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International Food and Agribusiness Management Review
Volume 17 Special Issue B

HomeVeg Tanzania
Managing a New Strategy Amidst GLIMPSE Challenges

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Abstract

HomeVeg Tanzania Ltd. is a fresh fruits and vegetables export company in Arusha, Tanzania. Since its inception, five years ago, they've recruited 55 employees, working with 1,600 smallholder farmers. They successfully produce high quality products—up to seven tons per week that meet GLOBALG.A.P. and British Retail Consortium standards. Although sales are rising, production rates are affected by an increasing amount of reject due to product handling and strict export standards. Its next strategy is to add outlets in the domestic market. This case discusses its journey towards accomplishing the opportunity, despite obstacles under the acronym GLIMPSE.

Keywords: Farming for the Future, sustainable agriculture, farming, environment

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Introduction

HomeVeg exports vegetables from Tanzania to Europe. Since its inception in 2009, it has become the leading vegetable exporter in the country with a capacity of 7 tons per week. The company processes high value vegetables by working directly with groups of smallholder farmers with average size plot of 0.2 hectares. As the company grows, success is attributed to its close link with farmers. It has recruited 1,600 farmers who are fully trained to grow products that meet international export standards. Its core activities include capacity building, marketing and finance with a team of 55 employees (15 permanent and 40 temporary). As the success in delivering high value products increases, a challenge in dealing with unsold produce (rejects) increases as well. Several alternative solutions are given, however the optimum decision is yet to be achieved.

Company Background

Located in Arusha, HomeVeg is a private limited company co-founded by Mussa Mvungi and Machel Tarimo, two young Tanzanian graduates, with sufficient experience in horticulture and international trade. In five years they were able to grow the company by exporting high quality fine beans, peas, chilies and baby corn. From the beginning, they worked closely with a the Center for Sustainable Development Initiative (CSDI); to secure a grant to cover the costs of renting a pack house, cold truck, collection truck and training programs on vegetable processing and international trade. With a mission of promoting the production and marketing of fresh horticultural products, the company was able to supply the UK, Belgium, Germany and the Netherlands—and is searching for more buyers.

HomeVeg quickly gained momentum in 2011 when the number of farmers increased from 1,000 (in year 2009) to 1,200 (2011) and currently 1,600 (2013). The farmers are located in northern and eastern part of the country including collection centers in Arumeru, Simanjiro, Moshi and Lushoto districts in Arusha, Manyara, Kilimanjaro and Tanga regions respectively. HomeVeg's has a formal contract with the farmers and regularly supervises activities such as fertilization, spraying, crop husbandry, harvesting and pre-grading. The farmers are divided into eight groups who receive training in six major areas: safe use of pesticides; good agriculture practice (G.A.P.); farmers' accountability; cluster management training; and association management training.

Products flow from farms to international wholesale buyers, where HomeVeg collects produce at the farm gate and transports it to its packing house in Arusha, where the product is graded and packaged. The load is then processed for transport and sent to the buyers; Special fruit (Belgium), Fresh to Go (UK), Bud Holland and Nature's Pride. Agents involved in processing and handling the freight include TahaFresh Handling Ltd. (Tanzania) and Kuehne and Nagel Company (International). In the process of capturing the market in Europe, the company strategically facilitated the GLOBALG.A.P and the British Retail Consortium (BRC) certification for the farmers. In 2011, three out of eight groups were certified and the number has increased to seven in 2013.

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Current Management Structure

Employees are divided into three teams and departments: capacity building and production; marketing; and finance/administration. The top management is comprised of the founding members. Mr. Mvungi is the Managing and Marketing Director. Mr. Tarimo is the Director of Finance and Mr. Mziray is the Director of Production. Middle level managers are comprised of unit managers, and lower level employees include secretaries, clerks, storekeepers and production supervisors. The company has a total of 15 permanent and 40 temporary employees.

Mvungi is responsible for establishing the export forecast based on market conditions. He directs the collection of produce, grading, packaging, exporting and market information search. Based upon the current sales capacity of 7 tons per week, he has to accomplish an objective of 20 tons per week of produce by the year 2015 and to increase annual profit from $15,257 to $127,593 USD by year 2016. Tarimo directs the financing, administrative and people management, while enforcing HomeVeg core values: Quality, Safety, Reliability and Transparency. Mziray is responsible for developing small scale farmers by providing regular training, contracting and supervision. Major objective is to recruit at least 3,500 farmers and up to 200 hectares of farms by year 2016.

Key Success Factors

Having regular contact with farmers, close control of the supply chain, expertise in quality management system, provision of regular training to farmers, are the HomeVeg key success factors. Also, relationship based on trust was the key between the company and key actors within the chain. For example, HomeVeg has honored past agreement with farmers and process their payments on timely basis because it is at its best interest to build trustworthy and long relationship with the farmers. Hence in future transactions, the farmers have put trust that they will not be exploited.

The demand for fresh produce has increased because over the last decade Europe has recorded a trade deficit in fresh and processed fruits and vegetables, totaling €9.8 billion in 2011 and imports have picked up quite considerably as well (MAP, 2012). In this case there has been a growth in land committed by farmers from 0.3 to 0.94 ha. of harvest per week after introducing a planting program in 2011. The program runs successfully because HomeVeg has invested input resources to the business arrangement and on the other hand the farmers are connected to export markets, get access to technical services and free training sessions.

Strategic Issues for HomeVeg

Fresh vegetable sector in Tanzania continues to grow with competitors like Serengeti fresh, Tanhort, Arusha bloom, etc. Therefore the challenge for HomeVeg is how to maintain their position as the leading exporter. As they work on seeking more buyers in Europe, they have announced plans to increase number of farmers in order to satisfy the market demand, install a better quality management system in the pack house for speed efficiency in processing, and negotiate with Government and development agencies in installing cold rooms near farm gates.

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Furthermore, HomeVeg has not only built its own new pack house but also found a strategic location for transport that is spacious.

The management sees a potential on vegetable and fruit cultivation in Tanzania therefore they focus on providing regular training to comply with international standards. As a result, amount of farm produce collection has successfully increased in terms of weight and variety. In addition to that sales volume has escalated from 115.4 tons in year 2010 to 221.2 tons in year 2012 but the sales could have been higher if it wasn't for the high amount of rejects. The rejects are unsold produce, caused by natural differences in size, shape and color; and breakage during washing and transportation; but fit for consumption.

Alternative strategies are arranged to design a marketing entry strategy for a domestic market. However, if HomeVeg establishes a formal domestic market, some problems will arise such as; supplying substandard quality of produce which might jeopardize the HomeVeg's image, inability to forecast amount of unsold products and rejects, hence making impossible to enforce a contractual agreement with local buyers.

Furthermore, there is a pricing issue whereby, their price might be higher than their competitors in domestic markets. Until late November 2013, the directors are struggling with the pricing, promotion and product decisions for the domestic market. However, as they move forward in creating a strategic market entry to the domestic market, the firm encounters additional challenges in following areas: Government, losses and wastage, infrastructure, markets, politics and policies, science and innovation; and environment.

Government

Costs of landing, handling and aviation fuel are higher at Kilimanjaro International airport than other airports in East Africa, hence indirectly affects HomeVeg's trading charges. Considering that, Tanzania ranks 139 out of 189 countries in the criteria of 'ability to trade across borders' (World Bank, 2013), the Government should assess the source of this problem to resolve high charges and unnecessary port delays. A better solution might reduce freight operational charges and increase HomeVeg revenue by 9.5%.

Losses and Wastage

A post-harvest loss from the pack house is between 20 to 40 percent. Several efforts have been tried to manage losses along the food chain, but it all comes down to more funding requirements. There's an opportunity to install cold-room facility near farm areas where vegetables and other variety of produces can be stored soon after harvesting.

Infrastructure

It is unfortunate that roads, power supply, and air/sea ports are in poor condition due to the major economy transformation and expansion process in the country. HomeVeg has to find alternatives. For example, installing standby generators during periods of power outages and regular financing of auto spares for truck maintenance due to poor road conditions. After British airways pulled its services in 2013, HomeVeg is seeking direct flight services to the UK where their major buyers are located.

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Markets

Changes in population structure, customer preferences, and income levels are few of the factors that increase the demand of vegetables all over the world; however the opportunity to grasp more market share, outweighs HomeVeg ability to supply. A program is already set to recruit more farmers, so the challenging part is making decisions on pricing, promotion, product and designing a marketing strategy for domestic market (as discussed earlier).

Politics and Policies

HomeVeg is working on negotiating export subsidies such as tax relief for exporters and getting a rebate on imported manufacturing machines. The outcome will increase competitiveness with other exporters globally.

Science and Innovation

Generally, teamwork between scientists, researchers, farmers and food processors is limited where one part accuses the other of not delivering results that are applicable to the Tanzanian environment. HomeVeg is confronted with lack of up-to-date information on seedling technology, fertilizer, better farming practices and agricultural marketing database. The latter is much needed for developing a plan for domestic market.

Environment

There is a crisis of water pollution while trying to comply with the standards. In this case they have included sensitization program to educate the public on safe discharge of waste. However as it becomes too costly to the company, public-private partnership intervention is encouraged.

Looking Ahead

Considering the challenges, it seems that recruiting more farmers and increasing export capacity alone will not solve supply gaps and post – harvest losses. The next step is to engage in public-private partnership programs, communicate policy shortfalls with real evidences and get the government to commit to support horticulture industry. The business by itself has a great opportunity to grow internationally as well as in the domestic markets due to increasing demand of fresh vegetables. Since the company values quality (as a key success factor), the biggest challenge is how to manage unsold product (rejects). The idea of disposing the remaining produce into the domestic market should not be the ultimate solution. Much has to be done in the area of quality control if the company wants to expand the market.

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