

Relentless Expansion of a Lifestyle Café?

Seri Ayu Masuri Md Daud¹, Fatmawati Jusoh², Saliza Sulaiman³, Halim Suhaimi Yeop Johari⁴, and Adnan bin Zainal Abidin⁵

1 Faculty of Accountancy, UiTM Cawangan Selangor, Puncak Alam Campus, 42300 Selangor (seriayu@uitm.edu.my)

2 Faculty of Accountancy, UiTM Cawangan Selangor, Puncak Alam Campus, 42300 Selangor (fatma254@uitm.edu.my)

3 Faculty of Accountancy, UiTM Cawangan Selangor, Puncak Alam Campus, 42300 Selangor (saliza.sulaiman@uitm.edu.my)

4 Faculty of Accountancy, UiTM Cawangan Selangor, Puncak Alam Campus, 42300 Selangor (hash@uitm.edu.my)

5 Faculty of Accountancy, UiTM Cawangan Selangor, Puncak Alam Campus, 42300 Selangor (adnan169@uitm.edu.my)

Abstract

This case study is about a lifestyle café that originated during a date with the entrepreneur's fiancée and built by the endurance, smarts, and sweat of two brothers. The brothers named the café Brotherhood & Co. (Brotherhood) to represent the spirit of togetherness created between them while building their café. Founded in 2015, Brotherhood has been steadily expanding over the past five years. Known for its creative and captivating menus, Brotherhood is incredibly popular among youths. A food blog post that went viral in the first six months of Brotherhood's inception made it a breeze for the café to double its daily sales to over RM10,000. Recently, however, customers began to change their preferences to ordering food using their cell phones. Besides, the movement control order caused by the COVID-19 outbreak exponentially increased the demand for online food ordering for all restaurants. With the lifestyle café's dine-in demand remains high, the brothers began grappling with the first significant expansion of their café. They viewed the shift in customer demand as a threat to their lifestyle café because they lacked the human and physical resources required to keep up with the exponential total demand growth due to the rapid development of online food delivery services. Faced with the unexpected threat that caused a significant loss in potential sales and combined with their inexperience as business managers, the brothers were unsure whether they should risk expanding the business and how rapidly they should do so how much they should invest. In particular, they confronted several difficult strategic choices: should they step up Brotherhood's growth trajectory to meet customer demand for online ordering services or forego the potential revenues increase and remain as the lifestyle café they originally envisioned? Their strategic decision involves several significant operational challenges: how to minimize dependency on cooks, how to deal with the erratic supply of halal chickens, and how to develop effective and efficient kitchen space that includes an advanced inventory management system and a large chiller. Even if they decide to invest in expanding their café, which online delivery method should they choose? Finally, a daunting question concerns COVID-19: will markets return to normal after a COVID-19 vaccine?

ARTICLE INFORMATION

Received: 06 Sept 2020

Revised: 13 Sept 2020

Accepted: 20 Oct 2020

Keywords: *Café, Expansion, Online food delivery, COVID-19*

PROLOGUE

It was a lovely evening in February 2015. Fakaruddin and his fiancée were having dinner at a mid-range restaurant somewhere in Section 7, Shah Alam, a busy business district surrounded by a friendly neighbourhood. With a combination of grilled fowl, soft white bread, and a spicy sauce, the food was divine and yet moderately priced. Surprisingly, even with that quality of food and price, there was only a group of teenagers at

the other table at the restaurant's corner. The remaining four-seater tables were empty; six indoor and eight sidewalk seating. For the size of the restaurant, it was overcrowded with sixteen tables.

"How I wish I could run a café like this. If I own this place, I will change the ambiance. I will make it more relaxed and convenient, perhaps. You know what? A café is not just about food. It is about services", Fakaruddin

muttered while staring at every inch of the poorly decorated eatery.

"Honey, are you sure about that? I thought we came here just for dinner, not for business", Fakaruddin's fiancé giggled, suggesting her disagreement with Fakaruddin.

"You see, this café is fairly spacious and strategically located. Unfortunately, the café is poorly maintained. I love the food but the services...argghhh. How could they make us wait for over half an hour? I am not going to come here again". Fakaruddin replied, looking utterly annoyed.

Six months after dinner with his fiancée, Fakaruddin and his brother rented the restaurant. They turned the restaurant into Fakaruddin's vision of the café he always wants, called Brotherhood & Co, to represent the bonding he and his brother experienced while creating the café.

2.0 ABOUT BROTHERHOOD & CO

Brotherhood & Co (Brotherhood) is founded in August 2015 and located at the heart of Section 7, Shah Alam, Selangor. The café was founded and managed by Encik Mohd Fakaruddin Yusoff with his brother, Encik Mohd Adam Yusoff. 'Brotherhood' was chosen as the name of the café to reflect the strong bond between these two brothers. The cafe began with a biker's café concept that combined a café with a bike studio. The brothers are enormous fans of motorbikes and actively involved in bikers' clubs and activities. However, the limited space of the café rendered the idea unsuitable. Inspired by a calming and relaxing café Fakaruddin visited in Jakarta, Indonesia, the brothers decided to develop a lifestyle café concept. It is a concept that allows diners to have casual and relaxing me-time or companionship while enjoying a nice beverage, snack, or main dish. Regardless, the café is still decorated with bikes' elements to accentuate the owners' passion for motorbikes riding activities.

Brotherhood café is strategically located right in the middle of Section 7, a commercial district of Shah Alam. It is close to several higher education institutions, including the Universiti Teknologi MARA (UiTM) - the largest public university in Malaysia - and Universiti Selangor (UniSEL). The café is near the Federal Highway and easily accessible through multiple routes. The locality

also offers easy access to public transportation, amenities, and spacious parking lots for the customers.

Before letting go of the premise to Brotherhood, the former tenant removed all the furniture, fixtures, and equipment. Therefore, the brothers had the opportunity to design their café from scratch. Additional renovations were also carried out to expand the dining area, making approximately RM100,000 start-up cost, which was sourced entirely from Fakaruddin's saving.

Brotherhood started as a sole proprietorship and was converted to a private limited company after several years of its inception to include Adam in the firm's ownership. Brotherhood offers a variety of menus ranging from western to fusion theme. The menus are moderately priced to cater to the café's leading target group, university students. The café operates seven days a week, from 12 pm to 12.30 am. It has 23 workers consisting of four chefs, three assistant chefs, a supervisor, a cashier, a dishwasher, a bartender, and twelve servers and bussers. During the standard period, the cafe generates an average monthly sales of about RM200,000. However, during university semester breaks, the sales reduce by half.

During the first six months of its establishment, Brotherhood got its fair share of limelight through a blog post by a local news and current affairs portal that went viral. The blogpost drove massive traffic to the café. The crowd doubled overnight, leading the sales to double too. However, it only lasted for two weeks. Ever since the first wave of the viral, daily sales is maintained at RM5,000, which is good enough for the café.

3.0 GETTING TO KNOW THE OWNER-MANAGERS AND OTHER KEY PERSON

Fakarudin graduated from UiTM with a Degree in Polymer Technology in 2012. When he was little, his mother used to sell *nasi lemak*, and *kuih* to help make ends meet.¹ Thus, entrepreneurship is not an alien for Fakaruddin. However, it was during his studying time at UiTM that the passion for entrepreneurship grew, and his business acumen developed.

He attended numerous entrepreneurship-related programs organized by UiTM Malaysian Academy of SME & Entrepreneurship Development (MASMED). He was also selected as one of the *TEKUN Nasional* credit recipients at that time.² With the micro-credit financing

¹ *Nasi lemak* is a Malay cuisine dish consisting of fragrant rice cooked in coconut milk and pandan leaf. It is served with homemade sauce (called *sambal*). *Kuih* are bite-sized snacks or

desserts commonly found in Southeast Asia. Many *kuih* are sweet, but some are savoury.

² *TEKUN Nasional*, previously known as TEKUN Nasional Foundation, is an agency under the Ministry of Entrepreneurial

received, he tried several types of business, from selling flowers during convocation, selling scarves, small food eatery in university compound, and many more. These experiences taught him invaluable skills that are important to withstand the challenges in business.

Upon his graduation, and after much thought and consideration, Fakaruddin decided to run his café. He firmly believed that the food and beverage industry offers a long market life span, as long as he knows how to plan and execute the plans well.

Fakaruddin receives enormous support from his family in making the eatery business a success. His eldest brother, Adam, has been intrinsically involved in overseeing the café and managing Fakaruddin's other businesses, laundry shop, and mini-market. Adam graduated with a Degree in Computer Science from the Universiti Teknologi Malaysia (UTM). He has prior experience in the banking industry from his employment with the Malayan Banking Bhd after he finished studying.

Another key person in the Brotherhood's success is Hafiz. He is a good friend of Fakaruddin and is currently pursuing his Doctorate. As a skilled graphic designer and photographer, Hafiz's contributions are mainly in the design ideas of the café interior, signage, menu, and marketing materials. He is responsible for the graphic design elements as well as the images. The menu design, for example, contains photos that are deliberate choices. The images are meant to guide diners to premium dishes actively, and hence increase sales. A thoughtful choice of photos and design for the signage and marketing platforms has also helped gravitate more prospective patrons to the café.

4.0 ONLINE FOOD DELIVERY: A DEVASTATING TREND TO 'BUSINESS AS USUAL'

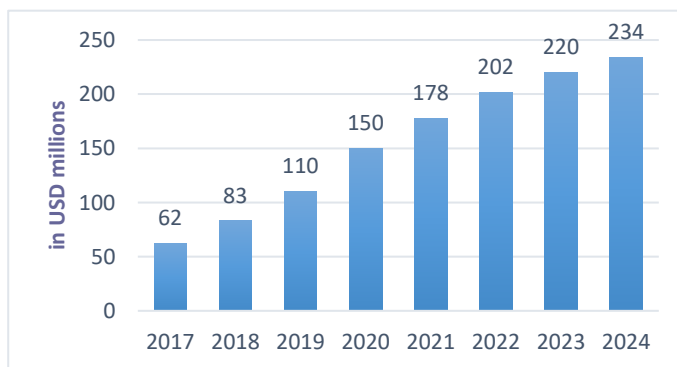
Ever since its inception, Brotherhood grew steadily. Everything seemed to work according to plan until recently, the online food delivery services entered the market and developed rapidly in Malaysia. Online sales caused a problem for Brotherhood because they are heavily reliant on its brick and mortar café sales. Only 10% of its total sales come from online orders, which is way below their competitors, who are generating 40% of their total revenues from online orders. The relatively

and Cooperative Development, Malaysia. It was established on 9 November 1998. Its objective is to provide quick and straightforward financing facilities to bumiputeras to kick-start

low online sales contribution is due to a lack of resources and capacity of Brotherhood, forcing them to turn down a large number of its online orders.

The appeal of online food ordering has become the latest trend, and Malaysia has witnessed a tremendous shift in food purchasing patterns from restaurant customers. Historically, the dine-in and takeaway food services provided by restaurants were the primary modes of food purchase by consumers, i.e., business as usual. However, over the last three years, business as usual in the restaurant industry is being threatened by the shift to online food ordering and delivery. Accordingly, most customers never come to the restaurant; thereby, tipping the scales towards consumers who stay at their locations and order food via their phones or desktops computers. To service this emerging trend, many new delivery companies have been formed, including *GrabFood*, *Foodpanda*, *DeliverEat*, *Uber Eats*, *Honestbee*, *Running Man Delivery*, *Dahmakan*, and *FoodTime*. The competition from these intermediary companies is dominating the restaurant service industry as each delivery company is continuously in the race to outdo each other with non-traditional strategies, such as binding contracts with restaurants serving exclusive cuisines and providing real-time status on food order. Real-time status on food order allows customers to track where the ordered food is i.e., being prepared, being packed, or being delivered.

As can be seen in Figure 1, Malaysia's online food delivery revenue was estimated at USD 62.2 million (approximately RM258.59 million) in 2017, which represented 1.03% of the total food and beverage services market size of RM24.78 billion in the similar year (HRDF, 2019). The trend of online ordering is expected to gain significant momentum over the next few years as the following factors are seen as adding even more "fuel to the fire": Increasing working hours, more immense spending power, the rising number of working women, and



and further expand their businesses. At present, *TEKUN Nasional* is under the Ministry of Entrepreneur Development.

changing lifestyles. These additional factors will increase the consumers' appeal towards online food ordering and is likely to increase the demand exponentially. These factors are expected to drive the Malaysia online food delivery market further, which is expected to grow at a rate of 18.6% from a period of 2018-2025. As a result, the penetration rate of online food delivery that stood at 8.3% in 2017 is forecasted to shoot to 21.6% in 2024, as exhibited in Figure 2.³

Figure 1: Malaysia Online Food Delivery Market, 2017-2024
(Source: Statistica Market Forecast (Forecast adjusted for the expected impact of COVID-19), 2020)

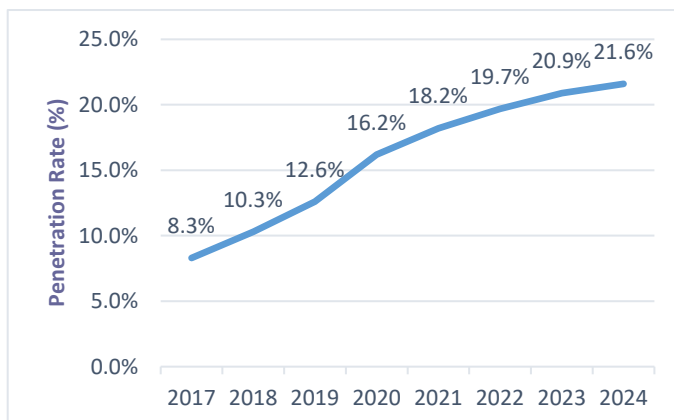


Figure2: Malaysia Online Food Delivery Penetration Rate, 2017-2024

(Source: Statistica Market Forecast (Forecast adjusted for the expected impact of COVID-19), 2020)

For the food and beverage service providers (i.e., restaurants, cafes, and street stalls/kiosks), receiving online orders would mean higher sales. However, this is only true if the restaurant has spare capacity. For a restaurant that is frequently operating at full capacity like Brotherhood, most of the online orders would have to be declined to result in a loss of potential online sales. When the university semester was ongoing, Brotherhood could only accept online orders during the daytime, especially during lunch hours. The cafe was usually full at night, and it was nearly impossible to accept online orders. However, online orders were available all day during the university semester breaks. The conventional and online annual sales composition of Brotherhood is 90% and 10% respectively, which is far below Brotherhood's ten leading competitors. These competitors, all of whom are also operating at full capacity, have a ratio of 60% conventional to 40% online orders, on average.

³ The penetration rate represents the share of active paying customers for online food delivery from the total population of Malaysia for each year.

The brothers believe the current online demand offers a readily available market and hence expansion opportunity for Brotherhood, and they should not let it pass by. They expect online ordering with third party delivery is going to gain more popularity for three main reasons. Firstly, online ordering caused by the increase in mobile devices makes it more convenient for customers than walking down the street, ordering at the counter, and waiting for their take-out. Secondly, increasing working hours, bigger spending power, the rising number of working women, and changing lifestyles among the Malaysian population would further promote online food ordering. Finally, online food ordering is expected to increase exponentially due to COVID-19.

While Brotherhood struggles to avoid losing the online orders, the world is shaken by a pandemic known as COVID-19. The deadly and highly contagious novel coronavirus has forced the entire globe to implement lockdowns, including Malaysia. Except for the essentials, all other business sectors, including restaurants, face forced closure. The government has announced a movement control order that will take effect immediately for at least the next three weeks. While dine-in or take-out are both not allowed, online ordering and delivery are permitted. While this unprecedented circumstance allows Brotherhood to focus solely on online orders and provide extra time for the brothers to make their strategic choice, they can foresee that the online food delivery trend would be even more appealing after the movement control order is lifted. Firstly, more customers will be forced to order food online during the lockdown and will potentially continue using this purchase method later on due to its convenience. Secondly, it will take some time for the virus to get under control and for patrons to develop their confidence to pop into the café like before.

Given the above, the brothers firmly believe Brotherhood must seriously consider the need to push its capacity to meet the online demand. Unfortunately, this is easier said than done.

5.0 IN-HOUSE OR INTERMEDIARY-TO-CONSUMER DELIVERY?

One particular strategic decision that needs to be considered if the Brotherhood is to cater to online orders seriously is the delivery service method. There are two

options: (1) in-house delivery and (2) third party intermediary-to-consumer delivery. The first option would require the Brotherhood to deliver meals directly to its customers. On the other hand, using the second option would mean that the delivery process will be handled by the third party platform (e.g., Foodpanda).

In 2017, the in-house delivery service method accounted for a market share of 94.7% in Malaysia, as specific restaurants have started offering in-house delivery. This method is more popular as consumers prefer paying directly to the restaurant other than a third party. With the advent of advancement in mobile technology, restaurateurs are innovating apps for consumers ordering food online, raising sales. One of the key players in this market, Domino's, provides in-house delivery to have complete control over the consumer's dining experience, from ordering and meal preparation to delivery and payment.

6.0 MY CHEFS ARE RULING MY KITCHEN?

Chefs are the key to Brotherhood's uniqueness as the food served depends mainly on chef cooking skills. Thus, the brothers strongly believe that chefs need to be treated well so that they feel comfortable, and hence the quality and taste of food can be maintained. However, it is still too tricky to serve the exact taste and quality of food across chefs. Different chefs have slightly different styles, techniques, and preferences, causing the food to taste differently. The problem is that most repeating customers can notice the difference. To ensure that food is cooked to the customers' satisfaction, Brotherhood assigns individual chefs for its premium menus. Consequently, the café needs to hire many chefs to prepare a range of menus.

To further minimize dependence on chefs, the brothers believe that the café needs to have menus that are relatively easy to prepare. These menus can be replicated easily once the standard of the procedure (SOP) for the preparation is in place. This concept is very similar to that of fast-food restaurants, which details out every single step in the menu preparation in their SOP. SOP's existence would also help shorten food preparation time, and ultimately the customers' waiting time. However, the kitchen layout must be revised following the SOP to ensure smooth and effective execution.

Furthermore, SOP development needs a significant amount of time and effort from the chefs. Hence, putting together the SOP for the menus is challenging,

particularly when chefs are already working extended hours. The long working hours make it difficult to retain local chefs at the café. As a result, the brothers need to hire foreign chefs. These chefs demand higher salaries, which means higher costs for the café.

The above elucidates that Brotherhood's success depends heavily on its chefs – it looks like the chefs are ruling the kitchen and the entire business!

7.0 HALAL CHICKEN AND COLD ROOM

Cheesy Hot Chicken is one of the signature dishes at Brotherhood, popular among customers for its crisp and cheesiness. Cheesy Hot Chicken is found affordable even for university students. Other hot-selling menus include Crispy Chicken Burger, Hayabusa Fried Rice, and Harley Davidson Fried Rice. In meeting the great demand for these chicken-based dishes, an operational issue arising is the irregular supply of halal chicken in Shah Alam. Halal chicken is slaughtered and prepared as prescribed by Shariah law.

Unfortunately, no single supplier can supply the required amount of halal chicken in the area consistently and reliably.

The erratic halal chicken supply issue is made worse with a lack of cold room and storage space at the café. Consequently, the brothers are forced to purchase the chicken nearly every day. Even with daily purchases, the level of stock is still insufficient for the daily demand. When the café runs out of chicken inventory, the chicken-based dishes cannot be served, and hence daily sales are directly affected. To minimize transportation costs and sales loss, it would be ideal if the chicken stock can be kept for a week's sales. To this end, however, the substantial investment would be required to purchase a much bigger chiller.

8.0 KITCHEN SPACE AND INVENTORY MANAGEMENT

In addition to the capital investment for a more oversized chiller, a bigger kitchen would be required to store the big chiller. Furthermore, the brothers' target of making their kitchen operations more standardized would require outstanding kitchen facilities and effective handling of cooking ingredients. At present, there is no systematic inventory management system at the café's back of the house. The cooks will prepare the shopping list daily and pass it on to Fakaruddin or Adam, who will then purchase them at the market. Occasionally, the brothers have to go to the market multiple times when

replenishment of ingredients is urgently needed. Proper inventory management would allow the cafe to monitor the ingredients and supplies in real-time and make more economical food, beverage, and supply purchases.

9.0 WHICH WAY TO GO?

All of the above requires a considerable expansion of the business, raising the need for substantial capital expenditure. The capital investment remains the brothers' primary concern, particularly given the current lockdown that significantly reduces sales for the café. They do not want to pass on the opportunity to grow their café. However, they know that drastic expansion would necessitate spending a significant amount of their retained earnings on hiring additional chefs and other competent workers. They will also need to negotiate favorable agreements with the intermediary delivery companies that will significantly impact how they expand their business.

In the face of the above issues, and with their inexperience as business managers, the brothers face a quandary. How quickly should they try to scale up the business? Should they step up Brotherhood's growth trajectory to catch up with the online food delivery trend or forego potential revenues? As the brothers ponder Brotherhood's growth strategy, they confront difficult strategic choices before them.

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