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THE SPINACH KING: SCALING OPPORTUNITY IN SOCIAL ENTERPRISE

Kerrin Myres and Anastacia Mamabolo wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On a windy day in Cape Town, South Africa, Lufefe Nomjana, founder and chief executive officer of the Spinach King, emerged from the main library of the University of Cape Town and stood for a moment on the grand staircase to collect his thoughts. He had been in the library consulting Google for information about growth options for his newly developed social enterprise, and he wondered how he was going to scale—to continue to make a difference in his community while ensuring the sustainability of the business. It was January 11, 2014, and he could not believe that, after coming so far, he would find himself stuck without a clear way forward.

BACKGROUND

Nomjana did not belong at the University of Cape Town: he was not a staff member or registered student. His home was Khayelitsha,[[1]](#footnote-1) 26 kilometres (km) from where he was standing. Khayelitsha was an informal [township](https://en.wikipedia.org/wiki/Township_(South_Africa)) settlement on the large sandy plain known as the [Cape Flats](https://en.wikipedia.org/wiki/Cape_Flats) outside the [city of Cape Town](https://en.wikipedia.org/wiki/City_of_Cape_Town). *Khayelitsha*, an isi[Xhosa](https://en.wikipedia.org/wiki/Xhosa_language)[[2]](#footnote-2) word meaning “our new home,” was a possibly ironic reference to the township’s establishment following forced removals during apartheid[[3]](#footnote-3) in the 1950s. Khayelitsha was the second-largest township in South Africa.[[4]](#footnote-4)

According to the 2011 census, Khayelitsha, was home to over 390,000 people;[[5]](#footnote-5) it occupied a densely populated area next to a main highway that ran east from Cape Town. It was a predominantly residential area, mainly occupied by low-income Africans, many of whom had come from the Eastern Cape, more than 500 km away, in search of work and a better life. Over half (54.5 per cent) lived in informal houses or shacks, and 41.7 per cent were unemployed. Most of the inhabitants lived in abject poverty and had little access to Cape Town’s wealthy economy.[[6]](#footnote-6)

Khayelitsha had been referred to as a “food desert”—an area in which the people faced high levels of food insecurity and low levels of diversity in their dietary options.[[7]](#footnote-7) Quite simply, most households in the area struggled every day to get access to enough healthy food and water to live comfortably. It was in this context that Nomjana spent his teenage years, always looking for a way to put food on the table in the shack that he shared with his aunt and two younger cousins.

EARLY YEARS

Nomjana was born in Butterworth, in Eastern Cape. When he was 13, his father passed away, and because his mother was not working, the family began to struggle financially. For the first time, he was forced to look for ways to survive. His mother had worked for a catering company, so she would make meals and Nomjana would sell the food in town. He felt forced to become an entrepreneur. Nomjana remembered, “I could see how my mother was suffering, and I chose then to make sure that I took the initiative.” Every morning, he would go to school, and in the afternoon, still wearing his uniform, he went out to sell his mother’s food.

Later, Nomjana moved to Cape Town to live with his aunt and focus on his school work—only to be faced with a similar situation because his aunt was also poor and self-employed, sewing clothes for others and selling them from her shack. Soon, Nomjana was selling the clothes door to door after school. He said, “It was a tough situation. I would come back and would have to catch up with my homework and assignments and stuff.” But he began to enjoy it, because “it was training for me to do it. I had the passion for selling and dealing with people.”

He finished high school and then went to work for Edgars, a national retail clothing chain. [[8]](#footnote-8) He came from a clothing background, so he liked fashion. After working at the retail company, he thought of starting his own business. Since Nomjana worked in the stockroom, he knew the factory that was supplying clothes to the retail store.

EARLY ENTREPRENEURIAL EXPERIENCE

While still working at Edgars, Nomjana went to the factory, bought some clothes, and began selling them door to door after work and during the weekends, until he came to a point where he could leave his corporate job and could carry on with his business. However, he quickly became aware that his business had a fatal flaw. The neighbourhood he was selling in was a profoundly poor one, which meant that successful sales could only take place if he offered his impoverished customers credit, rather than selling for cash. But they did not always pay what they had promised. He explained: “Cash: I needed cash to get clothes, and then, if I get my money in 30 days or 60 days, there was no cash flow.” Within a year, this first business had failed.

Undeterred, Nomjana looked for other opportunities in the community, and he noticed that people liked to have their pictures taken, so he started a photographic business. He took pictures of people drinking in taverns and going to churches. It was 2010, and smartphones had not really penetrated the townships. He recalled how he started the photographic business:

I borrowed a small machine, an instant photo machine. It was like a Polaroid, and in the township, it was a new thing. I would take a picture of someone, show it to them, then ask, “Do you like it? Do you know you can get it now?” Then I would give them a price and charge them for the picture. But I was spending everything I earned. So, it didn’t take long for this second business to fail as well.

At that point, Nomjana began to lose heart, because he realized he had been doing his own thing for some time and it had not worked. “I just told myself ‘I am not an entrepreneur,’” he remembered. He began to think that maybe he should be working for someone else, while he tried to figure out what he wanted to do with his life.

TURNING TOWARD SOCIAL ENTERPRISE

The failures he experienced allowed him to learn: “I started to understand that I needed to give what I had in order to receive what I did not have. Crazy, but that was what changed my life.” He did not have anything in terms of material assets or anything tangible that he could imagine, but the idea persisted in his head. “I kept saying to myself, ‘Give your time to someone, help someone, and the business ideas will come.’ That came true.”

One day, he noticed a garden—a green space in the centre of the ramshackle houses. He discovered that the garden was owned by elderly women in the community, and that the garden represented a memory of a rural past for them. The women were too frail to do the hard, physical labour of gardening, and there was no irrigation. Actually, the garden served a much more social than commercial purpose. The women ate most of the produce they grew, and although they were willing to sell to people who came to inquire, the sales were not generating much income. He thought, “Maybe if I join them, I can transform the garden from 70 per cent social to 70 per cent commercial by selling the produce door to door.”

He approached the women and promised to do the hard labour of planting, creating compost, and harvesting in exchange for gardening lessons. He observed that “there was wisdom in that garden.” He told the women he could transform the garden within three months, and that if he did not manage to transform it, they could keep the harvest. The plan worked. He was planting, harvesting, and selling door to door every day.

All of the money that came from door-to-door sales went back in to fund the operation of the garden: to buy seedlings and equipment and to transform the garden into a viable commercial operation. He was living alone in a back yard and paying himself a small stipend of ZAR250.00[[9]](#footnote-9) (US$17) per month, which was enough to rent his shack. With only vegetables to live on, Nomjana became a vegetarian. His hard work began to bear fruit as the garden became more commercial and sustainable every month. He also planted fallow spaces adjacent to the original garden, expanding the size until, eventually, he was employing six other young people to work there while he sold the produce.

DEVELOPING A PASSION

The more he learned about gardening, the more Nomjana began to see that what counted was finding the vegetable that could deliver maximum nutrition quickly and cheaply. During the learning process, something happened: “I fell in love with spinach. For me, it was miraculous—without understanding anything in terms of agriculture or nutrition. Every day when I come into the garden, spinach was just there.”

Nomjana started to research spinach, using the computers in the local library, and he soon discovered that spinach was a “superfood:”

It is loaded with tons of nutrients in a low-calorie package. Dark, leafy greens like spinach are important for skin, hair, and bone health. They also provide protein, iron, vitamins, and minerals. The possible health benefits of consuming spinach include improving blood glucose control in people with [diabetes](https://www.medicalnewstoday.com/info/diabetes/), lowering the risk of [cancer](https://www.medicalnewstoday.com/info/cancer-oncology/), and improving bone health, as well as supplying minerals and [vitamins](https://www.medicalnewstoday.com/articles/195878.php) that can support a range of different nutritional needs.[[10]](#footnote-10)

From his research, Nomjana was convinced that spinach could make a difference in the lives of the people of Khayelitsha. Everywhere he went, he told community members about the benefits of spinach and encouraged them to eat it. The community began to call him the Spinach King, or at times, the Popeye[[11]](#footnote-11) of Khayelitsha.

FINDING THE OPPORTUNITY

Nomjana began to seek out the people who could benefit most from the spinach miracle. Once again, the wisdom of the old ladies in the garden provided an answer. They said, “Do you know all of us are chronics? That is why we grow the vegetables.”

Chronic disease was an epidemic in South Africa. Two out of three women and two out of five men in South Africa were overweight.[[12]](#footnote-12) Non-communicable diseases (NCDs) such as Type 2 diabetes, stroke, and cardiovascular diseases were the cause of more than half (57.4 per cent) of all deaths in the country, according to a study conducted by Statistics South Africa in 2016.[[13]](#footnote-13) NCDs were known to result from poor diets and inadequate exercise.[[14]](#footnote-14)

Nomjana did not know that people could get chronic diseases from what they ate. He went to volunteer at the local clinic, telling the sister in charge of the clinic that he wanted to promote vegetable consumption among the patients. He worked with the dietitian, and one of his duties was to translate the menu—the recommendations and diet plans for the people who were suffering from chronic diseases. Nomjana learned from the patients and from the dietician about nutrition and about the country’s food-based dietary guidelines for healthy living, which recommended daily intakes of nutrients and provided guidance about substances such as salts, types of fats, and sugars.[[15]](#footnote-15) He realized that people in Khayelitsha, who were poor and unemployed, had little interest in lengthy meal preparation and preferred to eat cheap government-subsidized white bread and convenience food.

Nomjana recognized an opportunity to incorporate spinach into products that people were already consuming on a daily basis, with the aim of creating a healthier community. “If people are eating bread, I will make spinach bread. If they are consuming muffins, I will make spinach muffins. If they are consuming rusks, I will make spinach rusks,” he said. After conceptualizing the idea, Nomjana began to look for someone to fund it.

He approached banks and went to the government as well as several angel investors, but no one showed any enthusiasm for the project. As Nomjana learned, “In South Africa, you don’t go to a bank when you need money. You go to a bank when you already *have* money.” The investors he was meeting also said no, unconvinced that there would be a demand for so-called spinach bread and unimpressed by his lack of a revenue stream or even a prototype.

Nomjana’s experience was not unique in the South African context. While the country had a relatively strong banking system and well-developed financial markets,[[16]](#footnote-16) start-ups and micro-businesses continued to be under-served. Some reports indicated that this sector represented the largest funding gap—between funding available for the sector and funding needed by the sector—which was estimated at between ZAR86 billion (US$6 billion) and ZAR346 billion (US$24 billion). Many early stage, small, micro, and medium enterprises (SMMEs) struggled to meet the traditional credit risk assessment requirements, making them unattractive to most financial resource holders in the country.[[17]](#footnote-17)

This situation was made worse by the low levels of education of many owners of small enterprises in South Africa, which made their battle to expand even more challenging. The low levels of financial literacy and weak financial planning and management skills made matters more difficult: many SMMEs did not know who to approach for funding or of how to apply.This generally made the search for funding time consuming and inefficient, and it rarely resulted in successful applications. [[18]](#footnote-18)

However, Nomjana did not give up, because by then he had developed a burning desire to start a business, which he continued to believe could make a difference to the lives of the people of Khayelitsha. He realized that he was “wasting time because the capital that I was looking for outside was within *me*. The intellectual capital that I had was sufficient on its own. It formed about 90 per cent of what I needed to start the business.”

EARLY EXPERIMENTATION AND GROWING PAINS

Returning to the garden he had built, he asked for four bunches of spinach. Then he used the ZAR100 (US$7) in his pocket to buy some bread ingredients. He found a recipe by consulting his “old friend” Google, and asked his neighbour if he could use her oven. He felt those resources were sufficient to start. In the beginning, he used the neighbour’s ovens without paying for the electricity. “I started by baking four loaves. Then I sold them and used the money to bake more: four to eight, eight to 16, 16 to 24. By the time I was baking 16 every day, I started to pay for electricity.” At this point, Nomjana was selling each loaf for ZAR10 (US$0.70), making about ZAR1 (US$0.07) profit per loaf and slowly inching his way toward bigger volumes.

He admitted that, in the beginning, his customers did not really like the spinach bread because it contained no salt or sugar—just spinach. Later, the products tasted good as well as looked good; but at first, they ate them because of the health benefits, extolled by Nomjana as he sold them: “I was passionate about educating people about the importance of health, the importance of eating healthy, the importance of consuming vegetables to eradicate the chance of chronic disease. For each and every loaf I sold, there was education at the back of that sale.” Within three months, Nomjana was facing the problem of high demand and low capacity. The neighbour’s oven could no longer keep up. “People were wanting what I produced, but I couldn’t offer it to them,” he said. He went back to the innovation drawing board: “I was just forcing my mind to think creatively and innovatively.”

Nomjana popped into a local Spar, a national chain of franchised “mom and pop”-style grocery retailers.[[19]](#footnote-19) He asked the manager of the Spar if he could use the spare capacity in the on-site bakery in the Khayelitsha store. The manager asked Nomjana if he had the money to rent the ovens. “I said, ‘No! I might pay rent later.’” The manager advised him that he needed a capital infusion into the business so that he could pay rent and make this product and told him he could “come back to us when you are ready. Then we can give you a shelf to sell the bread.” But Nomjana argued: “I want to bake here when you are baking. When you make your brown bread and your white bread, I will put my spinach bread in between. That is the deal.” The Spar manager laughed, because Nomjana was a very different kind of young man, but he could see the benefits to the community, so they shook hands on the deal.

After a week of using the ovens at Spar, Nomjana realized he had underestimated the rate at which the outlet produced bread. Suddenly, he had to sell 120 loaves a day—a lot more than the 50 loaves he was expecting. He could barely cope, walking up to 25 km a day, just selling. He needed help, and fast. He wanted to employ five people with five bicycles so that he could distribute the bread more effectively, and he needed money for that: he would have to consult either a bank or an investor, but his previous experience had left a bad taste in his mouth. “I didn’t want to waste more time. I was a bit arrogant,” he said.

FINDING A FUNDING CROWD

By googling “easiest funding alternatives,” Nomjana found information on crowdfunding—specifically, a site called Thundafund,[[20]](#footnote-20) South Africa’s leading online crowdfunding marketplace for creatives and innovators. [Thundafund](https://thundafund.com/)’s Nicholas Dilley explained how crowdfunding platforms worked:

Crowdfunding is the new bank loan, without the pressures of repayments. Crowdfunding is an online method of fundraising that allows people all over the world to put their ideas or pitches onto a digital platform. These pitches are then available for people worldwide to see, and to decide whether or not they would like to support the campaign. There are four main types of crowdfunding: Rewards-based, donation-based, equity-based, and debt-based, each with its own unique purpose.[[21]](#footnote-21)

Nomjana started documenting everything he was doing on a Blackberry smart phone. He took videos and pictures of himself walking along the streets of Khayelitsha to sell and deliver bread, and telling people why he needed the five bicycles. The business concept was an innovative idea, presented by a young, enthusiastic person from an impoverished township near Cape Town.

Over one and a half months, Nomjana’s videos went viral, and he achieved almost 1 million views of his posts on the Thundafund website. His campaign goal had been to raise ZAR10,500 (US$732) for the bicycles, but by the time the campaign closed, he had raised over ZAR20,000 (US$1,393).

Nomjana went looking for unemployed youths to employ. He trained them on how to sell the spinach bread, and rode the bicycles with them—he also continued to sell the bread. Although the five workers were earning only commissions, he told them, “Guys, I am teaching you business here, and I am actually giving you training on how to be entrepreneurs yourselves.” Nomjana added, proudly, “All of them have businesses today.”

He knew that Spinach King was going to be big, because there was great demand for his products, and he knew that his products were healthy and that the formula was perfect. His vision was much bigger than the community itself.

A DREAM TO GROW

By December 2013, after a year of using the Spar ovens, Nomjana had saved ZAR50,000 (US$3,484) by keeping his costs low and paying neither rent nor salaries. Spar was happy to continue to host the business—especially because the products were being sold in the store. Spar’s regular customers were not part of Nomjana’s original target market, and they were prepared to buy Spinach King products at higher prices than those in the townships. Nomjana explained, “People don’t have a problem paying more, because we tell them they are actually giving an opportunity to poor people to also buy and get nutritious stuff.”

Nomjana had begun to understand that he was running a social enterprise, and that he had to find a way to be sustainable so that he could continue to assist others. Nomjana added, “If the business is 100 per cent social, then it is not sustainable. If it is at least 50:50, then it is balancing. That is how we want to be.” He felt ready to take the next step on the journey to sustainability—to develop a replicable model of a bakery that could take healthy eating to impoverished communities everywhere.

He knew exactly what he wanted: a containerized express bakery.[[22]](#footnote-22) He had developed a plan for the production floor, based on everything he had learned about operations and production while he had been using the ovens at Spar. Nomjana envisioned a bakery that used the same processes as the bakery at Spar, but on a smaller scale. He had worked out that his team could make the bread and muffins on one side of the container and sell the merchandise on the other side. He believed that such a bakery was a key component in his plans to grow and scale Spinach King.

However, Nomjana also knew that ZAR50,000 (US$3,484) was not enough to build his dream bakery. He needed more money—three times as much, in fact. This seemed like an impossible amount for a 23 year old from Khayelitsha to raise. On the other hand, the crowdfunding campaign had generated a significant amount of publicity for the Spinach King. “I was in *Forbes* Africa as an upcoming innovative concept in Africa. I was on CNN[[23]](#footnote-23) and SABC.[[24]](#footnote-24) I don’t know how many times people were writing about the Spinach King.”

But Nomjana had no idea how he could leverage this positive publicity. As he gazed at the gorgeous city of Cape Town, he wondered what the options might be for scaling his social enterprise and how he could raise the money he needed for his dream bakery. What other options were available for expansion? He wanted to continue to make a difference by improving the health of people in impoverished communities, but the question was, how? This time, Google did not have an answer for him.

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2. One of South Africa’s official languages. [↑](#footnote-ref-2)
3. Apartheid was an institutionalized system of racial segregation that existed in South Africa from 1948 until the early 1990s; “A History of Apartheid in South Africa,” South African History Online, January 17, 2019, accessed July 18, 2019, www.sahistory.org.za/article/history-apartheid-south-africa. [↑](#footnote-ref-3)
4. “Khayelitsha Township,” South African History Online, February 23, 2019, accessed July 18, 2019, www.sahistory.org.za/place/khayelitsha-township. [↑](#footnote-ref-4)
5. Adrian Frith, “Khayelitsha: Main Place 199038 from Census 2011,” Census 2011, accessed July 18, 2019, https://census2011.adrianfrith.com/place/199038. [↑](#footnote-ref-5)
6. Warren Smit, Ariane de Lannoy, Robert V.H. Dover, Estelle V. Lambert, Naomi Levitt, and Vanessa Watson, op. cit. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. “Home Page,” Edgars, accessed November 20, 2019, www.edgars.co.za. [↑](#footnote-ref-8)
9. ZAR = South African rand; ZAR1.00 = US$0.09 as of January 2014; all currency amounts are in ZAR unless specified otherwise. [↑](#footnote-ref-9)
10. Megan Ware, “Health Benefits and Nutritional Value of Spinach,” *Medical News Today*, June 29, 2018, accessed October 22, 2018, www.medicalnewstoday.com/articles/270609.php. [↑](#footnote-ref-10)
11. Popeye was a popular fictional cartoon character who ate a great deal of spinach and gained strength from it; “Popeye,” DisneyMoviesList, accessed November 20, 2019, https://disneymovieslist.com/movies/popeye. [↑](#footnote-ref-11)
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14. “NCD Epidemic Is Detrimental to SA’s Economic Health,” Bizcommunity, April 19, 2017, accessed September 10, 2018, www.bizcommunity.com/Article/196/154/160624.html. [↑](#footnote-ref-14)
15. Hester H. Vorster, J.B. Badham, and C.S. Venter, “An Introduction to the Revised Food-Based Dietary Guidelines for South Africa,” *South African Journal of Clinical Nutrition* 26, no. 3 (2013): S5–S12. [↑](#footnote-ref-15)
16. Klaus Schwab, *The Global Competitiveness Report 2017–2018* (Geneva: World Economic Forum, 2017), accessed October 15, 2018, www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017–2018.pdf. [↑](#footnote-ref-16)
17. FinFind, *Inaugural South African SMME’s Access to Finance Report* (Durban: FinFind, 2018), accessed October 15, 2018, www.accesstofinancereport.co.za/pdf/SA-SMME-Access-to-Finance-Report-2017-FINAL-VERSION-FOR-RELEASE-on-10-July-2018.pdf. [↑](#footnote-ref-17)
18. Haroon Bhorat, Zaakhir Asmal, Kezia Lilenstein, and Kirsten Van der Ze, “SMMES in South Africa: Understanding the Constraints on Growth and Performance,” Africa Portal, July 2, 2018, accessed September 18, 2018, www.africaportal.org/publications/smmes-south-africa-understanding-constraints-growth-and-performance/. [↑](#footnote-ref-18)
19. “Our Business,” Spar, accessed November 20, 2019, www.spar.co.za/About-SPAR/Company. [↑](#footnote-ref-19)
20. “About,” Thundafund, blog, accessed November 20, 2019, www.thundafund.com. [↑](#footnote-ref-20)
21. G.G. van Rooyen, “Crowdfunding as E-Commerce in South Africa,” ExpertHub, March 27, 2018, accessed October 18, 2018. www.experthub.info/launch/funding/how-to-guides-funding/crowdfunding-as-e-commerce-in-south-africa. [↑](#footnote-ref-21)
22. A containerized express bakery referred to a shipping container fitted with the equipment needed to bake and sell Spinach King’s products. [↑](#footnote-ref-22)
23. Cable News Network (CNN) was an American news-based pay television network. [↑](#footnote-ref-23)
24. The South African Broadcasting Corporation was the public broadcaster in South Africa. [↑](#footnote-ref-24)