michael Gebber, in his book *The e-Myth*, refers to these people as technicians who want to be entrepreneurs. These guys work well in an established business and are good at their jobs. How would you respond if one of your guys that make the pizza approached you and said they want to start their own pizza business?

I had the makings of an entire production scheduling process which was completely inappropriate for a pizza shop because it was far too complicated. It has turned out to be the basis for solving the problems that we have now because I can place the important things together and the production has tripled since those days.

CARLO: My vision is that every one of my franchisees must go and start their own successful business. I would love to see the guys that work at these stores go and start their own businesses. I really mean it and in fact the strength of our business lies in the depth of talented people that we have. The reason why we have this talent is because we give the guys the opportunities to run their own business within our business. Currently the National Operations Manager of Scooters Pizza, which is not a small job given that Scooters is the second largest pizza brand on the continent, used to be a driver for me in one of my Debonairs stores twelve years ago. We have a list as long as my arm of guys who started off as managers and now work in the

corporate environment. We gave them the opportunity to run their own business in the stores and the venture has come full circle. They have now returned to the corporate office. Yes, a lot of guys think they can run their own business and we encourage them. That is the thought I would want to add. I would love for every guy to think they can take over the world. Although I say that it wasn't so much the pizza-making part, you must realise that pizza-making is what we do and we do it very well.

I remember I went to do one of these finance courses for non-financial managers. We did a section in manufacturing and I remember being so enthralled by this because I could take some of it and apply it to a real business immediately. I went back and implemented production scheduling in the shop. I had the makings of an entire production scheduling process which was completely inappropriate for a pizza shop because it was far too complicated. It has turned out to be the basis for solving the problems that we have now because I can place the important things together and the production has tripled since those days. That is why I love

running my own business. I can take all these theories from the books and apply them to my business. There is no one that can tell me that I cannot do it. I say that it will work and if it doesn't I'll find my own way or adapt it in a way that makes it work for my business. That is what I have enjoyed most about the business aspect of it. My dad also had the foresight to give me the freedom to try all these things without which a lot of it would never have gotten off the ground.

SIYA: When I look at business structures, the franchise set-up is probably one of the best ways for people to go into business because it already has the support of an established system that works. However, there are always challenges in every business. Having been a franchisee for Debonairs before you moved on to start your own business, can you tell me about the challenges you faced in starting from scratch?

CARLO: Franchisee-franchisor relationships are always adversarial. I've been a franchisee and currently am one because I also own stores. It's just an adversarial relationship. There are a number of things that you can do to minimise that and highlight the positive aspects of it. Franchising, when it works, can be a powerful business force on the planet, but when it doesn't work it can be a most destructive force. I say this because when I was with Debonairs I was part of a group of guys that got people together and decided to take down all the Debonairs signs from our shops. Had we done that we would have killed what is now the leading pizza brand in the country and it would have been a travesty. This was all because the franchisor was managing the relationship wrongly. For two years I was the Chairman of the Debonairs Franchise Council and was fairly instrumental in the trying to take down the signs. I am glad that we didn't though and through my dad I saw that it was exactly the wrong thing to do because of the benefit of being a franchisee in a franchise system.

The biggest challenge of managing the franchisee-franchisor relationship is that this relationship goes through a couple of stages from the onset. Initially the guy is forever grateful because you show him how to make the pizza, the burgers etcetera. The store starts making money and he starts handling more money but is still forever grateful. He will tell you that

without the assistance his shop would have fallen apart. Then after a few months of royalty payments, after six or eight months you start hearing a different tune. The franchisee will ask what it is you are still doing in his business. You hear things like, "I don't need you anymore. I can do this myself. I work 12 hours a day, bust my gut and you want me to pay money for it. What for? This business is here because of me and not because of you. It's me doing all the work here."

When franchisees get to that point, and it does happen to every franchisee at some stage, you either lose them completely from the system and they eventually move out or alternatively you challenge them. You say to them, "Now you are having a good run but what will you do if interest rates go up? What if inflation goes up or what if a competitor opens across the road and you need support?" You have to make them understand that when we travel overseas twice a year, and visit new markets we do it so that we can remain competitive, remain ahead of trends and don't get overtaken by someone else. You need to get franchisees past that stage in terms of thinking that they are paying a lot of money and get them to say, "You know what, there is a benefit that I get even though it's not always tangible and one can't see it from outside". That is really the challenge, managing the franchisees' perceptions as they change over time. Initially they want operational support but five years down the line they are a lot harder to please. They understand how the system works and will be more demanding. They say, "I don't want any further training. What I want to know is how to lower my wages, how to squeeze an extra percentage from my bottom line, how to enter and penetrate a new market". The challenges change all the time which is why, like most things in life, the harder the road travelled, the greater the reward. That's why I say that if you can get franchising to work, it's simply the most powerful force in business.

SIYA: Now, let's talk about attitude. I have been told that there are those who are genuine entrepreneurs, who can spot an opportunity and make things happen, and then there also those who start a business because they don't like their boss and just want to be their own boss. What would you say is the best attitude to adopt if you want to start your own business?

CARLO: When I started out in business I had just finished Law School. I don't know if I can say I had always been an entrepreneur but before that I had always made money. My first job was stripping two stroke engines at R2.50 an hour. This was when I was 12. After that my dad and I sold bullets to shooting rangers.

I read a lot of books on philosophy and from that I always knew that I wanted to become a capitalist swine bastard which was a phrase I picked up in my reading. Ayn Rand also influenced my first thinking on capitalism, society and welfare. To this day her work still directs much of my thinking. When I started working in the first Debonairs outlet, I realised that the real satisfaction I got was from the realisation that people enjoyed working for me. I had never been through any form of business training or human resource training.

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What I had learnt, in terms of the human aspect, was probably from my dad. He had extensive experience from working on the African continent. What I suddenly learnt was that the satisfaction of having people enjoying working for you was more satisfying than any financial satisfaction that I ever thought I would get. That changed my attitude. I have never been concerned about how much money I make. Not that I didn't manage the business financially but it's never ever been a concern of mine in terms of why I'm in business. In my very first store I employed seven kitchen staff, three unfortunately passed away but the other four all still work for me, and that was 12 years ago. Those were the first people I ever employed. Throughout our current system, we have had managers who have worked for me. In fact all the senior managers that ever worked for me when I had stores are somehow still involved in our supply chain.

Getting back to what you were saying, if you are chasing the money, it's like chasing a rainbow. Having money as your only objective will cloud long-term judgement and hence the sustainability of the business.

SIYA: So it's the passion for what you are doing. If the passion is there the money will come.

CARLO: You need to find something that excites you more than just the money. Eventually the money will come. Honestly, for me it's about seeing people who work for the company enjoying, loving and being proud of what they do. There are little snap shots that have happened throughout the time I've employed people. It's small things like the Pizza Olympics which Scooters Pizza runs every year where we recognize people in competitions like "the fastest pizza maker". It has become a huge thing with regional finals. We fly the regional teams to Joburg for the finals and every year some of the kitchen staff come to me and thank me and say that they had never been on a plane before. It's those snap shots that make me realise that I'm doing the right thing. We have got that same passion with our franchisees. I would like all my franchisees to become millionaires. If that happens I would make lots of money and that's fine. I was lucky to have learnt all these things I'm talking about very early in my time. There's got to be something else other than money driving you, a higher purpose or whatever the case may be, but the desire for money cannot be the sole driver of your business.

SIYA: You have a lot of people working for you and they are bound to make mistakes at one point or another. You mentioned earlier that your dad allowed you to make mistakes earlier in your business. How do you deal with mistakes made by the people that work for you?

CARLO: I have been making pizza for almost twelve years now so I probably know a hell of a lot about a pizza shop. It's very easy for me to adopt an 'I know it all' attitude. I could say, "I tried this ten years ago and it doesn't work," but that's not the attitude I want to have. Sometimes a person must learn from their mistakes. A person must be allowed to make mistakes as long as they don't break the company. There are times when I don't have an answer but invariably I'll have an opinion on the matter. One thing we try and foster in our senior managers is that you have to let people learn from their mistakes. It's genetic. If we all just learnt things as they are handed down we would never have fallen off the bicycle but yet we do. We don't, however, allow a person to make huge mistakes that will damage the business. We assist them to find answers to their mistakes by probing them in the right direction. Part of our learning has to be through our mistakes. There's far more to be learnt if a person is assisted to find an answer than if an answer is handed to them.

SIYA: As the leader of Taste Holdings how would you categorize your leadership style?

CARLO: I would say an inclusive leadership style. I started Scooters when I was 26 and had guys on my board like Kevin Utian the MD of Nandos and Trevor Edwards the current CEO of Enaleni Pharmaceuticals by the time I was 27. One thing that I learnt quickly was that you cannot ‘bullshit’ people. You cannot sit in a meeting nodding your head and smiling when you actually don’t have an idea of what they are talking about. One thing that I’ve always been is very open, and I ask the questions. I don’t care if I sound stupid because I’ve always been confident enough in my own abilities. I might not know what this is today, but once I’ve asked this question, I’ll never have to ask it again. In truth what I found was that there is so much ‘bullshit’ going around that if you ask a simple question, you quickly uncover the truth. You don’t need to be a financial whiz to know whether something is wrong or right for your business. It’s the same framework that I try to develop for guys in management. I encourage the guys to ask questions and let them know that their opinions actually hold some weight. That is why I would categorise my leadership style as inclusive.

The other reason is that if we want to build a large organisation that is run by entrepreneurs, I’ve got to devolve power. I’ve got to be happy in the decision making ability of these people. So each time I ask for an opinion it allows me to understand if that person has the ability to make a decision and rationalise in a way that I think is robust. I want to know that when I leave, the person can run their own division, and as long as they think that they can, it will work out. In some cases it’s democratic and some people think it is soft and can be negative for the business. I think it’s appropriate for the longer term vision that I have. Obviously this changes between people as well. In addition, as the organization grows and we have human resources to

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draw from I still find myself rolling up my sleeves and getting stuck in. To some extent this is probably a weakness from an operational perspective because my time is valuable and can probably help the organisation in other more meaningful ways as there are guys just as capable of doing that in the workforce. I think it's something that will change over time.

SIYA: What would you say has been the greatest personal challenge you have ever faced in your organisation?

CARLO: I think the type of growth that we've had. We've been bankrupt at least twice when we were Scooters Pizza. Each time I was overseas and for three years I never managed to get through a holiday but had to come back! I think it was a natural cycle as the business was growing. There have really been so many challenges and difficult times whether we were dealing with senior guys in management who were not performing or where we were taking board members to task because of a difference of opinion – remembering that all our board members were far more senior and experienced than me. I cannot say there's one that particularly sticks out, Siya, because it's been a fairly hard road in terms of the first four years of Scooters Pizza.

SIYA: Okay. Now, as a franchise you have so many different stores run by many different people and one brand. How do you make sure that the customer's experience is uniform throughout?

CARLO: We've got a system where we visit stores monthly and sometimes weekly where we have problem stores. We have a pretty robust system. To be honest, it's not as big a job as one would think coming from the outside. It's also because we have grown like that – organic growth. We've sort of scaled it up as we grew and because we've grown and put systems in place it's just really evolved into a robust system with not much variation. A challenge would be if we bought the business now, with no sound systems in place.

SIYA: When people apply and want a piece of the action at Scooters Pizza, what qualities do you look for in franchisee applicants?

CARLO: There are two main things that we look for. The first one is customer orientation. When it comes to the businesses in the service industry it boils down to customer orientation. The second one is resilience. We do psychometric testing to test a couple of these things. I say resilience because you want people that have passion for business and want to be on their own trying to make it. Fundamentally, it's a tough environment. You will have a manager walk out on you at the end of the month, you will get a telephone call from the police at midnight to tell you that your shop has been robbed; you will have somebody steal a whole lot of money from you at some point; you will be short of drivers on Friday night and have some who don't show up at some point. So you really require resilience in terms of getting back up on your feet and pushing through in the food business. Every one definitely has to have customer orientation. Even for us, we learn new things about the brand every day and the same goes for our franchisees. Our job is to keep them up to speed with where the brand stands. This is part of our system, the communication line to ensure that every one understands the vision and to make sure that we are all facing the same way. That is the key part of how I understand it, to make sure that everyone shares the objectives as opposed to saying, "That must go there, and that must be that big". That is a big part of what we do but in order for business to be big everyone must see the big picture.

So you really require resilience in terms of getting back up on your feet and pushing through in the food business. Every one definitely has to have customer orientation. Even for us, we learn new things about the brand every day and the same goes for our franchisees.

SIYA: You mentioned two things, the brand and brand equity and you also spoke about vision. Those were questions that I had next for you. Let's start with brand equity, what is it and how important is it?

CARLO: I'm not a marketing person so don't expect a marketing response. For us, the brand portion that drives our business is about two things. Firstly we have a very tight focus in terms of what we do which then makes

For us food is about sharing. It's about eating or sharing experiences because when you eat you put the food in your mouth which is a highly personal thing. It's not like buying Soviets or Levis. For us, in terms of brand characteristics, it has to be fun and we should enjoy what we are doing.

the whole communication of what the brand stands for very simple. Scooters Pizza is a pizza delivery business. That's just what it is. I'm going to deliver through Africa this year on a motor bike from Joburg to London. If there is any word to define a brand I would say consistent experience. A brand is built over time therefore consistency is key.

The second aspect of a brand key to us is that brands should be fun. A bank can be serious because they are dealing with your wealth. I think Kulula.com is a good example. They have dealt with airline safety issues in a fun way. For us food is about sharing. It's about eating or sharing experiences because when you eat you put the food in your mouth

which is a highly personal thing. It's not like buying Soviets or Levis. For us, in terms of brand characteristics, it has to be fun and we should enjoy what we are doing. We should have a shared value system at the support office level as well as the franchisee level. Integrity plays a big role in all of this. I know every body says it. It's very easy to control that within your head office level but difficult to try and control across 150 entrepreneurs who are running their own business. They have different agendas and purposes for buying these businesses.

So the key aspect for brand experience for us is the consistency of the brand for the consumer. And that's really what we try and build – being the consistent brand experience that will align with our consumers' expectations. Aligning with our consumers' expectation means that it changes over time. Today Scooters Pizza is about pizza delivery. It's a fun, young, energetic and young-at-heart brand. In two years time, we will not be that. There may be a need to subtly make changes. Any brand changes must be subtle. That is something everyone is particular about otherwise we would just start a new business, revolutionise Scooters Pizza.

SIYA: On the issue of vision. When companies start from scratch, entrepreneurs ask questions about what their vision for the business is. How important is it to figure out and develop that vision?

CARLO: I've thought about this a fair amount. I believe you have to have it. You must always have it. One thing that you must understand is that it is going to change all the time. When I say you have to have a vision I don't mean you should sit with a consultant and come up with the vision. Just have a goal; cross out the word goal and then call it vision. Initially that will do. Have an objective and this objective must be straight. I've found that putting these straight objectives in place works. They must be long enough so that they can last two to three years. Eventually people will start working towards these objectives. If they are too short, you will find by the time people get there, you've got to create another one because now the objective has changed. It's got to be simple. The biggest gain we have made at Scooters Pizzas is that sometime after we started the business we took a step back and asked ourselves what we were doing. We started as a pizza delivery business and two years down the line the question was "What the hell will we become now?" We were doing some promotions and you could only get them in some of the shops or only get them on counter orders. There was no delivery and we said, "That's not what we want to do." We set out to be the number one pizza delivery chain in the country. That is it. It's simple. It's pizza delivery and it's number one. It was as simple as that.

SIYA: Clear and to the point.

CARLO: You then had some people saying, "Let us add ribs to our menu." My response was simple. I asked them which part of pizza delivery they didn't understand. We had all decided that was what we were going to do so those that had other ideas were welcome to go and start their own businesses. But you must understand that it does evolve and it does change over time. My view is that vision over time should become simpler and not more complicated. So yes, you do need objectives. We had the same objective when we started Taste Holdings. Sometime when we were starting we got all mixed up. I had a discussion with one of the board members, I think we said we wanted to be a billion Rand company in sales and before we knew it that turned into a billion Rand market capitalization. A substantial difference as you can imagine but

that's what we are stuck with. Strangely enough, we'll get there by 2010. That's the objective – to be a billion rand business by 2010. If you say it often enough you start to believe it and then do it.

SIYA: It has to be communicated. It's one thing having a vision and another to communicate it.

CARLO: It should not be a short-term vision because communication takes time. It is pointless setting a vision to our franchisees and then by end of year two the vision changes. You need time to get the message across. At one of my franchisee presentations two years ago when I was really crystallising in my head what Scooters Pizza should be about, my franchisee presentation was about one of those enormous fly wheels. I think they use them to crush maize or something like that, but they're huge. I looked at this wheel and said that we all have to be in the same place and push in the same direction. Things will start off slowly but then when they start going everything will be in place. When things really start rolling with everything in place, you can never stop it. You can however change direction a little bit but it won't stop the whole process. It's a bit like trying to stop an oil tanker, you can get it to turn around but it won't turn around very quickly.

SIYA: That is philosophical, I like it. In the pizza business, you've got all sorts of brands. You guys just came in a few years ago. I know that you had experience but you started a whole new brand. What is it about Scooters Pizza that sets it apart from the other brands, judging by the sales and the awards that you have won thus far?

CARLO: When we started Scooters Pizza I recall we had this 39 minute delivery promise. Your pizza delivered in 39 minutes or your order for free. How this came about was quite strange as the key for us was "your order free" not the 39 minutes. I was thinking at the time that there's space in the market for someone who puts their money where their mouth is; someone who makes a promise and delivers on it. When the promise is broken you don't give a little discount on the side and little extra things. We said, you know what, it's on us. We understand that we may have stuffed up your entire evening. This may have been your first date and we brought your

pizza late! It could happen that you were about to go out to an award dinner and you ordered supper for your kids and you couldn't leave to fetch your award because we did not bring your food on time. We started Scooters Pizza based on honesty. We said we are an honest down-to-earth brand, we respected the promise that we had made and we kept it. We said we won't give you small promises like R5 off your next order or something along those lines.

One of the key aspects when we started in terms of brand was that everything was bright and it was in your face. The brand

communication goes through stages and at the time everything we did was aggressive and we embarked on "guerilla marketing". We also gave our product time to be out there and we've always been very confident in our product. When we launched, for the first eight months, if you were in Durban and went to the rugby you got a free pizza. At the end of the game, we got hoards and hoards of pizza on the field and gave people free pizza. We did this on the back of Harleys, on horseback, with nice promoter girls and things like that. This is what we did for the brand to be out there. We said that the brand needs to be different to what Debonairs was. My brief to the agency was that I wanted red and yellow as my colours. I didn't know what the name would be but I said I wanted it to be fun. I said, "We don't take ourselves seriously but we're damn good at what we do." That evolved over time to a point where we could afford to advertise on television to better communicate the brand to a far larger audience. What we have always communicated is that we are a pizza delivery business. If I had to show you an advert now, there would not be one which doesn't say we are a pizza delivery business. Not one.

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SIYA: I can remember some of them. Judging by the awards that you've won up till now, for marketing especially, it just shows that there's a real emphasis in that you truly do believe in marketing. How would you emphasise the need for marketing, especially in the early years of the business?

CARLO: To put it into perspective we have a model and the way our model works is that franchisees pay a marketing royalty into a fund and we spend it. That amount is a percentage of the turnover. Initially that fund was very small when you had like ten stores contributing to it. With ten stores you can do nothing. We overspent that fund by over R4,5 million in the first four years. That should put it into perspective, how important marketing is for our business. All the shareholders' money we put in was to market the business and we marketed the absolute hell out of the business. There was no way it was going to fail, no ways. The first stores we opened, we spent over R80 000 of our money per store on marketing over the first four month period. The franchisee obviously did not put up that money. The importance of marketing varies from business to business because businesses are different. We had a vision and a goal of where we wanted to get the business. We knew that in order to sell franchises you need a brand and in order to grow sales you need more stores. It's become some sort of a self-fulfilling prophecy in terms of critical mass. The more stores that we have, the more marketing fund we have, the more marketing, the more sales we have, the more sales we have the more stores we have. In our business, if

In our business, if you don't market, you get nowhere because if your stores don't turn a profit in the beginning you won't sell any future stores. If you don't sell future stores you won't create mass and you don't have a marketing fund big enough to do anything and then the business collapses.

you don't market, you get nowhere because if your stores don't turn a profit in the beginning you won't sell any future stores. If you don't sell future stores you won't create mass and you don't have a marketing fund big enough to do anything and then the business collapses. I would say the importance of marketing does depend a bit on the type of business you are in, the sectors and the drivers of the business. In our case it was all about the brand from the beginning.

SIYA: That is powerful stuff. Moving slightly to more general things, I want to talk about ethics, especially for a private company. For a listed company it's different because

there are people watching. How important is it to be ethical as a private entity?

CARLO: I'm hardly going to tell you that I am unethical – let's cover that one. You have to believe what I say. First with a franchise network, there are two things that govern my view. One is that I'm young. When I started Scooters Pizza I took a decision to stay in South Africa and decided to let my Italian passport expire. I've just recently renewed because I decided to leave it up to my kids to decide if they want that opportunity or not. So I really took a conscious decision to stay. I'm going to be here for a long time. The sector that I am in is too small for unethical dealings. That's the one aspect, which is partly how we got to start Scooters. We started Scooters from the back of a business which would not put a mark-up on new stores' costs although we managed the process. We started the business and said that if you find the stock cheaper, as long as it is the same product, then you could buy from whoever you wanted to. So in the beginning if you were to look at our web pages from five years ago that is how we started our business. At that time franchising was going through such a poor reputation stage because you had a couple of guys, none of the big guys, who absolutely robbed people of their money.

Secondly, we learnt early on that our business is not for investors. We would sit guys down and tell them that the business that we are in is not an investment business. A guy comes to us with his entire life's savings. He's a white male who doesn't see any future in corporate life, because of BEE. He is 47 and he is now giving you a cheque of his entire family savings. That is a huge responsibility and you don't want that to go wrong. You truly, truly don't because when you are sitting across a table having made a wrong decision and a guy loses all his money you have a grown man sitting opposite you crying because he can't put his kids through private school or because he can't put them through school. You start to have a completely different view of what franchising is about. That is why I say to people that this is a really personal business and if you have other motives aside from your franchisees' wellbeing, you will not succeed. It will come back to bite you if you stay in it long enough.

SIYA: Moving along ... can you explain to me the rationale behind your listing on the AltX?

CARLO: Two reasons. Firstly, when we started raising money for the Maxi's acquisition we found that our business model was one with no assets but strong cash flows. This meant that any lending that was going to be done would have been against these cash flows that Scooters Pizza was generating. I think we approached 23 different potential funders and eventually bought Maxi's for R16 million of which we had to borrow R7 million. We had managed to put up the balance ourselves. Afterwards we said, "If this is how hard it is to get R7 million, how are we ever going to execute a multi-brand strategy as a private company?" It was never going to happen so listing became an option.

Secondly, aligned with my vision for the company is that I don't ever plan on having a real job. I don't have a real job even now. I plan on doing this for as long as I can possibly imagine. As long as I am having fun. My shareholders might not necessarily share my extreme life-long vision. In a private company it is very hard to try deal with changes in individual shareholders' timelines. By listing you are required give at least 10 percent to external parties. So what this did, aside from giving us the ability to acquire other business, was to allow shareholders that have a different time horizon to that of management, to unlock their value when they want to without being disruptive to the entire organisation.

The other reason was that we could extend our ownership base. When we started off I said I wanted 10 percent to be set aside for management. I didn't know when we were going to give it to them and I didn't know how we were going to do it, but it never happened. What listing did was to give opportunity to extend ownership to a lot of guys who were there for those five years as well as to keep them retained. Every single one of our senior management team, including our CFO, excluding me has been approached by other businesses. I'm the only one who hasn't been approached. I'm not too sure if it's because they don't have enough faith in me! Someone someday is going to put up a big enough offer on the table for one of my guys, so by giving the guys ownership, I now know that I don't have to worry about them leaving because of the money. They may leave for other reasons though. They have to work for it though. We don't just give things away. That was the third reason behind going public.

SIYA: You listed last year, would you say that you've become a better company?

CARLO: I'll be honest with you. We got sold short on a couple of things in terms of other expectations. One aspect of it is that you have pressure to always make sure you have six-monthly numbers. I don't always think in six-month cycles. You can decide to play hardball but then your stock will be stripped and the money may be invested elsewhere. There is a balance you have to maintain. On the positive side, every other thing that everyone tells you is going to happen has definitely happened. We are a much higher profiled company and that has also attracted really good talent from the outside which meant that the guys inside had to raise the bar, which is fantastic. There are other opportunities that we would not have had before but now, because we talk as a listed company, it creates a positive perception.

Being listed is really a fantastic thing but you are no better than a private company. It doesn't necessarily mean you do better business or you have better people or whatever the case may be, but it does work. One thing they always tell the guys who want to list is that their corporate profile will be raised but they never tell them that it comes with certain responsibilities and you must not stuff that profile up. We have dealt with that very well.

We are a marketing-based business; we've always dealt with the media. We

have always worked from a consumer perspective. We have always been frank and honest when we had problems with stores or whatever the case may be. It was fairly easy for us to adopt that role. It was nothing new, we had to learn new vocabulary. If you don't understand that there is a role that you have to play and that role is part of transparency you can easily set yourself up for failure. If you want to go into business and deal with people's money then you owe them transparency so that they can see what

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you are doing. That's what a lot of guys in our sector couldn't do. They all run good businesses but don't have a clear understanding that with the benefit an obligation arises. You quickly find that if you sort of brush the obligation away people start to lose faith in you or in management. I'd rather people ask me questions so that they can see if I'm 'bullshitting' them. When you present to people, it's all rehearsed, slick and all nice. The PowerPoint presentation comes down when it should and everything runs. If you really want to make an impression with people, you must be open and they must be able to challenge you and see how you deal with those types of questions. We invite that more than anything else because we've got nothing to hide.

From the listing perspective, it has been good, in fact we have been privileged to be given the opportunity to list the company. Not many people get to do it. It is a privilege and when it happens you are subjected to the processes: the legal aspect, the financial aspect and everything else. It is a privilege that not many people are afforded in terms of learning experience.

SIYA: Just looking at it there aren't many listed companies in proportion to the number of companies out there. Do you think that AltX can do more in terms of bringing other companies on board?

CARLO: I think with the way the AltX is going they are going to have half of South African companies listed by 2010. Can they do more? I think that there are a lot of companies that could be listed, but as I have said to a lot of guys, you better have a strategy for listing. Establish the reasons for listing otherwise it will not make sense to you. It might end up being a burden. You don't relinquish control when you list. What you do is take increased responsibilities for your actions and you answer to a bunch of people. They don't control you but what changes is that you become increasingly accountable. We listed so we could expand on the multi-brand strategy.

I think that the AltX and the JSE are doing the right type of job in terms of promoting the equity market, showing that it is a favourable place to be for traders or for the individual to invest in this market. That is the key for new

companies listing, that there have to be people to invest in them. They are handling both quite well, in terms of supply and demand. As long as we carry on having some of the generally good runs that we have now, it will work. The cycle will turn I am sure and we will all fall through our pants. It will fall I'm sure but that's how business is. In terms of the JSE I really do think that they are doing a superb job. I was reading in the paper that they are cutting their fees and I think that's interesting. When I was doing my MBA I did my interview with Russell Loubser (JSE CEO) who was a friend of the father of one of the guys I was studying with. So about six months before I listed, I was sitting at his house doing an interview on leadership. They really are doing a phenomenal job in terms of changing perceptions of what the stock exchange is about. That is an absolute yes.

SIYA: What are your views on BEE?

CARLO: My view is an unsophisticated view. With Taste Holdings we said that we would look at increasing the ownership empowerment percentage through acquisitions of new businesses. I believe that there's a commercial benefit to the whole process by having access to certain markets and understanding those markets. We are fairly empowered at Taste Holdings through the current shareholding but it is not something we wave around and say that we are compliant. I'm concerned at how quickly it could change and it has happened to so many guys.

On the other side when I chose to stay in South Africa, I chose to live and stand by everything that South Africa needs to do and what it stands for. Strange though, most of our staff members are black women. Something

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that I picked up back when I was 22 in Debonairs was that the Zulu culture was patriarchal. I never knew about it through university. All I knew in university was from the far too many discussions we had about apartheid. In Law School we all regarded ourselves as clever so you can imagine the kind of discussions we had. Anyway, I realised that giving women an income would mean all of a sudden the family has two bread winners. It gives them some sort of financial freedom which is something that they might not have even known about. I think we have made some difference no matter how small it might be. Since we started we have created over 2 200 new jobs excluding the ones through the Maxi's acquisition.

In the six years that we've been doing this, I can tell you that 85 percent of our managers are guys that have come up and started as kitchen staff and been brought through the system. Part of the reason for that is that if we don't have a way of educating people in the country, there is going to be nothing, so it's not from a need to reach certain percentages or not. In the

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franchise system so much of what we do is aligned with what BEE and reform strives to do. We transfer skills, we provide training and provide life skills training. It's just part of what a franchise company does. So we are quite fortunate in that respect. We don't wake up and say that we have ourselves a corporate social responsibility programme because that is what we do as a franchise company. It just happens naturally. When it does happen it's sustainable. We've looked around as a company to have a broad-based team with our stores and our

staff. In that way, we benefit. They work hard, because they own a small share, then my customers will benefit, franchises are built. That's the way I see it.

SIYA: For some people it takes a really long time to achieve some of the things you have achieved at 32. How do you keep challenging yourself and what is next for you?

CARLO: Siya, setting challenges is not really a problem. Our bar is so high. We are so far off to hitting our set internal marks. I've often thought how I got to this point without self-destructing in the process. There are some people that don't need a pat on the back, they are confident enough to know when they've done a good job and when they have not. They don't need that pat on the back as a reinforcement to say, well done, good job. Most people do need that though and you find that some people don't get that and they get demoralized. It can certainly be a lonely world out there in terms of knowing people and bouncing things off them. I'm definitely one of those people who don't need to be thanked because I know myself and I know what I am doing. If I am satisfying the internal objectives, which I know, then I'm happy. The same applies to goals; there are people that reach objectives but are still never satisfied. In some cases this can be self-destructive. I never have an idle moment because if I stop for a minute to think, I'll start doing something I thought about a long time ago, because now I've got some free time to do it.

We have a big challenge now which is to make this business a billion rand business. We have to integrate some new cultures. I've got a very specific vision of wanting this business to consist of a bunch of entrepreneurs. Having entrepreneurs in business and still running it on an entrepreneurial basis and not succumbing to the easy path which is the corporate line is going to be a challenge. When I say corporate I mean, the bureaucracy and having check lists for everything and giving no autonomy for making decisions lest they make a mistake. I think the challenges are many and I'm sure Taste Holdings will overcome them.

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