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Growth in a Globalized Industry: The Case of Hillside Green Growers & Exporters Ltd.

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Abstract

In 1998, Nairobi-based Hillside Green Growers & Exporters Ltd. began with a single shipment of mangoes to Dubai. Today, Hillside has blossomed into a steady exporter with a broad product line of fresh fruits and vegetables sold to buyers in the Middle East and Europe. Attainment of key quality certifications and a recent partnership with an NGO supporting SMEs to provide contracted growers with agricultural inputs has allowed Hillside's CEO, Eunice Mwongera, to scale up and establish new, bigger contracts with customers in Europe. The Middle East market offers smaller volumes but year-round opportunities, while orders for European markets are larger but are concentrated during certain months. Much bigger players in the horticultural export industry already serve the European markets—the question is whether Hillside can contend at the same level among those competitors. Eunice also is giving thought to Kenya's own domestic market. With increasing urbanization, Nairobi could be a viable opportunity.

Keywords: horticulture, export, agribusiness, Kenya, out-growers

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Company Background

Hillside's company vision is "feeding the world with Africa's greens". It is dedicated to building long-term relationships with customers through quality service and customer support. Due to its high quality of products Hillside continues to grow despite the challenges of operating in a developing country and within an intensely competitive industry. Quality and consistency are emphasized through all steps of production, from farmers' fields to distribution throughout the globe. These two company characteristics are crucial in maintaining the loyalty of their customers. The commitment to their core values has led to a reliable clientele for Hillside, especially in the Middle Eastern market.

Hillside sources its products through three channels: contracting with smallholder farmer groups, buying from large scale growers, and growing on its own farms. Eighty percent of Hillside's produce is supplied by contract farmers, organized into groups, who enter into supply agreements with Hillside. Under the contracts, Hillside provides support to these out-growers in the form of seeds, chemicals, and supervision from Hillside's agronomists and field agricultural officers trained in horticultural production and integrated pest management. The groups are also trained in governance issues to avoid side-selling and maintain loyalty to Hillside. They currently work with eight groups containing a total of 500 farmers. An additional 10% of the supply comes from large scale growers, and Hillside produces another 10% on its own farms.

The Kenyan horticulture subsector that Hillside falls within is a fast-growing industry, achieving 7% annual growth. Dependency on rain-fed production, however, leads to high variability in production yields year to year. Limited access to farming inputs and technologies also contribute to low productivity levels. Smallholder farming is growing due to increased land demarcation as a result of the growing population. Smallholder farmers are located in rural areas where agriculture is the main livelihood. Supplying horticultural crops for export can earn a much higher income than traditional crops such as maize or beans. The inputs needed (such as high value seeds and pesticides) are a greater investment, but the returns are better and can allow farmers to pay children's school fees, medical expenses and other costs.

Kenya is a member of the Eastern African Community (EAC), which has trade relations with the European Union providing duty free and quota free access for EAC exports to the EU market. Duty free access gives Kenya a competitive advantage over non-EAC countries. Moreover, Kenya's role as a hub for many airlines facilitates transportation of perishable horticultural produce to the EU and other markets. Some of the most popular horticulture exports are French beans, snow peas, okra, Asian vegetables, avocados, mangoes and pineapples.

Market development is a challenge in Kenya's horticulture export industry due to poor infrastructure, weak contract enforcement, limited financial services and high costs of capital and political interference in input prices. In addition, fluctuations in the value of the Kenyan shilling against the Euro and the US dollar affect the profits earned by exporters such as Hillside.

Current Management Structure

Hillside has 25 permanent employees and utilizes 150-300 casual employees for sorting, grading, and packing. The number of casual employees needed depends on the size of the shipment being packed on any given day. As CEO, Eunice is responsible for finding new markets and buyers as well as for the overall management of the company. The General Manager is responsible for the day-to-day operations of Hillside, from the evaluation of

staff to ensuring that the products are of top quality and are shipped to clients in a timely manner. The Quality Control Manager oversees the receiving, grading, sorting and packaging of products. In addition, he trains all staff on quality grading of produce for the international markets. The Production Manager and Agronomists are responsible for overseeing all farmers contracted by Hillside as well as training them on new methods for hygienic growing, sorting and grading in line with international norms. All workers receive a competitive salary, health insurance and compensation for overtime. The casual employees used for sorting, grading and packing are often single mothers from Kibera, Nairobi's largest slum. The income earned by working at Hillside helps ensure food security for their households.

Key Success Factors

There are four key areas which have contributed to the steady growth of Hillside over the past 15 years. The first is Eunice's leadership and management skills. Her drive and commitment have helped forge the path that has led to the company's success. Despite the difficulties of operating in the Kenyan export market, she has succeeded in finding new buyers and expanding her product line. She attends trade fairs in Europe to network with buyers and others in the industry, and she invests in the capacity building of her staff to ensure a well-trained and loyal workforce. For example, all Hillside staff have attended food safety courses such as Global GAP and HAACP trainings and other short courses and seminars offered by various agencies. Additionally, two staff members upgraded their degrees with Hillside's help. The second key area contributing to Hillside's success are the strategic partnerships which the company has established. Eunice formed a relationship with Solidaridad, an international organization dedicated to linking smallholder farmers to export markets and creating sustainable supply chains. The support from Solidaridad helped Hillside contract new out-growers and scale-up from five tons to eight tons of exports per week.

Social capital and goodwill with growers is the third area contributing to Hillside's continued success. Hillside's technical officers provide coaching and training to smallholder farmers which includes information on land preparation methods, crop rotations, planting and spacing, preventing post-harvest losses and other key agricultural advice. In addition, farmers' groups are coached on improving governance and enhancing their business development skills. Providing support in the form of inputs and advice from trained agronomists helps the contract farmers achieve higher yields and earn better incomes, spurring rural growth and helping reduce poverty. The final strength that has helped Hillside maintain its success is keeping up with consumer industry standards and certification requirements. The company has introduced a traceability program, installed a cold storage facility, and attained numerous certifications that provide buyers with quality assurances.

Strategic Issues

Even though Hillside is capable of meeting the demands of its current Middle Eastern and European customers, there are some constraints which may prove difficult for it to scale up. The capacity of its existing pack-house is limited, and the company may not be able to rely on this pack-house if it wants to grow in the international and/or national markets. The location of the pack-house is another concern. Most of Hillside's direct competitors have packing facilities close to the airport. However, Hillside is located near Nairobi city center, which leads to transportation difficulties for the company. Furthermore, accessing enough capital to invest in a pack-house closer to the airport would be a challenge.

Hillside faces intense competition in the fresh fruit and vegetable markets both globally and within Kenya. Competitors are from Central American and African countries that export high value fresh fruits and vegetables

and other Kenyan exporting companies. There is pressure coming from increased production within the target markets, mainly Europe, due to methods being implemented that extend the growing season. For example, greenhouses and covered tunnels allow growers in colder climates to produce for a greater length of time, and this reduces reliance on imports from countries like Kenya.

Competitors within Kenya can be divided into three categories: large scale exporters, medium to small scale exporters, and seasonal exporters. Large exporters control a great deal of market share, have broader product lines, and procure produce mainly from their own farms. The quality of products is assured by certifications such as Global GAP. With the advantages—high quality of products and stable large volume of supply—most of these large companies have contracts with supermarket chains and large retailers in European and other countries. Large exporters leverage logistical strengths, such as pack-house locations next to the airport and airfreight space secured in mass quantity.

Medium and small exporters, including Hillside, are distinct from large exporters in their capacity to meet the quantities required for large contracts with big chain retailers. While some medium and small exporters source produce from their own farms, others rely on small-scale out-growers for 50-100% of their supplies. The quantity they can manage is not as extensive and stable as large exporters. As a result, medium and small exporters are at a disadvantage in obtaining contracts with large retailers in Europe and other countries who require both quantity and quality. Some medium and small exporters are certified by Global GAP while others are not: Hillside has an advantage by possessing Global GAP certification. In terms of logistics, the pack-houses of some of medium and small exporters are located next to the airport while some are not.

Seasonal exporters enter the horticulture export market when demand is very high during the winter months of Europe. Since they are not operating throughout year, they are not formalized and do not possess their own pack-houses and offices. These exporters sporadically enter the market, mostly during peak seasons of certain produce.



Hillside vegetables at the packhouse in Kenya ready for export to Europe

Within the domestic market, most Kenyans purchase their vegetables (e.g., tomatoes, onions, potatoes, leafy greens, etc.) from open air markets or road-side kiosks. However, supermarkets have gained popularity amongst Kenyans, and as Nairobi's population of expatriates has grown, the types of vegetables supplied by Hillside have started to appear for sale in Kenya. A number of supermarket chains are expanding across Kenya, increasing their produce offerings as shoppers adopt new tastes and buying habits. This trend provides an opportunity for Hillside to supply local buyers.

Looking Ahead

After 15 years of steady growth, Hillside is poised to make a jump toward expansion. Eunice has grown the company from a single order for mangoes in 1998 to a product line of over 20 items and a turnover of US\$700,000-900,000. Yet she knows the overall market potential is much higher and needs to decide how

to capture a larger piece of it. The Middle East market has steady year-round buyers and has served her well from the beginning. With Global GAP and other certifications in place, expanding into the European market is tempting. She could invest in forming relationships with more European buyers, but the seasonality of the opportunities may prove too difficult to manage. She is also considering the possibility of expanding into the local Kenyan market by forming relationships to supply one or more of the growing supermarket chains. She sees many growth opportunities in the local horticultural market with the increasing population and urbanization of the country. As Eunice watches the latest shipment on its journey from the field to the consumer, she ponders the journey she started with Hillside. Just as she made a bold decision to enter the horticulture export market 15 years ago, she now faces another tough decision—which is the best road toward increased growth for Hillside?

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