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FEED GREEN ETHIOPIA EXPORTS: stabilizing product quality and price

Carmen Leung, Jensen Liu, and Katherine Tan wrote this case under the supervision of Professor Nicole Haggerty 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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It was a sunny day in mid-2015, and Senai Wolderufael, the managing partner of Feed Green Ethiopia Exports PLC (FGE), was sitting in his office in the outskirts of Addis Ababa, Ethiopia, staring at the bright blue skies above him and the busy workers tending FGE’s products below him. FGE, one of Ethiopia’s leading export companies, specialized in herbs and spices. Wolderufael had a worried look in his eyes as he thought about the rising selling price of paprika, one of FGE’s major products.

In the past six months, the price of paprika had skyrocketed. FGE could not take advantage of the price increase because the company was locked into contracts with many of its customers. In fact, it was sustaining a substantial loss because of this price increase. This problem was taking a toll on FGE’s profitability and had put the company’s future on the line. Wolderufael wondered how he could mitigate this problem and prevent it from occurring again.

ETHIOPIA’s political landscape

Located in the Horn of Africa, Ethiopia was one of the fastest-growing countries on the continent. It boasted a population of 99.39 million people, 64 per cent of whom were under the age of 24.[[1]](#footnote-1) More than 80 per cent of the population lived in rural areas and participated in the agricultural sector; however, the country was experiencing a demographic shift.

Ethiopia was home to approximately 80 ethnic groups, with the Oromo and Amhara groups being the dominant groups. Ethiopia’s ruling party, the People’s Revolutionary Democratic Front, was fronted by the minority Tigrayan ethnic group. Majority ethnic groups such as the Amharas and historically oppressed groups such as the Oromos were excluded from political processes, which led to conflict.[[2]](#footnote-2) This conflict was particularly prevalent in the northern parts of the country. An increasing number of protests were taking place, and hundreds of demonstrators had been killed and thousands detained.

ETHIOPIA’s ECONOMIC landscape

Foreign direct investments were another target of the protests.[[3]](#footnote-3) Corruption within the Ethiopian economy was on the decline, but it had not disappeared from daily business interactions. In order to protect its own industries, the government had limited the number of foreign companies allowed to conduct business within Ethiopia.

Despite this tumultuous political landscape, Ethiopia’s gross domestic product (GDP) was growing quickly. In 2015, its GDP was approximately US$61.5 billion.[[4]](#footnote-4) With a population of 99.39 million people, its GDP per capita was $619.14.[[5]](#footnote-5) Real GDP growth was forecasted to grow rapidly, at an average of 6.3 per cent between 2017 and 2021, compared with the global average of 3.6 per cent.[[6]](#footnote-6)

This GDP growth was partially attributed to the growing proportion of Ethiopians who attained higher levels of education. University enrolment had increased from 10,000 in 1990 to 360,000 in 2015.[[7]](#footnote-7) In addition, the government had invested heavily in technical training to produce skilled workers for the growing manufacturing sector. Despite these growing investments, there was still a gap between employers’ needs and the availability of skilled labour.[[8]](#footnote-8) Labour in Ethiopia was plentiful, and labour costs were low compared with other nations. A skilled worker earned between Br150[[9]](#footnote-9) and Br250 per day, while a non-skilled labourer earned Br75–150 per day. In addition, entrepreneurial spirits were high in Ethiopia, prompting many individuals to start their own businesses in the informal economy.

In 2014, the Ethiopian government began to invest heavily in information communication technology (ICT). The previous year, the government had announced plans to build Ethio ICT Village, a $250 million technology park.[[10]](#footnote-10) In 2015, Ethiopia’s state-run telecommunication monopoly launched a fourth-generation (4G) mobile service in Addis Ababa, thus allowing users to browse the web with more ease.[[11]](#footnote-11)

ETHIOPIa’s EXPORT INDUSTRY

In 2016, Ethiopia exported $4.61 billion worth of goods to approximately 128 countries globally. Of these goods, 48 per cent were shipped to Asia, 28 per cent were shipped to Europe, and 23 per cent were shipped to other African nations.[[12]](#footnote-12) The export industry was divided into three major categories: agriculture, manufacturing, and textiles. In fiscal year 2014–15, these three sectors earned $2 billion, $263 million, and $97 million, respectively.

The country implemented several tools to promote exports, including tax or duty exemptions on raw materials used for export products. A primary reason for these exemptions was that exporters of agricultural products were particularly vulnerable to price volatility in the international market. In addition, the export landscape favoured already established businesses. Because exporters were well established and were favoured by financial institutions and incumbent government offices, it was difficult for newcomers to enter the export sector.[[13]](#footnote-13)

Quality inspection for exports was performed by local companies. Exporters often complained about the long process to acquire the necessary certificates: on average, it took 10 days to secure a quality inspection certificate.

ETHIOPIA’S SPICE INDUSTRY

Spices were the aromatic parts of plants that were used to enhance the colour, flavour, and aroma of food. The pulses, oilseeds, and spices sector was one of the largest components of Ethiopia’s agricultural sector, and it contributed largely to Ethiopia’s economic growth—nearly as much as coffee did. Ethiopia produced more than 400,000 tonnes of chickpeas annually and was one of the world’s top 10 largest producers of chickpeas and sesame seeds.[[14]](#footnote-14) The country’s highland and lowland agro-ecological zones were suitable for various agricultural products, including diverse spices, pulses, and oilseeds.

The industry received a large amount of government support. President Mulatu Teshome believed that, by further developing and investing in the spice value chain, Ethiopia could position itself in the global value chain. Approximately five million Ethiopian smallholder farmers relied on the production of oilseeds, pulses, and spices for their livelihoods. Therefore, developing these value chains was an important part of Ethiopia’s quest for informational economic development.[[15]](#footnote-15)

The main challenges to exporting high volumes of high-quality spices from Ethiopia included a lack of foreign currency and a lack of research into the types of seeds that should be planted.[[16]](#footnote-16) There was also a problem with inconsistent quality in the products being exported. Exporters often complained about farmers’ carelessness with handling products—during either the sorting or harvesting stages—which often resulted in product infestation. Thus, the costs for exporters also increased.

FEED GREEN ETHIOPIA exports plc

FGE was founded in 2012 by two family friends, Eyob Weldegebriel and Senai Wolderufael. After Weldegebriel graduated from Addis Ababa University with a mathematics degree, his interests led him in various directions. He worked as a teacher for a few years before starting a poultry farm with his friends, and he eventually got into nursing and worked at a non-profit organization. Through his varied experiences, Weldegebriel learned a great deal about operations and logistics and enhanced his problem-solving skills.

Wolderufael also graduated from Addis Ababa University, with a degree in business administration from the School of Commerce. As a child, Wolderufael had started many small ventures, including a stint selling telephones. This background helped him develop his business acumen and customer service skills. Upon graduation, he briefly worked for Ethiopian Airlines, where he developed the idea for FGE after seeing many Ethiopians flying to other countries with large quantities of dry spices. He saw a viable business opportunity.

After the two men separately expressed a vision to start their own business, they were introduced to each other by their mothers. In 2012, both quit their jobs to start FGE. They had $2,000 in cash and a dream of building a multimillion-dollar international export company. They started FGE using their mothers’ recipes, and they exported their products globally to the Ethiopian diaspora, which was two million individuals strong.[[17]](#footnote-17) The partners found their first customer through Facebook Inc., and they steadily built their customer base and product offerings based on a belief in always delivering the best quality at the best prices (see Exhibit 1).

The company grew over the years and increased its product offerings from one product to approximately 26 products, including customizations for long-term customers. FGE gathered a noticeable amount of international attention over the years; the company was featured on CNN and, in 2014 and 2015, Wolderufael was featured as one of *Forbes Magazine*’s 30 Most Promising Young Entrepreneurs in Africa.[[18]](#footnote-18)

pricing ISSUES

FGE’s problems began in 2015, when the price of a major ingredient, paprika, spiked dramatically. At the beginning of the year, the product sold for less than Br35 per kilogram (kg), and six months later, this price had increased to Br180 per kg. FGE had previously signed contracts with customers to deliver the finished blended pepper that used paprika as the main ingredient at an established price of Br80 per kg. With the new price increase, FGE ended up sustaining a massive loss on its product.

ALTERNATIVES

Wolderufael and Weldegebriel knew this price change would dramatically affect the way they conducted their business. They needed a long-term solution to resolve this issue and prevent it from recurring. FGE had various alternatives to overcome this situation, and the partners knew that, whatever option they chose, the quality and price of their products would continue to be their main priority. After all, that was what had helped them retain their customers for such a long time.

Operate a Farm

One of FGE’s alternatives was to vertically integrate its operations by opening its own farm, which would both help control FGE’s input price and effectively manage possible volatility in quality. However, this option posed two problems. First, FGE did not have farming expertise and would need to hire a farm manager, three full-time workers,[[19]](#footnote-19) and 10 part-time workers (see Exhibit 1). Wolderufael and Weldegebriel were concerned about managing the farm’s staff and ensuring a high level of employee morale. Neither partner would provide direct supervision, and without supervision, many workers tended to slack off. Second, this option required a considerable financial and time investment. If FGE could not efficiently run the farm, the partners might lose a significant amount of money without having made any material change in the situation.

FGE found two potential sites for the farm. The first was deep in the southern region, approximately 500 kilometres (km) from Addis Ababa. This land was very fertile, which would make it easy to produce the high-quality paprika FGE wanted. The crop yield would be 8,000 kg per hectare. Thus, FGE would need a 5-hectare farm to yield 40,000 kg of paprika annually. The total costs, including land, rental of farm machinery, labour, medicine, fertilizers, logistics, and other costs would be Br750,000 annually (see Exhibit 2). However, the long distance would make the logistics of managing the farm very difficult. This farm would also be more susceptible to the tribal conflicts found in the remote parts of Ethiopia, and FGE might risk having its crops and equipment stolen.

The second potential site was in the Gurage region, located approximately 140 km outside of Addis Ababa. The land in this region was not as fertile, which would make it difficult to produce high-quality paprika. This farm could produce only 2,500 kg per hectare, a little less than one-third of the yield that the other farm would produce. Thus, FGE would need a 16-hectare farm to yield 40,000 kg of paprika annually. However, the total cost of operating was Br1,153,750 per year (see Exhibit 2). While the cost was high, the site’s proximity to the main city would make transportation and site management much easier. This site was also more politically stable than other regions.

Buy Directly from Local Farmers

Another alternative was to approach local farmers and buy paprika directly from them. By sourcing from a large number of local farmers, FGE would be able to acquire paprika at a cost of Br55 per kg and would be able to reduce its exposure to price volatility. However, this option could not ensure consistent quality of the company’s paprika, and would put the company’s dedication to high quality in jeopardy.

The annual demand for paprika at this point was 40,000 kg and expected to increase.

OTHER CONSIDERATIONS

Both partners knew that resolving this issue would take a significant amount of time, especially if they went with the farm option. Wolderufael knew that they would need to make many sacrifices to move the business forward. Weldegebriel noted that “the journey will be hard, you will need to take longer hours.” Weldegebriel had a young daughter at home to take care of and was wondering whether his investing the extra time in the business would make his wife uncomfortable.

CONCLUSION

Wolderufael needed to decide how to stabilize the quality and price of FGE’s paprika moving forward. This situation was negatively affecting FGE’s profitability with every passing day, and Wolderufael knew he needed to act within the next few weeks to prevent any lasting damage. He knew he needed to calculate the payback of each option and the total operating costs.

Wolderufael’s vision for the business remained constant: “We saw a large company even when our old office was half the size of our current office. We saw it as a big factory production, because we believed we would get there.” The team was used to taking big risks to grow the business. “There are no shortcuts in life,” Weldegebriel said. “Many challenges arise as you take risks, but we’re not afraid of it, because we know it’s hard work.” It was time to spice things up at FGE. Wolderufael took a long sip of his macchiato and went back to work.

Exhibit 1: Feed Green Ethiopia’s product pricing and labour costs

|  |  |
| --- | --- |
| **Other Information** |  |
| Selling Price | Br150/kg |
| FGE Annual Demand | 40,000 kg |
| Managers Needed | 1 |
| FT Worker Needed | 3 |
| PT Workers Needed | 10 |
| FT Worker Days | 250 |
| PT Worker Days | 150 |
|  |  |

Notes: Br = ETB = Ethiopian birr; US$1 = Br20.7569 on June 20, 2015; kg = kilogram; FGE = Feed Green Ethiopia; FT = full-time; PT = part-time

Source: Created by the case authors.

Exhibit 2: Comparison of costs for Feed Green Ethiopia’s two farm sites

|  |  |  |  |
| --- | --- | --- | --- |
| **Location Comparison** | |  |  |
|  | **Unit** | **Southern Region** | **Gurage** |
| Yield | kg/ha | 8,000 | 2,500 |
| **Costs Breakdown** |  |  |  |
| Labour | Br/day |  |  |
| Manager |  | 125 | 175 |
| Workers |  | 75 | 100 |
| Medicine |  | 15,000 | 15,000 |
| Fertilizer |  | 5,000 | 20,000 |
| **Investments** |  |  |  |
| Farm | Br/ha | 86,000 | 50,000 |
| Machinery |  | 100,000 | 50,000 |
|  |  |  |  |

Note: kg = kilogram; ha = hectare; Br = ETB = Ethiopian birr; US$1 = Br20.7569 on June 20, 2015

Source: Created by the case authors.

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19. Full-time equated to five days per week for 50 weeks a year. Part-time work equated to three days per week for 50 weeks a year. [↑](#footnote-ref-19)